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„Pros and Cons of Franchising vs. Company-Owned
Expansion“

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Abstract

This master's thesis contains a wide theoretical overview on franchising and company ownership entry modes and it is furthermore based on qualitative interviews with experts for data collection.

The main objective of the thesis is focused on the investigation of the role of entry mode choice, the factors that have an impact on the selection of a specific market entry mode and the consequences related to this choice. The selection of a particular market entry mode influences the success or failure of a company. For example, choosing the wrong entry mode can lead to financial failure of the company as well as a loss of control in international markets. Furthermore, the thesis explored the advantages and disadvantages of both franchising and company-owned systems as possible market entry modes. The aim of this study was to provide deep insights into the factors that influence the decisions made when creating a franchising network or a company ownership.

The hypotheses were built on the base of property rights, transaction costs and agency theories and were tested in a qualitative analysis framework. Four qualitative semi-structured interviews were conducted. The main findings show a link between the theories that explain market entry mode choice and the choices made by strategists. In the final chapters of this paper the results of the study are presented and a corroboration of the hypotheses is carried out. The findings should help to stimulate further discussions on the topic at hand and improve the basis for future studies in this field.

Key words: *market entry mode, franchising, company ownership.*

List of abbreviations

JV	Joint Venture
MNC	Multinational Corporation
SME	Small and Medium Enterprise
WOS	Wholly-Owned Subsidiary
EFF	European Franchise Federation
EU	European Union
IFA	International Franchise Association
DFV	German Franchise Association

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1. Introduction

Globalization developed significantly in the past years with the help of modern means of communication, transportation and infrastructure. In times of globalization, companies are influenced by rising competition all over the world (Bender and Fish, 2000). International expansion processes are inevitable. International expansion gives a chance to a company to acquire better employees, increase financial funds and improve their production efficiency. By entering international markets companies get an opportunity to improve their growth potential.

The general objective of master's thesis is to investigate two main types of expansion: company ownership and franchise expansion system and examine comparative advantages and disadvantages of both market entry modes derived from empirical approaches. Moreover, theoretical approaches will be tested based on its influencing factors. This research paper will find out under which conditions the choice of certain entry mode will determine the growth of the company.

There are lots of empirical studies which explain internal and external factors for choosing a certain entry mode. This research paper is based on investigations based on Agency Theory, Transaction Cost Theory, Resource Scarcity Theory, Signaling Theory and Information Theory. The aim is to compare theoretical considerations with practical part based on obtained data and to clarify in which cases theory matches with practice.

Expansion by franchising is based on a franchise agreement which provides a certain service in exchange of remuneration. Expansion by company-owned chains is implemented by adding new company-owned outlets. The paper will find out under which expansion mode and under which conditions will be more preferable for entrepreneurs.

Company's success has a positive link with the right choice of market entry for a target country. When the managers make their final choice, they consider what business model suits the company best. In franchising, the franchisor is an owner of the trademarks who provides them to other contract partners (Longenecker et al., 2012). Chain businesses employ store managers, whereas independent, self-employed business people manage the franchise stores. Well-known global franchises are McDonald's, Subway, KFC, and Hilton Hotels for

example. Store chains will be established, when an owner decides to open additional outlets in different areas. These retail outlets operate under central management and under a common brand. Examples for company-owned systems are Wal-Mart, The Home Depot, Starbucks, and Foot Locker.

If a company decides to establish a franchise, it will lend its brand name and a proven business model to an investor. Chain expansion occurs when a company decides to own real estate, buildings and necessary equipment itself. In the chain system, the parent company directly controls quality in each chain store. In franchising, it is the individual business owner controlling quality and results. Franchise and chain expansion differ in the type and level of business risks involved. Franchising means less risk and limited losses for the franchisor. Business chain expansion offers a bigger capacity for making additional profit. In the case of a franchise model, owners only receive a certain percentage of the profit and obtain a franchise fee instead (Longenecker et al., 2012).

This paper is structured as follows: after a short introduction in Chapter one, Chapter two introduces the reasons for international expansion, its ways, influencing factors and the problems of growth. Chapter three explains franchising and company-owned store systems in detail. It provides definitions, basic characteristics, an overview of different types of entry modes and their main advantages and disadvantages. Chapter four illustrates the theoretical background for the selection of key factors by choosing a specific entry mode strategy. These factors include costs, speed of growth, local market knowledge, trust and control. Chapter five presents the research objective, the questions and research interests, a description of the research design and the approach and method of the study. In the final chapters the obtained data is presented and the main results of the research project are summarized. Additional questions and limitations of the study are also discussed. The final part includes figures, tables and a list of sources.

2. Expansion into foreign markets

This chapter is aimed to provide an overview of reasons and ways of international expansion, factors influencing entry mode choice and problems of growth.

2.1. Reasons of expansion

There are different reasons for business expansion: brand recognition, achieving “economies of scale”, lower labor costs, avoidance of tariffs and import quotas, controlling expenses, diversification, increasing competitiveness and sales, finding new markets, availability of suppliers, advantages in regulations, broadening product range and customer base (Kinicki et al., 2012).

Thus, a growing brand can bring more value and quality, which will influence goodwill in global markets. Expansion of business often means more customers and market recognition. The cost advantage arises with growing “economies of scale”, when producing more units of a good or service coincides with falling production costs per unit. Money saved by applying economies of scale can be used for research and development, employee training and education, enhancing productivity and implementation of new technology. The availability of suppliers has a significant meaning for companies who are looking for cheaper and more plentiful raw materials outside their home market. Avoidance of tariffs and import quotas can be a big advantage while expanding abroad, because it can help the company to avoid numerous penalties by creating subsidiaries in foreign countries (Kinicki et al., 2012).

The main goal of a diversification strategy is to differentiate a company’s overall product line. In such a way companies can protect their investment and possibly reach a balance between economic decline in one country and economic growth in another country. Competitiveness: the main idea for the company is to protect itself against rivals and gain a competitive advantage over them. Broadening range and customer base: the goal is to make the business known to a wider range of potential customers, which will improve the company’s profits and its brand value. Advantage of regulatory differences: in this case the company tries to use advantages derived from country-specific regulations (Kinicki et al., 2012).

2.2. Ways of international expansion

There are different entry mode strategies, which differ in their degree of risk, responsibility and expected profit. There are non-equity modes and equity entry mode strategies (Pan and Tse, 2000).

Non-equity modes do not need equity investment by a foreign member (Erramilli et al., 2002). They are preferred by consumer-service firms (e.g. hotel and restaurant firms). Those contractual modes include leasing, licensing, franchising and management-service contracts. Companies, who enter with non-equity modes, incur reduced risk and a speed advantage. On the other hand, its biggest drawback is a lack of conviction from consumers and partners, cooperating with a company, which does not physically enter a particular market.

The equity modes of entry involve direct investment and joint ventures. Using direct investment, the company is able to directly control the operations. In the case of joint ventures, the company has the benefit of a resident partner's knowledge of government systems as well as the general marketing and business environment. The drawbacks of equity modes of entry refer to the big amount of investment and the time needed to build up relationships with investment partners or joint venture companies. A high level of risk can arise, if the target market undergoes unstable economic or politic conditions. Another drawback of equity entry modes is reduced control over operations in the case of joint ventures (Pan and Tse, 2000).

The most popular market strategy is exporting and importing. There are direct and indirect ways of exporting. Indirect export is a way of exporting with the help of inner export intermediaries (Cunningham, 1986). Direct exporting represents a mode of exporting with an advantage of economies of scale in production which is concentrated in a home country.

Licensing is "a contractually transferred right to use a legally protected or unprotected invention in exchange for a fee or another type of compensation" (Mordhorst, 1994, p.14). Licensing offers the advantage of low risk relationships and receiving royalties from the licensee for a specified period. Besides, capital is not tied up in foreign operations. Disadvantages of licensing include possible losses, less control over manufacturing and marketing as well as the possibility of licensees becoming competitors.

Franchising is a rapid way of expansion in developed countries (e.g. business services, fast food chains, hotel or car rental, etc.). As a rule, the main guidelines are fixed, so that the franchisee has limited possibilities of adaptation. Franchising can be implemented successfully for companies with repeatable business models (e.g. food chains) that can be easily relocated into other markets. The main advantages are the opportunity to adapt the product to local tastes and strong brand recognition.

International joint venture (JV) is formed when two or more companies form a united fund of their resources and transact (Kogut, 1988). According to the Transaction Cost Theory, companies expand with JV because of minimizing production and transaction costs, improving competition and exchanging organizational knowledge. Advantages of joint ventures are a reduction of market and political risks, realization of economies of scale, shared risks and better relations with national governments as well as access to local contacts and competences. Disadvantages of joint ventures are high investments, the involvement of partners in long-term relations, cultural differences, loss of flexibility and confidentiality, problems of management structures.

2.3. Factors influencing entry mode choice

There are many factors influencing the decision of selecting entry mode to external markets. Studies recognize and classify these factors into two main types: internal and external (Root, 1994). Internal factors are adjustable and changeable. They influence decisions of companies in terms of external market entry. External factors are non-adjustable and considerably influence selection of entry mode.

Studies differentiate internal factors such as:

- **Country product**

Quality, quantity and cost of primary products, other productive factors and organizational structure carries a high importance on entry mode choice (Hollensen, 2001).

- **Company resource-commitments**

The main company's resources are management, capital, marketing, technology and production skills. Choice of entry mode directly depends on the available resources. If some of the resources are not available, the company decides for the entry mode with fewer requirements (Hollensen, 2001).

- **Company size**

International expansion needs lots of resources from the company. That's why size of companies has a direct link with their accessible resources (Hollensen, 2001).

- **International experience**

This factor shows international expansion position of the company. With more international experience comes faster adaptation to the entry mode (Koch, 2001).

- **Risk**

This factor is depending on the willingness of company to take risks. In case of company-owned expansion, risks would be higher than with exporting expansion (Koch, 2001).

- **Flexibility**

A situation when the company is capable to react flexible and fast in changeable market circumstances (Koch, 2001).

- **Market share and profit targets**

This factor is influencing the choice of market entry when the primary goal of the company is maximize its profit and market share (Koch, 2001).

- **Control**

Choice of entry mode has a direct link to the level of control within the company. This factor influences considerations, understanding and solutions of managers (Koch, 2001).

External factors comprise (Hollensen, 2001):

- **Socio cultural distance**

This factor includes the gap between home and host country and brings indecision for the managers about market entry. Managers will avoid direct investment in case of big cultural distance between two countries.

- **Country risk and uncertainty**

Country risks contain economic and political risks which bring unstable situation and unpredictability in the certain country. In case of uncertainty companies won't invest lots of their resources.

- **Market size and growth**

Company's managers will likely invest their resources in foreign markets with big growth and profit potential. They can expand with joint ventures or whole ownership.

- **Trade barriers**

Trade barriers, regulations and limitations are influencing market entry choice.

- **Competition**

Companies are likely to work harder in the environments where the completion is very high.

- **Geographical distance**

This factor is crucial in choosing entry mode because of high transportation costs which can arise if company's headquarter is established far from the target market (Koch, 2001).

2.4. Problems of growth

When the company decides to expand, it faces a set of problems of growth. First of all, the speed of international growth can be one of the hardest tasks for an entrepreneur to deal with. Also, international law documentation issues are very important for small businesses in order to set up systems for controlling cash flow, supervising finance, following human resources information and other aspects of business procedure (Mayer and Jebe, 2010).

The other problem for small businesses could be a lack of proper financing which can be solved with a help of business plan which will adjust marketing strategies due to the needs of the international markets. Besides, expanding companies will face HR issues, which mean that the company will need to employ new staff in order to meet the needs in additional production, accurate documentation, marketing etc. Salaries and working conditions can be different in international markets. The entrepreneur often faces problems, setting an acceptable level of salaries, and might incur difficulties in the working environment. Thus company standards need to meet employees' needs and should ensure fair pay and acceptable working hours.

Another important issue is associated with the transformation of company culture. One of the most difficult tasks in the growth process and the expansion into foreign markets is linking the new strategy to the company's core values that were established earlier. The entrepreneur can also face issues concerning his new role in leadership, because he needs to face changing economic conditions of growth and development and has to cooperate with accounting and legal experts.

One of the biggest problems of expansion is corruption. Some regular payments could be regarded as illegitimate in the legal framework of another country. The company can reconsider their decision to enter a foreign market, if large sums of money are continually charged to do a business there.

Moreover, companies could possibly face a problem of pollution. Companies need to avoid the production of toxic materials and their dispersion into the environment. That means that they need to be aware of environmental regulations and apply the local standards for the protection of the environment.

International markets give lots of perspectives for expansion but organizations need to distinguish and control the possible risks in order to take them into consideration. Political risks include imprisonment of employees, legal action against employees, political change, military conflicts and the nationalization of production or distribution centers (Clark and Marois, 1996).

Supply chain risks are connected to the disruption of supply chains during natural disasters, the risks associated with longer supply chains, new partners, changeable political situations and changes in trade arrangements etc.

International expansion has a great influence on a company's most important resources - its people. Local language or dialect can be one of the main barriers to the successful operation of organizations on an international scale.

Competitive risks include risks of failure in an unknown market due to greater competition, low profitability or the existence of aggressive competitors (Mayer and Jebe, 2010).

3. Franchising versus company-owned store system

The aim of the following chapter is to provide definitions of store systems, their types, advantages and disadvantages.

3.1. Franchising

3.1.1. Definition of franchising

There are lots of different ways to define franchising. There is no universal definition for this term. Here is an overview of the most frequently used definitions in literature:

The code of ethics of the German Franchise Association (DFV) offers a more precise definition of the term (DFV, <http://www.franchiseverband.com>):

“Franchising is a sales and distribution system, by means of which goods and/or services and/or technologies are marketed. It is based on a close and ongoing cooperation of legally and financially independent and self-employed companies, the franchisor and his franchisees. The franchisor grants his franchisees the right, and at the same time imposes the obligation on them to run a business according to his concept. This right entitles and obliges the franchisee, against direct or indirect remuneration, within the framework and for the duration of a contract signed between the parties, to utilize, under ongoing technical and economic support by the franchisor, the system’s name and/or trademark and/or the logo and/or other intellectual property or protection rights as well as know-how, the economic and technical methods and the business system of the franchisor”.

The definition of franchising from the code of behavior of the European Franchise Federation (EFF) gives a clear explanation (EFF, <http://www.eff-franchise.com>):

“Franchising is a vertical cooperative form of collaboration between companies at different financial levels. Franchising is a system by which goods and/or services and/or technologies are marketed. It is based on close and continuous collaboration of legally and financially stand-alone and independent companies, the franchiser and his franchisees. The franchiser grants his franchisees the right and at the same time obliges them to operate a business according to his plan. The franchisee is granted the right of use of the franchiser’s rights to a

name and trademark by the franchise contract. On the basis of the franchise contract, the franchisee is obliged to use the purchasing, sales and/or organizational plan developed by the franchiser. This right allows and obliges the franchisee to use the franchiser's system name and/or trademark and/or service trademark and/or other intellectual property rights along with the franchiser's know-how, economic and technical methods and business organization system for direct or indirect remuneration in the framework and for the duration of a written franchise contract concluded between the parties for this purpose, with ongoing technical and business management support by the franchiser”.

3.1.2. Types of franchising

There are three main types of franchises based **on their operational structure**: business format, product, and manufacturing franchises (Skaupy, 1995).

Service Franchises

The main focus of this type of franchising is in offering services under a certain trademark. The company is growing in such a way that it is providing business owners with a well-recognized name and the franchisor's trademark as well as helping them to start and manage their businesses. The business owners are obliged to pay royalties and fees. The best examples for this type of franchises are hospitality industry (Holiday Inn, Hilton, Novotel), car rental business (Hertz, Avis), staff leasing services (Manpower) and language schools (Inlingua International). The arrangement is based on a legal contract between two parties where the franchisee gets the whole system for managing his business supplied by the franchisor (Skaupy, 1995).

Product Franchises

The main goal of product franchising is the production and sale of one or more products. It is also called “industrial franchising” (Skaupy, 1995). As a rule, the franchisee produces, processes, prepares, improves and distributes the product, using the transmitted know-how of the franchisor. In product franchises the manufacturers allow retailers the full distribution of their products and usage of their names and trademarks.

This type of franchise agreement lets the entrepreneur spread and distribute his products, using the brand independently. In return the entrepreneur is obliged to pay fees or to buy certain additional products. The main advantage of product franchises is that low transportation costs are involved, because the manufacturing plant is usually closer to the sales point. The best examples for this type of franchise are found in the beverage industry (Coca-Cola, Schweppes), in tire stores, press printing companies, convenience stores, where the business concept is sold in addition to the product itself. Usually, in product franchising the product itself determines the form of the franchise. Toyota, or other distributors are delivering the main products that will be sold by the franchisor and that demand a certain shop design or a specific form of retail organization (Skaupy, 1995).

Manufacturing Franchises

In manufacturing franchises, franchisees sell the goods which are set and produced by the franchisor or a manufacturer (Skaupy, 1995). Franchisor shares his business methods, know-how and marketing instruments with franchisee. The main focus is on the manufacturing phase of a product's life cycle. Many food and beverage companies, shoe and clothing manufacturers are considered manufacturing franchises. Companies nowadays are often using manufacturing franchises in order to increase the number of manufacturing facilities. Main examples of this type of franchising are cosmetics (Yves Rocher), clothing companies (Benetton), tea shops and others.

Besides those types of franchising Velentzas and Broni (2013) distinguish a mixed franchising which is used as a combination of sales and services for the offered goods (e.g. sales of cosmetics and the services or consultation of the beautician).

Classification of franchises based **on the type of ownership** (Skaupy, 1995):

Single Unit Franchise – the franchisee owns a single franchise outlet at a particular location. The advantages are low costs and management of the outlet by a single person. The Franchisee is investing his own financial resources, applying his own management skills and taking on risks while operating the outlet. One of the examples for this type of ownership is the health casual restaurant Freshii, which offers single unit franchise agreements for some markets.

Multi-Unit Franchise – the franchise can be opened in more than one location in a defined market in a short time. The biggest benefit of this type is an effective use of financial, material and human resources, which makes it possible to economize resources efficiently. By achieving economies of scale business (especially in the food and beverage sector) becomes more profitable over time and also more efficient.

Existing Franchise – the franchisee is buying an established franchise that was owned and developed by a different entrepreneur beforehand. It is one of the safest and fastest ways to establish a franchise format.

Master Franchise – a type of franchising, in which the master franchisor delivers all the influence power for the franchising activities to a certain person who is called “master franchisee”. Master franchising is a very popular method that has been applied by most franchise systems. They are appropriate for franchisees with sufficient financial resources in order to grow independently as a franchise chain in a certain country. The master franchisee should be familiar with the local market and have management skills and experience in the relevant industry.

3.1.3. Advantages and Disadvantages of Franchising

As one of the most popular business model, franchising offers acceptable and fair conditions. According to Salar (2014), the main advantages of the franchising strategy are brand recognition, lower risks for failure entering in an industry, easy setup, ready customer portfolio, easy financial support.

- **Brand recognition**

Brand recognition is a strong significant element in running business operations and people are aware of the established brand.

- **Lower risks for failure entering in an industry**

Such risks for entrepreneurs are different in a new market and in a known market.

- **Easy Setup**

Franchising guarantees a marketing strategy, plan, manuals and long-term assistance for franchisors.

- **Ready Customer Portfolio**

High level of quality of products and services which is set as a standard in franchise chains.

- **Easy Financial Support**

Financial institutions feel safe to offer funding to the entrepreneurs which own a well-known business model.

Other crucial advantages of franchising are motivated franchisees, reduction of monitoring costs, generation of innovations and adaptation to the market conditions of countries all over the world.

According to the studies of Velentzas and Broni (2013) main advantages for franchisee are autonomy of the franchisee, less investments when starting the business, managerial support, and cheaper buying prices for merchandise. Besides, studies define such advantages for the franchisor: better return on the capital of franchisor, enlarging sales chains, gaining better reputation in the market, opportunity of outlets' expansion with minimum costs for the franchisor. Tietz (1993) denoted that franchisor has advantages of quick multiplication, low investments, quick market penetration, coordination, risk premium and diversification. Franchisees benefit mainly from the risk hedging, independence, supply chain management and marketing support.

Siebert and Leonesio (2016) added that the other advantage of franchising is raising capital, high speed of growth and know-how. Franchisees finance their operations by themselves, providing the franchisor with their variable fees and pay an entry fee at the beginning of the agreement. In this way franchising is efficient for a rapid entry into new markets. In company-owned business systems there is a bigger need for higher investments, because store managers do not contribute any input aside from their own labor. Franchisees do not only bring financial resources to the deal, but also actively apply their management know-how, entrepreneurship skills and their knowledge of local markets. This enables them to quickly adapt to changes in local markets in order to remain competitive.

Franchising gives society advantage of lower failure rates, growing chances for minorities and women, decrescent economic concentration (Hunt, 1977). Franchisees have both benefits: they belong to the large store chains and are independent. Franchisors can benefit from franchising while getting a big financially successful institution.

Moreover, the main drawbacks for franchisor are high costs which can be initial and ongoing. Initial costs include one-time franchise fee and their royalties (percentage of their gross profit). Initial costs include rent, advertising, insurance, salaries etc Salar (2014).

Salar (2014) emphasizes that the other disadvantage for franchisors is dependency and strict rules. Franchisors are getting their profit from franchisees who have their independent business as well. Franchisees follow the list of guidelines, proposed by franchisor and use the same materials. The main disadvantages for the franchisor are: selection of suitable franchisees, management and the cancellation of the franchise relationship. For franchisees disadvantages include: selection of a suitable franchisor, limited independence, limited expansion opportunities and competition by other franchisees (Longenecker et al., 2012).

The main disadvantages of franchising are (Longenecker et al., 2012):

- **Negative effects of franchisee's business policy**

The initiative of franchisees can also cause great harm. In case the franchisees offer low quality products or charge relatively high prices, this behavior can have a negative influence on the image of the whole franchise.

- **Contract termination**

The breakup of a franchise agreement is connected to more issues than the termination of the employment of a store manager.

- **Problem of a slow adaptation of market changes**

Since the franchisee enjoys more freedom, he can maintain his own strategies and concepts in order to increase the success of the chain. This can be a reason, why it is difficult to have a uniform business system throughout the whole franchise. In company-owned chain stores this problem occurs rarely, because store managers have no incentives to develop their own strategies. In the company-owned system faster adaptation to market changes will occur.

- **Recruitment of suitable franchisees**

It is hard to find appropriate franchisees, who have entrepreneurial skills, knowledge about running a business as well as the local market. There are less requirements for store managers.

- Systems adaptation

Usually franchisees are not necessarily bound to the instructions of management. That means that they often develop their own ideas and implement strategies according to their own strategic vision. They also sometimes obtain decision-making power concerning pricing policy. This can make the business adaptation process of the whole chain slower and requires more effort.

Other disadvantages for the franchisors over other international entry modes are relatively high entry fees, a chance that franchisees will destroy the good name of the business, difficulties in selling franchise stores and difficulties to make big profits (Longenecker et al., 2012).

3.2. Company ownership

3.2.1. Definition of company-owned systems

The reason of the spatial separation of chains is based on the specific offered services copied in numerous locations. As per definition of Alewell (1996), company-owned chains have following characteristics:

- Centralized management
- Spatial separation of company-owned chains from the headquarter
- Functional connection with the head office
- Enforcement of the same or similar functions in the company-owned chains

Company-owned chains as a range of several retail enterprises under the same ownership and management characterize with such distinguishing features as a central management (common price policy, advertising, and store design), a central warehouse and a unified procurement, operational accounting and control. Enterprise policy is defined through the central management and partly carried out by employees of the headquarters or decentralized by store managers.

The term is derived from the latin word “filia” (subsidiary) which has a meaning of a chain or branch. This sales system makes a synergy between a central office and a subsidiary.

The differentiation of the company ownership is accomplished by the number, assortment, and field of activity, service program, objectives or the degree of diversification or performance level (Tietz, 1993). The store manager is not legally independent in the company. Store manager is an employee in the company and is bound to its instructions in every respect.

There is a centralized management that defines the corporate policy of the whole chain. A set of prescribed strategies and instructions is carried out either by the employees of headquarter or by the store managers, which enables the chain to quickly adapt to changes in the market. However, because of the decision-making power of centralized management, it is harder to adapt to local market needs than in a franchising system. In addition, the motivation of the store manager is decreased by the narrow limits of his responsibility.

Chain shops/multiple shops specialize in the same sort of articles, which they sell in all their stores, charging uniform prices. The main purpose is to eliminate middlemen in retail and build direct contacts with customers.

3.2.2. Types of company-owned systems

Multi-branch operations are a horizontal growth strategy that is fundamentally based on either a single-system policy with only one type of operation or a poly-system policy with several operation types, differentiated by market segments (Barth et al., 2002). Problems in decision-making, related to a branch network strategy, are often represented by a problem of choice between standardization and differentiation in the branch system. Besides, problems of control can arise in more complex company-owned systems.

Using the product range as a classification scheme, there exist universal (e.g. department stores), professional (e.g. Discounters, Supermarkets) and specialized (specialized discounters, specialized stores) chains. Other classification criteria can include pricing, regional, national or international expansion and the size of companies.

There is another classification of multiple stores on the basis of their location: local chains (stores which are operating in and around a city), sectional chains stores (located throughout a distinct geographical unit), national chains (stores located throughout the whole country) and

international chains. Some chain stores are also classified according to the goods they sell like garments, shoes, food products, etc.

If to take into the consideration the range/assortment of the products, Boyens (1981) defines three types of company-owned chain systems:

- Specialized chain stores
- Universal chain stores
- Special chain stores

Specialized chain stores operate a branch homogenous assortment. The main groups of goods include textile, food sector and hard goods. Textile branch represents department stores, the typical form from the food sector is supermarket and discounters represent cost-intensive group of goods. Universal chain stores are managing a heterogeneous assortment of goods which consists of three types of business: department store, self-service department store and hypermarket. Special chain stores have a deep but narrow product range with a small sales area.

3.2.3. Advantages and disadvantages of company-owned systems

To the main advantages of company-owned systems belong uniform prices and quality of goods in all chain stores, absence of middlemen between producers and consumers, sales based on cash, low operating costs, common advertising campaign for all chains, low risk of bad debts, quality products and advantage of mass production (Hill et al., 2014).

Disadvantages of company-owned systems are limited autonomy/power of company personnel, limited range of goods in chain stores, only standardized goods that correspond only a defined group of customers, hardly possible to regulate stock changes/chance to get "dead stock", lack of appropriate organization between head office and chains (Hill et al., 2014).

Lehner and Müller (1976) added that the most possible reason for expanding with company-owned chains is coming closer to a customer using its market potential and in such a way to deal with competitors. The main advantage of company-owned system is standardization of

company-owned chains which increases the purchasing power and decreases the input costs. The price benefits can be shared among customers which is an advantage in time of competition pressure. Besides, standardization has a positive influence on the assortment of goods. Manufactures are able to keep their production efficient because of regular orders and mass production (Boyens, 1981). Moreover, the biggest benefit of operating company-owned chains is rationalization. Scientist differentiates technical, economic, organizational and personnel rationalization. Companies benefit from technical rationalization because of own production facilities or their influence on the production process. Economic rationalization covers cost cutting and profit increase. Big production orders lead to cheaper purchase conditions that reduce the costs per piece. Organizational rationalization has a positive impact on internal workflow and increase of performance. Besides, centralization and specialization of functions influences rationalization in a good way. Personnel rationalization leads to the increased performance and replacement of labor factor for a capital factor like self-service principles or enlargement of sales area.

Boyens (1981) differentiates the image benefits which delivers a uniform and clear company's message to the consumers. Benefits of central management and standardization bring easier predictability and controllability for the company, avoidance of friction between local managements and higher performance demand which leads to a higher total quality of management. Furthermore, there are disadvantage of underspending of the market potential due to the standardization processes and disadvantages of management. The possible disadvantages include the total profit potential disregardness, negative execution of a customer base due to the communication steps. Usually the store manager is excluded from economic decision making in the company and the information feedbacks given by Area Manager get lost in such circumstances. It leads to a situation when market trends, customer wishes and behavior changes of consumers are not taken into consideration. Centralization of tasks causes big internal bureaucratic procedures and the company turns to the inflexible and rigid business.

4. Factors influencing the selection of an entry mode strategy

This chapter will explain the main factors that play a considerable role in the process of decision making for selecting an appropriate entry mode. According to the literature reviewed, the main factors determining the efficiency of foreign market entry are costs involved in opening a chain, speed of growth, local market knowledge, trust in relationships between business partners and control. Relevant issues and challenges, related to the possible entry modes, will be discussed from a theoretical point of view and the best possible entry mode strategy will be proposed. Moreover, this chapter will provide hypothesis which will be tested in the further qualitative study.

4.1. Costs

The main reasons to expand with franchising are access to resources and moderate investment costs (Combs et al., 2011). Companies succeed in dealing with resource scarcities and are able to build economies of scale in advertising and purchasing. Resource Scarcity Theory explains that franchising is a rapid and less costly way of expansion because franchisors provide less expensive basic financial and human resources (Diaz-Bernardo, 2012).

The Resource Scarcity Theory predicts that franchising as a cheap and fast growth strategy will be used to gain access to financial resources (Diaz-Bernardo, 2012). In situation of scarcity of resources, franchisor's primary goal would be achieving economies of scale and getting market share. This Theory argues that at the later stages of organizational life cycle, the most profitable chains will be repurchased which is described as "ownership redirection" and the number of company-owned outlets will grow (Windsperger and Dant, 2006). Property Rights view emphasizes that less demand of franchisee's local market assets like local market information and financial resources are causing ownership redirection. In addition, the Agency Theory explains company ownership and franchising depending on the monitoring costs. If the monitoring costs are low, company-owned chains located close to each other will be more successful than franchised ones. Franchised chains will be more profitable in conditions of uncertainty when the monitoring costs increase.

Signaling theory tells that chain owners are motivated to signal quality goods to future franchisees (Lucia-Palacios et al., 2014). In such a way the correct decisions and investments are made. Ownership is a direct sign of chain growth and rentability.

According to the Federal Trade Commission, the franchisee needs to pay some or all of the following fees (FTC, <https://www.ftc.gov>):

Initial franchise fee and other expenses can range from several thousand dollars to several hundred thousand dollars and they are not refundable. Other possible costs will include rent, buildings and equipment as well as buying initial inventory. Additional fees can include insurances, licenses and promotion fees. Fees for promotion are usually paid up-front and may include site selection assistance, marketing and promotions, assistance in grand opening events, initial training and support. After the payment has been made, the franchisee can apply the franchisor's name and business concept. Initial Cash Investment for starting the franchise may range from 30 % to 35 % of the franchisee's own money. Working Capital is required for funding operations in case revenues won't cover personal and business expenses. Loan Application Fees and Real Estate Costs, Professional Fees, Business Insurance, Permits and Licenses in cases when franchisor is not able to provide the franchisee with all the necessary permits and licenses in a particular business area because he is not familiar with legal or business procedures. That's why the franchisee often needs to procure the necessary permits for his or her own business. While Trainings franchisee covers his or her own accommodation and transportation costs during professional trainings. Inventory and Equipment is bought by franchisees from the franchisor. Continuing royalty payments are deducted from the franchisee's monthly gross income and are paid in order to allow using the brand's name. Advertising fees cover advertising campaigns.

The possible expenses for starting a company-owned business will include (Dion and Topping, 2008):

- Rent and Operations: rent, utilities, staffing
- Property and Store Improvements
- Technology and Communications
- Marketing, Advertising, Publicity
- Insurance
- Professional Services and Employee Training

- Other Fees

In order to enter into a franchise, franchisees pay an initial investment, which covers trainings, recruitment and support. In addition to an upfront franchise fee, they are obligated to pay royalties. Logically, the revenues from franchised units are reduced in comparison to company-owned stores because the actual profit of the franchisee is diminished by a percentage of the revenue. Independent store owners usually invest more financial resources than franchisees in the very beginning but they have more control and decision power if there are some financial problems. As a rule, franchising is more popular market entry strategy among first-time business owners who lack profound industry knowledge and need a corporate support.

4.1.1. Hypothesis

On base of the above described Resource Scarcity Theory, the following hypothesis is derived:

H1: A scarcity of financial resources will favor a franchising strategy over an expansion, using chain store systems.

4.2. Speed of Growth

Fast speed of chain's growth enables realization of economies of scale, brand recognition, higher employment, enlargement in manufacturing, better performance and opportunity to obtain market leadership (Brockhoff et al., 1999). Growth is an outcome of competitive advantage on the market, innovation strategy and know-how and innovative strategy of the company.

Applying Resource Scarcity Theory, franchising offers entrepreneurs a fast way of growth requiring a limited capital base and implying low risks (Diaz-Bernardo, 2012). Scarce resources are provided for franchisors in the short time (Caves and Murphy, 1976).

Agency Theory predicts that franchisees explain incentive problem which decreases control costs. Less control and supervision costs lead to geographical world spreading and efficient local agent's actions (Mariz-Pérez, 2012).

There are two different models of growth of franchising: slow-growth and fast-growth patterns. The slow-growth pattern is a constant and progressive increase. The fast-growth pattern requires lower franchise fees and is preferable for those, who want to gain a market share ahead of the competition.

According to the research, larger chains attain faster speed of growth which can be explained by the brand name effect. In addition, chains with higher initial fees are growing faster because they are having greater demands for franchising.

In case when financial, human and informational resources are available, the franchisees wouldn't be interesting in franchising and will address to ownership redirection in order to keep all revenues themselves (Windsperger and Dant, 2006).

To summarize, with franchising strategy, companies can spread faster over a larger territory within a couple of years, which would not be possible using company-owned units. It is a suitable expansion strategy for a small business which does not have a big start capital. Moreover, a number of franchisees can establish their businesses at the same time, which greatly differs methodically from opening store after store and repeatedly searching for funding. Company-owned chains grow slower because they lack a big capital and central managing mechanism. Their investment returns are slower in comparison to franchised chains.

4.2.1. Hypothesis

Second hypothesis is derived from the Resource Scarcity Theory and Agency Theory which states:

H2: The companies, which use franchising as a form of expansion, will grow at a faster rate than those, which expand using company-owned stores.

4.3. Local market knowledge

Information theory of franchising describes another scarce resource: information constraint in the situation when franchisor needs to get access to knowledge outside of the specific geographical area (Minkler, 1992). Moreover, he considers that only franchisees are able to deliver and request information in local regions. Specific knowledge theory assumes that transfer of specific knowledge (for handling and improving operations, promotion of goods) influences franchise decision (Combs et al, 2011). Daft and Lengel (1984) created the concept of information richness, which include four main components of communication: feedback capability, availability of multiple, language variety and personal focus (Windsperger and Gorovaia, 2010). The degree of the information richness can vary depending on the quantity of used communication attributes. By copying business concept while trainings, conferences, meetings, electronic transfer mechanisms, reports and chain visits, franchisees achieve competitive advantage.

Applying knowledge assets to create competitive advantages is getting important in situations when the marketplace is extremely competitive, when there is not enough workforce having local market knowledge, when the process of acquiring knowledge is slow, when there is a need of managing increasingly complex operations, when changes in strategy are made or if companies are interested in creating customer value.

Local market knowledge of franchisees is one of the most important reasons why companies consider expanding with the help of franchising as the franchisees have good knowledge of developments in their sector or region. Moreover, they know how competitors perform, competitors' price policies, new entrants to the market, new launches of products, customer preferences, competition, labor market developments, local HRM policies, local marketing activities etc. They possess knowledge of the general business environment and national or regional factors in a specific area. Franchisees usually have more freedom to use their knowledge of local conditions by operating the franchise stores and have less control or monitoring than company managers (Welter et al., 2012).

There are two types of local market knowledge held by franchisees: local market knowledge and managerial knowledge. The first type contains knowledge about the needs of the potential market, its competitors, marketing activities like unit presentation, promotion, prices etc. The

second type of a franchisee's knowledge is connected to the management and operation of its local units: local production of the goods or services, purchasing methods.

Summarizing, franchising is chosen in cases of geographical dispersion and environmental uncertainty, while company-owned expansion is concentrated close to the headquarter and company monitoring locations. In terms of local market knowledge, franchised chains have more advantages over company-owned ones while helping entrepreneurs to overcome complications with local laws, regulations and political instability. Company owned business requires more internal resources and involves a bigger amount of employees and managers.

4.3.1. Hypothesis

Hypothesis 3 will test following theoretical observations on base of above described Information Theory:

H3: The deeper a franchisee's/store manager's local market knowledge and the bigger the uncertainty in a particular market is, the more decisions will be delegated to the franchisees/store managers.

4.4. Trust

In a time of rapid changes with increasingly limited resources, business partners should remember the main benefits they take from relationships based on trust. Trust arises in conditions of risk and interdependence (Rousseau et al., 1998). It cannot exist without a risk and risk itself arises in the situation of information asymmetry and uncertainty. Interdependence is an important condition of trust, since one party depends on another party to perform a certain action. Researches consider that the achieved individual objectives lead to increased performance (Panteli and Sockalingam, 2005). In literature trust is described as "willingness to rely on another party and to take action in circumstances where such action makes one vulnerable to the other party" (Doney et al., 1998, p. 604). Researchers differentiate two main aspects: knowledge-based trust and general trust (Griessmai et al., 2014). Knowledge-based trust is established on the gathered information during cooperation between parties while the main impact on general trust is trustor's personal characteristics and cultural environment.

According to the Agency Theory, mutual contractual agreement between franchisor and franchisee is a control instrument for reaching compatibility and evaluation facilities (Eisenhardt, 1989). It helps to overcome the principal-agent problems in a way of developing a common goal and support the interests of both sides (Diaz-Bernardo, 2012). As franchisees are the motivated owners of the chains, there is no principal-agent duality in the mutual contractual agreement between both parties. Monitoring problem arises in the relationships between company hired manager and managing director rather than in franchising where franchisee is extremely motivated to achieve success and make big profits.

The main part of the franchising's success is dependent on demonstration of trustworthy relationships and efficient cooperation between the franchisor and franchisee (Davies et al., 2011). Franchisor trusts franchisee to perform well and franchisee expects managerial and promotional support from the partner.

Trust has a positive impact on communication, information exchange, organizational behavior, negotiation processes, conflict settlement, and performance, accuracy of information, cooperation, competitive advantage and knowledge transfer and reduces opportunistic behavior among the business partners (Barney and Hansen, 1994; Dirks and Ferrin, 2001). It encourages information sharing within an organization and has a reasonable impact on performance.

Trust and commitment establish the foundation for effective franchise cooperation through successful communication and an agreement upon a common goal. An effective personal cooperation between franchisor and franchisee has a positive influence on daily operations (Dickey et al., 2007). In order to enhance trust in franchising, the franchisors need to communicate the long-term objectives of the system to the franchisees and create a system-wide culture of trust in the franchisee network. In order to build trust, franchisees need to pay the required fees, obey to the rules of the franchise system as well as to participate in common marketing programs. In case the franchisees fail to do this, trust relationships will be damaged.

The employee-manager relationship is an essential component of a strong organizational structure. In an environment of trust, employees are able to accept constructive criticism and anger from the side of the store owner and rely on the managers for career development and

guidance. In order to ensure trust in such relationships, the store owner should limit criticizing and judging, he or she should learn to listen more, value ideas of the employees, communicate effectively and motivate to self-empowerment (Marshall, 2011).

Trust is extremely important when implementing company change because in order to succeed in it, employees need to trust their managers. Employees usually rely on management in terms of pay, delegation of job duties and promotions. Handing on precise information leads to the creation of credibility and reliability in the employee-manager relationship. Loyalty based on mutual trust can strengthen company efficiency and keep good employees.

So, to conclude the above described theories, franchising will be more beneficial in terms of trustworthy relationships, because franchisees are self-motivated and more interested in running the franchised chains successfully. They will perform better than an employed outlet manager with a fixed salary (Tuunanen et al., 2010).

4.4.1. Hypothesis

Hypothesis 4 based on the investigation of Agency Theory will be tested in this research paper:

H4: Growing trust increases knowledge sharing between the parties and has a greater importance in franchising than in company-owned chains.

4.5. Control

Franchisees usually have specific knowledge about local trading conditions and can decide about hours, prices, and locations (Michael, 1996; Windsperger, 2004). Franchisors decide about the product, its production, and marketing efforts to support the brand (Michael, 1996). The franchisee should be able to decide about local operating systems concerning location, pricing, hours of service and recruiting. Decision rights in franchising include procurement decisions, pricing and product decisions, advertising decisions, human resource decisions, investment and finance decisions and decisions concerning accounting systems (Michael, 1996; Windsperger, 2004).

The franchisee adapts faster to a changing environment and customers' needs (Sorenson, 2001). But sometimes, a problem of control over the franchisee's behavior occurs (Brickley and Dark, 1987). The developed Theory of conflict predicts that due to the problems of free-riding and opportunism in franchised outlets, there is a necessity of control mechanisms in relationships between two parties (Spinelli and Birley, 1996). Franchisees free-ride on brand with the help of high formalization and decentralization (Kidwell et al., 2007). Researchers stressed two ways of avoiding franchisor opportunism: cooperative interaction and formalization (Dahlstrom and Nygaard, 1999) and involving third party to audit, financial documentaries to control franchisees (Dant and Gundlach, 1998). According to the Agency Theory, franchisees are considered to support the reputation of the company, chain's standards and fulfill the guidelines of the mutual contract (Eisenhardt, 1989). Contract is a main instrument of control in the relationships between franchisor and franchisee and its length and complexity is decisive for the franchisee's autonomy (Pizanti and Lerner, 2003).

Agency problems are evident in case of ownership and control separation when managers cannot control decision processes. Principals can be convinced in agent's contribution while monitoring or giving incentives for their achievements.

Company-owned stores are following a hierarchical system where a store manager is responsible for store performance and follows the orders of the headquarters. With increasing growth of the chain, more management levels between headquarters and the shop managers will emerge (Tuunanen et al., 2010). Decision management and the decision control rights confer to different independent people within a company (Myers, 1996). Store managers are in charge of the general operations of a store like meeting budget or sales goals, planning the daily schedule of employees, hiring, coordinating, creating budgets, controlling the stock and reporting to senior management in the company. They focus on employee engagement, when coaching people and improving customer experience.

Summarizing all above, in terms of control it is better to expand by company-owned chains because it is possible to keep the total control over all chains and to make changes without asking store managers. The managing store director has freedom to add or change product lines without discussing it with his store managers. In franchising, all changes need to be discussed and agreed internally. Franchisees as chain owners bring their own ideas and want them to be implemented. They do not like a tight control from the side of franchisor.

Company-owned chains have only main ownership and report to the one head office. Franchise chains have different owners and report to a main franchisor.

4.5.1. Hypothesis

Hypothesis 5 is developed from Agency Theory and states:

H5: Company-owned chains retain higher degree of control than franchised chains.

5. Research Methodology

This chapter is aimed to describe research questions, purpose of research and its interests. It will present research design, approach and method and provide an overview of the sample and data preparation process, its analysis and results.

5.1. Research questions, purpose of research and research interests

Nowadays, the apparel business is extremely competitive and the choice of a global entry strategy plays an important role in the success of every fashion company. Comparing franchise and company-owned systems in the fashion industry currently seems to be an under-investigated topic in management literature. This master's thesis deals with the analysis of the advantages and disadvantages of apparel franchises and company-owned systems in the fashion industry. The methodology of this study included the conduction of in-depth interviews with experts from the fashion industry. Lots of well-known companies like Mango, Marc O'Polo, Jack Wolfskin, Benetton, Tommy Hilfiger, Palmers and others decided to use franchising as a way to access new markets. They retain control of the brand in a large part, limit their financial input in an uncertain environment and therefore managed to increase their revenues. The issues concerning market entry choices in the fashion industry and their main influencing factors were illustrated in this study, in order to give a detailed overview of how companies can expand in a highly competitive market. Also, the main reasons for choosing one or the other expansion strategy were depicted from a practical perspective. Due to the high complexity of the fashion market and the dynamics caused by the rise of the internet, this can be a progressive topic and it can provide a base for future research in this field. The main factors influencing a fashion retailer's entry mode choice, were analyzed within this study and a number of hypotheses have been derived which guided the research project. Also, the two different entry modes can subsequently be compared based on their practical impact on the expansion strategy and the management of a fashion company. Finally, this master's thesis also tested theoretical concepts and their reflection in real-life management.

Therefore, the research interest of this thesis was focused on the following main **research questions**:

1. Why do companies decide for an expansion with franchised outlets or for the use of chain stores?

2. How difficult is it to control the behavior of franchisees or store managers and to measure their performance?
3. Which entry mode will be preferable concerning costs, growth rate, local market knowledge, trust and control?

The main purpose of this research project was to provide an overview of the key factors for a successful market expansion from the perspective of managers, who are using franchise or chain store systems. For this purpose, hypotheses were drafted, which serve as a framework for qualitative research in this thesis.

5.2. Research design

In this chapter the research design and the evaluation method will be described. Research design refers to a combination of diverse components of the study, which interpret a research problem in a logical and rational way. It contains a planned data collection, its measurement and analysis and its function is "to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible" (Vaus, 2001, p.9). In this chapter the research instruments and their application will be explained, based on this definition. Furthermore, the research cases and the analysis of the original literature will be interpreted and summarized.

5.3. Research approach and research method

There are two general research approaches for gathering and reporting information: quantitative and qualitative approaches. Both ways of research have their benefits and disadvantages.

In this study, a qualitative approach was used. Qualitative approaches provide a person-centered and holistic perspective, which is focused on the description and interpretation of a particular phenomenon. According to Creswell (2007), a qualitative approach can be based on interviews, open-ended questions or focus groups. Usually there is a smaller number of participants in this type of research because this approach is often more expensive and time-consuming. Qualitative research enables a researcher to understand human behavior as well as reasons and motivations that dominate such behavior.

For this research, a qualitative method was used because the research interest was focused on trends, processes, in-depth understanding of the issue and the exploration of franchise- and company-owned systems from a practitioner's perspective. The theory was examined with the help of theory-testing case study. Hypotheses were derived from the theoretical models and the validity of compared theories was tested (Yin, 2014). Qualitative research methods seemed suitable for this master's thesis because entrepreneurs' individual opinions about different entry modes, the exploration of advantages and disadvantages of different strategies and suggestions about the most appropriate expansion strategy under certain conditions can be evaluated. Besides, a detailed insight and understanding of the research object is provided. The results of this thesis are based on the interpretation of verbal material, gathered during interviews. The research method chosen for this investigation was expert interviews which are a form of semi-structured interviews. A focus on the capacities of experts for a certain field of activity was a major interest. According to Deeke (1995), only those people can be characterized as experts, who are qualified as authorities on a certain matter. Experts dispose of technical, process-oriented and interpretive knowledge (Bogner et al., 2009), which can be systematized and is easily accessible and also has a practical character.

This form of research was chosen for this master's thesis because experts can give access to insider knowledge and provide orientation on how to use resources for entry mode strategies. Besides, they can provide insight into relationships, characteristics and principles of the application of different entry modes.

Expert interviews are semi-structured, in-depth interviews with open-ended questions that allow a detailed investigation of the issue (Glaeser and Laudel, 2010). Neither a standardized set of questions nor any answers were given to the interviewees. The guideline for the interview included "key questions" which necessarily had to be answered, and "contingency questions", which were asked, only if the respondent gave a particular response to a previous question. Open questions were designed in order to get extensive and evolving answers, to obtain facts and to expose underlying attitudes.

With the help of interviews and questionnaires, valid and reliable data relevant to the research questions and the scientific objectives, can be collected (Saunders et al., 2003). In comparison to quantitative data, qualitative research is focused on interviewing fewer people rather than analyzing a large quantity of respondents. Four in-depth expert interviews were held with

managers from the company-owned business by telephone. The interviews lasted between 25 and 30 minutes. Key points were discussed in the beginning of the interview: the aim of the research, the role of the interview in achieving the research objectives, the anonymity of the interviewees, the data protection and the permission to record the telephone conversation. All interviewees gave their permission to record the interview and preferred to stay anonymous. The interviews were recorded on tape.

5.4. Sample and interview data preparation

A number of companies, which are usually engaged in franchising or use company-owned systems, were selected due to the specific topic of this project. This implies that the information was collected from respondents, who were capable of providing in-depth insight into the topic at hand. The necessary data was collected using in-depth interviews with managers from franchise and company-owned stores from Austrian, Danish and Dutch companies. The main selection criteria were identified as follows: a company has international experience and is expanding, using franchising or company-owned systems. The respondents were selected for reasons of competence and relevance to the subject being investigated. The key informants for this master's thesis were general, senior and franchise expansion managers.

Qualitative research "uses text as empirical material (instead of numbers), starts from the notion of the social construction of realities under study, is interested in the perspectives of participants, in everyday practices and everyday knowledge referring to the issue under study" (Flick, 2007, p.2).

As described above, four experts were chosen, who had detailed knowledge of the topic and professional experience in international expansion. Therefore, a far-reaching insight into international expansion modes, company-owned systems and franchising in particular was expected. The expert perspective also allowed addressing the strategic questions outlined above and allowed an insight in to sensitive topics from a practitioner's point of view. Companies and experts were previously researched on the Internet and contacted via e-mail. Afterwards, appointments for telephone interviews were made. The audio recordings of the interviews were transcribed into writing. All respondents wished to remain anonymous. The questions posed by the researcher were attached in the appendix.

5.5. Analysis

The data collected was subsequently analyzed. The choice of the method for analysis depends on the main purpose of the research project and its research questions (Mayring, 2010).

Content analysis is one of the classic methods, which is used to analyze texts. Content analysis is "any technique for making inferences by objectively and systematically identifying specified characteristics of messages" (Holsti, 1969, p.14).

The conclusions, which are subsequently drawn, can be confirmed with other methods of data collection. This method of qualitative research is focused on the presumption, that people feel willing to communicate their own beliefs, attitudes and thoughts through verbal communication. Therefore, content analysis is a proper way for the evaluation of interview data. In this thesis, the author focused on the model of Qualitative Content Analysis by Mayring (2010), which was adapted according to the research material.

Qualitative context analysis begins with the selection of material and it's coding. There are three types of units in content analysis: selection units, analysis units and context units. In this research project the expert interviews were the selection units. The process of determining units of analysis was carried out very carefully. Due to the applied survey method of semi-structured interviews, the material contained passages which were important, but not necessarily relevant for answering the research questions. The context units are those passages which lead to an understanding of the analysis units. Since the method of summary/text analysis in this thesis is the content analysis method, the analysis units mostly coincide with context units (Mayring, 2010).

After determining preliminary coding units, the first data reduction was carried out by applying and building a category system derived from theory, research questions and hypotheses. Parallel to the data reduction, a thematic comparison between all the interviews was carried out. Answers touching similar topics were grouped and selected for identifying cross-cutting issues. Afterwards, the statements from all interviews were generalized into individual topics, which address the research questions and hypotheses, but provide enough space for further exploration of the issues at hand. If necessary, additional categories were

established and the category and coding system were therefore revised systematically. The category system is the center of content analysis.

The category system as an essential instrument of qualitative content analysis ensures the intersubjectivity of the evaluation, the comparability of results and a certain reliability of the analysis (Mayring, 2010). There are two central approaches in qualitative content analysis: inductive category development and deductive category application.

Inductive category development is used for explanation of the categories close to the data and representing them with reference to the given information (Mayring, 2000).

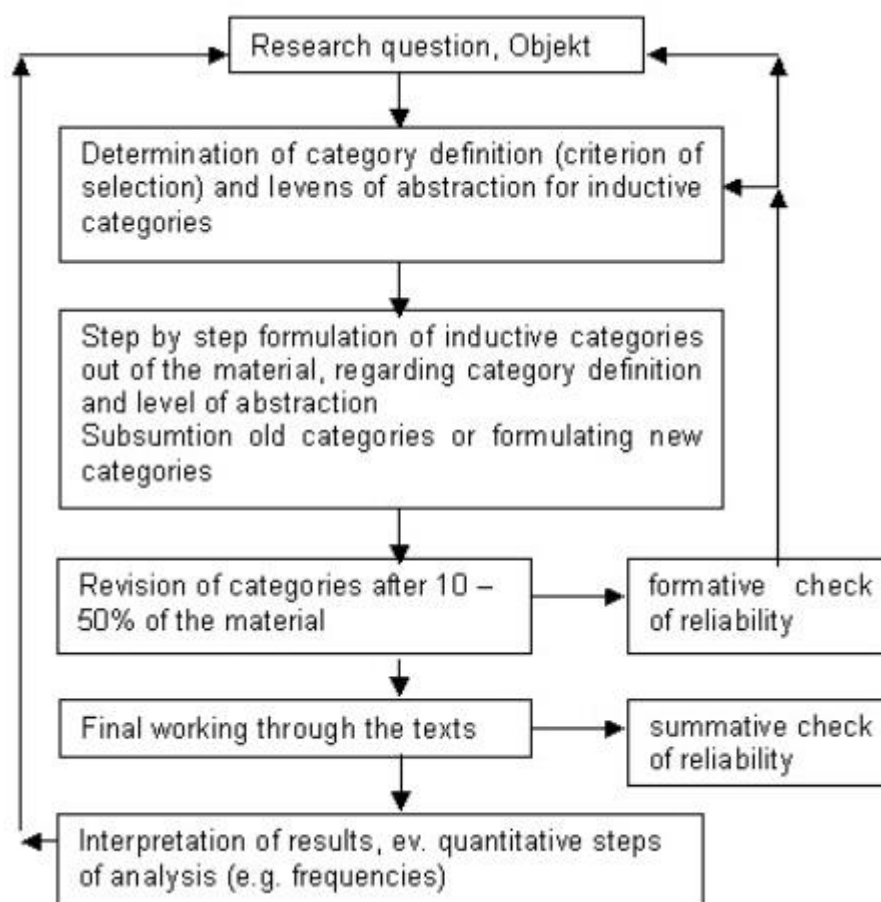


Fig. 1: Step model of inductive category development (Mayring, 2000)

According to this measurement, the material is analyzed and categories are provisionally verified stepwise. Within a feedback loop, the categories are reviewed, so that a number of main categories emerge, which are continuously verified according to their reliability.

Deductive category application operates with previously created, theoretically founded characteristics and categories of analysis and connects them with the text.

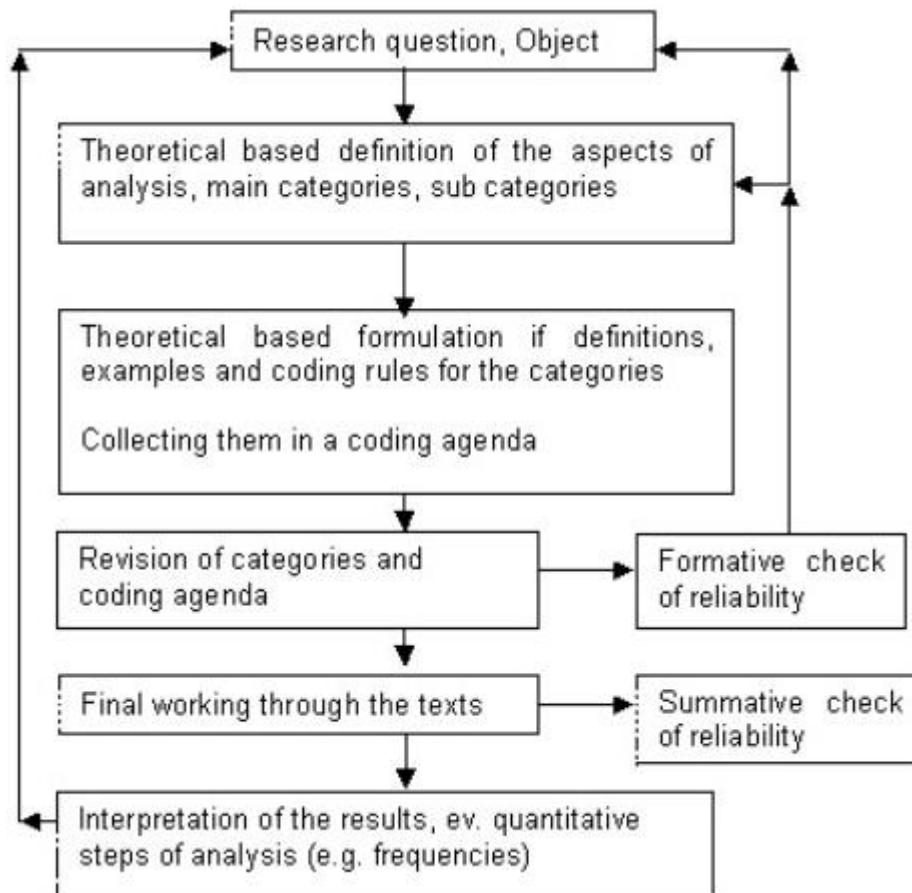


Fig. 2: Step model of deductive category application (Mayring, 2000)

The central purpose is to provide clear examples and rules for each category. Paragraphs are coded with a certain category (Mayring, 2000). A combination of the two approaches was chosen for this thesis, allowing a continuous revision of categories and a subsequent modification of the coding system.

In establishing a research framework, the current state of research was taken into account in order to derive main aspects and a preliminary coding system (deductive). Then, the subjective viewpoints of the managers were taken into account during the analysis in order to grow and modify the category system (inductive). The process of category development focused on the main research questions as well as the hypothesis developed beforehand, but additional categories could be introduced at every step of the analysis. Research questions and hypothesis were assigned to categories. Thus, the category system was also related to the interview guideline. The most important dimensions were represented by main categories,

which were continuously adapted in the research process so that particular answers given in the course of the interviews could result in the adaption of the category system. In a next step, subcategories were established, if possible, and also adapted, when necessary. Throughout the analysis, the inductive approach prevailed, allowing a dynamic modeling of the category system. Also, categories were combined, connected or deleted when necessary and a final round of revisions ensured the soundness of the category system. After all interpretations were drawn from the text passages, categories were combined, cross-referenced, revised and the process of analysis was concluded.

Thus, the current state of research and theoretical discussions were taken into account in the selection of research characteristics and coding guidelines (deductive). Also, the analysis of subjective views of the interviewed managers influenced the coding system (inductive). The process of category development was focused on the central research questions of the project. The research questions were assigned to categories. The category system was integrated into the interview guideline, which reflected different analytic dimensions of the project. Main categories were established for the main research questions. The different dimensions regarding entry mode choice were summarized in subcategories. The categories mainly remained stable during the process of analysis because the research questions and the hypotheses covered a large part of the topic. Only one additional subcategory describing advantages or disadvantages in the growth rate of opening a chain store or a franchise outlet was created. The reasons for this aspect are outlined below. After cross checking the answers, comparing and combining responses from different interviews, the results were summarized and thoroughly described.

The preliminary category system was drafted as following:

- 1A Reasons for using Franchising
- 1B Reasons for using Corporate Ownership
- 2A Targets of Companies using Franchising
- 2B Targets of Companies using Corporate Ownership
- 3A Effects on companies using Franchising
- 3B Effects on companies using Corporate Ownership
- 4A Characteristics of Franchising
- 4B Characteristics of Corporate Ownership
- 5 Differences between Franchising and Corporate Ownership

Advantages in:

- 6a1 Cost – Franchising
- 6a2 Cost – Corporate Ownership
- 6b1 Growth Rate – Franchising
- 6b2 Growth Rate – Corporate Ownership
- 6c1 Market Knowledge – Franchising
- 6c2 Market Knowledge – Corporate Ownership
- 6d1 Trust – Franchising
- 6d2 Trust – Corporate Ownership
- 6e1 Control– Franchising
- 6e2 Control – Corporate Ownership

In general, it can be stated, that particular advantages of corporate-owned business and franchising often aligned with choice reasons or characteristics defining franchising or corporate-owned business. This may be due to the fact that managers often see the advantages for using a particular system as reasons for their actions and as characteristics justifying their decisions. This is why sometimes more than one category had to be attributed to certain text units. Also, reasons for using a particular option, advantages, characteristics and strategic targets were often used in the same text fragments because an interaction between the categories mentioned occurs naturally. The same fact stands for the differences between franchising and corporate-owned systems because differences will almost always refer to the characteristics of a particular system. Therefore, some necessary natural overlaps and interrelations between categories occurred, which nevertheless made the analysis and the implied meanings ever richer because it demonstrates the interwoven relations of the dimensions of business strategy, operation and market entry mode.

During the analysis, the following categories were added to the category system. The rest of the categories remained unchanged and were reflected in the received answers.

- 6e1 Speed of Opening a New Store – Franchising
- 6e2 Speed of Opening a New Store – Corporate Ownership

The growth rate of opening a franchised outlet or a chain store is linked to the growth of a company. But this link exists mostly on an operational level that refers to the direct action of getting into business. The growth of a company on the other hand seems to be determined mainly on a strategic level. So there is a link between the strategic and the operational levels, but the factors for decision-making, although clearly related, will differ and will be related to the strategic or operational context of the decision, so that the speed of opening addresses the operational perspective, while the speed of growth reflects the strategic side of business. The additional categories are meant to reflect this matter.

5.6. Results

The gathering of the data for this study was carried out by interviewing managers from four companies. For reasons of anonymity and data protection, the companies were named Company A, B, C, D in this study. The type of the company's business will be briefly described below in order to clarify the context and the circumstances of their operations.

Company A is a family-owned clothing company which was founded in Denmark in 1975. It sells fast affordable fashion for men and women of all ages. They use online sale, branded chain stores, franchise stores and department stores as outlets for their products. The company is operating in 70 markets all over the world; it owns 300 branded chain stores and also sells products via 15,000 department stores. The parent company is fully owned by the founding family.

Company B was founded in Austria in the 19th century. After running a general store for years, the company specialized in affordable clothes for all age groups and expanded all over Austria. Today, the company owns 140 stores in Austria and is Austria's largest fashion retailer.

Company C is a lingerie retailer from the Netherlands, which runs 550 stores in 15 countries and expands very fast. The company adopted a combined approach of franchising and company-owned stores in 1979. Franchising is mainly used outside the Netherlands, while the stores in the home market are predominantly company-owned. Franchising is thus part of an international growth strategy, where partners can benefit from the company's huge logistics

network and a strong brand. Also, they address cultural factors of international expansion in their strategy and their operations.

Company D set up a shop in Vienna in 1997 at first and started a fashion retail business. After a number of company-owned shops had been opened successfully, the company started to use franchising in order to continue its expansion. Today the company runs 44 stores, while 27 stores have been opened under franchise agreements in Austria and central Europe. Also, the brand is sold in over 100 upscale retail outlets. Franchising is mainly applied to foster expansion in the home market and abroad.

Company A's manager stated, that his company didn't have a particular preference for franchising or chain stores because markets would first be tested by selling goods in large and small showrooms. Normally it is decided afterwards, which approach will work best and a strategy for the country in question is drafted. The exact strategy and the combination of methods being used depend on the country, the local circumstances and particular options for market entry. Mostly, a number of company owned stores combined with franchise stores exist, which sometimes make up to 50 % of all locations. In Austria, the company tries to regain control of the franchise stores, but they remain in operation as long as they make a profit and fulfill their obligations. When franchisees are in financial trouble, however, the company tries to help them or find an acceptable solution for the issue. For opening and operating a franchise store, Company A does not charge a franchise fee, but royalties are paid via the purchase of goods from the parent company. The shop, however, is entirely financed by the entrepreneur, which includes the building, interiors and the products for sale. While the franchisees are generally bound to the franchise agreement, shop managers of chain stores can usually be as easily controlled as any other employee. Their contribution and motivation is reflected in the sale results, while they are generally influenced by internal and external motivational factors. In order to communicate the necessary information about strategy, sales, products and business changes to all the employees, two major meetings take place every year, where the strategy and the products for the coming season are presented. Also, at the first meeting, prizes are given to the best performing shops and their teams. These main meetings are combined with additional check-up meetings during the year, where the current state of affairs, trends and developments can be discussed. Also, every employee can openly communicate with every other employee and manager in the company so that it is ensured that important issues are heard in the top ranks of the company's hierarchy. Open

communication and casual clothing provisions are thus key to a free flowing and companywide communications strategy that builds trust and helps bind employees to the firm long-term. This also helps foster trust between shop managers and management, which is paramount for the smooth operation of the company and the swift realization of changes and new strategies. In addition, good working conditions are meant to inspire the employees to stay in the company for a long time. The quality of the work environment and a high level of personal involvement are regularly mentioned as great advantages in surveys conducted among employees.

When it comes to decision rights, shop managers can make most HR decisions. They usually select the team and have a certain budget reserved for personnel issues. Also they can freely decide on procedures and processes regarding personnel. Moreover, shop managers can dispose of a motivational budget for events and team building. Concerning the knowledge of local customs and customers themselves, a shop's product range is adjusted according to each region, following the recommendations of the shop manager. Completeness of contracts is very easy to achieve in the case of shop managers as they have a simple employment contract, which can occasionally be adjusted to specific needs or circumstances. All in all it is cut very clear and expressed in simple terms. The basis of the relationship between shop manager and general management is trust. Upholding trust is paramount for the proper functioning of the enterprise, so when it is broken, ties to shop managers can be unwound very fast. Finally, the time to open up a new shop amounts to approximately 20 weeks but varies according to the particular circumstances.

Company B chose a company-owned system in order to speed up expansion, to use synergies in production and in the supply chain as well as to compete with rivals in the market. The investment required to open up a new chain store amounts to approximately 500,000 euros. The success of new chain stores can be directly verified in the results, therefore mistakes can be corrected or managers, who are not capable of doing the job, can be replaced. HR quickly acts in the case of failure of shop managers. There is a hierarchical management structure in Austria, where the lower ranks regularly visit stores, while general management only rarely interacts with store personnel. However, teamwork is seen as a center part of company success and a fundamental component for promoting a continuous, joint work effort. Trust is paramount in order to reach best results. The general management knows that and tries to create stable and mutually trusting work relations, which are also important in order to foster

identification with the company and company values. This is why an open communication policy is indispensable, which enables employees to communicate across all ranks of the management.

Concerning decision rights, shop managers conduct hiring together with regional head-managers and have full authority over training, motivation, timetables and the immediate working environment. In order to perform these tasks, shop managers receive particular training in the head office and are regularly supported by local and regional head-managers. Marketing and logistics, on the other hand, are handled by the head office, which deals with the respective operations for the whole country. The range of products offered in different locations is generally set by the head management but can be influenced by shop managers in order to account for local tastes and preferences. Also, local market knowledge is important for certain aspects of marketing like promotional events, local advertising campaigns, placing job-ads as well as providing insights about local customs and consumer habits. Usually, standard contracts are used, which ensure a certain, standardized amount of contractual completeness, while adaptations can always be made in special cases. When it comes to the speed of opening a chain store, time spans from eight weeks up to five years are possible. Usually this process takes a year. The amount of time needed mostly depends on the availability of locations and on how easily the shop opening procedure and basic shop structures can be implemented.

The two companies, which are mostly using company-owned chain stores, show certain similarities like a desire for control and an elaborate management system that is aimed at ensuring it. In case of Company A, a combined approach is used in Austria, but full control over shops is sought in order to reach maximum efficiency and to swiftly realize changes in policy and strategy. While also working on a franchise basis, Company A controls its franchise partners through very tight and rigid contracts which are designed to keep them in line with corporate CI and the overall strategy. The actions of shop managers are usually controlled via sales results and management is quick to step in, if things go awry. Trust is also playing a very important role in both cases because the shop manager acts as a direct representative of the company on the sales level. Also, he or she is given a huge responsibility for hiring and the use of employees, so that his or her actions have an impact on plenty of factors connected to company success. Marketing is in both cases influenced by shop managers, who can propose certain marketing tools or promotions in order to boost sales. Also, shop managers can influence the product range in order to satisfy the local needs and

tastes. On the other hand, central management mostly handles logistics and the countrywide marketing strategy. Both companies promote direct communication among their employees on different hierarchical levels and also try to create an environment of trust and social acceptance in order to keep employees in the company. Contractual completeness is reached to a large extent by using standardized employment contracts. These contracts can be adapted on occasion. The time it takes to open a new shop greatly varies when comparing the two respondents because it always depends on the particular circumstances of the expansion as well as on the business practices and strategies of the companies involved. The most surprising thing probably is that Company B chose chain stores for a quick expansion, which is normally associated with a franchising strategy. Given the fact that they still want to retain control of all operations in their hands as well as their long and detailed market knowledge in Austria, chain stores can be seen as an appropriate solution to quickly expand inside a well-known market, while keeping control and limiting the risks of growth.

Company C started to use franchising in 1979 in order to make more money quickly and to push international expansion forward. As they denoted good results and a spotless business record, this proved as an easy and rewarding thing to do. After some years, however, they found out that the lack of control over franchisees could be a problem. Therefore, management bought back franchises in order to gain full control over the business again, even though things were going fine. The franchise agreement, on the other hand, is very tough for franchisees because they can barely make any decisions on their own. Nevertheless, the strength of the brand makes the agreement very advantageous for both sides. The shop base of the company includes over 500 stores, which are run partly on a chain store basis, as shop-in-shops or as franchise units. Over 40 stores are located outside of Europe and are mostly run under franchise agreements, which are easier to implement in non-core markets, where specific expertise is needed. Currently the company is expanding very fast, opening a store almost every four days. The brand is widely recognized and accepted easily in new markets so that the business can swiftly be transported into other countries. In order to ensure control over the market country-managers often manage entire countries and preside over a hierarchy of managers, who control regions or specific strategic fields, like expansion or logistics. According to the management, the base of company-owned stores gives the company a competitive advantage, because in this scenario a number of shops comprehensively represent the brand and are directly controlled, which means changes and directives are implemented instantly. Inside the EU Company C wants to expand further using the combined approach

outlined above, so that the number of shops will almost double by 2018. If possible, the company will use company owned stores but the final decision always depends on the particulars of the region or the country in question. Most of their competitors use franchising in order to save money or to expand their brand rapidly. Also Company C wants to use franchising to expand their global presence quickly and to gain worldwide brand recognition. The use of franchising is justified for them by observing a certain speed of expansion, even though control is diminished by a certain degree. Franchising is seen as particularly useful for complex markets, where local know-how is needed in order to address questions of religion, culture, law, etc. In these cases, a local franchisee can bring knowledge of laws, regulations, customs and customers to the table and thus ease the market entry. Also, franchising saves financial resources because no regional head-office has to be set up, that might bind capital and is usually staffed with 30 to 40 people. So, local market knowledge and the cost of expansion are important factors for using franchising. Also, knowledge of the local markets, culture and customers often helps to avoid conflicts and trouble with authorities.

Concerning the cost of franchising, there is an entry fee to be paid by all franchise partners, but subsequent payments depend on the market strategy. Fast expanding partners, for example, may pay less than others. The total cost of setting up a franchise is estimated at approximately 100,000 to 150,000 euros. In order to enhance control, master franchise is often used and to install one master franchise partner per country seems to work best. The company looks for partners that align with the values and principles of the brand because this is often the best guarantor of control. Only partners, who fully comply with the rules, are tolerated under the terms of the franchise agreement. Also, very close contact is kept with franchisees. Telephone conferences take place almost on a weekly basis, regular visits and management-meetings in the stores around three times a year. When it comes to decision rights, franchisees can create local advertising campaigns after the message and the pictures have been approved. HR training is usually done in the head offices, while local managers are responsible for recruiting. Logistics on the other hand are completely controlled by the head office in the Netherlands. The contracts used for franchising are usually pretty straightforward but they have to be adapted to particular circumstances in some cases, often by drafting side contracts to the original agreement. The risks of opening a franchise are usually limited for the franchisee and depend a lot on the local market, local market knowledge and the particular location chosen by the franchisee. Most franchisees are very risk sensitive and want to choose a strong brand in order to make more money. This is generally advantageous for Company C

because they created a strong brand with international brand recognition. To set up a franchise shop takes around three months in this case, but the time needed also depends on particular circumstances as well as on regional strategies.

Company D was established in Austria in the 1990s and subsequently expanded within Europe in the following years, using a combined system of company owned stores and franchise outlets. Franchising was chosen in order to grow faster and to cut down the cost of expansion. When having limited resources, it is virtually impossible to open many store chains in a short time and franchise can help with that. Company D does not charge a franchise fee but franchisees pay a fee indirectly by buying Company D's products. Also, franchisees must finance furniture, store equipment and electronic appliances, which increases the cost of opening a franchise store to approximately 150,000 euros. In the beginning, franchising was particularly used to foster expansion of the company. Now they want to switch back to the store system as far as possible in order to regain full control of the chain. Store managers in fully owned outlets tend to react more efficiently and implement changes immediately without discussion. Franchisees are often more difficult to deal with and need a greater communication effort. Even though contracts in franchising are usually very complicated to elaborate, it is often difficult to get franchisees in line once they fail to implement changes or to follow orders. Also, coordination among franchisees usually takes longer and is less efficient than with store managers. So the company will try to switch back to the fully owned store-system in the long run. A mission of merchandiser to control the franchisees. He travels around and checks each location for the proper use of CI and a professional setup. Normally, there should not be any visual difference between corporate-owned stores and franchise outlets.

Moreover, the company management knows the shop managers very well through regular contact because there are several meetings throughout the year as well as regular get-togethers in the head office, when orders are placed. Talking about motivation, the manager of company D stated that store managers usually need more motivation, whereas franchisees are more self-motivated. Trust is also very important because the business is very tough and great enthusiasm is needed in order to survive in this professional environment. Franchisees usually enjoy a great deal of trust because they show more motivation and are eager to learn and improve, while employees normally have a very mixed motivation. Concerning decision rights, general strategies are discussed and harmonized with local partners. HR decisions are usually taken in a two-tier system, where the head office pre-evaluates possible candidates,

while the shop managers have the final say about whom to hire. Marketing is usually rolled out consistently for each country but each store can make its own contribution when it comes to special sales, promotions, etc. The general management largely supports shop initiatives and 2 % of shop turnover are reserved for local marketing efforts. Also a handbook for marketing is given out for guidance. Logistics are generally handled by the head office and also homepages are created in a centralized manner for both chain stores and franchise outlets.

The most important resource of franchise partners is their local market knowledge. Hence a marketing budget is given to partners, who can then use their local expertise in the best way. Local partners also know where to set up a shop and thus help ease the search for locations, which can be a long-lasting process, when organized by a centralized head office. On the other hand, store managers are also recruited with respect to their knowledge of local markets and local market conditions but they usually do not have as many decision rights and responsibilities as franchisees. Setting up complete contracts was very difficult when the company first started using franchising because advisors and lawyers had to draw up comprehensive contracts first, including all rights and obligations of the franchisor and the franchisees, as well as a handbook explaining the arrangement in every detail. Also, the franchise agreement can only be dissolved with great difficulties because it is set for a fixed period of five years, after which it can be renewed or cancelled. This is also why contracts have to be designed very carefully and should be bulletproof. On the other hand, the contracts for store managers are usually very simple and can be adapted to particular circumstances. In general, the termination of store managers' employment contracts is very easy. After the difficulties with franchise contracts are overcome, the drawing-up of franchise agreements is a very swift procedure. Franchise agreements can be set up in as short as two weeks now, as soon as the location is ready. In normal cases, this procedure takes around four to five weeks, sometimes longer if a location has to be found. Opening chain stores usually takes longer, especially when buildings or shops have to be built or adapted. If everything is ready to start business, a fully owned shop can be opened in four to five weeks as well. In a best case scenario, chain stores can even be opened faster than franchised outlets because complicated contracts are not needed.

So in both cases, the companies largely using franchising showed some similar attitudes towards this option, but also towards chain stores because they use both systems in their strategies. Franchising is seen by both as a necessity to expand faster at reduced cost, so that

is has regularly been used at a time of rapid and international expansion. The reduced capital input on the side of the franchisor makes growth in foreign markets cheaper and boosts brand recognition. However, both expressed a wish for better control over franchise partners, even though they are bound by strict franchise contracts. On the long run, both companies will try to switch back to a system of fully owned stores. The advantages of fully owned chains are mostly seen in their ability to implement strategic changes quickly and to react promptly to directives given out by the management. Franchisees on the other hand tend to be more motivated and more eager to learn because they are directly affected by an outlet's results. In general, franchising seems advantageous when entering a market with a different culture, a different legal system or a different religious background. Local partners are often better equipped to handle these differences to set up a shop quicker and to find the right employees. So, in unknown foreign markets, franchising is often preferred because it limits costs and risks for the franchisor. On the other hand, also store managers' knowledge of local circumstances is very important in order to comply with local tastes and local market conditions, which is kept in mind when hiring. Local managers and franchisees are both granted some independence, regarding their operations. While franchisees are largely responsible for the business themselves, also shop managers have a large influence on HR-matters and, to a certain degree also on local marketing. Logistics are mostly handled by head offices. When it comes to complete contracts, hiring a shop manager is much easier because he or she has limited responsibilities and runs on a standard employment contract that can be terminated quickly. Franchise agreements are generally more delicate, but once the procedures of setting up a franchise contract are automated to a certain degree, they can only be drawn up very fast. Nevertheless, conditions have to be designed very carefully to ensure smooth operation and to create options for terminating the contract. Also, close contact is kept to store managers and franchisees alike, which should foster trust and adherence to the companies' principles and guidelines. Only then, full control of all the outlets will be guaranteed. Regular meetings, a hierarchical system of corporate control and continuous contact between managers and shop personnel are meant to ensure this. Sometimes, master franchising is used in order to create clear communication lines and to establish efficient control within a certain region. Both companies estimated the cost of opening a franchise store at around 150,000 euros, while the speed of opening a new outlet can vary greatly. Both companies, finally, acknowledged that adherence to the principles and values of the brand are paramount for franchising to work, also, because the brand value should not be negatively affected by franchising partners. Franchisees, on the other hand, also want to represent a

strong brand. They are very sensitive to risks and desire some economic potential for their own operation. The franchise agreement thus has to be mutually beneficial and clear-cut in order to ensure proper functioning of the arrangement as well as to provide contractual security for the franchisor and the franchisee.

6. Findings

In the following chapter, an overview is given on the findings of this research project. Four expert interviews were carried out. The data was thoroughly analyzed and the hypotheses were tested.

Hypothesis 1 predicts that a scarcity of financial resources will favor a franchising strategy over an expansion using chain store systems. The findings support this hypothesis. According to companies C and D, a franchising strategy was an easy way to expand without spending too much capital. That's why both companies preferred franchising over corporate-owned systems when they entered a phase of rapid expansion, while only disposing of limited financial resources.

Hypothesis 2 states the fact that the more companies use franchising as a form of expansion, the faster they will grow. The results show that there is a link between the growth rate and the use of franchising. Both Companies C and D stated that franchising was used in order to boost international expansion at reduced costs. Often, franchising was also used, when unknown markets were entered. When it comes to the speed of opening a particular store, no definite connection could be established because the speed of opening a single outlet is often influenced by various factors that are not necessarily connected to one of the both expansion strategies. Both corporate-owned outlets and franchised chains can be opened within a couple of weeks, when the conditions are appropriate. Franchising, however, is often chosen in order to foster strategic expansion, particularly in foreign and unknown markets, or to speed up growth so that hypothesis 2 is widely supported.

Hypothesis 3 suggests that the bigger a franchisee's local market knowledge and the bigger the market uncertainty are, the more decisions will be taken in a decentralized structure. This hypothesis was confirmed during the research. The manager of Company D states that the company profits from the franchisee's market knowledge. Market knowledge on part of the franchisee was a main reason to use franchising. They believe that a franchise partner knows more about local marketing and is an expert in his region. The franchisee is often granted at least some power of decision rights in HR, Marketing etc. Oftentimes, he can recommend and hire people himself, create his own marketing activities (like moon light shopping, all night shopping etc.), design store windows etc. The manager of Company C believes that the use of

franchising in international markets has a tremendous effect on their business on a global level because the brand is widely recognized and appreciated also outside the home country. Company C prefers to expand with franchising in regions, where they are neither aware of religious standards nor cultural and political factors (like the Middle East, Russia etc.). In countries suffering from unstable political conditions, it is easier for them to cooperate with a local franchise partner, who knows the culture, mentality, proper store locations and the legal system. In terms of decision rights, the franchisee can often create his own advertising strategy, influence local marketing campaigns and recruit people. On the other hand, he needs to make sure that he is using correct images as well as messages, which are approved by the parent company. Also, he must adhere to company standards and corporate values at all times. After all it is important that franchisees can influence important factors in foreign markets, while at the same time acting in accordance with the company's image and corporate identity.

Hypothesis 4 predicts, that trust increases knowledge sharing between the parties and has a greater importance in franchising than in company-owned chains. This hypothesis is also widely supported. The manager of Company D thinks that building trust is extremely important for establishing stable business relations. He states that the company's board of managers has more trust in franchisees than in store managers. Franchisees usually show more motivation to succeed in business because they are risking their own money. Company C emphasizes, that cooperation between management and partners/store managers is very close. They usually are in contact every week and visit franchise stores at least three times a year. In Company B, regional managers are visiting company-owned chain stores every week and area managers drop by once or twice a month. Managers regularly have direct contact to both employees and store managers. Knowledge sharing also takes place during regular training for employees. The company is sure that trust plays an essential part in its success. That is why the managing directors can be easily contacted by their employees by phone or via e-mail in any situation. In Company A, shop manager meetings occur twice a year when employees and managers present their numbers of the previous year and introduce new goals for the year to come. Also, management shares updates about trends, expectations, laws, innovations and other important information with the store managers. All employees can contact an area manager anytime if they have any questions. Besides, all employees usually call each other by their first name without using titles and there is no difference in clothing between managers and employees. Employees at Company A trust their company and are happy to work in a place where social benefits, freedom and interpersonal interactions are put

first. All in all, hypothesis 4 is widely supported because it is shown, that trust does not only foster knowledge sharing, but that it is the basis upon which knowledge sharing occurs and long term business relations are built.

Hypothesis 5 claims that company-owned chains retain higher control than franchised chains. This hypothesis was confirmed. Company C which was mainly expanding with franchising stated that it is a fast and easy entry mode which does not require spending too much capital. But Company C would rather buy back all the franchised chains in order to gain a total control within target markets. Company D confirmed that it is more complicated to control the behavior of franchisee and that is the reason why they reduced franchised chains. In the situation when shop window needed to be changed within couple of days, store managers reacted faster than franchisees. Communication process took weeks before necessary things were finally implemented. In that way it is more complicated to control and evaluate franchisee's behavior. Therefore, in terms of control international expansion with company-owned chains is more preferred so that hypothesis 5 is supported.

The first research question dealt with why companies decide for an expansion with franchised outlets or with company-owned stores. Summarizing the obtained data, it was derived that companies often decide to open franchised outlets because it is quite easy, fast and does not require too much capital. Although complicated franchise agreements exist, it can be hard to obtain total control over franchised outlets (Company C and D). Moreover, Company C started using franchising in order to promote strong brand recognition. Company D was planning to establish a franchise system but it had to start with company-owned stores in order to see if the products are good enough. Soon they also implemented franchising in order to foster international expansion.

The main motivation to expand by using fully owned chain stores was to use synergies and become more competitive in the market (Company B). Company A usually starts their business on a wholesale basis by offering their goods in showrooms of big outlets such as Peek & Cloppenburg but also services smaller ones. If the wholesale strategy works out, it is regarded as a sign for strong demand and for a potential for opening new stores. Company A expands using both franchise outlets and company-owned chains. In some countries, up to 50 % of stores are operated by franchise partners, while in others they only use company-owned stores.

The second research question addresses the degree of control over franchisees or store managers as well as the evaluation of their performance. Company A believes that in chain store systems, it is hard to control the behavior of all the employees. Every decision of the shop manager can be easily tracked in the financial numbers or the achieved targets. In the case of Company A, the sales team can influence shop-turnover by up to 20 %. Company A motivates shop managers by alluding to extrinsic and intrinsic motivational factors. Company B states that the Store manager is mainly responsible for the success of the outlet chain. If financial targets are not met, the board of management takes the store under total control in order to find out whether the store manager is a weak leader or if there are any other reasons. The evaluation of store managers is continuously carried out by regional managers and area managers. Company C thinks that by using master franchising, it becomes easier to control the behavior of franchisees. Company C only signs an agreement with master franchise partners if they understand and respect the brand, company standards and the control policy. They prefer to have one master franchise partner per country rather than 30 franchise shops run by 30 different people. Company D thinks that it is very complicated to check the behavior of the franchisees because of the various regulations about corporate identity. In some cases, the franchisees do not follow standard regulations, imply changes rather slowly and try to keep arrangements flexible for them. Thus, fully owned stores are much easier to control and manage.

The third research question addresses the issue, which entry mode will be preferable in terms of costs, growth rate, market knowledge, trust, completeness of contracts, and the allocation of decision rights.

According to the interviews, a franchise entry mode is more preferable in terms of costs because it is usually less expensive. The franchisee needs to invest around 100,000-150,000 euros in the beginning, while entrepreneurs, who want to open a new chain store, need to spend around 500,000 euros.

Concerning the growth rate, there are different opinions. For Company A, which is mostly expanding with company owned stores; it would take 20 weeks to open a new store. For Company B, which also runs a company-owned business, it takes eight weeks up to 5 years. Company D, which is combining both entry modes, thinks that it takes a minimum of two weeks to open a franchise or a company-owned store but it can also take a shorter time, if the

store location is readily available. For Company D it usually takes three months to open a new franchise store. On the other hand, franchising is often used, when companies want to speed up their strategic expansion into other markets. In this case all the companies using franchising applied this mode of expansion in order to enhance growth, particularly on an international level. Only Company B did not follow the usual pattern and expanded using company-owned stores for fostering growth in a well-known market.

Concerning market knowledge, company-owned companies mostly preferred to hire new employees from the region because customer service should work better with some local know-how. For the companies, which expand abroad using franchising, local market knowledge was the main reason to decide for this entry mode. The franchisee is supposed to organize local marketing mostly on his own because he or she is an expert in the region. In case of master franchising, only the local agent (franchisee) is aware of regional traditions, culture, the legal system and the political situation, which is usually beneficial for the whole company. For both entry modes, the market knowledge of shop managers or entrepreneurs is essential.

Building trust is extremely important in both relationships, between managing director and franchisee as well as managing director and store manager. The manager of Company D thinks that the management board usually trusts their franchisees more. As a rule, franchisees are more motivated to perform well because they are risking their own financial resources. It is much harder to find motivated and goal-oriented store managers because they are working on the base of a regular working contract.

Regarding the degree of contract completeness, expansion with company-owned chains is more advantageous and preferable because the contract between management and employees (store managers) is a standard agreement, which is only occasionally adjusted in some cases. In case of franchising, the business agreement should be adapted according to the business case, local rules and legal policy.

In terms of decision rights, shop managers are responsible for their team, the motivation of the team members, professional trainings, the budget reserved for personnel and HR, working schedules, the organization of customer events, creating shelf layouts and product assortments etc. Franchisees usually have more decision rights than store managers because they are equal

partners to the business. They decide about their own local marketing, recruiting, trainings, etc. The franchisee is more flexible in running the store and is responsible for certain decisions like displaying the brand, presenting the correct company image, offering the right kind of products etc. In that sense, franchising passes more decision rights, independence and flexibility to the people running the store in the end.

7. Conclusion

This master's thesis described the reasons for market entry choices, their characteristics and provided main internal influencing factors for companies to expand. The findings can be used by managers, who want to expand internationally, and by governments, in order to assist companies, which plan to enter foreign markets.

Five hypotheses were derived from the theory and tested with the help of qualitative research. The choice of entry mode which realizes the growth of the company under certain conditions was determined. Moreover, there was presented a comparison between two international expansions, their advantages and disadvantages.

The key finding of this scientific paper are that franchising is a particularly interesting field of research which is favored over company ownership when there is a lack of available financial resources, when there is a need in rapid international expansion for the company and when the market's uncertainty is high and there is a need of knowledge sharing. Conducted qualitative research shows that company ownership is preferred over a franchising when there is a need for greater control within all chains, freedom to change products and services and retaining all profits from each outlet.

Five main internal factors: costs, speed of growth, local market knowledge, trust and control were chosen and studied more thoroughly. In terms of costs, research showed that franchising expansion strategy is less expensive than company ownership. According to the Resource scarcity theory, financial resources are the main reason for the franchisor to use franchising in order to get access to financial resources and thus to create the basis for business growth. In terms of speed of growth, franchising is more preferred because applying Resource Scarcity Theory, it provides a rapid growth rate requiring limited resources, implying low risks and offering brand name advantages. In terms of local market knowledge, franchising expansion will be chosen because of geographical dispersion and environmental uncertainty local franchisees are able to handle local laws complications, regulations and political instability. In terms of trust, franchising will create more trustworthy relationships because franchisees as self-motivated entrepreneurs will run chains successfully and perform better than an employed outlet manager with a fixed salary. In terms of control, it is better to expand with

company ownership because it retains total control over all chains and gives freedom to add or change product lines without previous internal discussions.

Main advantages of company-owned stores are high quality of goods, uniformity, controllability, higher profits and low operating costs. But company ownership has such disadvantages as limited autonomy and range of products, underspending of market potential and inflexibility. Franchising is known for its superior position in brand recognition, lower expansion risks and monitoring costs, low investments and generation of innovations. Main drawbacks of this strategy are control difficulties, risks in loss of reputation, strict product rules and initial buying costs for franchisees.

The current research project has limitations that are related to the used qualitative research method. Research quality could be influenced by the researcher's personal biases and the researcher's presence, which could affect the subject's responses. However, great care was taken to exclude any distorting, personal influences on the research matter and the responses given by the interviewees. The Interviewees stayed anonymous, which can present some problems when trying to verify the results. However, a wish for privacy naturally comes first in order to protect the interviewees. Furthermore, the sample included only four interviews, so that it can be difficult to deduce representative results and derive universal relationships from the data. Besides, a certain lack of time on part of the managers has to be kept in mind. They were interviewed and could spare only about 30-40 minutes to answer the questions. Nevertheless, the obtained findings contributed to the extension of the research field on entry mode strategies and provide directions for future research projects.

The gaps in the research project can motivate researchers to investigate also external influencing factors and to use quantitative methods for research, in order to confirm or expand findings. The research project was widely conducted in the fashion retail industry and future studies could thus target other sectors in order to provide a more detailed perspective on entry mode strategies. In addition, further research of plural forms of market entry and Plural Organization Theory, which combine both entry modes, is recommended.

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Questionnaire

- 1) What were your main reasons to establish a chain business/to franchise a business?
- 2) How much money does the franchisee need to invest in the beginning? What is the approximate amount of money?
- 3) How easy is to control the behavior and evaluate the performance of franchisee/store manager?
- 4) In terms of trust, how close are the cooperation relationships between you and franchisees/store managers? How important is trust between you both?
- 5) Concerning decision rights of the franchisee1/store manager, what can he decide by himself in terms of local advertisement, HR, Logistics?
- 6) Does it help you to enter the market faster if the franchisee/store manager has a local knowledge of the market?
- 7) How do you design an efficient franchise contract between two parties? How does the regular working contract between employees and managing direction look like?
- 8) How big are the risks of franchisees to open the store with the company?
- 9) How long does it take to open a new franchise chain/company-owned chain?

Abstract (German)

Die Masterarbeit umfasst einen theoretischen Überblick über Franchising und Filialsystem Expansionsstrategien und gibt einen tiefen Einblick in die Faktoren, die Erstellung einer Franchisingkette oder Filialsysteme beeinflussen. Auf diesem Bereich wurden schon einige Studien durchgeführt aber es immer noch Bedarf für die empirische Untersuchung vor allem in der Fashion Industrie.

Das Ziel der Masterarbeit liegt in der Untersuchung der Rolle der Expansionsstrategienauswahl, den Einflussfaktoren und den Folgen des Markteintrittsmodus. Die Auswahl eines bestimmten Markteintrittsmodus beeinflusst den Erfolg oder Misserfolg des Unternehmenswachstums. Die Wahl der falschen Expansionsstrategie kann zum finanziellen Scheitern eines Konzerns sowie zu einem Kontrollverlust auf den internationalen Märkten führen. Darüber hinaus untersucht die Masterarbeit die Vor- und Nachteile, welche die Erstellung einer Franchisingkette oder eines Filialsystems beeinflussen. Im Rahmen von qualitativen Analysen werden die Daten durch Experteninterviews erhoben.

Die Hypothesen wurden mit Hilfe der Theorie der Verfügungsrechte, der Transaktionskostentheorie und der Prinzipal-Agent-Theorie erstellt und mit der qualitativen Analyse getestet. Dafür werden vier Leitfadeninterviews durchgeführt. Die Erkenntnisse zeigen einen Zusammenhang zwischen den Theorien und realen Entscheidungen der Verantwortlichen.

Im letzten Kapitel der Masterarbeit werden die Ergebnisse der Studie dargestellt und die Überprüfung der Hypothesen durchgeführt. Die Schlussfolgerungen sollen helfen weitere Diskussionen über das Thema zu stimulieren und die Basis für zukünftige Studien in diesem Bereich zu verbessern.

Schlagwörter: Expansionsstrategien, Franchising, Filialsystem, Theorie der Verfügungsrechte, Transaktionskostentheorie, Prinzipal-Agent-Theorie.

