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Brazilian franchise startups and the COVID-19 crisis: effects of the franchising decision

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1. INTRODUCTION

The year 2020 will make history. The spread of SARS-CoV-2 worldwide, the cause of COVID-19, has caused numerous changes in all life contexts, including in the economic sphere. The world's unpreparedness to confront a new and imminent pandemic was evident (Fan *et al.*, 2018). The current scenario is extremely uncertain; however, a global recession seems inevitable (Fernandes, 2020). In this sense, the already visible effects of the social distancing strategy, causing the migration of many activities to the online model (Liguori and Winkler, 2020) and the reduction in household income (Sumner *et al.*, 2020), become challenges to be faced by companies, especially small and medium-sized enterprises (Turner and Akinremi, 2020; Eggers, 2020). Considering it is an event that has global consequences, the COVID-19 crisis and its effects are important objects of analysis. In the field of Business Administration and Economics, research has been already analyzing its effects such as in the field of retail (Roggeveen and Sethuraman, 2020), finance (Goodel, 2020), B2B sales (Hartmann and Lussier, 2020), and startups (Kuckertz *et al.*, 2020).

Startups are businesses with high innovative character (Ries, 2012), which seek to develop a scalable and profitable business model (Blank and Dorf, 2014). One of the main characteristics of this type of business is its dynamism and ability to change. However, this dynamic character of startups is sometimes contrasted with the financial immaturity of many businesses of this type. Within a normality context, the search for sources of financing already consists in a challenge to be faced by new ventures. The promotion of crowdfunding (Schwienbacher and Larralde, 2010; Cardoso; 2018), participation in startup accelerator programs (Cohen, 2013; Nogueira and Arruda, 2014; Dullius and Schaeffer, 2016), and partnerships with angel investors (Machado, 2015) are options recurrently used by startups. More recently, some have chosen to franchise their brand as a way to mobilize resources (Butler, 2018).

Based on this emerging panorama, in this research we seek to understand the determining factors for the franchising decision of Brazilian startups. Specifically, our objective is to address how franchise startups have been facing the crisis caused by COVID-19, with greater emphasis on the effects of the franchising decision on the survival of this type of business during the crisis. The guiding question of our study is: *what are the coping strategies adopted by Brazilian startups that operate through franchised units to overcome the crisis caused by COVID-19 and what are the effects of the franchising decision on this process?* To conduct this research, we carried out online interviews with representatives of four Brazilian startups that operate through franchised units. We also analyzed websites and social networks of the brands in order to triangulate information on initiatives carried out by the companies during this period.

Kuckertz et *al.* (2020) suggest that the dynamic character of startups prepares them for a better confrontation of crises when facing other economic actors. In turn, operating through franchised units could restrict the dynamism observed in this type of business. Nevertheless, according to our findings, the use of franchised units does not compromise the performance of startups within a crisis context, considering the maintenance of agility and flexibility. In some cases, we verified that such strategy enables to gain advantages on the part of franchisors. Our study contributes to the literature by outlining a set of propositions about the startup franchising process and the effects of a systemic crisis for companies that adopt this operating model as well as a descriptive diagram of this process. Additionally, it contributes to startup entrepreneurs and business managers who are experiencing contexts similar to that caused by the COVID-19 pandemic.

Our study is organized into 5 sections in addition to this (i) Introduction. Next, we present the (ii) Theoretical Framework that supports the conduct of this research, composed of 3 subsections: financial sustainability of startups, motivations for the franchising decision, and the concept of crisis and its management. Subsequently, we present the (iii) Methodology adopted for carrying out the research. In the following section, (iv) Presentation and Discussion of the Results, we present the studied cases and the subsequent relation to the literature. Finally, we outline the Final Considerations (v) contemplating implications and limitations of the study.

2. THEORETICAL FRAMEWORK

We begin this section with a brief contextualization about the financial sustainability of startups; then, we address theories that explain the franchising decision in traditional businesses. Finally, we present academic studies whose authors discuss the issue of the crisis and its management on the part of companies, thus completing the theoretical framework for carrying out this analysis.

2.1 FINANCIAL SUSTAINABILITY OF STARTUPS

Within the Brazilian context, startups can be understood as: "early-stage companies that develop innovative products or services, with potential for rapid growth" (ABSTARTUP, 2018, free translation). This type of business has been gaining more and more importance in the Brazilian economy. According to Carrilo (2020), in 2019 the country had about 12,000 startups, representing an average annual growth of 26.75% since 2010. Considering it is a business in its initial stage, it becomes practically impossible to dissociate the operation of this type of business from highly uncertain contexts. The encountered difficulties may be related to restrictions on obtaining financing for the business or even barriers to increase its performance in the market. Accordingly, Dullius and Schaeffer (2016) point to future scalability as the main operational difficulty to be faced by this type of business.

Several studies were conducted seeking to understand the funding pattern of startups. Čalopa *et al.* (2014) argue, for example, that most Croatian startups use informal sources of financing such as internal funding sources and family loans. External sources start being used only after companies reach more advanced growth stages. The difficulty in mobilizing resources in the creation phase of the business is also a reality in the context of Indian high-tech startups (Sivathanu and Pillai, 2019). This context is aligned with the proposition that new companies, especially those in R&D intensive sectors, deal with high capital costs in relation to companies already established (Hall and Lerner, 2010). An alternative for obtaining resources is the partnership with angel investors. According to Machado (2015), this modality can be understood as the granting of single own investments in new and growing businesses, without family connection. In Brazil, in 2018, more than 7,700 angel investors were identified, mobilizing an amount of almost BRL 1 billion in the period (Anjos do Brasil, 2019).

Another mechanism that can be used by startups is crowdfunding, understood as a form of collective funding, especially for companies that have not reached their market maturity, being usually carried out through online platforms (Schwienbacher and Larralde, 2010; Cardoso, 2018). Using this mechanism has the advantage of maintaining total control of management (Cardoso, 2018) and assists in the market signaling proposed by a company (Schwienbacher and Larralde, 2010). In addition, we can highlight the participation of startups in accelerator programs as a form of protection for these companies (Nogueira and Arruda, 2014). According to Dullius and Schaeffer (2016), the insertion in these programs is important, considering it allows a closer contact between companies and investors and with other professionals working in the field.

Finally, Butler (2018) highlights that franchising is an option for startups seeking to grow, even though the concepts associated with the two business models are generally confilcting. We did not identify academic studies addressing the issue of franchising specifically in the context of startups[1].

2.2 MOTIVATIONS FOR THE FRANCHISING DECISION

According to the International Franchising Association, franchising is understood as a distribution method in which the franchisor provides the franchisee with an entire business operating system along with the tradename, products, and services. In this relationship, characterized by the existence of bilateral gains (Silva and Azevedo, 2012), the franchisor is responsible for controlling the chain, whereas the franchisee controls one or more units. Franchises have been extensively studied by economics and administration scholars since the late 1960s (Oxenfeldt and Kelly, 1969; Caves and Murphy, 1976; Rubin, 1978; Brickley and Dark, 1987; Lafontaine, 1992). The main discussion in this field refers to the motivations that lead a business to opt for expansion through franchised units. There are two theories recurrently used to explain this decision, namely: Resource Scarcity Theory and Agency Theory (Gillis and Castrogiovanni, 2012; Diaz-Bernardo, 2012).

The first, the Resource Scarcity Theory, was developed by Oxenfeldt and Kelly (1969). According to the authors, the franchising decision is justified by the need for companies, especially newly established ones, to mobilize financial, human, and managerial resources. In this sense, new businesses tend to expand their brand, primarily through franchised units, and over time, they tend to start a process of converting these units into company-owned units (Oxenfeldt and Kelly, 1969; Hsu *et al.*, 2010). Another argument, from this theory perspective, refers to the construction of economies of scale, by the use of franchised units (Caves and Murphy, 1976).

Authors of some empirical studies aimed to verify the applicability of the assumptions of this theory in the practical context. Bitti *et al.* (2019), for instance, observed a tendency to increase the percentage of company-owned units in successful Brazilian franchise chains. Conversely, Seo *et al.* (2018) verified the use of franchises in restaurant chains that have cash flow sensitivity, thus consisting in a way to solve sub-investment problems.

In its turn, the Agency Theory (Jensen and Meckling, 1976) is applied within the franchising context, materialized by the relationship between Agent (Franchisee) and Principal (Franchisor). Brickley and Dark (1987) state that the franchising decision is related to the existence of the so-called Agency Costs. According to the authors, in the franchising context, an example of this type of cost would be costs involved in the monitoring process of a franchisor in a company-owned unit. In this sense, according to this theory, the use of franchised units is defended, especially considering the occurrence of geographical dispersion (Brickley and Dark, 1987; Lafontaine, 1992). Another argument is related to the greater motivation of the franchisee regarding a manager, since the franchisee's compensation is directly related to the performance of the unit (Brickley and Dark, 1987; Lafontaine, 1992; Barthélemy, 2011). Finally, we highlight the existence of a tendency towards maintaining a higher percentage of franchised units over time due to difficulties involved in the monitoring process in large chains (Diaz-Bernardo, 2012).

As previously noted, we found no studies whose authors address the issue of franchising motivation specifically in the context of startups. If, on the one hand, the notorious difficulty in mobilizing sources of financing, a common characteristic in startups, is similar to the assumptions presented by the Resource Scarcity Theory, the desire for gains associated to scale, which may involve the operation in geographically dispersed areas, is similar to the Agency Theory.

2.3 THE CONCEPT OF CRISIS AND ITS MANAGEMENT

There is little doubt that the effects of COVID-19 have changed and shall still change several paradigms in the way economic systems work. In the study conducted by Bloom *et al.* (2018), carried out before the emergence of the current pandemic, the authors sought to understand the economic effects caused by outbreaks and epidemics[2]. The first, according to the authors, refers to the costs of maintaining a healthcare system, followed by increase in costs resulting from the reduction of labor productivity within a panic context. In the long term, the authors also highlight the effects of trade restrictions on activities such as tourism.

According to Williams *et al.* (2017, p.739), crisis is a "*process of weakening or degeneration that can culminate in a disruption event to the actor's (i.e., individual, organization, and/or community) normal functioning."* From this perspective, both outbreaks and epidemics could already be considered local crises. Thus, it is perfectly possible to classify the current context of pandemic as a period of crisis. Nevertheless, it is worth noting that the effects of a crisis caused by an outbreak or epidemic are not the same for all economic sectors (Bloom *et al.*, 2018). Aspects such as experience, stage of business development, type of crisis, and available resources, influence how entrepreneurs respond to crisis scenarios (Doern *et al.*, 2019). Therefore, small and medium-sized enterprises can be deemed as the most vulnerable in a crisis context due to their limited capacities and resources (Turner and Akinremi, 2020). Eggers (2020) considers, however, that the proximity of small and medium-sized enterprises to their customer base and flexibility in decision-making are assets to be used by this type of business. Hence, the question of how each sector responds to a crisis context is posed. In this sense, the way in which crisis management is carried out must be highlighted. This concept can be understood "*as the actor's attempt to bring a disrupted or weakened system at any stage of crisis back into alignment to achieve normal functioning"* (Williams *et al.*, 2017 p. 740).

Within the context of crisis management, another concept gains prominence, the so-called resilience. Williams *et al.* (2017, p.742) define this concept as a "process by which an actor (i.e., individual, organization, or community) builds and uses its capability endowments to interact with the environment in a way that positively adjusts and maintains functioning prior to, during, and following adversity." The resilience of entrepreneurs can be considered a vital characteristic, since it grants them the ability to adapt in a context of adversity (Salisu *et al.*, 2020). As suggested by Pantano *et al.* (2020), in the current global context, companies must understand the emerging demands of their stakeholders, often moving away from their traditional planning, thus producing organizational changes.

An interpretation of resilience on the part of startup entrepreneurs in the context of the current crisis may be the change in the course of action, adapting to the experienced context, thus seeking to solve new problems that arose in this scenario (Kuckertz *et al.*, 2020). Hence, consumption patterns imposed in this period may become the new normal, highlighting the importance of companies in seeking to adapt to the experienced context (Roggeveen and Sethuraman, 2020). In a differentiated context of crisis, that of armed conflict and war, entrepreneurship can be considered as an important way to obtain social and economic results (Aldairany *et al.*, 2018), and the same can occur now.

Among the current challenges faced by startups, the immediate reduction in sales followed by the maintenance of costs can be highlighted, thus causing liquidity problems for companies (Kuckertz *et al.*, 2020). Another aspect mentioned by the authors refers to the perception, on the part of entrepreneurs, of the existence of an atmosphere less prone to innovation, since the general context is already uncertain, thus discouraging the risky investments.

3. METHODOLOGY

This research was conducted using a qualitative research methodology (Sampieri *et al.*, 2013), performed by multiple case studies (Yin, [1994] 2001). It can also be characterized as a descriptive research (Gil, 1987), considering it seeks to promote the description of a group with similar characteristics. Thus, the research is aligned with the theory of Eisenhardt (1989), in the sense that its conduction allows the formulation of propositions to be verified later in deductive-approach studies.

The first methodological stage involved the selection of cases to be studied. At this stage, a search was conducted in the StartupBase[3] database through keywords ("franchise", "franchises", and "franchising") in order to identify startups that operated through franchised units. Profiles of the 104 companies found in the search were analyzed, and those that did not align with the proposed focus were discarded. After this step, websites of the selected brands were checked in order to verify whether there was explicit mention of the operation through franchised units. At the end of this process, eight startups that operate through franchised units in Brazil were identified; these startups are also registered in the *Associação Brasileira de Startups* [Brazilian Association of Startups].

The methodological proposal for this research involved interviews with representatives of each of the selected companies, preferably with their founders or managers. Throughout April 2020, attempts were made to contact (via e-mail, social networks, and telephone) with all companies. In total, four companies came into contact and agreed to participate in the research. The interviews took place between April and May 2020, were conducted via online tools, recorded with the participants' authorization, and subsequently transcribed. Interviews lasted approximately 40 minutes on average. In half of the cases, we were able to conduct two interviews. In the other half, due to limitations imposed by the participants, only one interview per company was conducted. In Table I we present the identification of each of the brands, their field of activity as well as the profile of the interviewee(s)[4].

Table I – Identification of companies and interviewees

Identification	Field of Activity	Interviewee	Interviewee's Position	Age
Startup 1	Information Technology and Services	Interviewee 1	Cofounder and Responsible for the R&D Sector	36
Startup 2	Educational Management	Interviewee 2	Cofounder and CEO	37
		Interviewee 3	Responsible for Corporate Development	23
Startup 3	Insurance	Interviewee 4	Cofounder and Chief Financial Officer	36
		Interviewee 5	Cofounder and Chief Operating Officer	34
Startup 4	Marketing materials	Interviewee 6	Cofounder and Responsible for the Marketing Sector	28

Source: Prepared by the authors

The semi-structured interviews were guided by a script containing a fixed set of questions. This script is organized into eight sections: Identification; Company-related Information; Conception of the Company; Company Strategy; Franchising decision; Operation of Franchises; Perceptions; and COVID-19 Crisis Management.

As a technique for analyzing the obtained information, a content analysis was performed (Bardin, 1977). The categorization of the information obtained from the interviews was carried out based on the contributions of the literature presented in the Theoretical Framework section of this study, thus seeking to reconcile the elements related to the franchising decision and crisis management in each of the cases. Information gathered with the interviews was triangulated with data obtained from the websites and social networks of each of the brands. In addition to the individual analysis of each case, a cross-section analysis was performed between them.

4. PRESENTATION AND DISCUSSION OF RESULTS

4.1 PRESENTATION OF RESULTS

In this subsection, we present each of the cases as well as the information obtained from the interviews, websites, and social networks of the brands. Next, we discuss the obtained results based on the literature presented in the Theoretical Framework section of this study.

4.1.1 Startup 1

Startup 1, founded in the city of Teresina (state of Piauí, Brazil) in 2018, is a company that operates in the commercialization of a method that aims to insert technology in education using robotics as a language. One of the company's founders, a PhD in physics, along with a team of researchers from the local university, promoted the creation of an educational protocol on how to teach robotics. The idea of the creation of this protocol, according to Interviewee 1, emerged from the perception of a deficiency in the education of undergraduate and graduate students in the robotics area. Thus, the entrepreneur sought to create a methodology to foster this type of knowledge from the first years of education. Three years after the company's creation, the startup has ten franchised units, in addition to the headquarters, operating in eleven Brazilian states. Each unit aims to commercialize the teaching method with schools in the region where it is located.

According to the entrepreneur, the main goal of Startup 1 in this period is being resilient and seeking to understand how to use the crisis to their advantage. Hence, the great advantage of this period for the brand has been the strengthening of its marketing. The startup, by using its robotics know-how, has been developing PPE (Personal Protective Equipment) through 3D printing. According to Interviewee 1, these initiatives work as a great publicity for the company, since they show the practical application of the service they offer, thus being a way to expose that the content taught in schools can be applied to solve real-life problems.

From the owner's perspective, operating through franchised units helps in coping with the crisis, considering that the distribution of responsibilities takes place and and the emergence of new ideas is enhanced. Each of the franchisees of Startup 1 has been working on creating specific materials in their area of expertise, which are shared with the chain as a whole. Similarly, the company created in a few days a platform that allows the maintenance of the activities of schools, students, and teachers remotely. Interviewee 1 summarized his perceptions about the moment experienced as follows: "We must have resilience. If we have resilience, we can adapt."

4.1.2 Startup 2

Startup 2 was created as a "spin off" from another startup that operates in the development of equipment for extended reality. One of its founders, Interviewee 2, was in charge of a franchised unit of a language school for ten years. During this period, the company's lack of flexibility in incorporating innovations in its teaching methodology drove the entrepreneur to create his own school. The idea, conceived in 2017 and operationalized in July 2018, was to offer an English course on-site, using active learning methodologies combined with the application of technology tools (such as machine learning, big data, artificial intelligence, gamification, and virtual reality). From the perspective of Interviewee 3, the major differentials of the brand are the personalization of the class and the provision of a complete experience for students.

With about two years of operation, the company based in Curitiba (state of Paraná, Brazil) has more than twenty franchised units throughout the country and has gained international recognition. The enterprise was elected one of the five most promising Edtechs[5] in the world by the *South Summit Madrid 2018*, and was a finalist in the *Global Edtehcs Startup Awards* in 2019. Furthermore, in 2019 the company was selected to participate in the *Global Startup Program*, organized by the *Singularity University*, a reference institution in accelerator programs of startups worldwide.

The main strategy used by the company during the crisis period was to restructure its business, migrating from an on-site learning model to an online model, an aspect facilitated by the already customary adoption of technology tools. According to Interviewee 3, there was no reduction in the number of enrolled students in the period. The franchisor was responsible for creating a Crisis Management Group, in which the company operates as a consultant of the franchised units, orienting, for instance, the negotiations of accounts, suppliers, among others. From the perspective of the company's CEO (Interviewee 2), greater comfort is brought to the performance of the company during the crisis period because of the units' autonomy. According to him, this same autonomy posed a problem to be faced at the beginning of the period: the resistance of some franchisees to migrate to the online learning model. In this sense, considering that these were franchised units, the franchisor was prevented from making impositions on the units' operation.

4.1.3 Startup 3

Startup 3, linked to a group that resorts to another insurance company, emerged from the realization of a market opportunity, the commercialization of insurance for a new middle class (the so-called classes C and D in Brazil). The company works based on the demand of its customers, but offers standardized products such as insurances for vehicle, life, burial, real estate, consortia, among others. Created in Belo Horizonte (state of Minas Gerias, Brazil), the startup started operating in 2017 and currently has more than 20 franchisees.

Startup 3 can be understood as a social enterprise[6]. In addition to democratizing access to a historically elitist product in Brazil, from the perspective of Interviewee 4, the business model adopted by the company is advantageous for its franchisees. According to this model, franchisees are mostly people who belong to the same social stratum as the target audience of the brand. In addition, the franchise adopts a home office system, enabling franchisees to work part-time and supplement their income. One of the company's main concerns within the current context, from the perspective of Interviewees 4 and 5, refers to the provision of support to franchisees, considering the vulnerability context in which many of them are inserted. Thus, policies were adopted such as an advance on commissions. Likewise, according to Interviewee 5, "The company is focused on enabling the franchisee to produce." Hence, the company organized an inactive customers' base and passed it on so that its franchisees could do an active prospecting job in the period. Additionally, the franchisor has been providing online training for the franchisees.

According to Interviewee 4, the franchise model is advantageous within the context of crisis, because it serves as a way to diversify the production channels; therefore, even if there is a decrease in demand, the company continues to conclude some deals. Finally, he mentions that since they had already structured their business model for operating through franchises and working from home, there was no need to implement major changes to maintain the company's operation.

4.1.4 Startup 4

Having started its operation at the end of 2017, in the city of Caxias do Sul (state of Rio Grande do Sul, Brazil), Startup 4 developed a market place where it mediates the commercialization of machinery, obsolete inventory, scrap, and residues between companies. Since its foundation, the company's operating model has undergone several changes. Initially, the idea was to charge a fee for each advertisement made by a company; however, the low demand caused the company to migrate to a subscription model for customers, according to which a fixed monthly amount was charged. It was at this point that the company started effectively attracting clients. Nevertheless, after some market considerations, the company chose, at the end of 2018, to implement ads free of charge, without the collection of subscriptions, grossing through a percentage on the value of sales that are realized within its platform.

Currently, in addition to the headquarters, the company has seven franchisees in three states of Brazil. The adopted franchise model allows franchisees to work from home, without requiring a physical structure or even a work team. The idea is that franchisees perform the work of support and provision of personalized services to potential customers who resort to the company, recording the information and images of the products to be advertised and registering them in the portal. Currently, in the operation model adopted by the company, the franchisee obtains a percentage of the commission obtained by the company after completing the sale operation. However, according to Interviewee 6, considering the observed growth of the company, the idea is that franchisees start structuring their operation in a more concrete way, having a physical space and relying on a work team.

According to the entrepreneur, Startup 4 has been performing well during the COVID-19 crisis period. From his perspective, the type of service offered by the company has been extensively sought by companies whose activities have been suspended. According to him: "It's a solution for the entrepreneur to have cash inflow." In this sense, there was no reduction in the company's revenue, justified by the demand for new major customers in the period.

From the perspective of Interviewee 6, the franchise model adopted by Startup 4 was indifferent to the company's result. According to him, the major customers attracted in this period did not find the company through its franchisees, but rather by directly looking for the platform. This occurs because most companies have not been allowing the visit of external people, as regularly done by franchisees. The entrepreneur considers, however, that the fact they have franchised units assists in the company's image, in addition to evoking a feeling of security for companies to decide on advertising in the platform.

4.2 DISCUSSION OF RESULTS

Our first and noteworthy reflection refers to the franchise model adopted by the analyzed startups. We can observe that both Startup 1 and Startup 2 opted for a conventional franchise model, according to which the model developed by the franchisor is replicated (Rubin, 1978), thus involving the construction of a physical space based on the model developed by the headquarters and the hiring of workforce on the part of each franchised unit. In turn, Startup 3 and Startup 4 work with a differentiated franchise model, characterized by the nonnecessity of using a physical space (home office system) and hiring employees as well. According to this model, the franchisee operates as a kind of representative of the brand. In the literature, the model adopted by this last set of startups is understood according to the concept of micro-franchise, an undertaking based on the franchise model, requiring low levels of initial investment, usually directed to the lower social strata of the population, and which may or may not have a retail location and employees (Melo *et al.*, 2014).

To varying degrees, all interviewees related the franchising decision to a way for scaling their business, as advocated by Caves and Murphy (1976), thus corroborating the idea that this aspect is one of the main challenges startups must overcome (Dullius and Schaeffer, 2016). Nevertheless, the decision on the adopted franchise model demonstrates differences between the two sets of startups. Whereas the issue of mobilizing financial resources was a key aspect for the franchising decision of Startup 1 and Startup 2, the issue of service personalization by franchisees and the search for greater dissemination were preponderant aspects for Startup 3 and Startup 4. In this sense, the determinants of the franchising decision of startups of the first set are more related to the Resource Scarcity Theory (Oxenfeldt and Kelly, 1969; Hsu *et al.*, 2010), whereas the other startups align themselves with the assumptions of the Agency Theory (Brickley and Dark, 1987; Lafontaine, 1992).

As previously highlighted, the operation through franchised units could theoretically call into question the dynamism characteristic of startups, considering that standardization is a key aspect in the franchise model (Rubin, 1978). This was a concern pinpointed by Interviewee 2. However, the fact that all the analyzed startups were already created aiming at the performance through this business model possibly mitigated the importance of this aspect. The current crisis context can be deemed as a laboratory to determine whether there is indeed a loss of agility on the part of startups that choose this operating model. The rapid migration of classes to the online learning model carried out by Startup 1 and Startup 2 lead us to believe that the adoption of a business model based on franchising does not prevent the rapid response of a startup in a crisis context, which is a decisive aspect for its survival in a difficult period (Kuckertz *et al.*, 2020).

With the exception of Startup 4, which has been undergoing several changes in its business model, all others somehow have an established model of operation. This aspect, as stated by Doern *et al.* (2019), assists in the process of coping with a crisis and mitigating its effects. Therefore, the good performance experienced by the analyzed startups, as stated by the interviewees, may reflect the existence of a well-established operating model in the businesses, thus indicating a considerable degree of maturity. It should be noted that Startup 3 was the only one whose employees mentioned financial difficulties faced by its franchisees during the crisis period, an aspect that was partly influenced by the profile of these entrepreneurs. The franchisor's actions, providing assistance for its franchisees to overcome this period, are aligned with the importance that the entrepreneurial activity has in a context of post-crisis recovery (Aldairany *et al.*, 2018). Kuckertz *et al.* (2020) state that the crisis context represents a challenge for the innovation environment; however, this aspect may be more relevant for startups in the development stage. In the case of startups that have already been operating, as observed in the undertakings analyzed in our study, this aspect seems to have its importance diminished.

Although only Interviewee 1 explains the concept of resilience, all interviewees presented actions performed during this period that reflect its importance. The development of PPE by 3D printing in the case of Startup 1; the migration to the online model and the creation of a Crisis Management Group of Startup 2; the search for inactive customers and provision of training to franchisees of Startup 3; and the use of market opportunities of Startup 4 can be understood as a form of resilience on the part of its entrepreneurs (Williams *et al.*, 2017; Salisu *et al.*, 2020). In particular, practices adopted by Startup 1 and Startup 2 can be analyzed in the light of pivoting capabilities, understood as the ability to make substantial adjustments to a business model (Hampel *et al.*, 2020).

The use of online tools in education, enhanced in the current crisis context, had already been considered a trend in teaching practice (Liguori and Winkler, 2020). Thus, the use of these tools may become, based on the concept used by Roggeveen and Sethuraman (2020), the new normal. In this sense, the ease in migrating to the online learning model, which occurred in Startup 1 and Startup 2, besides acknowledging the current needs of their stakeholders (Pantano *et al.*, 2020), may also prove to be a great competitive advantage for these companies over their competitors in a context of "new normality". As advocated by Kuckertz *et al.* (2020), new opportunities arise in a context of crisis. The performance of Startup 4 during this period confirms this statement. Within a context of low economic activity, companies recurrently seek alternative sources of revenue. In this sense, the platform developed by the company consists in an opportunity for these companies. The same happens with Startup 1, working on the commercialization of PPE developed during this period.

Finally, we highlight the clear disparity of the effects of the operation through franchised units between the two sets of startups within a crisis context. Whereas Startup 1 and Startup 2, operating through the conventional franchise model, seem to gain greater advantages from their franchisees in this context, Startup 3 and Startup 4, micro-franchises, do not seem to have the same luck. In the case of the first set of startups, the distribution of responsibilities and greater financial comfort illustrate this situation. Conversely, in the second set, most of the deals concluded during the crisis period were carried out regardless of the franchised units. Difficulties faced by individual micro-franchises of Startup 3 and Startup 4, which are greater when compared with difficulties of franchisees of other startups, corroborate the idea that smaller businesses tend to be more vulnerable in a crisis context (Turner and Akinremi, 2020). This situation may have been further potentiated due to the prospective nature of the activities developed by the micro-franchisees of these startups, which are usually carried out in person, thus being more affected in a context of social distancing.

Considering the discussions proposed in this subsection, related to the analyzed startups, and based on the theoretical framework outlined in the previous section, we present testable propositions about the startup franchising process and the effects of a crisis on companies that adopt this operating model:

Proposition 1: Resilience is a key aspect for startups to overcome a crisis context.

> *Proposition 1a. In systemic crisis environments, resilience is primarily manifested through substantial adjustments in business models ("pivoting")*

> *Proposition 1b. Meeting the new demands of its stakeholders, which originate in systemic crisis environments, should be one of the main objectives of startups*

Proposition 2: Startups that operate through franchised units do not lose agility and flexibility, which are characteristic of this type of business.

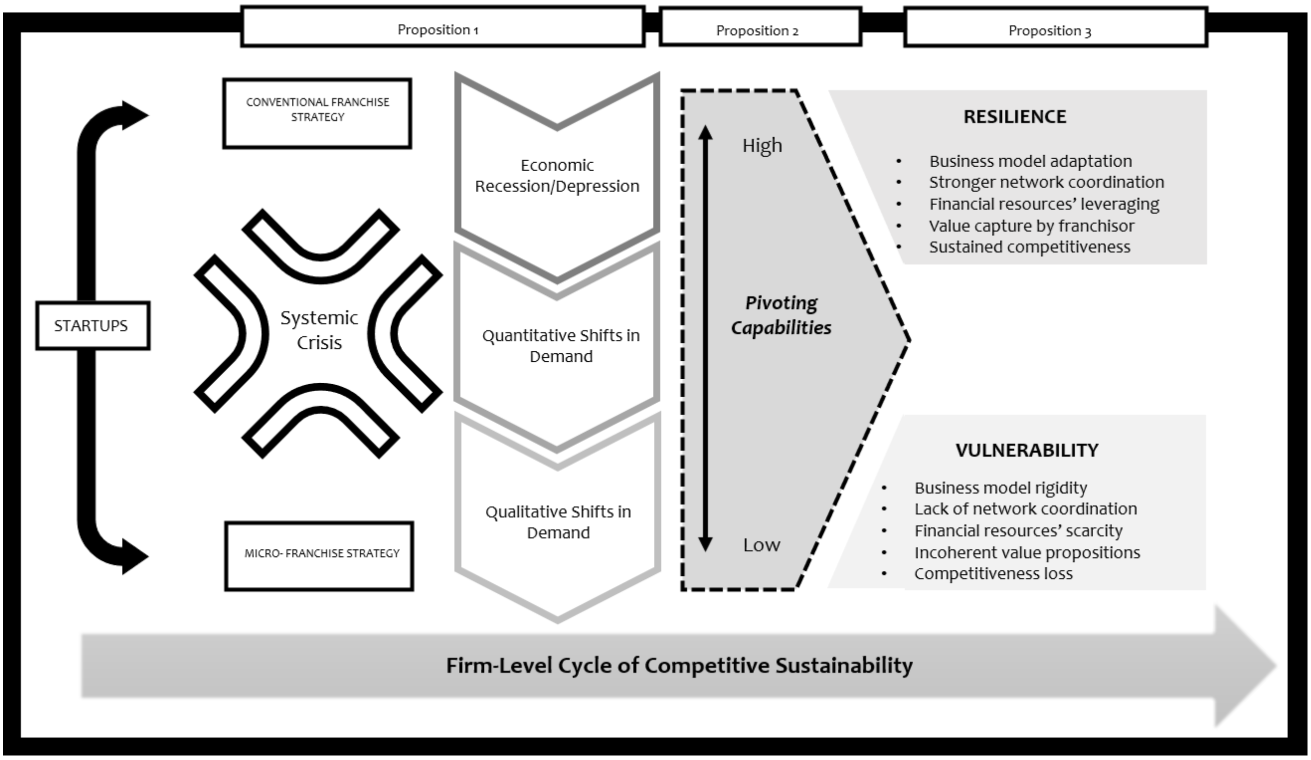
Proposition 3: Franchise startups that adopt a conventional franchise model tend to gain greater advantages from their franchisees in a crisis context than startups operating through micro-franchises.

> *Proposition 3a. The main advantage of micro-franchises is related to the active prospecting of potential customers on the part of franchisees, an aspect compromised in systemic crisis environments*

> *Proposition 3b. Conventional franchises involve greater investment of financial resources by their franchisees, thus generating an advantage to the franchisor in environments of systemic crisis, considering that mobilization of resources becomes a critical aspect in this context*

Finally, we develop a diagram (Figure 1) in which we present the franchising options for startups, the effects of this decision on the business as well as the effects on each of the models within a crisis context.

Figure 1 – Diagram of the franchising decision and crisis management in startups



Source: Prepared by the authors

5. FINAL CONSIDERATIONS

Based on the study on four Brazilian startups that operate using the franchise model, our main objective was to verify the effects of franchising decision on these businesses within a crisis context. We obtained information by semi-structured interviews conducted with the founders and managers of companies selected between April and May 2020; information on the websites and social networks of the brands allowed the triangulation of data.

Our first conclusion refers to the maintenance of agility and flexibility of the studied businesses despite the operation through franchised units, a fundamental characteristic of startups (Kuckertz et *al.*, 2020). In a context of crisis, the rapid response of the companies indicates the maintenance of this attribute by startups that choose this operating model. From the analyzed cases, we may conclude that startups can opt for two franchise models: conventional franchises or micro-franchises. The first model, more aligned with the premises of the Resource Scarcity Theory (Oxenfeldt and Kelly, 1969; Hsu *et al.*, 2010), enables franchise startups to gain, to a greater extent, benefits from their franchisees within a crisis context when compared with the second model, more aligned with the Agency Theory (Brickley and Dark, 1987; Lafontaine, 1992). Despite this situation, all the analyzed businesses have been delivering consistent performances even in the crisis context. All interviewees presented initiatives adopted by companies that are aligned with the concept of resilience (Williams *et al.*, 2017; Salisu *et al.*, 2020). Thus, another conclusion refers to the importance of resilience for startups, even franchised ones, to overcome a crisis context.

Finally, based on the studied cases, we suggest a set of testable propositions about the startup franchising process and the effects of a crisis for companies that adopt this operating model as well as a descriptive diagram of this process. The verification of these propositions, from a larger sample, consists in a first opportunity for future studies. Another possibility refers to conducting studies for analyzing the effects of the franchising decision on startups from other countries and in different contexts. Finally, we suggest carrying out longitudinal studies, thus analyzing the post-crisis effects on startups that operate through franchised units, since our focus was on the crisis period only.

Our assessment brings theoretical and practical contributions. From a theoretical standpoint, implications are related both to the franchising context, by using an unprecedented and contemporary analysis object, and to the context of startups, when analyzing a financing/expansion option for this type of business. Moreover, our study also contributes to understanding the effects of a crisis context on a business model with indisputable importance, namely the startups. In turn, for practitioners, our research can be useful for entrepreneurs who are analyzing alternative financing or expansion-related options for their startups or for those who seek ways to overcome challenges posed by a crisis context.

Among the limitations of our study we highlight the small number of cases and the similarity observed between them, which can generate bias in the performed analyses. Nevertheless, we expect this approach to encourage studies on entrepreneurship processes linked to the franchising strategy as a path towards the sustained organizational growth. Considering the current context of systemic crisis linked to COVID-19 and the structural characteristics of companies organized as franchises (with reduced levels of hierarchical control between agents), we believe that the propositions provided in this article may foster deductive studies whose authors address such aspects. The understanding of this dynamic, from a "new normal" to the competitive structure, is paramount for the advancement of studies in entrepreneurship.

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[1] We conducted a research using keywords in the Scopus and Web of Science databases and found no results on this theme.

[2] According to the APIC (Association for Professionals in Infection Control and Epidemiology), an outbreak is characterized by a sudden increase in the number of cases of a disease. In turn, an epidemic takes place when the spread of an infectious disease to many people rapidly occurs. Finally, pandemics consists of global outbreaks of a disease, usually occurring in a wider geographical area, infecting a greater number of people, and often causing economic losses and social disruptions.

[3] Database organized by the Brazilian Association of Startups responsible for the organization of the sector in the country. In this online platform, each registered company has a profile with a brief description of its activities and a summary with basic information as well as the link to the website of the brands.

[4] This research was performed after approval of the Research Ethics Committee of the University of Campinas (UNICAMP) – Consolidated Opinion no. 3,907,286 and CAAE 28761420.2.0000.5404.

[5] Concept used to classify startups working in education area.

[6] "Business ventures that have the stated intention of addressing a socio-environmental issue through their main activity (whether their product/service and/or their operating model). They operate according to market logic [...]" (Pipe Social, 2019, free translation)

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