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List of abbreviations

AT	Agency Theory
EDI	Electronic Data Interchange
HQ	Headquarter
IST	International Strategy Theory
MNC	Multinational Company
OCT	Organizational Capabilities Theory
R&D	Research and Development
RBT	Resource-based Theory
SBU	Strategic Business Unit
TCT	Transaction Costs Theory
USP	Unique Selling Proposition

1. Introduction

1.1. Research problem, deficit and relevant literature

When a company is expanding internationally and is implementing its strategy one of the strategic decisions is the choice of the market entry mode. The choice of governance entry modes has been an important topic in international franchising research since 1990’s (Alon, 2006b; Brookes and Roper, 2011; Burton et al., 2000; Chan and Justis, 1990, 1992; Chen, 2010; Choo et al., 2007; Frazer, 2003; Garg and Rasheed, 2006; Hackett, 1976; Hoffman and Preble, 2003; Jones, 2003; Konigsberg and Rosenstein, 1991; Preble and Hoffman, 2006; Ryans et al., 1999; Walker and Etzel, 1973; Zietlow, 1995).

This work contributes to the integrated model, which combines organizational economics perspectives and strategic management views, developed by Jell-Ojobor and Windsperger (Jell-Ojobor, Windsperger, 2014). The hypotheses of the mentioned model are based on the transaction costs theory (TCT), agency theory (AT), resource-based theory (RBT) and organizational capabilities theory (OCT) to test their impact on the level of control in the governance modes of international franchising companies. Additionally, property rights theory (PRT) is applied to test if intangibility of assets has a moderating effect (Jell-Ojobor, Windsperger, 2014). This work completes the integrated model and covers the part of the strategic management perspective by applying the international strategy theory (IST).

Research has shown that there are many factors, which play an important role in the choice of the governance entry mode, and one of them is international strategy of the company (Rajan, Pangarkar, 2000, Hennart, Park, 1994). Some previous studies showed that fit between strategy and structure is crucial when evaluating performance of a company rather than considering strategy or structure as alone standing variables (Zajac 2001, Egelhoff, Wolf, 2001; Channon, 1973; Grinyer, Yasai-Ardekani, and Al-Bazzaz, 1980; Hamilton and Shergill, 1992, Harris, Ruefli, 2002, Chandler, 1962, Habib & Victor, 1991, Hall & Saias, 1980, Miles & Snow, 1984, Wang & Suh, 2009). Other studies investigated factors that influence the choice of entry mode, like market concentration and diversification strategy and other strategic factors (Bradley and Gannon, 2000, Contractor and Kundu, 1998a) or global strategies and synergies (Kim and Hwang, 1992).

However, with regard to franchising literature, there have been few studies so far, which examine if the strategy-structure relationship holds for franchising companies. Although link between strategy and the choice of the governance mode was identified in the studies mentioned-above, the study of Grøgaard (2012) revealed that despite the global and local pressures on the subsidiaries and the recognized need for integration, the empirical research showed that the level of integration is still low. The need for international perspective in franchising research has also been recognized in literature: given that franchising originates and is most popular in the United States, many studies are single-country investigations in the US and do not include international perspective. Many of these studies have focused only on one industry type e.g. fast-food industry and thus the effects found in these studies can be also industry-related (Dant, 2008). The empirical analysis performed within this work includes international franchising companies from several European countries and the U.S. Regarding the industry they are in, the work includes distribution, services and production industries.

In order to better understand the motivation of the franchising companies to choose higher or lower control entry modes, this study suggests to include the international strategy hypotheses in the framework of the global franchising case study. Furthermore, moderation effects, e.g. environmental uncertainty, system-specific assets and transaction-specific investments, will be considered in the study.

Other contribution of this work, is that many previous studies retain their descriptive and exploratory character and do not apply theoretical frameworks to investigate the choice of the governance modes in international franchising. This work should fill this research gap by testing an IST behind this choice. Furthermore, some studies investigated the factors influencing the choice of governance entry modes based on transaction-cost framework or ownership-location-Internationalization framework, but did not consider the international strategy (Harzing, 2002).

The work is written according to the following structure: chapter two till chapter four will provide theoretical background with regard to franchising as business format and characterize the basic ideas. Given the international dimension of this work, motivations to use franchising for international expansion are reviewed. The chapter dealing with governance entry modes reviews literature on classification of different entry strategies applied by franchisors and factors favoring each entry mode. The central role here receives the work by Konigsberg (2008), who presented deep insights into franchising governance modes, most appropriate situations to apply them and their advantages and drawbacks. In chapter five the research hypotheses will be explained and in chapter six data analysis will be presented. The study closes with chapter seven by discussing managerial implications, conclusion and limitations of the work.

2. Introduction to Franchising

This section of the work gives an introduction to the research field of international franchising. It provides basic definitions, which are important in order to understand the subject of research, by describing the concept of franchising and some criteria, which differentiate it from other business formats. Furthermore it underlines the importance of the work by presenting potential of international franchising and motivations of the MNC's to use this business format for international expansion.

2.1. Definitions in franchising

In order to define the concept of franchising a set of its attributes is explained in the following. First of all, there is a difference between the concepts of "franchising organization" and "franchising". The first one represents a network, which consists of the franchisor and its franchisees, while "franchising" is used to describe the contractual process between the franchisor and its franchisees, which develop the franchising organization. Franchising organizations are characterized by high degree of geographical dispersal of organizational units as they operate on several local markets. Furthermore, the business format is very similar across the units and residual rights are shared between the franchisor and franchisee (Castrogiovanni, 1998: 170).

Two main strategies in franchising are licensing agreements (e.g. Coca Cola), where a product or service is produced and sold under a specific trade mark, and business-format-franchising, where the whole business operation is adapted (Castrogiovanni, 1998).

Konigsberg differentiates between further forms of franchises such as product franchises, service franchises, trade mark franchises, production franchises or distribution franchises. The business format form of franchising was defined by Konigsberg as follows: "The franchisor grants to the franchisee the right to use the franchisor's trademarks and know-how as well as the right to use the entire business format or system developed by the franchisor. The franchisee, in turn, is obliged to carry on the franchised business according to the business format or system" (Konigsberg, 2008: 5). Further definition is given by the Model Franchise Disclosure Law and mentioned by Konigsberg (2008) includes also the criteria of direct or indirect financial compensation of the franchisor. The franchisor not only gives the right to use his trademark and know-how, but also establishes control mechanisms for the franchise business run by the franchisee (Konigsberg, 2008: 6). This work anticipates that the stated level of control depends on the international strategy followed by the franchisor, later described in following chapters. Business format franchising is the fastest growing form of franchising, predicted to be most dominant form of franchising internationally in the 21st century (Preble, Hoffman, 2006).

Another definition of franchising is found in the work of Preble and Hoffmann, who describe it as "contractual vertical marketing system (VMS), where channel members are joined together by contracts and act as a unified system, rather than as independent channel members" (Preble, Hoffman, 2006). This aspect of uniformity and representation as one company is important in the context of franchising.

2.2. Elements of business format franchising

Kaufmann and Eroglu identified four elements, which form a business format of franchising: product/service deliverables, benefit communicators, system identifiers and format facilitators (Kaufmann, Eroglu, 1999). Product/service deliverables is the USP of the franchising company that differentiates its products and services from the offering by other competitors. Benefit communicators are benefits perceived by the customer which cannot be measured directly but which signalize special product attributes important to customers such as quality, durability or elegance. System identifiers help customers to associate the given retail outlet with its parent system. Most popular elements are trademark or logo, colors, shapes, testimonials and others. Format facilitators are formal procedures which contribute to integration of franchise outlets into the total franchise system. Examples of format facilitators are consistent design and layout of the stores but also "system-level elements" like financial reporting and data collection (Kaufmann, Eroglu, 1999: 71). Although these last elements are not perceived by customer as value-adding, since they are not visible, they are crucial because they support management and operational structure for the entire franchise system. Not all elements are equally important for the franchise system and franchisors should identify which of them are and standardize them. There also exist so-called peripheral elements, those which are not crucial to system's survival but should be adapted or standardized when necessary. Some examples color scheme, some additional extras like playground for children in restaurants. The franchisor can adjust peripheral and core elements in different formats, some core elements in one format can be peripheral in another. (Kaufmann, Eroglu, 1999).

2.3. Overview and Potential of Franchising

This chapter provides a brief overview on the development trends in franchising and reveals the opportunities, which franchising brings for businesses and economies. Although, the best statistics are available for the U.S., where the concept of franchising originated, the figures obtain suggest the overall growth of the franchising industry, thus can be also applied to European Countries. Furthermore, many franchising companies have international operations.

Franchising has proved to be a successful business model for both franchisors and franchisees that collaborate to create economic value together. The concept has not only his origins in the United States, but constitutes significantly to its economic growth and is the world's fastest growing form of retailing. (Castrogiovanni, 1998; Dant, 2008). In 2014, the amount of GDP growth of the franchise sector in the U.S. amounted to 4.7%. The trend is that franchising will be growing even more in future, according to the data of the last years, currently forecasted at 5.1% in 2015. With regard to employment, there was recorded a similar growth of 2.8%, mainly brought by development of the sectors of business services and quick-service or full-service restaurants. The figures for 2015 are not available yet, but the forecast estimated 2.9% growth in employment in the franchising sector (Franchise Business Outlook 2015).

Franchise Business Economic Outlook: January 2015 Forecast

	Estimates								Forecast (January 2015)
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Establishments	770,835	774,016	746,646	740,098	736,114	747,359	757,857	769,683	781,794
Percent change		*0.4%*	*-3.5%*	*-0.9%*	*-0.5%*	*1.5%*	*1.4%*	*1.6%*	*1.6%*
Employment ('000)	7,994	8,028	7,800	7,780	7,940	8,127	8,334	8,569	8,816
Percent change		*0.4%*	*-2.8%*	*-0.3%*	*2.1%*	*2.3%*	*2.5%*	*2.8%*	*2.9%*
Output ($Billions)	675	696	674	699	734	768	804	844	889
Percent change		*3.2%*	*-3.2%*	*3.6%*	*5.0%*	*4.7%*	*4.7%*	*4.9%*	*5.4%*
GDP ($Billions)	403	410	405	414	434	453	473	495	521
Percent change		*1.8%*	*-1.2%*	*2.2%*	*4.8%*	*4.4%*	*4.4%*	*4.7%*	*5.1%*

Table 1: Economic trends in franchising in the U.S. 2007-2014 (Franchise Business Outlook 2015: 11).

Franchising as a commercial concept has been so popular because it allows getting benefits from economies of scale due to the large operation scale and benefits associated with location of the operator (Kaufmann, Eroglu, 1999). Furthermore, franchising is vital for competition and motivates the businesses to be more creative, increasing specialization and providing new forms of distribution. Apart from that, franchising businesses are often very labor intensive and create a significant amount of jobs in relation to the investment. (Konigsberg, 2008).

2.4. Motivations for Internationalization Franchising

Initially, franchising was seen as a form of geographical expansion by extending the distribution channels. However, when comparing with other entry modes, companies found out that franchising gives a better access to financial and managerial resources than other modes, including company ownership, their interest in franchising as a mean for international expansion, increased even further (Castrogiovanni, 1998).

The importance of this work is also related with increasing internationalization of franchising and thus it is important to understand the motivation of the franchisors to follow this trend. As local markets become saturated and there is an increasing trend towards globalization, the franchisors are also seeking for new opportunities abroad. Many successful business concepts become popular all over the world and thus many foreign investors are interested in franchising them to explore the opportunities in their local markets, therefore they increasingly approach franchisors (Konigsberg, 2008). In some cases geographical expansion is initiated by a foreign partner, who asks the franchisor to enter a franchising agreement. In other cases, the motivation is on the franchisor's side due to different reasons, which were the subject of many international studies (Castrogiovanni et al., 2006; Contractor and Kundu, 1998a; Doherty, 2007; Dunning et al., 2007; Erramilli et al., 2002; Fladmoe-Lindquist and Jacque, 1995; Pak, 2002; Petersen and Welch, 2000; Picot-Coupey, 2006; Sashi and Karuppur, 2002).

One of the most motivating reasons to enter foreign markets, which was found among franchisors from the US, was the motivation to benefit from foreign markets (Hackett, 1976).

If the company considered foreign market to become important, one of the reasons for internationalization was the wish to become known in these markets. According to the study by Hackett, 30.5% of all franchising systems in the U.S. had international operations by 1976. This finding shows that potential of franchising for international expansion was recognized early. Furthermore, the study revealed that size was the most important factor in international entry and larger firms had more outlets abroad (Hackett, 1976).

According to Trankheim (1979) franchisors expanded geographically due to possibility to obtain higher turnover, higher market share and an image of a globally operating company. Other studies, such as by Walker and Cross, indicate that growth was the main driving force behind this motivation. There was also found a positive correlation between company's size and desire to enter foreign markets (Aydin and Kacker's, 1990). However, these findings were not confirmed in the study of Kedia et al. (1994), who found no relationship between franchisor's size and exposure to internationalization. Instead they found that management attitudes, such as striving for growth and higher profits, were more important in the internationalization process (Kedia et al., 1994). Furthermore, an important factor in the process of international expansion was saturation of the domestic markets and their low growth rates (Hoffman, Preble, 1993). Benefits of foreign technology can be also one of the reasons for entering foreign markets (Hopkins, 1996).

Not only important to know why franchisors strive for internationalization, but what characteristics makes this process successful. Preble and Hoffman (2006) reviewed literature on internationalization in franchising and identified some crucial capabilities for successful expansion. Core competences important for international expansion are experience in the domestic market and size, but also brand recognition, recruitment and selection skills. Opportunism and free-riding are major problems in international franchising and thus franchisors should develop capabilities to reduce them. Therefore it is important to invest in reliable monitoring systems and develop supervision skills. Additionally to skills learnt domestically, franchisors should develop new skills and capabilities like intercultural skills, international financial management or distance management (Preble, Hoffman, 2006).

A research on Spanish franchise chains investigated factors influencing internationalization in franchising by applying resource-based theory. The results of this study show that franchisor's intangible assets (trademarks, reputation of the chain, experience, monitoring costs, exposure to expand internationally) positively impact its exposure to internationalize. The study showed no relationship between franchisor's knowledge and expertise and internationalization decisions (Mariz-Pérez, R., García-Álvarez, T., 2009).

An overview of literature on internationalization in franchising was presented by Doherty (2007), who summarized in this work motives for franchising internationally (see Appendix I).

3. Literature review

The theoretical framework applied in this work is international strategy theory (IST). In the following chapter the literature using IST in the context of international management will be reviewed. The structure-follows-strategy view was introduced first by Chandler in 1962 in his work “Strategy and Structure”. In his research work he discussed the relationship of strategy and structure and came to the conclusion that for every strategy there is corresponding organizational structure, which should be chosen, in order for the strategy to be implemented successfully (Chandler, 1962). According to this framework there are two main topics of this work: international strategy and structure, whereby structure applies here in terms of market entry mode.

The chapter starts by giving a definition of strategy and introducing types of international strategies with focus on global and multi-domestic strategies. As the field of research of this work is international franchising, advantages and drawbacks of these strategies will be presented with regard to this business format. In the following further literature will be reviewed in the context of international strategic management using two main frameworks: ownership-location-internationalization theory and integration-responsiveness framework.

Structure is another field of investigation of this work. Thus it is important to understand how structure is defined in strategic management. As the focus on this work is on international dimension of strategic management, the governance mode will be defined and different government modes in international franchising will be presented. Relevant literature in international franchising dealing with governance modes will be reviewed.

Eventually, recent literature on international strategy theory, which incorporates property rights theory, structural contingency theory and positioning-economizing perspective, will be reviewed.

3.1. What is strategy?

Chandler was one of the pioneers of the international strategy theory and defined the strategy as “determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals” (Chandler, 1962: 13). According to him these goals include activities like new plants and offices, diversification of business lines and entering new economic functions. Under resources he understands financial capital, physical resources, marketing facilities, R&D activities, technical and administrative skills (Chandler, 1962). Barney did further research on resources, which contribute to the achievement of the competitive advantage, and argues that not all resources contribute to achievement of a competitive advantage by a company, but only those, which are seen as strengths and help to implement the pursued strategy (Barney, 1991). Resources should be used in the way that they contribute to implementation of firm's strategy that improve efficiency and effectiveness of the firm. These resources include "all assets, capabilities, organizational processes, firm attributes, information, knowledge etc." and can be classified into physical, human and organizational capital resources (Barney, 1991: 3, Daft, 1983). Examples of these resources are provided in the Appendix II. For a company to obtain a "sustained competitive advantage" firm's resources need to be rare and difficult to copy by other companies or to replace by other products. (Barney, 1991).[1] According to Barney, strategies, which exploit the internal strengths of the companies, "through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses", contribute to achievement of competitive advantage (Barney, 1991: 99).

3.2. Types of international strategies

There are different classifications of international strategies, one common classification is by Bartlett and Ghoshal, who use four international strategies, which have been supported by empirical results: global, multidomestic, transnational and simple international (Bartlett & Ghoshal, 1989). This work focuses only on global and multidomestic strategies, as they are accepted by most studies, provide clear definitions and are supported by empirical results, as well as have been used in other studies on the strategy-mode relationship (Harzing 2002, Grøgaard, 2012). Transnational and international strategies do not have a consistent definition used throughout literature and are classified differently literature (Harzing, 2000).

[1] Sustained competitive advantage occurs when a firm "is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy" (Barney, 1991:102).

3.2.1. *Global strategy*

There are many definitions of global strategy. Ghoshal (1987) in his study "Global strategy: an organizing framework" concentrates on the concept of global strategy and how it has been defined over years. Some definitions were given in relation to the source of competitive position, e.g. that global strategy is mainly used by global industries, which were defined as "those in which a firm's competitive position in one national market is significantly affected by its competitive positions in other national markets" (Ghoshal, 1987: 425). Harzing gives a more precise definition of global strategy and characterizes global strategies by "a high level of globalization of competition with national product markets being interconnected and a focus on capturing economies of scope and scale" (Harzing, 2002: 212). According to Bartlett and Ghoshal (1989), companies following a global strategy are defined as "building cost advantages through realization of economies of scale", whereas the multinational strategy can be defined as "to respond to national differences" (Harzing, 1999: 8). Global strategy can be also described as standardization strategy as many companies standardize their products to be most cost efficient instead of satisfying local market demands by adjusting the products to local market needs. Thus, by developing standardized products in a cost-efficient way, the subsidiaries of global companies sell less products modified for the local markets than multi-domestic companies.

Firms pursuing a global strategy require particularly strong organizational capabilities in order to build internal advantages and to transfer them across geographical borders (Grøgaard, 2012).

The study of Singh (1997) on strategies reveals that more complex strategies require more competence with regard to their implementation and due to their higher level of information. Incorporating this in the hypothesis of this study, it will be assumed that adaptation strategies require more cooperation with the foreign partner and thus lower control governance mode is more convenient for this type of strategy. According to Miller, complex strategies have mixed goals, higher degree of strategic activity and many different views (Miller, 1993).

In examining the strategy-mode relationship the focus will be on the corporate strategy and not the business unit strategy and the definition of the corporate strategy used in the study of Harzing (2002) seems to be appropriate for this work: "the way in which the organization positions itself with regard to the global business environment and creates and sustains competitive advantage across national boundaries" (Harzing, 2002: 212).

Global strategy is often associated with integration /coordination/globalization advantages whereas multidomestic strategy is associated with differentiation/responsiveness/localization advantages (Harzing, 2000).

3.2.2. Multi-domestic strategy

This strategy stands for low integrations and high responsiveness to local differences. Local responsiveness is defined as "the extent to which subsidiaries respond to local differences in customer preferences and is, therefore, an important element of subsidiary strategy/role" (Harzing, 2000: 108). While global companies are competing at the global level, domestic competitive conditions are important for multi-domestic companies. Multidomestic companies face lower global competition and adopt their products and policies to the local market needs, thus the company can be characterized as "decentralized network" (Harzing, 2002). These firms represent a decentralized network of independently operating subsidiaries, the flow of information, products and people between the subsidiaries is lower than in global companies (Harzing, 2000).

The proportion of products modified for local markets, which is sold through local subsidiaries, is higher in multidomestic firms. Apart from the products or services, the marketing should be also adopted to local differences in order to be appealing for the local customers. The subsidiaries of multi-domestic companies have therefore enough freedom to adjust marketing campaigns to local circumstances. Adaptation of R&D and production allows performing the necessary modifications faster, than if these functions were centralized (Harzing, 2000).

Further criteria for characterizing multi-domestic companies is the degree of interdependence of the MNC's units, which is defined as "the extent to which various units of a MNC are dependent on each other and so suggests the level of integration within the MNC as a whole" (Harzing, 2000). The multidomestic strategy assumes that the subsidiaries in the local markets are headquarter-independent because they are closely related to the local environment and require a high level of responsiveness (Bartlett, Ghoshal, 1989).

3.2.3. *Standardization vs. adaptation strategies in franchising*

After both strategies have been described above, it is important to understand what motivates the franchisors to use one or another strategy in their business format. Thus, some arguments for standardization and adaptation in franchising are presented below.

<u>Arguments for standardizations in franchising</u>

Standardization strategy has become very popular among MNC's due to increased globalization. In a globalized world markets become more similar and companies serving different geographical markets gain experience in serving local customers (Kaufmann, Eroglu, 1999).

Arguments in favor of standardization of the franchise system are cost savings achieved by economies of scale due to centralized purchasing, marketing, R&D and other activities such as quality control (Kaufmann, Eroglu, 1999). The last issue is of crucial importance for the franchisor, since he has to ensure that the quality associated with the franchise system will be delivered at the franchise outlet in a particular market. Otherwise, poor performance of the franchisee might damage the reputation of the whole franchising system. By offering a standardized product the costs of monitoring decrease, the franchisor can set objective measures of the performance of the franchisee e.g. how much of the particular input material was used to produce a product or service. This standardized measure can be then applied to all products offered by all outlets, which saves time and financial resources. This example illustrates the necessity of control, if the company offers a standardized product (Kaufmann, Eroglu, 1999).

There is also potential for cost savings with regards to input materials: when the input material is standardized, the supplier which serves several franchising outlets can benefit from the cost savings due to economies of scale. Cost reductions at supplier's side will lead also to cheaper input materials for the franchising system and for the final customers so that both can benefit from standardization. Furthermore, standardization can happen at the level of "format facilitators", e.g. in a form of a standardized reporting tool or workflow descriptions, which will allow to transfer the data more efficiently and reduce the costs. Further costs savings can arise from implementation of a standardized electronic data interchange (EDI) systems (Kaufmann, Eroglu, 1999).

Franchising benefits especially from a standardized concept, which delivers a strong unified message to its customers, through using standardized system identifiers. These might be the brand name, the trademark, the logo, the colors and other attributes. This common message leads to brand recognition by the customers, the advertising becomes more efficient. For example, the golden McDonald's arc is used on all the franchising stores and so that the store can be recognized by the customers as a part of the chain. This advantage is called "chain store" economies, meaning that all franchising outlets in a chain benefit from the consistent image (Kaufmann, Eroglu, 1999: 75). This consistent image can be achieved also through intermittent reinforcement meaning the consumer will have same experience and meet same reinforcement at different stores, which will make his perception of the common image stronger. The consistency in the franchising concept and communication across time and space are important. Under the concept Kaufmann and Eroglu understand the "collection of unique elements (product/service deliverables, benefit communicators, and system identifiers) that build and maintain a distinct image among consumers" (Kaufmann, Eroglu, 1999: 75). The consistent image is also important because it will create in the consumer's mind a consistent performance of the outlets and will not affect it, if once the quality of the product or service does not correspond to their expectations, when all other times it was satisfactory. Eventually, the consistence in the core elements such as product/service deliverables, benefit communicators and system identifiers is more important than in peripheral elements (Kaufmann, Eroglu, 1999).

Another important advantage of standardization of franchising system is that new products and services can be introduced easier to market. This process is crucial for system's success since the business format should be constantly improved. On the one hand it is important because it allows to track the success of the new product/service and to assess the changes it makes to the system. On the other hand the implementation of the new product can be carried out easier when standardized policies for new product testing exist and there is an operational consistency throughout the franchise system. Furthermore the costs of introducing new products/services are decreased since consumers trust more a familiar and experienced brand when testing new products (Kaufmann, Eroglu, 1999).

Arguments for adaptation in franchising

Despite the mentioned advantages of a standardized strategy in franchising, the main argument against it is that the product or service could simply not fit the market. On the other hand, if the product or service meets better the market's demands, higher revenues can be achieved than through cost minimization by standardization (Kaufmann, Eroglu, 1999).

The need for adaptation arises when there is a difference in tastes, income, consumption habits or cultural and ethnic variations between different markets. Given these differences, the franchisor should identify market segments where they exist and adopt the product offering and pricing, if necessary (Kaufmann, Eroglu, 1999).

Another argument in favor of adaptation is industry and system maturation. Industry maturation occurs when the number of competitors increases and the number of technological changes decreases. In order to stay competitive, franchising outlets might be forced to divide market in different segments and tailor their products to these segments and by doing so increasing the product-market fit. System maturation occurs when consumer familiarity and experience with the franchising system increases. Alba and Hutchinson (1987) define familiarity as "the number of product-related experiences that have been accumulated by the consumer" and experience as "the ability to perform product-related tasks successfully" (Alba and Hutchinson, 1987: 411). With increased familiarity with product the franchising concept can become a prototype for the whole category of products. When a franchising system becomes a prototype, the strong, consistent image is created in the customers' minds and they are used to a particular product-service quality. If once, this quality does not meet their expectations, these deviations will not destroy their image perception (Kaufmann, Eroglu, 1999). Franchisors, which find themselves in these situations, will be more willing to make adaptations and new product/service development, as they will strongly believe in their concept. As the franchising system as whole will mature, so will also the individual franchisees as the part of this system. At the beginning of the relationship, franchisees are normally more risk-averse and do not have sufficient time, experience and resources to make adaptations to the system. As their experience grows and their market knowledge will exceed the one of the franchisor, they gain more expertise in their working field and try to develop the optimal fit between the system and the market, they can better access customer needs and respond to them. In some cases the expertise of the franchisee can be so valuable that the adaptations they make to their outlets can be implemented throughout the entire system (Kaufmann, Eroglu, 1999).

Often, motivation for adaptation comes from franchisees. The reason could be possible cost minimization or profit maximization, which franchisees cannot achieve from the franchise system, but would achieve through adaptation of peripheral elements. It is important that the changes, which are beneficial to the franchisee, do not have a negative impact on the entire franchise system. If the cross-buying behavior is very common in the system, it is not recommendable to make adjustments to it, as it may confuse the customers and distort the otherwise consistent image (Kaufmann, Eroglu, 1999).

Despite all the benefits that adaptation of peripheral elements can bring, motivations of franchisees are not always justifiable and can damage the system. Free riding represent the most serious problem, which cannot be overcome by an incentive system. The franchisee is required to invest continuously in order to maintain system requirement and if he does not do so, the whole system can suffer heavily. If the franchisee tries to reduce costs of operations, the customer satisfaction will decrease and the overall image of the franchise system will be negatively impacted. The franchisees, who show this so-called “corner-cutting behavior” would try free ride on the quality excuse of other franchises in the system (Kaufmann, Eroglu, 1999).

Nevertheless, some studies showed that strong market orientation of franchisors yield a positive relationship to business profitability (Kohli, Jaworski, 1990; Slater, Narver, 2000).

3.3. What is structure?

Structure is defined as “design of organization through which the enterprise is administered”. (Chandler, 1962: 13). On the one hand structure means communication and authorities between the different entities and on the other hand it includes data, which flows through these lines. Chandler emphasized a lot the role of communication and data flow and states that this is essential for coordination and achievement of the set goals and effectively using the resources of the enterprise. Other definitions, such as by Zajac, includes other criteria of structure by defining it as “organization design that incorporates systems of decision making, operational control and incentives” (Zajac, 2004: 367).

Since the introduction of structure-follows-strategy concept, there has been done a lot of research on the evolution of organizational structure. Galbraith (2012) has followed the evolution of enterprise organizational design and his study gives a good overview of this development. The focus of Chandler's work lied on the evolution of organizational strategies, such as single business, related and unrelated diversification, and the formation of corresponding structures, such as functional (U-form), multidivisional (M-form) and holding company (H-form). For each structure there is a corresponding strategy. According to Chandler, the most complex structure is the result of following different strategies at the same time (Chandler, 1962). The question is why organizational leaders choose complex strategies which lead to complex structures? According to Galbraith (2012) there are two reasons for that. The first is the pursuit of growth, as every publicly traded company wants to grow and to offer more value to its shareholders. This growth is limited in the home market and thus firms start to expand internationally. The second reason for this complexity is the Law of Requisite Variety, first introduced by Ashby in 1956 (Ashby, 1956), saying that stakeholder environment becomes increasingly diverse and the organizational units have to become diverse in order to respond to this change. The organizational forms described by Chandler developed to mixed structures and researchers started to add to the basic strategy-structure relationship processes, policies and practices used for managerial control and coordination (Galbraith, 2012). Developing further Chandler's idea of "structure follows strategy", Galbraith introduced his 5-star model, adds people, rewards and processes (Galbraith, 1977). Other consulting firms started developing their star models, where they matched the corporate portfolio strategies with appropriate structures, processes and HR practices (Galbraith, 2012).

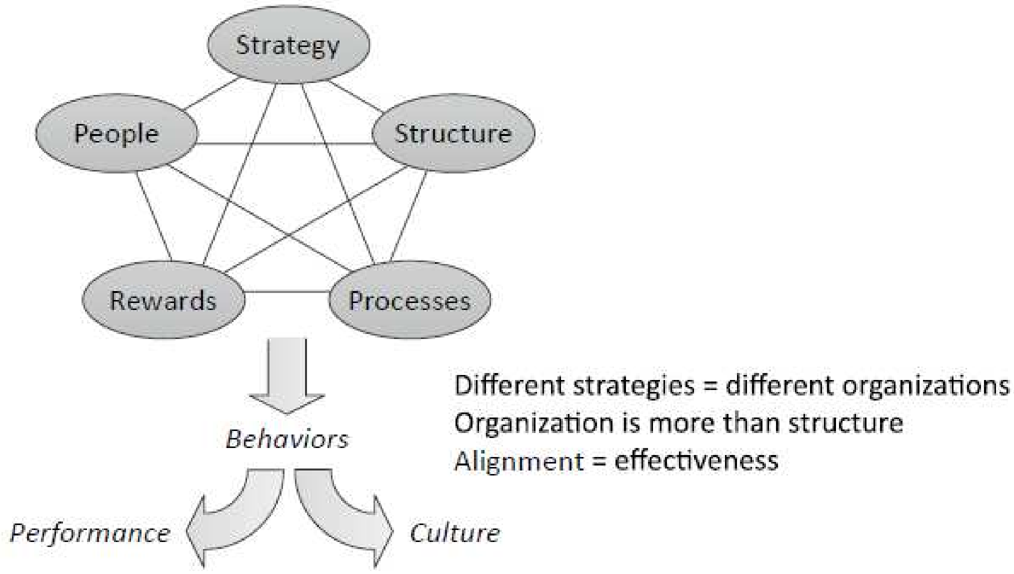

Figure 1: The Star-Model of Galbraith (Galbraith, 2012: 3)

The process of constant growth led to the development of strategic business units. New divisions were created using cell-division model i.e. when a division reached a particular size, it was divided into two different. This process lasted till several levels of divisions were created, it was difficult to manage hundreds of departments, to allocate resources to them and to perform strategic planning. In order to reduce this complexity, division were put together and formed new basic building block of the organization, determined not by size but by their business activity.

In summary, since Chandler organizational thinking has evolved in the following ways:

- from structure to organization
- from three types (U-form, M-form and H-form) to mixed organizational structures, with the most simple being U-form and most complex H-form and many in-between
- development of strategic business units (SBU's)

With the increased internationalization, the organizational design has become even more complex, adding a third dimension, the geographical (Galbraith, 2012). Here is where the concept of market entry mode arises. According to Andersen "market entry mode is defined as an institutional arrangement for organizing and conducting international business transactions" (Andersen, 1997: 29).

In general, the market entry process can be separated in two steps: first, the decision whether to internationalize and second, which of the equity or non-equity market entry modes to choose. In the study of Brown et al. it is proposed that when studying market entry modes of MNC, it should be differentiated between ownership and control rights and that their allocation depends on the transferability of the entrant's competitive advantage and the ability of the local partner to integrate this competitive advantage as well as on the relationship with the local partner (Brown et al., 2003).

3.3.1. Literature review on governance modes

As mentioned in previous chapters, there are several studies which investigate use of one or another market entry mode in international franchising. Many of them focus on one entry mode and investigate the conditions, which favor this mode to be used by franchising companies. As an example a study by Alon (2006) investigated the use of master international franchising as a method for international expansion. According to the authors, this method is best suited for market entry when there is a high environmental uncertainty i.e. social, geographical, cultural distance is high, there is high country risk and legal protection (Alon, 2006). Taking into consideration the results of this study, environmental uncertainty might also have an effect on the choice of market entry mode and thus will be used as a moderator.

The study by Hackett (1976) provided some insights on ownership structure of international franchising companies. The results show that almost half (47%) of the respondents relied on franchisee ownership, which is in contrast to the domestic trend with company-owned franchising units. Second most common method was master or area franchising and only 17% of the respondents used company ownership. A common trend was to test the market with a company-owned franchise unit prior to establishing a franchise relationship with a foreign partner (Hackett, 1976). Given that environmental factors in the foreign market play an important role in the choice or market entry mode, as found in previous studies, the strategy of first establishing a company-owned outlet can give the franchisor the opportunity to investigate foreign market conditions.

Brookes, Roper (2011) investigated operational, relational and evolutionary perspectives of control in international master franchise agreements. They used a following definition of control in inter-organizational agreements “the process by which one partner influences, to varying degrees, the behavior and output of the other partner, through the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms” (Geringer and Herbert, 1989: 237). Especially in international franchising it is a great challenge to maintain a well-controlled and integrated system, which strengthens the brand name and uniformity across the system, and to meet the demands of the local markets (Brookes, Roper, 2011).

Three types of control were identified in franchise systems: legal, administrative and economic (Hoffman, Preble, 1991). Administrative controls refer to operational processes such as decision-making, financial and quality control. The instruments used to insure administrative coherence are training and brand manuals for quality control and brand uniformity (Doherty, 2007). The effectiveness of administrative controls decreases with geographic distance and thus has only a limited use in international franchising (Hoffman, Preble, 1991). Economic control is executed through e.g. reward expectations that increase franchisee’s motivation and decrease the chance of opportunistic behavior. Legal control are contractual obligations of the franchisor and franchisee, however some studies indicate that they only enter into force when there are serious breaches of the franchise agreement and are difficult to implement on long geographical distances (Brookes, Roper, 2011).

3.3.2. Theories applied in governance modes

In order to differentiate between the different governance modes the property rights theory is applied (e.g. Baker et al., 2008; Grossman and Hart, 1986; Windsperger et al., 2009/10). According to this theory the governance structure is defined by the control rights, which consist of ownership and decision rights allocated to the franchisor and franchisee (Jell-Ojobor, Windsperger, 2014; Baker et al., 2008; Hansman, 1996; Windsperger and Yurdakul, 2007).

Property rights theory is one framework, which was used to develop the concept of control (Baker et al., 2008; Windsperger et al., 2009/10). Decision rights are distributed according to the level of knowledge of the partner. Here it is important to differentiate between tangible and intangible knowledge, where the first one is explicit or so-called codified knowledge and can be easily identified, structured, communicated and specified in the contract, whereas the latter is non-contractible or so-called tacit knowledge, which is “rooted in a firm’s culture, routines and processes” (Brown et al., 2003: 474; Brouthers, Hennart, 2007). The later type of knowledge is more difficult to transfer as it is related to individual employee skills and experience, e.g. “consumer complaint-handling process, organizational dedication to provide service quality and unique ways of adapting to changes in the demand, competitive and technological environments” (Brown et al., 2003: 476; Brouthers, Hennart, 2007). According to the property rights theory, the party, which possesses more intangible knowledge assets, generates more residual income and therefore more residual decision rights should be allocated to this party (Windsperger et al., 2009/10, Leitmannslehner, Windsperger, 2012).

Resource-based theory proposes that a firm can achieve its competitive advantage by developing financial, physical and know-how resources that are difficult to imitate and that help it to deliver a unique value for its customers. When a firm enters a foreign market, it is crucial that its competitive advantage derived from these resources can be transferred to these markets. When the entrant does not have enough knowledge about the local market or it is too costly to get access to this information, it can start a cooperation with a local partner. In this cooperation it is crucial that the local partner can absorb the know-how of the entrant and apply it in the development of the product or service in a given market. The motivation of the local partner is similar to that of the entrant - he or she gets the access to the know-how of the entrant. Thus, both parties can benefit from their cooperation (Brown et al 2003). Ownership is needed when the entrant is only little familiar with the local market and highly depends on the knowledge and connections to the local market of the business partner. In this case the local partner has more power and can exercise an opportunistic behavior. Thus, according to the resource-based view, the entrant should choose an entry mode, which gives him a possibility of gaining advantage from the capabilities of the local partner, but which also give him enough ownership to protect his own know-how and earnings from the opportunistic behavior of the partner (Brown et al., 2003). Besides, the classical activities, such as production or distribution, outsourced to the local partner, technological progress and economic development as well as competitive pressures forced the companies to concentrate more on their core competences and to outsource the rest of them to the local partner, given that he has enough knowledge and capabilities to overtake them. Thus, other activities outsourced to the local partner might be marketing, advertising, branding, personal selling, pricing, customer or technical service (Bartlett & Ghoshal 1998; Brown et al., 2003). For this work this approach is especially suitable as separation of ownership and control rights can be found in service industries, which are typical in franchising e.g. gastronomy or hotel industry (Brown et al 2003, Grossman and Hart, 1986). The overview of the factors affecting the separation of ownership and control developed by Bartlett and Ghoshal (1998) and adopted by Brown et al., (2003) can be found in Appendix III.

Some previous studies have investigated the factors, which influence the choice of the governance mode by MNC's which enter a new market having the key assumption that the strategy of the company as well as its strengths and weaknesses should be in line with the local environment and a governance structure which will support this fit should be chosen (Brown et al., 2003; Hill et al., 1990). The insight obtained from the study of Brown et al., that production and distribution are not the only activities which should be considered when studying foreign entry modes, but other activities such as local market operations and marketing are involved (Brown et al., 2003).

There are also other theories which explain the choice of entry mode, such as transaction costs theory, but which will be not considered in this work (Hill et al., 1990, Erramilli and Rao, 1993 from Brown et al.). Transaction costs include costs for "designing, executing and monitoring exchange transactions" and are likely to arise in the situations, when the entrant is little familiar with the local market and the partner and wants to protect himself from the partner's opportunistic behavior (Brown et al., 2003: 475, Andersen, 1997).

Other factors such as tax regulations in the foreign market can influence the choice of the governance mode (Konigsberg, 2008).

3.4. Governance modes in international franchising

When entering foreign markets, franchisors should decide the extent to which they want to establish and control their foreign subsidiaries or leave it to the foreign partner. The majority of global franchisors do not own their outlets, when at all they own only small percentage of them or run in a joint venture. So, subway has, for example, only 1 company owned store and Dunkin Donats have 100% of their outlet franchised. One of the biggest fast-food franchising McDonald's has 75% of their stores franchised (Preble, Hoffman, 2006).

Franchising can be seen as a hybrid relationship: "With respect to control, franchising relationships are closer to the employment end of continuum...With respect to ownership, however, franchising is much closer to the independent contracting model" (Hadfield, 1990: p. 932; from Leitmannslehner, Windsperger). In this type of relationship, the franchisors has control of the system specific assets as well as over the user of complementary market assets (Leitmannslehner, Windsperger, 2012).

In this study different franchising governance modes are selected according to the allocation of the ownership and decision rights: master franchising, area-development franchising and joint venture franchising. Additionally to the franchising governance modes, a company can consider the establishment of a wholly-owned subsidiary (WOS), if it anticipates high market potential and growth (Konigsberg, 2008: 91). This represents the highest level of control among the selected governance entry modes.

For purposes of empirical analysis the mentioned governance modes will be distinguished into equity and non-equity modes to investigate the strategy-control relationship. As it has been widely recognized in literature, more equity ownership provides more control-rights (Buckley & Casson, 1976, Root, 1994, Conner and Prahalad, 1996 all from Pak, 2002).

3.4.1. Master franchise agreement

In the case of master franchising the franchisee is granted the right to establish the franchise system in the foreign country by opening company-owned outlets there and by giving franchising to foreign sub-franchisors. Different from the WOS, the franchisee is granted more decision rights as he is responsible for successful development, operation and marketing of the franchise network in the foreign country. The relationship between the franchisor and the sub- franchisee is indirect; the master franchisor is the one who grants the agreement directly to the sub-franchisee (Jell-Ojobor, Windsperger, 2014). In this entry mode, financial and managerial and human resources required from the franchisor to establish the outlet, hire and train personnel, adapt the franchising system to local market or find the appropriate real estate are much lower than in other entry modes. The franchisor can rely on the local managers of the sub-franchisor if he has not sufficient human resources of if the transfer of his human resources to the foreign country will lead to negligence of the home operations. Furthermore, this type of entry mode is appropriate if the geographical, cultural, psychic, political or economic distance between the host and home country is too big. This entry mode is also the most popular one among international franchise operations, e.g. it is the preferred alternative of the North American or Canadian franchisors to establish their system overseas and vice versa for European franchisors.

Although not completely eliminating, but substantially minimizing financial and managerial resources required by the franchisors, is an important advantage of master franchise agreement. Also in case of failure, the exposure of the franchisor to financial risk is less than in other entry modes. The sub-franchisor is the intermediary, who will take care of the legal and commercial questions and of adaptation of the franchising system to local consumption habits, culture, customs, language and norms (Konigsberg, 2008).

With this entry mode the franchisor gives, to a large extent, the control over the franchise system and his trademarks over to the sub-franchisor. This loss of control is associated with the indirect relationship between the franchisor and sub-franchisees and cannot prevent the abuse of the franchise system by them; the only way would be termination of the franchise agreement. With this regard, it is very important to structure carefully the agreement between the franchisor and sub-franchisor and sub-franchisees to make sure that the sub-franchisors properly establishes and controls the franchise system and supervises the use of trademarks. Sometimes, the master agreement is very difficult to terminate and franchisor will be forced to continue the relationship with the sub-franchisor, even being unprofitable for him. Lack of appropriate provisions to terminate the contract is one of the most important drawbacks of this entry mode. Finding of appropriate partner is difficult, as in area development franchising, due to pressures and control, which franchisor will execute over him. Furthermore the termination is associated with difficulties as the sub-franchisor is the owner of the franchise facilities and outlets and it might be difficult for the franchisor to take them over (Konigsberg, 2008).

Eventually, as franchisor and sub-franchisor share the risk of failure, they share the financial returns. Therefore a substantial part of the initial fees and continuing royalties will be remuneration of the sub-franchisor, instead of going directly to the franchisor. The question will be always if the shared returns are enough for them both to develop and supervise the franchise system. Facing the problem of shared royalties, the franchisor and sub-franchisors will be often forced to have additional sources of revenues to be able to grant each other a higher proportion of the revenue. One example of the additional revenues for the franchisor is when he supplies so called "proprietary products" to the franchisors, which are sold under franchisor's trade mark and used in the recipes and product know-how. It is important, though, that the cost of the proprietary product is relatively insignificant to the cost of final product sold by franchisees. Other source of additional revenues could be patents, technological know-how and intellectual property hired out to sub-franchisor under a separate agreement, such as licensing agreement. The sub-franchisor is required to establish a manufacturing facility and to manufacture products using the know-how and patents of the franchisor. These products can be then sold to sub-franchisees or third parties. This could be a win-win situation for both parties, as the franchisor receives royalties and fees from the licensing agreement and at the same time the manufacturing facility is a profit source for the sub-franchisor (Konigsberg, 2008: 103).

Many franchisors mistakenly assume that after setting up a development agreement with a sub-franchisor and providing him some initial training, no further involvement of the franchisor is necessary. This continuous involvement, however, is very crucial during the whole time of their relationship, and is often reflected in time and managerial effort, than in financial commitment. It is estimated that in the beginning 3 to 5 years the relationship can be even not profitable for the franchisor due to his continuous support.

As mentioned before, Alon (2006) developed a conceptual framework to analyze international expansion by using master franchise agreement as an entry mode and divided the factors in economic (market size, competition, demand), social (geographical or cultural distance) and political or legal (country risk, corruption). He investigated market conditions favoring master franchising and found out that this entry mode is mostly appropriate for markets with low level of corruption and low economic potential. Further, his study showed that master franchise is appropriate for highly competitive markets, which are at a great geographical and cultural distance, with high demand variability and where franchise knowledge is required. With regard to Hofstede's cultural dimensions, masculinity and individualism in society increased the likelihood of choosing a master franchising as an entry mode (Alon, 2006).

3.4.2. Area development franchising (ADF)

This franchising governance mode is also called multi-unit franchising and represents a direct franchise partnership, which similarly to WOS provides a high level of ownership and decision rights to the franchisor (Konigsberg, 2008: p. 95ff). The franchisor grants the franchisee the rights to own and operate the franchised outlet within the exclusive territory provided to him against a development fee, initial fees and continuous royalty payments. The agreements can be granted from the franchisor directly or from the already established foreign subsidiaries depending on the number of agreements in a particular host country. The franchisor ought to grant more control to the franchisee, the more human and financial resources are required from him to develop his exclusive territory.

There are some situations when it is appropriate to use the area development agreement, for example, when the franchisor wants to limit the number of franchisees in the foreign country by granting the right to one or more developers to establish franchising system. The area development agreements are also popular when the franchisor is highly committed to the foreign country and established there a foreign subsidiary or a branch office. The franchisor can have one or more development agreements to cover the region (Konigsberg, 2008).

The advantages of this entry mode are similar to the one of the WOS (see below). Additionally, the foreign franchisees with whom the franchisor enters a development agreement, have substantial financial and managerial resources and will take care of construction and equipment of the foreign outlets, hire and train personnel. The franchisor himself needs to train only few developers, which is more cost efficient than to train every single franchisee. From the financial point of view, there is an advantage of “development fee”, which the developer has to pay and which is more advantageous than to grant franchising to many independent franchisees (Konigsberg, 2008).

On the other hand, the risk associated with the area development agreement is high. A failure by the developer will lead to failure in all of the franchising outlets which he is taking care of. The fact that substantial financial and managerial resources are required from the developer, make it for the franchisor more difficult to find the suitable one. In the countries with large populations or where franchise outlets are spread across big distances, several developers might be needed.

If, indeed, several developers operate in one country, more administrative and coordination effort is required from the franchisor to set up a mutual advertising fund to ensure that the developers promote the product in a consistent way. Same is for the choice of suppliers, which should be same for all the developers in order to secure a standardized product quality. Furthermore, there could be a motivation problem as the managers hired by the developers to lead the outlets are not the franchisees and if they do not have any equity interest in the outlet. The termination of the franchise agreement is also associated with some risks. The franchisor will have to take over control over the outlet in a foreign country and for this he needs additional financial and manager resources (Konigsberg, 2008).

Single-unit franchising – as also multi-unit franchising, involves a direct interaction with local franchisee and offers the advantages of a multi-unit franchising. The difference is that single-unit franchising does not offer franchisees a possibility to own the stores and operate several stores at the same time. If the franchises sees though that the store is showing positive results, he can grant the franchisee the right to open additional stores. (Tuunanen, Windsperger, Cliquet, Hendrikse, 2011).

3.4.3. Joint Venture Franchising (JVF)

In this governance mode the franchisor and the franchisee have an equity relationship incorporated in a mutual joint venture company in the foreign market. The agreement between the joint venture company and the franchisor can be a master franchising or a development agreement. The joint venture company is granted the right to develop the franchise system in the foreign company and grand franchising rights to the foreign sub-franchisees. The franchisor and the joint venture company share residual rights and thus share control over the sub-franchisees. In the joint venture the franchisor has more residual rights than in previous entry modes and thus more control over the entire franchise system and his trademarks, but also shares risk of failure with the joint venture partner (Konigsberg, 2008).

In general, the situations where a JVF is an appropriate entry mode are similar to those of master or area development franchising, but when it is difficult to find a partner with sufficient financial resources. There are also some countries where a JVF is a more and sometimes the only appropriate entry mode, such in Eastern Europe, Chine or South America. Having a good business partner in a JVF allows the franchisor to fill the gap in his knowledge of doing business in a foreign country as well as contributes to financial resources. The advantages of this relationship with the business partner are similar to those of ADF or master franchising meaning that he would take care of adaptation to local law, commercial practices, cultural differences and consumption habits (Konigsberg, 2008).

In some countries establishment of a joint venture company might bring some favorable conditions, such as jurisdiction, tax reductions or access to governmental subsidies and grants. Eventually, it might be easier to find a partner under a JVF, as franchisor shows his commitment in the agreement by sharing the risk (Konigsberg, 2008).

The biggest disadvantage of this entry mode is a possible conflict of interests between the franchisor and the joint venture partner. The differences can arise, for instance, in provisions, motivations to enter the agreement can be different and the franchisor’s status as “foreign national” could be a disadvantage for him as well as repatriation of profits (Konigsberg, 2008: p. 107).

3.4.4. WOS (Wholly-owned subsidiary)

This governance mode offers the franchisor the highest level of control such as over the system know how, trademarks, products and services as there is no third party between him and the foreign market (Jell-Ojobor, Windsperger, 2014). In this case the franchisor is responsible for the successful implementation of the system in the foreign market and runs outlets under his own name and at his own risk. In Many cases the franchisor will even retain his ownership of the trade mark rather than giving it to the established subsidiary the prerequisite for this entry mode is that the franchisor has sufficient financial and managerial resources to establish a subsidiary and train the personnel who will then develop and franchise system in the foreign market (Konigsberg, 2008).

There are many legal advantages of this entry mode for the franchisor. In case of a legal suit the franchisor can easier bring it against the franchisee and take possession of his outlet. At the same time, the franchisor is well protected in some markets from the court actions, which might be taken by franchisees. Furthermore, in order to gain the benefits of tax system and legal regulation as well as to know better the local culture, the franchisor will use the knowledge of the local personnel more efficiently. With regard to the stakeholders, a WOS can signal the seriousness of the franchisor's intentions, as he is investing heavily himself in the development of the franchise system in this market. Eventually, the franchisor can open a pilot outlet in the foreign market himself (Konigsberg, 2008).

The other side of the medal and the biggest disadvantage of this governance mode are the substantial costs required for the establishment, in terms of financial resources, but also personnel. It might be necessary to transfer some key personnel to the WOS, and the lack of them in the home country can have a negative impact on business operations. When choosing this entry mode the franchisor faces many legal risks as the senior managers, who came from the home country, are widely unfamiliar with laws and regulations. This drawback can be overcome to some extent by hiring local personnel for advice. Furthermore, tax regulations in some countries can be very unfavorable (Konigsberg, 2008).

4. Frameworks in IST (International Strategy Theory)

This chapter reviews literature applying international strategy theory and the results of the investigations from the research studies.

The relationship of entry mode and strategy has been in focus of many studies (Sternquist, 1997; Hennart, 2000; Nickerson et al., 2001; Pak, Suhk, 2002; Yin, Zajac, 2004, Preble, Hoffmann, 2006, Leitmannslehner, Windsperger, 2012). A study by Hennart (2000) argues that the choice of governance mode depends on the resource structure of the firm: the party, which possesses "hard-to-transact" complementary inputs, which are not available on the local market, will choose a higher control entry mode, such as WOS; whereas when both, local and foreign assets are difficult to transact, the company will choose a JV (Hennart, 2000: 398).

A study by Pak investigated how different components of the international strategy (exploitation of foreign market potential, speed of foreign market penetration, motivation to learn from foreign partner, overall competitiveness, monitoring of rival firms' activities) affect the choice of the governance entry mode. The results of this examination showed that international franchisors, whose strategic motives were global competitiveness and learning capabilities from international operations, preferred equity ownership to contractual modes when they entered foreign markets. Taking into consideration that equity ownership is always associated with higher level of control than contractual modes, the hypothesis of this thesis is based on the same arguments. However, the results of the study by Pak (2002) showed a negative relationship between the equity ownership and ability to control the management of franchise stores by the franchisor. Contractor and Kundu (1998) have found a similar relationship in their study and explained it by a well-established franchising format, which was an effective and efficient control tool and did not require equity ownership by the franchisor (Pak, 2002).

4.1. Positioning-economizing perspective

Investigating the relationship between the strategic positioning framework (SPF) developed by Porter and transaction cost economics, Nickerson et al. constitute that market position, resources and governance mode are interdependent, that means that in order to achieve the highest outcome there should be a fit between them (Nickerson et al., 2001). According to the definition of strategy given by Chandler the right allocation of the right resources is strategy, thus the proposition here is that strategy, market position and governance mode should be chosen with respect to each other.

The positioning-economizing perspective suggests that decisions on market position, resources and governance are related and that each position requires a different strategy determined by "transaction-cost and production-cost minimizing profile". In order for the strategy to be efficient, the appropriate organization form has to be chosen (Nickerson et al., 2001). The authors emphasize the relationship between the organizational form and the resource profile[2], which is closely related to the choice of the strategy, as different strategies are associated with different resources. Each resource profile requires a different organizational form for each activity. The main criteria for the firms, when choosing a particular strategy is profitability, but also other factors such as competition, resources and organizational form must be considered (Nickerson et al. 2012). It is interesting that the authors view organizational structure as a part of the strategy together with resource profile and not separated. The main proposition is that

[2] According to Nickerson et al. resource profile is defined as "profile—the set and type (i.e.,the degree of idiosyncrasy) of resources and capabilities employed in the constellation of activities in a vertical chain" (Nickerson et al. 2001).

both resource profile and governance mode form together a strategy, which influences product attributes, such as features, accessibility and variety of products and services. The latest have an impact on target market positioning, as can be seen in Figure 3 (Nickerson et al., 2001).

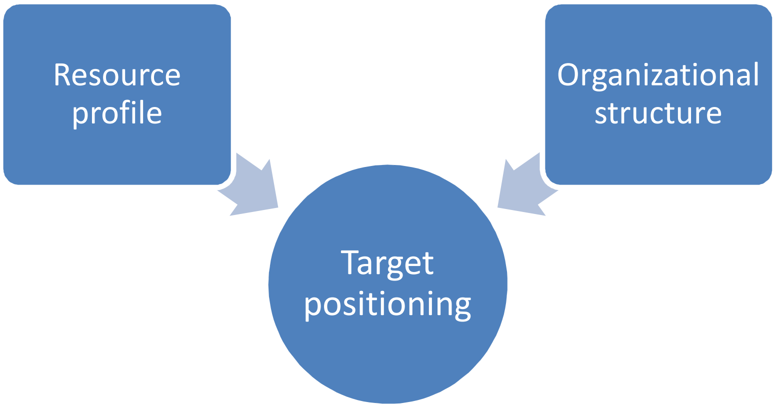

Figure 2: Strategy formation according to Nickerson et al., 2001.

According to the positioning-economizing perspective applied by Nickerson et al. (2001), there are three major relationships, which explain the need for alignment of resource profile and organizational structure, as described below.

The first relationship is between market positioning and resource profile and suggests that the resource profile with the lowest production costs should be chosen to serve the market. The second relationship suggests choosing a different organizational form for each activity. This relationship is derived based on the Transaction Costs Theory (TCE) meaning that different organizational form and resource profile should be chosen for a different constellation of transactions. The third relationship is between the resource profile/organizational structure pairing and the products and services offered. The authors suggest that this pairing should be chosen in alignment with products attributes to support the target market positioning (Nickerson et al., 2001).

4.2. Structural contingency theory

The study of Yin and Zajac (2004) investigated the relationship between structure and strategy from the contingency perspective. The structural contingency theory says that the performance of an organization depends on the fit between many factors such as strategy, structure, systems, culture and style. (Van de Ven, Drazin, 1985). Yin and Zajac differentiate between franchise and company-owned governance structures, whereas the first represent less control structures and latter require a higher control by the company pursuing internationalization strategy. The results of the study confirm that franchised stores will pursue a more complex strategy than company-owned stores. Complex strategies are characterized by high levels of information and competency for implementation, mixed goals and strategic activities and require greater local management skills. The local manager should respond to local demands, adapt the products and the quantities and thus adapt the strategy. Thus, following this argument, managers will implement complex strategies by choosing lower control entry modes. Furthermore, the study showed that franchising stores following a more complex, i.e. the adaptation strategy, showed higher performance than company-owned stores (Yin, Zajac, 2004).

With regard to the research hypothesis and the field of investigation, the study of Yin and Zajac is the closest to the research field of this work. However, Yin and Zajac used a longitudinal research design, investigating the fast-food industry in the US, with the unit of analysis represented by one pizza restaurant. Thus, the difference of this work is that it provides new insights by conducting a cross-national and cross-industry study.

Preble and Hoffman (2006) developed a contingency model on strategy formulation and combined franchising modes with strategies pursued by MNC's. Companies using franchising for international expansion first choose appropriate strategy (first-mover, platform or conversion strategies), which best fits market conditions. First, the authors link the three strategic approaches with the given market conditions and then link them with the three generic franchising market entry modes (direct franchising, area development franchising and master franchising). According to the findings of the study, the authors suggest that franchisors with international experience, would rather choose direct or area franchising in developed or similar to the domestic one markets and master franchising in dissimilar or less developed markets (Preble, Hoffman, 2006).

4.3. Property rights theory

The work by Leitmannslehner and Windsperger (2012) investigated the impact of the change of strategy on the governance mode revealing the network dynamics from franchising to licensing.

However the study applies property rights theory to explain the network dynamics, strategic management findings from the previous studies are also applied. The study analyzed the impact of strategy on assets contractibility and governance form. By applying contingency logic to "structure-follows-strategy" framework of Chandler, Leitmannslehner and Windsperger (2012) go into further research in their study and argue that under given market conditions firm's resources and capabilities determine its strategy, which then determines the governance form of the firm and its asset characteristics. The dynamic perspective of this model allows the firms to adopt their strategy under the chosen governance form through acquiring new resources and capabilities (Leitmannslehner, Windsperger, 2012).

According to the IST, every strategy requires certain assets in order to be successfully executed e.g. physical, knowledge, financial or other assets and the characteristics of these assets influence the choice of governance mode. Furthermore, not only the type of assets is crucial but also their characteristics, like specificity and contractibility and both criteria, type of assets and their characteristics influence the choice of the governance mode (Leitmannslehner, Windsperger, 2012).

4.4. Ownership-location-internationalization theory

There are different frameworks which explain the impact of international strategy on the choice of governance mode, a widely acknowledged theoretical perspective is "ownership-location-internationalization" theory developed by Rugman and Verbeke (Rugman, Verbeke, 1992, Harzing, 2012). In this framework two types of ownership advantages are distinguished, so-called firm-specific advantages (FSAs). The location-bound advantages benefit from the location, where they are being used, and cannot be transferred to different locations, or not easily, like market knowledge and relationships with stakeholders (Grogaard, 2012). Here it can be further differentiated between home and host country as sources. Others do not depend on their location and can be used on a global scale. Harzing in her study found out that global companies tend to exploit non-location home-based FSA's, such as know-how, technology and organizational capabilities (Grogaard, 2012). They can also benefit from the location-bound FSAs in the host country, but these are mostly related to the exploitation of cost advantages, such as cheap labor and raw materials, which allow global companies to stay cost efficient, thus they are not related to market knowledge of the local partner and his good business connections (Harzing, 2012).

On the other hand, companies, which pursue multidomestic strategy exploit the location-bound FSA's as they have to adjust their products and policies to the local market needs. Companies following adaptation strategy normally operate in markets where local circumstances, such as different tastes in products or law regulations, require them to integrate in the local market and tailor their products and policies. This might be often difficult to achieve without a reliable partner in the host market, who possess the market knowledge, experience in this market, connections to different institutions and businesses and knows the customer base and the local legislation.

Similarly to the study of Harzing (2012) on the headquarter-subsidiary relationship, the challenge for the franchisors is similar to the one for the headquarters (HQ): to structure the agreement in the way that corporate organizational goals are achieved at the same time leaving enough freedom to the franchisees to make decisions where local knowledge and resources are needed. In order to ensure that subsidiaries, or in our case study franchisees, are working towards common goals, different control mechanisms are established by the HQ or franchisors (Harzing, 2012).

The work of Sternquist uses elements of Dunning's Ownership Location and Internationalization concepts. The paper presents a model of strategic international retails expansion based on a sample of U.S. retailers. With regard to retailer's strategy it is assumed that those companies with strong ownership advantages will choose a global expansion model. The firm will use a standardized retail concept, which will by simple reproduced in different markets. It is assumed that this firm will expand rapidly, but it will learn less from its internationalization. An alternative strategy would be a multinational, where the firm benefits from location advantages. They are characterized by decentralized format and adapt their concept to cultural differences. In order to be able to make these adaptions, they learn about the country they enter. The study shows that the greater is the need to adapt, the more likely is that the retailer will enter a joint venture with a company from the local market. Instead of establishing own stores or entering a joint venture, there is a low risk alternative for both strategies: global retailers will choose franchising as entry mode and multinational companies will go for licensing. However, the mentioned study uses the normative perspective and thus this work contributes to research by providing empirical analysis (Sternquist, 1997).

4.5. Integration-Responsiveness (IR) Framework

This framework suggests to study governance modes from the institutional perspective, which says that external institutions, such as state, professions, interest groups and other organizations within the industry, have a considerable impact on the organizational forms and the way organizations behave (Harzing, 2012). International strategies have been defined across many dimensions; one of the common frameworks in the literature is the integration-responsiveness framework (Grodaard, 2012, Bartlett & Ghoshal, 1989; Prahalad, 1976; Prahalad & Doz, 1987). When making strategic decisions the firm faces global and local pressures and has to develop its strategy according to them. The crucial factors determining the international strategy according to this framework are FSA's and organizational characteristics (Grogaard, 2012). The indicators of responsiveness are represented by "dispersed configuration/low coordination and political imperatives", whereas "concentrated configuration/high coordination and economic imperatives" stand for global integration (Harzing, 2000).

Similarly to ownership-location-internationalization theory, the integration-responsiveness framework suggests that MNC's aiming at global integration should develop transferable, non-location bound FSA's whereas those MNC's who want to respond to local pressures should develop location-bound FSA's. In order to be able to implement a global strategy, the MNC's use means such as higher control from the HQ and standardization of the value chain activities to reach higher internal coordination between the subsidiary and the HQ (Grogaard, 2012).

The key characteristic of the subsidiaries of the MNC's pursuing the multidomestic strategy is that they are independent from each other and are also to some extent detached from the HQ. The organization is rather decentralized and the standardization of the value chain activities is lower. As the transfer of FSA's from the local subsidiaries to other across geographical borders is limited, the incentive to establish common processes and centralized decision-making is much lower (Grogaard, 2012).

The study by Grogaard (2012) refers to several other studies, which emphasize that a fit between structure and strategy has a positive impact on company's performance (Chandler, 1962; Habib & Victor, 1991; Hall & Saias, 1980; Miles & Snow, 1984; Wang & Suh, 2009; Wolf & Egelhoff, 2002; Yin & Zajac, 2004). The choice of the strategy will impact the consumers' behavior as they respond to it by purchasing products which meet their expectations at the lowest costs.

5. Hypothesis development

The following hypothesis are based on the literature from the previous research studies on the relationship of strategy and structure. As already mentioned in the literature review, the "structure follows strategy" view by Chandler proposes that for every strategy there is a corresponding organizational structure and the fit between is crucial for the strategy to be implemented successfully. Furthermore, taking into consideration arguments from the strategic positioning framework and transaction cost economics, it was identified that market position, resources and governance mode are interdependent. As resources are an inseparable part of the strategy, we can argue that the strategy and governance mode are interdependent.

The presented study of Zajac and Yin (2004) assumes that more complex strategies will require collaboration with the local partner and thus lower level of control than companies following more standardized strategy.

Other studies like by Rugman and Verbeke, Harzing or Grogaard, use location-internationalization framework and integration-responsiveness framework to explain the strategies of the companies. According to them, companies following the adaptation strategy will concentrate on location-bound FSA's, which can be often obtained only through cooperation with the local partner. On the other hand, companies where non-location bound FSA's are crucial for the strategy, will have more centralized organizational structures in order to be able to transfer this central competences to other subsidiaries.

Eventually, the link between performance and fit of strategy and structure identified in many previous studies implies the assumption that companies will strive to achieve this fit in order to improve their performance.

Taking into consideration the IST and relationship between strategy and structure the following hypothesis can be derived:

H1: *International franchising companies pursuing standardization strategy are more likely to choose market entry modes providing high level of control such as equity modes (JV or WOS). International franchising companies pursuing adaptation strategy are more likely to choose market entry modes providing lower level of control such as non-equity modes (MF, MUF, SUF).*

5.1. Control variables

Environmental uncertainty

There are three types of environmental uncertainty, which will be distinguished in international literature: institutional, economic and cultural. The first one refers to political, legal and regulatory environment. Economic uncertainty is related to the demand conditions and competition in the foreign market (Alon, 2006c). Cultural uncertainty includes knowledge about foreign culture and its elements such as language, religion, business and working practices, ideology etc. (Hennart et al., 1998).

High environmental uncertainty increases the need for information search and adaptation of the standardized format to the foreign market environment. With increasing environmental uncertainty it is getting more difficult for the franchisor to access and evaluate the information due to institutional, cultural, economic and political distance and thus it might be necessary to cooperate with local foreign partner, who has the capacity to obtain and process this information (Williamson, 1991). The cooperation between the franchisor and franchisee can take place if franchisor assigns the franchisee residual control rights by choosing a lower control entry mode. Thus, the following hypothesis can be derived:

H2: *Environmental uncertainty positively influences the franchisor's tendency to use non-equity entry modes.*

System-specific assets

System-specific assets are difficult to imitate and transfer across borders thus they are particularly valuable to franchise companies (Erramilli et al., 2002). The higher the firm's competitive advantage from this type of resources, the higher is its tendency to use higher control entry modes. Choosing higher control entry modes gives the companies the possibility of monitoring and knowledge transfer to successfully implement this system-specific know-how (Jell-Ojobor, Windsperger, 2014). Some examples of the system-specific assets are: proprietary know-how, communication system, store layout, customer competence, marketing and R & D capabilities, advertising and promotion, site location, and monitoring techniques.

H3: *The importance of system-specific assets for value creation positively influences the franchisor's tendency to use equity entry modes.*

Partner transaction-specific assets

Transaction-specific assets can be tangible (equipment, facilities) and intangible (training of employees) (Anderson and Weitz, 1986). Both, franchisor and franchisee should invest in these assets to create a competitive advantage and maintain high rents. The investment by the franchisor is especially essential in the set-up phase: he must provide initial training, manuals and transfer of system-specific assets such as the brand name, marketing strategies etc. The franchisee is required to invest in facilities and equipment to maintain the franchise system's standards, to build up relationships with customers and suppliers.

High transaction-specific investments by the franchisor are related with higher risk, since the free-riding behavior of the franchisee can damage the reputation of the whole brand name. Thus, in the situations, when high investments are required by the franchisor, it is likely that he will choose a higher control entry mode, to ensure that these transaction-specific assets supplied by him, are implemented efficiently. On the other hand, if the franchise partner is ready to invest a substantial amount, the high control modes are not needed (Jell-Ojobor, Windsperger, 2014).

H4: *High franchise partners' transaction-specific investments positively influence the franchisor's tendency to use non-equity entry modes.*

A summary of the hypotheses is presented in the following figure:

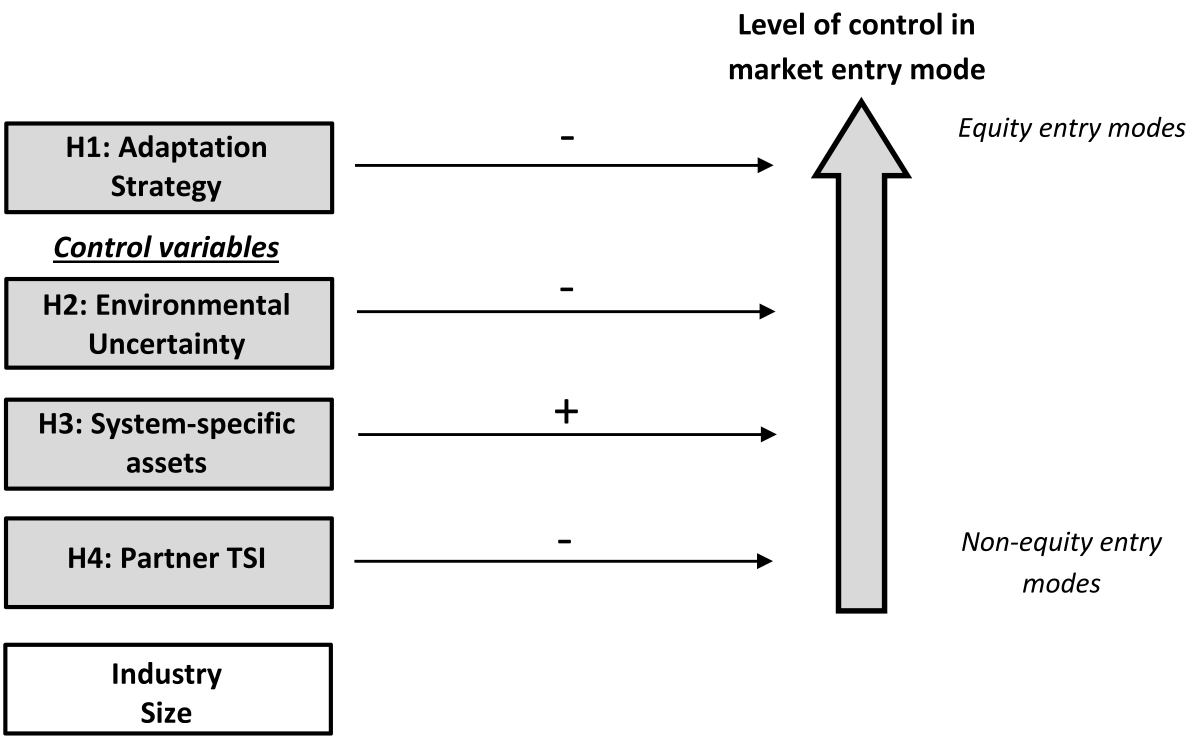

Figure 3: Summary of hypotheses

6. Empirical research

After the theoretical background and research hypothesis were presented in the first part of this work, the aim of this chapter is to explain the empirical research, present the results and derive the implications from the empirical analysis.

The work employs data that was collected within the International Franchising Case Study executed by the International Management Department of the University of Vienna supervised by Univ. Prof. Dr. Windsperger and Mag. Dr. Jell-Ojobor. The data consists of information of 157 online survey questionnaires and 5 postal survey questionnaires from 8 countries: Austria, Germany, France, Netherlands, UK, Spain, Italy and U.S. In order to increase the representativeness, the study concentrates on all franchising companies regardless the industry they operate in. The data was collected in the period between December 2014 and May 2015 via online survey and postal mailing. The data was collected by the students of International Management at the University of Vienna. In the first phase of data collection the link to an online survey was sent to all the franchising companies, which were included in the sample frame. In the next phase, the companies who did not answer to the e-mail or did not participate in the survey were contacted via phone to encourage them to participate in the study. In the third phase the questionnaire were sent by post. Eventually, the data was recoded and analysed in statistical program SPSS.

The theoretical unit of analysis is the chosen market entry mode.

The main subject of the study is internationalization of the franchising companies thus the main prerequisite was to ensure that they have international franchise operations abroad. Although during the data collection the companies were asked to indicate the industry they operate in (distribution, service or production) as well as type of business they offer (advertising & promotion, business service, automotive, food & restaurants, etc.) so that further analysis with distinction between the industries or the use of industry as control variable is possible.

In total 162 companies participated in the study. With regard to the origin of the companies the below chart and the table are showing the sample distribution according to their headquarters. The majority of the participants had their headquarters in Germany.

	Frequency	**Percent**
USA	24	14,8
UK	8	4,9
Germany	41	25,3
Austria	16	9,9
Netherlands	10	6,2
Italy	18	11,1
France	22	13,6
Spain	23	14,2
Total	**162**	**100,0**

Table 2: Descriptive statistics – Headquarter

The range in the age of the companies is very wide, with the oldest one established in 1896 and the youngest in 2014.

6.1. Methodology

The following chapter will describe more in detail constructs used in the analysis, questionnaire design and sampling process and sample characteristics.

6.1.1. Questionnaire design and constructs

The questionnaire used in this study was developed within the research project "The Choice of Governance Modes of International Franchise Firms – Development of an Integrative Model" (Jell-Ojobor, Windsperger, 2014). As described earlier, the main goal of the study was to test theories, which deal with the choice of international governance modes by franchising companies, one of the theories being IST, applied in this work. Thus, the questionnaire covers the topics of governance modes and strategy of the company.

Section A1 of the questionnaire is designed to gather general information of the franchise system characteristics, such as company data, industry, system size and type of business. Some of the variables of this section are then included as control variables in the data analysis, which will be described in the following chapters. Section A2 includes questions on governance structure of the franchise system such as market entry modes used in different regions and most important for the analysis of this work the dominant market entry mode[3]. Third section A3 is dedicated to contract terms.

Most important for this work is section B1, which includes questions on strategy, decision rights and control. The section C2 is dedicated to company's performance and sections D1 and D2 are intended to measure environmental and behavioral uncertainty and TSI (transaction-specific investments).

Section E1 includes variables on franchisor's and partner's system-specific and local market assets as well as on intangibility of assets. Furthermore, questions related to trust were asked in this section.

[3] Dominant market entry mode is defined as most frequently used market entry mode.

6.2. Variables used in the analysis

The dependent variable of this study is dominant or most frequently used *market entry mode*. The explanatory or independent variable is firm's i*nternational strategy*, namely standardization or adaptation. Several constructs will be used to control for effects: *environmental uncertainty, partner transaction-specific assets (TSI)* and *system-specific assets.* Furthermore, *industry* (services, production or distribution) will be used as a categorical control variable.

6.2.1. Dependent variable - Dominant market entry mode

The foreign *market entry mode* is identified by asking the companies which market entry mode they used when they entered the foreign countries. Furthermore, the firms were asked to indicate the number of countries and to name them where a specific market entry mode was used. Eventually, it was asked to indicate the dominant, i.e. mostly used, market entry mode.

The variable Dominant mode choice is a categorical variable, where the franchisors were asked to choose between the following options:

1 = Master franchising (MF)

2 = Multi-unit franchising (MUF)

3 = Single-unit franchising (SUF)

4 = Joint-venture franchising (JVF)

5 = Wholly-owned subsidiary (WOS)

Wholly-owned subsidiary (WOS) represents the highest level of control (5) and Master franchising (MF) the lowest (1). In between are Joint venture franchising (4), Single Unit Franchising (3) and Multi Unit Franchising (2). As described in previous chapters, the level of control is increasing from master franchising to wholly-owned subsidiary.

As a next step, the dependent variable was recoded into equity and non-equity (contractual) entry mode. As there were only few answers available for some categories, e.g. 5 in total for joint venture, the two groups were created to increase the representativeness of the results. This approach was used by Pak in his study on market entry modes in franchising (Pak, 2002).

Furthermore, the relationship between ownership and control was already recognized by some previous studies (Buckley & Casson, 1976, Root, 1994). As previously stated in the hypothesis, it is assumed that i*nternational strategy* will positively correlate with choice of non-equity entry mode, MF, SUF and MUF are recoded into "1" (non-equity entry mode) and JV and WOS into "0" (equity-entry mode).

Descriptive statistics of the dominant *market entry mode* are presented in the table and figure below and shows that the market entry modes are not distributed equally among the sample.

	Frequency	**Percent**
Master franchising	56	34,6
Multi-unit franchising	35	21,6
Single-unit franchising	53	32,7
Joint Venture franchising	5	3,1
Wholly-owned subsidary	13	8,0
Total	**162**	**100,0**

Table 3: Descriptive statistics – Dominant market entry mode

6.2.2. Explanatory variable – International Strategy

This construct is intended to examine, if the company is following a standardization or an adaptation strategy and includes four variables B106_01 to B106_04:

B106_01 Our product / service deliverables (such as product mix and service offerings) are adapted to local requirements.

B106_02 Our brand identity (such as logo, décor of unit and uniforms) is adapted to local requirements.

B106_03 Our operational strategies (such as training of employees and service quality control) are adapted to local requirements.

B106_04 Our managerial strategies (such as operation manuals, pricing and marketing) are adapted to local requirements.

The construct is measured on a 1 to 7 Likert scale (Kaufmann, Eroglu, 1999), from 1 being “not at all” and 7 meaning “to a very large extent”. The franchisors were asked to estimate the extent to which they adapt their products, brand identities, operational and managerial strategies in foreign countries. This construct can be also called “adaptation strategy”, since the higher the companies score on this construct, the more they tend to adapt their products and services to local markets.

The descriptive statistics of the construct of i*nternational strategy* is presented below:

	N	Min.	Max.	Mean
Item 1: Franchise products / services (such as product mix and service offerings)	129	1	7	4,69
Item 2: Brand identity (such as logo, décor of unit and uniforms) is adapted to local requirements.	129	1	7	4,05
Item 3: Operational strategies (such as training of employees and service quality control)	128	1	7	4,52
Item 4: Managerial strategies (such as operation manuals, pricing and marketing)	128	1	7	4,77
Valid N (listwise)	127			

Table 4: Descriptive statistics – International Strategy

In order to estimate average of the four variables a mean variable was created in SPSS, calculating the mean of all four variables for every data set. Then a mean of the mean variable is at 4.4577 meaning that the companies tend more to adapt their products to local markets than to standardize them, but as 4.45 is close to the medium value of 4, it can be anticipated that the companies tend to both adapt and standardize their products to local markets to some extent or follow mixed strategies.

6.2.3. Control variables

Environmental uncertainty

Construct of *environmental uncertainty* consists of 11 questions measuring economical, institutional and cultural distance.

The descriptive statistics of the construct of *environmental uncertainty* is presented below:

	N	Min.	Max.	Mean
Item 1: Cultural differences between our home and the foreign countries are high, such as norms, values and habits.	137	1	7	4,45
Item 2: The business practices in our home and the foreign countries are quite similar.	137	1	7	4,12
Item 3: The language barriers between our home and the foreign countries are high.	135	1	7	3,76
Item 4: The legal protection of intellectual properties such as patents and trademarks is weak in the foreign countries.	136	1	7	3,57
Item 5: The political environment is quite uncertain in the foreign countries.	133	1	7	3,26
Item 6: The risk of ownership restrictions is high in foreign countries.	135	1	7	3,22
Item 7: The quality of local infrastructure, such as phones, roads and IT, is under-developed.	135	1	7	2,93
Item 8: Customer demand is strongly changing in foreign countries.	136	1	7	3,90
Item 9: Sales forecasts are not easily predictable in foreign countries.	135	1	7	3,97
Item 10: Market shares are pretty unstable in foreign countries.	134	1	7	3,49
Item 11: The number of existing and potential competitors is high in foreign countries.	136	1	7	3,75
Valid N (listwise)	129			

Table 5: Descriptive statistics – Environmental uncertainty

As for the construct of *international strategy*, a mean variable was created in SPSS in order to estimate average of the four variables. The mean of this mean variable is at 3.6722, meaning the on average the estimated uncertainty is slightly lower than the average value of 4.

System-specific assets

This construct is used to measure how know-how, resources and capabilities of the franchise system affect the choice of market entry mode. The companies were asked to estimate on a Likert scale (1 = unimportant; 7 = very important) how important are the following factors in gaining competitive advantage for the franchise network.

The descriptive statistics of the construct of s*ystem-specific assets* is presented below:

	N	**Min.**	**Max.**	**Mean**
Item 1: Management competence (like operating policies and procedures and HR management)	119	1	7	5,42
Item 2: Organizational capabilities (like cultural management and information management)	118	1	7	5,44
Item 3: customer competence (like marketing / advertising / promotion, pricing)	120	2	7	5,69
Item 4: Foreign market competence (like setting up foreign operations, knowledge of foreign markets)	119	1	7	5,08
Item 5: Innovation capabilities (like product and organizational innovations)	116	1	7	5,06
Item 6: Product and service competence (like product/service quality and design)	117	1	7	5,65
Valid N (listwise)	114			

Table 6: Descriptive statistics – System-specific assets

The mean of mean variable of the *system-specific assets* construct is at 5.3722, meaning that system-specific assets are estimated to be important to the franchise system.

Partner Transaction-specific investments (TSI)

This construct is intended to measure the foreign partner's resource commitment in the country, where the company has used its dominant entry mode. The companies were asked to estimate on a Likert scale (1 = strongly disagree; 7 = strongly agree) how important are the following factors in gaining competitive advantage for the franchise network.

The descriptive statistics of the construct of p*artner transaction-specific assets* is presented below:

	N	Min.	Max.	Mean
Item 1: Our foreign partners have made significant investments in tools, equipment and procedures dedicated to the franchise relationship.	127	1	7	4,41
Item 2: Our foreign partners have committed substantial time and money in employees` (or sub-franchisees`) training of the franchise-specific techniques.	129	1	7	4,42
Item 3: Our foreign partners would lose a lot of their investment made to develop the local franchise network, if they decided to stop working with us.	125	1	7	4,70
Valid N (listwise)	124			

Table 7: Descriptive statistics – Partner Transaction-specific investments

The mean of mean variable of the *Partner transaction-specific assets* construct is at 4.5078, meaning that franchisors estimate the investments into the franchise system by the foreign partners to be significant.

<u>Industry</u>

The categorical control variable used in the analysis is the industry. With regards to the industry, most of the franchisors were established in the service industry, followed by distribution and only 13% were in production. The overview is presented in the graph below.

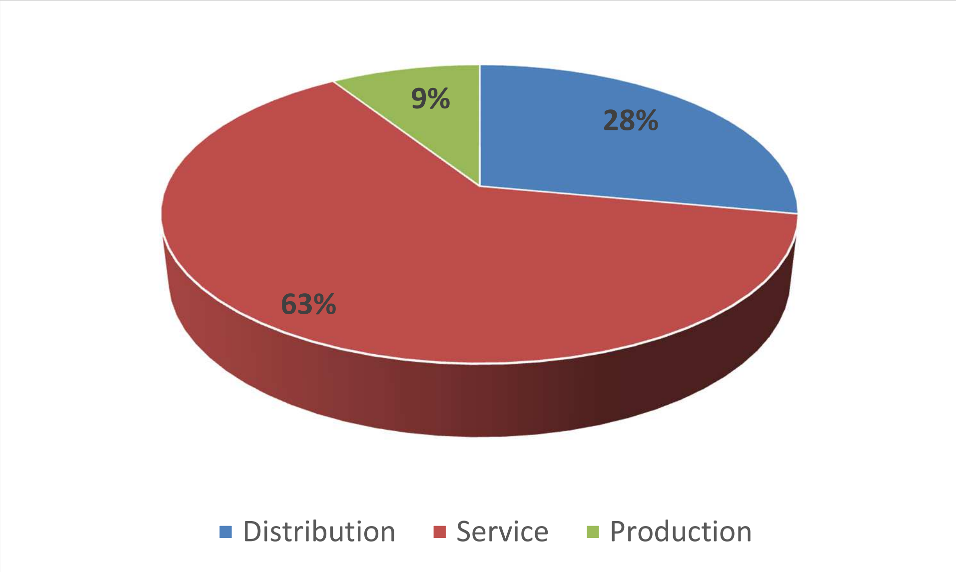

Figure 4: Descriptive statistics – Industry

Size – Year when franchise system was founded

As a control variable for size, the year when the franchise system was found is included. According to the data, the youngest was founded in 2014 and the oldest in 1896. The majority of the companies were founded in the 90's with the mean being at 1995.

6.3. Data analysis

6.3.1. Internal consistency and reliability analysis

This type of analysis is important to test the reliability of the constructs - that is to say if they measure what they are supposed to measure. The most common analysis of reliability of the construct is Cronbach's Alpha (α). In literature, the values of Cronbach's Alpha above 0.700 are acceptable and indicate that scales used in the construct are reliable. In the process of this analysis two sets of items will be created and a correlation for each split will be computed, the average of this values is α. In the absence of reliability, it is impossible to have any validity associated with the scores of the scale (Field, 2013).

Construct	Cronbach's Alpha α	Number of Items
International Strategy	.843	4

Environmental Uncertainty	.857	11
Partner TSI	.800	3
System-specific assets	.768	6

Table 8: Reliability analysis

The Cronbach's Alpha of the *international strategy* variable is at .843, meaning that 84.3% of the variance in the composite score by combining the 4 variables of the construct is internally consistent reliable variance. The Cronbach's Alpha of the *environmental uncertainty* construct is at .857. Thus, both constructs can be used in the analysis. All the values for all variables of the *international strategy* construct in the corrected item-total correlation statistics are above .300, meaning that all the included items correlate well with the overall scale. For the second construct, the corrected item-total correlation value is .062. By excluding this variable from the construct, the Cronbach's Alpha will be improved to .881. Thus the last variable of the *environmental uncertainty* construct will be excluded from the analysis.

As for the s*ystem-specific assets*, the Cronbach's Alpha will not be improved by deleting any of the items, thus all the items will remain in the analysis. Regarding *partner TSI*, the Cronbach's Alpha can be improved from .800 to .837 by deleting the last item, but

6.3.2. Exploratory Factor Analysis (EFA)

In order to reduce the number of dimensions, exploratory factor analysis was applied to strategy-related questions. Besides the dimension reduction, EFA is used to identify which items load on which dimension and exclude the items, which do not correspond to the construct. The aim of EFA is to uncover the underlying structure of variables with the a priori assumption that any variable can belong to any factor (Garson, G.D., 2013). To extract the factors from a set of variables, principal component analysis (PCA) was used.

The first EFA applied to strategy-related questions (variables B106_01 to B106_04), extracting 1 factor. All four variables were supposed to measure the same construct i.e. if the strategy is of standardization or adaptation to local markets. The extracted factor explains 66.5% of the variance.

By examining the communalities of the variables, it was identified that the first variable (B106_01 = franchise products / services) had a communality of .498. Communality is supposed to measure the reliability of the indicator and communalities below .50 should be excluded from the factor model (Garson, G.D., 2013). Thus, the second EFA analysis, for the remaining three variables, (B106_02 to B106_04) indicates a higher variance explained by the extracted factor than in the first analysis: 75.9%. However, since the factor consists only of four variables and in order to increase the representativeness of the study, all four variables remained in the factor.

In order to reduce the number of dimensions, the EFA was also applied to the control variables.

Environmental Uncertainty

By applying factor analysis to the construct of *environmental uncertainty* 2 components could be extracted, according to the following table:

	Component	
	1	2
Item 1: Cultural differences between our home and the foreign countries are high, such as norms, values and habits.	,763	-,012
Item 2: The business practices in our home and the foreign countries are quite similar.	,772	-,045
Item 3: The language barriers between our home and the foreign countries are high.	,535	,065
Item 4: The legal protection of intellectual properties such as patents and trademarks is weak in the foreign countries.	,697	,031
Item 5: The political environment is quite uncertain in the foreign countries.	,873	-,121
Item 6: The risk of ownership restrictions is high in foreign countries.	,874	-,074
Item 7: The quality of local infrastructure, such as phones, roads and IT, is under-developed.	,704	-,019
Item 8: Customer demand is strongly changing in foreign countries.	,499	,365
Item 9: Sales forecasts are not easily predictable in foreign countries.	,336	,694
Item 10: Market shares are pretty unstable in foreign countries.	,465	,561
Item 11: The number of existing and potential competitors is high in foreign countries.	-,246	,764

Table 9: Components extracted by applying EFA to environmental uncertainty

The first component includes items 1 to 8 and the second component includes items 9 to 11. The items 8 and 10 will be excluded from the analysis due to multicorrelation. Thus in further analysis only the first component including the questions 1 to 7 will be used.

<u>System-specific assets</u>

The items of *system-specific assets* were also analyzed by factor analysis, the factor loadings are shown in the following table:

	Component	
	1	2
Item 1: Management competence (like operating policies and procedures and HR management)	,941	-,148
Item 2: Organizational capabilities (like cultural management and information management)	,862	,030
Item 3: Customer competence (like marketing / advertising / promotion, pricing)	,614	,213
Item 4: Foreign market competence (like setting up foreign operations, knowledge of foreign markets)	,242	,593
Item 5: Innovation capabilities (like product and organizational innovations)	-,107	,937
Item 6: Product and service competence (like product/service quality and design)	-,015	,836

Table 10: Components extracted by applying EFA to environmental uncertainty

The items 1 to 3 are included in the component 1 and the items 4 to 6 in the component 2. Both factors *system-specific assets factor 1* and *system-specific assets factor 2* were used in the binary logistic regression as covariates. Although it is a formative construct and it does not include many different questions, the items loadings are too different between the two constructs, thus both of them will be included in the analysis.

<u>Partner transaction-specific investments</u>

By applying EFA to the construct of *partner transaction-specific investments* only one component could be extracted. All the communalities are above 0.500, thus all three variables remained in the factor for further analysis.

6.3.3. *Test of multicollinearity*

To avoid multicollinearity between the explanatory variables the correlations among them are tested. Multicollinearity is tests by correlation matrix or by VIF (Variance Inflation Factor). The explanatory variables should not correlate too high (threshold of r = 0.9) with each other. When looking at the VIF, it should not exceed the value of 10. (Field, 2013).

		Environmental uncertainty	System-specific assets	Partner transaction-specific assets	Adaptation strategy
Environmental uncertainty	Pearson Correlation	1	,218*	,111	,073
	Sig. (2-tailed)		,023	,226	,417
	N	134	109	120	126
System-specific assets	Pearson Correlation	,218*	1	-,056	,270**
	Sig. (2-tailed)	,023		,563	,004
	N	109	114	110	113
Partner transaction-specific assets	Pearson Correlation	,111	-,056	1	,282**
	Sig. (2-tailed)	,226	,563		,002
	N	120	110	124	122
International strategy	Pearson Correlation	,073	,270**	,282**	1
	Sig. (2-tailed)	,417	,004	,002	
	N	126	113	122	132

As can be seen from the table above, there is no correlation higher than 0.5 meaning the explanatory variables can be used for the analysis.

6.3.4. *Hypothesis test*

Binary logistic regression is applied to test relationships between categorical dependent variables and one or more categorical or continuous variables. This model is based on the logic, which is the natural logarithm of an odds ratio. Logistic regressions are suited for testing relationships between categorical outcome variables and categorical or continuous predictor variables (Peng et al., 2002).

The hypothesis are tested by applying binary logistic regression due to the dichotomous dependent variable (0 for “equity entry mode” and 1 for “non-equity entry mode”).

The model can be expression by the following equation (Field, 2013):

$$P(Y)_i = 1/1+e^{-(b_0+b_1x_{1i})}$$

Where $P(Y)_i$ is the probability (0-1) of outcome for respondent i, X_i is the value of independent variable for respondent i, β_0 is the intercept coefficient and β_1 is the regression coefficient (slope).

<u>Binary logistic regression – Control variables</u>

In the first step, a binary logistic regression with control variables *environmental uncertainty, system-specific assets and partner TSI* and *dominant entry mode* as dependent variable was run, with the aim to investigate the Hypothesis 2-4. As a categorical control variable *industry* was included in the analysis. As a control variable for *size* year when franchise system was founded is used.

H2: *Environmental uncertainty positively influences the franchisor’s tendency to use non-equity entry modes.*

H3: *The importance of system-specific assets for value creation positively influences the franchisor’s tendency to use equity entry modes.*

H4: *High franchise partners' transaction-specific investments positively influence the franchisor’s tendency to use non-equity entry modes.*

In total 168 cases were included in the analysis, 62 cases were missing (36.9% of the total number of cases). The summary of the analysis is presented in the table below:

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	,843	,215	15,388	1	,000	2,323

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	104,879[a]	,185	,263

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	INDUSTRY	,409	,420	,946	1	,331	1,505
	Environmental_uncertainty	,470	,249	3,554	1	,059	1,600
	Partner_TSI	,835	,265	9,920	1	,002	2,304
	System_specific_assets1	-,550	,285	3,715	1	,054	,577
	System_specific_assets2	-,435	,286	2,308	1	,129	,647
	Size	,018	,020	,833	1	,361	1,018
	Constant	-35,681	39,426	,819	1	,365	,000

Table 11: Binary logistic regression – Control Variables

A significant number of companies (72) preferred non-equity market entry modes. The p-value of .000 shows that there is a significant difference in the variance of the tested sample. By analyzing the Nagelkerke R Square, we can see that only 26.3% of the variance is explained by our control variables, i.e. *environmental uncertainty, system-specific assets and partner TSI* and *dominant entry mode, industry and size.*

The Wald-statistics measures the significance of each predictor. The significance p-value of the *environmental uncertainty* is at .059 with the coefficient of .470, which means that environmental uncertainty positively influences the choice of non-equity market entry modes, but this effect is statistically not significant (above p-value of .05).

With regard to *partner TSI*, the result is statistically significant with p-value of .002 and the B-coefficient of .835, meaning that the more resources the franchisee has invested into the franchising relationship, the higher is the franchisor's tendency to choose a non-equity market entry mode.

The effects of both factors of *system-specific assets* are negative but not significant with p-value above .05.

Industry and *size* did not have any statistically significant effect on the choice of market entry mode.

<u>Binary logistic regression – Including International Strategy in the analysis</u>

In the second step, *international strategy* was included into analysis to test the main proposition of this study:

H1: *International franchising companies pursuing standardization strategy are more likely to choose market entry modes providing high level of control such as equity modes (JV or WOS). International franchising companies pursuing adaptation strategy are more likely to choose market entry modes providing lower level of control such as non-equity modes (MF, MUF, SUF).*

In total 102 cases were included in the analysis, 71 companies chose non-equity market entry modes whereas 31 chose equity market entry modes. As can be seen from the model summary, the model is significantly improved by including *international strategy*: 32.1% of the variance is explained vs. 26.3% without this variable.

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	.829	.215	14.819	1	.000	2.290

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	99.068[a]	.227	.321

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	International_Strategy	.596	.278	4.592	1	.032	1.814
	INDUSTRY	.277	.435	.406	1	.524	1.319
	Environmental_uncertainty	.517	.260	3.950	1	.047	1.677
	Partner_TSI	.769	.269	8.160	1	.004	2.158
	System_specific_assets1	-.696	.307	5.153	1	.023	.498

System_specific_assets2	-.581	.301	3.730	1	.053	.559
Size	.018	.020	.767	1	.381	1.018
Constant	-34.617	40.168	.743	1	.389	.000

Table 12: Binary logistic regression – International strategy and control variables

The effect of *international strategy* is statistically significant (p =.032), which confirms the main hypothesis of this work. The B-coefficient of .596 and the odds ratio (Exp(B)) of 1.814 of the variable *international strategy* show a strong positive relationship between the tendency to adapt the products and services to local markets and choice of non-equity market entry modes (non-equity market entry mode is coded as 1). Furthermore, the effect of *environmental uncertainty* was improved and became statistically significant (p =.047) with a positive effect on the choice of non-equity market entry modes (B =.517). The effect of *system-specific assets 1* also became statistically significant (p =.023) with a negative effect on the choice of non-equity market entry modes (B =.-696). The effect of *partner TSI* was not improved, but stayed at significant level of .004 with a strong positive effect (B =.769).

Other control variables - *industry, size* and *system-specific assets 2* – did not have a significant effect on the choice of the entry mode.

Hypothesis tests overview:

		Confirmed	Partly	Rejected
H1	Strategy→ DOM	✓		
H2	Env. Uncertaiinty → DOM	✓		
H3	System spec. assets → DOM		✓	
H4	Partner TSI → DOM	✓		
Industry	Industry → DOM			✓
Size	Size → DOM			✓

Table 13: Summary of hypotheses results

6.3.5. Discussion

The research question of this work was to investigate the factors, which influence the choice of market entry mode in international franchising. The international strategy theory was applied anticipating that the choice of market entry mode is influenced by the company's *international strategy*, namely standardization or adaptation. Furthermore, the aim of the study was to test the effects of other control variables (*environmental uncertainty, system-specific assets, partner TSI*) on the choice of market entry mode. The hypothesis were derived from the literature presented in the previous chapters of the study. Overall, we received 162 valuable answers from franchising companies from 8 countries of investigation. Most of the respondents used online survey to fill the questionnaire and only few respondents answered by post.

The main hypothesis of the study with *international strategy* as explanatory variable was confirmed. The results of the binary logistic regression showed that the *adaptation strategy* increases the tendency to use non-equity entry modes, with this effect being statistically significant ($p = .032$). By including international strategy into analysis, the model could be improved and more variance explained. Furthermore, statistically significant effect ($p = .047$) was found for e*nvironmental uncertainty*, but only for the first factor extracted from the EFA including the questions 1 to 7 of the construct. Thus, e*nvironmental uncertainty* positively ($B = .517$) influences the franchisor's tendency to use non-equity market entry modes.

Furthermore, a statistically significant($p = .004$) positive effect ($B = .769$) was found between *partner TSI* and *market entry modes*, meaning that if the franchisee invests in the franchise system a high amount of resources relatively to the franchisor, the franchisor is more likely to use lower control i.e. non-equity entry modes.

With regard to the *system-specific assets*, a strong negative ($B = -.696$) and statistically significant ($p=.023$) effect was found for the first factor including the questions 1 to 3 of the construct i.e. *management competence* (like operating policies and procedures and HR management), *organizational capabilities* (like cultural management and information management) and *customer competence* (like marketing / advertising / promotion, pricing) increases the franchisors tendency to use high control i.e. equity market entry modes.

Industry the franchisors were in has no statistically significant effect on the choice of market entry mode.

7. Conclusion

The main purpose of this thesis was to contribute to the integrative model explaining factors, which influence market entry modes decisions in international franchising. As previously mentioned, the model combines organizational economics perspectives with strategic management views and international strategy theory applied in this work completes this model by covering the part of strategic management perspective.

The results of the empirical analysis confirm the theory discussed in the previous chapters derived from Strategy-Structure view.

7.1. Managerial Implications

In this chapter managerial implications are provided based on the findings of the study. Managers in franchising companies with international operations might consider these findings for their operations abroad:

1. The study shows an important link between strategy and the organizational form of the international franchising companies. The importance of the resources for competitive advantage was mentioned several times during this study. The companies should identify firm-specific advantages crucial for their strategy and seek for the organizational form through which they can achieve these advantages. According to the findings, franchising companies, whose strong competitive advantage lies in standardized franchising format, products and services as well as centrally coordinated system elements, should choose a market entry mode, which provides them with higher control (equity market entry mode). On the other hand, companies, whose competitive advantage lies strongly in the adaptation of their products and services to local market demand, should choose a market entry mode with lower control, which allows them cooperation with local partner.

However, there are also other factors, which have impact on the decision on market entry.

2. The findings of this work show the importance of environmental uncertainty on the choice of market entry mode. Thus, one important managerial implication is that companies when choosing a market entry mode, should consider not only the strategical factors but also the country environment. This would include social, political, cultural, economic distance but also market conditions.
3. The important of the transaction-specific investments of the franchise partner was proved in this work. Both, franchisor and franchisee have to invest in tangible (facilities, equipment) and intangible (training of employees) in order to make the franchise system work. As the franchisor is often located in another country, he cannot always control if the resources are used efficiently and no free-riding behavior occurs. The willingness of the franchisee to invest more in both types of resources, might increase the franchisors trust in the relationship and decrease the likelihood of using high-control market entry modes. If the franchisee does not have the capacities or willingness to invest in transaction-specific assets, the franchisor should make sure to establish control environment, where no free-riding behavior is possible.
4. The managers should identify if system-specific assets are important for competitive advantage of their franchise system. Some examples are proprietary know-how, communication system, store layout, customer competence, marketing and R & D capabilities, advertising and promotion, site location, and monitoring techniques. If these assets are crucial for the company, it is advisable to choose a market entry mode, which provides higher control. Higher control gives the possibility to transfer knowledge successfully across units and implement the required system-specific know-how.

7.2. Limitations

There are several limitations of this study. First of all, the sample size of the study is an important factor for reliability and validity of the study. The frequencies of the market entry modes show that more companies preferred non-equity market entry modes, thus only 10% of all companies choose equity market entry modes, which decreases the representativeness of the study with regards to this market entry mode. A bigger sample size and higher number of responses in each category could give other insights and reveal other relationships which could have an impact on the presented hypothesis. Another limitation is a limited number of answers from some countries: there were only 8 answers from UK vs. 41 received answers from Germany. Thus, the investigation of intercultural aspects in the model is difficult. Another limitation of the study is that it anticipates the causal relationship between strategy and structure, namely the first influencing the second. However, a reverse causality could be also possible, i.e. how structure influences the strategy in the long-run.

For future research it would be interesting to investigate how not only the strategy influences the market entry mode but include in the analysis the characteristics of the local partner (e.g. absorptive capacity of the partner) in combination with the strategy influence the choice of the entry mode. (Brown et al., 2003).

Further research should consider the mentioned limitations of this study. It is advisable to use only countries where a very good and up-to-date data on franchising companies with international operations is available. Also a number of participants within each category of market entry modes should be increased.

Eventually, the study does not investigate the impact of strategy-structure-fit on the performance of the company. Some other studies found a positive effect of this alignment on the performance (Zajac, 2004), thus one possibility for additional analysis would be to study the long-term performance of international franchising companies with specific strategy-structure forms.

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Appendix I

Overview of motives for international franchising (Doherty, 2007: 186).

Motives for franchising internationally	Source
Fortuitous franchisee interest/contact from third parties	Walker and Etzel (1973), Hackett (1976), Walker and Cross (1989), Welch (1989, 1990) and Abell (1991)
Exploit potential markets	Hackett (1976), Hoffman and Preble (1993), Welch (1990) and Hopkins (1996)
Increase sales and profits	Trankheim (1979), Kedia et al. (1994) and Hopkins (1996)
Market expansion	Trankheim (1979), Kedia et al. (1994) and Welch (1990)
Domestic market saturation, which prevents firms to grow	Hoffman and Preble (1993), Welch (1990) and Eroglu (1992)
Desire to be known as an international firm	Trankheim (1979) and Hopkins (1996)
Perceived favorability of the external environment	Eroglu (1992) and Hoffman and Preble (1993)
Firm size	Eroglu (1992) and Aydin and Kacker (1990)
Desire for growth	Walker and Cross (1989)
Operating experience, top management's international experience, tolerance for risk, perception of the firm's competitive advantage, external change agent influence	Eroglu (1992)

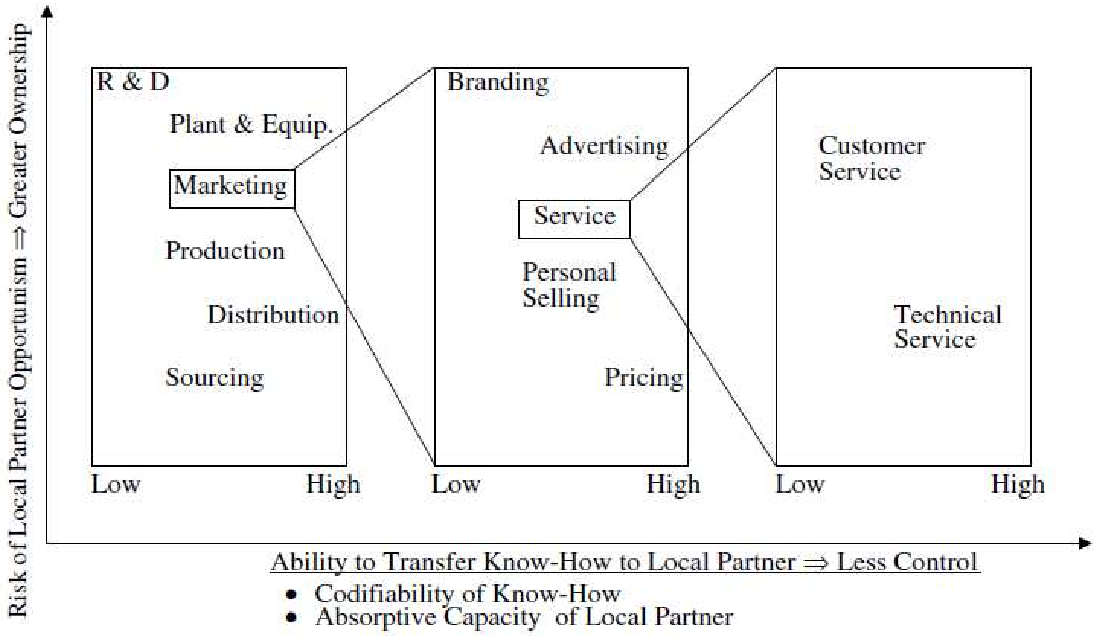
Appendix II

Examples of firm's resources (Barney, 1991: 101)

Physical capital resources	Human capital resources	Organizational capital resources
Physical technology, plants and equipment, geographic location, access to raw materials	Training, experience, judgment, intelligence, relationship and insights of individual managers and workers in a firm	Firms formal reporting structure, formal and informal planning, controlling and coordinating systems, as well as informal relationships among groups within a firm and between and between a firm and those in its environment.

Appendix III

Factors affecting the separation of ownership and control (Brown et al. 2003)



Abstract (English)

This work concentrates on the international franchise research and arises within the global franchising case study “The Choice of Governance Modes of International Franchise Firms – Development of an Integrative Model” (Jell-Ojobor, Windsperger, 2014). Based on the structure-follows-strategy view of Chandler (Chandler, 1962, Leitmannslehner, Windsperger, 2012), the International Strategy Theory (IST) is integrated into the research model (Bartlett, Ghoshal, 1989).

The international strategies, global or multi-domestic, are seen as determinants of governance modes in international franchising. The governance modes are wholly-owned subsidiaries, joint venture franchising, area development franchising and master franchising. By applying IST the firm’s foreign modes must be aligned with its international strategy (Grøgaard, 2012). The work anticipates that companies, which follow a global or standardization strategy will choose higher control entry modes, whereas companies pursuing multi-domestic or adaptation strategy will choose lower control entry modes. Furthermore, the moderation effects including other explanatory variables were examined. To test the relationship between IST and governance modes, a large-scale online survey was conducted. Sample units were international franchising companies with HQ in Austria, Germany, France, Netherlands, Spain, Italy, UK and the US.

The results showed that the effect of *International Strategy* in combination with other variables is statistically significant. The higher the Environmental Uncertainty, the higher will be the probability that companies using *Adaptation Strategy* choose a non-equity market entry mode. Furthermore, if the franchisee invests in the franchise system a high amount of resources relatively to the franchisor, the franchisor is more likely to use lower control i.e. non-equity entry modes. With regard to the System-specific assets, the importance of foreign market competence, innovation capabilities and product and service competence increases the franchisors tendency to use high control i.e. equity market entry modes.

Keywords: International franchising, international strategy, governance modes in international franchising.

Abstract (German)

Diese Arbeit stellt eine Recherche im Bereich des International Franchisings dar und ist ein Teil der globalen Franchising-Fallstudie „Die Wahl der Markteintrittsmethoden der internationalen Franchising-Unternehmen – Entwicklung eines integrativen Models“ (Jell-Ojobor, Windsperger, 2014). Basierend auf „Structure-follows-strategy“-Theorie von Chandler (Chandler, 1962, Leitmannslehner, Windsperger, 2012), die international Strategie des Unternehmens wird in das Modell integriert (Bartlett, Ghoshal, 1989). Dabei werden internationale Strategien, „global“ oder „multi-domestic“ als entscheidende Faktoren für die Markteintrittsmethode gesehen.

Laut der internationalen Strategie Theorie ist die Organisationsstruktur des Unternehmens seine strategische Orientierung in Bezug auf „Positionierung des Unternehmens in einem globalen betrieblichen Umfeld … um seinen Wettbewerbsvorteil langfristig über nationale Grenzen zu erhalten“ (Harzing, 2002: 212). Daraus folgt, dass die Organisationsstruktur des Unternehmens im Ausland auf seine internationale Strategie angepasst werden muss (Grøgaard, 2012). Die Hauptannahme dieser Arbeit war, dass die Unternehmen, die eine globale oder eine Standardisierungsstrategie verfolgen, werden eine Markteintrittsmethode wählen, die ihnen mehr Kontrolle bietet. Im Gegensatz, die Unternehmen, die eine Anpassungs- oder Adaptierungsstrategie verfolgen, wählen eine Methode mit weniger Kontrolle. Weiterhin wurden die Moderationseffekte anderer Variablen wie Umweltunsicherheit oder systemspezifische Vermögenswerte werden in dieser Studie untersucht. Um diese Beziehungen zu untersuchen, wurde eine Online- und postalische Umfrage der Franchisinguntenhemen mit Hauptsitz in folgenden Ländern durchgeführt: Österreich, Deutschland, Frankreich, Niederlande, Spanien, Italien, Vereinigtes Königreich und die Vereinigten Staaten. Die Ergebnisse dieser Studie zeigen dass die internationale Strategie des Unternehmens zusammen mit anderen Erklärungsvariablen einen Einfluss auf die Wahl der Markteintrittsmethode hat. Eine hone Unsicherheit in Bezug auf die Unternehmensumwelt im Ausland steigert die Wahrscheinlichkeit, dass eine Kooperationsvereinbarung mit dem Franchisingpartner im Ausland gewählt wird. Weiterhin, zeigen die Ergebnisse, dass wenn der Franchising-Partner einen hohen Anteil der Ressourcen in das Franchisingsystem investiert, tendiert der Franchisegeber eine Organisationsform mit weniger Kontrolle, d. h. eine Kooperationsvereinbarung ohne Kapitalbeteiligung, zu wählen.

Bezüglich der letzten Variable, systemspezifischen Vermögenswerte, wie z.B. Kompetenz auf dem Auslandsmarkt, Innovationsfähigkeit oder Produktkompetenz, erhöhen die Tendenz für die Organisationsformen mit höheren Kontrolle.

Schlagwörter: Internationales Franchising, internationale Strategie, internationale Organisationsformen in Franchising.