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THE ROLE OF AI IN THE CROATIAN FRANCHISE SECTOR: ADOPTION PATTERNS AND PERCEIVED BENEFITS

Abstract

Purpose: This research delves into the intersection of franchising and AI adoption in Croatia, with the aim of comprehending how AI technologies are harnessed to bolster business strategies and competitiveness within the franchise sector. Within the dynamic franchising landscape, integrating AI is pivotal for reshaping business operations and strategies. The study investigates how AI facilitates collective success within franchise networks, thereby augmenting their competitive edge.

Methodology: Conducted in November 2023, the research surveyed 76 Croatian franchisors, with 35 respondents completing the questionnaire. Findings were meticulously analyzed, considering franchise sales status and business sectors.

Results: Croatian franchisors exhibit optimism regarding AI's potential to revolutionize operations but grapple with a significant knowledge gap concerning its implementation and benefits. Despite no statistical variance in AI adoption based on franchise sales or sectors, the majority acknowledges its competitive advantage. Nevertheless, many remain ambivalent about AI's impact on franchise sales, underscoring the imperative for education and support.

Conclusions: Croatian franchisors necessitate tailored education and support to surmount AI implementation challenges. Customized services can facilitate navigating the complexities of AI integration, with franchisors serving as leaders in introducing AI to their franchise network for the collective benefit. Further research is indispensable to pinpoint specific challenges and opportunities for maximizing AI benefits in the franchising sector.

Keywords: Franchising, artificial intelligence (AI), competitive advantage, digital transformation

1. Introduction

The franchise sector is pervasive, offering opportunities for new entrepreneurs to launch businesses with the support of experienced franchisors. This model distributes risks and reduces financial and operational burdens for franchisors while enabling franchisees to leverage their entrepreneurial ambitions (Kukec, 2023). In the digital era, artificial intelligence (AI) transforms franchising by enhancing competitive advantages through data analytics, au-

tomation, and intelligent decision-making (Boulay & Stan, 2013).

This study explores how AI shapes franchising in Croatia, aiming to understand how franchisors use AI to boost their strategies and competitiveness. The research includes data from November 2023, involving 76 Croatian franchisors, with 35 that completed the survey. Results indicate that 40% have not sold their first franchise, and 60% have, across six business sectors.

The paper observes Croatian franchisors' optimism about AI's transformative potential in business, while also highlighting a significant knowledge gap regarding its implementation and benefits. There is no statistical difference in AI adoption among franchises or sectors, but most franchisors recognize its competitive advantage. Many are still unsure if the lack of AI knowledge is an obstacle to franchise sales, suggesting a need for more education and support in AI integration.

Following the introduction, the paper will review global and Croatian franchising economic impact and AI's role in entrepreneurship and franchising. It will then outline the research methodology, present findings, discuss results, and address the study's limitations. The conclusion will offer future research suggestions, aiming to shed light on the multifaceted economic role of franchising and the growing influence of AI.

2. Literature review

The literature review underscores the diverse nature of franchising and its potential for significant economic and social benefits on a global scale, while also highlighting the pivotal role of AI in securing a competitive advantage for this sector's robust growth and implications on global economy.

2.1 Franchise industry's potential and economic significance

Franchising is prevalent and advantageous, offering a reliable route to success with lower risks than starting a business from scratch. It provides robust support and knowledge transfer, crucial during a business's start-up and growth phases (Boulay & Stan, 2013). Franchising spans over 300 sectors (International Franchise Association, 2023), adapting to diverse global markets and local customs. Notably, it accounts for over 50% of global retail sales,

with a new franchise location opening worldwide every 8 minutes (Makan, 2020).

The franchise sector's diversity and dynamics cover various types and motivations, relationships between franchisors and franchisees, and multiple business sectors (Kukec, 2019). It intersects with psychology, sociology, entrepreneurship, etc., providing a unique opportunity to leverage AI for competitive advantage (Stanworth et al., 2004). Economically, China, the US, Brazil, and Taiwan lead in franchising, with a vast brand array (Acadia, 2022; International Franchise Association, 2023; International Trade Administration, 2023; Taiwan Chain Stores and Franchise Association, 2023). Meanwhile, India takes the spotlight as the global leader in the number of franchise systems, with 10,000 registered, of which 4,600 are active, and an estimated annual growth rate of 30% expected by 2025 (The Economic Times, 2023).

In Europe, countries such as France, Germany, Italy, the United Kingdom, and Spain still stand as most developed franchise markets (Kukec et al., 2023).

Nonetheless, it is worth noting that franchising is experiencing swift expansion, not only within well-established markets, but also within emerging regions like China, India, Taiwan, South Korea, Eastern Europe, and beyond. It stands as a symbol of globalization, transcending borders and cultures. This business model carries a rich legacy in the economic and political chronicles of developed nations and bears substantial relevance for every economy (Welsh & Alon 2004). It plays a pivotal role in terms of job creation, fostering economic modernization, facilitating the exchange of knowledge and technology, promoting sustainable entrepreneurship development, and bolstering government revenues through taxes and customs duties (Alpeza et al., 2015).

Franchising is increasingly seen as a key strategy for global expansion, utilizing international and local resources to boost competitiveness and market entry, particularly in emerging economies (Alon et al., 2021). More than creating jobs, franchising influences the number of sales outlets, mostly franchisee-owned, fostering new entrepreneurial ventures and economic growth (Ghani et al., 2022). With a success rate of over 92% within the first two years and 85% after five, franchising offers a sustainable business model (FranNet, 2021). The global franchise market, valued at $3.71 trillion in 2019 (Gitnux, 2023), is projected to grow annually

by 9.58% from 2022 to 2027 (Research and Markets, 2023). Franchising significantly enhances economic, social, and infrastructural development in host countries (Lanchimba et al., 2024).

Recent digitalization has transformed businesses, prompting new cooperative forms, product development, service offerings, and market relationships. This shift necessitates companies, including those in franchising, to adopt new strategies to maintain market competitiveness. Franchising, with its global network involving multiple companies, has had to rapidly adapt to these changes, leading to the rise of new e-business models within the sector (Rachinger et al., 2019; Chen, 2019). The structure of franchising, which connects numerous entities, requires the integration of new technologies to meet market demands.

The strategic inclusion of AI in business and franchising is crucial. AI's impact is broad, generating significant data across franchise networks, benefiting franchisors, franchisees, clients, and suppliers alike (Ledro et al., 2023). AI's role enhances decision-making, optimizes operations, and supports the sustained growth and competitiveness of the franchise sector.

2.2 Franchising in Croatia

Franchising in Croatia began in 1969 with Diners Club Adriatic operating under Diners Club International across the former Yugoslav market. The significant entry of McDonald's in the early 1990s introduced franchising as a viable business model to Croatian entrepreneurs (Alon et al., 2010). The sector expanded with various European and international franchises entering the market. In 2002, the establishment of the Croatian Franchise Association[1] and the creation of Franchising Centers in Zagreb and Osijek in 2003 significantly supported the sector's development (Kukec, 2019).

Over the past two decades, Croatia's franchising sector has evolved slowly but steadily, recently flourishing into a dynamic component of the national economy (Alpeza et al., 2015). Today, the sector shows strong growth with a significant increase in franchised businesses, contributing to employment and economic modernization. Since 2020, there has been a notable 168% growth in domestic brands (Colak Franchise Consulting Group, 2023), with 248 franchise brands on the market, 28% of which are domestic (Kukec, 2023).

[1]   www.fip.com.hr

Support from the Croatian Franchise Association and the Franchising Center in Osijek has been crucial in developing this landscape, enhancing Croatia's appeal as a destination for franchisors and boosting the interest among local entrepreneurs in franchising opportunities (Erceg, 2012).

2.3 Artificial intelligence - a brief history and global growth

AI's history dates back to the mid-20th century, evolving from rule-based systems to incorporating machine learning and neural networks. These advancements enable AI to analyze extensive data and support complex decision-making, making it a vital tool for businesses (Council of Europe, 2023). Despite its profound impact across sectors, the exploration of AI within entrepreneurship, including franchising, remains largely unexplored. This presents a significant opportunity for pioneering research and insights. The field of AI in entrepreneurship is in its early stages, holding considerable potential to transform traditional business models. Nevertheless, it suffers from a lack of comprehensive studies on its benefits, particularly in franchising (Obschonka & Audretsch 2020).

In franchising, AI is instrumental, providing franchisors with data-driven insights that enhance decision-making, streamline supply chain management, bolster marketing, and improve customer service. However, overcoming challenges like data opacity and availability is essential for effective AI implementation. Developing tailored AI capabilities and preparing for the complex nature of data access are crucial steps for integrating AI seamlessly into franchise systems (Weber et al., 2022).

AI significantly enhances the personalization of customer experiences in the franchise sector. It customizes marketing to individual preferences, boosting customer satisfaction and loyalty (Savyc, 2023). Beyond mere data aggregation, AI autonomously analyzes customer preferences and behaviors throughout the franchise network, enabling real-time marketing strategy adjustments and personalized customer interactions. AI-driven technologies, such as chatbots and virtual assistants, also elevate customer support services, ensuring consistent quality across locations and enhancing brand reputation and customer loyalty (Haan, 2023).

Franchise networks are increasingly leveraging AI and machine learning, benefiting significantly due

to their unique structural nature. As a collective network under a unified brand and standardized business model, franchises enable machine learning algorithms to quickly gather data across all locations, swiftly developing insights and identifying key correlations.

AI's role is transformative in predicting demand and optimizing inventory management for retail franchises. It ensures optimal inventory levels at each location, minimizing stockouts and surplus, thus enhancing financial efficiency. This capability not only boosts franchise profitability but also improves customer satisfaction, providing a competitive edge within the industry (Haan, 2023).

In May 2023, an online survey was conducted among 600 American business owners already utilizing or intending to adopt AI within six months. The survey revealed that businesses anticipate AI to enhance communication (46%), generate website content (30%), debug code (41%), translate data (47%), and summarize information (53%). Additionally, half of the respondents (50%) expect ChatGPT to enhance decision-making and facilitate multilingual content creation (44%) (Haan, 2023).

Table 1 shows the research results depicting the usage of AI in business, with customer service ranking first, followed by cybersecurity and personal assistant, and CRM, while recruitment and audience segmentation in marketing rank last, with 26% and 24%, respectively.

Table 1 Use of AI in businesses

	Use of AI	%
1	Customer service	56
2	Cybersecurity	51
3	Personal assistant	47
4	CRM	46
5	Inventory management	40
6	Content production	35
7	Product recommendations	33
8	Accounting	30
9	Supply chain management	30
10	Recruitment	26
11	Audience segmentation	24

Source: Haan (2023)

AI significantly enhances the franchise sector by automating routine tasks, boosting efficiency, and allowing teams to focus on strategic business aspects. It facilitates personalized customer interactions and delivers insights for informed decision-making and proactive planning. AI-powered chatbots improve customer service by reducing wait times, while its analytical tools offer personalized recommendations, increasing customer engagement and loyalty. Furthermore, AI aids in forecasting trends, identifying risks, and developing mitigation strategies, enhancing competitiveness and continuous improvement (Franchise UK, 2024).

Globally, AI is rapidly expanding with significant investments in research and development from the United States, China, and the European Union, driving innovations that impact franchising. Automation and data analysis have become central to franchise management, vital for maintaining efficiency and competitiveness in the sector (Savyc, 2023).

As AI evolves, its integration into franchise operations becomes increasingly critical, particularly due to its ability to disseminate knowledge and enhance competitiveness across franchise networks. When franchisors implement AI, the technology benefits all franchisees, fostering a network-wide sharing of expertise and improved business practices. This network effect means that AI can have a more profound impact in franchising than in other sectors due to its complex structure (Shepherd & Majchrzak, 2022).

However, Westenberger et al. (2021) highlight that unrealistic expectations of AI can lead to project failures. Challenges include not only these expectations but also unsuitable use cases, organizational constraints, insufficient resources, and technological hurdles, presenting significant obstacles to successful AI integration.

Given that Croatia's franchise sector is relatively nascent, with many domestic franchises only starting to emerge and expand both locally and internationally in the past three years, this research focuses on evaluating the awareness, experience, and utilization of AI among Croatian franchises. The goal is to determine how AI contributes to developing a competitive edge for these businesses. This assessment aims to accelerate and improve the growth of franchise networks operated by Croatian franchisors.

3. Methodology

In this research, categorical data are presented using absolute and relative frequencies. Data are represented numerically by the mean and standard deviation, and graphically by tables. Differences between categorical variables were tested using the chi-square test with Fisher's correction. All p-values are two-tailed. The significance level was set at 0.05. Statistical analysis was performed using the SPSS[2] statistical software.

Research was conducted in November 2023. A total of 76 Croatian franchisors were included in the study, with 35 respondents completing the questionnaire, i.e. 46%. Of these responses, the data revealed that 40% of franchisors have not yet sold their first franchise, while 60% have.

3.1 Limitations of the research

This study faces notable constraints stemming from its modest sample size and a response rate of only 46%, potentially compromising its representativeness of the broader population of Croatian franchisors, thus impacting the generalizability of the findings.

Additionally, the limited timeframe of the research (November 2023) restricts its ability to track changes over time or establish causal relationships between variables.

2   SPSS version 26.0, SPSS Inc., Chicago, IL, USA.

Moreover, reliance on questionnaire responses raises concerns about self-report bias, where respondents may tailor their answers to meet perceived expectations rather than express genuine opinions or behaviors. Furthermore, the study may overlook pertinent factors or variables that could influence outcomes, such as unexplored distinctions between franchisors who have and have not sold their initial franchise.

4. Findings and insights

Table 2 compares results of whether respondents have sold a franchise with their use and recognition of AI in business contexts. It provides insights into their understanding, expectations, use, and perceptions of AI's competitive advantage among Croatian franchisors.

Fisher's exact test was used to evaluate the statistical significance of response differences between two groups: those who have sold their first franchise and those who have not. These differences may stem from various factors. For example, franchisors who have sold a franchise may have gained more exposure to AI's practical applications and benefits through their operational experiences, leading to better understanding and greater utilization and recognition of AI. Additionally, successful franchisors are likely to invest more in AI technologies to improve their business operations, enhancing their familiarity and integration of AI within their franchise systems.

Table 2 Comparison of the results of whether respondents have already sold a franchise or not

| | | Have you sold the first franchise | | | | | | p* |
| | | Yes | | No | | Total | | |
		N	%	N	%	N	%	
Assess the extent to which the following could help you in selling your franchise: Greater knowledge about AI as a support for the quality and growth of your network	The least	2	9.5%	2	14.3%	4	11.4%	0.799
	2	6	28.6%	2	14.3%	8	22.9%	
	3	7	33.3%	5	35.7%	12	34.3%	
	4	5	23.8%	3	21.4%	8	22.9%	
	The most	1	4.8%	2	14.3%	3	8.6%	
	Total	21	100.0%	14	100.0%	35	100.0%	
Assess your experiences and expectations of the franchise business model: I expect that the use of AI will greatly assist me in operating the franchise.	I completely disagree	1	4.8%	0	0.0%	1	2.9%	0.412
	I disagree	3	14.3%	4	28.6%	7	20.0%	
	I do not know	7	33.3%	5	35.7%	12	34.3%	
	I agree	8	38.1%	2	14.3%	10	28.6%	
	I completely agree	2	9.5%	3	21.4%	5	14.3%	
	Total	21	100.0%	14	100.0%	35	100.0%	

		Have you sold the first franchise						p*
		Yes		No		Total		
		N	%	N	%	N	%	
Assess the extent to which you use AI in your franchise operations overall.	Very little	5	23.8%	7	50.0%	12	34.3%	0.151
	Moderate	5	23.8%	2	14.3%	7	20.0%	
	Substantial	8	38.1%	2	14.3%	10	28.6%	
	A lot	1	4.8%	3	21.4%	4	11.4%	
	Very much	2	9.5%	0	0.0%	2	5.7%	
	Total	21	100.0%	14	100.0%	35	100.0%	
Assess the extent to which you consider the use of AI could be a competitive advantage in the growth and quality of your franchise network	Very little	0	0.0%	1	7.1%	1	2.9%	0.833
	Moderate	1	4.8%	1	7.1%	2	5.7%	
	Substantial	10	47.6%	6	42.9%	16	45.7%	
	A lot	5	23.8%	4	28.6%	9	25.7%	
	Very much	5	23.8%	2	14.3%	7	20.0%	
	Total	21	100.0%	14	100.0%	35	100.0%	
Assess the extent to which you use AI in various segments of your franchise business:								
Marketing	Very little	2	9.5%	4	28.6%	6	17.1%	0.220
	Moderate	8	38.1%	1	7.1%	9	25.7%	
	Substantial	4	19.0%	2	14.3%	6	17.1%	
	A lot	4	19.0%	3	21.4%	7	20.0%	
	Very much	3	14.3%	4	28.6%	7	20.0%	
	Total	21	100.0%	14	100.0%	35	100.0%	
Generating any kind of text	Very little	4	19.0%	3	21.4%	7	20.0%	0.934
	Moderate	4	19.0%	1	7.1%	5	14.3%	
	Substantial	4	19.0%	4	28.6%	8	22.9%	
	A lot	4	19.0%	3	21.4%	7	20.0%	
	Very much	5	23.8%	3	21.4%	8	22.9%	
	Total	21	100.0%	14	100.0%	35	100.0%	
Business control of the franchisees	Very little	9	42.9%	6	42.9%	15	42.9%	0.274
	Moderate	7	33.3%	1	7.1%	8	22.9%	
	Substantial	3	14.3%	3	21.4%	6	17.1%	
	A lot	1	4.8%	1	7.1%	2	5.7%	
	Very much	1	4.8%	3	21.4%	4	11.4%	
	Total	21	100.0%	14	100.0%	35	100.0%	
Finances	Very little	8	38.1%	5	35.7%	13	37.1%	0.388
	Moderate	4	19.0%	1	7.1%	5	14.3%	
	Substantial	7	33.3%	3	21.4%	10	28.6%	
	A lot	1	4.8%	1	7.1%	2	5.7%	
	Very much	1	4.8%	4	28.6%	5	14.3%	
	Total	21	100.0%	14	100.0%	35	100.0%	

		Have you sold the first franchise						p*
		Yes		No		Total		
		N	%	N	%	N	%	
Communication with clients	Very little	6	28.6%	4	28.6%	10	28.6%	0.876
	Moderate	7	33.3%	3	21.4%	10	28.6%	
	Substantial	2	9.5%	1	7.1%	3	8.6%	
	A lot	4	19.0%	3	21.4%	7	20.0%	
	Very much	2	9.5%	3	21.4%	5	14.3%	
	Total	21	100.0%	14	100.0%	35	100.0%	
Training new franchisees	Very little	9	42.9%	5	35.7%	14	40.0%	0.863
	Moderate	6	28.6%	4	28.6%	10	28.6%	
	Substantial	1	4.8%	2	14.3%	3	8.6%	
	A lot	3	14.3%	1	7.1%	4	11.4%	
	Very much	2	9.5%	2	14.3%	4	11.4%	
	Total	21	100.0%	14	100.0%	35	100.0%	
Generating potential franchisees and increasing franchise sales	Very little	9	42.9%	4	28.6%	13	37.1%	0.385
	Moderate	5	23.8%	2	14.3%	7	20.0%	
	Substantial	1	4.8%	4	28.6%	5	14.3%	
	A lot	4	19.0%	2	14.3%	6	17.1%	
	Very much	2	9.5%	2	14.3%	4	11.4%	
	Total	21	100.0%	14	100.0%	35	100.0%	
Predicting future business trends based on KPIs	Very little	6	28.6%	4	28.6%	10	28.6%	0.370
	Moderate	7	33.3%	3	21.4%	10	28.6%	
	Substantial	2	9.5%	4	28.6%	6	17.1%	
	A lot	5	23.8%	1	7.1%	6	17.1%	
	Very much	1	4.8%	2	14.3%	3	8.6%	
	Total	21	100.0%	14	100.0%	35	100.0%	
Selecting an ideal location	Very little	9	42.9%	4	28.6%	13	37.1%	0.890
	Moderate	5	23.8%	4	28.6%	9	25.7%	
	Substantial	3	14.3%	2	14.3%	5	14.3%	
	A lot	1	4.8%	2	14.3%	3	8.6%	
	Very much	3	14.3%	2	14.3%	5	14.3%	
	Total	21	100.0%	14	100.0%	35	100.0%	
Improving customer service	Very little	6	28.6%	4	28.6%	10	28.6%	0.300
	Moderate	7	33.3%	1	7.1%	8	22.9%	
	Substantial	2	9.5%	3	21.4%	5	14.3%	
	A lot	2	9.5%	4	28.6%	6	17.1%	
	Very much	4	19.0%	2	14.3%	6	17.1%	
	Total	21	100.0%	14	100.0%	35	100.0%	
Based on your experience so far, to what extent are the following statements obstacles to selling your franchise: Lack of knowledge and difficulty in using AI within the franchise business model.	I completely disagree	1	4.8%	1	7.1%	2	5.7%	0.303
	I disagree	5	23.8%	1	7.1%	6	17.1%	
	I do not know	10	47.6%	4	28.6%	14	40.0%	
	I agree	2	9.5%	4	28.6%	6	17.1%	
	I completely agree	3	14.3%	4	28.6%	7	20.0%	
	Total	21	100.0%	14	100.0%	35	100.0%	

* Fisher's exact test

Source: Author

The results indicate that P-values greater than 0.05 suggest that there is no significant difference in the level of knowledge about AI between respondents who have sold their first franchise and those who have not. This suggests that the experience gained during the marketing and selling process of the franchise is not necessarily related to a greater or lesser understanding of AI technologies.

Interestingly, in response to the question of whether lack of knowledge or difficulty in using AI within the franchise model is an obstacle to selling a franchise, 47.1% of respondents said they partially agree or do not know whether it is an obstacle or not, while 37.1% of respondents mostly agree or completely agree that it is an obstacle. Those results indicate a significant uncertainty among respondents regarding the impact of AI knowledge and usability challenges on franchise sales, with nearly half undecided or ambivalent. Meanwhile, over a third of the participants acknowledge these challenges as a clear barrier to selling a franchise. This suggests a need for further education and support in integrating AI into franchising to mitigate perceived obstacles because a much wider survey on 600 businesses in the USA revealed that AI will contribute to communication (46%), website content generation (30%), code debugging (41%), data translation (47%), and information summary (53%). Additionally, half of the respondents (50%) expect ChatGPT to enhance decision-making and facilitate multilingual content creation (44%) (Haan, 2023). If Croatian providers do not educate themselves and include AI in their franchise operations, including education of their franchisees, there is a great chance that they would lose their competitive advantage in the market, as competitors from other countries will likely surpass them in the market competition.

No statistically significant difference exists in AI expectations between the two respondent groups, indicating uniform optimism about AI's potential to enhance their franchise business across varying levels of franchising experience. Notably, 42.9% of participants anticipate that incorporating AI will significantly benefit their franchise operations.

When we look at the use of AI in business, here too, P-values show that there is no statistically significant difference between those who have and have not sold their first franchise. This means that, based on the collected data, franchisors are inclined to explore and apply AI regardless of whether they have already gone through the process of marketing and selling a franchise.

Table 3 reveals the primary applications of AI by Croatian franchisors, counting on those participants who rated their usage of AI applications in business: substantial, a lot, and very much. Here marketing leads the way (82.8%), followed by text generation (80.1%). Specifically, 62.9% of these franchisors employ AI to generate potential franchisee leads and boost franchise sales. Notably, AI's least frequent use among franchisors is for monitoring franchisee operations (57.1%).

Table 3 What Croatian franchisors mostly use AI for

1.	Marketing	82.8%
2.	Generating any kind of text	80.1%
3.	Communication with the clients Predicting future business trends based on KPIs Improving customer service	71.5% 71.4% 71.4%
4.	Finances Selection of an ideal location Generating potential franchisees and increasing franchise sales	62.9% 62.9% 62.8%
5.	Training new franchisees	60%
6.	Business control of the franchisees	57.1%

Source: Author

When we compare the results with the previously mentioned American study, we notice significant differences in the application of artificial intelligence (AI) between Croatian franchises and American entrepreneurs. While American entrepreneurs primarily use AI to enhance customer service, with security and personal assistants, Croatian franchisors rely more on AI for marketing and text generation, with customer service ranking third (71.4%). Additionally, compared to American entrepreneurs, Croatian franchisors use AI to a lesser extent for monitoring franchise operations (Haan, 2023).

Based on these results, Croatian franchisors should consider adjusting their AI usage strategy to better suit franchise specific needs and goals. Considering the dominant use of AI in marketing, it might be beneficial to explore additional AI capabilities in improving customer service or operational processes to increase efficiency and competitiveness. Furthermore, franchisors should carefully consider

the skeptical attitude toward AI in franchise sales and explore its potential for generating potential franchisees. The ability to adapt and implement AI according to the specific needs of the franchise business could be crucial for achieving competitive advantage and successful growth.

Regarding the perception of AI as a competitive advantage, the lack of statistically significant differences suggests that experience in selling the franchise does not affect how respondents view the role of AI in creating a competitive advantage in the market.

A total of 91.4% of respondents rate AI's potential as a competitive advantage for franchise operations between 3 and 5, reflecting a strong belief in its ability to enhance competitiveness. High ratings highlight AI's transformative potential, seen not just as a technological tool but as a strategic asset. This aligns with insights emphasizing AI's role in increasing efficiency, allowing strategic focus and enhancing customer interactions for better satisfaction and loyalty. AI's analytical capabilities also facilitate informed decision-making and proactive planning in franchises (Franchise UK, 2024).

As to inquiries about whether increased understanding of AI, as a support mechanism for enhancing the quality and expansion of franchisor networks, would benefit their businesses, 22.9% of respondents expressed their doubt, and 34.3% admitted uncertainty, potentially indicating a knowledge gap. Meanwhile, 42.9% are confident that such knowledge would be advantageous.

Although it could be assumed that the experience of selling a franchise may influence attitudes and practices related to AI due to the acquired experience and better recognition of the opportunities that AI can bring in the process, the results of the analysis show that there are no statistically significant differences among respondents in this regard. While Croatian franchisors generally exhibit a positive outlook on AI, with many acknowledging its potential to serve as a competitive advantage, there

remains a critical need for bridging the knowledge gap. Enhancing understanding and competencies in AI could further unlock its potential, enabling franchisors to fully leverage AI for operational efficiency, customer engagement, and business growth. This entails not only individual learning and experimentation but also industry-wide efforts to share insights, best practices, and success stories of AI integration in franchising.

Table 4 analyzes AI's perception and application across various sectors in the Croatian franchise industry, noting that each sector might utilize AI differently. For instance, the wellness sector sees AI as highly beneficial for customer experience and personalization, potentially boosting sales. Conversely, the entertainment sector sees less potential for AI to enhance operations and sales due to fewer applicable uses. Sectors like wellness and food & beverage/tourism, where AI can enhance customer engagement, marketing, and operations, tend to view AI more favorably. In contrast, sectors like entertainment, with limited AI applications, often perceive its impact as minimal.

The perceived barriers to AI adoption could vary across sectors too, influencing franchisors' willingness to invest in AI technologies. For example, the retail sector may see a lack of AI knowledge as a significant barrier to franchise sales, possibly due to the complex nature of retail operations and the need for data-driven decision-making. In contrast, the service sector may not perceive AI knowledge as crucial for franchise sales, potentially due to the nature of their business operations or a lack of understanding of AI's potential benefits.

The organizational culture and mindset supporting innovation and technology adoption could also play a role. Sectors with a more progressive attitude toward technology adoption may be more inclined to explore and invest in AI solutions, while sectors with a more traditional approach may be more cautious or skeptical.

Table 4 Comparison of the results related to the business sector

		\multicolumn{12}{c}{Franchise sector}	p*
		WELLNESS		EDUCATION		F&B TOURISM		ENTERTAINMENT		RETAIL		SERVICES		
		N	%	N	%	N	%	N	%	N	%	N	%	
Assess the extent to which the following could help you in selling your franchise: Greater knowledge about AI as a support for the quality and growth of your network	The least	0	0.0%	1	14.3%	0	0.0%	3	50.0%	0	0.0%	0	0.0%	0.148
	2	0	0.0%	3	42.9%	2	18.2%	1	16.7%	1	33.3%	1	50.0%	
	3	4	66.7%	1	14.3%	5	45.5%	0	0.0%	1	33.3%	1	50.0%	
	4	2	33.3%	2	28.6%	2	18.2%	2	33.3%	0	0.0%	0	0.0%	
	The most	0	0.0%	0	0.0%	2	18.2%	0	0.0%	1	33.3%	0	0.0%	
	Total	6	100.0%	7	100.0%	11	100.0%	6	100.0%	3	100.0%	2	100.0%	
Assess your experiences and expectations of the franchise business model:	I completely disagree	0	0.0%	0	0.0%	1	9.1%	0	0.0%	0	0.0%	0	0.0%	0.783
	I disagree	2	33.3%	1	14.3%	1	9.1%	2	33.3%	1	33.3%	1	50.0%	
	I do not know	1	16.7%	3	42.9%	5	45.5%	1	16.7%	1	33.3%	1	50.0%	
	I agree	3	50.0%	2	28.6%	3	27.3%	2	33.3%	1	33.3%	0	0.0%	
	I completely agree	0	0.0%	1	14.3%	1	9.1%	1	16.7%	0	0.0%	0	0.0%	
	Total	6	100.0%	7	100.0%	11	100.0%	6	100.0%	3	100.0%	2	100.0%	
I expect that the use of AI will greatly assist me in operating the franchise.	Very little	3	50.0%	1	16.7%	2	18.2%	2	33.3%	3	33.3%	2	100.0%	0.259
	Moderate	1	16.7%	2	36.4%	4	36.4%	0	0.0%	0	0.0%	0	0.0%	
	Substantial	1	16.7%	3	16.7%	3	27.3%	3	50.0%	0	0.0%	0	0.0%	
	A lot	1	16.7%	1	16.7%	2	14.3%	0	18.2%	0	0.0%	0	0.0%	
	Very much	0	0.0%	1	0.0%	0	14.3%	1	0.0%	0	16.7%	0	0.0%	
Assess the extent to which you use AI in your franchise operations overall.	Total	6	100.0%	7	100.0%	11	100.0%	6	100.0%	3	100.0%	2	100.0%	

| | | Franchise sector | | | | | | | | | | | | |
| | | WELLNESS | | EDUCATION | | F&B TOURISM | | ENTERTAINMENT | | RETAIL | | SERVICES | | p* |
		N	%	N	%	N	%	N	%	N	%	N	%	
Assess the extent to which you consider the use of AI could be a competitive advantage in the growth and quality of your franchise network	Very little	1	16.7%	1	16.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
	Moderate	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	1	50.0%	
	Substantial	3	50.0%	3	50.0%	3	42.9%	6	54.5%	2	33.3%	1	50.0%	0.734
	A lot	1	16.7%	1	16.7%	3	42.9%	3	27.3%	2	33.3%	0	0.0%	
	Very much	1	16.7%	1	16.7%	1	14.3%	2	18.2%	2	33.3%	0	0.0%	
	Total	6	100.0%	6	100.0%	7	100.0%	11	100.0%	6	100.0%	2	100.0%	
Assess the extent to which you use AI in various segments of your franchise business: Marketing	Very little	1	16.7%	1	16.7%	1	14.3%	1	9.1%	2	33.3%	1	50.0%	
	Moderate	1	16.7%	1	16.7%	3	42.9%	3	27.3%	0	0.0%	1	50.0%	
	Substantial	1	16.7%	1	16.7%	1	14.3%	2	18.2%	2	33.3%	0	0.0%	0.954
	A lot	2	33.3%	2	33.3%	1	14.3%	3	27.3%	0	0.0%	0	0.0%	
	Very much	1	16.7%	1	16.7%	1	14.3%	2	18.2%	2	33.3%	0	0.0%	
	Total	6	100.0%	6	100.0%	7	100.0%	11	100.0%	6	100.0%	2	100.0%	
Generating any kind of text	Very little	0	0.0%	0	0.0%	1	14.3%	3	27.3%	2	33.3%	1	50.0%	
	Moderate	1	16.7%	1	16.7%	2	28.6%	1	9.1%	0	0.0%	0	0.0%	
	Substantial	2	33.3%	2	33.3%	2	28.6%	2	18.2%	0	0.0%	1	50.0%	0.887
	A lot	2	33.3%	2	33.3%	1	14.3%	3	27.3%	1	16.7%	0	0.0%	
	Very much	1	16.7%	1	16.7%	1	14.3%	2	18.2%	3	50.0%	0	0.0%	
	Total	6	100.0%	6	100.0%	7	100.0%	11	100.0%	6	100.0%	2	100.0%	
Control of franchisee operations	Very little	3	50.0%	3	50.0%	2	28.6%	4	36.4%	3	50.0%	2	100.0%	
	Moderate	1	16.7%	1	16.7%	2	28.6%	3	27.3%	1	16.7%	0	0.0%	
	Substantial	1	16.7%	1	16.7%	2	28.6%	2	18.2%	1	16.7%	0	0.0%	0.987
	A lot	1	16.7%	1	16.7%	1	14.3%	0	0.0%	0	0.0%	0	0.0%	
	Very much	0	0.0%	0	0.0%	0	0.0%	2	18.2%	1	16.7%	0	0.0%	
	Total	6	100.0%	6	100.0%	7	100.0%	11	100.0%	6	100.0%	2	100.0%	

		Franchise sector												
	WELLNESS	WELLNESS N	WELLNESS %	EDUCATION N	EDUCATION %	F&B TOURISM N	F&B TOURISM %	ENTERTAINMENT N	ENTERTAINMENT %	RETAIL N	RETAIL %	SERVICES N	SERVICES %	p*
Finances	Very little	3	50.0%	2	28.6%	2	28.6%	4	18.2%	0	0.0%	2	0.0%	0.138
	Moderate	0	0.0%	3	0.0%	1	42.9%	0	9.1%	1	33.3%	0	33.3%	
	Substantial	2	33.3%	1	14.3%	6	14.3%	1	54.5%	0	0.0%	0	0.0%	
	A lot	0	0.0%	0	0.0%	0	0.0%	0	0.0%	1	0.0%	0	33.3%	
	Very much	1	16.7%	1	16.7%	2	14.3%	1	18.2%	1	16.7%	0	33.3%	
	Total	6	100.0%	6	100.0%	11	100.0%	6	100.0%	3	100.0%	2	100.0%	
Communication with clients	Very little	1	16.7%	2	16.7%	2	28.6%	3	18.2%	0	50.0%	1	0.0%	0.656
	Moderate	3	50.0%	3	50.0%	3	42.9%	0	27.3%	1	0.0%	1	33.3%	
	Substantial	0	0.0%	0	0.0%	2	14.3%	0	18.2%	0	0.0%	0	0.0%	
	A lot	2	33.3%	1	33.3%	2	0.0%	2	18.2%	1	33.3%	1	33.3%	
	Very much	0	0.0%	1	0.0%	2	14.3%	1	18.2%	1	16.7%	0	33.3%	
	Total	6	100.0%	6	100.0%	11	100.0%	6	100.0%	3	100.0%	2	100.0%	
Training new franchisees	Very little	2	33.3%	2	33.3%	4	28.6%	3	36.4%	1	50.0%	2	33.3%	0.853
	Moderate	2	33.3%	2	33.3%	4	28.6%	1	36.4%	1	16.7%	0	33.3%	
	Substantial	0	0.0%	2	0.0%	0	28.6%	1	0.0%	0	16.7%	0	0.0%	
	A lot	2	33.3%	0	33.3%	2	0.0%	0	18.2%	0	0.0%	0	0.0%	
	Very much	0	0.0%	1	0.0%	1	14.3%	1	9.1%	1	16.7%	0	33.3%	
	Total	6	100.0%	6	100.0%	11	100.0%	6	100.0%	3	100.0%	2	100.0%	
Generating potential franchisees and increasing franchise sales	Very little	2	33.3%	2	33.3%	5	28.6%	2	45.5%	0	33.3%	2	0.0%	0.892
	Moderate	1	16.7%	2	16.7%	1	28.6%	2	9.1%	1	33.3%	0	33.3%	
	Substantial	1	16.7%	2	16.7%	1	28.6%	0	9.1%	1	0.0%	0	33.3%	
	A lot	2	33.3%	1	33.3%	2	14.3%	1	18.2%	0	16.7%	0	0.0%	
	Very much	0	0.0%	0	0.0%	2	0.0%	1	18.2%	1	16.7%	0	33.3%	
	Total	6	100.0%	7	100.0%	11	100.0%	6	100.0%	3	100.0%	2	100.0%	

		Franchise sector												
		WELLNESS		EDUCATION		F&B TOURISM		ENTERTAIN-MENT		RETAIL		SERVICES		p*
		N	%	N	%	N	%	N	%	N	%	N	%	
Predicting future business trends based on KPIs	Very little	2	33.3%	2	28.6%	2	28.6%	2	27.3%	0	33.3%	1	50.0%	0.865
	Moderate	2	33.3%	2	28.6%	2	28.6%	1	27.3%	1	16.7%	1	50.0%	
	Substantial	1	16.7%	1	14.3%	2	28.6%	2	0.0%	1	33.3%	0	0.0%	
	A lot	1	16.7%	1	14.3%	1	14.3%	0	36.4%	0	0.0%	0	0.0%	
	Very much	0	0.0%	1	14.3%	0	0.0%	1	9.1%	1	16.7%	0	0.0%	
	Total	6	100.0%	7	100.0%	7	100.0%	6	100.0%	3	100.0%	2	100.0%	
Selecting an ideal location	Very little	2	33.3%	2	28.6%	5	28.6%	2	45.5%	0	33.3%	2	100.0%	0.153
	Moderate	4	66.7%	3	42.9%	0	42.9%	1	0.0%	1	16.7%	0	0.0%	
	Substantial	0	0.0%	2	28.6%	2	28.6%	0	18.2%	1	0.0%	0	0.0%	
	A lot	0	0.0%	0	0.0%	2	0.0%	1	18.2%	0	33.3%	0	0.0%	
	Very much	0	0.0%	0	0.0%	2	0.0%	2	18.2%	1	16.7%	0	0.0%	
	Total	6	100.0%	7	100.0%	11	100.0%	6	100.0%	3	100.0%	2	100.0%	
Improving customer service	Very little	1	16.7%	2	28.6%	3	28.6%	2	27.3%	0	33.3%	2	100.0%	0.750
	Moderate	1	16.7%	2	28.6%	3	28.6%	1	27.3%	1	16.7%	0	0.0%	
	Substantial	3	50.0%	1	14.3%	0	14.3%	0	0.0%	1	0.0%	0	0.0%	
	A lot	0	0.0%	1	14.3%	3	14.3%	2	27.3%	0	33.3%	0	0.0%	
	Very much	1	16.7%	1	14.3%	2	14.3%	1	18.2%	1	16.7%	0	0.0%	
	Total	6	100.0%	7	100.0%	11	100.0%	6	100.0%	3	100.0%	2	100.0%	
Based on your experience so far, to what extent are the following statements obstacles to selling your franchise: Lack of knowledge and difficulty in using AI within the franchise business model.	I completely disagree	0	0.0%	1	14.3%	0	14.3%	1	0.0%	0	16.7%	0	0.0%	0.803
	I disagree	0	0.0%	0	0.0%	2	0.0%	2	18.2%	1	33.3%	1	50.0%	
	I do not know	3	50.0%	4	57.1%	4	57.1%	2	36.4%	0	33.3%	1	50.0%	
	I agree	2	33.3%	1	14.3%	2	14.3%	0	18.2%	1	0.0%	0	0.0%	
	I completely agree	1	16.7%	1	14.3%	3	14.3%	1	27.3%	1	16.7%	0	0.0%	
	Total	6	100.0%	7	100.0%	11	100.0%	6	100.0%	3	100.0%	2	100.0%	

* Fisher's exact test

Source: Author

The data reveal nuanced views on AI's potential as a support for quality and growth, its expected usefulness in franchise operations, its current use, and its perceived competitive advantage. Despite the lack of statistically significant differences across sectors (p>0.05), the detailed responses highlight sector-specific insights, suggesting a varied landscape of AI adoption and perception that could inform targeted strategies for AI integration and education within each sector.

Upon examining the results pertaining to the evaluation of how an increase in AI knowledge, rated on a scale of 1-5, can aid in franchise sales, the analysis demonstrates that one hundred percent of respondents from the wellness sector rated it between 3-5. Following suit, in the F&B and tourism sector, 81.9% of respondents rated it between 3-5, while respondents from the entertainment sector rated it the lowest at 33%. These results suggest that the wellness and F&B/tourism sectors see greater potential in utilizing AI to boost their franchise sales through increased AI knowledge.

Regarding their agreement with the statement that a lack of AI knowledge is a barrier to franchise sales, respondents from the retail sector largely agree (66.6%), followed by those from the wellness sector (50%), and F&B/tourism sectors (45.5%). Respondents from the service sector are unanimous in disagreeing or being uncertain (i.e. 100%).

Fisher's exact test did not show any statistically significant difference between sectors (p>0.05) in relation to the questions posed. This suggests that, despite variations in the perception and utilization of AI across sectors, these differences are not statistically significant. The lack of statistical significance may indicate a widespread, yet uneven, awareness and acceptance of AI technologies among Croatian franchises.

These results suggest a variable, but generally positive, orientation toward AI among Croatian franchises, emphasizing the need for further research and education to fully leverage the potential of AI across different sectors.

4.1 Implications

This research highlights the urgent need for educational programs and resources to help Croatian franchisors understand and implement AI effectively. Specialized training and support from franchise organizations and consultancy firms could improve AI integration by offering AI readiness assessments and customized training.

Further research should explore AI adoption challenges and opportunities in the Croatian franchising context to develop strategies that maximize AI benefits while minimizing risks. Addressing these needs can enhance innovation and growth in the franchising sector.

5. Conclusion

In conclusion, the interconnected approach to AI adoption in franchising in general exemplifies a transformative paradigm shift, where advancements in operational efficiency, customer service, and data-driven decision-making reverberate throughout the entire franchise networks. This collective learning experience can not only elevate individual franchise units but also shape the broader landscape of the franchise industry, fostering continuous improvement and enhancing competitiveness.

The impact of AI extends beyond individual franchise units, fundamentally reshaping the dynamics of the franchising sector. By strategically utilizing AI technologies, franchisors and franchisees can collectively enhance customer experiences, streamline operations, and improve market responsiveness. Each franchise location thus becomes an integral component of data-collecting that makes a dynamic and thriving network, rather than a mere standalone entity.

The findings of this paper underscore the prevailing optimism among Croatian franchisors regarding AI's potential to revolutionize their business operations. However, a substantial knowledge gap persists concerning the implementation and benefits of AI. While there is no statistical discrepancy in AI adoption between those who have and have not sold their first franchise, or regarding the sectors they are operating in, a majority of Croatian franchisors acknowledge AI's potential competitive advantage. Nonetheless, a significant proportion remains undecided about the obstacles AI may present in franchise sales, highlighting the urgent need for additional education and support in AI integration.

In essence, this paper emphasizes the imperative of bridging the existing knowledge gap to unlock the full potential of AI for enhancing operational efficiency, fostering customer engagement, and driving sustainable growth within the Croatian franchise sector. Only through concerted efforts to overcome these challenges can franchisors harness the transformative power of AI to navigate an increasingly complex and competitive business landscape.

5.1 Future research

Future research should delve deeper into the longitudinal impact of AI on franchise operations and customer service to understand its enduring effects. Specific questions that need addressing could include: How does AI adoption influence the long-term operational efficiency and customer satisfaction within the franchise sector? What are the sector-specific barriers to AI adoption and how can they be effectively mitigated? It is crucial to conduct studies that track the evolving impact of AI over time, offering a clearer picture of its long-term benefits and challenges.

It would also be interesting to research the extent to which educational programs can bridge the AI knowledge gap among Croatian franchisors and franchisees and what the results of such educational programs would be. Comparative analysis of AI integration in franchising across different cultural and regulatory landscapes would provide valuable insights into how cultural and regulatory differences affect AI adoption strategies in franchising and what the best practices are for AI integration across various franchise markets.

These areas of investigation could significantly contribute to the development of tailored AI strategies that cater to diverse franchise environments, promoting effective integration and maximizing AI's potential benefits for this industry.

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