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BRAZILIAN FRANCHISE STARTUPS AND THE COVID-19 CRISIS: ORGANIZATIONAL STRUCTURE AND ADAPTION CAPABILITIES

**STARTUPS FRANQUEADORAS BRASILEIRAS E A CRISE DA COVID-19: ESTRUTURA
ORGANIZACIONAL E CAPACIDADES DE ADAPTAÇÃO**

**STARTUPS FRANQUICIADORAS BRASILEÑAS Y LA CRISIS DEL COVID-19:
ESTRUCTURA ORGANIZATIVA Y CAPACIDADES DE ADAPTACIÓN**

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ABSTRACT

Purpose – The purpose of this study is to understand 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 period.

Design/methodology/approach – This is a qualitative research, conducted through multiple-case studies on four Brazilian startups that operate through franchised units. Data were collected through online interviews with founders and managers of the franchisee, complemented with information obtained from the companies' websites/social media and articles published in business magazines. The technique of content analysis was used.

Findings – We found that franchise startups can operate through conventional franchises or micro-franchises. In both cases, we found no reduction in the agility or flexibility of these businesses. Thus, within a crisis context, resilience allows the franchisor to gain greater advantages from its franchisees, if it opts for the conventional franchise model.

Originality – This research addresses the intersection between two business models: startups and franchises. It contributes to the understanding of both areas, as well as the effects of a business model in a crisis context.

Limitations/implications – This is a study conducted with a small number of cases within a similar context. The main implications of this research are the formulation of a set of propositions about the startup franchising process and the effects of a crisis for companies that adopt this operating model, and a descriptive diagram of this process.

Keywords: Franchising; Startups; Crisis Management; Resilience; COVID-19.

RESUMO

Objetivo – O objetivo deste estudo é compreender como as startups franqueadoras vêm enfrentando a crise provocada pela COVID-19, com maior ênfase nos efeitos da decisão de franqueamento na sobrevivência desse tipo de negócio durante o período de crise.

Design/metodologia/abordagem – Trata-se de uma pesquisa qualitativa com a realização de estudo de casos múltiplos em quatro startups brasileiras que atuam por meio de unidades franqueadas. Os dados foram coletados por meio de entrevistas online com fundadores e gerentes de marcas, complementados com informações obtidas nos sites/redes sociais das marcas e notícias vinculadas em meios de mídia especializada na área de negócios. Foi empregada a técnica de análise de conteúdo.

Resultados – Verificamos que as startups franqueadoras podem operar por meio do modelo de franquias convencionais ou micro-franquias. Em ambos os casos, não encontramos redução na agilidade e flexibilidade desses negócios. Em um contexto de crise, a resiliência permite que o franqueador obtenha maiores vantagens de seus franqueados, caso opte pelo modelo de franquia convencional.

Originalidade – Esta pesquisa aborda a interseção entre dois modelos de negócios: startups e franquias. Contribuímos para a compreensão tanto das áreas como dos efeitos de um modelo de negócio em um contexto de crise.

Limitações/implicações – Este é um estudo realizado com um pequeno número de casos em contextos semelhantes. As principais implicações desta pesquisa referem-se à formulação de um conjunto de proposições sobre o processo de franqueamento de startups e os efeitos de uma crise para as empresas que adotam esse modelo operacional, bem como um diagrama descritivo desse processo.

Palavras-chave: Franchising; Startups; Gestão de crise; Resiliência; COVID-19.

RESUMEN

Objetivo - El objetivo del estudio es comprender cómo las startups franquiciadoras han enfrentado a la crisis provocada por el COVID-19, con mayor énfasis en los efectos de la decisión de franquicia respecto a la supervivencia de este tipo de negocios durante el período de crisis.

Diseño/metodología/enfoque – El diseño metodológico trata de una investigación cualitativa con la realización de múltiples casos de estudio en cuatro startups brasileñas que operan a través de unidades franquiciadas. Los datos se han recopilado a través de entrevistas en línea con fundadores y gerentes de marca, complementado con información obtenida de los sitios web/redes sociales de las marcas y noticias vinculadas a medios especializados en el área de negocio. Se utilizó la técnica de análisis de contenido.

Resultados – Se ha encontrado que startups franquiciadoras pueden operar a través del modelo de franquias convencionales o microfranquias. En ambos casos, no se ha encontrado ninguna reducción en la agilidad y flexibilidad de estos negocios. En un contexto de crisis, la resiliencia permite al franquiciador obtener mayores ventajas de sus franquiciados, si optan por el modelo de franquicia convencional.

Originalidad - Esta investigación aborda la intersección entre dos modelos comerciales: startups y franquicias. Contribuimos a comprender tanto las áreas como los efectos de un modelo de negocio en un contexto de crisis.

Limitaciones /implicaciones: este es un estudio realizado con un pequeño número de casos en contextos similares. Las principales implicaciones de esta investigación se refieren a la formulación de un conjunto de proposiciones sobre el proceso de franquicia de startups y los efectos de una crisis para las empresas que adoptan este modelo operativo, así como un esquema descriptivo de este proceso.

Palabras clave: Franquicias; Startups; Manejo de crisis; Resiliencia; COVID-19.

1. INTRODUCTION

The year 2020 will go down in history. The spread of SARS-CoV-2 worldwide, the cause of COVID-19, has led to numerous changes affecting in all spheres of life, including 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). The already visible effects of the social distancing strategy, causing the migration of many activities to the online model (Liguori & Winkler, 2020) and the reduction in household income (Sumner et al., 2020), have become challenges to be faced by companies, especially small and medium-sized enterprises (Eggers, 2020; Turner & Akinremi, 2020). Considering the pandemic as 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 conducted to analyze its effects in various fields, such as retail (Roggeveen & Sethuraman, 2020), finance (Goodell, 2020), B2B sales (Hartmann & Lussier, 2020), and startups (Kuckertz et al., 2020).

Startups are businesses marked by high levels of innovation (Ries, 2012), which seek to develop a scalable (Unterkauststeiner et al., 2016) and profitable business model (Blank & Dorf, 2014). One of the main characteristics of this type of business is their dynamism and capacity for change. However, this dynamic character of startups is sometimes contrasted with the financial immaturity of many businesses of this type. In a normal context, the search for sources of financing is a challenge faced by many new ventures (Conway & Hemphill, 2019). Crowdfunding (Cardoso, 2018; Schwenbacher & Larralde, 2010), startup accelerator programs (Cohen, 2013; Dullius & Schaeffer, 2016; Nogueira & Arruda, 2014) and angel investors (Machado, 2015) are options often used by startups. More recently, some have chosen to franchise their brand as a way to mobilize resources (Butler, 2018).

Despite the practical evidence that franchising is an option for startups (Butler, 2018), we did not identify any academic studies that explore this intersection of themes. Hence, based on this emerging panorama, in this work we seek to understand the determining factors for the franchising decision of Brazilian startups. Specifically, in this paper, 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 operating through franchised units, for overcoming the crisis caused by COVID-19, and what are the effects of the franchising decision on this process?* For this research, we carried out online interviews with representatives of four Brazilian startups that operate through franchised units. We also analyzed the websites/social media of the franchisees, and articles on the four companies, published in business magazines, in order to triangulate information on initiatives carried out by the companies during this period.

According to Verma & Gustafsson (2020) the primary focus for startups, at the present time, is to survive. Kuckertz et al. (2020) take a more optimistic point of view and suggest that the dynamic character of this type of business prepares them to better face crises compared to their competitors; one reason for this is the pivoting capacity of startups (Hampel et al., 2020). However, Giones et al. (2020) question whether the adoption of pivotage is the best strategic choice for these companies, considering the potential for this crisis to reoccur. One of the principles of franchising is standardization (Rubin, 1978). Therefore, operating through franchised units could restrict the dynamism observed in startups. Nevertheless, according to our findings, the use of franchised units does not compromise the performance of startups within a crisis context, as agility and flexibility are maintained. In some cases, we found it to be a strategy that enables the franchisors to gain advantages. It could, therefore, be said that this organizational structure does not lead to less resilient behavior of startups. 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. The findings may also be useful for startup entrepreneurs and business managers who are experiencing contexts similar to that caused by the COVID-19 pandemic.

Our study is organized into five sections: (1) Introduction. This is followed by (2) 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 (3) Methodology adopted for carrying out the research. In the following section, (4) Presentation and Discussion of the Results, we present the studied cases and the subsequent relation to the literature. Finally, we outline the Final Considerations (5) contemplating implications and limitations of the study.

2. THEORETICAL FRAMEWORK

2.1 FINANCIAL SUSTAINABILITY OF STARTUPS

Startups can be understood as: *“early-stage companies that develop innovative products or services, with potential for rapid growth”* (ABSTARTUP, 2018, free translation). As mentioned in the Introduction, some authors present the defining characteristics of this business model, Ries (2011) for example, considers the aspect of innovativeness and the uncertain scenario. Unterkalmsteiner et al. (2016), meanwhile, highlight the role of the development of a scalable business model. Considering it is a business in its initial stage, it is practically impossible to dissociate the operation of this type of business from highly uncertain contexts. The difficulties encountered may be related to difficulties obtaining financing for the business, or barriers to increasing its performance in the market. Accordingly, Dullius & Schaeffer (2016) point to **future scalability** as the main operational difficulty faced by this type of business.

Several studies have been 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 sources of funding and family loans. External sources are only used after companies have reached more advanced stages of growth. This context is aligned with the proposition that new companies, especially those in R&D-intensive sectors, have high capital costs compared to already-established companies (Hall & Lerner, 2010). An alternative source of funding is angel investors. Machado (2015) defines angel investors as individuals who invest in new and growing businesses, but who have no family connection to the business owner.

Another mechanism that can be used by startups is crowdfunding, understood as a form of collective funding, especially for companies that have not reached market maturity. Crowdfunding is usually raised through online platforms (Cardoso, 2018; Schwienbacher & Larralde, 2010). This mechanism has the advantage of maintaining total control of management (Cardoso, 2018) and assists in the market signaling proposed by a company (Schwienbacher & Larralde, 2010). Startups may also look to accelerator programs as a form of protection (Nogueira & Arruda, 2014), to identify costumers, develop products and seek financial sources or even employees. According to Dullius & Schaeffer (2016), joining such programs is important as 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 conflicting. We conducted searches in the Scopus and Web of Science databases, using a combination of search terms: i) franchising OR franchisee OR franchise OR franchisor and ii) startup OR start-up OR High Tech OR High Technology. These searches did not identify any academic studies addressing the issue of franchising specifically in the context of startups.

2.2 MOTIVATIONS FOR THE FRANCHISING DECISION

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

The first, Resource Scarcity Theory, was developed by Oxenfeldt & 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**. Thus, new businesses tend to expand their brand, primarily through franchised units, and over time, they begin the process of converting these units into company-owned units (Hsu et al., 2010; Oxenfeldt & Kelly, 1969). Another argument, from the perspective of this theory, is the construction of **economies of scale** through the use of franchised units (Caves & Murphy, 1976).

Authors of some empirical studies have sought to verify the applicability of the assumptions of this theory in the practical context. Bitti et al. (2019), for instance, observed a tendency for the percentage of company-owned units to be higher in successful Brazilian franchise chains. Conversely, Seo et al. (2018) found the use of franchises in restaurant chains that have cashflow sensitivity, as a form of solving problems of under-investment problems.

The second theory, Agency Theory (Jensen & Meckling, 1976), is applied within the franchising context, materialized by the relationship between the Agent (Franchisee) and the Principal (Franchisor). Brickley & Dark (1987) state that the franchising decision is related to the existence of so-called **Agency Costs**. In the franchising context, an example of this type of cost would be those involved in the process of monitoring a franchisor in a company-owned unit. According to this theory, the use of franchised units is defended, especially in view of geographical dispersion (Brickley & Dark, 1987; Lafontaine, 1992). Another argument is that **franchisees** may have more motivation than those in traditional management positions, since the franchisee's compensation is directly related to the performance of the unit (Brickley & Dark, 1987; Lafontaine, 1992). Finally, we highlight the existence of a tendency towards a higher percentage of franchised units over time, due to difficulties with monitoring in large chains (Diaz-Bernardo, 2012).

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

2.3 THE CONCEPT OF CRISIS AND ITS MANAGEMENT

There is little doubt that the effects of COVID-19 have changed, and have yet to change, several paradigms in the way economic systems work. A study conducted by Bloom et al. (2018), conducted prior to the current pandemic, sought to understand the economic effects of outbreaks and epidemics¹. 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 can be considered local crises. Thus, it is perfectly possible to classify the current context of pandemic as a period of crisis. But 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 all 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 & Akinremi, 2020). Eggers (2020) considers, however, that the proximity of small and medium-sized enterprises to their customer base, and their greater flexibility in decision-making, are assets that can be used by this type of business. Hence, the question of how each sector responds to a crisis context is posed. In this regard, the way crisis management is carried out is an important aspect. 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).

It is important to highlight, however, that the COVID-19 crisis can be understood as a systemic crisis, i.e., one that affects the whole of society. A different context, that should be analyzed for the purpose of this research, is the concept of organizational crisis. According to Pearson & Clair (1998, p. 3): *“an organizational crisis is a low-probability, high-impact event that threatens the viability of the organization and is characterized by ambiguity of cause, effect, and means of resolution, as well as by a belief that decisions must be made swiftly”* It is important to make this distinction in order to understand how, in a context of systemic crisis, some organizations can still derive benefits, despite all the chaos. Hence, a systemic crisis need not necessarily result in an organizational crisis.

2.3.1 Resilience and flexibility in the context of crisis

Within the context of crisis management, another concept gains prominence; the so-called concept of 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, as it gives 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.

Boin & Van Eeten (2013) conceptualize two kinds of organizational resilience. The first is the called *precursor resilience*, understood as the way that an organization deals with the crisis while it is occurring, not reaching a collapse point. The second, is *recovery resilience* understood as the ability to return to the original point.

An interpretation of resilience among startup entrepreneurs in the context of the current crisis may be changing their course of action, adapting to the new context as a means of resolving the new problems that arise in this scenario (Kuckertz et al., 2020). Hence, consumption patterns imposed in this period may become the new norm, hence the importance, for companies, of being able to adapt to the new context (Roggeveen & Sethuraman, 2020). In a differentiated context of crisis – 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 with companies in the present context.

Most startups are developed using Information Technologies, and one of the concepts that can be explored in this scenario is Digital Transformation. According to Ebert & Duarte (2018, p.16), this concept is related to “*adopting disruptive technologies to increase productivity, value creation, and the social welfare.*” Exploring the concept of Digital Transformation amidst the COVID-19 crisis, Priyono et al. (2020) argues that for Small and Medium sized Companies (SMEs), the process of digital transformation leads to a more efficient response for these organizations. Also in relation to the concept of agility, Teece et al. (2016) argues that organizational agility (also called organizational flexibility) is a fundamental attribute for companies operating in a scenario of deep uncertainty

Among the current challenges faced by startups, the immediate drop in sales, followed by the maintenance of costs, are highlighted, as these create liquidity problems for companies (Kuckertz et al., 2020). Another aspect mentioned by the authors is the perception, on the part of entrepreneurs, of the existence of an atmosphere that is less prone to innovation, since the general context is already uncertain, discouraging risky investments. Aligned with this perspective, Brown & Rocha (2020) argue that the effects of the COVID-19 crisis on entrepreneurial finances in China were especially worse for startups, reflecting the vulnerability of this type of business.

3. METHODOLOGY

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

The first methodological stage was the selection of cases to be studied. In this stage, a search was conducted in the StartupBase² database, using the search terms (“franchise”, “franchises”, AND “franchising” in Portuguese) in order to identify startups operating through franchised units. Profiles of one hundred and four companies were found and analyzed. Most were startups that do not operate with franchisees but are companies that offer services for franchised chains; these were discarded. After this step, the websites of the selected companies were checked for any explicit mention of the operation through franchised units. At the end of this process, eight startups that operated through franchised units in Brazil were identified. Using the selected criteria (startup registered with the *Associação Brasileira de Startups* [Brazilian Association of Startups] and that made explicit mention of the operation through franchised units in their websites), only eight of the companies could be classified as a Brazilian franchise startups, confirming the incipience of this theme not only in academia, but also in practice.

The methodological proposal for this research involved interviews with representatives – preferably the founders or managers – of each of the selected companies. Throughout April 2020, attempts were made to contact (via e-mail, social networks, and telephone) all eight companies. Of these, four companies contacted us and agreed to participate in the research. The interviews took place between April and May 2020, and were conducted online. The interviews were recorded, with the participants’ permission, and subsequently transcribed. The interviews lasted approximately 40 minutes.

In two cases, we were able to conduct two interviews per company and in the other two, only one interview was conducted per company, due to limitations imposed by the participants. Table 1 presents the identification of each of the companies, their field of activity, and the profile of the interviewee(s).

Table 1.

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
		Interviewee 2	Cofounder and CEO	37
Startup 2	Educational Management	Interviewee 3	Responsible for Corporate Development	23
		Interviewee 4	Cofounder and Chief Financial Officer	36
Startup 3	Insurance	Interviewee 5	Cofounder and Chief Operating Officer	34
		Interviewee 6	Cofounder and Responsible for the Marketing Sector	28
Startup 4	Marketing materials			

Source: Prepared by the authors

The semi-structured interviews were guided by a script 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. The first four questions contributed to the contextualization of the companies and were developed based on the information presented in the first item of the theoretical framework of this paper. The focus was on providing a context for the development of companies, seeking to understand how they cope with future scalability, a sensitive aspect, as pointed out by Dullius & Schaeffer (2016). The next two questions related to the franchising decision, and presented elements of Resource Scarcity Theory (financial, human, and managerial resources; and economies of scale) and Agency Theory (Agency Costs; and greater motivation of the franchisee). The last and most important question for this paper was delimited by the concepts presented in section about the concept of crisis and its management. The main objective was to understand how the companies dealt with the crisis context, and how the franchising decision affected that process.

As a technique for analyzing the information obtained, content analysis was performed (Bardin, 1977). The information from the interviews was categorized based on the contributions of the literature presented in the Theoretical Framework section of this study, seeking to reconcile the elements related to the franchising decision and crisis management in each case. The software program NVivo 12 was used for the categorization of the transcribed interviews. A double codification was carried out; the first related to the effects of the franchising decision for the companies, and the second to the practices adopted to overcome the COVID-19 crisis. The intersection of both characterized aspects related to how the franchising decision had impacted the companies in the context of the COVID-19 crisis. As will be presented in the Discussion of Results section, these three aspects led to the development of the propositions. The information was triangulated with data obtained from the websites/social media of each company and data published in Brazilian business magazines that describe the trajectory and practices adopted by the analyzed companies in recent years³. In addition to the individual analysis of each case, a cross-section analysis was performed between them.

Based on the analyzed cases, and dialoguing with the theoretical framework, we proposed a set of testable propositions and a diagram of the franchising decision and crisis management in startups. These proposals are aligned with Eisenhardt's (1989) view that a case study is useful for theory building.

4. PRESENTATION AND DISCUSSION OF THE RESULTS

4.1 PRESENTATION OF THE RESULTS

In this subsection, we present each of the cases as well as the information obtained from the interviews and triangulated with the other sources. Next, we discuss the results obtained, 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 brings technology into education using robotics as a language. One of the company's founders, who has 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 behind the creation of this protocol, according to Interviewee 1, emerged from the perception of a gap in the education of undergraduate and graduate students in the area of robotics. 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, and operates 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 of crisis is being resilient and seeking to understand how to use the crisis to their advantage. Hence, the great advantage of this period, for the company, has been a strengthening of its marketing. By using its robotics know-how, the company has been developing PPE (Personal Protective Equipment) and a respirator, using 3D printing. According to Interviewee 1, these initiatives provide great publicity for the company, as they show the practical application of the service they offer, showing, in practice, how the content taught in schools can be applied to solve real-life problems. This is illustrated in the following passage from the transcript:

What is the attitude of Startup 1 in relation to the crisis? It is trying to be resilient; this is a characteristic of a startup. How can I use the crisis to my advantage? And the first thing we see, is that the crisis is proving useful for one thing [...] The crisis helped us. We have developed a PPE [...] and we are also developing a respirator. And this respirator is made of components that students have access to. So, what am I showing you? I am showing that what is taught in schools is sufficient and capable of providing real solutions, and then with the method and materials of Startup 1, I can make real solutions (free translation).

From the owner's perspective, operating through franchised units is helping the company to deal with the crisis, considering that the distribution of responsibilities takes place, 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 just a few days, a platform that allows it to continue its activities remotely with schools, students, and teachers. Interviewee 1 summarized his perceptions about current crisis as follows:

We must have resilience. If we have resilience, we can adapt (free translation).

4.1.2 Startup 2

Startup 2 was created as a "spin off" from another startup that develops equipment for extended reality. One of its founders, Interviewee 2, ran a language school franchise for ten years. During this period, the company's lack of flexibility in incorporating innovations in its teaching methodology led the entrepreneur to set up his own language 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 (such as machine learning, big data, artificial intelligence, gamification, and virtual reality). From the perspective of Interviewee 3, the major differentiating features of the franchise are the personalization of the classes and the provision of a complete experience for students.

Operating for about two years, the company, based in Curitiba (in the Brazilian state of Paraná) now 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 in the world by the *South Summit Madrid 2018*, and was a finalist in the *Global*

Edtechs Startup Awards in 2019. In 2019 the company was selected to participate in the *Global Startup Program*, organized by the *Singularity University*, a reference institution in startup accelerator programs 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:

So we are seeing this moment as a great opportunity to make changes, and these changes we are organizing the house during the period of COVID-19, so in my interpretation, this moment is very positive (free translation).

The franchisor was responsible for creating a Crisis Management Group in which the company acts as a consultant to the franchised units, providing guidance on account management, suppliers, and other aspects. From the perspective of the company's CEO (Interviewee 2), The franchisee's autonomy enabled them to perform comfortably during the crisis period:

Franchising gives startups greater security. Because when they are autonomous, we pass on the guidelines and each one deals with their problems (free translation).

According to the Interviewee 3, this same autonomy was a problem at the beginning of the period, as some franchisees resisted the idea of migrating online learning model. Given that these were franchised units, the franchisor was unable to impose this new practice on their operations.

4.1.3 Startup 3

Startup 3 is part of a business group that also owns another insurance company. It 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 caters for the demand of its customers, but offers standardized products, such as vehicle, life, burial, real estate and consortia insurance, among others. Created in Belo Horizonte (state of Minas Gerais, Brazil), the startup started operating in 2017 and currently has more than twenty franchised units.

Startup 3 can be seen as a social enterprise⁴. 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, the franchisees are mostly run people who belong to the same social stratum as the target audience of the franchisor. Franchisee work from home, enabling them to work part-time to supplement their income from other jobs. One of the company's main concerns in the current crisis, from the perspective of Interviewees 4 and 5, is providing support to franchisees, bearing in mind the financially vulnerable situations in which many of them find themselves. The franchisor has implemented some policies to cater for this situation, such as advance payment of commissions. Likewise, according to Interviewee 5:

The company is focused on enabling the franchisee to produce (free translation).

The company has created a database of inactive customers, which it has passed on to its franchisees, so that they can actively prospect new clients. It has also provided online training for its franchisees.

According to Interviewee 5, the franchise model is advantageous within the context of crisis because it enables the production channels to be diversified:

The franchisee assists in facing the crisis because the portfolios are dispersed, so it tends to continue. There is a drop in demand, but there was no total stop, revenues continue to generate production (free translation).

Therefore, despite the decrease in demand, the company continues to make deals. Finally, he mentions that because the company had already structured its business model to operating through franchises, and to enable its franchisees to work from home, there was no need to implement major changes to maintain the company's operations.

4.1.4 Startup 4

Having begun operations at the end of 2017, in the city of Caxias do Sul (state of Rio Grande do Sul, Brazil), Startup 4 developed a marketplace 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 placed by a company; however, the low demand caused the company to migrate to a subscription model for customers, charging a fixed monthly amount. It was at this point that the company started to effectively attracting new clients. Nevertheless, after some market considerations, the company chose, at the end of 2018, to implement ads free of charge, without the payment of subscriptions, earning income through a percentage on the value of sales made on its platform.

Currently, in addition to the headquarters, the company has seven franchisees in three Brazilian states. The franchise model adopted allows franchisees to work from home, without requiring a physical structure or even a work team. The idea is that franchisees provide support and provision of personalized services to potential customers who contact the company, recording the information and images of the products to be advertised and registering them in the portal. In the current operation model adopted by the company, the franchisee gains a percentage of the commission obtained by the company after completing the sale operation. However, according to Interviewee 6, considering the growth of the company, the idea is that franchisees will begin structuring their operations in a more concrete way, with a physical commercial space and 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:

So, it is a great solution for the entrepreneur to raise funds, it is currently bringing many advantages. We are hitting the target month by month, sales have not gone down, we are managing to do very well, and we have got some great customers during this pandemic because they ended up seeing us as a refuge (free translation).

From the perspective of Interviewee 6, the franchise model adopted by Startup 4 was indifferent to the company's result:

[...] the franchisee is not making a difference at this moment, what is differentiating at this moment is really our solution as a whole (free translation).

According to the interviewee, the majority of customers attracted in this period did not find the company through its franchisees, but by searching directly for the platform. This is because most companies have not been allowing physical visits to their premises, as was previously done by franchisees. The entrepreneur considers, however, that its structure of franchised units helps promote the company's image, creating a sense of security for companies that decide to advertise on its platform.

4.2 DISCUSSION OF RESULTS

Our first and most notable reflection relates to the franchise model adopted by the analyzed startups. We found that both Startup 1 and Startup 2 opted for a conventional franchise model, whereby the franchisor's model is replicated (Rubin, 1978). This involves the construction of a physical space, based on the model developed by the head office, as well as the recruitment of labor by each franchised unit. Startup 3 and Startup 4, meanwhile, work with a different franchise model, characterized by a home office system, without the need to have a physical space or recruiting labor. In this latter model, the franchisee operates as a kind of representative of the franchisor. In the literature, this model is seen as a 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). Regarding the classification of the business models of the analyzed companies, it is also important to highlight that a match with some defining characteristics, such as innovativeness (Ries, 2011) and that development of a scalable business model (Unterkmstein et al., 2016), plus membership of the Brazilian Association of Startups, are sufficient to classify the four companies as startups.

All the interviewees, to varying degrees, viewed the franchising decision to a way to scale their business, as advocated by Caves & Murphy (1976), thus corroborating the idea that this aspect is one of the main challenges faced by startups (Dullius & Schaeffer, 2016). Nevertheless, the decision on which franchise model to adopt 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 predominant aspects for Startup 3 and Startup 4. Thus, the determining factors of the franchising decision of both sets of startups are more closely related to Resource Scarcity Theory (Hsu et al., 2010; Oxenfeldt & Kelly, 1969); in the case of Startup 3, the main factor was mobilizing financial resources, while for Startup 4, it was mobilizing human resources.

As previously highlighted, operating companies through franchised units could theoretically undermine the dynamism that is characteristic of startups, considering that standardization is a key aspect in the franchise model (Rubin, 1978). This was a concern highlighted by Interviewee 2. However, the fact that all the analyzed startups were already created aiming at performance through this business model may have mitigated this aspect. The current crisis context can be seen as a testing ground 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 leads us to believe that the adoption of a business model based on franchising does not prevent a startup from responding quickly when faced with a crisis context, this being a decisive aspect for its survival in difficult periods (Kuckertz et al., 2020).

With the exception of Startup 4, which has been undergoing several changes in its business model, all the other companies have managed to establish operating models. According to Doern et al. (2019), this helps in the process of coping with a crisis and mitigating its effects. Therefore, the good performance seen by the analyzed startups, as stated by the interviewees, may reflect the existence of a well-established operating model in the businesses, indicating a considerable degree of maturity. It should be noted that Startup 3 was the only one that mentioned that its franchisees had faced financial difficulties 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 of the entrepreneurial activity in the context of post-crisis recovery (Aldairany et al., 2018). Therefore, it could be understood that the COVID-19 crisis did not lead to an organizational crisis, particularly for Startups 1, 2, and 3. However, this situation is not contradictory to the systemic context of crisis, as observed in the scenario of the country as a whole – rather, it can be understood as an outcome of it. Next, we explore how the four companies took advantage of the context and managed to ensure their survival. 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 be less important.

As highlighted by William et al. (2017), resilience involves making adjustments during the period of crisis, which can be observed in the cases of startups. Although only Interviewee 1 explained 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 for franchisees of Startup 3; and the use of market opportunities of Startup 4, can all be understood as forms precursor resilience (Boin & Van Eeten, 2013). In particular, the 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). This attitude can also be understood as the capacity of companies to deal with similar situations in the future, as highlighted by Giones 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 & Winkler, 2020). Thus, based on the concept used by Roggeveen & Sethuraman (2020), the use of these tools may become the new norm. The ease of 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 factor of great competitive advantage for these companies over their competitors in the context of a “new normality”. As advocated by Kuckertz et al. (2020), new opportunities can arise out of a context of crisis. The performance of Startup 4 during this period confirms this statement. Within a context of low economic activity, companies seek alternative sources of revenue. Thus, the platform developed by the company is an opportunity for these companies. The same was true with Startup 1, working on the commercialization of PPE developed during this period.

Finally, we highlight the clear disparity, in terms of the effects of operating through a franchise system, between the two sets of startups when faced with a context of crisis. Whereas Startup 1 and Startup 2, operating through the conventional franchise model, seem to have gained greater advantages from their franchisees in this context, Startup 3 and Startup 4, micro-franchises, do not seem to have had the same fortune. In the case of the first set of startups, the distribution of responsibilities and greater financial comfort illustrate this situation. The first aspect is aligned with the idea that the franchisor can be considered as a strategic element, primarily as a source of information (Monteiro & Vargas, 2018). Conversely, in the second set, most of the deals concluded during the crisis period were carried out regardless of the franchised units. The difficulties faced by individual micro-franchises of Startup 3 and Startup 4, which are greater when compared with those faced by franchisees of other startups, corroborate the idea that smaller businesses tend to be more vulnerable in a crisis context (Turner & Akinremi, 2020). This situation may have been further exacerbated by the prospective nature of the activities carried out by the micro-franchisees of these startups, which are usually done in person, and are therefore 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: Startups that operate through franchised units do not lose the agility and flexibility that are characteristic of this type of business.

Proposition 2: Resilience is a key aspect for startups to overcome a crisis context.

Proposition 2a. In contexts of systemic crisis, resilience is primarily manifested through substantial adjustments in business models ("pivoting")

Proposition 2b. Meeting the new demands of its stakeholders, which originate in systemic crisis environments, should be one of the main objectives of startups

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 active prospecting of potential customers on the part of franchisees, an aspect that is compromised in systemic crisis environments

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

Finally, we developed a diagram (Figure 1). First, it highlights the possibility for startups to opt for the conventional franchise model or the micro-franchise model. It is notable, however, that this choice does not compromise the attributes and characteristics of this type of business. In the context of a systemic crisis, as can be seen in the Covid-19 crisis, there are countless changes in the environment affecting all the actors involved in the system, including organizations. We can see that in this context, startups that operate through the conventional franchise model have a greater capacity for pivoting, materializing aspects that are related to organizational resilience and helping companies to face the crisis. Meanwhile, those companies that operated through micro-franchises have lower pivoting capabilities, placing them in a more vulnerable position, or making it difficult to exploit the benefits in the same way as the first set of companies.

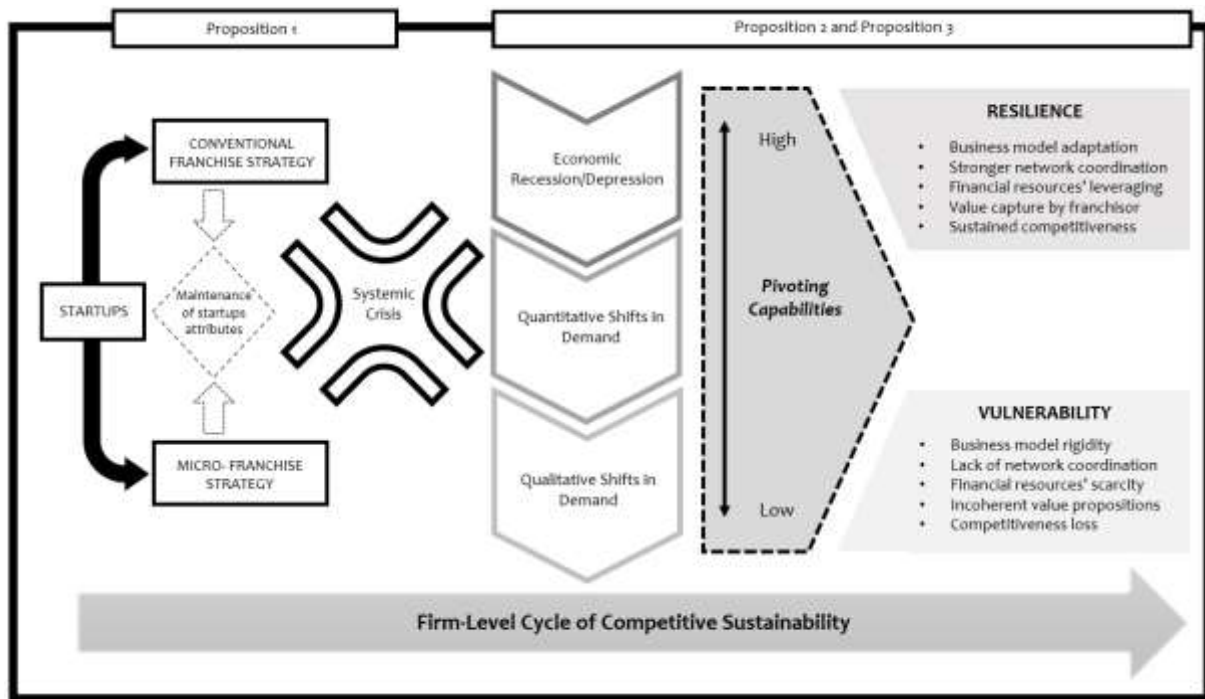


Figure 1. Diagram of the franchising decision and crisis management in startups
Source: Prepared by the authors

5. FINAL CONSIDERATIONS

Based on this study of 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. Undoubtedly, startups are an important business model in the contemporary world, and franchises have a primordial role in the economy, both in Brazil and other countries. Therefore, studying the intersection of these themes represents a great opportunity in the field. Specifically, in this paper, we analyze this intersection in the context of the COVID-19 crisis, an event that will certainly represent a new paradigm in the business area, and that calls for new study approaches, like that taken in this research. We obtained information through semi-structured interviews conducted with the founders and managers of companies selected between April and May 2020; together with information on the websites/social media of the franchise; and information collected in articles about the companies published in Brazilian business magazines, which allowed the triangulation of data.

Our first conclusion is that the agility and flexibility of the studied businesses was maintained, 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 that this attribute is maintained by startups that choose this operating model. Based on the four cases analyzed, we can conclude that startups can opt for two franchise models: conventional franchises or micro-franchises. The first model enables franchise startups to gain, to a greater extent, benefits from their franchisees within a crisis context when compared with the second model. Despite this situation, all the analyzed businesses have been delivering consistent performances even in the crisis context. All the interviewees presented initiatives adopted by companies that are aligned with the concept of resilience (Salisu et al., 2020; Williams et al., 2017). 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 provides an opportunity for future studies. The second opportunity is to conduct further studies analyze the effects of the franchising decision on startups from other countries and in different contexts. Another suggestion is 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. Finally, we suggest conducting research with the franchisees of startups, to understand whether their views converge or contrast with those of the franchise company.

Our assessment brings theoretical and practical contributions. From a theoretical standpoint, the implications relate both to the franchising context, by using an unprecedented and contemporary object of analysis, 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 undisputed importance, namely startups. For practitioners, meanwhile, our research can be useful for entrepreneurs who are analyzing alternative financing or expansion-related options for their startups, or for those seeking ways to overcome the challenges posed by a crisis context.

Among the limitations of our study we highlight the small number of cases and the similarity between them, which can generate bias in the analyses. Nevertheless, we expect that this approach will encourage studies on entrepreneurship processes linked to the franchising strategy as a path towards 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 on these aspects. The understanding of this dynamic, from a “new normal” to a competitive structure, is paramount for the advancement of studies in entrepreneurship.

¹ According to the APIC (Association for Professionals in Infection Control and Epidemiology), an outbreak is defined as a sudden increase in the number of cases of a disease. An epidemic, in turn, is defined as a rapidly-occurring spread of an infectious disease to many people. Finally, a pandemic is defined as a global outbreak of a disease, usually occurring in a wider geographical area, infecting a greater number of people and often causing economic losses and social disruptions.

² 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, and a link to the website of the franchisee.

³ This information cannot be directly presented in this article following the confidentiality agreement signed by interviewees.

⁴ “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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