



universität  
wien

# MASTERARBEIT

Titel der Masterarbeit

„Direct versus Master Franchising to Internationalize  
within the Fitness Industry – The Case of Mrs. Sporty“

verfasst von

Bianca Bogner, BSc (WU)

angestrebter akademischer Grad

Master of Science (MSc)

Wien, 2015

Studienkennzahl lt. Studienblatt:

A 066 914

Studienrichtung lt. Studienblatt:

Masterstudium Internationale Betriebswirtschaft

Betreuerin / Betreuer:

ao. Univ.-Prof. Mag. Dr. Josef Windsperger



**With special thanks for support to:**

Pol. Marta Koziarska-Anders, Ao. Univ.-Prof. Mag. Dr. Josef Windsperger, Mag. Dr. Maria  
Jell-Ojobor, my dearest friends and of course my caring family.



## Table of Contents

1	Introduction .....	1
1.1	Statement of the Problem and Significance.....	1
1.2	Purpose of this Study and Research Question .....	2
1.3	Structure and Content .....	3
2	Literature Review .....	5
2.1	Internationalization Strategy.....	5
2.2	Market Entry Mode .....	6
2.3	Franchising .....	7
2.3.1	History .....	8
2.3.2	Definition .....	8
2.3.3	The Basic Types of Franchising.....	10
2.3.4	Advantages and Disadvantages of Franchising.....	12
2.4	Internationalization of Franchising.....	15
2.4.1	Domestic Franchising.....	16
2.4.2	International Franchising.....	16
2.4.3	International Franchise Entry Mode Choices.....	20
2.5	International Franchising Literature .....	21
2.6	Conclusion.....	24
3	Direct versus Master Franchising.....	26
3.1	Direct Franchising .....	26
3.1.1	Advantages .....	28
3.1.2	Disadvantages.....	28
3.2	Master Franchising .....	29

3.2.1	Definition .....	29
3.2.2	Advantages of Master Franchising .....	30
3.2.3	Disadvantages of Master Franchising .....	31
3.3	Conclusion .....	32
4	Development of Propositions .....	33
4.1	An Integrative Model of Governance Mode Choice of Franchising .....	33
4.2	TCT and AT .....	35
4.2.1	Environmental Uncertainty .....	35
4.2.2	Behavioral Uncertainty .....	36
4.3	RBT and OCT .....	37
4.3.1	System-Specific Assets .....	38
4.3.2	Local Market Assets .....	38
4.3.3	Financial Assets .....	39
4.4	Conclusion and Overview of the developed Propositions .....	39
5	Methodology .....	41
5.1	Single Case Study: Qualitative Approach .....	41
5.2	Research Design and Data Collection .....	42
5.2.1	Expert Interviews .....	42
5.2.2	Secondary Data .....	43
6	Case study: Mrs. Sporty .....	45
6.1	Overview of Mrs. Sporty .....	45
6.1.1	History and Internationalization of Mrs. Sporty .....	45
6.1.2	Mrs. Sporty's Products .....	47
6.2	The Mrs. Sporty International Franchise Modes .....	48
6.2.1	Direct Franchising Agreements .....	49
6.2.2	Master Franchising Agreements .....	50

6.3	Factors influencing Mrs. Sporty's Mode Choices between DF and MF in the Eastern European Market .....	52
6.3.1	Environmental Uncertainty .....	56
6.3.2	Behavioral Uncertainty .....	61
6.3.3	System-Specific Assets .....	64
6.3.4	Local market assets .....	66
6.3.5	Financial Assets.....	69
6.4	Discussion and Conclusion of Results.....	70
6.5	Forecast.....	72
7	Conclusion and Limitations .....	73
8	References .....	75
9	Appendix .....	85
9.1	Interview Guideline German – Expert Interview (November 28 <sup>th</sup> , 2014).....	85
9.2	Interview Guideline German – Expert Interview (April 30 <sup>th</sup> , 2015).....	90
9.3	Abstract (English).....	91
9.4	Abstract (German) .....	92
9.5	Curriculum Vitae .....	93

## List of Figures

Figure 1: Hierarchical model of choice of entry mode .....	6
Figure 2: Principle of franchising.....	10
Figure 3: SUF and MUF in international franchising .....	26
Figure 4: Master international franchising .....	30
Figure 5: Adapted integrative model of governance mode choice of the international franchise firm. ....	34
Figure 6: Distribution of franchising in Germany in % .....	52
Figure 7: Number of franchisors in Germany from 2003 to 2013. ....	53
Figure 8: Czech Republic's GDP annual comparison in mill. USD .....	58
Figure 9: Slovakia's GDP annual comparison in mill. USD.....	59

## List of Tables

Table 1: Overview of the developed propositions .....	40
Table 2: Research approaches .....	41

## Abbreviations

Agency theory	AT
Direct franchising	DF
European Union	EU
Joint venture	JV
Master development franchising	MDF
Master franchising	MF
Multi-unit franchising	MUF
Organizational capabilities theory	OCT
Property rights theory	PRT
Resource-based theory	RBT
Single-unit franchising	SUF
Transaction cost theory	TCT
United States	US

# 1 Introduction

## 1.1 Statement of the Problem and Significance

One of the fastest growing sectors nowadays is the fitness industry. According to a study from Deloitte (2013), the fitness industry showed a considerable growth rate in the last years. They found out that big chains are the major players within the industry. At the end of 2013 more than 8.6 million people in Germany were registered in a fitness club and the figures are still increasing. In a more recent study of Deloitte they stated that there are around 8,000 gyms throughout Germany which implicates a growth rate of more than 8 % compared to the last twelve months (EHFA, 2013, p. 2) (Wohner, 2014). According to the same study the largest fitness chain in Germany is Mc Fit. Nowadays the company Mc Fit has more than 1.2 million members (EHFA, 2013, p. 2).

Among the various fitness chains Mrs. Sporty is very popular because of its special characteristics and its favorable franchise concept. Mrs. Sporty is not directly comparable to fitness chains such as Mc Fit or Injoy because they focus on a totally different target group. Mrs. Sporty's is a franchise system. The company also uses this kind of business development to internationalize. The fitness club specializes on particular needs and desires of women. Their workouts consist of short 30 minute circuit trainings and offer a great whole body workout. The company was founded in 2004 in Germany. Niclas and Valerie Bönström collaborated with the popular tennis star Steffi Graf and an international team of various other experts of the sports and management field to develop the successful concept for their fitness club. Only 10 years later, it has more than 450 franchise partners, holding more than 550 clubs that are situated in eight different European countries, namely Germany, Austria, Italy, Spain, Slovakia, Netherlands, Poland and Switzerland (Mrs. Sporty Franchise, 2014) (Mrs. Sporty, 2014).

In franchising, different internationalization strategies such as master franchising, direct franchising, joint venture franchising or indirect franchising can be found. The choice of these modes is an under-researched but very essential topic. Mrs. Sporty only uses certain forms of franchising, namely direct franchising (single-unit and multi-unit franchising), area development agreements and master franchising agreements (Kozarska-Anders, 2014).

This thesis focuses on direct franchising compared to master franchise agreements and the various factors for the decision to use one of these strategies. Mrs. Sporty established its businesses on the Slovakian market by using a direct franchising system in 2011 (Mrs. Sporty, 2014). Only a few years later, in 2014, the company still had to manage various challenges of the local market which was mostly a result of lack of knowledge about consumers, habits, preferences and other important characteristics. Consequently, and due to their experience with master franchising in other European countries, the company decided to use a master partner in the host country. They thought that a local partner, which provides essential knowledge and who knows the specifics of the Slovakian market will help them to overcome the mentioned problems. As Slovakia is pretty small, they furthermore decided to internationalize their business also in the Czech Republic and to choose one master franchisor for both countries (Koziarska-Anders, 2014).

To sum it up the fitness industry has been growing immensely in the last years and there are forecasts that it will continue its growth rate in the future. The big players in the fitness industry are large chains which use different internationalization strategies. This thesis focuses on a highly successful and popular chain named Mrs. Sporty, which uses franchising to expand internationally.

## **1.2 Purpose of this Study and Research Question**

The aim of this work is to explain the franchisor's choice between direct and master franchising by applying a broader model based on transaction cost theory (TCT), agency theory (AT), property rights theory (PRT), resource-based view (RBV) and organizational capability theory (OCT).

As mentioned there are different modes of franchising. For this purpose, this work focuses on franchising using the example of the fitness chain Mrs Sporty. In 2011 they expanded into the Slovakian market via direct franchising. Due to their change from direct franchising to master franchising on the Czech and Slovakian market in 2014, the following research question can be formulated:

***Which factors help to determine the choice between direct and master franchising in an international context?- Based on an analysis in the multi-theoretical view from transaction cost theory (TCT), agency theory (AT), property rights theory (PRT), resource-based theory (RBT), organizational capability theory (OCT).***

In order to examine the research question, a single case study approach will be used.

Referring to Yin (2009) a case study is used to examine “*our knowledge of individual, group, organizational, social, political, and related phenomena*” (Yin, 2009, p. 4). It is a common method nowadays. To gather information for the case study, an expert interview was conducted and secondary data was used. The interview partner was Mrs. Marta Koziarksa-Anders, who is responsible for the international business development at Mrs. Sporty.

### **1.3 Structure and Content**

This thesis is divided into seven chapters.

Following this introduction and the first insight to the research question, the next chapter, continuous with a literature review to understand the key concepts. For this purpose the chapter is divided into four parts. The first part is about internationalization strategies. Basically, it gives an overview on what internationalization means and what a strategy is. Moreover it combines both concepts and explains why companies need internationalization strategies in their business lives. This first part of **chapter two** is then followed by the concepts of market entry modes, as stated in the literature by various authors. In the third part the concept of franchising as well as its advantages and disadvantages will be discussed. Starting at the very beginning of franchising in a historical point of view, also various types and motives for franchising are presented. The last part of chapter two discusses the crossing from domestic franchising to its internationalization and explains the deficit in the existing literature.

**Chapter three** presents the two types of franchising of this study’s investigation. Firstly, direct franchising will be discussed, whereas the form of master franchising will be presented afterwards. This chapter defines the research objectives more precisely.

In **chapter four** the applied model, as well as the formulated propositions are presented.

**Chapter five** refers to the applied method for the empirical study, which is a single case study. In this case an expert has been interviewed and secondary data is used.

After that, **chapter six** begins with an introduction of Mrs. Sporty. Beginning with a brief overview of the company, the international franchise modes of the company will be presented. This is followed by the analysis of factors which influences Mrs. Sporty's mode choice between direct franchising and master franchising on the Czech and Slovakian market. After examining the developed propositions a summary and short interpretation of the results as well as a forecast are provided.

The last chapter, **chapter seven**, provides a final conclusion embedding also the boundaries of this thesis.

## 2 Literature Review

### 2.1 Internationalization Strategy

Within the existing literature there is no unique definition of the term “internationalization”. The term can be used in two ways. On the one hand internationalization describes a process and on the other hand it means a condition (Voll, 2007, p. 9).

In the past a lot of research has been done in the field of internationalization and it has become a very popular topic. According to Anheier and Themudo (2005) *“Internationalization takes place when a national organization decides to expand into another country, either by setting up an affiliate or branch office or by collaborating financially or otherwise with an existing organization abroad”* (Anheier & Themudo, 2005, p. 103).

In case a company wants to expand its business beyond regional borders it therefore needs an internationalization strategy. Compared to the definition of internationalization, several authors have a similar definition for strategy. Referring to Mintzberg (1978) a strategy is *“a pattern in a stream of decisions”* (Mintzberg, 1978, p. 935). One of the most cited definitions derives from Chandler (1962). He says that *“Strategy can be defined as the 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, p. 13).

The strategy then has an essential influence on the chosen market entry mode. Over time, different strategic approaches have been developed, of which following two can be characterizes as fundamental: 1) the resource-based view and 2) the industrial-economic approach (Kutschker & Schmid, 2006, p. 812).

Related to that, also Backhaus et al. (2003) state that a company’s motives to internationalize derive from their objectives. They classified them into economic, non-economic, offensive, defensive, resource-oriented, production-oriented and sales-oriented motives (Backhaus, et al., 2003, p. 69).

## 2.2 Market Entry Mode

Knowing what internationalization strategy means and why firms are willing to operate in foreign markets, the question “How do firms operate in foreign markets?” has to be answered.

Therefore, Pan & Tse (2000) provide a hierarchical model which tries to explain the choice of an appropriate market entry mode (Pan & Tse, 2000, p. 538).

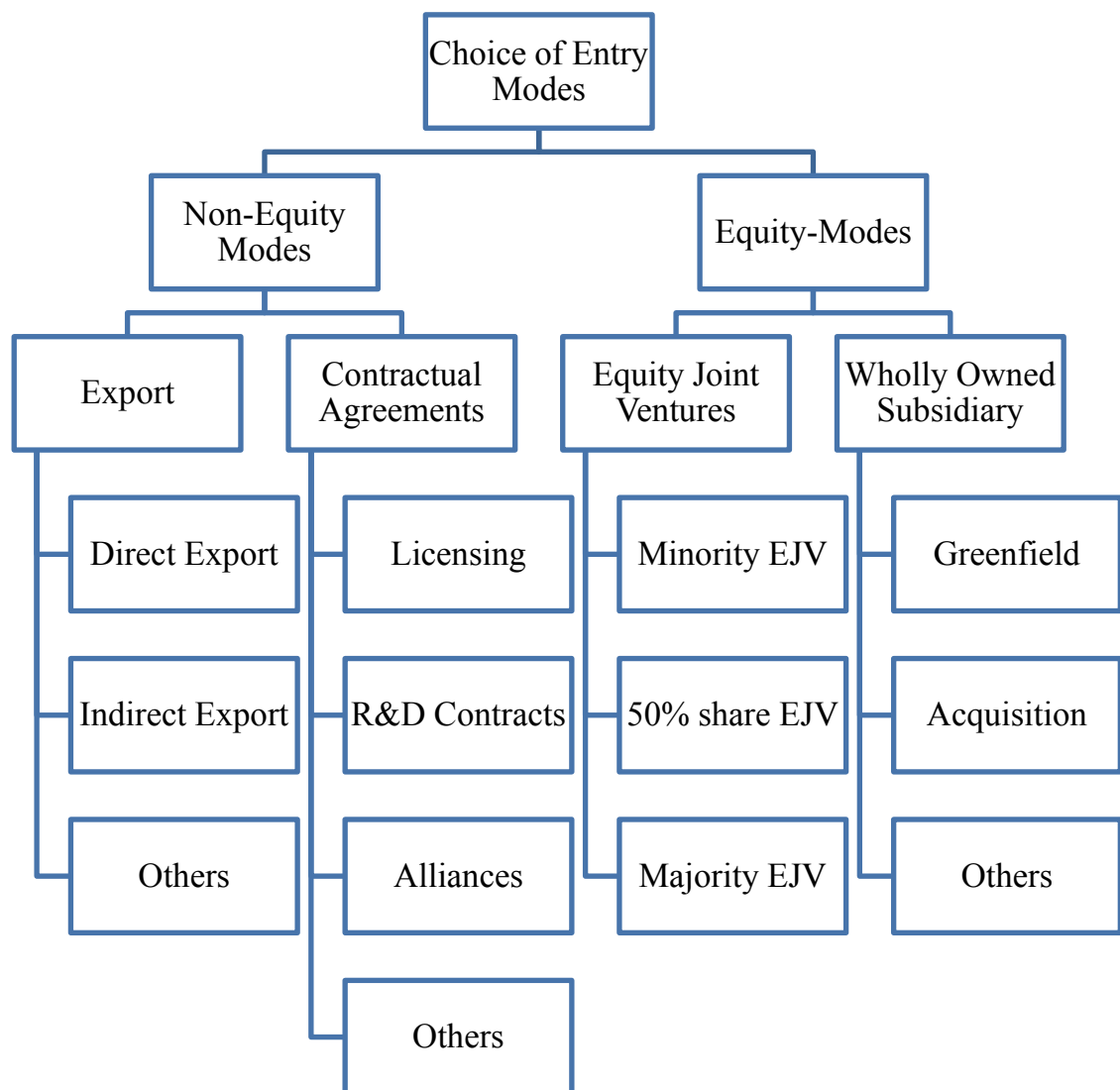


Figure 1: Hierarchical model of choice of entry mode. Source: Pan & Tse, 2000 (p. 538)

Figure 1 shows their hierarchical model. In their model they differentiate between equity and non-equity modes. Equity modes refer to equity-joint ventures and wholly-owned

subsidiaries, whereas non-equity modes refer to export and contractual agreements (Pan & Tse, 2000, p. 538).

Their model is based on the three main schools of thought (Pan & Tse, 2000, p. 538). The first school of thought understands overseas business operations as risky if they are overseas due to the fact that there are different cultural, political and environmental conditions. Consequently, they assume that a company which is willing to internationalize for the first time, will choose exporting due to lower risk (Pan & Tse, 2000, p. 536) (Young, 1987, p. 33). The second school of thought is based on the transaction cost approach (Pan & Tse, 2000, p. 536). In the existing literature the transaction cost approach constitutes one of the most important foundations to explain the choice of market entry modes (Williamson, 1981). According to Coase (1937) transaction costs are “*costs of using the price mechanism*” (Coase, 1937, p. 390). Within this approach firms internalize if they are able to perform at a lower cost, whereas they usually use subcontractors if they do not have the mentioned advantage. Within these subcontracts they will be confronted with transaction-related costs (Pan & Tse, 2000). The third school of thought emphasizes on location-specific factors (Pan & Tse, 2000, p. 537). The basis thought derives from Dunning’s eclectic paradigm in which he states that non-production related costs are gaining importance due to global competition (Dunning, 1988, p. 4).

Based on these theories Pan and Tse built their hierarchical model. They assume that managers have to make two essential choices:

- Choice between equity or non-equity modes
- Choice between the various equity or non-equity modes (Pan & Tse, 2000, p. 537)

The here presented single case study with Mrs. Sporty emphasizes on franchising, which can be classified as a non-equity mode with a contractual agreement.

## **2.3 Franchising**

Nowadays, franchising has become a common form of doing business in an international context. Therefore in this section the concept of franchising will be explained.

### 2.3.1 History

The first usage of the word “franchise” goes back to the 12<sup>th</sup> century. During this time ecclesial rulers lent out their forests for a special fee. The people who lent the forests used them for markets and fairs (Garmaier, 2010, p. 1).

The beginning of the modern franchising form goes back to 1850 in the United States of America. Isaac Singer used the system of franchising to increase the sales of his sewing machines in the US. At this time he began to franchise his company called “Singer Sewing Machine and Co” (Dant, et al., 2011, p. 253). Besides Singer also other American companies used the system to distribute and increase their sales and market appearance. In 1930 the franchising system experienced another rapid growth and at this time the first restaurant chains spread their businesses within the US. Just twenty years later, in the 1950s, a huge number of other fast food restaurants as well as motel and diner franchises were established. Some of these franchises are still very popular nowadays. The most popular franchise system among them are for example McDonalds, Dunkin Donuts or Burger King (Garmaier, 2010, p. 1) (Dant, et al., 2011, p. 253).

Nowadays not only the US has a significantly high number of franchising systems. Franchising also increased within European countries (EFF, 2010). A statistical report from the European Franchise Federation (2010) points out that there were around 10,000 franchised brands in 2010 and the number is still increasing (EFF, 2010).

### 2.3.2 Definition

The word “franchise” comes originally from the Old French language and it can be translated as “free” (Price Waterhouse Coopers, 2004). Literature gives several definitions of franchising which are very similar to each other.

Rubin (1978) for example argues that the institutional structure of franchising is based on a franchise agreement. Furthermore, he adds that it is a contract that involves two firms. On the one hand there is the franchisor and on the other hand there is the franchisee (Rubin, 1978, p. 224). Furthermore, he explains that *“the franchisor is a parent company that has developed some product or service for sale; the franchisee is a firm that is set up to market this product or service in a particular location. The franchisee pays a certain sum of money for the right to market this product”* (Rubin, 1978, p. 224).

Another very similar definition derives from the IFA (2004). The IFA is the international franchise organization and they define that *“franchise is the agreement or license between two parties which gives a person or a group of people (the franchisee) the rights to market a product or service using the trademark of another business (the franchisor). The franchisee has the rights to market the product or service using the operating methods of the franchisor. The franchisee has the obligation to pay the franchisor certain fees and royalties in exchange for these rights. The franchisor has the obligation to provide these rights and generally support the franchisee. In this sense, franchising is not a business or an industry, but it is a method used by businesses for the marketing and distribution of their products or services”* (Price Waterhouse Coopers, 2004). The mentioned fees usually involve an initial fee which has to be paid at the beginning of the contract and royalties which are usually a percentage of the franchisee’s sales. Choo (2005) explains that the reason for this non-refundable initial fee is often used to control franchisee opportunism, namely free-riding and shirking (Choo, 2005, p. 174).

According to the stated definitions of franchising, Figure 2 illustrates the described principle of franchising.

There are always at least two parties that take part within the franchising agreement, namely the franchisor and the franchisee. Both parties have different advantages, disadvantages and motives which derive from the franchising contract. Nevertheless it has to be said that there are various opinions from different authors concerning the franchising’s origin, for example the agency theory or transaction cost theory.

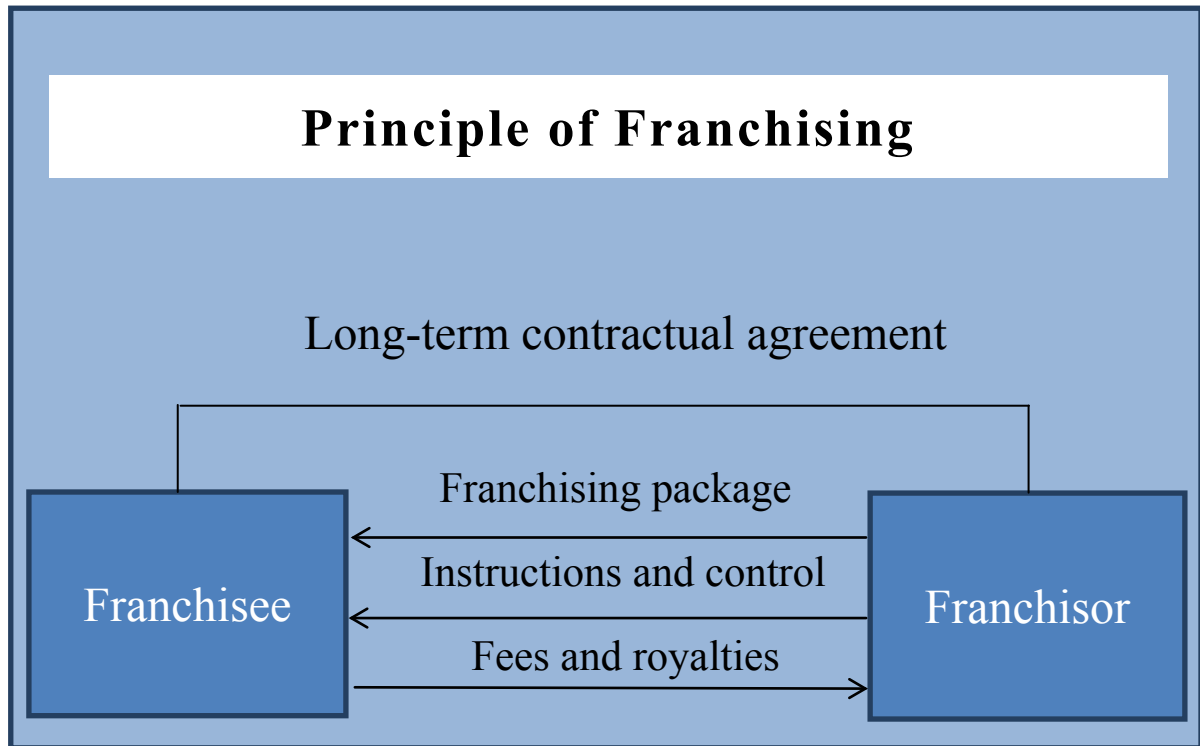


Figure 2: Principle of franchising, Source: Own illustration

In addition to these definitions and according to Castrogiovanni and Justis (1998) there are three major factors to differentiate franchising systems from other organizations, these are:

- “(1) geographic dispersal of organization units;*
- (2) replication across units; and*
- (3) joint ownership”* (Castrogiovanni & Justis, 1998, p. 170)

The authors add that these characteristics are probably also true for non-franchise organizations. Nevertheless, they point out that there rarely exist any non-franchise organizations that fulfill all three features at the same time, like franchise systems do. Consequently, franchising systems constitute an efficient form to organize operational units that are in different places and locations (Castrogiovanni & Justis, 1998, p. 170).

### 2.3.3 The Basic Types of Franchising

In the existing literature there are various approaches to classify franchising.

One approach classifies franchising into trade-name franchising and business-format franchising. The first strategy is also called licensing, as the franchisee is allowed to produce a particular product or service under the name of the franchisor. Basically it includes only the trademark, service or product of the franchisor but not the whole business model (Castrogiovanni & Justis, 1998) (Lafontaine, 1992, p. 264). The second strategy, business-format franchising, is the most common strategy for most fast food chains. It means that the franchisee has the right to use the entire business operation model of the franchisor. Literature states that the whole business model usually includes things such as marketing plans, quality control, strategy plans, operating manuals and standards (Lafontaine, 1992, p. 264).

Another approach classifies franchising systems depending on the focus of their activity. Literature provides three basic types, namely sales and distribution franchising, service franchising and product franchising (Skaupy, 1995, p. 32), though it has to be mentioned that franchising often appears in combinations of those three categories (Skaupy, 1995, p. 32).

### **Sales and Distribution Franchising**

The concept of sales and distribution franchising is very simple. The franchisee is responsible for the distribution of one or more products. Within this concept the franchisee usually gets the product from the franchisor or in special cases from the franchisor's producers. A very popular example for this type of franchising is Yves Rocher cosmetics (Garmaier, 2010, p. 11).

### **Service Franchising**

As the name suggests it constitutes the situation that the franchisee sells a service to a customer. The franchisee receives a marketing concept of the franchisor to acquire customers. Service-franchises are very common nowadays. A well-known example for service-franchising is TUI-Reisen (Garmaier, 2010, p. 11).

### **Production Franchising**

The major characteristic of product franchising is that the franchisee produces a product by using the franchisor's knowledge. After producing the product the franchisee is also responsible to sell the produced goods. According to Garmaier (2010) this type of franchising is not very common because it requires a lot of different capabilities and skills from the franchisee. On the one hand the franchisee has to ensure an appropriate production of the

product and on the other hand also the selling process is imposed on him (Garmaier, 2010, p. 11).

Nevertheless, product franchising contains one major advantage: If the production plant of the product is closely situated to the point-of-sale it can be an essential factor to save costs and time, for the franchisor as well as for the franchisee (Garmaier, 2010, p. 11).

### **2.3.4 Advantages and Disadvantages of Franchising**

There are plenty of successful stories which show that franchising is a highly recommended business form. Some well-known examples are McDonalds, KFC, Burger King, Subway, Dunkin Donuts, 7 Eleven, Re/MAX, Marriott International and Domino's Pizza (Franchise Direct, 2014).

Though it might seem that the franchise contract is one of the most important tools within the business relationship there are other factors that are equally important. According to Martius (2010) a professional franchise package, an appropriate business type as well as the right balance between hard and soft factors has to be taken into consideration (Martius, 2010, p. 75).

Literature points out various advantages and disadvantages. On the one hand some factors support the involved parties to cooperate with each other but on the other hand there are also factors for both parties that hinder their cooperation.

#### **Advantages from the Franchisor's View**

- Capitalized expansion

From the franchisor's point of view one of the most motivating advantages to establish a franchising system is probably the fact that he can expand his businesses without needing immense capital or borrowing funds, because franchisees invest their own capital in their new businesses. Consequently, the economic risk is distributed between the franchisor and his franchisee(s) (Internicola, 2010)

- Continuing revenue streams

Regarding the financial situation between both parties, the franchisor usually gets an initial fee and royalties from the franchisee. In most cases, monthly royalties are expressed as a percentage based on the franchisee's gross sales (Internicola, 2010).

- Brand development

Another very important advantage is the brand development and the reputation of the franchised company. If the franchising system runs successfully this might also increase the brand awareness and the reputation of the company on certain markets and within consumers (Internicola, 2010).

- Economies of scale

The franchisor may be benefiting by economies of scale. This means that he has more bargaining power against his vendors and suppliers in case of his sales increasing (Bisio, 2011, p. 70).

- Other advantages

In literature authors also mention the advantage that franchisees are usually more motivated than paid employees, as they have to invest their own money. Consequently, the franchisor has to face less risk concerning lazy or demotivated employees. Furthermore, there are also fewer expenses for the search of appropriate personnel because the franchisees have to search for their personnel on their own (Hubertus, et al., 1980, p. 22).

### **Disadvantages from the Franchisor's View**

- Loss of control

The franchisor has less control of franchised units than in his own. Nevertheless it is very important for every franchisor to know how the business runs and that it runs in the right way. This is why monitoring as well as communicating with the franchisee are probably the most important tasks within the franchising network. Depending on the form of franchising, the franchisor is able to have more or less control (Rohlfing, 2011, p. 41). A detailed analysis of the importance of control within direct and master franchising will be presented in section 3 and 4.

- Finding the right franchisee

Another crucial point for the franchisor is the choice of an appropriate franchisee. A wrong franchisee does not only bring failure to his unit, in fact he is even able to damage the entire network and reputation that was built up by the franchisor and other franchisees before (Choo, 2005, p. 160).

- Other disadvantages

Besides the above mentioned disadvantages for the franchisor there may be several other problems and difficulties. In this context, communication and control are another essential topic. If the franchisor exaggerates or understates his tasks, the business might fail. It is important to find the right balance. In the worst of case, severe conflicts between the two parties may also lead to an unfortunate ending for both. In the end the franchisee might judge the franchisor due to lack in support, inadequate targets and training (Internicola, 2010).

### **Advantages from the Franchisee's View**

- Proven business system and an established brand

According to several authors (Ehrmann, et al., 2013, p. 305) (Jungwirth 1994 as cited in Glatz and Chan 1999, p. 28) one of the most essential factors is to get the entire concept for an already established brand/product/service which also includes a certain strategy. This means that there is less risk involved because the consumers are already aware of the product or service. Franchisors usually spend huge amounts of money in advertising and public relations (Internicola, 2010). A single franchisee would never be able to invest such huge amounts in advertisement. Jungwirth (1994) also confirms this statement in his study and adds that less risk automatically results in more safety for the franchisees (Jungwirth 1994 as cited in Glatz and Chan 1999, p. 28).

- Training and support

Besides the proven business system and the established brand advantages, another very essential point is training and support measures that are received from the franchisor. Since the franchisor is usually very cautious that his businesses runs in an appropriate way and that the established brand does not get a bad reputation, he supports the franchisees with special training and support measures. The franchisee benefits from this approach as he usually would not be able to afford these measures on his own (Internicola, 2010).

Another study which was conducted by Peterson and Dant (1990) shows similar results. In their study they argue that independence, training provisions as well as an established brand name are the most important advantages (Peterson and Dant 1990 as cited in Glatz and Chan 1999, p. 28).

### **Disadvantages from the Franchisee's View**

- Benefits are an illusion

As stated above the franchisor has to choose the right franchisee partner, on the other side this factor is also essential for franchisees. The franchisee has to face the difficulties in finding an appropriate franchisor. In fact a lot of bad franchising systems exist in which the franchisees do not receive the described support and training measures (Internicola, 2010).

- Underestimating risks and strong dependency

The disadvantage of underestimated risks is confirmed by the study of Jungwirth (1994). Results indicate that franchisees often underestimate the potential risks. Consequences are a lack in education, support and training measures (Jungwirth 1994 as cited in Glatz and Chan 1999, p. 28). Moreover, the problem arises that the franchisee is highly dependent on the recommendations of the franchisor due to the franchise contract. As a result the franchisee might then feel too constricted within his decisions and rights.

- Other disadvantages

Literature mentions various other disadvantages for the franchisee. It argues for example that franchisees usually have to deal with lower margins because they have to pay royalties to the franchisor (Internicola, 2010).

## **2.4 Internationalization of Franchising**

According to Sashi and Karappur (2002) it is obvious that *“in contrast with operating in domestic markets, conducting business in global markets requires the capacity to cope with risk and uncertainty in diverse internal and external environments. Firms must select organizational forms that possess the flexibility to effectively absorb these risks and uncertainties. Franchising arrangements permit franchisor firms to blend their resources with the country-specific strengths of franchisees, thereby achieving the desired flexibility in many circumstances”* (Sashi & Karuppur, 2002, p. 520).

De facto, for the task of establishing a successful international franchising system the franchisors as well as the franchisees have to take several factors into consideration. The first distinction has to be made between domestic and international franchising. The existing

literature points out, that franchisors of domestic franchising systems differ from internationalized systems in several ways (Shane, 1996, p. 84).

#### **2.4.1 Domestic Franchising**

Domestic franchising has attracted a lot of researchers in the past (Eroglu, 1992, p. 20). Generally speaking, domestic franchising means that the franchisor decides not to expand his business across the borders. In an international context, franchising in one country may be easier because within the country the market is homogenous, whereas it is a much bigger challenge when operating in different countries. In the latter case franchisors have to cross the borders of one country and to franchise abroad (Elango, 2007, p. 183).

The literature states typical characteristics of domestic franchising. According to Jell-Ojobor and Windsperger (2014) domestic franchising companies usually possess smaller “*financial capital to absorb possible failures*” (Jell-Ojobor & Windsperger, 2014, p. 155). Moreover, they often have smaller reputation and brand awareness as well as a lower level of experience (Jell-Ojobor & Windsperger, 2014, p. 154). Compared to international franchising the markets and customers are quite similar. As a result fewer adaptations and modifications have to be made for their products and services (Elango, 2007, p. 190).

Moreover, it is important to remark that the franchisor does not have to decide between domestic or international franchising. In contrary, the existing literature shows that there are companies which use domestic as well as international franchising such as Benetton or the well-known company Bodyshop. In other cases there are examples in which they only use one of both forms. For example Marks & Spencer has no domestic franchising but uses international franchising, whereas Thortons for example uses franchising only in their domestic markets. Finally, there are of course companies that do not use any franchising at all, such as C&A or Tesco (Quinn & Alexander, 2002, p. 269).

#### **2.4.2 International Franchising**

Compared to domestic franchising, international franchising means that a company expands its businesses into foreign countries by crossing the home country’s border (Elango, 2007, p. 183).

In fact the franchisor has to struggle with different problems and tasks compared to domestic franchising. The franchisor has several burdens like different political conditions, languages,

rules and laws as well as diverging cultural and financial systems. Moreover, it is important that the international franchisor follows the local business norms (Baena, 2013, p. 6) (Paik & Choi, 2007, p. 544). The study of Elango (2007) confirms that international operating franchise systems are challenged by the fact that other markets require other treatments. He mentions that franchisors need different training programs for their franchisees. Moreover, they often have to make adaptations and modifications in their products and services (Elango, 2007, p. 190).

Besides the problems of recruiting an appropriate franchisee, the study of Walker and Etzel (1973) shows similar results. In their survey they examined the internationalization of franchisors from the United States. Their results show that more than 60 % of the asked franchisors have serious problems due to governmental and legal restrictions. In addition to that, more than a third of the interviewed franchisors also answered that insufficient local financing sources as well as the problem of controlling and monitoring their franchisees were the most serious issues (Walker & Etzel, 1973, p. 45). Other problems which arise during the internationalization process are tough competition in the foreign markets, patent and trademark problems and the availability of the required raw materials (Hackett, 1976, p. 73).

Despite all of the above mentioned problems there are multiple reasons why firms still show intentions to internationalize. Eroglu (1992) describes in his conceptual model of franchise internationalization that *“Intensions represent the likelihood or tendency that an individual or group will undertake a specific action or behave in a particular way with regard to an issue or object”* (Eroglu, 1992, p. 22).

In the following the intention and motives for international franchising are examined.

### **Motives for International Franchising**

- Contact/inquiries from potential franchisees and third parties

Various studies show that one of the major motives for internationalization by using franchising is due to inquiries from potential franchisees (Walker & Etzel, 1973) (Welch, 1999).

According to Welch (1999) the interest that derives from a prospective franchisee belongs to the direct stimuli or catalysts. Besides that he argues that also background factors such as network spread or learning processes and the decision maker's attitude, values, experience

and knowledge are other influences that may lead to an international entry (Welch, 1999, p. 106).

- Exploit potential markets and market expansion

Besides the inquiry of an interested franchisee, the exploitation of potential markets is another motive (Welch, 1999) (Hackett, 1976). According to Hackett (1976) who conducted a study that consists of US franchise systems, the franchisors want to take advantage of the foreign markets by establishing a brand name there (Hackett, 1976, p. 69). According to the study of Kedia et al. (1994) a manager who has the desire to expand its business is more likely to do so than one who is just driven by a firm's individual characteristics (Kedia, et al., 1994, p. 65).

- Higher sales and profits

As stated above and according to Kedia et al (1994) a manager's attitude can be very important for the franchised company. The results of his survey show that the desire to increase profits is another major motivator for franchisors to expand their businesses across domestic boundaries (Kedia, et al., 1994, p. 65).

- Saturation of the domestic market

Another reason for international franchising is the fact that domestic markets are often saturated due to a high number of competitors. As a consequence the company seeks to find new markets and new customers to be profitable and efficient. Nevertheless it is important to keep in mind that “[...] *although market saturation alone has been offered as an explanation, this explanation would appear to be such that it should act universally – all firms in an industry should choose simultaneously to enter foreign operations if this alone explained the reasons for international franchising*” (Kedia, et al., 1994, p. 57). However, domestic market saturation is not always a reason to internationalize via franchising. According to a study, executed within the Australian franchise sector, Frazer et al (2007) show significant results that franchisors often do not wait until domestic market saturation (Frazer, et al., 2007, p. 449).

- Desire to be known as an international firm

International franchising, if successful expanded, can lead to higher brand awareness und successful presence in a global point of view (Paik & Choi, 2007, p. 544). According to Alon et al. (2012) who examined the internationalization of popular hotel chains “[...] *franchising is a way to expand the brand in areas where it has not been able to expand on its own*” (Alon,

et al., 2012, p. 384). Within their study, they used the hotel chain Marriot as a descriptive example. In the European area, the brand “Marriot” has been relatively unpopular before their franchising units. Consequently, managers used franchising primarily to establish an international brand and to gain market power overseas (Alon, et al., 2012, p. 384).

Similar strategies were chosen by the hotel chain “Hilton”. Under the umbrella brand “Hilton” they have various economy brands, one of them called “Hampton”. The major strategy of Hampton is to provide cheap rooms for everyone. Nevertheless, they tried to keep the association to the expensive Hilton rooms. Hilton is one of the most popular brands worldwide, but de facto the economy brand Hampton was not very popular, except in the United States where most of the people knew that Hampton belongs to Hilton. Due to this reason and also to expand successfully in other countries, Hilton added “by Hilton” at the end of Hamptons. The strategy worked out and the hotel chain gained market power in its new markets outside the United States (Alon, et al., 2012, p. 385). These results indicate that the desire to be known as an international firm and the desire to establish strong brand awareness are essential motivators to internationalize via franchising (Alon, et al., 2012, p. 385).

- Perceived favorability of the external environment

Admittedly, there are multiple external factors that favor international franchising. According to Hoffman & Preble (1992) previous problems that prevented franchisors from an internationalization has been reduced. In this context they mention trade barriers as an example. Furthermore, they add that in the meantime the situation is much better and countries still try to improve the conditions to ensure a better economic integration for the franchised companies (Hoffman & Preble, 1976, p. 42). Eroglu (1992) similarly explains environmental determinants in his conceptual model and states that these factors can appear in the target and home country’s macro-environment. He emphasizes that high fluctuations within the external environment mean higher risk for the business. Hence, the franchisor is less likely to enter the market (Eroglu, 1992, p. 26).

- Firm size

Another relation between franchising and internationalization can be made by the size of the firm. Eroglu (1992) states that firm size refers to different variables, such as number of employees, annual volume or franchised outlets. Findings show that the larger the firm, the lower is the risk for the franchisor. This negative correlation is due to the fact that large firms have a higher ability to absorb failure compared to small firms and therefore the impact would

be less drastic for them (Eroglu, 1992, p. 24). The hypotheses are supported by other authors, for example Aydin and Kacker (1990) who examined small companies and their relation between risk and their intension to internationalize (Kacker & Aydin, 1990).

- Desire to grow

Preble (1995) says that franchising can be used as a significant strategy to grow, to generate jobs and last but not least to create economic development in a new marketplace which is situated beyond the national borders (Preble, 1995, p. 81). Regarding the growth of international franchising Sashi and Karappur (2002) argue that especially the combination of sufficient control as well as flexibility within a franchise contract is another crucial point (Sashi & Karuppur, 2002, p. 501).

Referring to a study that analyzes international retail franchising, results indicate that there are definitely differences between traditional and non-traditional franchisors. The findings suggest that traditional franchisors compared to non-traditional franchisors are more likely to internationalize for growth reasons (Quinn & Alexander, 2002, p. 273).

- Other factors

Admittedly, there are multiple other factors that are mentioned in existing literature to promote international franchising.

Referring to Doherty (2007) the top management's international experience, the firm's ability to tolerate and to take risks are other key motives for franchising in an international context. In addition, he states that competitive advantages play a major role (Doherty, 2007).

A more recent study from Alon et al. (2012) examines international franchising of hotel chains. The results indicate that higher international experience of the management leads to a higher probability of an international expansion (Alon, et al., 2012, p. 384). Moreover the probability to choose franchising over any other non-equity mode is higher if appropriate managerial staff is available in the desired country (Erramilli, et al., 2002, p. 237).

### **2.4.3 International Franchise Entry Mode Choices**

In case a company decides to internationalize its businesses via franchising, they need to choose the mode of franchising. Various researchers and studies focused on this issue and try to explain why firms chose one franchise strategy over another (Walker & Etzel, 1973) (Hackett, 1976) (Alon, 2000).

Consequently, the literature shows different factors that affect the choice between the various governance modes of international franchisors. Windsperger et al. (2004) state that “*Direct entry modes are arrangements that allow for a direct relationship between the franchisor and foreign franchisees*” (Windsperger, et al., 2004, p. 251) furthermore they describe that “*In indirect modes of entry, an intermediary in the host country intervenes in the relationship between the franchisor and foreign franchisees*” (Windsperger, et al., 2004, p. 251).

According to Jell-Ojobor and Windsperger (2014) international franchisors choose between direct franchising, such as area development franchising, single-unit franchising and wholly-owned subsidiaries whereas they refer to master and joint-venture franchising in case of indirect franchising (Jell-Ojobor & Windsperger, 2014, p. 158).

A detailed explanation of direct and master franchising, which are relevant forms for this study, can be found in chapter 3.

## **2.5 International Franchising Literature**

In the past a lot of research has been done in the field of international franchising. Firstly, there are studies that focus on the decision to expand into foreign countries, not only staying on the local home market via franchising. These particular studies examine factors that support international franchising and which factors do not. Major contribution to this part of literature derives for example from Eroglu (1992), Julian and Castrogiovanni (1995), Shane (1996) and Elango (2007).

Secondly, a lot of research has been done particularly on international franchising. One of the earliest studies was conducted by Walker and Etzel (1973). In this study they examined entry strategies of international US franchisors. Within their study they used a sample of 70 US franchise systems. Their results indicate that internationalization of US franchisors initially takes place by crossing the borders to Canada. Furthermore, they point out how foreign franchisees are recruited and the most common problems within international franchising (Walker & Etzel, 1973).

Another early work in the field of international franchising was done by Hackett (1976). In his article he examines the international expansion of franchise systems from the US (Hackett, 1976).

A study, pretty similar to Hacket's, was conducted by Zietlow (1995). For this purpose the author ran a survey via mail and examined the choice of US franchisors which decided to franchise in foreign countries (Zietlow, 1995).

Jell-Ojobor and Windsperger (2014) pointed out that there has been no previous research which developed an integrative framework and combined strategic management perspective and an organizational economic view. Consequently, they explained governance modes of international franchise firms by applying an integrative framework which is based on transaction cost theory (TCT), agency theory (AT), resource-based theory (RBT), organizational capability theory (OCT) and property rights theory (PRT) (Jell-Ojobor & Windsperger, 2014). Within their model they distinguish between the following franchise modes: wholly-owned subsidiaries, joint venture franchising, area development and master franchising (Jell-Ojobor & Windsperger, 2014).

Literature that focuses particularly on the choice between master franchising and direct franchising is limited, though. Consequently, it can be separated into two streams. Firstly, there are studies which focus only on direct franchising or only on master franchising. Secondly, there are studies which examine the choice between those two types.

Chan and Justis (1990) used a qualitative approach to examine US franchisors and their expansion to the East Asian market. They examined different types of franchising and the results point out that US franchisors mostly used master and direct single-unit franchising (Chan & Justis, 1990).

Burton et al. (2000) conducted a study which constitutes important results for the literature in view of direct, master and area development franchising. The study is constructed around UK-based international franchisors and applies a transaction cost framework. The results show that larger franchisors are more likely to use direct franchising to establish smaller franchise systems. On the other hand, intermediaries are usually used in case experienced franchisors have larger domestic franchise systems. Furthermore, their study shows the surprising results that the geographic and physical distance between home and host country does have no major impact on the choice of the particular franchising form (Burton, et al., 2000).

Preble et al. (2000) examined the strategic alliances for competitive advantages based on multiple case studies with evidences from hospitality and tourism industry of Israel. Within their multiple case studies the form of alliances ranges from licensing over classical franchising, conversion franchising, master franchising, management-franchise agreements

and some hybrid forms. Findings suggest that local market knowledge, capabilities and synergy effects of a network are the most important characteristics for master franchising (Preble, et al., 2000).

Preble & Hoffman (2006) examined the decisions to use direct, master or area development franchising under different strategic market conditions by applying a conceptual approach. The authors present a model for future empirical testing based on the three mentioned generic franchise forms combined with strategic approaches: first-mover, platform and conversion to achieve competitive advantage (Preble & Hoffman, 2006).

Alon (2006) for example focused on driving factors for international master franchising. Furthermore, he argues that a lot of work has been done about internal factors which impact a franchisor's choice to use master franchising. Consequently, he examined external factors like economic, social, political and legal environment of a franchisor. Results show that factors such as intense competition, unpredictable demand, high country risks, low corruption and an existing entrepreneurial culture drives the likelihood to choose master franchising (Alon, 2006).

One particular study that focuses only on direct franchise systems can be found by Weaven & Frazer (2006). Within their study they examined the choice between single-unit franchisees and multi-unit franchisees. Results indicate that single-unit franchisees place more emphasis on the strength of the particular franchisor brand, the potential of employing family members and initial training days, whereas multi-unit franchisees put more focus on concept and vision of the business, the potential of expansion and ongoing training procedures (Frazer & Weaven, 2006).

Mumdziev (2009) dealt with allocation of decision rights and the decision between master franchising and direct or multi-unit franchising by combining property rights, transaction cost and agency theory and formulated hypotheses for future research (Mumdžiev, 2009). Furthermore, she suggests “[...] *a sequential mixed-methods research design to empirically investigate our hypotheses*” (Mumdžiev, 2009, p. 55). Moreover, she points out that master franchising shows a lower level of control compared to single-unit franchising as there is no middlemen involved (Mumdžiev, 2009, p. 48) (Quinn, 1998, p. 456). In this context Quinn adds that in master franchising agreements “[...] *control of the quality of the networks operation is crucial and difficult to maintain*” (Quinn, 1998, p. 456).

A more recent study from Baena (2012) examined master franchising as well. In this particular study the author examined Spanish franchise systems and their potential for master franchising in six different Middle Eastern countries: Bahrain, Israel, Jordan, Cyprus Saudi Arabia and United Arab Emirates. The findings suggest that the most important factors that favor master franchising on these particular markets are corruption, economic development and efficiency of contract enforcement (Baena, 2012).

Consequently, it can be concluded that there is no prior work about the mode choice between direct and master franchising that is based on an analysis of a theoretical view of transaction cost theory (TCT), agency theory (AT), property rights theory (PRT), resource-based theory (RBT) and organizational capability theory (OCT).

## **2.6 Conclusion**

Summarizing the existing literature, internationalization takes place when a company expands its businesses into another country. For this purpose the use of an internationalization strategy is necessary (Anheier & Themudo, 2005, p. 103).

The here discussed literature furthermore mentions that there are various entry market modes which can be used. Based on the hierarchical model from Pan & Tse (2000) a company's first decision has to be made about the usage of an equity or a non-equity mode (Pan & Tse, 2000, p. 537). Subsequently, the next step is then to choose between the forms of equity and non-equity modes. In case of equity modes the company can choose between equity-joint ventures and wholly-owned subsidiaries, whereas in the case of non-equity modes the company can choose between export and contractual agreements (Pan & Tse, 2000, p. 537)

This study focuses on the non-equity mode of franchising. The concept of franchising involves two parties. These two parties, named the franchisor and the franchisee, have an agreement. The franchisee has the right to market a product or service using the franchisor's trademark. The franchisee usually has to pay an initial fee and a monthly royalty which is often calculated as a percentage of his sales to the franchisor (Price Waterhouse Coopers, 2004).

There are major differences between domestic and international franchising. Briefly speaking, international franchising means that the franchisor decides to expand its businesses across its

national borders, whereas the business stays within the local borders in case of domestic franchising (Jell-Ojobor & Windsperger, 2014, p. 154).

The motives for going international by using franchising are various: for example contact/inquiries from potential franchisees and third parties (Walker & Etzel, 1973) (Welch, 1999), saturated domestic markets (Kedia, et al., 1994, p. 57), desire of higher sales and profits (Kedia, et al., 1994, p. 65), desire to grow (Preble, 1995, p. 81), international experience of the top management (Alon, et al., 2012, p. 384), the exploitation of potential markets or market expansion reasons (Welch, 1999) (Hackett, 1976).

In case the franchisor chooses to go international there are two different modes: the direct and indirect mode (Windsperger, et al., 2004, p. 251). As there is little research about the choice between direct and master franchising, this thesis focuses on explaining the franchisor's choice between them.

### 3 Direct versus Master Franchising

This chapter presents the concepts of direct and master franchising, including advantages and disadvantages of both forms.

#### 3.1 Direct Franchising

According to Baena (2012), “Companies willing to expand their business abroad via franchising can develop an agreement with a local agent (franchisee) and offer the right to use a trademark in return for a royalty fee. This mode of entry is named direct franchising” (Baena, 2012, p. 2).

Direct franchising can be distinguished between single-unit franchising (SUF) and multi-unit franchising (MUF) (Mumdžiev, 2009, p. 47). This basic construct of SUF and MUF is shown in figure 3.

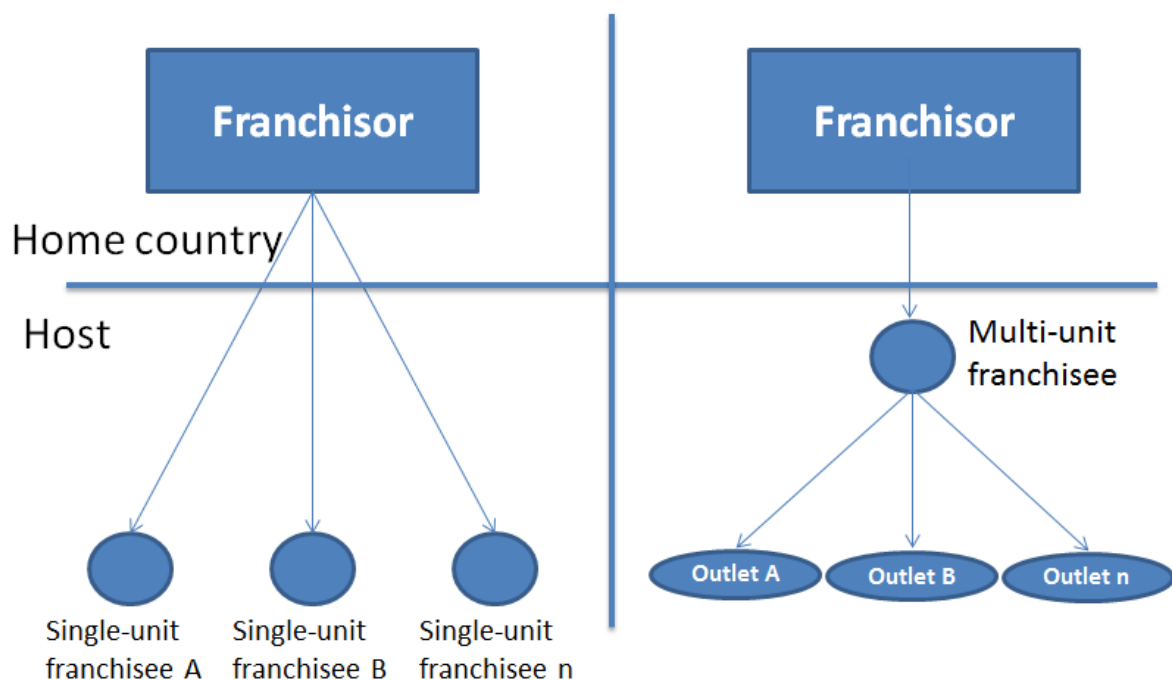


Figure 3: SUF and MUF in international franchising, Source: Mumdžiev, 2009 (p. 48)

The major difference between the two options is that MUF “[...] *implies the possibility that a local franchisee owns and operates several outlets*” (Mumdžiev, 2009, p. 47). In contrast, SUF means that one franchisee owns and operates one outlet of the franchised company (Mumdžiev, 2009, p. 47). Moreover successful SUF outlets are often the basis for the successive granting of MUF. A lot of multi-unit franchisees have been developed by acquiring additional franchise outlets after dealing well with a single-unit outlet. MUF is also referred to as area development franchising (ADF) (Kaufmann & Dant, 1996, p. 346). According to Alon (2006) “*the area developer assumes responsibility for a defined territory in which he commits to opening and operating a set number of outlets within an agreed timeframe*” (Alon, 2006, p. 125).

Furthermore Burton et al. (2000) state that by using “[...] *area development franchising, the intermediary – the area developer – is permitted only to establish and operate its own units (run by the employee managers of the area developer). This franchise agreement does not permit the area developer to sell the franchise on to independent sub-franchisees*” (Burton, et al., 2000, p. 378). Moreover Negre (2000) adds that “[...] *the developer is not a sub-franchisor, but rather a franchisee who owns all outlets in the zone and who interacts directly with the franchisor*” (Negre 2000 as cited in Windsperger et al., 2004, p. 251).

Summarizing direct franchising means that the franchisor has a contract with a party abroad, the franchisee, and allows him to use his trademark. For this right the franchisee has to pay a fee to the franchisor. In this construct, there is a direct line from the franchisor who is located in his home country, to the franchisee who is located in the host country. Mumdžiev (2009) furthermore argues that direct franchising “[...] *provides the franchisor with direct control over all local franchises, with strategic decision rights regarding the local market being held by the franchisor*” (Mumdžiev, 2009, p. 49). Moreover, the franchisee usually has to pay an initial fee at the beginning of the contract as well as an earlier mentioned royalty fee, which is usually a percentage of future sales. These fees have to be paid during the whole period of the contract (Preble & Hoffman, 2006, p. 34).

The franchisee is the owner of the unit and is usually physically present working in the outlet(s), controlling and monitoring his employees (Jindal, 2011, p. 550). In addition to that also the franchisor encounters initial costs. He incurs monitoring and administration costs, because he has to support each unit and manage the franchise network. This stresses the importance of finding experienced franchisees who are able to successfully operate a unit or in case of MUF several outlets (Jindal, 2011, p. 550) (Preble & Hoffman, 2006, p. 34). Before

starting the direct franchise agreement the franchisor consequently has to analyze and examine the market according to its requirements and characteristics such as desire for the product, culture, habits of consumers, laws and regulations or common practices. This, of course, also causes high costs (Konigsberg, 2008, p. 116ff). Although the franchisee is responsible for the unit in the foreign country, the franchisor also needs specific market skills and knowledge. Firstly, he needs the knowledge of how to run the units successfully, and secondly he has to support and train the franchisees appropriately (Konigsberg, 2008, p. 116ff). Other costs for the franchisor with direct franchise arrangements usually occur for negotiations, training or support measures (Jindal, 2011, p. 550) (Preble & Hoffman, 2006, p. 34).

### **3.1.1 Advantages**

The most obvious advantage of direct franchising is probably the direct relationship between the franchisor and the franchisee and the fact that there is no third party or middleman involved. This indicates a shorter information flow for both parties, which can constitute an essential advantage. In addition, the franchisor does not have to share control of the franchising system with anyone else (Konigsberg, 2008, p. 89). Consequently, the franchisor has higher control over the single-unit or multi-unit direct franchisee compared to other forms of franchising.

Considering the financial aspects of direct franchising, since there is no middleman involved, as a consequence the profit has not to be shared with anyone else. This means that the franchisee pays his financial obligations directly to the franchisor. Therefore, the franchisor receives the full amount of these financial obligations (Justis & Judd, 1986, p. 18).

### **3.1.2 Disadvantages**

Training of franchisees can involve difficulties due to far distances between home and host country as well as language barriers. Konigsberg (2008) adds that problems often arise due to foreign laws, tastes, customs or commercial practices in the foreign country. Moreover, these drawbacks might also result in higher costs for the franchisor such as higher travel costs and hence the penetration of the local market might take longer than it would with a sub-franchisor (Franchise Info, 2014) (Konigsberg, 2008, p. 89). Furthermore, a high number of single-unit or multi-unit partner increases transaction and monitoring costs for the franchisor, even though they are lower in case of MUF (Kaufmann & Dant, 1996, p. 346 ).

Another disadvantage for the franchisor is that he has to bear the whole risk on his own as there is no partner such as a sub-franchisor. Since there are also higher financial resource commitments Königsberg (2008) argues that these disadvantages might exceed the advantages of no profit sharing (Königsberg, 2008, p. 75).

## 3.2 Master Franchising

### 3.2.1 Definition

In the existing literature Kaufmann & Kim (1995) describe master franchising as a “[...] *form of umbrella licensing agreement which differs from the standard unit or location-level franchise in two ways: (1) it provides for the granting of an exclusive territory extending beyond the trade area of a single unit, and (2) it envisions from the outset the introduction of an additional layer of control between store level management and the franchisor*” (Kaufmann & Kim, 1995, p. 50).

In line with this description also Alon (2006) defines master franchising as “[...] *the contractual agreement between the franchisor and an independently owned sub-franchisor to develop a specified number of franchises in a given country in exchange for the exclusive right to use the business format for a specified amount of time*” (Alon, 2000, p. 3). The basic construct of master franchising is shown in figure 4.

Generally speaking, the franchisor in the home country grants a master franchise license to a foreign sub-franchisor. The direct relationship between them is based on the master franchise contract. The sub-franchisor is then allowed to have his own units and to operate these units. The essential part of the master franchise agreement is the permission of the master franchisor to grant sub-franchise licenses, besides his own units. In case of sub-franchising, the master franchisor has a direct contract with the particular sub-franchisee, while the franchisor’s control becomes indirect (Burton, et al., 2000, p. 378).

According to Mumdzhev (2009) “[...] *master franchisees can hold certain strategic decision rights*” (Mumdzhev, 2009, p. 48) and “[...] *in master franchising the franchisor cannot directly control the local network of sub-franchisees*” (Mumdzhev, 2009, p. 48).

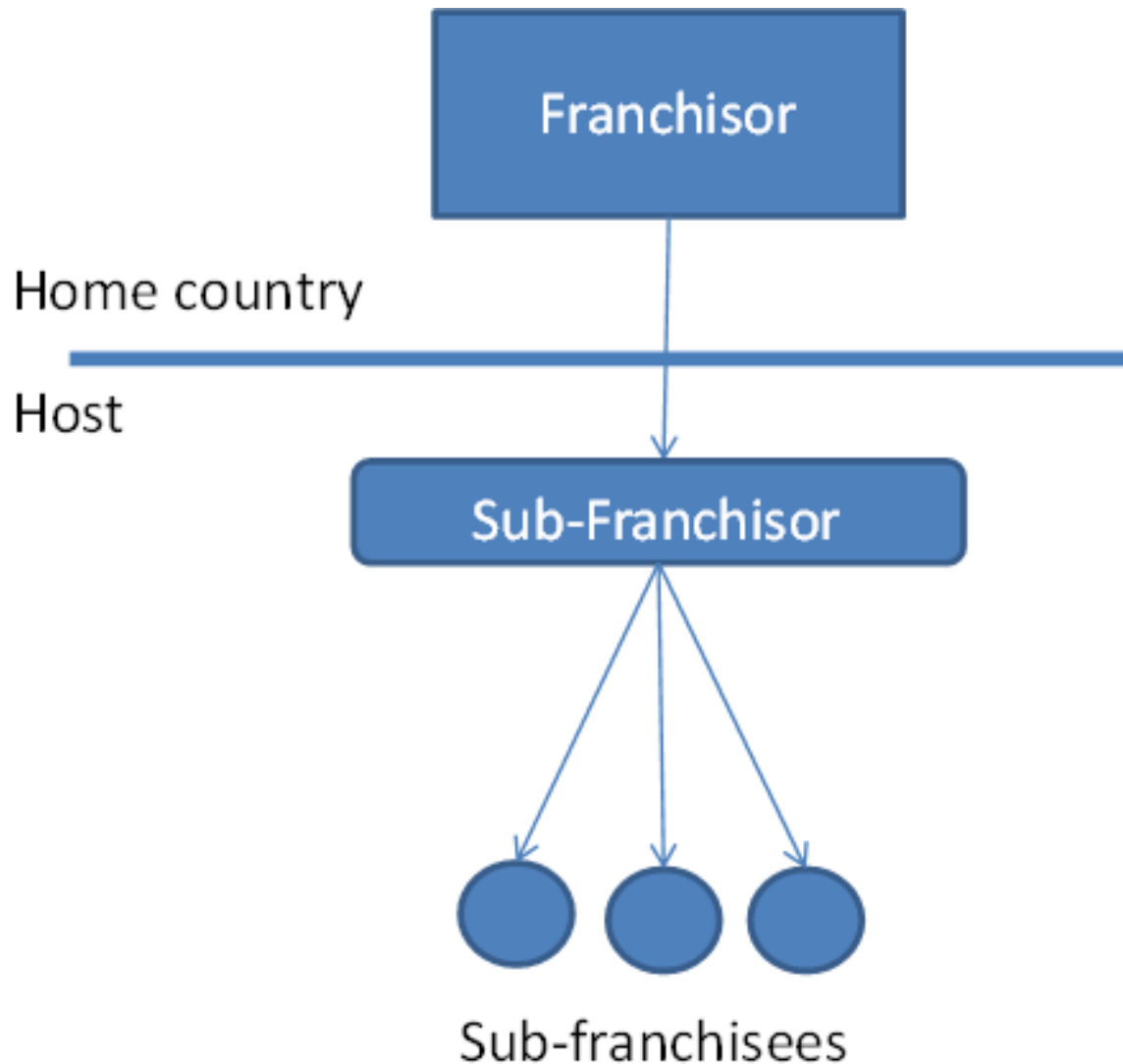


Figure 4: Master international franchising, Source: Burton et al., 2000 (p. 377)

Evidently, the franchisor in the home country wants to benefit from choosing one master franchisor. Therefore the master franchisor needs to have certain characteristics such as specific knowledge about the market and the culture, as well as the skills to use them appropriately. Other essential features are sufficiently operating capital and political know-how (Ryans, et al., 1999, p. 34).

### 3.2.2 Advantages of Master Franchising

This mode of franchising “[...] externalizing most of the domestic franchisor’s duties, and delegating them to an agent (called the master) who operates the franchise system in the target market on behalf of the franchisor. On behalf of the franchisor, the master franchisee

*selects, trains, and monitors franchisees; establishes supply lines; collects fees and royalties; coordinates market activities; ensures system quality; and implements the franchisor's strategies"* (Alon, 2006, p. 69).

Compared to direct franchising the financial resource commitments are much lower in case of master franchising due to the fact that the sub-franchisor as well as sub-franchisees have to bear the costs of establishing their own franchise units (Konigsberg, 2008, p. 75).

Besides the favorable financial aspects there are several other advantages as the speed of development and system growth are faster (Justis & Judd, 1986, p. 17).

The master franchisor possesses specific knowledge about the local market and the culture. Furthermore, the greater closeness of the master franchisor to the customer as well as the knowledge about their specific habits are essential advantages (Justis & Judd, 1986, p. 17) (Alon, 2006, p. 69). In line with this argument also Mumdzhev (2009) confirms that master franchising is usually the better choice in case of larger cultural differences (Mumdzhev, 2009, p. 52) and she adds that *"master franchising also provides a greater information processing capacity as well as local adaptability in an uncertain environment"* (Mumdzhev, 2009, p. 53).

Alon (2006) also mentions that master franchising involves less political and market risks (Alon, 2006, p. 105). This derives due to the fact that the franchisor receives the initial fee at the beginning of the contract (Alon, 2006, p. 105).

Besides that, the existing literature mentions other advantages such as creative banking, rapid cash flow, the ability to address local competition and the assistance for the franchisor to raise additional funds for expansion and development in other foreign countries and markets (Justis & Judd, 1986, p. 17) (Alon, 2006, p. 69).

### **3.2.3 Disadvantages of Master Franchising**

Due to the master franchisor's higher risk and resource commitment by establishing the local franchise network the franchisor receives fewer fees compared to direct franchising. For example, instead of receiving a 5 % royalty fee, the franchisor at headquarters receives only one or two percent of the franchisee's sales due to the intercalation of the master franchisor (Justis & Judd, 1986, p. 18).

Another disadvantage may arise from a wrong choice of an appropriate master franchisor, as the master franchisor may deteriorate the brand name or the image of the franchised company (Alon, 2006, p. 69).

Justis and Judd (1986) also state that the legal process of master franchise contracts can lead to problems due to the long duration of the contract. Moreover they state that in case a franchisee sues them, the headquarters as well as the master franchisor will be sued in the end (Justis & Judd, 1986, p. 18).

Apart from that, various authors state disadvantages such as territorial limitations and high costs for monitoring the master franchisor (Alon, 2006, p. 69) (Justis & Judd, 1986, p. 18).

### **3.3 Conclusion**

This section provided an overview of the concepts of direct and master franchising and the most important differences between both of them.

Firstly, with direct franchising the franchisor in the home country is granting licenses directly to one or more independent franchisees in the host countries. Direct franchising can appear in two different forms: SUF and MUF. Within SUF, franchisees own and operate one outlet, while MUF franchisees own and operate several outlets (Baena, 2012, p. 2).

Secondly, within a master franchise agreement, the franchisor uses a third party. This third party functions as middlemen between franchisor and sub-franchisees in the foreign country and is called master franchisor. The master franchisor is situated in the host country and is also allowed to run own units. Moreover, he has the right to grant sub-licenses in the agreed territory to sub-franchisees (Burton, et al., 2000, p. 378). For the franchisor in the home country this means indirect control over the foreign operations (Justis & Judd, 1986, p. 17) (Alon, 2006, p. 69).

In the following, the franchisor's choice between direct and master franchising when expanding to foreign markets will be discussed.

## **4 Development of Propositions**

The existing literature shows different frameworks and models to explain the choice of a particular franchising mode. Most of them provide a unilateral theoretical perspective. For example, Alon (2006) relied on the external factors, namely economic, social and political/legal dimensions to examine the franchisor's choice for master franchising (Alon, 2006, p. 71).

Recently, Jell-Ojobor and Windsperger (2014) developed a multi-theoretical model that explains the choice of the governance mode of franchising. Within their model various variables grounded on the concepts of transaction cost theory (TCT), agency theory (AT), resource-based theory (RBT), organizational capabilities theory (OCT) and the property rights theory (PRT) influence the choice of the governance mode. They arranged the various franchise modes according to the franchisor's level of control (Jell-Ojobor & Windsperger, 2014, p. 160).

This thesis applies their framework by conducting a single case study in the fitness industry. In the following, the theoretical framework and propositions will be explained.

### **4.1 An Integrative Model of Governance Mode Choice of Franchising**

According to the model of Jell-Ojobor and Windsperger (2014) and based on transaction cost theory, agency theory, resource-based theory and organizational capabilities theory, the following variables have an impact on the choice between different franchise modes: Environmental uncertainty, behavioral uncertainty, transaction-specific investments, system-specific assets, local market assets and financial assets (Jell-Ojobor & Windsperger, 2014, p. 160).

The franchising modes are differentiated according to the level of control. Consequently, master franchising belongs to the lowest control mode, followed by area development franchising, joint venture franchising, and wholly owned subsidiaries as the highest control mode (Jell-Ojobor & Windsperger, 2014, p. 160).

As this paper focuses on direct and master franchising, the model is adapted accordingly. We therefore examine the following variables for those two forms: Environmental uncertainty, behavioral uncertainty, system-specific assets, local market assets and financial assets.

Figure 5 shows the adapted model, with the various variables and the underlying theories.

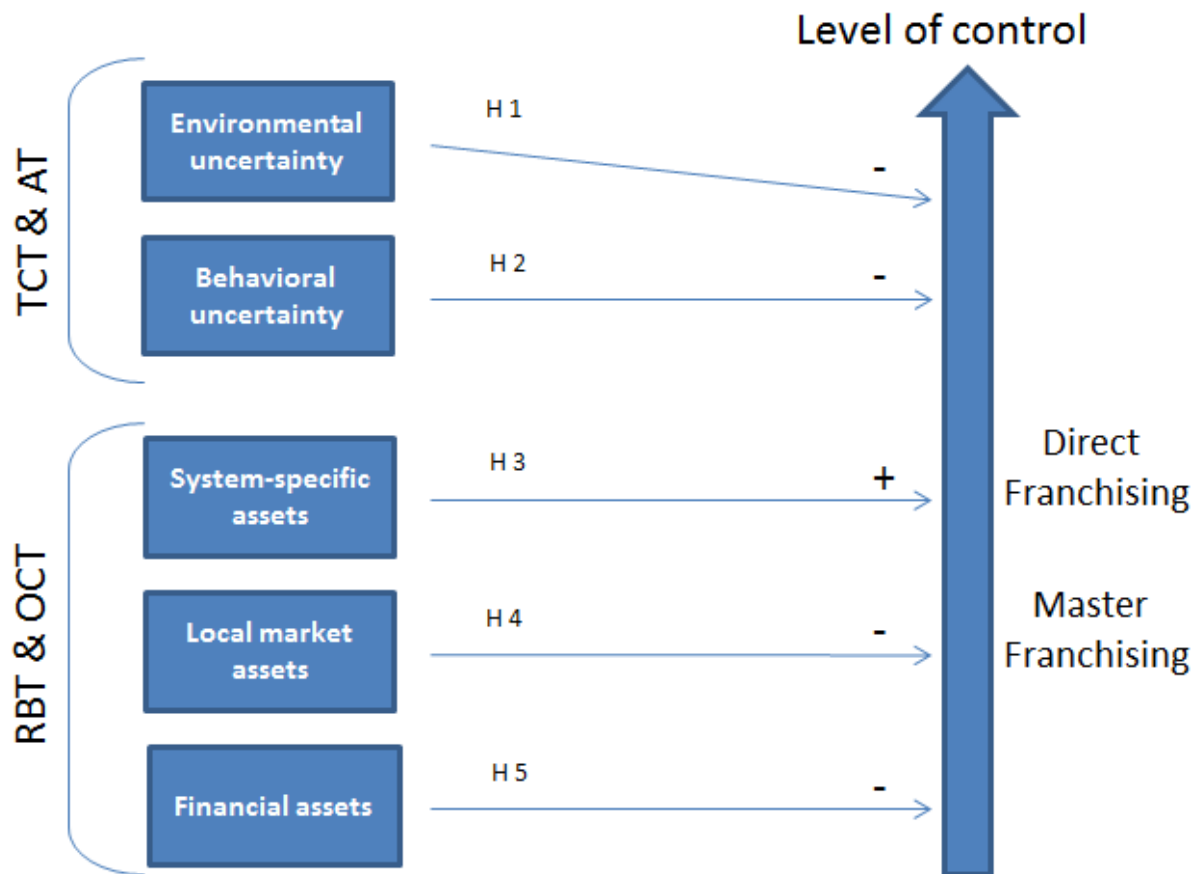


Figure 5: Adapted integrative model of governance mode choice of the international franchise firm.

Source: Jell-Ojobor & Windsperger, 2014 (p.160)

In the following, the propositions and the international franchisor's choice between direct and master franchising will be explained.

## 4.2 TCT and AT

The founder and best-known representative of the transaction cost theory is Oliver Williams. The existing literature states that the transaction cost theory is based on opportunism. The primary orientation and the major focus within the TCT lies on minimizing costs (Madhok, 1997, p. 41). By choosing an ownership form with regard to the TCT, it is important that costs are minimized and according to Madhok (1997) that there is “[...] *a fit between transaction characteristics and form of governance*” (Madhok, 1997, p. 41). In line with Madhok (1997) also Canabal and White (2008) state that “*The basic rationale behind transaction cost theory is that firms need to create governance structures that will minimize costs and inefficiencies associated with entering and operating in a foreign market*” (Canabal & White, 2008, p. 269).

Within AT there are always two parties involved. Firstly, there is the principal, which can be described as a political master or ruler and secondly, the agent e.g. a manager. Between those two parties is a conflict of interest with asymmetric information. This means that one has more information than the other. Consequently, one will take advantage of this asymmetric information to create higher profits for himself (Lavassani K., 2007, p. 8). This is in line with Mumdzhev (2009) who adds that these conflicts of interests also involve the problem of high costs for monitoring the agent’s behavior (Mumdzhev, 2009, p. 50).

### 4.2.1 Environmental Uncertainty

According to TCT environmental uncertainty leads to higher transaction costs e.g. costs for search, adaption, processing and information. Environmental uncertainty is characterized by economic, cultural and institutional uncertainties (Jell-Ojobor & Windsperger, 2014, p. 161). Those uncertainties refer to different problems that might arise in the foreign country e.g. changes within the political system, a countries laws and regulations, lack of knowledge of competition in the foreign country, differences within the culture such as language, business practices, religion and gender role (Alon, 2006, p. 73) (Jell-Ojobor & Windsperger, 2014, p. 161). In accordance to that, Alon (2006) argues that various factors e.g. political systems, corruption and regulations can lead to a very unpredictable situation (Alon, 2006, p. 75). It is therefore important to pay attention to the environmental conditions while the franchising format is built up in the foreign country. As the franchisor is usually unfamiliar with the host country’s special needs it requires more local capacity in terms of knowledge to understand

the foreign country. As a consequence the franchisor transfers residual control rights to the partner in the host country, which implicates the usage of lower control modes such as master franchising (Jell-Ojobor & Windsperger, 2014, p. 161).

As a result, the following proposition can be formulated:

**Proposition 1: The higher the environmental uncertainties in the host country, the higher the tendency of the franchisor to choose master franchising over direct franchising.**

#### **4.2.2 Behavioral Uncertainty**

Based on the agency theory, problems such as shirking and free-riding arise if market conditions cannot be predicted and due to information asymmetry. Those agency costs increase with geographical and cultural distance. As a consequence franchisors try to reduce these agency costs by either increased monitoring procedures or offering strong incentives to their partners (Kaufmann & Eroglu, 1999, p. 74) (Jell-Ojobor & Windsperger, 2014, p. 161).

According to Rubin (1978) the geographic distance plays a major role in regard to monitoring costs. He states that a large distance between home and host country also increases monitoring costs. Moreover, the larger the number of partners in a foreign market, the higher the monitoring costs. This problem can be solved if the franchisor has only one or a limited number of partners in the foreign market, which then supervise more than just one single unit (Rubin, 1978, p. 229). Under master franchising the franchisor only has to deal with one master franchisor, instead of monitoring plenty of direct franchisees in the host country. The master franchisor is then responsible for his outlets and the allocated sub-franchise licenses in the host country. In line with this argument also Hill et al. (1990) argue that increased behavioral uncertainty usually involves higher costs for monitoring on the side of the franchisor (Hill, et al., 1990, p. 124). Also Jell-Ojobor and Windsperger hypothesized that higher monitoring costs due to behavioral uncertainty increase the likelihood to choose lower control modes (Jell-Ojobor & Windsperger, 2014, p. 161).

Furthermore, in some cases it is then difficult to distinguish if eventual changes in service quality and performance are due to the franchisee's behavior or due to changed environmental

conditions. For the franchisor it might be easier to have a local partner in the foreign country, who is reliable and has specific knowledge about the target market. As a consequence under condition of high behavioral uncertainty master franchising seems more appropriate than direct franchising (Jell-Ojobor & Windsperger, 2014, p. 163).

Hence, the following proposition can be formulated:

**Proposition 2: The higher the behavioral uncertainty and monitoring costs for the franchisor, the higher the tendency of the franchisor to choose master franchising over direct franchising.**

### 4.3 RBT and OCT

According to Evans (2007) a firm's long term goal is to generate sustainable competitive advantages by differentiating themselves from their competitors. The resource-based theory tries to explain how companies can achieve sustainable competitive advantages (Evans, et al., 2007, p. 77). From a resource-based view a company needs valuable resources as well as capabilities to achieve sustainable competitive advantages (Barney, 1991, p. 101). Moreover, these resources have to be heterogeneously distributed and are not perfectly mobile (Evans, et al., 2007, p. 77).

The existing literature shows in this context the so-called VRIN-model. In this model by Barney (1991) resources need another four essential characteristics. They have to be "*valuable, rare, inimitable and non-substitutable*" (Barney, 1991, p. 105).

In contrast to the transaction cost theory which concentrates mainly on cost minimization, the major key characteristic of the organizational capability theory is the focus on the development as well as the exploitation of a firm's capabilities. Moreover, these capabilities shall create values, improve the performance of the firm and meet its objectives (Madhok, 1997, p. 41) (Jell-Ojobor & Windsperger, 2014, p. 162).

Madhok (1997) adds that in today's global market situation it is not enough to have only one capability, it is rather essential to create and use the right combination of capabilities (Madhok, 1997, p. 42).

#### **4.3.1 System-Specific Assets**

System-specific assets are for example proprietary know-how, marketing capabilities, communication system, R&D capabilities, store layout, advertising, site location or monitoring techniques which are provided by the franchisor (Jell-Ojobor & Windsperger, 2014, p. 162).

According to RBT and OCT, system-specific assets have a high potential to yield in competitive advantage. Under high system-specific assets the franchisor is more likely to choose higher control modes, such as direct franchising to ensure appropriate implementation and usage of those assets in the host countries (Jell-Ojobor & Windsperger, 2014, p. 162).

Hence, the following proposition can be formulated:

**Proposition 3: The higher the importance of system-specific assets for value creation, the higher the tendency of the franchisor to choose direct franchising over master franchising.**

#### **4.3.2 Local Market Assets**

Local market differences appear in local preferences, income, habits, cultural values and tastes for example and require local market knowledge of the host country to adopt the franchise business format to the local requirements (Jell-Ojobor & Windsperger, 2014, p. 162). Mostly, it is difficult to acquire those local market assets by the franchisor while under master franchising the master franchisor is a specialist of the local market (Ryans, et al., 1999, p. 35).

Consequently, the following proposition can be formulated:

**Proposition 4: The higher the importance of the local market assets for successful implementation of the franchise business format in host countries, the higher the tendency of the franchisor to choose master franchising over direct franchising.**

### 4.3.3 Financial Assets

Besides firm-specific and local market assets, also financial assets play an important role in the franchisor's choice between direct and master franchising.

According to Jell-Ojobor and Windsperger (2014) a franchisor who is limited in his financial resources might take the possibility to use the foreign partner's financial assets to expand internationally. The reason for this is that “[...] *international franchise firms can more easily and less expensively finance the system growth when they have access to the local partners' financial resources*” (Jell-Ojobor & Windsperger, 2014, p. 163).

Based on these assumptions, the following proposition about financial assets can be formulated:

**Hypothesis 5: The higher the financial requirements for setting up the local franchise network, the higher the tendency of the franchisor to choose master franchising over direct franchising.**

## 4.4 Conclusion and Overview of the developed Propositions

In this chapter, the propositions that will be used to explain the franchisor's choice of direct franchising and master franchising were presented.

Based on transaction cost theory, agency theory, resource-based theory and organizational capabilities theory the variables environmental uncertainty, behavioral uncertainty, system-specific assets, local market assets and financial assets have an impact on the choice between different franchise modes (Jell-Ojobor & Windsperger, 2014, p. 160)

Table 1 shows the propositions, based on TCT, AT, RBT and OCT.

<b>Proposition 1</b>	The higher the environmental uncertainties in the host country, the higher the tendency of the franchisor to choose master franchising over direct franchising.
<b>Proposition 2</b>	The higher the behavioral uncertainty and monitoring costs for the franchisor, the higher the tendency of the franchisor to choose master franchising over direct franchising.
<b>Proposition 3</b>	The higher the importance of system-specific assets for value creation, the higher the tendency of the franchisor to choose direct franchising over master franchising.
<b>Proposition 4</b>	The higher the importance of the local market assets for successful implementation of the franchise business format in host countries, the higher the tendency of the franchisor to choose master franchising over direct franchising.
<b>Proposition 5</b>	The higher the financial requirements for setting up the local franchise network, the higher the tendency of the franchisor to choose master franchising over direct franchising.

Table 1: Overview of the developed propositions

## 5 Methodology

The empirical part applies a single case study to confirm the validity of the developed propositions in chapter 4. For this purpose the single case study will be conducted with Mrs. Sporty, a popular company within the German fitness industry.

### 5.1 Single Case Study: Qualitative Approach

Creswell (2003) classified research methods into three different approaches, a qualitative, quantitative and mixed methods approach (Creswell, 2003, p. 17).

Table 2 shows the approaches according to Creswell (2003).

	<b>Qualitative approach</b>	<b>Quantitative approach</b>	<b>Mixed methods approach</b>
<b>Research method</b>	Performance data; instrument based questions; statistical analysis	Interview data; observation data; text and image analysis	Mix out of quantitative and qualitative approach

Table 2: Research approaches, Source: Creswell, 2003 (p. 17)

Creswell (2003) describes that the qualitative approach “*also uses strategies of inquiry such as narratives, phenomenologies, ethnographies, grounded theory studies or case studies. The researcher collects open-ended, emerging data with the primary intent of developing themes from the data*” (Creswell, 2003, p. 18).

For this study a case study research will be applied. According to Mayring (2002) case studies are based on quantitative and/or qualitative research (Mayring, 2002, p. 134) (Compare to: Yin, 2009). Yin (2009) points out that case studies are amongst the most important methods of research (Yin, 2009, p. 15). Furthermore, he describes case study research as “*an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially*

*when the boundaries between phenomenon and context are not clearly evident”* (Yin, 1984, p. 23).

The basis for case study research can be a single-case or multiple cases (Rowley, 2002, p. 21). For this study a single case study will be applied. According to Rowley (2002) it is essential to differentiate between those two types of case studies. She describes that *“A single case design is akin to a single experiment. Single case studies are appropriate when the case is special [...]. This might arise when the case provides a critical test to a well-established theory, or where the case is extreme, unique or has something special to reveal”* (Rowley, 2002, p. 21) This definition is also in line with Mayring (2002), who argues that single-case studies constitute a helpful way to understand and examine the complexity and content of a certain problem or case (Mayring, 2002, p. 42).

Compared to the usage of single case studies, the multiple case study approach is often preferred due to the more robust results. Nevertheless, Rowley also points out that it is important to choose different cases carefully to get reliable results (Rowley, 2002, p. 21).

## **5.2 Research Design and Data Collection**

Rowley (2002) states that the competence of the researcher is a major factor for a good case study (Rowley, 2002, p. 19). Furthermore, she argues that *“Research questions need to be translated into propositions. The researcher has to make a speculation, on the basis of the literature and any other earlier evidence as to what they expect the findings of the research to be. The data collection and analysis can then be structured in order to support or refute the research propositions”* (Rowley, 2002, p. 19).

Within case study research there are plenty of data sources. Typical sources are direct observations, interviews, participants-observation, archival records, physical artifacts or other secondary data (Yin, 2012, p. 10).

### **5.2.1 Expert Interviews**

For this particular case study and its examination, qualitative methods are used. In order to collect the data an expert interview with the franchising and business development department of Mrs. Sporty was conducted. The interview was held with Mrs. Marta Koziarska-Anders,

who is employed within Mrs. Sporty since 2010. In her current role she acts as an international business development manager for the company (Koziarska-Anders, 2014).

According to Yin (2009) interviews are an very important source to examine a case study appropriately (Yin, 2009). Glaeser and Laudel (2004) explain that expert interviews are used to reconstruct social situations and processes with the aim to find social-scientific explanations (Gläser & Laudel, 2004, p. 9). Moreover, they argue that the term “expert” in this sense does not have to do with any particular education. Experts in this context are people who have gained knowledge due to their involvement in a particular case or situation (Gläser & Laudel, 2004, p. 13).

Using interviews for research purpose have a lot of advantages. Firstly, the interviewed partner usually can provide a lot of information and in some cases also important historical information, which might be useful for further analysis (Yin, 2009, p. 92). Furthermore, the interviewer has control over the questioning and can also lead the interview in a desired direction if correctly conducted (Creswell, 2003, p. 186). On the other hand conducting interviews involves some disadvantages and difficulties such as problems of bias and poor articulation as well (Yin, 2009, p. 92). In addition to that the interview is usually conducted in a designated place and not in a natural field setting (Creswell, 2003, p. 186).

In course of the interview for this thesis open questions were used. The reason for this is that the interviewee has the opportunity to speak freely about the topic coming along with a certain explanation or description for the asked questions (Stoneman, et al., 2013, p. 853). See Appendix 9.1 and 9.2 for the guideline of the conducted interview.

### **5.2.2 Secondary Data**

Secondary data or archival records are another common source for case study research. Typically, secondary data has been collected from other persons and not the researcher him/herself (Yin, 2012, p. 12). These data usually includes information which is stored in existing channels, such as libraries, electronic records or paper files (Yin, 2012, p. 12).

The major advantage of this kind of data is obviously the fact that it is available as much of the work to gather the particular information has been done already. Moreover, secondary data is usually less time-consuming compared to the process of collecting primary data. Fewer costs are another important characteristic of secondary data. On the other side secondary data

involves disadvantages, such as a loss of control over the quality of the data which may be incomplete or not trustful (Cowton, 1998, p. 427ff).

For this single-case study an expert interview and secondary data as described previously were used to support the validity of the developed propositions in chapter 4.

## **6 Case study: Mrs. Sporty**

This study has chosen the fitness industry to test the theoretical model in form of a single case study with Mrs. Sporty.

### **6.1 Overview of Mrs. Sporty**

Based on a study by Mrs. Sporty only 10 % of women in Europe reach the minimum level of required activity every day (Mrs. Sporty, 2014). Due to that fact and to motivate women to be active on a daily basis, the founders of Mrs. Sporty collaborated with famous sport institutes to develop a totally new concept of workouts that emphasize on a woman's special needs and desires, especially for women of the age of 35 and older (Koziarska-Anders, 2014).

The founders Valerie Bönström, Niclas Bönström, Mark S. Mastrov, Stefanie Graf, Gil Freeman and Leonard B.C. Schlemm are various experts from different fields of fitness. They realized that most women are scared of gyms due to excessive body modification, a lack in individual support and the time consuming workout itself. Their mission was therefore to create a gym which does not fit into that typical gym picture and where women have fun while working out (Mrs. Sporty, 2014).

After some time and a lot of research they finally created the Mrs. Sporty workout concept, which consists of two to three 30-minutes workouts a week (Mrs. Sporty, 2014). A detailed explanation about Mrs. Sporty's offers and products will be shown in section 6.1.2.

#### **6.1.1 History and Internationalization of Mrs. Sporty**

Based on research results and the developed workout concept Stefanie Graf, a famous former tennis player, and her team created the idea of a gym that overcomes the mentioned weaknesses (Mrs. Sporty, 2014).

In 2004, the first Mrs. Sporty club opened in Berlin, Germany. It was very successful and a few months later the first franchise club opened, which can be seen as the kick-off for Mrs. Sporty's successful franchise system (Mrs. Sporty, 2014).

In the first half of 2005 the conception, support and training procedures for their first franchisees were implemented and after that Stefanie Graf and a team which consisted of various sports experts introduced their franchising concept in public. In addition to the

outstanding business format the combination of high profitability, low investment expenditures and a low break-even-point increased the demand for their franchise system. At the end of 2005 Mrs. Sporty had eight clubs in Germany and 25 franchise partners (Mrs. Sporty, 2014).

In the following year the company earned a price from the franchise magazine “Impulse” for the “most future orientated franchise newcomer in 2006” (Mrs. Sporty, 2014).

In 2007 they recorded 85 Clubs in Germany, with 18,000 members and more than 175 franchise partners. In the same year they got another prestige award. They were ranked under the TOP 20 franchise companies in Germany. The next success steps were only a short matter of time (Mrs. Sporty, 2014).

In 2008 and due to the major success story in Germany, Mrs. Sporty opened their first franchise outlet abroad, in Austria. The decision to choose Austria was based on the background that the country is very similar to Germany and therefore Mrs. Sporty was optimistic that their concept will work out well. Furthermore, it was very important for the company to see that Austrians possess a high level of knowledge in regard of franchising, marketing and sales. In 2008 they added further direct franchise agreements with Switzerland and Italy to their success story (Koziarska-Anders, 2014). At this time they had more than 200 Clubs in Germany with more than 50,000 members, while the numbers were still growing throughout Europe (Mrs. Sporty, 2014).

Only five years after their initial opening they recorded 444 clubs in four different European countries with more than 150,000 members. According to a report from Deloitte they were the number one service company in Germany (Mrs. Sporty, 2014).

In 2011 Mrs. Sporty expanded their business to Eastern Europe, to Poland and Slovakia. These outlets have been run as direct franchise agreements (Koziarska-Anders, 2014). At the same time they were ranked as the number one franchising company according to the magazine “Impulse” (Mrs. Sporty, 2014). In 2012 they opened their first club in Spain (Koziarska-Anders, 2014).

In the last two years they have opened several other clubs and made important decisions for their internationalization concept. It can be said that Mrs. Sporty is Europe’s major player in the field of women fitness chains (Koziarska-Anders, 2014). In 2013 Simone Bauer, one of Mrs. Sporty’s franchise partners, opened the 500<sup>th</sup> club (Mrs. Sporty, 2014).

No competitors were able to stop or influence the outstanding success story of Mrs. Sporty in the past. According to an article from Hierlaender (2009) in “Die Presse” their biggest and most similar competitor is the American fitness chain “Curves”, a gym that focuses on women’s special needs and desires (Hierlaender, 2009). Nevertheless and according to Gronau (2009) and Hierlaender (2009) the fitness chain “Curve” is far away from being a serious competitor for Mrs. Sporty. Gronau, an expert of the fitness industry who works for Deloitte, said that the reason for the success of Mrs. Sporty in Europe might be the fact that Steffi Graf enjoys a much higher popularity than any American fitness chain will ever do (Hierlaender, 2009) (Gronau, 2009). Furthermore, Mrs. Sporty can be seen as a pioneer on the women fitness market in Europe, which is another factor for their outstanding success (Kozarska-Anders, 2014).

### **6.1.2 Mrs. Sporty’s Products**

Mrs. Sporty is a service company. In this section their most important services, their workout and nutrition concept are presented.

#### **Mrs. Sporty’s workout concept**

In collaboration with various sport institutes Mrs. Sporty was able to develop a unique workout routine for women independent of their age. The workout consists of five different phases and lasts for only 30 minutes. Yet, due to the different phases it is very intensive and effective. The workout follows the principles of interval training. The five phases are: warm-up, strength training, cardio training, cool-down and stretching. The trainers of Mrs. Sporty furthermore recommend working out two to three times a week to get the best results and to make sure that there is also enough active rest for the body (Mrs. Sporty, 2014).

In 2014 the company introduced the concept of Pixformance (Presseanzeiger, 2014) (Mrs. Sporty, 2014). Pixformance consists of functional training and it is highly recommended to lose weight as fast as possible. Functional training involves more than just a muscle group or two. The exercises are usually movements that also challenge the coordination and therefore the relationship between the muscular and nervous systems. Typical examples for a functional movement are squats (Bryant, 2011). Pixformance is a virtual smart trainer using this type of workouts and exercises. With the help of modern technology it is even able to adapt the exercises and difficulties to the individual to improve the workouts and their effect continuously (Presseanzeiger, 2014) (Mrs. Sporty, 2014).

In September 2014 the company announced a change of their corporate identity and their logo by November 1<sup>st</sup> 2014. According to Valerie Bönstrom they will put more emphasize on the individual woman to satisfy her needs and desires (Presseanzeiger, 2014).

### **Mrs. Sporty nutrition concept**

To reach the goal of a fit and toned body working out three times a week is not enough as nutrition plays an important role as well. Due to this Mrs. Sporty developed a unique nutrition concept to reach maximum results in a short period of time. According to Mrs. Sporty it is not a typical diet; their nutrition concept can be seen as a long-life change of a woman's nutrition habits. The clue about their concept is that they do not work with any food prohibitions. Consequently, their nutrition plan can be followed easier compared to other diet programs. Instead of prohibitions they created a concept with practical food quantities. Basically, a woman is allowed to eat everything by paying attention to the quantity. By following Mrs. Sporty's nutrition concept the company predicts a healthy weight loss of 0.5 to 1 kg per week and no yoyo-effect. Furthermore, they classify their nutrition concept into three phases: reduction phase, stabilization phase and the maintenance phase of the desired weight (Mrs. Sporty, 2014).

To support women and their diet the company collaborates with nutryseries. Their concept is based on the following: The client receives weekly or on a 14 days basis a nutryseries food box per mail or to their chosen Mrs. Sporty club. Besides the frozen foods, which is free of any preservatives and flavor enhancer it also contains a menu plan, a shopping list and a nutrition diary for the next 7 or 14 days. Another advantage is that it is matched to the woman's individual calorie intake, with regard to the right combination of proteins, fats and carbohydrates (Mrs. Sporty, 2014).

## **6.2 The Mrs. Sporty International Franchise Modes**

Mrs. Sporty has been awarded by the German Franchise Organization and the magazine "Impulse" for the best franchise system of Germany for three years in a row (Mrs. Sporty Franchise, 2014).

How their franchise concept works, and factors that contribute to their success, is presented in the following section.

### **6.2.1 Direct Franchising Agreements**

The franchising contract between Mrs. Sporty, who acts as the franchisor, and Mrs. Sporty's partner, who is the franchisee, is the underlying basis of the collaboration between them. It sets all standards and rules between the parties. Mrs. Sporty emphasizes on the introduction phase to get to know its new franchisees, because according to their concept, one of the most important objectives is to build up a good relationship between the franchisor and their franchisees. Moreover, all franchisees are getting properly educated by Mrs. Sporty as they need to acquire a so called Trainer B-License, which is a personal trainer license and stands for high qualification standards. More know-how is then gathered in several seminars, classes and workshops after opening their Mrs. Sporty Club in the desired region (Koziarska-Anders, 2014).

Regarding an appropriate area Mrs. Sporty recommends locations with at least 140 to 180 m<sup>2</sup> close to other shopping facilities to ensure closeness to the target groups (Mrs. Sporty Franchise, 2014).

As agreed in the contract, Mrs. Sporty grants the franchisees to use their property rights as well as their developed workout and training program. In addition they provide them with appropriate know-how to be able to open a successful Mrs. Sporty outlet. Furthermore, Mrs. Sporty organizes frequent trainings, congresses, in-house coaching and web-seminars. Due to their strong focus on marketing expenditures they are also able to strengthen their market presence continuously (Mrs. Sporty Franchise, 2014).

On the other side there is the franchisee. He is obliged to pay the initial fees as well as the monthly royalties. The franchisee is responsible for the implementation of the predetermined studio concept in his area. It is essential to know that the franchisee is a self-employed person, who acts on his own name and on his own account (Mrs. Sporty Franchise, 2014).

Another crucial point within the franchising agreement is the territory protection. With this arrangement Mrs. Sporty wants to make sure that its franchisees do not compete against each other (Mrs. Sporty Franchise, 2014).

The contract's duration is usually five years and it is going to be extended afterwards (Mrs. Sporty Franchise, 2014).

As stated, Mrs. Sporty runs outlets in Germany, Austria and Switzerland in the form of direct franchising agreements. For these agreements they use the earlier discussed single and multi-unit franchise system. It is very important for the company to represent their lifestyle and

philosophy. Therefore around 80 % of all direct franchising partners are women (Koziarska-Anders, 2014).

Another very important fact refers to different fees between direct and master franchise agreements (Koziarska-Anders, 2014).

According to Mrs. Sporty the total investments for one club are at about 70,000 EUR, including the initial fee (Koziarska-Anders, 2014). More than 90 % of their franchisees used a bank loan in the past (Mrs. Sporty Franchise, 2014).

The initial fee is around 17,900 EUR for direct franchised outlets, whereas the ongoing franchise fee is 5.7 % of the franchisee's sales (but at least 345 EUR per month). Under certain circumstances the initial fees can be higher or lower. In case of Slovakia and the Czech Republic an initial fee of 14,900 EUR has been calculated. Furthermore, the franchisee has to pay 2.3 % of the net sales for the marketing fund (but at least 145 EUR per month) and an online support fee which amounts to 45 EUR per month (Mrs. Sporty Franchise, 2014).

### **6.2.2 Master Franchising Agreements**

As mentioned earlier, Mrs. Sporty has its outlets in various European countries. In 2014 and due to the experiences and difficulties in the last years, they decided to change the direct franchising systems in Slovakia and the Czech Republic to a master system. As Slovakia is very small in size and volume, they decided to sell the area of Slovakia and Czech Republic to one master franchisor (Koziarska-Anders, 2014).

Currently there are 424 clubs in Germany, 102 in Austria and 7 clubs in Switzerland, run by direct franchisees. In Spain and Italy they currently operate 10 clubs, but those clubs can be overtaken by master partner if the individual partners agree with it (Koziarska-Anders, 2015).

In the Czech Republic and Slovakia they have currently 5 clubs. For this area further clubs and expansion are planned in the near future under the master franchisor's hands. In Poland they currently operate 17 Clubs and in Russia the potential master franchisor currently runs his first pilot club before he gets the master license (Koziarska-Anders, 2014).

For this study, we concentrate only on the Czech and Slovakian market. For this particular market, Mrs. Sporty uses the master system as presented in chapter 3, in which the master franchisor has own outlets and the right to sub-license, with shares held by Mrs. Sporty (Koziarska-Anders, 2014).

Regarding the conditions to acquire a master license Mrs. Sporty describes the profile of a potential master franchisor in detail. Firstly, the potential master franchisor has to be team-orientated and he/she has to possess strong leadership qualities because he/she has to lead the future sub-franchisees. Secondly, the potential candidate has to be familiar with legal and cultural conditions of the contractual country as well as a very strong network within this territory. And thirdly, the new franchisor needs, next to fluent language skills in English, management experience in sales, operations and marketing with sufficient capital (Mrs. Sporty Masterfranchise, 2014). Furthermore, Mrs. Sporty offers extensive training and other important tools for example a handbook, basic training, practical training, visit of the headquarters in Berlin and the so-called Mrs. Sporty Academy. Moreover, the company grants continuous support in the business in form of product and marketing strategy as well as a general concept (Koziarska-Anders, 2014).

After finding a candidate that fulfills the above mentioned profile, there are several steps before someone can acquire a master franchise license. According to Mrs. Koziarska the first step of getting a master license is usually to grant an area development agreement. Consequently, the potential master franchisor has to open a so called pilot club first, which is a direct franchise club, in the contractual country. The agreement between Mrs. Sporty and the potential master franchisor is called “letter of intention”. To acquire a master franchise license the club must have an income of at least 7,500 EUR and 250 members within the first six months of running the club. If the franchisor cannot fulfill these requirements Mrs. Sporty has the right to withdraw the master license. In case the franchisor fulfills the requirements he becomes a master franchisor and as a consequence he receives extensive training and support to settle into his new role (Mrs. Sporty Masterfranchise, 2014) (Koziarska-Anders, 2014).

We have mentioned that fees are different for direct and master franchisors. According to Mrs. Sporty the initial fees for a master franchisor depend on the potential of the market (Koziarska-Anders, 2014). The company distinguishes between markets with a potential of less than 150 clubs and markets which show a potential of more than 150 clubs. In case of the Czech and Slovakian market, Mrs. Sporty estimates a potential of less than 150 clubs. Consequently, the master franchise initial fee amounts to 100,000 EUR. Moreover and to estimate the market appropriately, Mrs. Sporty request its master franchisors to prepare a business plan for the local market, including the market structure, conditions and potential. In addition to the 100,000 EUR, the franchisor also needs 70,000 EUR for his/her first pilot club (Koziarska-Anders, 2015).

Regarding the initial fees for the master franchisor's sub-franchisees, the master franchisor has the possibility to determine the fee. Hence, the headquarters of Mrs. Sporty set a minimum price (Koziarska-Anders, 2015). In regard of the Czech and Slovakian market, the master franchisor and Mrs. Sporty calculated an initial fee of 14.900 EUR per license (Koziarska-Anders, 2015).

### 6.3 Factors influencing Mrs. Sporty's Mode Choices between DF and MF in the Eastern European Market

As mentioned in 6.2 there have been several reasons for Mrs. Sporty to expand its businesses via franchising into Eastern Europe, while Germany is the home country of the company.

It can be said that franchising is not uncommon in the German service industry (Franchiseverband, 2014).

Figure 6 shows the distribution of franchising in Germany.

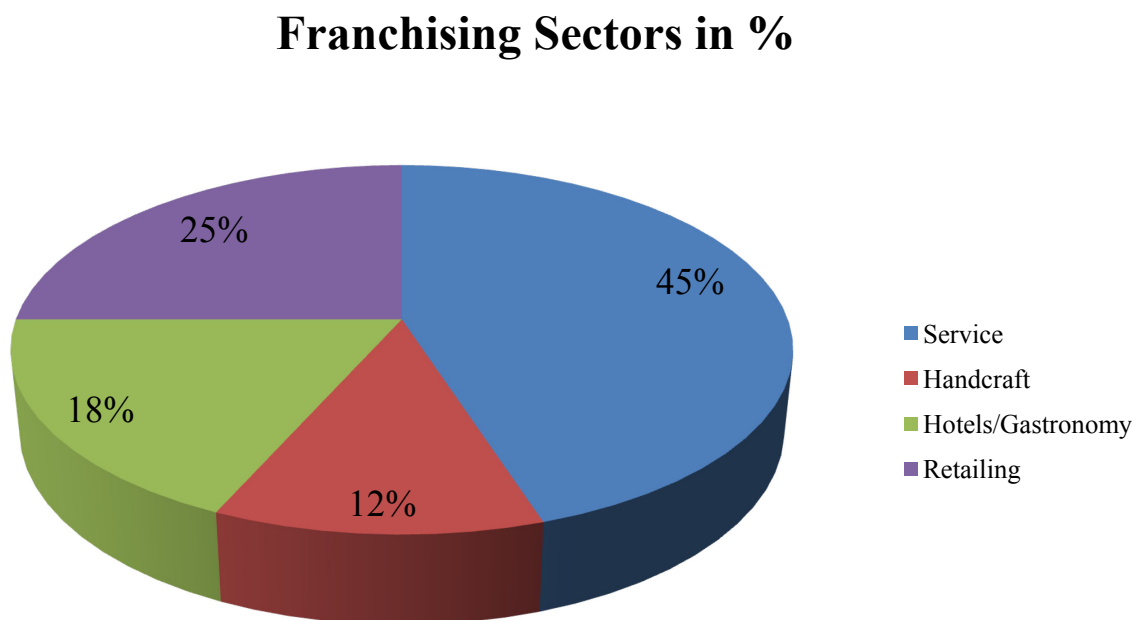


Figure 6: Distribution of franchising in Germany in %. Source: Franchiseverband, 2014

According to figure 6 almost one half belongs to service sectors. Franchising in the retailing sector amounts to 25 % and franchising in the handcraft and hotels/restaurant sectors amounts to 30 % (Franchiseverband, 2014).

According to a recent report from Franchisemonitor (2014) there are more than 900 active franchise systems within Germany (Franchisemonitor, 2014) The German franchise economy increased and developed significantly over the last years. According to the German Franchiseverband there were 830 franchisors in 2003, whereas only 10 years later in 2013, the number has reached 994 (Franchiseverband, 2014).

This upward trend can be seen in figure 7.

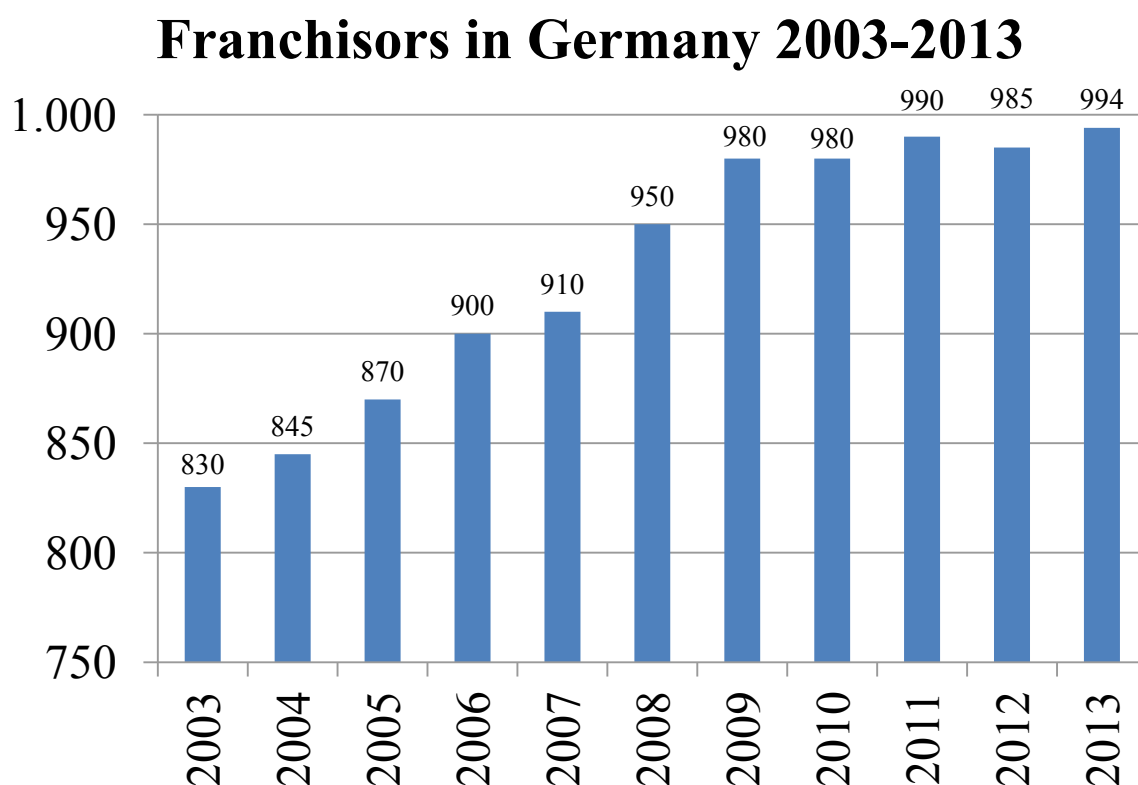


Figure 7: Number of franchisors in Germany from 2003 to 2013. Source: Franchiseverband 2014

Within this study focus was laid upon the German franchisor Mrs. Sporty, who franchises via direct and master franchising in the Czech and Slovakian market. For those two countries, the company has decided to choose one single master franchisor. The reasons why Mrs. Sporty

chose one master franchisor for both countries are various and some of them have been mentioned earlier. The most important reason is that the Slovakian market is too small for one franchisor, as the country has only 5.4 million inhabitants. Compared to that, the Czech Republic consists of around 10.5 million inhabitants (KSV, 2013, p. 3). Consequently, one common master franchisor, which is responsible for an area of almost 16 million inhabitants seemed more appropriate for the success of their franchising business. For this particular area, Mrs. Sporty predicts a potential of less than 150 clubs. Moreover, it is more likely that the master franchisor is able to earn profits faster due to a higher potential and the larger area for prospect franchise outlets (Koziarska-Anders, 2014). Furthermore, cultural, economic and other characteristics are very similar between the Czech and Slovakian market (Koziarska-Anders, 2014).

In line with this a report from Syncon, a franchise consulting company, confirms that a lot of companies consider the Czech Republic as their first step when entering the Eastern European countries. In addition, they learned that those companies often enter the Slovakian market parallel (Martius, 2014). The reason for this is on one hand its geographical closeness and on the other hand its cultural similarities which are getting closer and closer to Western countries (Czech Invest, 2013, p. 2).

Regarding those particular countries, the environment, development and economic situation of these countries have played a major role to change Mrs. Sporty's direct franchise system to a master franchise system. In the Czech Republic for example, franchising is a rather young business form and not as common as in Western European countries. The development of franchising goes back to the early 90s when the first foreign companies entered the Czechoslovakian market with their franchising systems (FranchisePortal, 2012). The pioneers on the market were McDonalds, OBI and Yves Rocher (Antonowicz, 2011, p. 8). According to Mr. Tulpa, a former president of the Czech Franchise Association, the development was very slow. He argued that people did not know what franchising is and consequently there was a burden of low trust against those systems (FranchisePortal, 2012).

Moreover, companies had to face other serious problems on the Czech market such as financial problems, a less developed business culture, a reduced sense of what should be considered as right or wrong, a lack of know-how, as well as less experience with franchising. Consequently the development of franchising systems slowed down considerably (FranchisePortal, 2012).

Yet, over the years franchising was able to grow and having 90 franchising systems in 2003, the number of franchising systems that are present on the Czech market has increased dramatically. Reasons for the increasing numbers are different. Firstly, the Czech market is now familiar with the franchising concept and they were able to gain important knowledge. And secondly, there are better financial possibilities nowadays which are offered from banks and other financial institutions to support these franchising ventures (Antonowicz, 2011, p. 8). According to PROFIT (2014), an international consulting company, franchising is now considered as one of the most attractive ways to do business within the Czech Republic, due to adverse market conditions. Young entrepreneurs therefore trust in proven business concepts that have shown success on other markets already (Profit System, 2014)

The situation in Slovakia is similar to the Czech market. Serious political changes within the Slovakian country have led foreigners to invest more and to establish their own subsidiaries there. According to the East Europe Franchise Association (2014) this was also the kick-off that led to a rising number of franchise agreements (East Europe Franchise Association, 2014).

Another characteristic that supports franchising on the Slovakian market is that they changed their economy from a planned to an open market system. Since people are not very experienced with running their own business the idea of getting training, assistance and an already proven business concept is even more convincing for them (International Franchise Lawyers, 2014).

Furthermore, there are certain characteristics within the Eastern European countries that a franchisor has to consider. Syncon (2014) mentions in a report that 95% of business is usually made in the capital city and that large and popular brands can be seen as symbols of Western Europe (Syncon, 2014). Moreover, they add that less popular systems require immense marketing efforts. According to them there are 25 franchise systems within the Slovakian market, 85 % are international systems, whereas only 15 % belong to national systems. Overall, there are 70 franchisees and around 3,000 employees. A major part of these franchise systems is positioned in gastronomy and trade and they are mostly direct or master franchise systems (Syncon, 2014).

There is no national register for franchise agreements in Slovakia. Nevertheless, the Slovak Franchise Association plays a more important role than it did in former times (East Europe Franchise Association, 2014).

According to a report from the US Commercial Service, which examined business opportunities for US companies in Slovakia, the Slovakian market offers an excellent chance to expand its businesses and to gain profit for franchisors (US Commercial Service, 2012, p. 3). Hence, they also emphasize that franchisors might consider the fact of less financial resources of Slovaks and therefore it would be important to offer creative financial options for them (US Commercial Service, 2012, p. 10).

Summed up, franchising on the Czech and Slovakian market is a successful way to expand into these markets. In case of Mrs. Sporty's direct franchise agreements different obstacles occurred on these markets due to reasons which has been mentioned in chapter 6.2 and which will be examined more thoroughly later on. As a consequence the company decided to have one master franchisor instead of several direct franchise agreements.

In the following the various variables of the adopted integrative model of governance mode choice and the developed propositions will be examined.

### **6.3.1 Environmental Uncertainty**

The first step when considering expanding into the Slovakian and Czech market was to conduct market research to get an overview of the country and its characteristics. Mrs. Sporty uses a checklist to do so. This checklist involves different aspects ranging from environmental variables to operational variables, such as market conditions, environment, legislative system, employment attitude, real estate situation and political differences. Following those results, Mrs. Sporty expanded in 2011 via direct franchising to Slovakia. Till 2014, until they changed to a master franchise system, they had to face various challenges. Serious difficulties arrived due to environmental uncertainty (Koziarska-Anders, 2014).

According to a recent report from Germany Trade and Invest, the Czech Republic is ranked as 75<sup>th</sup> out of 189 countries in terms of the "ease of doing business 2014" index. They are ranked as 57<sup>th</sup> out of 177 countries in terms of the "corruption perception index 2013", whereas they are ranked as 46<sup>th</sup> out of 148 countries in regard to the "global competitiveness index 2013-2014" (Germany Trade and Invest, 2014, p. 5).

Regarding the Slovakian market their results are similar. Slovakia is ranked as 49<sup>th</sup> out of 189 regarding the "ease of doing business 2014" index. In addition to that they are ranked as 78<sup>th</sup> out of 148 countries below the "global competitiveness Index 2013-2014" (Germany Trade &

Invest, 2014, p. 5). Following the “corruption perception index 2013” they were ranked as 61<sup>th</sup> out of 177 countries (Germany Trade & Invest, 2014, p. 5).

According to factors that refer to the environmental uncertainty, we furthermore differentiate into cultural, economic and institutional factors.

### **Cultural uncertainty**

Mrs. Sporty has been successful with their German concept in Austria, due to its cultural closeness. Austria and Germany share a language and have similar preferences and tastes. Moreover, the entire attitude of Austria’s population can be seen as similar to the German lifestyle and habits. Overall, the company has not had any serious problems by expanding their business to Austria. Regarding the Slovakian market Mrs. Sporty had to face several obstacles. Mrs. Sporty and their direct franchised outlets on the particular markets had to face serious cultural differences. This is due to the fact that higher cultural distances do have a major impact on the operational and managerial business practices. In line with proposition 1 it is essential to adopt these business practices as well as communication measures and the products or services to the host market’s tastes, habits and preferences (Koziarska-Anders, 2014).

In case of Mrs. Sporty the first challenge occurred due to the consumers’ different payment habits. Consumers were not used to the typical western European system payment method of direct debiting. Secondly, another challenge was to overcome the burden of different languages. On the employee level in the Eastern clubs most of the people don’t speak English and German fluently, which is a challenge, because Mrs. Sporty in Germany has not direct access to these employees. As a consequence, Mrs. Sporty cannot train them directly and this has an impact on the quality level in the clubs.

Following these results and in line with proposition 1, higher cultural uncertainty led Mrs. Sporty to the decision to choose master franchising over direct franchising.

### **Economic uncertainty**

Stable economic conditions are important to Mrs. Sporty. Due to the fact that Slovakia is a comparatively small country and a relative small market potential, the company decided to choose a similar country, language and culture wise, to combine those two countries one master franchisor. For this purpose and due to the similarities between the Czech Republic

and Slovakia, the master franchisor is now responsible for the development in both countries (Koziarska-Anders, 2014).

The economic situation in both countries is rather stable. For example, in 2013 the annual GDP per capita in Slovakia amounted to 17,706 USD which implies a growth rate of 0.8 % compared to 2012 (Country Economy, 2015). On the other hand the Czech Republic recorded an annual GDP per capita in 2013 of 18,858 USD which implies a downturn of 2.7 % compared to 2012 (Country Economy, 2015). Nevertheless, the company estimates the economic situation of both countries as stable, even though it may be easier to have a local, which is more likely to make more accurate estimations (Koziarska-Anders, 2014)

In 2013 the GDP of the Czech Republic was worth 208,796 mill. USD: The development over the last years can be seen in figure 8 (Country Economy, 2015).

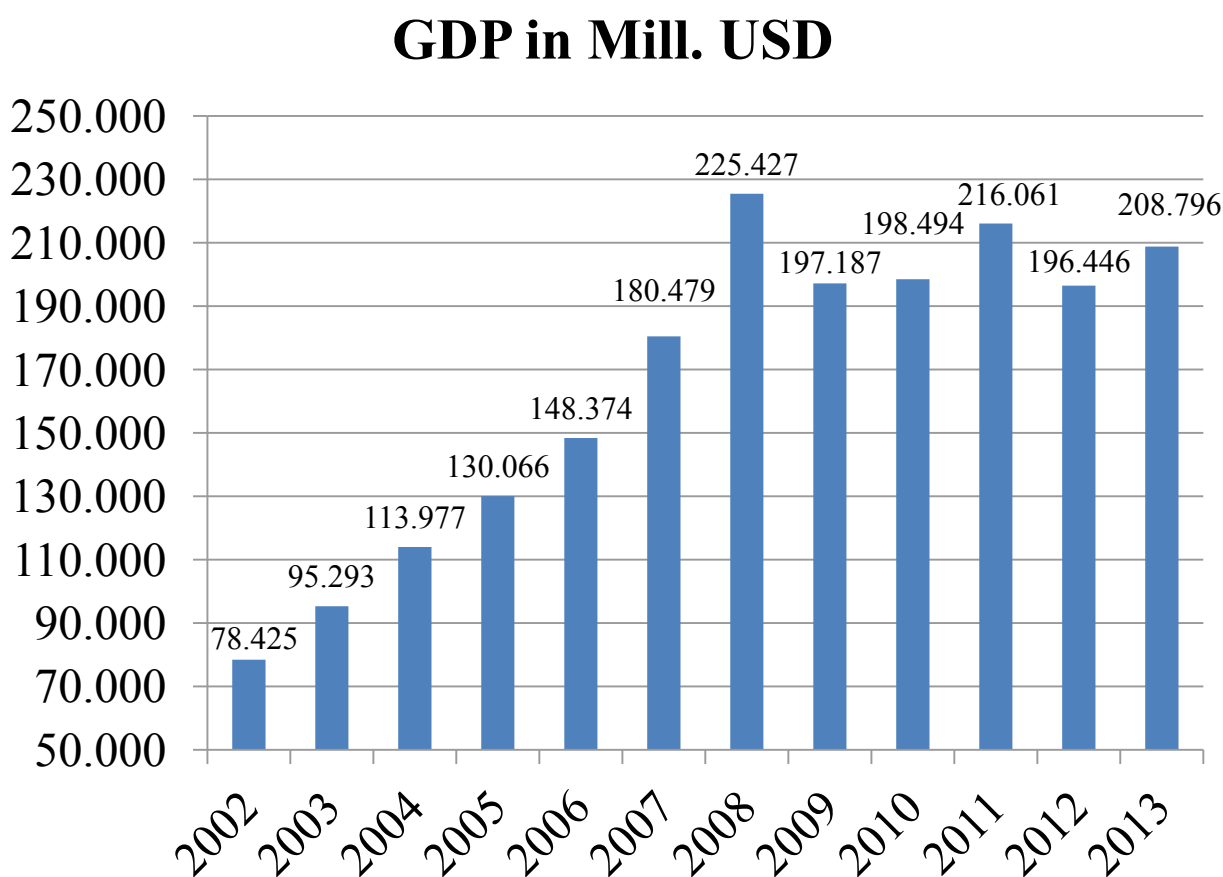


Figure 8: Czech Republic's GDP annual comparison in mill. USD. Source: Country Economy, 2014

For Slovakia, in 2013 the GDP was stated at 97,707 mill. USD. The development over the last years can be seen in figure 9. It shows that the Slovakian economic had to face difficulties due to the worldwide economic crisis in 2009. Fortunately, they were able to recover significantly and they exceeded the forecasts for the following years (Country Economy, 2015).

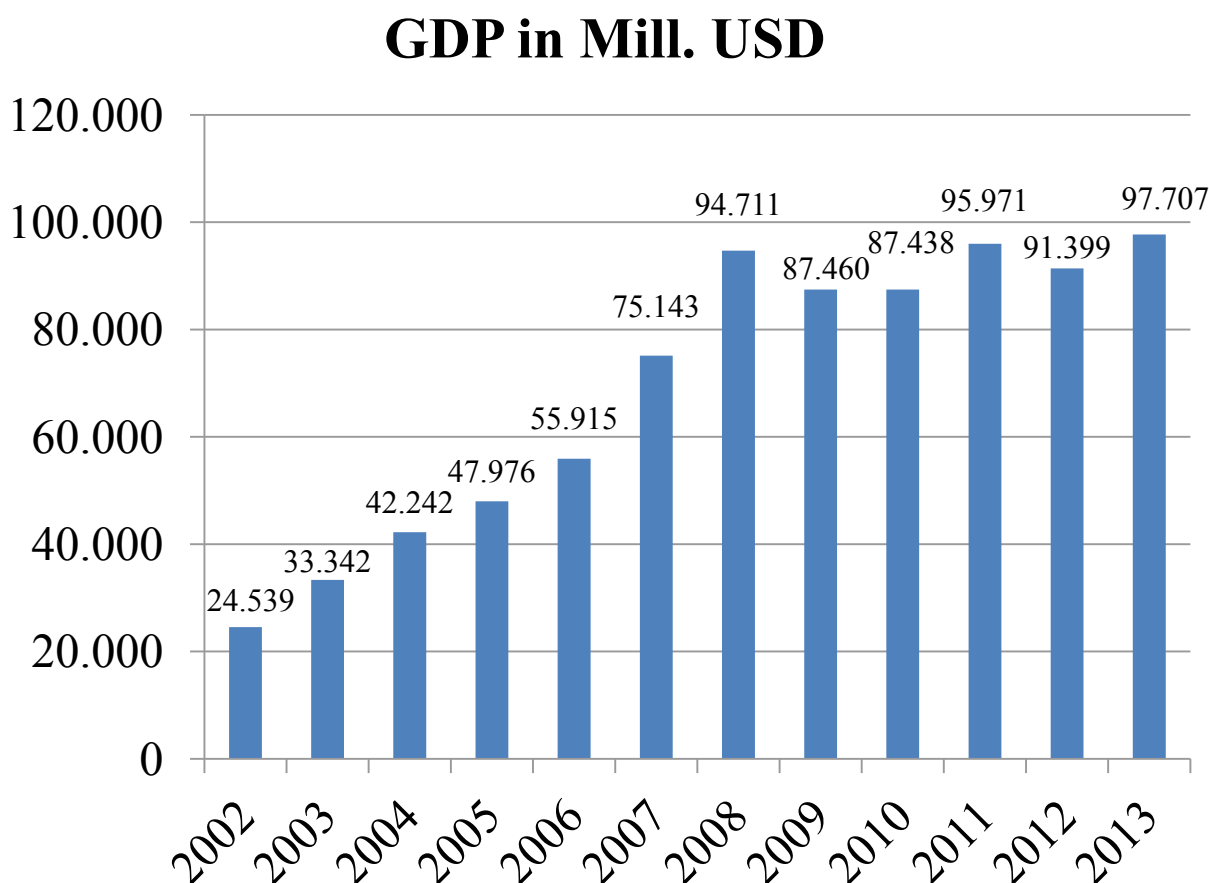


Figure 9: Slovakia's GDP annual comparison in mill. USD. Source: Country Report, 2014

Besides general economic indicators, Mrs. Sporty emphasizes on a business plan from the master franchisor for the upcoming two years. On the one hand they want to know how the master franchisor sees the environment in the particular market and the chances of the company. On the other hand Mrs. Sporty wants to have a plan through which they can compare forecasted figures with the realized revenues and expenditures. The most important point is that the master franchisor also reaches their planned values (Koziarska-Anders, 2014).

Moreover, the company sees itself as a key player in the fitness industry. They argue that the fitness industry which focuses only on women is a niche market in the Czech Republic and Slovakia. Forecasts and other reports have shown these facts in advance. Nevertheless, the local partner has the advantage of knowing other fitness chains, possible competitors and being more likely to predict the situation and development more accurately than the Mrs. Sporty GmbH is (Koziarska-Anders, 2014).

On the one hand the economic situation of both countries seems stable. Though, economic uncertainty is much lower in case Mrs. Sporty has a local partner who is more aware of the country specific indicators and development. This corresponds with proposition 1, as high economic uncertainties can be decreased in case of master franchise agreements.

### **Institutional uncertainty**

Besides cultural and economic uncertainty, the third factor relates to institutional uncertainty.

In fact, there are different legislative systems and diverging German laws. The German law for example does not have any rules regarding the necessity of showers in a bathroom. Whereas in Slovakia and the Czech Republic the law states that, depending on the size of the location, there has to be a certain amount of bathrooms, showers and toilets for fitness clubs. Consequently, potential facilities and locations have to obey this law in Slovakia and the Czech Republic (Koziarska-Anders, 2014).

Another problem emerged with Mrs. Sporty's products and services in regard to local rules and regulations. On the one hand Mrs. Sporty has achieved a competitive advantage with their unique workout system. On the other hand also the nutritional products are a major contribution for their enormous success. Regarding nutritional products, the job of a nutritionist needs a particular form of education in certain countries. This is not the case for the Czech or Slovakian market, but for example on the Italian market. In conclusion it can be said that different markets show a different economic environment which is often underestimated by the headquarters. Consequently, this supports the approach that a partner on the local market, in case of master franchising, is possible to overcome these limitations (Koziarska-Anders, 2014).

Other institutional uncertainties refer to the general political conditions on the host market. Weak legal systems, a higher corruption level and intransparent laws and regulations make it difficult for companies to forecast a country's development. According to a report from the

German Slovak Chamber of Commerce and Business they also state that public authorities often work inefficient and that corruption is a big issue within the Slovakian public sector (Deutsch-Slowakische Industrie- und Handelskammer, 2014). In case of Mrs. Sporty they argued that political conditions in the host markets have not been a big issue at all, since both countries are members of the EU and both countries show very stable market conditions. Consequently, the political situation has not been a major driver choosing master franchising (Koziarska-Anders, 2014).

This is also in line with a recent report from KSV (2013). It describes that after facing several governmental and parliamentary crises Slovakia has stabilized in the last years and it is now one of the fastest growing economical countries among the new EU members (KSV, 2013, p. 4).

Summing up, cultural, institutional and economic uncertainty is positively related with the franchisor's choice to use a middle man on the local market which is able to circumvent and decrease those uncertainties for Mrs. Sporty. The discussed results correspond with proposition 1 which states that the higher the environmental uncertainties in the host country, the higher the possibility that the franchisor uses master franchising instead of direct franchising.

### **6.3.2 Behavioral Uncertainty**

As stated earlier another variable which may have major impact on Mrs. Sporty's choice to choose master franchising over direct franchising is behavioral uncertainty. According to factors that refer to the behavioral uncertainty, we furthermore differentiate into geographic distance and high number of outlets as well as free riding and opportunistic behavior and the difficulties to measure them appropriately.

#### **Geographic distance and high number of outlets**

Mrs. Sporty agrees with the fact that larger distances between the headquarters and its franchisees causes higher costs for controlling and monitoring them. In addition to a higher geographic distance, the costs increase with a high number of partners and their outlets (Koziarska-Anders, 2014). As mentioned before a lot of companies consider the Czech Republic due to its geographic closeness as first step into the Eastern European market. Moreover, those companies often choose to enter the Slovakian market at the same time (Martius, 2014).

In case of Mrs. Sporty, there are also differences which occur due to different support, monitoring and coaching measures between direct and master franchising. In case of single-unit franchising, the franchisees get lots of support and coaching provided by the headquarters. In case of master franchising the potential master franchisor gets the same support and coaching measures when starting with the pilot club. Nevertheless, after the various markets have been developed the master franchisor acts more and more independently. This arrives due to the fact that master franchisors possess and develop strong leadership as well as marketing and sales knowledge. Moreover they have gained important knowledge due to Mrs. Sporty's training and coaching activities when they built up their single-unit outlets (Koziarska-Anders, 2015).

Another factor which reduces monitoring and controlling costs for Mrs. Sporty is the usage of one common master franchisor for the Czech Republic and Slovakia. As stated, Slovakia does not have a big potential and therefore the cultural similarities and the geographic closeness were drivers to combine them for one master franchisor (Koziarska-Anders, 2014).

Consequently, it can be said that one motive of Mrs. Sporty to use a master franchise agreement was also due to lower monitoring and coaching costs, which supports proposition 2.

### **Free-riding/opportunistic behavior and the difficulties to measure them**

Another very important factor that has to be considered is opportunistic behavior of Mrs. Sporty's partners. In case of direct franchising, partners have to provide the headquarters with a daily report, which is called daily production report (DPR). Within the DPR the most important operative key performance indicators have to be reported; such as turnover, new membership contracts and marketing and promotion efforts and also retention information (Koziarska-Anders, 2014).

In case of master franchising Mrs. Sporty demands their master franchisors to provide them with a monthly report, which is very close to the daily report of direct franchisees. The main difference, except the time frame, is that they have to report the numbers for their entire master franchise system, including all outlets in the particular area. These reports are very helpful to support partners in their daily operational business (Koziarska-Anders, 2014).

In addition to those reports Mrs. Sporty works with the same IT software in all outlets, no matter if direct or master franchising. The global software is called OnFit and can also be seen

as an important monitoring tool within Mrs. Sporty. By using OnFit the headquarters are able to see all check-ins of their members in various clubs (Koziarska-Anders, 2014).

Another tool which is used to prevent opportunistic behavior are so-called mystery shoppers. In a mystery shopping situation a consumer, which is hired to buy a particular product, tests the partner of Mrs. Sporty and controls if he/she acts in the right way and according the Mrs. Sporty's philosophy. After the test situation Mrs. Sporty contacts the partner and talks with him about the particular situation. In case of an incident Mrs. Sporty sets a time limit within the partner has time to cancel his violation. A cancellation of the contract has happened only with direct franchising partners in the past. Mrs. Sporty explained this phenomenon as following: Master franchisors possess very high knowledge about doing business and how to do it properly. Furthermore, they know that if they strictly follow the rules of Mrs. Sporty they are more likely to be successful with the implementation of the system on the particular market. Consequently, this entrepreneurial spirit and knowledge of master franchisors decrease opportunistic behavior, which corresponds to proposition 2 (Koziarska-Anders, 2014).

Nevertheless and in case that Mrs. Sporty is not confident with its master franchisor's performance, the company has the right to cancel the contract. This is also the case when the particular master franchisor cannot fulfill the requirements which are stated in his business plan. In case of the cancellation of a contract, the sub-licensed clubs are operated from the German headquarters in the meantime until Mrs. Sporty finds a new master franchisor. Another variable that decreases opportunistic behavior on the side of the franchisee are in fact the financial commitments for the franchisee concept (Koziarska-Anders, 2014).

Ex-post contract conditions furthermore state that direct franchising partners are not allowed to work and to establish a business in the same industry within one year after cancellation. Compared to that, master franchisors have a time frame of five years in their contracts. If someone breaks those contract clauses Mrs. Sporty is allowed to sue them for copying their business format (Koziarska-Anders, 2014).

Another characteristic that has been observed for less misbehavior of master franchisor is due to a very long and precise selection process. In case of recruiting a potential master franchisor Mrs. Sporty emphasizes on their personal networks and connections. Besides the mentioned skills which have to be possessed by the potential master franchisor he/she has to present his own business plan. Especially the business plan helps the franchise department of Mrs. Sporty to conclude and to benchmark the candidate's potential. On the one hand Mrs. Sporty is now

able to see how the candidate estimates economic and environmental conditions in the host country and how realistic they are. On the other hand they can estimate his/her entrepreneurial ability. After that he/she has to pass several interviews and assessment centers where his/her qualifications and skills are tested. After working two business days in another Mrs. Sporty club where he/she shows his/her professional knowledge but also his hands-on ability, Mrs. Sporty decides if the candidate has enough potential for becoming a master franchisor (Koziarska-Anders, 2014),

Compared to the choice and recruitment of a master franchisor, the single-unit franchisees have to pass a less complex selection process. For their direct franchisees Mrs. Sporty usually advertises in different newspapers, online or on business fairs. The first step is then to review the candidate's CV. It is important that the potential franchisee is open-minded, communicative, very sportive and in the best case experienced in project management. After having interviews and visiting a Mrs. Sporty club the recruitment team of Mrs. Sporty and their business development managers decide if the candidate gets a direct franchising contract with the company or not (Koziarska-Anders, 2014).

Summed up, the results correspond with proposition 2 that due to the fact of a higher level of monitoring and support measures for direct franchisees, master franchising is more favorable for the company. Moreover, opportunistic behavior and consequently, behavioral uncertainty decreases in case of master franchising due to the master franchisor's long and detailed selection process, his/her characteristics, entrepreneurial spirit and various incentives to generate profit.

### **6.3.3 System-Specific Assets**

In the following system specific assets and resources as well as system-specific know-how and capabilities are examined.

#### **System-specific assets and resources**

Mrs. Sporty's most important franchise system assets are a strong brand, high reputation, excellent service as well as a superior product quality. The Mrs. Sporty brand is well established on the European market. According to a Deloitte study from 2014 Mrs. Sporty is the second most popular fitness brand throughout Germany (Dr. Grieger & Cie., 2014). The same study also shows that the most satisfied consumers are members of Mrs. Sporty or

Kieser Training (Dr. Grieger & Cie., 2014). It can be said that Mrs. Sporty has achieved a high level of brand awareness and a very strong reputation (Koziarska-Anders, 2014).

Moreover, another essential system-specific asset is set up by important partnerships with their suppliers. All Mrs. Sporty outlets have to be equipped with innovative workout machines which are developed and bought from their two partner suppliers, Proxowell and Pixformance (Koziarska-Anders, 2014). Proxowell is a German company, based in Niedersachsen. The training equipment is developed, produced and tested within Germany by applying a combination of high-quality materials and expert knowledge from sports medicine experts (Proxowell, 2014). Furthermore, Mrs. Sporty insists on continuously improved training equipment to ensure highest quality and the best results for their consumers (Koziarska-Anders, 2014).

Another essential factor is Mrs. Sporty's focus on human resources. Direct franchisees get very detailed training, coaches and support from the headquarters of Mrs. Sporty at the beginning and during running their business. Training measures cover all functional areas of their business. Compared to that master franchisors get lots of training and support at the beginning when opening their pilot club. After that they are responsible to train and to employ their sub-licensed franchisees. During running the business a master franchisor has regular meetings with the headquarters. In addition to that, Mrs. Sporty provides their franchisees with weekly trainings on their web platform (Koziarska-Anders, 2014).

### **System-specific know-how and capabilities**

To exploit international growth and to successfully implement the franchise format in a new country Mrs. Sporty transfers its strategic and operational know-how to its partners. The franchise package for master franchisors includes, besides their own developed business plan, also estimations from Mrs. Sporty. Mrs. Sporty provides a master franchisor handbook, which includes the essential information about structures and processes of the company. To ensure liquidity Mrs. Sporty helps the master franchisor to determine favorable territories at the beginning. Mrs. Sporty also has strategic know-how regarding the implemented pricing strategies. The company suggests a minimum price for their services and products. This bottom limit is used because the company knows that under a certain price, the franchisor will not be able to realize any profits and to remain on the market (Koziarska-Anders, 2014).

Mrs. Sporty transfers its capabilities in sales, marketing and distribution to the particular host country. Basically the franchise format is standardized but there are important adaptations

required by the local market. These adaptations are very important for the success of Mrs. Sporty on the Czech and Slovakian market; they are described below in section “local market assets”. Furthermore, monitoring procedures through Mrs. Sporty as well as authorized mystery shoppers ensure the desired level of system wide standardization (Koziarska-Anders, 2014).

Another very essential issue for their global corporate strategy is the focus on cooperation between their franchisees. New franchisees and new local partners of countries should use the advantage of getting information, experience and field reports from existing franchisees. The new Russian master franchisor for example completed an internship in Poland, under another franchise partner, to see how the system works and to get a feeling for the company, its structures and processes (Koziarska-Anders, 2014).

In summary, system-specific assets play a major role in the case of Mrs. Sporty, most notably intangible assets, such as a strong brand and an excellent reputation on the existing market. The developed proposition 3 states that “the higher the importance of system-specific assets for value creation, the higher the tendency of the franchisor to choose direct franchising over master franchising.” In fact, the company began with direct franchising on the Czech and Slovakian market due to the high importance of their tangible and intangible system-specific assets. Nevertheless, the company experienced that local market assets have been very important in this case, as they could not develop and deal with the market successfully. As a consequence the local market assets have shown high importance for Mrs. Sporty and its franchisees. Therefore the company decided to use a master franchisor to have someone with the appropriate knowledge and as a support function by their side.

#### **6.3.4 Local market assets**

As mentioned before and in case of the internationalization of Mrs. Sporty, local market differences and cultural identity of the Czech and Slovakian market were major drivers for choosing master franchising. Local markets assets are on the one hand real assets and resources, but on the other hand also related to specific know-how and capabilities.

Firstly, challenges occurred due to the different language. The major language in Slovakia is Slovak, whereas it is Czech in the Czech Republic. According to Germany Trade & Invest (2014) English and German are considered to be the most important business languages besides Slovak and Czech in both countries (Germany Trade & Invest, 2014). Nevertheless, the company experienced challenges when communicating with their direct franchise partners

which were overstrained by Mrs. Sporty's support and training measures because the company offered them in English or German. Consequently, the company was not able to develop and implement their entire marketing strategy in the same scope as they have done so in Germany, Austria and Switzerland. In addition to that the local master franchisor possesses the knowledge about appropriate marketing channels to promote the club. As a result and also in line with proposition 4 one local master partner, who speaks the same language, is able to overcome all those challenges. In fact, the Czech master franchisor is familiar with the habits, customs and tastes of Eastern European consumers. Advertising posters for example are now changed by using a more typical eastern woman, as they look differently compared to German or Austrian women (Koziarska-Anders, 2014).

The master franchisor knows that Czech and Slovak employees show a different work attitude. Wages and salaries are lower compared to Western European countries. Furthermore, the master franchisor possesses more experience on the local market and knows how to motivate employees in Eastern Europe (Koziarska-Anders, 2014).

Other difficulties that resulted from an uncertain environment and different local market assets were caused by a diverging real estate market. Mrs. Sporty has not had enough experience about the particular real estate situation and about the choice of the right location on the Czech and Slovakian market. A local partner who possesses the knowledge of the development of the market and the particular location has many advantages. In Slovakia big cities, such as the capital Bratislava have been chosen to reach a large target group and to position Mrs. Sporty correctly. Villages in Eastern European countries are for example very different to small villages in Western European countries. A typical village in Slovakia and the Czech Republic has a significant lower level of bargaining power. Consequently, a master franchisor which possesses the knowledge about these differences of a diverging real estate market has been a solution for this problem (Koziarska-Anders, 2014).

Another diverging habit exists in regard of the payment history. In Germany and most of other Western European countries the company and also the consumers are used to direct debiting systems. This means that at the end of each month, the company has the right to deduct a specified amount from the consumer's bank account. When Mrs. Sporty expanded to Slovakia and by introducing a direct debit payment system, the company had difficulties and suffered from major drawbacks which resulted from the political and historical transition of the communistic system in the Czech Republic and Slovakia. In fact, the target group, women 35 and older, have witnessed the communistic system and they are still not used to a system,

where money is drawn automatically from their bank account. Furthermore, Slovaks and Czechs feel uncomfortable giving their bank details to someone who has then the right to deduct a fee on a monthly basis. Mrs. Sporty stipulates in their contracts that direct debiting has to be used. The master franchisor's task was therefore to build up trust to the consumers and other stakeholders. These tasks also included the explanation and usage of the system and to lower skepticism which existed in the Czech Republic and Slovakia (Koziarska-Anders, 2014).

In addition to strategic and operational adaptations, it is essential to adapt Mrs. Sporty's products and services on the Czech and Slovak market. As earlier mentioned there are certain areas where the partner has the right to make adaptations but there are also areas where he/she does not have the right to make changes on his own. Regarding the service, the described workout circle, the master franchisor is not allowed to change the product. Mrs. Sporty continuously works on improving their workout system and to offer the best solution for their consumers. Consequently, the master and direct franchisees have to use the compulsory training equipment from their German suppliers Pixformance and Proxowell. In contrast to that, the master franchisor is allowed to adapt their nutrition concept. The necessity to change the nutrition concept arrives due to the fact that eating habits in Eastern European countries are significantly different from the German and Austrian cuisine. In Germany a typical Christmas recipe would consist of roasted goose with red cabbage and dumplings, whereas the Czech and Slovak kitchen would rather cook carp with dumplings or potatoes and a sauce for that special occasion. In addition to those adaptations the master franchisor can decide if the nutrition program has to be paid extra, or if it is included in the workout program (Koziarska-Anders, 2014).

To sum up, different local market conditions have been a major drawback for Mrs. Sporty's development on the Czech and Slovakian market by using direct franchising. Now, as they have an experienced local master partner, they are able to overcome those burdens and implemented the company successful in the Czech Republic and Slovakia. According to Mrs. Sporty the biggest obstacle was language, no adaptations for their products and little knowledge about direct debiting on the local market. These results also support proposition 4 which stated that "The higher the importance of the local market assets for successful implementation of the franchise business format in host countries, the higher the tendency of the franchisor to choose master franchising over direct franchising."

### **6.3.5 Financial Assets**

The last examined variable relates to financial assets as business expansion also requires considerable financial capital investments.

#### **Capital intensive investments of local network expansion**

A master franchisor basically needs around 100,000 EUR to invest and to develop a new market, plus 70,000 for his pilot club. In a developed market a master franchisor then needs around 6,000 to 10,000 EUR per month for ongoing business fees such as advertising fees or costs to train and educate their employees for example (Koziarska-Anders, 2014).

In case of direct franchising partners, those usually need around 70,000 EUR for one club, whereas Mrs. Sporty needs a proof of an equity capital that amounts to 15,000 EUR: The proof can be an account statement or a savings account bankbook (Koziarska-Anders, 2014). One major difference occurs regarding the ongoing business fees. In case of single-unit franchisees the costs after the start-up phase are not overtaken by their single-unit franchisees. Mrs. Sporty supports each single-unit franchisee with a license for five years, a business plan, education and training for the franchisee and his employees and they support the franchisee to find an appropriate location. Each single-unit franchisee gets a personal coach nine weeks before the initial opening of the particular club. Higher costs result in training, marketing, sales and other administrative costs that do not vanish over time, as the company supports and trains their direct franchisees continuously on a very detailed level (Koziarska-Anders, 2014).

According to Franchisemonitor (2014) such amounts are more or less typical. In a recent study they state that in more than 50 % of all franchising systems the average overall investment sum for a new franchisee is below 50,000 EUR. According to the same study 25 % of all franchising systems require more than 100,000 EUR (Franchisemonitor, 2014).

Referring to the same study the average startup fee is 11,100 EUR. The ongoing franchise fee or royalty averages are about 5.4 % of the franchisee's sales, and the advertising fees average is about 1.4 % of the franchisee's sales (Franchisemonitor, 2014).

#### **Sources of finance**

According to a recent article about franchising on the Czech and Slovakian market, nowadays banks and other financial institutions offer better financial support possibilities for young entrepreneurs (Antonowicz, 2011, p. 8).

In Germany Mrs. Sporty cooperates with Deutsche Bank and Sparkasse. Furthermore, Mrs. Sporty were able to build up good relationships to banks or other financial institutions (Koziarska-Anders, 2014).

On the Czech and Slovakian market Mrs. Sporty had to face the challenge that their direct franchisees have not had enough financial resources and a well-established network of banks and other financial institutions. A local partner would have been helpful as he/she usually has those important connections to help providing financial resources. In order to overcome these challenges to finance the business, a local master franchisor, with a broad and extensive network in the particular country and a lot of important connections is an essential source for Mrs. Sporty. The major advantage is that the local master franchisor does have these important contacts to banks and leasing firms on the Czech and Slovakian market (Koziarska-Anders, 2014).

Summed up, financial resources have been major factors to use master franchising in the particular markets. The master franchisor and his broad network in the particular country corresponds with the developed proposition 5 and the argument that required financial assets are another driver to choose master over direct franchising.

## **6.4 Discussion and Conclusion of Results**

Based on the results derived from this case study, the following conclusions can be summarized.

Mrs. Sporty and its unique franchise business format is a very successful company within the fitness industry. The company, which has its roots and headquarters in Germany, is established through a franchise system throughout Europe. The expansion to culturally and economically similar countries such as Austria and Switzerland has not been any obstacle so far. However, the company had to face difficulties while expanding their franchise business format to other countries.

This study focused on Mrs. Sporty's expansion on the Czech and Slovakian market. In 2011 they opened their first direct franchised outlet in Slovakia. The differences between running a club in Germany and running a Club in Slovakia caused that the company had to face various challenges with their direct franchisees. In 2014 Mrs. Sporty decided to sell the direct franchises to one master franchisor. This decision included to delegate the Czech and

Slovakian market to one common master franchisor, as it made more sense due to demographic, geographic and financial targets. This study examined the various variables relating to this particular decision of Mrs. Sporty.

Results indicate that one of the most important factors to choose master franchising over direct franchising was a high degree of environmental uncertainty in the host markets, which also corresponds with proposition 1 of this thesis.

Larger geographic distances and a high number of single-unit franchisees also support Mrs. Sporty's preference for master franchising. Consequently, the decision to have one master franchisor for both countries, as Slovakia does not have enough market potential to act as a single market, has been made by the company. In addition to that, master franchisors show less opportunistic behavior due to a more precise selection process and higher risks and investments, whereas direct franchisees are more likely to act opportunistic. The results of the case study in this area are consistent with proposition 2.

Other important success factors of the company are their tangible and intangible system-specific assets. In line with proposition 3, high importance of the Mrs. Sporty's system-specific assets, lead the company to choose direct over master franchising at the beginning of their expansion to the Slovakian market. Other variables such as local market assets on the Czech and Slovak market have been more important and the company decided to cooperate with local partners as their goal is always to develop a market on the highest possible level. Consequently, even though the system-specific assets are very important for the company, they decided to use master over direct franchising.

As mentioned above local markets assets point out to be one of the most important variables within Mrs. Sporty's choice between direct and master franchising. It can be said that the company preferred to work with one local partner who act as master franchisor to give his/her sub-franchisees the best local know-how. Results indicate that one major driver for success on the Czech and Slovakian market is for example the ability to persuade consumers about direct debiting systems. These results support proposition 4 and the fact that master franchising is more favorable than direct franchising in case of high importance of local market assets.

The last developed proposition 5 stated that "the higher the financial requirements for setting up the local franchise network, the higher the tendency of the franchisor to choose master franchising over direct franchising." The results of the case study correspond with proposition 5, as Mrs. Sporty suffered from missing connections to banks and financial institutions on the

Czech and Slovakian market. The master franchisor is now able to provide them with these important contacts to ensure financing options for the sub-franchised outlets.

## 6.5 Forecast

After the successful internationalization in the last years Mrs. Sporty has several plans for the upcoming years (Koziarska-Anders, 2015).

Firstly, the company is going to concentrate its business on the European and Russian market. According to Mrs. Koziarska, the European market still shows high potential for the company. For these markets Mrs. Sporty is going to extend the existing system on the Italian, Spanish, Czech and Slovakian market. Besides the existing clubs in various European countries there are also countries such as UK and France, where they have not expanded yet. In the conducted interview Mrs. Koziarska confirmed that are concrete plans of expanding into these countries (Koziarska-Anders, 2015).

Secondly, and besides their concrete plans for the European and Russian market, the company also plans to expand its business to the US market (Koziarska-Anders, 2015). According to data from Statista (2013) the health and fitness club industry in the US is the biggest market globally (Statista, 2013). In 2012 for example, the North American market, which consists of the US and Canada, had a size of around 24 billion USD. The largest fitness chains in the US are Virgin Active, Life Time Fitness, 24 Hour Fitness and Konami Sports & Life. The same study also reveals that the UK market is considered to be the second largest fitness market globally (Statista, 2013).

Another very interesting project is the expansion to Saudi-Arabian countries. In the conducted interview Mrs. Koziarska stated that there is one major reason for Mrs. Sporty to expand into these countries. Saudi-Arabian markets are perfectly compatible with the concept of Mrs. Sporty, due to the countries separation of sexes (Koziarska-Anders, 2015).

Summed up, the company has big plans for the near future. The major focus is on the European and Russian market but other projects also show expansion plans to the US and Saudi-Arabian markets due to favorable investment conditions. Regarding the Czech and Slovakian market Mrs. Sporty aims to have 120 clubs in 10 years. They are planning to have 40 in Slovakia and 80 on the Czech market (Koziarska-Anders, 2014).

## 7 Conclusion and Limitations

The aim of this study was to examine the international franchisor's choice between direct and master franchising.

In fact there has been a lot of research in the field of international franchising. Nevertheless, literature that examines the particular choice between direct and master franchising is limited.

In course of this thesis a recent multi-theoretical model developed by Jell-Ojobor and Windsperger (2014) which explains the choice of governance modes by franchise firms was adopted and applied. The model is based on transaction cost theory, agency theory, resource-based theory, agency theory, organizational capabilities theory and the property rights theory. According to their model environmental uncertainty, behavioral uncertainty, transaction-specific investments, system-specific assets, local market assets and financial assets influence the choice between different franchise modes (Jell-Ojobor & Windsperger, 2014, p. 160).

A single-case study in the fitness industry was conducted to test the developed propositions based on the model from Jell-Ojobor and Windsperger. The primary data source is an expert interview with the head of business development of Mrs. Sporty.

As all empirical investigations, this work has some limitations which reduce the validity and generalization of the results. In this particular work the German fitness industry has been examined. Nevertheless, one single case may not represent valid results for the whole industry.

Secondly, the interview has been conducted with only one person within this single-case study, which may also constitute a limitation.

Thirdly, there are geographical limitations as well. This thesis focused on the German market as home country, and Slovakia and the Czech Republic as host countries. Consequently, the results could be different if other European countries would have been examined.

Moreover the interview has been conducted in November 2014. The submission was planned to be in May 2015. Between November 2014 and April 2015 major changes especially regarding their future prospects has been made. To overcome this barrier a second interview was conducted on April 28<sup>th</sup> 2015 to have updated information for this thesis.

Future research should take these aspects into considerations. On one hand an interesting aspect would be to conduct a quantitative analysis to test the developed propositions. On the

other hand also the examination of the entire European market compared to Asia or the US in combination with other industries would constitute a major contribution to understand the decision-making process between direct and master franchising.

## 8 References

- Alon, I., 2000. The organizational determinants of master international franchising. *Journal of Business and Entrepreneurship*, 12(2), pp. 1-18.
- Alon, I., 2006. Market conditions favoring master international franchising. *The Multinational Business Review*, 14(2), pp. 67-82.
- Alon, I., 2006. *Service franchising: A global perspective*. New York: Springer.
- Alon, I., Ni, L. & Wang, Y., 2012. Examining the determinants of hotel chain expansion through international franchising. *International Journal of Hospitality Management*, Volume 31, pp. 379-386.
- Anheier, H. K. & Themudo, N., 2005. The internationalization of the nonprofit sector. In: *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. s.l.:Jossey-Bass, pp. 103-127.
- Antonowicz, A., 2011. Franchising in Poland and the Czech Republic - the comparison of pace and directions of development. *Journal of interdisciplinary research*, 1(2), pp. 8 - 11.
- Backhaus, K., Voeth, M. & Büschken, J., 2003. *Internationales Marketing*. Stuttgart: Schäffer-Poeschl.
- Baena, V., 2012. *Master franchising as foreign entry mode: Evidences from the spanish franchise system*, s.l.: ISRN Economics.
- Baena, V., 2013. Insights on international franchising: Entry mode decision. *Latin American Business Review*, 14(1), pp. 1-27.
- Barney, J., 1991. Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), pp. 99-120.
- Bisio, R., 2011. *The educated franchisee*. Minneapolis: Bascom Hill Publishing Group.
- Bryant, C. X., 2011. *Acefitness*. [Online] Available at: <http://www.acefitness.org/acefit/healthy-living-article/60/1452/what-is-functional-strength-training/> [Accessed 21 August 2014].

Burton, F., Cross, A. R. & Rhodes, M., 2000. Foreign market servicing strategies of UK franchisors: An empirical enquiry from a transactions cost perspective. *Management International Review*, 40(4), pp. 373-400.

Canabal, A. & White, G. O., 2008. Entry mode research: Past and future. *International Business Review*, Volume 17, pp. 267-284.

Castrogiovanni, G. J. & Justis, R. T., 1998. Franchising configurations and transitions. *Journal of Consumer Marketing*, 15(2), pp. 170-190.

Chandler, A. D., 1962. *Strategy and structure: Chapters in the history of the american industrial enterprise*. Massachusetts: MIT Press.

Chan, P. S. & Justis, R. T., 1990. Franchise management in East Asia. *Academy of Management*, 4(2), pp. 75-85.

Choo, S., 2005. Determinants of monitoring capabilities in international franchising: Foodservice firms within East Asia. *Asia Pacific Journal of Management*, Volume 22, pp. 159-177.

Coase, R. H., 1937. The Nature of the firm. *Economica*, 4(16), pp. 386-405.

Country Economy, 2015. *Country Economy*. [Online]  
Available at: <http://countryeconomy.com/gdp/slovakia>  
[Accessed 31 January 2015].

Cowton, C. J., 1998. The use of secondary data in business ethics research. *Journal of Business Ethics*, Volume 17, pp. 423-434.

Creswell, J. W., 2003. *Research design. Qualitative, quantitative, and mixed method approaches..* 2nd ed. Thousand Oaks ed. Calif: Sage Publications.

Czech Invest, 2013. *CzechInvest*. [Online]  
Available at: <http://www.czechinvest.org/data/files/ic-en-brozura-obalka-prosinec-2012-nahled-53-en.pdf>  
[Accessed 3 October 2014].

Dant, R. P., Grünhagen, M. & Windsperger, J., 2011. Franchising research frontiers for the twenty-first century. *Journal of Retailing*, 87(3), pp. 253-268.

Deutsch-Slowakische Industrie- und Handelskammer, 2014. *Deutsch-Slowakische Industrie- und Handelskammer*. [Online]

Available at: [http://www.dsikh.sk/infos-slowakei/wirtschaft-slowakei/?id=9930&L=0&tx\\_solr%5Bq%5D=franchise](http://www.dsikh.sk/infos-slowakei/wirtschaft-slowakei/?id=9930&L=0&tx_solr%5Bq%5D=franchise)

[Accessed 26 August 2014].

Doherty, A. M., 2007. The internationalization of retailing. *International Journal of Service Industry Management*, 18(2), pp. 184-205.

Dr. Grieger & Cie., 2014. *Studie: Fitnessstudio Monitor*. [Online]

Available at: <http://www.grieger-cie.de/fitnessstudie>

[Accessed 6 December 2014].

Dunning, J. H., 1988. The eclectic paradigm of international production: A restatement and some possible extensions. *Journal of International Business Studies*, 19(1), pp. 1-31.

East Europe Franchise Association, 2014. *East Europe Franchise Association*. [Online]

Available at: <http://eefranchise.org/country-details.php?cid=24>

[Accessed 26 August 2014].

EFF, 2010. *European Franchise Federation*. [Online]

Available at: [http://www.eff-franchise.com/IMG/pdf/Stats\\_Franchise\\_Europe\\_10092010-2.pdf](http://www.eff-franchise.com/IMG/pdf/Stats_Franchise_Europe_10092010-2.pdf)

[Accessed 15 Juli 2014].

EHFA, 2013. [Online]

Available at:

[http://www.ehfa.eu.com/sites/ehfa.eu.com/files/newsletters/EHFA\\_Update\\_May2013.pdf](http://www.ehfa.eu.com/sites/ehfa.eu.com/files/newsletters/EHFA_Update_May2013.pdf)

[Accessed 31 7 2014].

Ehrmann, T., Windsperger, J., Cliquet, G. & Hendrikse, G., 2013. *Network governance: Alliances, cooperatives and franchise chains*. Berlin Heidelberg: Springer.

Elango, B., 2007. Are franchisors with international operations different from those who are domestic market oriented?. *Journal of Small Business Management*, 45(2), pp. 179-193.

Eroglu, S., 1992. The internationalization process of franchise systems: A conceptual mode. *International Marketing Review*, 9(5), pp. 19-30.

Erramilli, M. K., Agarwal, S. & Dev, C. S., 2002. Choice between non-equity entry modes: An organizational capability perspective. *Journal of International Business Studies*, 33(2), pp. 223-242.

Evans, W. R., Novicevic, M. M. & Davis, W. D., 2007. Resource-based foundations of strategic human resource management: A review and extension. *International Journal of Learning and Intellectual Capital*, 4(1-2), pp. 75-91.

Franchise Direct, 2014. *Top 100 Global Franchises - 2014 Rankings*. [Online] Available at: <http://www.franchisedirect.com/top100globalfranchises/rankings/> [Accessed 19 July 2014].

Franchise Info, 2014. [Online] Available at: <https://www.franchiseinfo.co.uk/news/franchising-overseas?fi=1> [Accessed 10 August 2014].

Franchisemonitor, 2014. *Franchisemonitor*. [Online] Available at: <http://franchisemonitor.de> [Accessed 25 August 2014].

FranchisePortal, 2012. *Franchise Portal*. [Online] Available at: <http://www.franchiseportal.de/franchise-interviews/Interview-mit-Herrn-Tulpa-zum-Thema-Franchising-in-Tschechien.htm> [Accessed 3 October 2014].

Franchiseverband, 2014. *Franchiseverband*. [Online] Available at: <http://www.franchiseverband.com/deutscher-franchise-verband/presse/franchise-statistiken/> [Accessed 25 August 2014].

Frazer, L., Merrilees, B. & Bodey, K., 2007. Franchisors do their homework before entering international markets: Experiences from the Australian franchising sector. *International Entrepreneurship and Management Journal*, 3(4), pp. 437-452.

Frazer, L. & Weaven, S., 2006. Investment incentives for single and multiple unit franchisees. *Qualitative Market Research: An International Journal*, 9(3), pp. 225-242.

Garmaier, G., 2010. *Wirtschaftsethische Aspekte des Franchisings. Die erfolgreiche Überwindung von Dilemmastrukturen*. 1. ed. Wiesbaden: Gabler.

Germany Trade & Invest, 2014. *Germany Trade & Invest*. [Online] Available at: [http://www.gtai.de/GTAI/Content/DE/Trade/Fachdaten/MKT/2008/07/mkt200807555574\\_15](http://www.gtai.de/GTAI/Content/DE/Trade/Fachdaten/MKT/2008/07/mkt200807555574_15)

9860.pdf

[Accessed 25 August 2014].

Germany Trade & Invest, 2014. *Germany Trade & Invest*. [Online]  
Available at: [http://ahk.de/fileadmin/ahk\\_ahk/GTaI/slowakei.pdf](http://ahk.de/fileadmin/ahk_ahk/GTaI/slowakei.pdf)

[Accessed 30 January 2015].

Germany Trade and Invest, 2014. *Germany Trade and Invest*. [Online]  
Available at: [http://ahk.de/fileadmin/ahk\\_ahk/GTaI/tschechien.pdf](http://ahk.de/fileadmin/ahk_ahk/GTaI/tschechien.pdf)

[Accessed 30 January 2015].

Gläser, J. & Laudel, G., 2004. *Experteninterviews und qualitative Inhaltsanalyse als Instrumente rekonstruierender Untersuchungen*. 1 ed. Wiesbaden: VS Verlag für Sozialwissenschaften.

Gronau, N., 2009. *Der Fitnessmarkt*. [Online]  
Available at: [http://www.deloitte.com/assets/Dcom-Germany/Local%20Assets/Documents/06\\_CBuTransportation/2009/de\\_CB\\_NL\\_Fitness\\_4\\_2\\_009\\_171109\\_3061.pdf](http://www.deloitte.com/assets/Dcom-Germany/Local%20Assets/Documents/06_CBuTransportation/2009/de_CB_NL_Fitness_4_2_009_171109_3061.pdf)

009\_171109\_3061.pdf

[Accessed 27 August 2014].

Hackett, D. W., 1976. The international expansion of U. S. franchise systems: Status and strategies. *Journal of International Business Studies*, 7(1), pp. 65-75.

Hierlaender, J., 2009. *Die Presse*. [Online]  
Available at: <http://diepresse.com/home/wirtschaft/international/497977/print.do>

[Accessed 27 August 2014].

Hill, C. W. L., Hwang, P. & Kim, W. C., 1990. An eclectic theory of the choice of international entry mode. *Strategic Management Journal*, 11(2), pp. 117-128.

Hoffman, R. & Preble, J. F., 1976. Franchising into the twenty-first century. *Business Horizons*, Volume 36, pp. 35-43.

Hubertus, B., Gustav, K. & Skaupy, W., 1980. *Checkliste Franchising: Franchise-Systeme*. s.l.:Verl. Moderne Ind.

International Franchise Lawyers, 2014. *International Franchise Lawyers Association e.V. (IFLA)*. [Online]

Available at: <http://www.franchiselawyers.net/reportslovakrepublic.htm>

[Accessed 26 August 2014].

Internicola, C., 2010. *The internicola law firm. Business and franchise lawyers*. [Online] Available at: <http://www.franchiselawsolutions.com/blog/advantages-and-disadvantages-of-franchising-for-franchisors-and-franchisees.cfm>

[Accessed 20 July 2014].

Jell-Ojobor, M. & Windsperger, J., 2014. The choice of governance modes of international franchise firms - Development of an integrative model. *Journal of International Management*, Volume 20, pp. 153-187.

Jindal, R., 2011. Reducing the size of international hierarchy: The Case of multi-unit franchising. *Journal of Retailing*, 87(4), pp. 549-562.

Justis, R. T. & Judd, R., 1986. Master franchising: A new look. *Journal of Small Business Management*, Volume 24, pp. 16-21.

Kacker, M. & Aydin, N., 1990. International outlook of US-based franchisors. *International Marketing Review*, 7(2), pp. 43-53.

Kaufmann, P. J. & Dant, R. P., 1996. Multi-unit franchising: Growth and management issues. *Journal of Business Venturing*, 11(5), pp. 343-358.

Kaufmann, P. J. & Eroglu, S., 1999. Standardization and adaption in business format franchising. *Journal of Business Venturing*, 14(1), pp. 69-85.

Kaufmann, P. J. & Kim, S. H., 1995. Master franchising and system growth rates. *Journal of Marketing Channels*, 4(1-2), pp. 49-64.

Kedia, B. L., Ackerman, D. J., Bush, D. E. & Justis, R. T., 1994. Study note: Determinants of internationalization of franchise operations by US franchisors. *Internatinal Markeing Review*, 11(4), pp. 56-68.

Konigsberg, A. S., 2008. *International franchising*. 3rd ed. New York, USA: Juris Publishing Inc..

Koziarska-Anders, M., 2014. *Internationalisierung von Mrs. Sporty auf dem tschechischen und slovakischen Markt* [Interview] (28 November 2014).

Koziarska-Anders, M., 2015. *Internationalisierung von Mrs. Sporty auf dem tschechischen und slovakischen Markt - Zusatzinterview* [Interview] (28 April 2015).

KSV, 2013. *Country Report fuer Investoren und Exporteure - Slowakische Republik*, Vienna: KSV1870 Holding AG .

Kutschker, M. & Schmid, S., 2006. *Internationales Management*. 5. Ausg. ed. München: Oldenbourg Wissenschaftsverlag.

Lafontaine, F., 1992. Agency theory and franchising. Some empirical results. *The RAND Journal of Economics*, 23(2), pp. 263-283.

Lavassani K., M. B. & K. V., 2007. *Evolution of supply chain theories: A comprehensive literature review*. Ottawa, Ontario, Canada: s.n.

Madhok, A., 1997. Cost, value and foreign market entry mode: The transaction and the firm. *Strategic Management Journal*, Volume 18, pp. 39-61.

Martius, W., 2010. *Fairplay Franchising- Spielregeln für den partnerschaftlichen Erfolg*. 2. ed. Wiesbaden: Gabler.

Martius, W., 2014. *Syncon*. [Online]  
Available at: [http://www.syncon-international.com/download/vortraege/franchising\\_osteuropa.pdf](http://www.syncon-international.com/download/vortraege/franchising_osteuropa.pdf)  
[Accessed 3 October 2014].

Mayring, P., 2002. *Einführung in die qualitative Sozialforschung. Eine Anleitung zu qualitativem Denken*. 5th ed. Weinheim: Beltz (Beltz Studium).

Mintzberg, H., 1978. Patterns in strategy formation. *Management Science*, 24(9), pp. 934-948.

Mrs. Sporty Franchise, 2014. [Online]  
Available at: <http://www.mrssporty-franchise.de/>  
[Accessed 31 July 2014].

Mrs. Sporty Masterfranchise, 2014. *Mrs. Sporty Masterfranchise*. [Online]  
Available at: <http://www.mrssporty-masterfranchise.com/>  
[Accessed 26 August 2014].

Mrs. Sporty, 2014. [Online]  
Available at: <http://www.mrssporty.de/>  
[Accessed 31 July 2014].

Mumdžiev, N., 2009. *Allocation of decision rights in international franchise firms: The case of master and direct franchising*. Vienna: s.n.

- Paik, Y. & Choi, D. Y., 2007. Control, autonomy and collaboration in the fast food industry: A comparative study between domestic and international franchising. *International Small Business Journal*, 25(5), pp. 539-562.
- Pan, Y. & Tse, D. K., 2000. The hierarchical model of market entry modes. *Journal of International Business Studies*, 31(4), pp. 535-554.
- Preble, J. F., 1995. Franchising systems around the globe: A status report. *Journal Of Small Business Management*, 33(2), pp. 80-88.
- Preble, J. F. & Hoffman, R. C., 2006. Strategies for business format franchisors to expand into global markets. *Journal of Marketing Channels*, 13(3), pp. 29-50.
- Preble, J. F., Reichel, A. & Hoffman, R. C., 2000. Strategic alliances for competitive advantage: Evidence from Israel's hospitality and tourism industry. *Hospitality Management*, Volume 19, pp. 327-341.
- Presseanzeiger, 2014. *Presseanzeiger*. [Online]  
Available at: <http://www.presseanzeiger.de/pa/Mrs-Sporty-positioniert-sich-neu-752080>  
[Accessed 9 10 2014].
- Price Waterhouse Coopers, 2004. *International Franchise Association*. [Online]  
Available at: [http://www.franchise.org/files/EIS6\\_1.pdf](http://www.franchise.org/files/EIS6_1.pdf)  
[Accessed 15 Juli 2014].
- Profit System, 2014. *Franchise 2 Profit*. [Online]  
Available at: <http://franchise2profit.com/report-czech-republic>  
[Accessed 3 October 2014].
- Proxowell, 2014. *Proxowell*. [Online]  
Available at: <http://www.proxowell.de/home/>  
[Accessed 07 12 2014].
- Quinn, B., 1998. Towards a framework for the study of franchising as an operating mode for international retail companies. *The International Review of Retail, Distribution and Consumer Research*, 8(4), pp. 445-467.
- Quinn, B. & Alexander, N., 2002. International retail franchising: A conceptual framework. *International Journal of Retail & Distribution Management*, 30(5), pp. 264-276.

Rohlfing, A., 2011. Anreizsysteme im Franchising. *Zeitung für Controlling und Management*, Issue 3, pp. 41-45.

Rowley, J., 2002. Using case studies in research. *Management Research News*, 25(1), pp. 16-27.

Rubin, P. H., 1978. The theory of the firm and the structure of the franchise contract. *Journal of Law and Economics*, Volume 21, pp. 223-233.

Ryans, J. K. J., Lotz, S. & Krampf, R., 1999. Do master franchisors drive global franchising?. *Marketing Management*, pp. 33-37.

Sashi, C. M. & Karuppur, D. P., 2002. Franchising in global markets: Towards a conceptual framework. *International Marketing Review*, 19(4/5), pp. 499-524.

Shane, S. A., 1996. Why franchise companies expand overseas. *Journal of Business Venturing*, Volume 11, pp. 73-88.

Skaupy, W., 1995. *Franchising: Handbuch für die Betriebs- und Rechtspraxis*. 2. ed. München: Vahlen.

Statista, 2013. *Statista*. [Online]  
Available at: <http://www.statista.com/topics/1141/health-and-fitness-clubs/>  
[Accessed 30 April 2015].

Stoneman, P., Sturgis, P. & Allum, N., 2013. Exploring public discourses about emerging technologies through statistical clustering of open-ended survey questions. *Public Understanding of Science*, 22(7), pp. 850-868.

Syncon, 2014. *Syncon*. [Online]  
Available at: [http://www.syncon.at/presse\\_archiv/download\\_presse/franchising\\_osteuropa.pdf](http://www.syncon.at/presse_archiv/download_presse/franchising_osteuropa.pdf)  
[Accessed 26 August 2014].

US Commercial Service, 2012. *Doing business in slovakia: 2012 country commercial guide for U.S. companies*, s.l.: s.n.

Voll, J., 2007. *Internationalisierung in der Unternehmensentwicklung: Implikationen kultureller Distanz im Internationalisierungspfad*. Wiesbaden: Deutscher Universitätsverlag.

Walker, B. J. & Etzel, M. J., 1973. The internationalization of U. S. franchise systems: Progress and procedures. *Journal of Marketing*, 37(2), pp. 38-46.

- Welch, L. S., 1999. Internationalisation by Australian franchisors. *Asia Pacific Journal of Management*, 7(2), pp. 101-121.
- Williamson, O. E., 1981. The economics of organization: The transaction cost approach. *American Journal of Sociology*, 87(3), pp. 548-577.
- Windsperger, J., Cliquet, G., Hendrikse, G. & Tuunanen, M., 2004. *Economics and management of franchising networks*. Heidelberg: Physica-Verlag.
- Wohner, L., 2014. *Der Tagesspiegel*. [Online] Available at: <http://www.tagesspiegel.de/wirtschaft/deutscher-fitnessmarkt-fitness-schlaegt-fussball/9638832.html> [Accessed 31 July 2014].
- Yin, R. K., 1984. *Case study research: Design and methods*. Newbury Park, CA: Sage.
- Yin, R. K., 2009. *Case study research. Design and methods..* 3 ed. Los Angeles: Calif: Sage Publications (Applied social research methods series, 5).
- Yin, R. K., 2012. *Applications of case study research*. 3rd ed. s.l.:SAGE Publications, Ing.
- Young, S., 1987. Business strategy and the internationalization of business: Recent approaches. *Managerial and Decision Economics*, 8(1), pp. 31-40.
- Zietlow, D., 1995. Wholesalers in international franchising. *Illinois Business Review*, 52(2), pp. 13-14.

## 9 Appendix

### 9.1 Interview Guideline German – Expert Interview (November 28<sup>th</sup>, 2014)

Job/Rolle bei Mrs. Sporty

Allgemeines zu Mrs. Sporty

Warum wird zur Internationalisierung nur Franchising genutzt?

Welche Formen von Franchising werden in anderen Ländern verwendet?

Definition: Wie definieren Sie die unterschiedlichen Franchising Modes?

Zahlen und Fakten Mrs. Sporty

#### **H1: Environmental uncertainty**

Welches waren die entscheidenden Faktoren von direktem Franchising auf Master Franchising zu wechseln?

- Unterschiede in Politik, Rechten, Gesetzen
- Vorhersagbarkeit von Nachfrage und Konkurrenz im Host Country, sowie die richtige Einschätzung derer
- Kulturelle Unterschiede z.B. Sprache, Geschlechtsverteilung, Geschäftsgepflogenheiten, IT, Infrastruktur, Arbeitseinstellung zw. Deutschland und SK/CZ

Wie beobachten/kontrollieren Sie ändernde Umweltbedingungen im Gastland? Welche Kosten entstehen dabei, beim DF und MF?

#### **H 2: Behavioral uncertainty**

Wie hoch ist die Gefahr von opportunistischem Verhalten Ihrer Franchisees MF/DF?

Wie überwachen sie die Einhaltung der Vertragsbestimmungen beim Direkten Franchising, wie beim Master Franchising? Wo gibt es weniger Probleme bzw. welche Probleme gab es bisher?

Wie sehen Ihre Kontrollmaßnahmen bei beiden Formen aus? Was passiert bei Nicht-Einhaltung?

Inwiefern verringert sich der Überwachungsaufwand und -kosten beim MF?

Wie bewerten Sie die Qualifikation der Franchisenehmer, sowohl im direkten als auch im Master Franchising? (Vermeidung adverse Selektion, d.h. dass sich nach Vertragsschluss herausstellt, dass der falsche Partner gewählt wurde)

Wie kontrollieren Sie das Einhalten der Qualität/Normen/Charakteristika/Serviceleistungen/ Angebot von Mrs. Sporty?

### **H5: Financial Assets (und Transaction-specific investments)**

Wieviel muss ein Franchisee investieren um einen Club zu eröffnen?

Wieviel kostet Sie ein neuer Club und was wird von Ihnen zur Verfügung gestellt (Franchise Package)? Unterschiede zwischen DF und MF?

Welche Vermögensgüter stellen Sie dem Franchisenehmer zur Verfügung (spezifisches Training, Ausstattung für den Club, Vertriebs- und Verkaufskonzepte, besondere Hilfe beim Start und während der Umsetzung, Trainings, ...) bei MF und andererseits beim DF?

Wo sind transaction-specific investments des Franchisegebers größer? Bei MF oder bei DF? (d.h. wer investiert wieviel z.B. in Trainings, Gebäude, Ausstattung, etc.)

Welche transaction-specific investments leistet der Partner (MF und DF)?

Besteht ein Abhängigkeitsverhältnis zw. Geber und Partnern aufgrund der TSI? In welche Richtung ? was passiert am Ende des Vertrags, wenn das Franchising Outlet nicht weitergeführt vom DF oder MF? Welche „switching costs“ entstehen dabei?

Was passiert nach Ablauf des Kontrakts (mit dem Franchisee, dem Club etc.)

Entstehen durch die TSI ein Abhängigkeitsverhältnis, bzw. Asymmetrien? Wenn ja für wen?

Gibt es finanzielle Gründe warum aus der Sicht von Mrs. Sporty Master Franchising dem DF vorzuziehen ist oder vice versa?

Kommt es durch diese Asymmetrien zu opportunistischem Verhalten der Franchisepartner?

Wie kann der Vertrag aufgelöst werden? Was passiert danach? Wer bekommt was? Für wen ergibt sich der größere Nachteil?

### **H3: System-specific assets**

Welche materiellen und immateriellen Vermögenswerte zeichnen Mrs. Sporty aus?

Was sind Erfolgsfaktoren von Mrs. Sporty? Und wie wurde dieser/diese erreicht? (Besonderes Know-how, Marketing, Werbung, Ruf?)

Wie wichtig ist eine 100% Systemimplementierung im Ausland, z.B.: alle Aspekte des Franchisingformats, welche in Deutschland zum Einsatz kommen.

Sind folgende SSA an die lokalen Bedürfnisse angepasst?

Product mix

Brand identity

Operational strategies

Managerial strategies

Transferproblem von spezifischen Assets/Erfolgsfaktoren: wie wird sichergestellt, dass Erfolgsfaktoren im Ausland richtig umgesetzt werden? Kommunikation/Standardisierung von Erfolgsfaktoren. Welche Erfolgsfaktoren werden an Partner weitergegeben (MF, DF)?

Haben Sie auf Ihre Workouts und das spezielle Ernährungskonzept Patente angemeldet um sich von der Konkurrenz zu „schützen“?

Wie wird der ordnungsgemäße Einsatz dieser Mrs. Sporty spezifischen Vermögenswerte in den Auslandsmärkten sichergestellt? Gibt es beim Masterfranchising eher Problem, nachdem Sie hier weniger Kontrolle haben?

#### **H4: Local market assets**

Worauf wurde bei der Auswahl des MF und DF besonders geachtet, welche Eigenschaften (v.a. in Hinsicht auf kulturelle, sprachliche Unterschiede, Marktwissen) muss dieser mitbringen? Wie überprüfen Sie diese?

Wie unterscheidet sich der CZ/SK Markt vom Deutschen?

Was wird, verglichen zum Headquarter/Deutschland, angepasst? Nicht nur Produktpalette sondern auch Prozesse, IT, Kommunikation, Accounting, Marketing, Advertising, Promotional Activities?

Welche Bereiche des Franchise business formats werden verglichen zum Headquarter/Deutschland nicht angepasst?

Welche LMA hat der Partner?

Wie schwierig ist es für den Franchisegeber, das lokale Marktwissen zu akquirieren? Kosten? Zeitfaktor.

Wie wichtig ist das lokale Marktwissen für das gesamte Franchisesystem? Kann/könnte es systemweit angewandt werden? Kann lokales R&D, Innovation systemweit Verwendung finden?

Inwiefern war die Tatsache, dass Sie durch MF eventuell leichter an finanzielle Unterstützung kommen können im Ausland, ein Grund auf diese Franchising Form zu wechseln.

Sonstige Unterschiede zw. Finanzierung DF/MF

### **Sonstiges:**

#### **Fragen zu Partner Decision Rights/DR und Geber-Kontrolle, je DF/MF:**

Wer entscheidet bei DF bzw. MF über:

- Neue Produkte und Projekte
- Pricing strategies
- Marketing and distribution strategies
- Human relation practices (e.g. recruitment and training)
- Procurement strategies
- Investment strategies

Welche DR hat der Partner? DF und MF

Welche/wieviel Kontrolle übt der Geber aus? Bei DF und MF.

#### **Fragen zu Performance**

Inwieweit ist Performance vom System durch Franchising und Wahl der geeigneten Form (Switch zu MF, DF) beeinflusst/besser?

#### **Fragen zu Trust**

Vertrauen – Franchising Agreement: Unterschiede MF DF, wie oft besuchen sie beispielsweise die Outlets? Welche Reports bzw. Kontrollmaßnahmen werden eingesetzt?

Sonstige Gründe aus Ihrer Sicht für MF

Sonstige Gründe aus Ihrer Sicht DF

Welche Probleme gab es bisher mit dem direkten Franchising in SK?

Welche Nachteile könnten sich aus Ihrer Sicht durch das MF für Mrs. Sporty ergeben?

### **Conclusio und Ausblick**

Zukunftsaussichten Mrs. Sporty

## **9.2 Interview Guideline German – Expert Interview (April 30<sup>th</sup>, 2015)**

### **Änderungen seit dem Erst-Interview**

#### **Zukunftsansichten**

Ziele und Pläne für CZ/SK?

Welches sind weitere geplante Auslandsmärkte?

Haben Sie vor auch außerhalb Europa zu expandieren, wenn ja wie und wo?

Nachdem USA der größte Fitnessmarkt weltweit ist, gibt es dort konkrete Pläne für Mrs. Sporty?

Wo sehen Sie Mrs. Sporty in 10 Jahren?

### **9.3 Abstract (English)**

This single case study investigates the factors explaining the franchisor's choice between direct and master franchising in the fitness industry on the Eastern European market. This case study has been conducted with Mrs. Sporty, which is a German company that uses franchising to internationalize globally. The developed propositions are based on a recent multi-theoretical franchise model from Jell-Ojobor and Windsperger (2014) which is based on the concepts of transaction cost theory (TCT), agency theory (AT), resource-based theory (RBT), organizational capabilities theory (OCT) and the property rights theory (PRT). Results indicate that there are variables which have been major drivers for Mrs. Sporty's decision to use master franchise agreements instead of direct franchise agreements. In case of Mrs. Sporty local market assets such as essential know-how about the consumers, business habits, tastes, culture and different languages have been the most important factors for the decision to use master franchising. Besides local market assets also environmental uncertainty, behavioral uncertainty and financial assets of the local master franchisor on the Eastern European market have been identified to be essential factors for the company's decision.

## **9.4 Abstract (German)**

Diese Arbeit untersucht Faktoren, welche für den Franchisegeber maßgeblich sind, um sich zwischen direktem und Master Franchising auf dem osteuropäischen Markt zu entscheiden. Dem empirischen Teil liegt eine Einzelfallstudie mit Mrs. Sporty zugrunde. Mrs. Sporty ist ein Unternehmen in der deutschen Fitnessbranche, dass Franchising zur Internationalisierung nützt. Die aufgestellten Hypothesen basieren auf dem kürzlich-entwickelten Franchising-Modell von Jell-Ojobor und Windsperger (2014). Dieses multi-theoretische Modell basiert auf der Transaktionstheorie, Agency-Theorie, ressourcenorientierte Theorie, Organizational Capabilities Theorie und Property Rights Theorie. Die Ergebnisse der Fallstudienanalyse zeigen, dass verschiedene Variablen für die Entscheidung zwischen direktem und Master Franchising verantwortlich sind. Bedingt durch bedeutsame Unterschiede in der Kultur, den länderspezifischen Präferenzen, der Sprache, des Konsumverhaltens, der Geschäftsgepflogenheiten, sowie fehlenden Beziehungen zu Finanzinstituten, wurde seitens Mrs. Sporty beschlossen, auf Master Franchising Verträge in den osteuropäischen Ländern umzusteigen. Weitere Gründe sich für Master Franchising zu entscheiden, waren unter anderem ein geringeres Risiko aufgrund eines lokalen Partners, anstatt vieler einzelner Franchisenehmer, sowie die Tatsache dass der lokale Master Franchisenehmer die wirtschaftliche und ökonomische Lage des Gastlandes besser einschätzen konnte.

## 9.5 Curriculum Vitae



### Bianca Bogner, BSc (WU)

**Date of Birth** June 19<sup>th</sup>, 1989  
**Nationality** Austrian

#### Work Experience

<b>12/2012 – now</b>	<b>HOERBIGER Ventilwerke GmbH &amp; Co KG</b> Vienna, Austria	<b>Controlling – Part time</b> <ul style="list-style-type: none"> <li>• Support month-end, quarterly-end and year-end close process</li> <li>• Coordination and preparation of the budget and financial forecasts and report variances</li> <li>• Responsible for IT investments</li> <li>• Control and optimize stock levels</li> <li>• Calculation</li> <li>• Project leader „Optimization IT costs“</li> </ul>
<b>05/2009 – 09/2011</b>	<b>HOERBIGER Ventilwerke GmbH &amp; Co KG</b> Vienna, Austria	<b>Controlling – Part time</b> <ul style="list-style-type: none"> <li>• Master data maintenance</li> <li>• Cost center analyses</li> <li>• Project work “commercial cleaning”</li> </ul>
<b>07/2008</b>	<b>Volksbank</b> Braunau/Inn, Austria	<b>Internship</b> <ul style="list-style-type: none"> <li>• Back office activities</li> <li>• Customer support</li> </ul>
<b>09/2007 – 05/2008</b>	<b>AMAG Austria Metall AG</b> Braunau/Inn, Austria	<b>Project work</b> <ul style="list-style-type: none"> <li>• Tool to optimize updates of source lists/material data/purchasing info in SAP</li> </ul>
<b>08/2006</b>	<b>Chamber of Commerce</b> Braunau/Inn, Austria	<b>Internship</b> <ul style="list-style-type: none"> <li>• Customer service</li> </ul>

#### Work Experience (Abroad)

<b>07/2014 – 08/2014</b>	<b>HOERBIGER Zandov s.r.o.</b> Prague, Czech Republic	<b>Finance &amp; Controlling Internship</b> <ul style="list-style-type: none"> <li>• Planning and budgeting in service plants (Area East) 2015-2017</li> </ul>
<b>10/2011 – 09/2012</b>	<b>HOERBIGER Corp. of America</b> Pompano Beach, Florida, USA	<b>Finance &amp; Controlling Trainee</b> <ul style="list-style-type: none"> <li>• Planning and budgeting 2012-2015</li> <li>• Cost center analyses</li> <li>• Investment and profitability calculation</li> <li>• Fixed-asset accounting and inventory</li> </ul>

## Education

---

03/2013 – now	<b>University of Vienna</b> <i>Majors</i>  <i>Master thesis</i>	<b>Master Studies in International Business</b> <ul style="list-style-type: none"> <li>• International innovation and technology management</li> <li>• International market strategies</li> <li>• Direct versus master franchising to internationalize within the fitness industry – The case of Mrs. Sporty</li> </ul>
10/2008 – 06/2011	<b>Vienna University of Economics and Business</b> <i>Majors</i>  <i>Bachelor thesis</i>	<b>Bachelor Studies in Business Administration</b> <ul style="list-style-type: none"> <li>• Accounting &amp; management control</li> <li>• International business</li> <li>• Bolivia – Doing business in a risky environment</li> </ul>
09/2003 – 07/2008	<b>Handelsakademie</b> Braunau/Inn, Austria	<b>Specialization SAP</b>

## Language Skills

---

<b>German</b> <b>English</b> <b>French</b>	Mother tongue Business fluent Basic knowledge
--	---

## Computer Skills

---

<b>MS-Office</b> <b>SAP 4.7/6.0 CO/FI</b> <b>SAP 4.7/6.0 MM/SD/PP</b> <b>SAP BI</b> <b>Professional planner</b>	Very good Very good Basic knowledge Good Very good
---	--

## Further Training

---

<b>In-house trainings</b> <b>(HOERBIGER)</b>	<ul style="list-style-type: none"> <li>• Planning and budgeting in service and production plants</li> <li>• Professional planner</li> </ul>
---	---

## Honors & Awards

---

<b>Academic excellence scholarship - University of Vienna 2013</b>	<ul style="list-style-type: none"> <li>• Award for excellent academic achievements</li> </ul>
--	---

## Leisure Activities

---

<b>Sports</b>	<ul style="list-style-type: none"> <li>• Short and long-distance running</li> <li>• Participation in competitions</li> <li>• Freeletics</li> </ul>
---------------	--