

**IBN HALDUN UNIVERSITY
SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF MANAGEMENT**

MASTER THESIS

**FRANCHISING AS AN INTERNATIONAL ENTRY MODE
STRATEGY: THE TURKISH CASE**

KÜRŞAT TOPALOĞLU

THESIS SUPERVISOR: PROF. EKREM TATOĞLU

ISTANBUL, 2020

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by

KÜRŞAT TOPALOĞLU

**A thesis submitted to the School of Graduate Studies in partial
fulfillment of the requirements for the degree of Master of Arts in
Management**

THESIS SUPERVISOR: PROF. EKREM TATOĞLU

ISTANBUL, 2020

APPROVAL PAGE

This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Arts in Management.

Thesis Jury Members

Title - Name Surname

Opinion

Signature

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This is to confirm that this thesis complies with all the standards set by the School of Graduate Studies of Ibn Haldun University.

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I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.

Name Surname: Kürşat Topalođlu

Signature:

A handwritten signature in black ink, appearing to be 'Kürşat Topalođlu', written in a cursive style.

ÖZ

ULUSLARARASI GİRİŞ MODU STRATEJİSİ OLARAK FRANCHİSİNG: TÜRKİYE ÖRNEĞİ

Yazar Topaloğlu, Kürşat

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Bu nitel araştırma, Türk şirketlerinin uluslararası franchise operasyonlarını için kullandıkları prosedürleri incelemektedir. Araştırma, uluslararası franchise literatürünün taranması ile başlamış ve araştırmacılar tarafından özellikle üzerinde durulmuş olan franchise şirketlerinin uluslararası operasyonları için yönetim modu seçimi, uluslararası franchise operasyonlar için franchisee seçimi, uluslararası franchiseeler ile ilişki yönetimi ve uluslararası franchise ağ problemleri konuları üzerine odaklanmıştır. Araştırma verisi için beş Türk franchise şirketine ulaşılmış ve derinlemesine mülakat tekniği ile nitel veri elde edilmiştir. Nitel araştırma verilerinin analizi sonucunda, Türk franchise şirketlerinin uluslararası operasyonları için yönetim modu seçim prosedürleri, uluslararası franchise operasyonları için franchisee seçim prosedürleri, uluslararası franchiseeler ile ilişki yönetim prosedürleri ve uluslararası franchise ağ problemleri konularının yanısıra, uluslararası pazarlara giriş modu olarak franchisingi neden tercih ettikleri ve uluslararası hedef pazar sıralama ve listeleme prosedürlerine ulaşılmıştır. Elde edilen nitel veri, araştırmanın dördüncü ünitesinde ana başlıklar altında sınıflandırılmış ve her bir ana başlık altında Türk franchise şirketlerinin uyguladığı prosedürlerin yapılandırılmasında etkili olan motifler belirlenerek detaylı olarak incelenmiştir.

Anahtar Kelimeler: İşlem-Maliyet Teorisi, Türkiye, Uluslararası Franchising, Uluslararası Franchise Ağı, Vaka Analizi, Vekalet Teorisi

ABSTRACT

FRANCHISING AS AN INTERNATIONAL ENTRY MODE STRATEGY: THE TURKISH CASE

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MA in Management

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This qualitative research examines the procedures that Turkish companies use for companies' international franchise operations. The present research starts with the review of international franchise literature, and focuses on the topics which were specifically emphasized by the scholar such as, selection of governance mode for international operations of the franchise companies, selection of the franchisees for international franchise operations, relationship management with international franchisees, and international franchise network problems. As regards the collection of the research data, five Turkish franchise companies were reached and qualitative data were obtained through in-depth interviews. As a result of the analysis of qualitative research data, additional to Turkish franchise companies' procedures of governance mode selection for international operations, procedures franchisees selection for international franchise operations, procedures of relationship management with international franchisees, and international franchise network problems, the data about why Turkish companies select the franchising as an international entry mode, and international target market ranking and listing procedures were obtained. The qualitative data obtained through the in-depth interviews were classified under main titles in the fourth chapter of the research and the motifs that are effective in the structuring of the procedures implemented by Turkish franchise companies are identified and analyzed in detail under each main title.

Keywords: Agency Theory, Case Study, International Franchising, International Franchise Network, Transaction-Cost Theory, Turkey

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LIST OF SYMBOLS AND ABBREVIATIONS

ADF	Area Development Franchising
DF	Direct Franchising
DIF	Direct International Franchising
EO	Entrepreneurial Orientation
IF	International Franchising
IMUF	International Multi-Unit Franchising
JV	Joint-Venture
JVF	Joint-Venture Franchising
MF	Master Franchising
MUF	Multi-Unit Franchising
PFE	Plural Form of Entry
SUF	Single-Unit Franchising

CHAPTER I

INTRODUCTION

1.1 Introduction to the Franchising

The roots of the franchising date back to the medieval times, where the term of franchising originates from the old French word “franche”, and it means “investing with franchise or privilege” (Dicke, 1992). Franchising represented the privilege or special right to dominate a special work branch, which was given by superior power to an individual to operate this special work branch such as, collection of taxes or massive construction works. Based on the original concept, modern-day business owners developed a business model (Dant & Grünhagen, 2014). The first version of the franchising emerged with the traditional franchising, which was a given right to a “single manufacturer that practically served as dedicated of the focal manufacturers’ products” (Dant & Grünhagen, 2014, p. 125). Mainly traditional franchising functions by granting manufacturing rights (under a franchise contract) to a franchisee to serve as companies’ manufacturer in a specified area. The second version of the franchising emerged with business model franchising, which was a granted franchise license to a franchisee in return for prespecified monetary value. Franchise license covers the assignment of the complete business package, including the brand’s name, training, and continuous support to ensure that the franchisor’s concept is executed exactly the as in other units within the franchise network (Grant, 1985). Foundation of the business model franchising was started by Martha Matilda Harper in 1890 by the development of a business chain, which was comprised of more than 500 Beauty Shop in America (Plitt, 2000). However, the real rise of the franchising as a business model started in the 1950s, by McDonald’s, founded by Richard James McDonald and Maurice James McDonald in 1948 and purchased by Ray Kroc in 1961, Kentucky Fried Chicken, founded by Colonel Sanders in 1952, and Burger King, founded by David Edgerton and James McLamore in 1954. The main focus of these companies (especially McDonald’s) was the uniformity of the offerings.

1.2 Purpose of the Study and Statement of the Problem

The development of a new business model created a new branch in the 1950s within both the local and the international business literature. Since the 1950s, scholars have argued and theorized different sub-branches within the franchise literature around the world including franchise relationship management, franchise network problems, selection of franchising, and more. However, the development of franchise literature in Turkish databases falls behind the international databases. Although franchising started in Turkey with the opening of McDonald's in 1986, there are a limited number of articles and theses in Turkish databases on the local and international operations of Turkish franchisors. Therefore, the gap in the literature offers an opportunity to investigate operational procedures of Turkish franchisors within the franchise network. However, due to the scope of franchise literature (argued in the international databases) and the limited number of information sources (in Turkey), the present research focuses solely on the international franchise operations of Turkish franchisors.

1.3 Significance of the Study

The present research aims to contribute to the Turkish franchise literature by investigating the international franchise network procedures of the Turkish franchisor by using qualitative research methodology. Hence, this study has fourfold purposes:

- Identifying motifs behind the selection of franchising as an international entry mode strategy, and the types of franchise governance modes used by Turkish franchisors
- Identifying the target market selection procedures of Turkish franchisors for international franchise operations
- Identifying the Turkish franchisors' international franchisee selection procedures
- Identifying international franchise network problems and international franchise relationship management procedures of Turkish franchisors

1.4 Organization of the Study

The present research consists of five chapters. Chapter I introduces the development of franchising around the world, highlights the problem statement, and specifies the aim of the study. Chapter II reviews the pertinent literature, and reviews the theoretical disciplines related to international franchising, and explores the four main branches of the international franchise literature. Chapter III identifies the process of research question development and specifies the research design and data collection processes. Chapter IV consists of research results. Chapter V consists of discussion of findings, and limitations of the study and suggestions for future research.



CHAPTER II

LITERATURE REVIEW

2.1 Brief Guideline for Literature Review

“Share your knowledge. It is a way to achieve immortality”

(Tenzin Gyatso, known as Dalai Lama XIV)

The review of international franchising (IF) literature starts with classification, explanation, and comparison of different governance modes used within the international franchising network, historical background of franchising, motifs behind the selection of particular governance mode, and visualization of the governance modes within the international franchise network argued by scholars. After the review of governance modes related to international franchise network, review of IF literature continues with identification of key determinants of the international franchisee selection processes, and improvement of the partnership relationship between the franchisor and the international franchisees. In the last part, theoretical disciplines such as resource-based theory, agency theory, and transaction-cost theory are used to highlight the source of the problems within the IF network.

2.2 Governance Mode Selection

One of the important factors in the international expansion processes is the selection of the right entry mode. As regards the selection of entry mode, different factors such as companies' business models, the propensity of the companies to internationalize their business and foreign markets, crisis, new opportunities in the market, business and financial risks, and many more factors lead managers to focus on different entry modes such as exporting goods, foreign direct investment, joint venture (JV) agreements, and franchising. In this part of the literature review, rather than exporting goods, foreign direct investment, and JV agreements, the term entry mode will be

narrowed down to franchising. Moreover, different kinds of governance modes in franchising will be explained.

Franchising is defined by Burton and Cross (1995, p.36) as “a foreign market entry mode that involves a relationship between entrant and a host country entity, in which the former transfers, under contract, a business package, which it has developed and owns to the latter”, and defined by Dant and Grünhagen (2014, p.125) as,

... a contractually vested inter-firm business relationship between two legally independent entities involving a grantee (or franchisee) and a grantor (the franchisor), where the franchisee pays franchisor for rights to sell the franchisor’s product or service using franchisor’s trademarks and its proprietary business system in a pre-specified location for a pre-specified length of contract.

As we understand from the definitions of franchising above, franchising separates itself from the other types of entry modes. Different from other types of entry modes, franchising as a governance mode involves two different business entities, working together under the franchisor’s brand, bound by a franchise contract, where the franchisor uses franchisee’s resources to expand and developed a business network in foreign markets, and franchisee uses franchisor’s intangible assets to increase its customers, product and service quality, and profit.

According to Dicke (1992), origins of franchising dates back to the medieval times, and the term franchising comes from the old French word “franche”, which means “investing with franchise or privilege”, and it was a privilege or right to do some special work by dominating that work area such as, collection of taxes, contraction works, and others, which was given by a superior power. Based on this concept, in modern days, franchising is used as a business model by the companies to eliminate certain problems, which will be explained in the following parts. Franchising has two different operational types such as traditional franchising, and business model franchising.

2.2.1 Traditional Franchising

Traditional franchising can be defined as a business model used by a franchisee, which is a “single manufacturer that practically served as dedicated of the focal manufacturers’ products” (Dant & Grünhagen, 2014, p. 125). In general, traditional franchising is functioning by granting manufacturing rights (under a franchise contract) to a franchisee to serve as the companies’ manufacturer in a specified area. For example, soft drink companies such as Coca Cola and Pepsi use this franchise business model (Dant & Grünhagen, 2014, p. 125).

2.2.2 Business Model Franchising

The foundation of the business model franchising dates back to the 1890s by Martha Matilda Harper, who developed a business chain and opened more than 500 Beauty Shop in America (Plitt, 2000). Moreover, the real rise of the franchising as a business model started in the 1950s, by McDonald’s, which was founded by Richard James McDonald and Maurice James McDonald in 1948 and purchased by Ray Kroc in 1961, Kentucky Fried Chicken, which founded by Colonel Sanders in 1952, and Burger King, which was founded by David Edgerton and James McLamore in 1954. These companies (especially McDonald’s) mainly focus on the uniformity of the offerings. Business model franchising can be defined as,

... the granting of a license for a predetermined financial return by a franchising company (franchisor) to its franchisees, entitling them to make use of a complete business package, including training, support and corporate name, thus enabling them to operate their own business to exactly the same standards and format as the other units in the franchised chain (Grant, 1985, p. 5).

In the concept of the business model franchising, or today’s modern franchising (Dant & Grünhagen, 2014) as a governance mode, Doherty and Quinn (1999) separate franchising into three different categories including master franchising (MF), joint venture franchising (JVF), and direct franchising (DF). Garg and Rasheed (2003) separate franchising into two different categories such as MUF and single-unit franchising, where the single unit franchising can be accepted as DF and multi-unit franchising (MUF) can be divided into two forms including, area development

franchising (ADF), and MF. Moreover, Perrigot, López-Fernández, and Eroglu (2013) defined another type of franchising as the plural form of entry (PFE) (use of both franchise and wholly-owned units at the same time as governance mode), in which a company owns some outlets, as well as franchise units.

2.2.3 Types of Franchising as Governance Mode

As regard to entry mode strategies, franchising offers different kinds of governance modes to adjust business needs based on different foreign market profiles, and franchisors' perspectives. These governance modes (under the franchise agreements) can be sorted as, DF, MUF, JVF, and PFE.

DF can be explained as a franchise agreement between two entities, in which a franchisor mainly offers intangible assets to a franchise network in return for royalty and franchise fees, and franchisee offers tangible resources to franchise network in return of a single franchise unit for pre-specified time and location.

MUF in comparison to DF, the franchisee has the right to own, operate, or control more than one franchise unit for a pre-specified time and locations (Kaufmann & Dant, 1996). In terms of variation of MUF agreements, it has two sub-categories such as ADF, and MF (Garg & Rasheed, 2003). MF can be defined as a “franchisor grants the master franchisee the right to sub-franchise the franchisor’s concept to others within an exclusive territory, creating a tripartite franchise relationship” (Doherty & Quinn, 1999, p. 230). In comparison, ADF has some major differences from MF. It is a unique kind of MF agreement that allows the franchisee to open and operate multiple units within a specified geographical district. The main difference between MF and ADF agreements, is that master franchisee deals with sub-franchisees, which are added to the franchise network after the MF agreement is signed. However, area development franchisee hires individual managers to manage the store-based operations for franchisee’s units (Kaufmann & Dant, 1996).

JVF (Doherty & Quinn, 1999) is another form of governance mode under franchising agreements. In comparison to other kinds of franchise agreements, JVF occurs when

the “information asymmetry¹ problem has been quite acute” (Doherty & Quinn, 1999, p. 230). According to Doherty and Quinn (1999), JVF enables both entities to reduce information asymmetry problems through the information and experience shared between the entities. Moreover, different from the other kinds of franchising, JVF is an equity-based agreement. In order to expand the franchise network into a foreign market, the franchisor develops a franchise agreement with a JV company based on equity ownership, in which the company has exclusive rights for the development of the franchise network. This equity ownership allows the franchisor to have control rights on sub-franchisors (Konigsberg, 2008).

PFE is referring to the “simultaneous coexistence of franchised outlets and company-owned outlets within the same network” (Perrigot et al., 2013, p. 558). According to the findings of Bradach (1997), and Bradach and Eccles (1989) on the U.S. fast-food sector, companies tend to use plural form to solve some managerial problems such as brand protection, uniformity of the business concept, control of local threats and opportunities, and product development. Moreover, this type of franchising is beneficial for the franchisor. As regards the franchise network, the franchisor has more control over the business network, and information transfer within the network is much faster. Another benefit of the system is to allow the employees to become a franchisee, who already knows the details and the needs of the business network (Bradach, 1997; Bradach & Eccles, 1989).

2.2.4 Governance Modes Used in International Franchise Operations

Franchising provides a lot of opportunities for companies to expand into foreign markets much easier. In terms of opportunities, franchising reduces the business and financial risks by using franchisee’s resources for foreign investment, facilitates the access of information about the targeted market by collecting data from franchisee’s units, adapts the business model to host country obligations about international trade and eliminates the trade barriers by using foreign partner or franchisees.

¹Information asymmetry causes the agency problems, where the principal and the agent experiencing dissimilar risk preferences or goal conflicts within the franchise partnership (Jensen & Meckling, 1976).

Franchising dates back to the medieval times, where a person or franchisee was granted by exclusive rights to do important business such as building roads, collecting taxes, and other kinds of jobs, that were assigned by superior power (Dicke, 1992). Similar to this job designation in medieval times, types of modern franchising (Dant & Grünhagen, 2014), started by traditional franchising, which a single manufacturer or franchisee has exclusive rights to manufacture franchisor products for the pre-specified time in the pre-specified area (Dant & Grünhagen, 2014). However, with the change in business trends over time, business model franchising started to be used in the 1890s by Martha Matilda Harper, who developed a business chain and opened more than 500 Beauty Shop in America (Plitt, 2000). In comparison to traditional franchising, business model franchising has some major differences. In business model franchising, the franchisor grants a license to a franchisee, which includes the use of franchise concept, and manufacturing rights of franchisor's products, under pre-specified terms for the pre-specified time. The main difference between traditional franchising and business model franchising is that, while traditional franchising focuses on the production of the franchisor's product, business model franchising focuses on the franchised unit as a product (Dicke, 1992). Therefore, the franchisor provides training, support, and franchisor's brand name to a franchisee, to maintain the company's business concept and standards in franchised units within the franchise network (Grant, 1985).

Until the 1950s, business model franchising did not use widely by companies (Dant & Grünhagen, 2014). However, after 1950s use of business model franchising accelerated by companies such as McDonald's, Burger King, Kentucky Fried Chicken. After the 1950s, by new developments and business trends modern franchising (Dant & Grünhagen, 2014) separated into different categories such as DF, JVF (Doherty & Quinn, 1999), MUF (Garg & Rasheed, 2003), and PFE (Bradach, 1997; Bradach & Eccles, 1989).

As regards international trade, the use of governance modes (franchise) may be influenced by different occasions. Burton and Cross (1995), and Welch (1993) argued that the DF used by the companies as an international entry mode in countries where a host country has high cultural similarity with the home country. However, in a country, where the cultural distance is high, the use of direct international franchising

(DIF) is decreased. Garg and Rasheed (2003) argued that based on monitoring cost and information asymmetry perspective DIF loses its feasibility against international multi-unit franchising (IMUF). Because an increase in the number of franchisees in a specified area increases the monitoring cost over single units. However, the use of MUF in international trade reduces the monitoring cost, because in the case of MUF, a franchisor needs to monitor only one franchisee (Garg & Rasheed, 2003). In comparison to DIF and IMUF, the use of JVF in international trade demands different circumstances. Jell-Ojobor and Windsperger (2014) argued that based on the franchisor perspective, rate of control over business units increases from DIF to wholly-owned units. DIF through the geographical and cultural distance, and increase in the number of franchisees, increases the information asymmetry (Jensen & Meckling, 1976), which decreases the franchisor control over the franchised units (Garg & Rasheed, 2003). In terms of elimination of the information asymmetry, franchisors use high control modes² (Jell-Ojobor & Windsperger, 2014). As regards JVF in international trade, Doherty and Quinn (1999) argued that JVF enables both entities to reduce information asymmetry problem through the information and experience shared between the entities, which provides the franchisor with control over franchised units by its equity-based ownership in host markets (Doherty & Quinn, 1999). As regards high control modes (Jell-Ojobor & Windsperger, 2014), Bradach (1997), and Bradach and Eccles (1989) argued on the plural form on entry, which a company has wholly-owned units and franchised units in the same area. The authors argued that the franchisor uses the PFE to benefit information transfer. As regard to benefits, firstly franchised units can provide different know-how and strategies to the business network based on their own experiences, secondly the plural form allows employees to become a franchisee, where the business network works as the source of franchisees, and lastly, the plural form increases the mutual learning process, which increases the development, testing, selection and execution of new ideas (Bradach, 1997; Bradach & Eccles, 1989).

As regard to governance modes used in international franchise operations, Figure 2.1 provides connection between different kinds of governance modes. Governance modes within the international franchise framework, can be separated into two categories,

² Control over the franchised units increase in the following order; DIF, MUF, JVF, PFE, and wholly-owned units (Jell-Ojobor & Windsperger, 2014)

business model franchising and traditional franchising. In addition, the category of equity-based ownership was added to the Figure 2.1. to provide visual support to explaining the connection between different kinds of governance modes. Based on business concepts, traditional franchising provides only manufacturing right to the franchisees. Therefore, traditional franchising has no sub-category. However, business model franchising can be adjusted based on a franchisor's needs and perspective. In comparison between equity-based franchising types and non-equity-based franchising types, DF and MUF, which includes ADF and MF, have no connection with equity-based category, where the JVF and PFE have direct connection with equity-based ownership category.

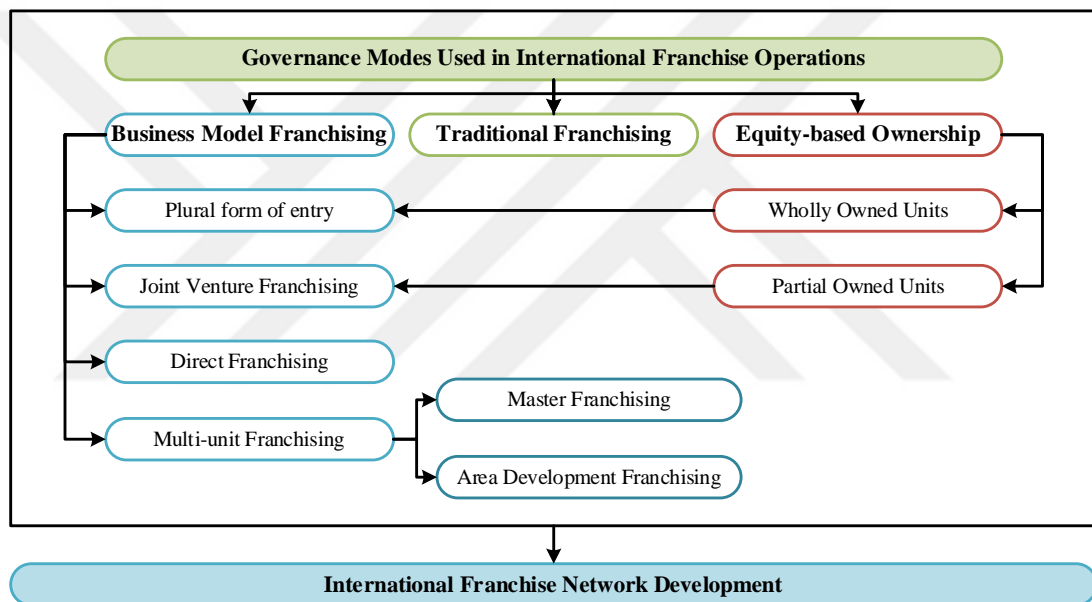


Figure 2.2. Governance Modes Used in International Franchise Operations

2.3 Partnership Relations in International Franchising

Scholars have been focusing on one of the branches of IF network development processes in IF literature as the partnership relations in international franchise agreements (Altinay, 2006; Altinay & Brookes, 2012; Altinay et al., 2014; Altinay & Wang, 2006; Brookes, 2014; Brookes & Altinay, 2011; Davies et al., 2011; Doherty, 2007, 2009; Doherty & Alexander, 2004; Grewal et al, 2011; López-Bayón & López-Fernández, 2016; Thompson & Stanton, 2010). One of the main factors for conducting

a study on international franchise partnerships is the number of limited researches in the IF literature, and the domination of international partnership literature by numerous studies of JV agreements (Altinay, 2006). Moreover, franchising is a special kind of partnership agreement, which contains business-to-business partnerships, and therefore the investigation of international franchise partnerships research should be separated from other kinds of governance mode studies. Business format franchising can be defined as,

... the granting of a license for a predetermined financial return by a franchising company (franchisor) to its franchisees, entitling them to make use of a complete business package, including training, support and corporate name, thus enabling them to operate their own business to exactly the same standards and format as the other units in the franchised chain (Grant, 1985, p. 5).

In this regard, the international franchise partner selection processes contain various factors, where the success of partnerships relies on those factors.

2.3.1 Partner Selection Processes in International Franchising

In the IF literature, studies on international franchise partner selection date back to the 2000s, where Doherty and Alexander, (2004) conducted a multiple case study on the UK-based retail industry and developed a conceptual model of international franchise partnership selection processes. The authors found that the development of the franchise partnership has four stages, such as “recognition of relationship need, partner search process, evaluation of potential partners, and partnership stabilizing role”. In the first stage, the authors realized that international companies interact with franchising in various ways, such as the recognition of benefits of franchising or approaches of potential franchise partners (franchisee) with a “bag of money”. In the second stage, through the term “bag of money” authors represent the acquisition of potential foreign partner’s capital by the case companies for their interests. Furthermore, the authors found that the case companies engaged in a franchise agreement through the term “bag of money”, even they were not planning to expand internationally. Therefore, the act of companies can be labeled as the franchisor’s opportunistic propensity. In the third stage, authors observed that a partnership based on opportunistic propensity only causes short-term agreements, and therefore the

situation increases the risks of early termination of the partnership. In addition to opportunistic propensity, the authors found that the case companies lately adopted a strategic propensity to partner selection to prevent themselves from risks of early termination of the partnership. Strategic propensity can be defined as the necessary determinants of the business-to-business relations to forge a long-term franchise partnership, such as financial stability, business experience, mutual trust, and the “chemistry” between companies. In the last stage of the franchise partnership development, the authors highlighted that the case companies suggest the viability of long-term franchise partnership requires continuous communication and support between partners and an applicable franchise contract signed by both partners.

In addition to Doherty and Alexander's (2004) pioneer work, Altinay (2006) conducted a single case study on the UK-based hotel industry and presented the stages of an international franchise expansion and partner selection of the case company. The author found that the five stages are crucial for the international franchise expansion. “Strategic rational” stage represent the main reasons of expansion, which covers franchisors perspective as regard to international expansion, such as reasons to undertake the project, and impact of the project on current market position and the brand competitiveness. “The market” stage represents the foreign market selection processes, such as main competitors in the foreign environment, development level of the industry, the attractiveness of targeted market segments, and supply characteristics. “Financial analysis” stage represents the details of the potential franchisee’s financial strength and required investment from the franchisor. “Details on business partner” stage represents the potential franchisee’s capabilities to meet the franchisor’s standards, such as the general background of the company, financial strength, business experience, the potential franchisee’s plan of capital allocation, and more importantly potential franchisee’s reason to sign a franchise agreement. “Property overview/key milestone sheet” represents the potential franchisee’s current organizational policies, physical condition of properties, technical details, and applicability of the franchisor’s standards. The author highlighted that, if the potential franchisee fails in any stage, the franchisor cancels the international expansion and partner selection processes. Moreover, the author stated that the franchisor priority as regards to the potential

franchisee selection bases the “task-related criteria”³. If the potential franchisee provides the requested standards, franchisor call for a franchise partnership agreement. Furthermore, the author found that the viability of a long-term franchise agreement also relies on “partner-related criteria”⁴, which requires relationship development between the franchise partners to prevent the partnership from agency problems.

Doherty (2009) emphasized that the international franchise partner selection processes either start with the opportunistic propensity or the strategic propensity of the franchisor. The author, in addition to her previous study (Doherty & Alexander, 2004) on the UK-based retail industry, drew a conceptual model that contains the stages of both selection processes. As regard to opportunistic propensity, the author stated that the franchise partner selection starts with the approach of the prospective franchisee, and continue with partner selection based on franchisee’s tangible and intangible capitals, such as financial ability, business plan, franchisee’s condition in the foreign market, and end with foreign market selection. In contrast to opportunistic propensity, strategic propensity starts with the franchisor’s perspective to the targeted market, which contains market screening criteria, such as demographic and economic determinants of the foreign country, and market attractiveness factors, such as retail structure, competition, and regulation. Furthermore, if the franchisor finds a suitable market, it can then continue with strategic partner selection.

2.3.2 Relationship Development in International Franchising

In addition to partner selection processes, the development of franchise partner relations demands various factors, where the success of long-term franchise relationships relies on those factors. Grewal et al. (2011) stated that the franchising “... is a joint action of the two distinct firms...” (p. 534), therefore, studies of the international franchise relations should contain both the franchisor’s and the franchisee’s propensities to their relationship. The authors argued that the motion of the franchise expansion through a foreign partner starts with “entrepreneurial

³ Task-related criteria can define as “... operational skills and resources needed by a venture to achieve success in the market”, such as “... operational and performance characteristics, ... patents technical knowledge, experience of management, accessing to marketing and distribution systems, and financial resources” (Altinay, 2006, p. 113).

⁴ Partner-related criteria can define as “... the effectiveness of cooperation between partners”, such as “... past association between partners, compatibility between partners’ management teams, the national or corporate culture of the partners, partner’s organisational size and structure” (Altinay, 2006, p. 113).

orientation” (EO) of both franchisor and franchisee. EO defined as “the processes, practices, and decision-making activities that lead to new entry” (Lumpkin & Dess, 1996, p. 136), and “strategy-making processes that provide with a basis for entrepreneurial decisions and actions” (Rauch et al., 2009, p. 762). The authors stated that EO involves three stages, proactiveness⁵, risk taking⁶, and innovativeness⁷. As regards to EO, degree of resource allocation and strategic orientation of a company shapes by the level of risk aversion of the company managers, opportunity acquisition shapes by proactiveness, and competitiveness shapes by the innovativeness (Dess, Lumpkin, & Covin, 1997). In light of these studies, Grewal et al. (2011) proposed that degrees of speed, scale, and scope of the international expansion changes by the degree of EO of company managers. Moreover, the authors stated that the combination of the local market knowledge, marketing capabilities, and relationship-specific investment⁸ magnifies the impact of the partnership on international franchise expansion, where the degree of expansion positively affects both the franchisee’s, and the franchisor’s financial and strategic performance. However, the degree of combination of both the franchisor’s and the franchisee’s EO variables, and success of franchise partnership depends on the degree of chemistry between the companies (Doherty, 2009; Doherty & Alexander, 2004). Chemistry defined as “... an essential ingredient to keep communication channels open between the members of the different firms” (Brookes & Altinay, 2011, p. 344). Therefore, determinants, such as similarities in organizational company goals, values, and cultures, empathy, sustained support, and sustained communication can be included in the context of the chemistry (Brookes & Altinay, 2011; Doherty & Alexander, 2004).

Apart from chemistry, another important variable of franchise relationship development stated by authors is “cultural sensitivity and trust” (Altinay & Brookes, 2012; Altinay et al., 2014; Davies et al., 2011; Doherty, 2009). In IF literature, one of the main problems is the cultural distance between home and host country markets. As regards cultural distance, cultural sensitivity plays an important role in the way of a

⁵ Proactiveness defined as “opportunity seeking” (Grewal et al., 2011, p. 538)

⁶ Risk-taking defined as “committing resources in uncertain environments” (Grewal et al., 2011, p. 538).

⁷ Innovativeness defined as “predisposition to engage in creativity and experimentation” (Rauch et al., 2009).

⁸ Relationship-specific investment defined as “investments made by either or both parties that do not have value outside of the partnership” (Grewal et al., 2011, p. 536).

solution to these problems. Altinay et al. (2014) developed a model where the role performance and cultural sensitivity of franchisor enhance the communication between partners. Consequently, communication enhances trust, and trust enhances the satisfaction of franchise relations. Doherty (2009) argued that cultural sensitivity represents goodwill between two distinct companies, where their cultural norms based on different backgrounds. Besides Doherty's (2009) argument, Sorenson and Sørensen (2001) stated that franchisors built the cultural sensitivity through the allocation of their resources to local markets (to a franchisee), harmonization of their products based on local market demands, and readjust the organizational practices and policies to suit local conditions.

Altinay (2006) found that companies seek for mutual trust in the early stages of their relationship development. Additionally, Dant and Gundlach (1999) stated that franchising contains unique features in terms of the entrepreneurial form, where the dependence and autonomy jointly coexist in the franchise relations. Therefore, the long-term franchise relationship leans on the balance between dependence and autonomy in the franchise relations, where the satisfaction, trust, and compliance play crucial roles (Davies et al., 2011). López-Bayón and López-Fernández (2016) found that an increase in the franchisee's autonomy can eliminate the conflicts within the franchise partnerships and reduce the risk of early termination. The authors stated that the decision-making structure of the franchise partnership affects the degree of the franchise network problems and franchisee's autonomy, where the more centralized decision-making structure gives rise to free-riding problems, the more decentralized decision-making structure cause opportunistic behaviors. The authors also stated that conflict within the franchise network can be prevented by adjustment of operational autonomy of franchisees, such as pricing, human resource policies, assortment and outlet decoration, and local advertisement. The authors found that pricing of products is a very crucial variable, in terms of protection of franchise customer bases from opportunistic franchisee behaviors and the use of economies of scale, and therefore pricing should be centralized. Furthermore, in the early stages of partnership and foreign market expansion, centralization of the assortment and outlet decoration, also important, in terms of the development of the customer perspective about franchise concept in a foreign environment. In contrast to the centralization of pricing policies, assortment, and outlet decoration, the authors found that franchisee's autonomy can

be increased, where the decentralization of human resource policies and partial decentralization of local advertisement decrease the franchise network problems. Besides, López-Bayón and López-Fernández's (2016) work, Davies et al. (2011) conducted quantitative research and collected data through 135 franchising firms. The authors found that an increase in the satisfaction level of partners reduces the risk of conflicts within the franchise network and enhances the trust within the franchise partners. The authors stated that the franchisor satisfaction can be increased as the franchisee performs in specific guidelines provided by the franchisor, and franchisee satisfaction can be increased as the franchisor provide promotional support and managerial support.

Altinay et al. (2014) found that satisfaction level can be increased by the development of trust among partners through continuous communication, where the communication bases the knowledge transfer. Brookes (2014) conducted a single case study about the UK-based hotel industry. The author used Abou-Zeid's (2005) comprehensive multi-stages model⁹ to analyze knowledge transfer processes between the case company and its franchisees. The author stated that the success of a franchise network increase by the success of the knowledge transfer between franchise partners. Furthermore, the author found that the knowledge transfer literature identifies three fundamental antecedents of knowledge transfer that use in inter-organization context, such as casual ambiguity¹⁰ (King, 2007), absorptive capacity¹¹ (Cohen & Levinthal, 1990), and shared identity¹² (Kogut & Zander, 1996). The author found that in the partnership of case company and company's franchisee, they interact with franchise partnership by different reasons, and at the stage of "recognition of knowledge gap" partners identified their needs for success in competitive environments, such as the franchisor was seeking for a new market to enter and franchisee capital to expand, and franchisee

⁹ Abou-Zeid's (2005, p. 147-148) multi-stages model includes four steps. "Recognition of knowledge gap" refers to the identification of the partner's (franchisor or franchisee) demand, "negotiation with knowledge transfer partners" refers to negotiation of identified demands between partners, "implementing the knowledge transfer processes" refers to the implementation of negotiated demands, and "enhancing knowledge transfer processes" refers to the identification of knowledge transfer problems and their solutions.

¹⁰ Casual ambiguity defined as "... the ability to understand the connections between actions and outputs that are the sources of competitive advantage" (King, 2007, as cited in Brookes, 2014, p. 53).

¹¹ Absorptive capacity defined as "... the ability of a firm to recognize the value of new, external information, assimilate it and apply it to commercial ends" (Cohen & Levinthal, 1990, p. 128).

¹² Shared identity defined as "... a sense of community by which discourse, coordination, and learning are structured" (Kogut & Zander, 1996, p. 503).

was seeking for experience, managerial processes, and franchisor's customer bases to increase their market share. In the "negotiation with knowledge transfer partners" stage the author stated that franchise partners identified their tangible and intangible capitals, and knowledge resources to define a mutual value, where the absorptive capacity of both partners plays a crucial role in terms of creation of mutual value. The author highlighted that the greater the presence of absorptive capacity, greater the development of shared identity within the franchise partners. In contrast, the author found that the franchise partners suffered in the "implementing the knowledge transfer" stage by the lack of development of shared identity. In the last stage "enhancing knowledge transfer processes" the author stated that through the enhancement of the partners' casual ambiguity, conflicts within the franchise partnership decreased, where the momentum of the development of shared identity increased. Furthermore, the author stated that transfer of the explicit knowledge can be implemented through "training manuals, standard operating procedures, and information systems" (Paswan & Wittmann, 2009), whereas transfer of tacit knowledge requires more complex systems, such as "technology or socialization and communication processes" (Squire, Cousins, & Brown, 2009). López-Bayón and López-Fernández (2016) found that tacitness of the franchisor's business practices increase the risk of early termination, where greater lack in shared identity and knowledge transfers between franchise partners.

2.3.3 International Franchise Partnership Relations Motifs

As regards IF, the development of successful partnership relations leads franchise partners to strategically and financially grow in the foreign markets, where the speed, scale, and scope of international expansion magnified (Grewal et al., 2011). Therefore, the franchise partnership relations can be accepted as the binding chains within the franchise network. In the IF literature, the authors found that the creation of international franchise partnerships either starts with opportunistic propensity (Doherty, 2009) or strategic propensity (Altinay, 2006) of a franchisor to franchisee, whereas the continuation of international franchise relationships involves more complexity. Therefore, in the light of the previous studies (Altinay, 2006; Doherty, 2009; Doherty & Alexander, 2006) as shown in Figure 2.2 partner selection processes can divide into two categories, opportunistic propensity, and strategic propensity.

In addition to partner selection processes, the development of franchise partner relations involves more complexity, where the success of long-term franchise relationships relies on developments of those complexities. As regards IF literature, the entrepreneurial orientation of franchisor and franchisee (Grewal et al., 2011), chemistry between potential partners (Doherty & Alexander, 2004), franchisor's cultural sensitivity (Altinay & Brookes, 2012), trust among franchise partners (Altinay et al., 2014; Davies et al., 2011), transfer of knowledge between partners (Altinay & Wang, 2006; Brookes, 2014), and communication and support (Altinay & Brookes, 2012; Altinay et al., 2014; Altinay & Wang, 2006; Brookes, 2014; Brookes & Altinay, 2011; Davies et al., 2011; Doherty & Alexander, 2004; Thompson & Stanton, 2010) can be included those complexities.

As López-Bayón and López-Fernández (2016) stated in their study, conflicts can be seen in any part of the franchise network. Depending on the degree of the conflicts between franchise partners, the franchise contracts can be terminated or enhanced by developments in franchise relationships through the changes in franchisor/franchisee perspectives.

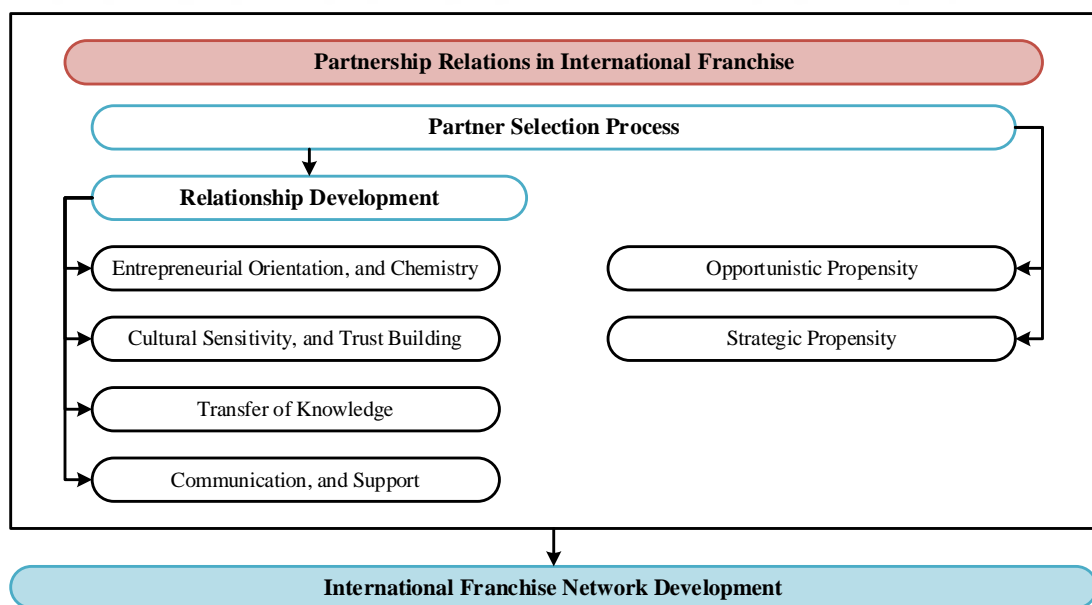


Figure 2.3. Characteristics of Partnership Relations in International Franchise Network

2.4 Review of Theoretical Disciplines on International Franchising

In this part of the research, problems faced by franchisors in the international franchise network will be reviewed by using several theoretical disciplines, such as resource-based theory (Norton, 1988), agency theory (Jensen & Meckling, 1976), and transaction cost theory (Williamson, 1985), and the managerial decision-making mechanisms to use franchising as an international entry mode strategy. The resource-based theory will be used to elucidate one part of the origin of the international expansion propensity of the franchisor and the franchisee. The agency theory will be used to clarify the problems between the principal (franchisor) and the agent (franchisee) relationships, source of these problems, and the benefits of the franchise systems. Transaction cost theory will be used to explain costs of the transaction of necessary capabilities of the partners to execute relationship tasks within the franchise network in the dynamic foreign environment, where the dynamism is shaped by factors, such as economic movements, legal/political institutions, innovation, globalization and internet, and social/cultural differences (Hoffman & Preble, 2004).

2.4.1 Resource-based Theory

Franchising is a unique organizational form as an international entry mode. As regards the form of the franchising, franchise systems allow companies to expand international markets, where the market's "environments characterized by intense competition, rapidly changing customer tastes, and a trend towards localized market segments" (Elango & Fried, 1997, p. 68). Therefore, franchising increases the development of competitive advantage through access to foreign partners' tangible and intangible assets (Taylor, 2000). In such cases, young companies with limited capital sources may adopt an opportunistic propensity to become a franchisor/franchisee in order to access partners' tangible and intangible assets (Oxenfeldt & Kelly, 1969). Also, Doherty and Alexander (2004) found that the companies interact with franchising in order to acquire potential foreign partner's assets for their interests, even if they were not planning to expand. Jell-Ojobor and Windsperger (2014) extended the assets into three categories, where the assets needed by a franchisor/franchisee in order to create a competitive advantage in a new international market. (1) "System-specific assets" (p. 162), such as "proprietary know-how, communication system, store layout,

customer competence, marketing and R&D, capabilities, advertising and promotion, site location, and monitoring techniques” (p. 162), (2) “local-market assets” (p. 162), such as “local tastes, preferences, income, media, and cultural values” (p. 162), and (3) “financial assets” (p. 163).

Moreover, Carney and Gedajlovic (1991) argued that once a company has access to enough foreign assets, the franchisor may try to take over a large proportion of franchisees’ units. Hence, in the early stage of expansion processes of young companies, the opportunistic propensity of franchisor/franchisee may cause problems in regard to franchise network development (Doherty, 2009). Doherty and Alexander (2004) stated that the franchise partnership based on opportunistic propensity to take over franchisee assets, only causes opportunism and short-term agreements, and therefore the opportunism increases the risks of early termination of the partnership.

2.4.2 Agency Theory

IF can be defined as “a foreign market entry mode that involves a relationship between the entrant (the franchisor) and a host country entity, in which former transfers, under contract, a business package (or format), which it developed and owns, to the latter” (Burton & Cross, 1995, p. 36). Grewal et al. (2011) stated that the franchising “is a joint action of the two distinct firms” (p. 534), where the firms internalize divergent organizational goals and hold distinctive sources. As regards the relationship between two distinct agents, Eisenhardt (1988) stated that the “ domain of agency theory is relationship that mirror the basic agency structure of a principal and an agent who are engaged in cooperative behavior, but have different goals and different attitudes toward risk” (p. 59). Therefore, since the potential partners internalized divergent organizational goals, agency problems and “costs arise along with the risk of opportunism” (Alon, Ni, & Wang, 2012, p. 7).

Doherty and Quinn (1999) stated that in IF, agency problems, such as price-bonding, adverse selection, lack in information flow, shirking, inefficient risk-bearing, free-riding problems, and quasi-rent problems (Garg & Rasheed, 2003) occur from either moral hazard or information asymmetry, where the international franchise partners is culturally and geographically distinctive. The authors highlighted Arrow's (1962)

paradox of information asymmetry, where the paradox related information transfer problems between the principal and the agent. The paradox states that, if the seller of information finds his/her potential buyers by providing that information, the seller would lose the value of information by transferring it free of charge, and therefore the competitive advantage would be given away without any gain. Jensen and Meckling (1976) argued that the information asymmetry causes the agency problems, where the principal and the agent experiencing dissimilar risk preferences or goal conflicts within the franchise partnership. In such cases, transferred information or operational knowledge, and the capital that already invested into the franchise network would be lost, through early termination of franchise partnership (Doherty & Quinn, 1999). In addition to Jensen and Meckling's (1976) argument, Doherty (1999) stated that information asymmetry arises through foreign market information, where the foreign environment characterized by complex regulations, divergent economic and social factors, and the cultural practices.

Another source of agency problems is the moral hazard (Doherty & Quinn, 1999) or opportunism (Jensen & Meckling, 1976), which is "...the potential for agents to operate in their own self-interest against the objectives of the principal" (Doherty & Quinn, 1999, p. 228). As regards to IF, the moral hazard of the agent increases through the geographical and cultural distance, and lack of monitoring the agents (Fladmoe-Lindquist & Jacque, 1995). Agency theory suggests that the greater the distance between the principal and the agent, greater the possibility of occurrence of high agency costs (Jensen & Meckling, 1976), and therefore the principal should increase the control over its agents through monitoring, in terms to reduce the possibility of information asymmetry and risk of opportunism.

As regards to IF literature, Garg and Rasheed (2003) categorized the agency problems within the international franchise network, such as price-bonding, adverse selection, lack in information flow, shirking, inefficient risk-bearing, free-riding problems, and quasi-rent problems.

2.4.2.1 Price-Bonding

As regards to IF relationship, Rubin (1978) stated that the “franchising reduces monitoring needs by aligning the incentives of the agent (franchisee) and the principal (the franchisor) by making the franchisee a residual claimant on revenue” (as cited in Alon et al., 2012, p. 8) by upfront payments and royalty fees. Therefore, in the process of internationalization of the franchise network, price-bonding by charging high upfront payments reduces the franchisee’s opportunistic behaviors through the possibility of contract termination that results in forfeiture of the high upfront payments (Shane, 1996b). In addition to reduce in franchisee’s opportunistic behaviors, franchising also reduces the monitoring costs through price-bonding, because of the “... franchising allows the principal to shift the responsibility for cultural adaptation to its foreign franchisee who then bears the risk of financial failure if the service is not adequately adapted to the host country’s cultural context” (Fladmoe-Lindquist & Jacque, 1995, p. 1239).

2.4.2.2 Adverse Selection

Hill and Kim (1988) stated that companies with well-known brand names are considered to be the companies with better quality products and guarantees. Therefore, the well-known brand name increases the number of potential international franchisees willing to become a company’s franchisee (Baena & Cerviño, 2012) through the perception of franchisor’s tangible and intangible capitals acquisition. Norton (1988) stated that company managers have limitations on the control of their agencies, subject to the bounded rationality, and the increase in geographical distance, where the information asymmetry and opportunism might arise (Demirbag, Tatoglu, & Glaister, 2008). Hence, the increase in geographical distance and lack of foreign market knowledge, “creates an incentive for the less qualified to misrepresent their abilities to obtain employment” (Shane, 1996a, p.219). Garg and Rasheed (2003) argued that the information asymmetry and the opportunism problems can be solved by selecting more qualified people, where the increase in franchisor experience, reduces the risk of selection of wrong potential franchisee (Eroglu, 1992; Fladmoe-Lindquist, 1996; Shane, 1996b).

2.4.2.3 Information Flow

As regards to IF, "... a franchisor grants a franchisee the rights to use its brand name, product and business system in a specified manner for a specific period of time" (Felstead, 1993, p. 58), where the "franchisees gain access to a proven brand concept and business system and franchisor gain access to the franchisees' local market knowledge" (Brookes & Altinay, 2011, p. 1). Therefore, access to franchisee knowledge of local market conditions is an important resource for the franchisor (Dant, Kaufmann, & Paswan, 1992). As regard to IF literature, agency theory argues that the distortion of information through opportunistic franchisee behaviors necessitate the strict monitoring procedures of the franchisor, where the procedures lead to higher monitoring costs (Garg & Rasheed, 2003). In contrast, Altinay et al. (2014) stated that development of the trust among partners through continues communication increases the willingness of information share, where the development of shared identity within franchise partners (Brookes, 2014) and cultural sensitivity (Doherty, 2009) enhances the communication between partners.

2.4.2.4 Shirking

Agency theory (Brickley & Dark, 1987; Rubin, 1978) argues that the hired managers (the agent) might tend to shirk on their duty, which is assigned by the principal, because of their fixed compensation. As a result, high monitoring costs will be borne by the principal in term to ensure that the hired manager act in the principal's interest. As regards to IF, "... franchisee-owned units are likely to perform better than company-owned units because the contract between the principal (franchisor) and the agent (franchisee) is designed to keep their financial interest closely aligned" (Elango & Fried, 1997, p. 71). Therefore, the franchising reduces the risk of shirking by the chances of getting caught through monitoring, which increases the possibility of contract termination that results in forfeiture of the high upfront payments (Shane, 1996b).

2.4.2.5 Inefficient Risk-Bearing

Inefficient risk-bearing can be accepted as decision conflicts between the principal and its agent related to the alignment of resources that cause important agency problems. An agency problem arises through the franchisees' perception to the return of their investment, where the franchisee "has a large proportion of his wealth and income tied to the performance of the unit, his investment portfolio will be undiversified" (Brickley & Dark, 1987, p. 405). Garg and Rasheed (2003) stated that there are two possible agency problems that occur through inefficient risk-bearing. First, a franchisee with a less diversified investment portfolio tends to make less investment to operations by the perception of less return on their investment, and second, a less diversified risk-bearing franchisee might demand high compensations through higher perceived risk in their operations. Therefore, in both cases franchisor should centralize the decision-making procedures that affect the foreign franchise operations, in terms to reduce decision conflicts and agency problems, and use of economies of scale (López-Bayón & López-Fernández, 2016).

2.4.2.6 Free-Riding

Another problem criticized by agency theory is that the free-riding problems that increase by high geographical dispersion and the reputation of a well-known brand name. As Hill and Kim (1988) argued, companies with the well-known brand name, perceived by customers as the company with better quality products and guarantees, which "potentially reduces their ability to detect differences in the quality of service received from different units" (Garg & Rasheed, 2003, p. 341) of the franchise network. In such cases through the high geographical dispersion that reduces the risk of caught by monitoring processes, franchisees might tend to use low quality raw materials to increase their profitability (Garg & Rasheed, 2003). As regards to IF literature, several scholars (Brookes & Altinay, 2011; Doherty & Alexander, 2004) stated that through effective development of franchise partnership relations, franchisor experience (Altinay & Wang, 2006; Baena & Cerviño, 2012; Norton, 1988; Oxenfeldt & Kelly, 1969), and trust-building (Altinay et al., 2014; Davies et al., 2011) among international franchise partners, problems that occur through high geographical dispersion might be solved.

2.4.2.7 Quasi-Rent Appropriation

Garg and Rasheed (2003) argued that the post-contractual opportunism may arise within the franchise network through quasi-rents. Brickley and Dark (1987) stated that quasi-rent problems exist “if the value of the asset is higher in a given use than its value in alternative uses” (p. 406). Therefore, in such cases, quasi-rent problems might occur either from the franchisor or the franchisee. First, if the franchisor is able to refuse to engage in the renovation of the franchise contract to demand higher royalty fees, franchisee either have to pay high fees or terminate the contract and lose initial franchise payment (Garg & Rasheed, 2003) and second, the franchisee may refuse to pay royalty fees (Choo, 2005) or negotiate upon agreed fees through arguing “the contract enforcement costs are higher than benefits” (Garg & Rasheed, 2003, p. 342).

2.4.3 Transaction Cost Theory

As regards IF literature, transaction cost theory helps franchisors to identify external factors that affect the costs of the transaction of necessary capabilities or idiosyncratic assets of foreign franchise partners in the dynamic foreign environment, where the understanding of external factors affect the partnership relations and the relations leads the franchise network to success or failure (Burton, Cross, & Rhodes, 2000). Therefore, the franchise network can be accepted as an international entry mode strategy with a complex relationship between partners, in which the relationship might be affected by the external factors or the foreign stakeholders. Heide and John (1992) stated that a relationship that necessitates the transaction of idiosyncratic assets, such as information of local market or classified products, specialized training programs, specialized marketing campaigns, brand name and business concepts (Altinay & Brookes, 2012), might require another relationship, where the secondary relationship causes the loss in the value of specified assets, and increase the transaction costs.

Baena (2012) argued that there are three main factors that affect the identification of external factors, which the factors increase the transaction costs in the process of international expansion. “Bounded rationality” (p. 51), which limits the decision-makers to gather information about the foreign environment, agents and other foreign stakeholders, “uncertainty about the future state of the environment” (p. 51), and

opportunistic behaviors of buyers or suppliers. Moreover, Baena (2012) highlighted the Williamson (1985) work, which states the transaction cost related to IF, such as monitoring cost, researching cost, property rights protection cost and servicing costs (see, Baena, 2012, p. 52). Meyer (2001) argued that in the process of international expansion, external factors, such as governmental institutes, regulations, and property rights directly affect the international entry mode strategy. In addition to Meyer's (2001) study, Hoffman and Preble (2004) argued that transaction cost increase or decrease by the economic movements, decisions of legal/political institutions, innovations, globalization and internet, and social/cultural differences. In such cases, where the entry mode depending on those factors, firms seek a partner to access local knowledge in terms to reduce transaction costs in unknown foreign environments (Meyer, Estrin, Bhaumik, & Peng, 2009). Hence, companies might choose the franchising as an international entry mode, because the franchising allows companies to expand rapidly into foreign markets through the use of franchisee's knowledge about the aspects of doing business in the local market and capital sources. Therefore, a correctly selected franchise partner lowers the risks and the transaction costs of international expansion (Sashi & Prasad Karuppur, 2002). Because, the franchisee bears most of the costs and risks of market entry through their share within the franchise network (Shane, 1996b).

2.4.3.1 Economic Movements

As regard to IF literature, transaction costs may increase through the foreign country's economic instability caused by crises, political instability and adverse economic movements, such as inflation or higher interest rates (Sashi & Karuppur, 2002), which increases the economic uncertainty and high perceived risk for market entry for a risk-averse franchisor (Baena, 2015; Eroglu, 1992). However, economic instability may also increase the attraction of contractual or network-based market entry through the adaption strategies (Meyer, 2001), where the correctly selected local partner may reduce the uncertainty of economic instability, and therefore reduce the transaction costs of franchisor's expansion (Meyer et al., 2009).

2.4.3.2 Legal and Political Institutions

In the process of international expansion, quality of the political institutions plays a crucial role in the term of market entry for foreign investors (Meyer, 2001) because, in the absence of quality in the “political institutions may create uncertainty through changes in governments, industrial policy, or corruption” (Hoffman, Munemo, & Watson, 2016, p. 105). Moreover, political institutions shape the government policies about foreign business entries, which might affect the franchise network through the change in the context of contracting policies (Fladmoe-Lindquist, 1996), which might increase the transaction cost and necessitates the renegotiation of the franchise contract through the increase in the franchisor’s perceived risk of market entry (Eroglu, 1992). Hoffman et al. (2016) found that in the term of international market entry, quality of the political institutions increases the franchisor’s willingness for the international expansion. Furthermore, regulatory institutions also critically affect the franchisor’s propensity to international expansion because, the regulations affecting the terms of licensing, context of contract, labor rights, incentives and privileges, and business entry barriers, which may determine the success or failure of franchise expansions (Hoffman et al., 2016).

2.4.3.3 Globalization and Innovations

Globalization refers to “moving away from a world which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and national differences in government regulation, culture, and business systems” (Hill, 2013, p. 4) through the innovations, such as transportation technologies and telecommunication systems, global institutions that protect the business right, and the increase in knowledge of the foreign country’s environments by the internet. Therefore, globalization increases the level of foreign investors, which increases the level of the transaction between distant countries. As regards to the transaction between distant countries, transaction cost increase or decrease in terms of quality of the country’s institutional infrastructure, which refers to “the tangible and intangible networks that connect institutions and facilitate transactions among them, both within across national borders, such as communication, transportation, and banking systems” (Hoffman et al., 2016, p. 106).

As regard to franchise networks, quality of institutional infrastructure plays crucial in term to success or failure of the franchise relationship, through the communication infrastructure, which ease the transaction of information to within the franchise partners, and development of brand awareness among the consumers (Talukdar, Sudhir, & Ainslie, 2002). In this regard, the development of brand awareness or brand equity facilitates the success of franchising expansion. Carney and Gedajlovic (1991) stated that the branding enables the franchisor to use economies of scale in the national campaigns, reduce the monitoring costs among foreign franchise partners, and consumer search costs for franchised products and services (Sashi & Karuppur, 2002), where the franchisor is able to reduce transaction costs of international expansion through branding (Caves & William, 1976).

2.4.3.4 Cultural Differences

In the process of the international expansion of a franchise company, one of the main issues that increase the transaction cost is the cultural differences between the home country and the host country. Eroglu (1992) defined cultural differences as “the degree to which the culture and language of home and target country are different” (p.27). Anderson and Gatignon (1986) stated that the distance between cultural norms and values of countries, compose natural barriers by the size of the cultural differences to the transfer of managerial skills, and a company’s products and services. Furthermore, Eroglu (1992) stated that in the absence of the understanding of cultural differences, disruptions within the operational framework, and the problems in understanding of the host country’s market demands might arise (Eroglu, 1992). In such cases through the cultural uncertainty, which results from the lack in the foreign culture knowledge (Miller, 1993), such as business practices and ethics, language, religion, top management orientation, and gender role (Jean-Francois Hennart, 1988; Jean-François Hennart, 2010) increases the transaction costs of international expansion.

2.4.4 International Franchise Network Problems Highlighted by Theoretical Disciplines

Franchising is a unique organizational form as an international entry mode. As regards the form of the franchising, franchise systems allow companies to expand international

markets, where the market's "environments characterized by intense competition, rapidly changing customer tastes, and a trend towards localized market segments" (Elango & Fried, 1997, p. 68). In such cases, in the process of international expansion franchisors face many different network problems. As regards IF literature, scholars have been studied international franchise network problems through different theoretical perspectives, such as resource-based theory (Norton, 1988), agency theory (Jensen & Meckling, 1976), and transaction cost theory (Williamson, 1985).

The resource-based theory (Carney & Gedajlovic, 1991; Doherty, 2009; Doherty & Alexander, 2004; Elango & Fried, 1997; Jell-Ojobor & Windsperger, 2014; Oxenfeldt & Kelly, 1969; Taylor, 2000) argued on the source of the opportunistic propensity of the franchisor and the franchisee, where the main goal is to develop a competitive advantage within the foreign markets through the franchise agreements. As regards to the opportunistic propensity of the franchisor and the franchisee can be determined as the combination of franchisor's intangible assets, such as brand equity, business experience, and managerial policies, and franchisee's tangible and intangible assets, such as local market knowledge, capitals, interaction with local government and consumers to develop a competitive advantage against other local competitors.

The agency theory (Alon et al., 2012; Arrow, 1962; Brickley & Dark, 1987; F. N. Burton & Cross, 1995; Doherty, 1999; Doherty & Quinn, 1999; Eisenhardt, 1988; Fladmoe-Lindquist & Jacque, 1995; Garg & Rasheed, 2003; Grewal et al., 2011; Jensen & Meckling, 1976) argued on the relationship problems and their solutions within the international franchise partners. As regard to IF literature, agency theory state that in the process of international expansion, companies face with agency problems, such as price-bonding (Alon et al., 2012; Fladmoe-Lindquist & Jacque, 1995; Rubin, 1978; Shane, 1996b), adverse selection (Baena & Cerviño, 2012; Demirbag et al., 2008; Eroglu, 1992; Fladmoe-Lindquist, 1996; Garg & Rasheed, 2003; Hill & Kim, 1988; Norton, 1988; Shane, 1996a), lack in information flow (Altinay et al., 2014; Brookes, 2014; Brookes & Altinay, 2011; Doherty, 1999; Felstead, 1993; Garg & Rasheed, 2003; Kaufmann & Dant, 1999), shirking (Brickley & Dark, 1987; Elango & Fried, 1997; Rubin, 1978; Shane, 1996b), inefficient-risk bearing (Brickley & Dark, 1987; Garg & Rasheed, 2003; López-Bayón & López-Fernández, 2016), free-riding(Garg & Rasheed, 2003; Hill & Kim, 1988), and quasi-

rent appropriation (Choo, 2005; Garg & Rasheed, 2003; Hill & Kim, 1988). Therefore, through the use of the franchising as an international entry mode strategy companies can overcome those problems. Because, in terms of franchise relation, franchisor charge non-refundable high upfront payment which reduces the franchisee's opportunistic behaviors through the possibility of contract termination (López-Bayón & López-Fernández, 2016) that result in forfeiture of the initial payments.

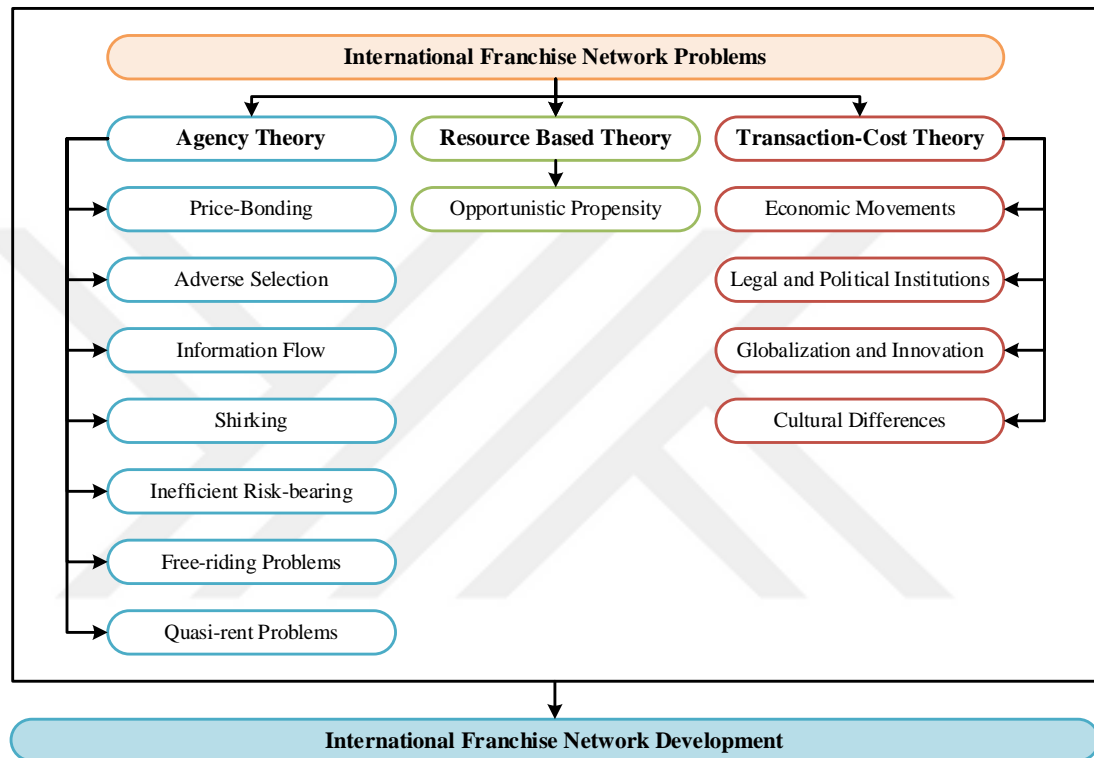


Figure 2.4 International Franchise Network Problems Discussed in Theoretical Disciplines

Transaction cost theory (Altinay & Brookes, 2012; Baena, 2012; F. Burton, Cross, & Rhodes, 2000a; Heide & John, 1992; Hoffman & Preble, 2004; Meyer, 2001; Meyer et al., 2009; Sashi & Prasad Karuppur, 2002; Shane, 1996b; Williamson, 1985) argue on the identification of external factors that affects the costs of the transaction of necessary capabilities or idiosyncratic assets to a foreign franchise partner in the dynamic foreign environment, where the understanding of external factors affect the partnership relations. Baena (2012) stated the source of problems within franchise networks that increase transaction costs, such as bounded rationality of decision-maker, uncertainty about the future state of the environment, and opportunistic

behaviors of buyers or suppliers. Moreover, Hoffman and Preble (2004) enhanced the source of problems that increases the transaction costs through host country environment, such as economic movements (Baena, 2015; Eroglu, 1992; Meyer, 2001; Meyer et al., 2009; Sashi & Prasad Karuppur, 2002), legal and political institutions (Eroglu, 1992; Fladmoe-Lindquist, 1996; Hoffman et al., 2016; Meyer, 2001), globalization and innovations (Carney & Gedajlovic, 1991; Caves & William, 1976; Hill, 2013; Hoffman et al., 2016; Talukdar et al., 2002), and cultural distance (Anderson & Gatignon, 1986; Eroglu, 1992; Jean-Francois Hennart, 1988; Jean-François Hennart, 2010; Miller, 1993).

In the process of international expansion, companies can face the problems that have been explained above. As regards theoretical perspectives, scholars have stressed those problems through different disciplines such as the resource-based theory considers opportunistic propensity, the agency theory considers partner relations, and the transaction cost theory considers the transmission of necessary capabilities or idiosyncratic assets to the foreign partner. In addition to the identification of theoretical problems, theories also stated that franchising can be used as an international entry mode strategy to overcome those problems. Moreover, as can be seen in Figure 2.3, those problems may shape the process of expansion. Through the quality of international franchise partnership relations, speed, scale, and scope of international expansion may enhance or detract. Furthermore, through the degree of problems and the entry barriers of a foreign market, and the propensity of the franchisor to international entry mode selection can be reshaped.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Development of Research Questions

There seemed to be a knowledge gap within IF literature, which is focused on the Turkish franchisors' international franchise expansion processes and business procedures. As a starting point, the existence of the gap in IF literature clarified by the search of the words "international franchise, and franchise" as the keywords in the Turkish databases such as DergiPark, and Ulusal Tez Merkezi. As a result, 21 articles found in DergiPark and 12 theses found in Ulusal Tez Merkezi. However, none of them was related to the international operations of the Turkish franchisors. Therefore, the search of the keywords "international franchise and franchise" continued in the international databases. As a result, many articles were found about IF operations, but more than 90% of the articles were not related to Turkish franchisors. Therefore, the aim of the research started to shape itself by the idea of exploration and classification of the processes and the procedures of the international franchise mechanism used by Turkish companies in their international operations.

Development of the research questions, started by review of the IF literature. The first main stream argued by scholars in the IF literature was the selection of the governance modes under the international franchise framework. Therefore, the first research question developed as "How Turkish franchisors select the governance modes for their international franchise operations?". The second mainstream argued by the scholars in the IF literature was an international franchise partnership and selection of potential franchisees for international operations. Therefore, second and third research questions developed as "What are the determinants of potential franchisee selection procedures for international franchise operations?", and "How Turkish franchisors manage and improve business relations with their international franchisee?". The third mainstream argued by scholars in the IF literature was international franchise network problems and identification of the sources by the conceptualization of the problems under

different theoretical disciplines. Therefore, the fourth research question developed as “What are the main international franchise network problems that Turkish companies faced during the international operations?”.

3.2 Research Design and Data Collection Process

As regard to research questions, the collection of the data from the Turkish franchisors is based on the qualitative research style. Therefore, one of the most used methodologies in qualitative research style, which known as the “case study approach” (Yin, 2018) is employed for this research. This approach can be used in terms to develop insights into the areas in which existed data is limited or does not exist. A case study can be defined as “An empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used” (Yin, 1994, p.13).

This research collected case data by choosing five Turkish retail companies, where they operate part of their business operations in foreign markets as a franchisor. The companies were chosen as a case in terms of financial strength, company size, collective experiences, and current business activities. In order to collect primary data, in-depth interviews were arranged with relevant members of franchise companies such as franchise manager, franchise and international wholesale director, foreign trade manager, head of international sales and investment director, and international operations general manager. The in-depth interviews lasted between fifty minutes and one and a half hours.

The in-depth interviews were guided by open-ended questions under three different categories, and each category comprised four to seven main questions. Also, some extra questions relevant to interviewees’ answers were asked during in-depth interviews to increase the clarity of answers, but they were not included in the question guideline. Questions were developed from international franchise literature, regarding relevant and important topics highlighted by scholars within the IF literature. Also, theoretical disciplines used in previous studies such as resource-based theory (Norton, 1988), agency theory (Jensen & Meckling, 1976), and transaction-cost theory

(Williamson, 1985) employed in the process of in-depth interview question development process. Questions are categorized by three different titles as following, the propensity to international franchise and governance mode selection, international franchise partnership relations and partner selection processes, and international franchise network problems. Questions used for in-depth interviews can be seen in Appendix A.

As regard case companies, descriptive information of these five companies can be seen in Table 3.1. Based on descriptive information of the five companies, it can be concluded that 45,71% of company A's international operations, 22.93% of company B's international operations, 100% of company C's international operations, 25.14% of company D's international operations, and 100% of company E's international operations consist of franchise business model.

Table 3.1. Key characteristics of the sample companies

	Company A	Company B	Company C	Company D	Company E
Case Overview					
Industry	Shoes	Clothing	Shoes	Clothing	Kitchenware
Total International Units	105	750	15	342	8
Internationally Franchised Units	48	172	15	86	8
Unit Internationally Franchised for the First Time	2015	2005	2011	2012	2015
Units in Turkey	503	190	7	176	92
Franchised Units in Turkey	0	0	3	0	26
Founded	1985	1983	1983	2004	1984
Number of Country Operating	16	38	8	30	5
Scope of Case Study Data					
Number of Interviews	1	2	1	1	1
Duration of Interviews	53 min.	58 min. + 25 min.	55 min.	50 min.	1 h.23 min.
Position	International Operations General Manager	Head of International Sales and Investment Director	Foreign Trade Manager	Franchise and International Wholesale Director	Franchise Manager

CHAPTER IV

CASE STUDY FINDINGS

4.1 International Entry Mode Selection Motifs of Turkish Franchisors

As regards to this research's interview questions for governance mode selection, interviewee's reveals an additional and relevant topic for the research. Based on the questions, interviewees explain the motifs to select the franchising for their international operations (some sample companies have selected PFE as the governance mode for their operations) as governance mode. These motifs can be accepted as bases of the governance mode selection process.

The selection of different entry modes for foreign operations can be shaped by companies' various strategies. Because different markets contain unique characteristics and circumstances. Therefore, companies are liable to select the best strategies and entry modes accordingly to increase companies' financial performance in a foreign environment.

In the stage of governance mode selection; franchising provides a reliable strategy for larger size companies to expand their operations into markets (characterized by high risk) by reduced investment risk, and effectuates a gap for small companies to expand their operations into markets (characterized by stable economical, legal and political environments) by minimum investment requirements, so that, the companies can increase their revenues, and company reputations by partnering with potential franchisees with high performance.

Franchising can provide a lot of opportunities for companies to expand their business into foreign markets easily. In fact, the necessity to use the franchise as entry mode to foreign markets can emerge from different circumstances such as business risk, and entry barriers, host market's specific factors, and home country-specific factors. However, it is impossible to connect reasons of the utilization of the franchise systems

to a single common point. Because the conditions of the business environment and companies' current status of the franchisor affects the utilization of franchise systems.

4.1.1 Business Risks, Trade Barriers, and Host Markets' Specific Factors

Business risk is always the main concern for most of the international companies. Because foreign operations can either increase the reputation and the wealth of the company, or in case of failure, decrease both reputation and wealth, and cause some major problems within the company's operations. Business risks associated with the company's operations can arise from changes in different sources such as political institutes and legal obligations, sudden events, and other kinds of external factors to the company. Therefore, companies with international operations look for the best strategies to avoid these risks by selecting the right entry mode for different occasions. If the targeted country has a low-risk characteristic such as eligible consumer profile for company's product lines, well-established banking system, no entry barriers or permission for full investment, and the high number of available location for company's stores; companies tend to invest directly, however, if the targeted country has a high-risk characteristics such as, high entry barriers, political and economic instability, and lack in banking systems; companies tend to avoid risk and select entry modes based on foreign partner resources such as franchising. Therefore, it can be assumed that companies use franchising as a strategic tool due to different occasions to reduce risks associated with their operations.

According to company A's manager,

... we are not accepting any joint-venture partnership, when we are expanding our operation into foreign markets. In some countries foreign investment is forbidden such as Saudi Arabia, therefore we agree with local investor for our operations there...,

... we are looking for banking systems. Some countries are risky for direct investment ..., we are looking for money flow, is it possible to bring money from there to here or not...,

... we are not considering the direct investment, if the country does not have potential to open more than ten stores, because marketing research is very expensive for direct investment, and therefore we consider franchise business model for our expansion in such markets...

According to company B's manager,

... a potential franchisee knows the country's know-how, and its current condition better than us..., ... if the country has unstable environment, we prefer franchising rather than direct investment...
... in Ivory Coast Republic, we do not trust banking system and custom office, it is unstable, and risky for us, therefore we are operating our business with franchisee there.,
... Arabian countries do not allow foreign investment, you can only work with a local partner, therefore franchising is a necessity for doing business there...,
... it is not logical to do direct investment, if the country has potential to open three or four stores, ...

According to company C's manager,

... we know our franchisees, and we have been trading with each of them at least five years now, however we were not only one, who is trading with them. ... we called them and convince them to get in a franchise agreement with us, so they can only buy from us, and we can sell more product...

According to company D's manager,

... in gulf countries¹³ %100 foreign investment is forbidden; therefore, we have to do our operations with local people.,
... doing business with franchising constitutes minimum risk. Initial investment done by foreign investor, and we sell our product on cash, therefore our only concern is our brand name, which is protecting by franchise agreement and international laws.

According to company E's manager,

... we started our foreign adventure by exporting goods. However, because of competition and local producers, we were having problems to sell our products to our customers. But once we get in a franchise agreement with them, we were able to use our company name, and eliminate local competition.,
Our company grew with shopping malls in Turkey, and we adopt the same strategy to grow in foreign markets. However, these markets are complex and requires local support..., *therefore*, ... we have some franchisees, who can rent places in shopping malls cheaper than us, which reduces rent cost a lot.

¹³ Saudi Arabia, United Arab Emirates, Iraq, Oman, Kuwait, Qatar, and Bahrain

According to information provided by sample companies, Turkish companies use franchising as governance mode to eliminate trade barriers, which implemented by the local government for foreign investors, and reduce the risk perceived by the company for targeted markets which increases by political instability, lack in banking systems, and lack of local knowledge.

Moreover, companies' managers stated there is a strong association between the foreign market size, which can be measured by the number of available locations to open stores in the foreign environment, and Turkish franchisor's decision-making processes on governance mode selection. Within the markets with lower investment risk, Turkish companies tend to select entry modes based on the number of products that can be sold in given markets. If the market a has high number of consumers for their product line, and high number of available locations to open stores; companies more willing to invest directly, however, if the market size is not large enough for the companies to direct investment, they are more willing to enter the market with franchising.

4.1.2 Company's Financial Strength and Company's Size

The company's financial strength determines the number of resources to allocate to foreign markets. Markets with lower business risks shape the large companies' decision-making processes on the governance mode selection as direct investment. However, small companies struggle with resource allocation into foreign markets, therefore small companies with low financial strength shape decision-making processes on the governance mode selection as franchising, and increase the reliance on partners' financial strength. Therefore, the selection of potential franchisees with high financial strength is important for small companies to operate their business in a foreign environment.

According to company A's manager,

It is very important to find right partner. You have to be the right and strong brand to find this partner. ... we have 503 stores in Turkey, and 153 stores in other countries. ... if we sit on a table with someone, we determine the terms ...

Provisions of our franchise contract are heavy. Therefore, we are looking for strong partners, who can handle them. ... we have no fear to lose them. We have more than 600 stores, it does not matter 10 more or less...

According to company B's manager,

Big companies with strong brands have negotiation power on terms of franchise agreement, therefore we can force the potential franchisees to sign determined terms by us.

According to Company E's manager,

You can offer your brand as franchise for someone strong, however, once you offer, they will ask you, who you are, how many store you have, how long you have been in this business...

Companies' managers stated there is a strong association between companies' financial strength and governance mode selection processes. It can be assumed that the financial strength of the companies influences the governance mode selection inversely proportional to foreign markets with lower business risk. If the Turkish companies' financial strength is large enough to operate in foreign markets without a partner, Turkish companies tend to focus on wholly-owned operations. However, if Turkish companies' financial strength is not large enough to operate in foreign markets, Turkish companies tend to focus on franchise operations.

4.1.3 Government Incentives

The quality of government incentives provided to companies can play a crucial role for small-size companies to support their foreign franchise operations. Due to their limited financial strength, small companies may struggle with resource allocation to foreign markets. Therefore, the speed of expansion processes can be increased by government incentives and supports. However, these incentives may not be attached with foreign franchise operations, if the company has the financial strength to manage their foreign franchise operations with its own resources, due to characteristics of franchising as a governance mode. Because, the company's size and the company's reputation have influence on the potential franchisees to invest in franchisor operations, which is a major problem for small companies. Therefore, it can be

assumed that the government incentives can lose its value for the company's foreign franchise operations by an increase in the company's financial strength.

According to company E's manager,

Transition to franchise was a strategic decision for us. Also, we applied for "TURQUALITY"¹⁴ program at the same time. ...it provides support for 50% of all our foreign franchise operations' expenditures from employee salaries to marketing activities. ...your franchisees can also benefit from it, if your competitor opens a store in Germany, they have to deal with all expenditures. However, if we open a franchised store in Germany, TURQUALITY pays half, and your franchisees pays other half of the expenditures...

According to company A' manager,

... we are the member of TURQUALITY, however, we use it for only our own operations. It provides support for 50 stores in 5 years. ...we just opened 30 stores this year, which we owned, and we already fulfill the limit, so that, there is no slice in the cake for the foreign franchise operations.

According to company B' manager,

We are using government incentives for our foreign operations, however, we are not letting our franchisees to use any incentives. Because, it is hard to measure and control their own expenditures, so that, we use these incentives in our owned stores.

According to company C' manager,

We are using incentives for marketing. This is our only expenditure for our foreign franchise operations, which we share with our franchisees.

Companies' managers stated proportion of the government incentives used in the international franchise operations by the Turkish companies, decreases by an increase

¹⁴ TURQUALITY is a government incentive program for Turkish companies, which supports their foreign operations by providing managerial knowledge, helping for institutionalization and development processes from production to marketing, and sales to after sales services. Moreover, another aim of the program is to help the Turkish companies to create a competitive advantage in foreign environment, and develop strong brand image against foreign competitors (TURQUALITY, 2020).

in companies' financial strength. As regards to characteristics of the franchise business model, a high dependency on franchisees' financial strength which increases by the decrease in the Turkish companies' financial strength, increases the proportion of government incentives used in the international franchise operations.

4.1.4 Discussion on International Entry Mode Selection Motifs

The selection of the entry mode strategy for international markets and franchisor perspective to international trade can be affected by the home or host country-related factors. Within the concept of international trade and competition in the host markets, business and financial risks can be accepted as the first priority in terms of entry mode strategy selection process for most of the companies. In markets with low business and financial risks, companies tend to enter the market with direct investment to increase the control and profitability over company-owned operations. However, in the markets with high business risk, companies may prefer to enter the market with other kinds of entry modes due to the targeted market's characteristics, such as JV, exporting, and franchising. Within the different entry mode strategies, franchising can be separated from others due to its characteristics, which decreases the business and investment risks, and provides competitive advantages based on foreign partners' resources (Taylor, 2000) in the unstable foreign market environment.

As regards Turkish international franchisors' perspectives, selection of franchising as entry mode, bases on two main factors such as host country related factors and home country related factors. Based on companies' managers' perspectives related to IF operations, selection of franchising as entry mode for their international operations depended on international trade barriers, financial and business risks perceived by companies, and host country's market size and the number of the potential store location. If the trade barriers for foreign entry is high, companies tend to work with a local partner to reduce trade barriers for foreign entry. These barriers can arise from the host country's legal institutions and obligations for international trade, such as Saudi Arabia, where the obligations forbid foreign direct investments. Companies' managers clearly stated that, if the company's size and financial strength are high, however trade barriers forbid foreign direct investment, companies tend to select franchising as the entry mode for their operations to increase the company's product

and store unity and protect company's brand name. Moreover, business and financial risks perceived by the company for the host country's market, and the host country's market size and the number of potential store locations are important factors related to the selection of entry mode. As companies' managers stated, market size and the number of potential store location attracts the companies' managers to invest in the host country's market. However, the proportion of financial and business risks perceived by the company influence investment decisions. If the proportion of financial and business risks perceived by the companies is high for the companies' investments, company managers tend to select franchising as the entry mode for their operations. Because the franchising mainly uses the franchisee's tangible assets to invest in the host country. In the case of failure, franchising allows companies to reduce the risk of investment loss. As can be seen in Figure 4.1.1 and as regard to the selection of entry mode, companies' decisions to select franchising can be affected by host country related factors, which contains international trade barriers for foreign investments, risks perceived by the company for host country's markets, and host country's market size and the number of potential store location as sub-factors for selection of franchising as governance mode.

As regards companies' managers' perspectives related to IF operations, selection of entry mode as franchising is dependent on the company's financial strength, the company's size and governmental incentives. Regarding governmental incentives, it should be mentioned that only one sample company uses the governmental incentives for their full foreign franchise operations, two of the companies uses the governmental incentives for their owned units and operations and two of them does not use incentives at all. However, companies' managers stated that, use of governmental incentives in their foreign operations depended on the company's size and financial strength. If the company's financial strength and the company's size is big enough to control their operations without need for foreign partner, companies tend to use governmental incentives in their operations. Moreover, one of the sample companies stated that, control of franchisees' own expenditures is hard, therefore use of governmental incentives in company owned units is much more practical for the company. However, if the company's financial strength and the company's size is not big enough to control foreign operations without a foreign partner, they tend to use governmental incentives in their foreign franchise operations to attract and support new franchisees. Therefore,

it can be assumed that the governmental incentives that fill the financial strength and size gap of the company can help franchisor to expand foreign markets easily. As regard to company's financial strength and company's size, managers stated that higher the company's financial strength and bigger the company's size, easy to handle unexpected changes and risks in foreign markets. Higher the financial strength and bigger the company's size allows companies to shift their money flow from one location to another to support their business network. Therefore, in a stable business environment, if the company's financial strength is high and the size big enough, they tend to use high control modes such as direct investment. However, if the company does not have enough monetary power to support their own operations, and their size not big enough in foreign markets, they are tended to use franchising as entry mode to reduce their financial needs for their operations. As can be seen in Figure 4.1.1 and as regard to selection of entry mode, companies' decisions to select franchising can be affected by home country related factors, which contains companies' financial strength, companies' size, and governmental incentives as sub-factors for selection of franchising as governance mode.

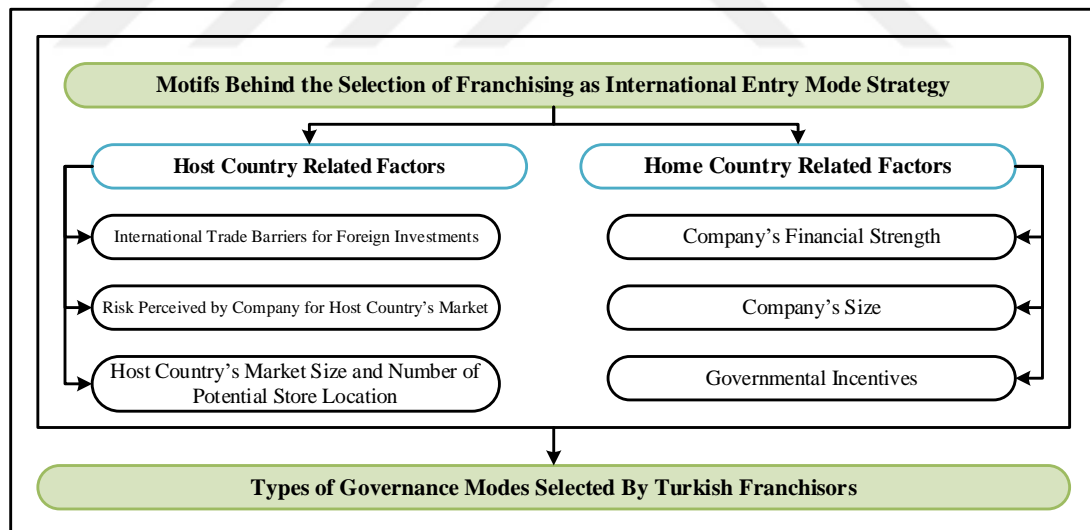


Figure 4.1.1 Motifs of Turkish Franchisors' Selection Processes of the Franchising as an Entry Mode

However, it is important to understand that, these home and host country related factors can be affected by each other. Even if the home country related factors allow companies to select the governance mode as direct investment, JV agreements, or

exporting goods, host country related factors can lead the companies to use franchising as entry mode for their foreign operations.

4.1.5 Types of Governance Modes Selected by Turkish Franchisors

One of the important factors to be successful in the international expansion processes is the selection of the right entry mode strategy. In terms of entry mode selection processes, different factors such as home and host country related factors lead the managers to focus on different entry modes such as exporting goods, foreign direct investment, JV agreements, and franchising. In this part, rather than exporting goods, foreign direct investment, and JV agreements, the term entry mode will be narrowed down to the border of franchising. However, the reasons for the companies to use other kinds of entry modes will be included in this part of the research to clarify and support the selection process of different governance modes within the franchising. Each company will be examined separately to increase clarification of governance modes used by the companies.

As regard to company A's manager,

...we are not interested in equity-based partnership (JV agreements) with a local partner.

We have three different business model. First one is direct investment. If the country has a great potential to grow, good banking system, stable political environment, and acceptance for full investment, we are using direct investment to enter the market. Second one is franchising. If there is a risk for our full investment, we are making MF, ADF or DF agreements. Third one is exporting goods; which we use for countries we are not targeting yet for investment.

Before making franchise agreements, we are looking at countries' current situations. Country size is important. For example, Russia is a very big country to rely on one master franchisee. Therefore, we are interested in ADF agreement by dividing the country into three different area. Market potential is another factor for us. For example, in Tajikistan we have one master franchisee, because the country has potential to open maximum three stores.

Based on the country's potential, we are also making DF agreements. ... testing the country's potential is important for both sides of the franchise agreement. We are asking for five years work plan from our location-based franchisees. In these five years we are learning the potential of the market more deeply. ... we are doing our marketing

research for the targeted country; however, our location-based franchisees provide us with real time information ...
...we are mainly focusing on three question; is our products are sold, what is our customer base, and what are their attitudes and thoughts for our products.

Companies' managers stated that the use of different entry modes and governance modes vary on the host market-related factors. According to company A's franchise manager, the company uses direct investment, franchising, and exporting goods as entry modes, but do not use JV agreements. Based on the information provided by company A's manager, it can be assumed that the risk perceived by the company for the host country's market is the most affected factor in the decision-making procedures within the entry mode selection processes. If the proportion of risk perceived by the company is low, they are selecting the direct investment. However, if there is a risk factor involved for their investment, they either chose to franchise or exporting goods as their entry mode strategy.

In terms of franchising, the company uses MUF and DF as the governance mode for its international operation. If the company operates in the host country with a large geographical area, they use ADF agreements to share the workload. However, if the country's size is not big enough and has a low degree of potential to open multiple stores, they use MF agreements. Therefore, the host country's market size and the number of potential store locations can be accepted as the main factor to select MUF as the governance mode strategy. In addition to MUF, the company uses DF in a country, which the host market has business opportunities but not mainly targeted by the company for investment. In the case of DF, the company uses the company's franchisees to collect in-depth information about the host market's characteristics in five years' duration. This allows the company to clarify the decision-making process of the entry mode selection process, and increase the channels of data collection about the host market.

As regard to company B's manager,

Our decision on the selection of MF or area-development franchise agreements as entry mode strategy bases our franchisees. For example, Russia has different cultural characteristics in its different regions, and it is a very big country for a master franchisee to handle

by him/herself. ... it is impossible for a master franchisee to serve in such a big country in unity... It has to be divided into different areas, so we can develop different strategies for each region. Therefore, we are interested in an ADF in such countries. ... it is same for the India. There are too many people from different nations. Each region has its unique geographical characteristics, and people, who lives in these regions have different physiological backgrounds. ... for example, Moldova is a very small country, so one master franchisee can deal with it...

... we are not interested in DF. Our business model bases high number of sales in each location we serve. Because, profit margin is very low for each product sold in this business model. Therefore, our franchisees must open more five or ten store, so they can start making profit from their stores.

... selection of governance mode is very detailed process. We are researching the targeted market approximately two and a half year to understand its characteristics, if we are going to invest directly. We are looking for good banking system, stable political environment that has no corruption or no bribery cases, and legal environment that allow us to directly invest. Market should have the potential for us to open at least 20 to 30 stores as start. ... if the target market does not match with our list, then we can consider franchising as entry mode strategy.

Companies' managers stated that the use of different entry modes and governance modes vary on the host market-related factors. According to company B's franchise manager, their company uses direct investment, and franchising, as entry modes, but do not export goods or use JV agreements within the business network.

Based on the information provided by company B's manager, it can be assumed that the host country market size and number of potential store locations are the most affected factors for their decision-making process on entry mode selection. If the number of potential store locations of the host market is high and the targeted country has a desirable political and legal environment, they are selecting the direct investment. It can be assumed that, if the host market characterized by the undesirable political and legal environment, or the potential of the market to open a high number of stores, they consider the franchising as an entry mode strategy.

In terms of franchising, they use only MUF as the governance mode for their international operation. If the company operates in the host country with a large geographical area, they use ADF agreements to share the workload. However, if the

country's geographical area is not large enough and has a low degree of potential to open multiple stores, they use MF agreements. Therefore, the host country's market size and the number of potential store locations can be accepted as the main factor to select MUF as the governance mode strategy.

As regard to company C's manager,

... we were exporting goods to our franchisees before. When we realized that if we can convince them to become our franchisees, we can sell more product to them. As a company, our top managers interested in profit, rather than growth in a foreign market until now. ...if our franchisees continue to buy more product, we let our franchisees to handle their stores as they want ...

Companies' managers stated that the use of different entry modes and governance modes vary on the home country related factors. According to company C's franchise manager, their company uses DF, and exporting goods as entry modes, but do not invest directly or use JV agreements within the business network.

Based on the information provided by the company C's manager, it can be assumed that the company's financial strength and company's size¹⁵ are the most affected factors for their decision-making process on entry mode selection. If the company's financial strength is not large enough, and the company's size is not big enough to create control over long distances, the company may rely on franchisees to create a franchise network. This may create brand name protection problems for the company in the foreign market in the case of bad store management by franchisees, and franchisees may act in opportunistic behaviors in the future.

As regard to company D's manager,

... based on companies' risk hunger, they may select different entry modes. However, we are not interested in any kind of risk in international markets. Direct investment our first choice all the times, but in some cases, we cannot invest directly and we do not want to lose our control over stores that has our name on it. Therefore, we franchise with very strict franchise agreement. ... we are not interested in any kind of JV agreement, and we do not want to deal with too many partners. Therefore, we only use ADF, if

¹⁵ According to Table 3.1., company C is the smallest company in the sample.

we have to franchise, which give us more control over our franchisees to eliminate any kinds of risks.

Companies' managers stated that the use of different entry modes and governance modes vary on the host market-related factors. According to company D's franchise manager, their company uses direct investment and ADF as entry modes, but do not export goods or use JV agreements within the business network.

Based on the information provided by the company D's manager, it can be assumed that the risk perceived by the company for the host country's market is the most affected factor for their decision-making process on entry mode selection.

In terms of franchising, they use only ADF as governance mode for their international operation. If the risk perceived by the company for the host country's market is high, they use ADF agreements to increase their control over franchisees by reducing the number of franchisees in the targeted market. However, if the risk perceived by the company for the host country's market is low, they are directly investing to increase control to reduce the maximum amount of management risks. Therefore, it can be assumed that to reduce the management risks that occur from partners, the company chose direct investment. However, if the direct investment option is not available for the targeted market, franchising provides fewer risk factors for the company, and the company will franchise its brand to an area development franchisee.

As regard to company E's manager,

... we were exporting our products before. However, exporting created manufacturing problems. Our products manufactured as a package, that has complementary items. If there is a demand for product a and there is no demand for product b from foreign markets, company going lose money from it, unless we sell these items separately. However, if we sell these items separately, then we will face with competition on production cost. These markets have low cost manufacturers for our product line, which we cannot compute with them. Therefore, we decided to enter markets with franchising to sell not just product but a brand concept, and products as a package.
... we are interested in MF agreements. However, our company's size is not big enough to attract major investors in these foreign markets.
... You can offer your brand as franchise for someone strong, however, once you offer, they will ask you, who you are, how many store you

have, how long you have been in this business... Therefore, we are working with a master franchisee, but mainly direct franchisees.

Companies' managers stated that the use of different entry modes and governance modes vary on both host and home country related factors. According to company E's franchise manager, their company uses DF and MF as entry modes, but do not export goods, invest directly or use JV agreements within the business network.

Based on the information provided by the company E's manager, it can be assumed that the company's size, and additional to host market-related factors, foreign competition between the company and cost-efficient local manufacturer are the most affected factors for their decision-making process on entry mode selection.

In terms of franchising, they use MF and DF as governance modes for their international operation. Based on foreign competition and the company's foreign market penetration, franchising balance the number of different products sold in as a package. Moreover, the company uses franchising to eliminate the competition between the company and cost-efficient local manufacturers by franchising their brand as a concept. In addition to home country related factors, it can be assumed that the brand name affects the attractiveness of the company for potential franchisees, which is going to speed up the foreign franchise network development.

4.1.6 Motifs of Governance Modes Selection of Turkish Franchisors

Selection of different entry mode strategies for international expansion by companies is based on different circumstances. As regard to companies' structures, home and host country-related factors, and instant developments in the international market place, different types of entry and governance modes gains or loses their importance. Each entry modes and governance modes can be influenced by either the company's inner structure or occasions in the targeted market. In such cases, some factors such as risk perceived by the company for host country's markets, host country's market size and the number of potential store locations, trade barriers for international entries, company's size and financial strength, and governmental incentives are going to shape companies' managers' perspectives for different entry and governance modes.

As regards the information provided by sample companies, Turkish franchisors use mainly three different entry modes for their international operations such as exporting goods, direct investment, and franchising. Each of the sample companies are not interested in JV agreements. It can be assumed that level of financial and business risks for their investment perceived by companies can be accepted as the main determinant for this situation. Moreover, based on their company size¹⁶ and financial strength¹⁷, proportion direct investment (number of company-owned units) or franchising increases or decreases.

In terms of direct investment, if the host country's political and legal environment is stable, market potential perceived by companies is high, and banking systems are developed, sample companies (A, B, and D) prefer to enter the foreign markets by direct investment. However, if there is a lack in these factors, franchising gains importance as an entry mode strategy.

In terms of franchising, sample companies use different types of franchising as governance modes such as DF, and MUF. In addition to home and host country-related factors, governance mode-specific factors such as, market testing, desire to increase sales, desire to increase control over franchised units, protection of product line unity, competition over manufacturing cost, and franchisor perspectives about franchisee's management abilities, can be added under the different governance modes as selection motifs, which can be seen in the Figure 4.1.2.

As regard to sample companies (A, C, and E), use of DF bases, market testing, desire to increase sales, protection of product line unity factors, and competition over manufacturing cost factors.

In the case of company A, the use of DF is based on the market testing factor. Based on their targeted market selection processes, the company uses DF in secondary targeted¹⁸ markets to gain information about competitors, local culture and

¹⁶ Descriptive information about sample companies can be seen in Table 3.1.

¹⁷ In this research, a comparison between companies' financial strength bases their number of stores owned and franchised.

¹⁸ Secondary targeted markets can be defined as, a market with high potential for the company's products but not listed in the company's main targeted markets yet.

consumption trends, market potential, and level of consumer demand for the company's products.

In the case of company C, the use of DF is based on the desire to increase sales factor. Based on the company's perspective about franchising, converting its customer base (intermediary entities that sell company's products to end consumers) into the company's franchisees, provides an increase in sales by ensuring certain purchases with the franchise agreement.

In the case of company E, the use of DF (and MF) is based on the protection of product line unity, and competition over manufacturing cost factors. Based on the company's product line, which as complementary products as a package, DF (and MF) provides protection for their product line unity by eliminating unbalanced demand (created by exporting as governance mode) for complementary products in a package. Moreover, DF (and MF) provides a competitive advantage for the company to compete with the cost-efficient local manufacturers in foreign markets by adding value to the company's products through brand name, standardized stores and procedures, and brand's franchise concept.

As regards the sample companies (A, B, C, D, and E), use of MUF is based on, desire to increase sales, desire to increase control over franchised units, protection of product line unity, competition over manufacturing cost, and franchisor perspectives about franchisee's management abilities factors.

In terms of ADF, sample companies (A, B, and D) tend to choose ADF over MF as governance mode in their international operation directly proportional to increase in host country's market potential and size, and desire to increase control over franchised units, and decrease in franchisor perspectives about franchisee's management abilities factors.

In the case of companies A and B, the use of ADF is based on the host country's market size and the number of potential store locations, and franchisor's perspectives about franchisee's management abilities factors. Bases on; the host country's market size, consumers' demographics, trends, and consumer needs, the companies may divide the

host country's market into diversified geographical areas, which creates a demand for development of area-focused strategies to satisfy the company's customers in each diversified geographical area. In such cases, the franchisor's perspective about the franchisee's management abilities to control the large-sized markets will be affected in a negative direction, and the franchisor will choose ADF as governance mode for their international operations.

In the case of company D, the use of ADF is based on the desire to increase control over franchised-units factor. Based on the risk perceived by the company for the host country's market is high, the company uses only ADF as governance mode to increase franchisor control over franchised units. As regards MF agreements, the franchisor may need to deal with brand name reputation problems that occur from sub-franchisees (third entity, who granted with franchised right by the master franchisee) poor management decisions, which may not be controlled by the master franchisee. In such cases, companies tend to select ADF over MF to replace the high number of different entities with one franchisee and franchisee's store managers. As regards company D's perspective, the selection of ADF as governance mode allows the franchisor to increase the company's control over the brand's franchised units.

In terms of MF, sample companies (A, and B) tend to choose MF over ADF as governance mode in their international operations inversely proportional to an increase in host country's market size and the number of potential store locations, and decrease in franchisor perspectives about franchisee's management abilities factors.

In the case of companies A and B, the use of MF is based on the host country's market potential and size, and franchisor's perspectives about franchisee's management abilities factors. Based on the host country's market size and potential to open a small number of stores; consumers' demographics, trends, and needs may create a single block of undiversified geographical area. In such cases, the franchisor's perspective about the franchisee's management abilities to control the small-sized markets will be affected in a positive direction, and the franchisor will choose MF as governance mode for their international operations. Moreover, the host country's market potential is not enough to invest directly, the franchisor will choose MF as governance mode for their international operations.

As regards Figure 4.1.2, the selection of different governance modes by Turkish franchisors is influenced by different factors.

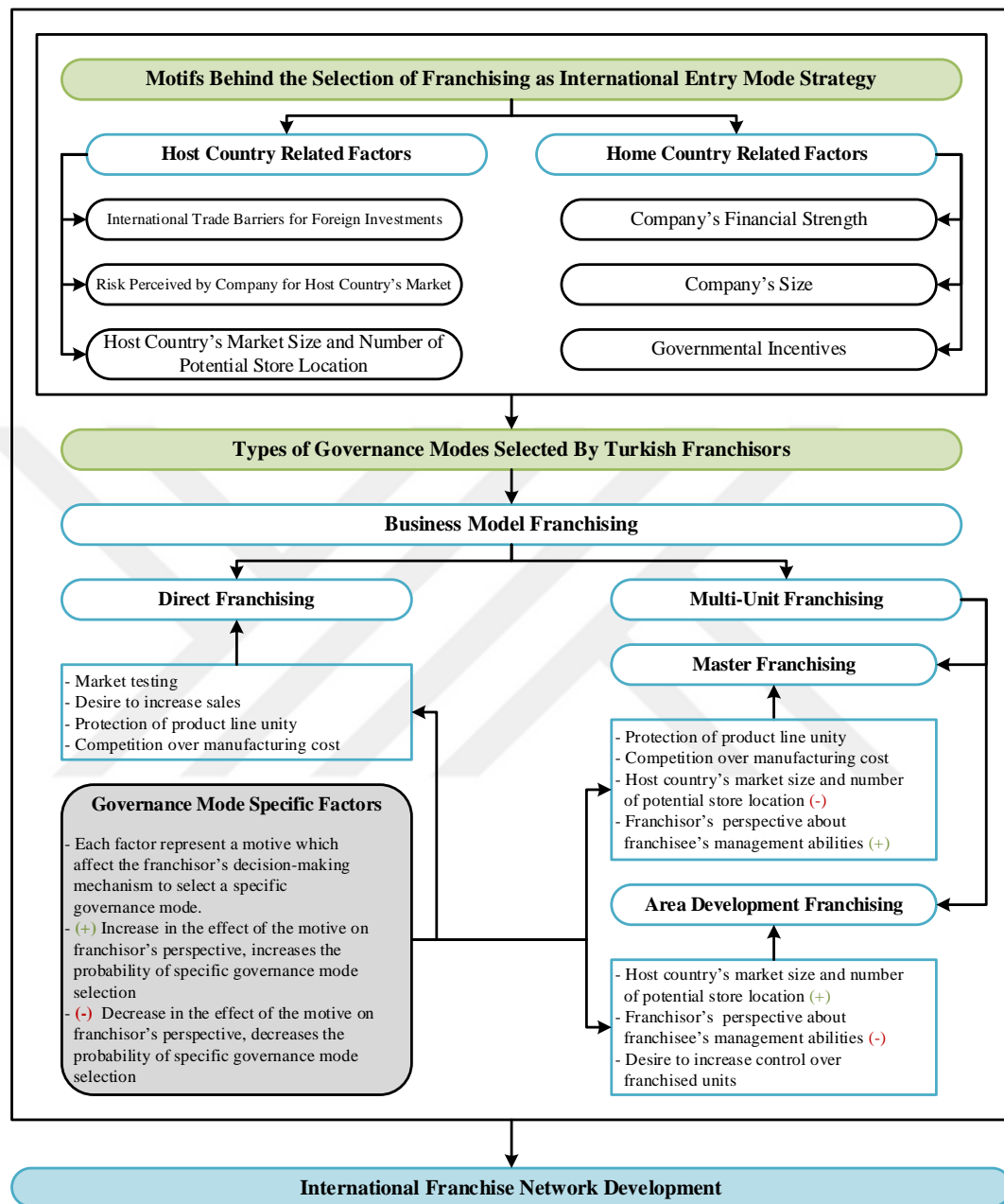


Figure 4.1.2 Selection of Different Governance Modes

Selection of direct investment as entry mode strategy, directly proportional to increase in; stability of the political and legal environment, level of development in banking systems, and market potential for a high number of stores can be opened in targeted

foreign markets. However, in case of lack in these factors, Turkish franchisors tend to select franchising as an entry mode strategy.

In terms of franchising, the Turkish franchisor uses DF and MUF as governance mode. Selection of DF as governance mode, is based on market testing, and protection of product line unity, and directly proportional with an increase in; the desire to increase sales, and competition over manufacturing cost. Selection of ADF as governance mode directly proportional to increase in; host country's market size and the number of potential store locations, and desire to increase control over franchised units, and decrease in; franchisor's perspective about franchisee's management abilities. Selection of MF as governance mode, is based on protection of product line unity, and directly proportional to an increase in; competition over manufacturing cost, franchisor's perspective about franchisee's management abilities, and decrease in; host country's market potential and size.

4.2 Foreign Market Selection Processes for International Franchise Operations

4.2.1 Foreign Market Ranking and Listing Processes

One of the key elements of a successful franchise network development in foreign countries is to the selection of right markets, which the market characterized by the high-profit margin, the minimum rate of financial and business risks, easy connection to resources, and good transportation systems for company's products and monetary resources. It is important to mention that, the target market selection processes can be influenced by the franchisor's direct market research efforts, and potential investors. As regards to the company's size and financial strength, companies may invest in direct market research to list and rank potential markets to enter or wait for potential franchisees to enter markets by franchisees' resources. If the companies' financial strength and the size is big enough to invest in direct market research processes, the selection of potential franchisees will be based on the target market list. However, if companies' financial strength and size is not big enough to invest in direct market research, companies' preferences to enter markets based on franchisee's resources.

Moreover, the franchisor's perspective for governance mode selection can be affected by target market listing and raking processes or potential franchisees. Based on target market characteristics, the franchisor interested in high control over international units may enter the market via direct investment, JV agreements, or PFE. On the other hand, if franchisor is interested in low investment risk, it may enter the market via franchising or exporting goods.

According to company A's manager,

Primarily, we do target market selection, before selection of governance mode to enter foreign markets. In our procedures, target market selection has four stages. First, we look for countries micro-economic and demographic characteristics, such as purchasing power, age distribution, and proportion of women, men, and children in different locations across the country. Second, we look for market saturation level, competition in sector, potential store locations, and geographical distance between Turkey and host country. Third, we look for consumer's trends, cultural background and differences, and proportion of money spend on our product line by consumers. Fourth, we look for experiences, and business records of other Turkish companies worked in targeted countries. According to these four steps, our franchise team prepare a country-based report.

According to company B's manager,

We have two separated processes for market selection. First, we select a country which compatible with our procedures, and second, we select potential store locations.

In terms of country selection, you have to understand, what is your company's strong sides, what are you good at, and what are your rights and wrongs in current operations. After answering these three question, you can draw a general profile for a country for your investment.

Gross domestic product level is very important, and it is first criterion for us. Distance between host country and Turkey is important, because our logistic headquarter in Turkey. Host country's banking systems and obligations about the international trade are other criteria. Based on these criteria, primarily we decide on governance mode to enter.

After selection of governance mode, we look for potential locations to open stores. We analyze for the potential of the location based on number of stores can be opened, consumer's trends, probability of business success, and potentiality for wholesale, retail, and e-commerce.

After the country and the location selection, we rank the countries in a list, and separate them based on short-term, middle-term and long-term company's plans.

According to company C's manager,

Actually, we did not target no market yet. We were exporting our products to the Turkic republics before. Our customers became of franchisees. ... They were our company's wholesalers once. ...we knew we had to do something to increase our sales. ... we called them and convince them to get in a franchise agreement with us, so they can only buy from us, and we can sell more product...

According to company D's manager,

We have a checklist to separate countries into three categories. Countries for direct investment, countries for franchising, and countries for wholesale. We have researched 180 countries. 40 of them have classified under direct investment list, 80 of them have classified under franchising list, and rest of them have classified under wholesale list.

In terms of countries classified under franchising list, we are currently operating in 14 of them, and we are planning to expand our franchise operation into 10 more countries in next year. In the franchising list each country has a rank based on our priorities, and they are separated based on their ranks, such as group one, group two and more.

We have a decision tree. First, we look for consumer purchasing power, and proportion of sales in our product line. Second, we look for retail infrastructure. Third we look for availability of human resources, and possible store locations. Forth, we look for banking systems, and availability of money transfer. Fifth, we look for obligations on international trade. Based on these five category, we rank each of the country.

According to company E's manager,

We are targeting gulf countries, Turkic republics, and Russia in the first place. Our main criterion for market selection is cultural similarities. The reason is our product line. ... Our product line comprises niche products.

As regards the information provided by sample company (A), host country's micro-economical records, demographics of consumers (purchasing power, and age and gender distribution), host market's saturation, competition in host market, number of

potential store locations, geographical distance, cultural distance (consumer trends, and cultural background and differences), the proportion of money spend on company's products, and other companies business records from home country can be accepted as main determinants of the market selection processes.

As regard to the information provided by sample company (B), gross domestic product level, geographical distance, banking systems, obligations on international trade, number of potential store locations, consumer's trends, probability of business success, and potentiality for wholesale, retail, and e-commerce can be accepted as main determinants of the market selection processes.

As regards to the information provided by sample company (C), foreign market ranking and listing depended on business relationships with current partners. It can be assumed that, if a company with low financial strength and small size may enter franchise operations by adding their current business partners into the franchise system as franchisees. This situation allows the company to increase their sales and expand their operations into foreign markets without extra cost for market and franchisee research.

As regards to the information provided by sample company (D), consumer's purchasing power, the proportion of sales in company's product line, host market retail infrastructure, availability of human resources, possible store locations, banking systems, availability of money transfer, and obligations on international trade can be accepted as main determinants of the market selection processes.

As regards to the information provided by the sample company (E), cultural similarity can be accepted as the main determinants of the market selection processes.

Companies' managers stated that Turkish franchisor bases their market selection processes on two main factors; market research-based ranking and listing, and franchisee-based ranking and listing.

Franchisee-based ranking and listing can be determined as franchisor's dependence on current business partners to start franchise operations in foreign markets. In such cases,

companies may convince their business partners (who is known and trusted for companies based on the previous business relationship) to start a franchise network in foreign markets, which allows the franchisor to start their franchise operation without extra cost for the market and franchisee research.

Market research-based ranking and listing can be determined as the strategic foreign market ranking and listing processes in which the franchisor use a company's resources to investigate host markets. As opposite to franchisee-based market ranking and listing processes, market research-based ranking and listing increase the company's cost of host market research. On the other hand, market research-based ranking and listing processes provide the franchisor with more flexible and strategic decision-making procedures and a high rate of return on investment.

As regard to Turkish franchisors' host market selection procedures, market research-based ranking and listing consist of three main categories; host country-specific factors, host market-specific factors, and consumer-specific factors.

Host country-specific factors have two categories; economical determinants such as host country's micro-economical records, gross domestic product level, availability of money transfer channels, and geographical distance between the home and the host country, and legal determinants such as host country's obligations on international trade.

Micro-economical records, help franchisor to understand the balance between consumers' demand and price policies in the host market, and increase the development of a decision-tree based on similar industry's data to set up new strategies in the market.

The gross domestic product represents a country's economic status. A high level of gross domestic product stands for high life quality and purchasing power, and a low level of gross domestic product stands for low life quality and purchasing power.

Money transfer channels represent the host country's banking systems and legal obligations on the money transfer between home and host country. An increase in the

quality of the banking system in a host country decreases the financial risk for franchisors. As regards investment security, franchisors use indemnity bonds to secure their investment, and an increase in quality of banking systems provides franchisors with a guarantee for indemnity bonds. Moreover, legal obligations on the money transfer between the home and the host country determine the desirability of the host country. One of the key elements in international business operations to transfer the profit of the franchise operations to the home country. If the host country's legal obligations on the money transfer between home and host country obstruct the money transfer, franchisors may face financial risk.

Geographical distance represents the distance between the company's logistic headquarter and internationally franchised units. As regards transportation of the company's products, an increase in distance between home and host country's market increases the cost of transportation.

As regards legal determinants, legal obligations on international trade affect the expansion and transportation processes. If the host country's legal obligations obstruct the foreign direct investments and transportation of the company's product to the host market, companies tend to invest the host country with franchising as an entry mode strategy. As regard to Turkish franchisors (A, B, and D), franchising provides easy market entry, where the host governments obstruct the foreign direct investments. In such cases, the host country rank decreases in the company's targeted market list for direct investment, and increases in the company's targeted market list for IF.

Host market-specific factors represent the host market-based determinants such as host market saturation, competition on company's product line in host market, host country's retail infrastructure, availability of potential store locations and qualified human resources, probability of business success, and potentiality of wholesale, retail, and e-commerce opportunities.

Competition on the company's product line and host market saturation can affect the company's profitability and performance. In a host country characterized by high competition and market saturation decreases product's sale prices and the number of

potential customers for the company's product and possible market share and increases the cost of international operations.

Retail infrastructure represents the consumer behaviors on retail purchases. As regards cultural distance, some countries may have a shopping culture based on the purchase of wholesale products. It can be assumed that, in a country characterized by low gross domestic product level, consumers may prefer to purchase wholesale products. Wholesale products provide consumers with low sale prices per unit in a bundle of products.

Two of the important determinants of the market research-based ranking and listing processes are the availability of potential store locations and qualified human resources. In a host market characterized by high local competition, selection of right store locations and availability of qualified human resources can affect the company's sales. An increase in the potential store locations and qualified human resources for these potential stores increase the probability of high return on investment.

As regards to host country's consumer purchase behaviors, the potentiality of wholesale, retail, and e-commerce opportunities affect the host market ranking and listing processes. In a host country characterized by retail, and e-commerce-based consumer purchase behaviors, retail companies can increase the host country's rank in the targeted market list. However, in a host country characterized by wholesale consumer purchase behaviors, retail companies may face with business and financial risk because of companies' business concept.

The probability of business success depended on the desirability of host-market specific factors. If the host market characterized by a low degree of market saturation and competition on company's product line, high availability of potential store locations and qualified human resources, high retail infrastructure, and high potentiality of retail and e-commerce opportunities, companies may increase the host market rank in targeted market list.

Consumer-specific factors represent the effects of the characteristic of the consumers in the host market on host market ranking and listing processes. Consumer-specific

factors can be divided into three categories such as cultural determinants, demographic determinants, and economical determinants.

Cultural determinants represent the consumers' trends, cultural background, and cultural similarities between host and home countries.

As regards to consumer trends, in a host country characterized by high environmental awareness, consumers may demand high environmentally friendly products. Moreover, in a host country characterized by harsh climate conditions, consumers may demand products with high climate protections such as products with sun protection in Saudi Arabia, and products with cold protection in Canada. Therefore, it can be assumed that consumer trends are shaped by local or global occasions, that can affect the company's product lines development and sales, and speed change in these trends may increase the cost of the business in the host market.

As regards cultural background, a host country characterized by a high number of different cultures provides companies with a high number of potential customers, and the probability of a high volume of sales. The high level of interaction between cultures creates a common consumer culture and increase the acceptance of different types of products by consumers. On the other hand, a host country characterized by a low number of different cultures may reject the company's products. For example, it is forbidden to export products with skull or cross images in Saudi Arabia. In such cases, the company's products cannot be exported to the country which reduces the company's sales and customer base.

As regard sample company (E), cultural similarities is the major factor for market ranking and listing processes. If the company's product line has niche products that may not easily be accepted in host markets, the company can expand into culturally similar countries as a first priority.

Demographic determinants represent the consumers' age and gender distribution in a host country. It can be assumed that product development and the company's sales can be affected by the age and gender distribution of the host country. A host country characterized by unbalanced age and gender distribution may increase the rejection of

the company's products. Because the increase in the demand for niche products may decrease the company's sales based on the company's product line. For example, a host country with a high percentage of the senior population may decrease the demand for the company's products which are specialized for the young population. In such cases, the company's sales may decrease. However, a host country with balanced age and gender distribution may increase the demand for the company's products and increases the company's sales.

Economical determinants represent consumer purchasing power and the money spent on the company's product line. It can be assumed that the high level of consumer purchasing power, increases the probability of money spent on the company's product line, and an increase in the rate of money spent on company's product line increases the probability of acquisition of high market share by the company.

4.2.2 Discussion on Target Market Ranking and Listing Motifs

As regard to the information provided by companies, an additional stream revealed about the Turkish company's international franchise operation's processes, which support the research. The selection of host markets for the company's international entries can be accepted as one of the important processes for franchisors.

As regard to sample companies (A, B, C, D, and E), Turkish franchisors' bases their selection of host country for international expansion on the foreign market ranking and listing processes, which can be seen in Figure 4.2.1 Foreign market ranking and listing processes can be accepted as a decision-tree, which provides Turkish franchisors with detailed information about selected host country's; characteristics, market, and consumers. Foreign market ranking and listing processes are based on two main practices. Market research-based ranking and listing processes, and franchisee-based ranking and listing processes.

Franchisee-based ranking and listing can be determined as franchisor's dependence on current business partners to start franchise operations in foreign markets. In such cases, companies may convince their business partners (who is known and trusted for companies based on the previous business relationship) to start a franchise network in

foreign markets, which allows the franchisor to start their franchise operation without extra cost for the market and franchisee research.

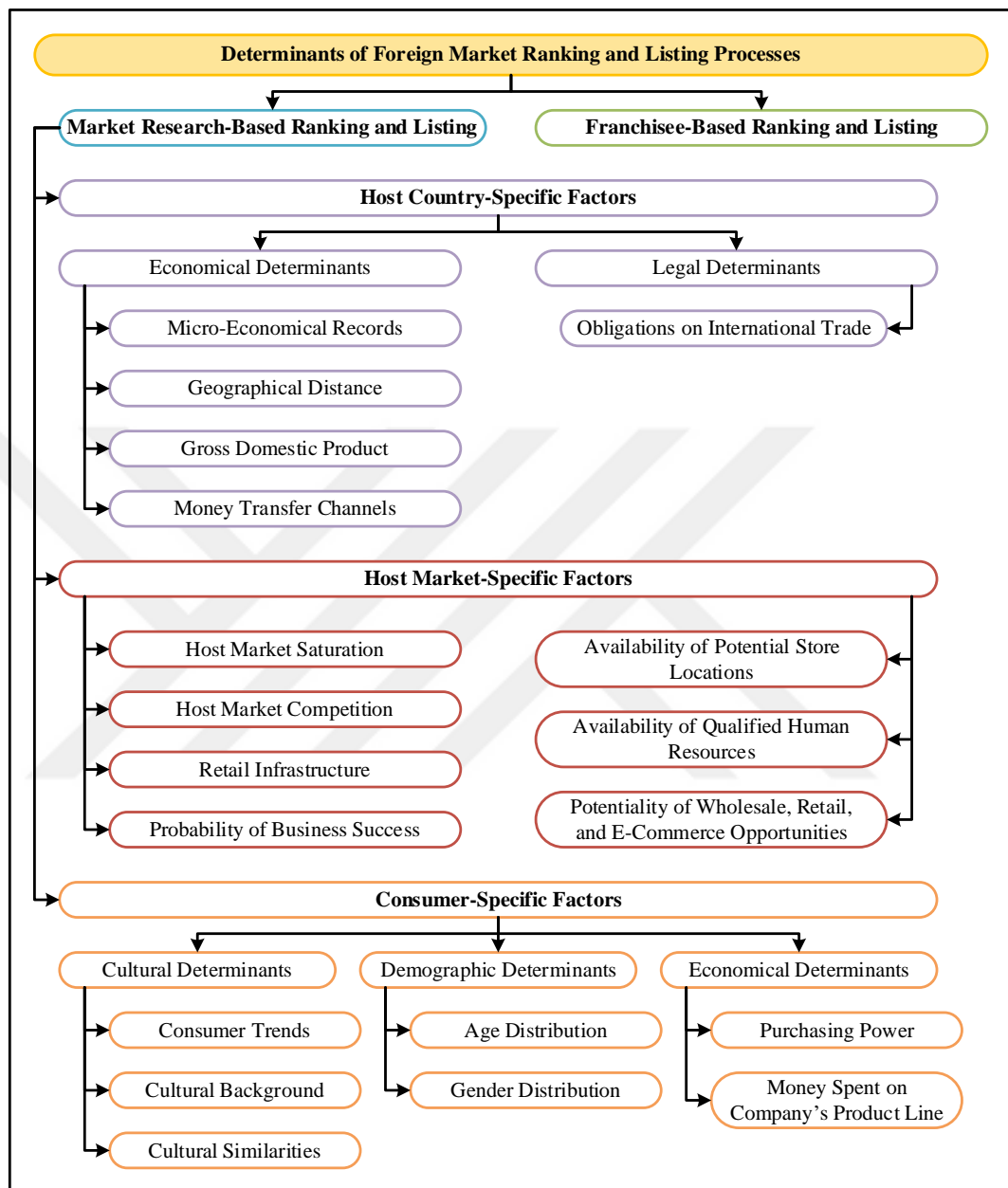


Figure 4.2.1 Determinants of Host Market Ranking and Listing Processes of Turkish Franchisors

Market research-based ranking and listing can be determined as the strategic foreign market ranking and listing processes in which franchisors use the company’s resources to investigate host markets. As opposite to franchisee-based market ranking and listing processes, market research-based ranking and listing increase the company’s cost of

host market research. On the other hand, market research-based ranking and listing processes provide the franchisor with more flexible and strategic decision-making procedures and a high rate of return on investment.

As regards market research-based ranking and listing processes, Turkish franchisors mainly use three categories to assign different priorities (ranking) to a host market for their market entry list. Based on ranking systems, host countries with a higher rank in the entry list gains priority for the company's investments. Host country-specific factors, host market-specific factors, and consumer-specific factors.

Host country-specific factors have two categories; economical determinants such as host country's micro-economical records, gross domestic product level, availability of money transfer channels, and geographical distance between home and host country, and legal determinants such as host country's obligations on international trade.

Host market-specific factors represent the host market-based determinants such as host market saturation, competition on company's product line in host market, host country's retail infrastructure, availability of potential store locations and qualified human resources, probability of business success, and potentiality of wholesale, retail, and e-commerce opportunities.

Consumer-specific factors represent the effects of the characteristic of the consumers in host market, and can be separated into three categories; cultural determinants such as consumer's trends, consumer's cultural background, and cultural similarities between home and host country, demographic determinants such as age and gender distribution of consumers, and economical determinants such as consumer's purchasing power and money spent on company's product line.

4.3 Partnership Relations in International Franchising

4.3.1 Franchise Partner Selection Processes

One of the key elements of a successful expansion process and franchise network development in foreign markets is the selection of the right franchisee for the

company's international operations. As regards international franchise literature (Altinay, 2006; Doherty, 2009; Doherty & Alexander, 2004), selection of the right franchise partner bases potential franchisee's power and resources, which the resources play a crucial role in the way of success. On the other hand, the selection of the wrong partner for the international operation can cause the collapse of the franchise network by damaging the franchisor's brand name reputation, not just in a specified foreign market, but in the all connected markets with this specified foreign market. Therefore, successful franchise relationship depends on the chemistry between partners, mutual trust (Doherty & Alexander, 2004), and validity of task and partner-related criteria (Altinay, 2006).

According to company A's manager;

At first, potential franchisee that we looking for must be enthusiastic for what we do is this company. ...we are checking their retail experience, and previous and current partners in retail sector. It is important because, if the potential franchisee working with our competitors, we cannot be partners. We are looking for strong financial power. ... moreover, we are looking for team organization in operational processes. Based on team status they have; we provide organizational support to them.

... we are not interested in ten different partners, but in one strong franchisee as a partner. Because we are targeting each foreign market as a single block, that only one franchisee will be responsible for it. ...increase in number of franchisee in our network creates more problems for us to handle.

We have some standards and our business model necessitates strong partners. ... each store we open has area of 700 to 800 square meters and we have to spend at least 400 dollars for each square meter. Each store requires around 800,000 dollars to become fully functional.

...they have to send us their application first via internet, they have to provide us indemnity bond that worth of a million dollars, and they have to have strong references that we can rely on. ...if they cannot meet with our demands, we are not even calling them to talk.

Based on the information provided by company A's manager, the most important factor in the potential franchisee selection process is franchisee's financial strength, and as regards the franchisee selection process; franchisee's retail experience, partners, team organization, financial strength, and willingness to understand company's franchise procedures can be accepted as determinant factors.

According to company B's manager;

... for us, first step for the franchisee selection is to understand who we are. If you know your own capabilities and your brand's customer profile, you can draw the picture of best-suited franchisee for your company.

Actually, we are not interested in financial power as the first priority... yes; they have to have something, but they must have retail experience, and ability to execute operational requirements. ... they cannot just show themselves at our doors and say I have money and I want to be your franchisee.

Company's business model demands for high number of stores to make profit, and you need to grow health to increase the number of stores. Therefore, they have to be retailers and must have experience in retail sector.

It is important for us to see that the potential franchisee show some effort to understand our way of work. If, they are keen to sign our franchise contract without checking it, we are immediately cancelling our meetings. This is a very bad reference for us, which show us that person is not professional.

Based on the information provided by company B's manager, the most important factor in the potential franchisee selection process is franchisee's retail experience, and as regards the franchisee selection process; franchisee's retail experience, willingness to understand company's franchise procedures can be accepted as determinant factors.

According to company C's manager;

... we know our franchisees, and we have been trading with each of them at least five years now. ... They were our company's wholesalers once. Therefore, selection of franchisee and our relationship with them bases our past and trust between us.

Based on the information provided by company C's manager, the most important factors in the potential franchisee selection process are chemistry and trust between partners, and as regards the franchisee selection process; chemistry, and trust can be accepted as determinant factors.

According to company D's manager;

We don't want to risk anything. ...we have a checklist. We are checking their financial power, their current partners, their business experiences, their previous financial turnover, their legal background, and whether is there any problem or not with third parties or government. After franchisee's application for our franchise network, our financial department does cross check with local banks. Based on this cross check, our financial department grades potential franchisee's financial power over four points, and write a report about potential franchisee's relevance for our franchise network.

... if the potential franchisee's relevance resulted in a positive manner, we are asking them to list potential store locations, and why they listed these locations.

... after we decide to engage in franchise relation with them, we are setting a meeting between potential franchisee and our CEO that last one hour. If our CEO allow us to sing a franchise agreement with them, then we accept them as our franchisee.

Based on the information provided by company D's manager, the most important factor in the potential franchisee selection process is franchisee's financial strength, and as regards franchisee selection process; financial strength, franchisee's business experience, franchisee's financial turnover, franchisee's legal background and problems, and franchisee's previous and current partner relations can be accepted as determinant factors.

According to company E's manager;

In general, we found our franchisees in international franchise or business fairs. For example, we attended to Ambiente Fair in Germany or business fair in Dubai. These fairs gave us chance to present our brand, and helped us to meet with potential franchisees.

... first criterion for us to accept an investor as our franchisee is that the potential franchisee must have active business operation in the same sector with us or at least in the retail sector. ...think about a housewife who does not have any business experience or connection with market; it is almost impossible to work with. Therefore, potential franchisee must have active business operations. ... you need to use their business experience, connections, and representation capabilities.

If the potential franchisees want to sign a MUF agreement, they have to have experience in multi-unit operations. Management of single store and management of high number of stores are totally different stories.

... another criterion for us to accept an investor as our franchisee is financial power and financial background. First, they have to provide us an indemnity bond, and second, they have to explain where this money come from. For example, there was an applicant for our franchise network. A couple. They have money, but it was their whole money. Maybe they saved that money for their entire life. I had to reject their application. Because you may have good days as well as bad days, and you have to survive in such business environment. If you cannot support your business in bad days, you may face with probability to lose your whole investment. ... However, if you work with someone who has active business in another branch, you can have sustainable and long-term business relation with them.

Based on the information provided by company E's manager, the most important factor in the potential franchisee selection process is franchisee's active business life and operations, and as regards franchisee selection process; franchisee's business experience, retail experience, financial strength, and financial background can be accepted as determinant factors.

4.3.1.1 International Franchisee Selection Motifs of the Turkish Franchisors

Selection of franchisees for the company's international operations by companies is based on different circumstances. As regards franchisees' profile, financial-based factors, experience-based factors, operational and managerial factors, and relationship-based factors can be accepted as major determinants in franchise partner selection processes. Each factor can affect the speed of engagement in franchise agreement by potential franchisee and franchisor through changes in franchisee's tangible and intangible resources, franchisee's capabilities, and franchisee's relations with third parties.

In such cases, some factors such as, franchisee's financial strength, financial background, financial turnover, retail and business experience, current team organization, current business life, chemistry and trust with partners, willingness to understand franchisor's brand's processes, previous and current partners, and the relationship between these previous and current partners can change the probability of successful franchise engagement.

As regard sample companies (A, D, and E), franchisee's financial strength is the most important determinant (especially for companies A, and D) for the selection of potential franchisees. According to information provided by the companies' managers, the high volume of financial strength represents high-number of the potential store can be opened in a targeted market. Moreover, based on franchisee's financial strength, the franchisor may engage in MUF agreements with potential franchisees.

As regards sample company (E), the franchisee's financial background is one of the determinants for the selection of potential franchisees. According to information provided by the company's manager, having enough financial strength to open a single store is not enough to become a franchisee. In case of an unpredicted situation, the franchisee must support the business by his/her own monetary power to secure franchise investment. However, if franchisee cannot support his/her own investment in case of an unpredicted situation (depending on franchisee's financial background and lack in financial strength), the franchisee may face the risk of investment loss.

As regard sample company (D), franchisee's financial turnover is one of the determinants for the selection of potential franchisees. It can be assumed that high financial turnover represents the potential of the franchisee's profitability and success rate in the business, and management performance.

As regard sample companies (A, B, and E), franchisee's retail experience is the most important determinant (especially for company B) for the selection of potential franchisees. It can be assumed that a high rate of retail experience represents, increase in adaptation speed for the brand's franchise concept, good managerial and operational capabilities, and better problem-solving abilities in an unpredicted situation. In addition to the retail experience, sample companies (B, D, and E) stated that franchise business experience is one of the determinants for the selection of potential franchisees. In can be assumed that, some of the potential franchisees may not have experience in the retail sector but in similar sectors. Their business experience can result in as fast learning skills, an increase in adaptation speed for the brand's franchise concept and retail sector processes, and multi-functional (based on problems solved in other sectors) problem-solving abilities.

As regard sample company (A), franchisee's team organization is one of the determinants for the selection of potential franchisees. It can be assumed that the team organization represents the franchisee's management team, and their capabilities to manage and organize their business activities.

As regard sample company (E), franchisee's active business life is one of the determinants for the selection of potential franchisees. According to information provided by the company's manager, a high rate of activity in business provides the franchisee with additional money sources to support franchise operations. Similar to financial background factor, in case of unpredicted events, the franchisee must support the franchise store to secure initial investment. In terms of monetary support, having a secondary business branch may create extra money flow into the franchise operations. Moreover, it can be assumed that a high rate of business activities provides more connection, additional experience, and an increase in representation capabilities for the franchisee.

As regard sample company (C), chemistry and trust between franchise partners is the most important determinant for the selection of potential franchisees. According to the information provided by the company's manager, long-term relationship between potential franchisee and franchisor before franchise agreement, decrease the opportunity problems between franchisee and franchisor after franchise agreements and increase the trust by the increase in chemistry.

As regard sample companies (A, and D), potential franchisee's current and previous business partners, and potential franchisee's relations with them are two of the determinants for the selection of potential franchisees. According to information provided by companies, if the potential franchisee recently engaged in business relations with franchisor competitors or faced legal problems with governmental institutes or third parties, the franchisor does not sign a franchise agreement with the potential franchisee. Moreover, it can be assumed that better franchisee's relationship management with third parties such as governmental institutes, stakeholders, and previous or current business partners represent high performance for the company's franchise network after engagement in a franchise agreement.

As regard sample companies (A, and B), franchisee's willingness to understand the company's franchise procedures is one of the determinants for the selection of potential franchisees. It can be assumed that, if the potential franchisee interested in franchise network processes and eager to learn these processes with high effort, the probability of successful engagement in international franchise agreements will increase. Moreover, it will increase the speed of know-how transfer, which increases the performance of the franchise network.

As regard to Figure 4.3.1, motifs in the franchise partner selection processes of Turkish franchisors is based on different factors.

As regards financial-based factors, the probability of successful engagement in international franchise agreement increases by franchisee's high financial strength, strong financial background, and high financial turnover. Therefore, these factors can be accepted as determinant factors of franchise partner selection processes.

As regards experience-based factors, the probability of successful engagement in international franchise agreement increases by franchisee's high retail and business experience. Therefore, these factors can be accepted as determinant factors of franchise partner selection processes.

As regards operational and managerial factors, the probability of successful engagement in international franchise agreement increases by franchisee's highly qualified team organization, and active business life. Therefore, these factors can be accepted as determinant factors of franchise partner selection processes.

As regard to relationship-based factors, probability of successful engagement in international franchise agreement increases by franchisee's successful relationship with previous and current partners, willingness to understand company's franchise procedures, chemistry and trust between current partners, and legal background and Problems. Therefore, these factors can be accepted as determinant factors of franchise partner selection processes.

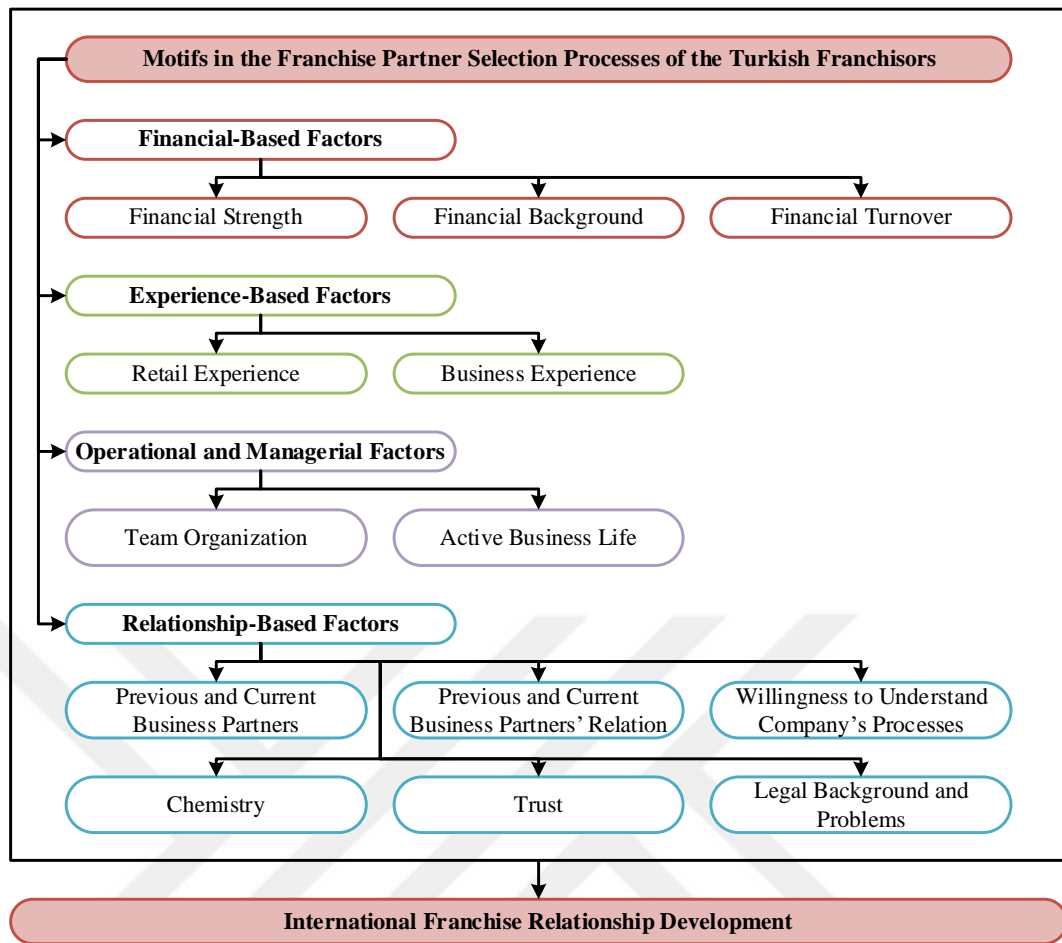


Figure 4.3.1 International Franchise Partner Selection Processes

4.3.2 International Franchise Relationship Development

4.3.2.1 Sustainable/Long-term Relationship

In the stage of foreign expansion, companies choose different governance modes as entry mode strategies due to different reasons. However, targeted market share, increase in sales, and expansion speed can be affected by selected governance modes, which requires the performance of local partners to operate foreign operations. Moreover, an increase in the performance of operations directly proportional to the quality of the partners' relationship. Therefore, it can be assumed that franchisors sign a franchise contract with trusted, problem solver, and well-disposed potential franchisees.

According to Company A's manager,

... this is not one-way relation; it is two-ways relationship. Increase or decrease of the company's reputation and profitability, bases franchisee's local power and management skills. Therefore, we have to give them support and necessary services, otherwise you cannot expect them to do their job for us.

... most critical point for us to have sustainable and long-term relationship.

... most important thing is relationship management here. ... In our franchise contract we have heavy provisos that protects our company. But there could be times we have to manage them, or they have to manage us. Therefore, we communicate with our franchisees all the time.

According to company B's manager,

Important thing is to save them, losing them is easy. Therefore, we are doing the best we can.

According to company C's manager,

We are not working with people that we do not know. ...we know our franchisees for a long time. Therefore, our relationship, our meetings, and our business transactions are very good, and we can manage each other.

According to company D's manager,

... we are not considering our franchisees just as money source, we consider them as long-term business partners ...

Sustainable/long-term relation is important factors to operate business operations through local-partner-needed governance modes in a foreign environment. As regards the nature of the franchising, it can be assumed that the success of foreign operations heavily relies on local partners in the host country's market.

4.3.2.2 International Franchise Network Feedback and Empowerment

In terms of the international franchise network, sustainable, successful, and profitable franchise operations are based on good decision-making mechanisms and continuous system feedback by the company's franchisees. Depending on location-specific differences¹⁹ franchisors may need to reshape their franchise model and procedures. Therefore, these reshape processes should be adjusted to franchisees' needs and problems.

According to company A's manager,

... every six months, we perform franchisee contentment survey via independent survey company, and based on survey result, we adjust our franchisee support procedures. Our survey measures franchisee's satisfaction level about logistic processes, human resources, quality of visual materials, marketing activities, product transportation time and quality, and our management capabilities. It is not obligatory to answer all questions, and they do not have to write their names. ... It is very important for us to understand our franchisee's needs. We were thinking that, we are the best franchisor in the Turkey. However, when we saw the first survey result, we shocked with fifty percent of franchisee satisfaction level. ...when we realized the importance of feedback, we changed most of our procedures. For example, there was a problem in the transportation of our products that increases franchisee's logistic expenses, and we did not know that. ... after franchisee contentment surveys, we were able to see, where we are and where should we go...

According to information provided by the company's manager, it can be assumed that sustainable, efficient, and effective international franchise network management and growth bases franchisee contentment surveys. Contentment surveys allow franchisors to detect the source of the problems in the international franchise network. Based on the number of franchise contentment surveys performed on a regular basis, increases are seen in the international franchise network development speed and franchisee's satisfaction from the network.

¹⁹ Location-specific differences, can be accepted as differences between home and host countries' geographical, cultural, legal and political, and other kinds of country characteristics.

4.3.2.3 International Franchisee's Autonomy

In terms of the risk-free business environment²⁰, it can be assumed that the international franchise operations heavily rely on the franchisee's performance. Therefore, the franchisor provides their support to improve franchisee's performance. However, some performance improvements may assign to the franchisee by the franchisor, in which the improvements depend on the franchisee's experience, management capabilities, marketing skills, human resources, and event-specific adjustments such as product pricing, and selection of complementary products. On the other hand, franchisors may want to decrease the probability of the risk of concept unity disruption and brand name reputation lost by assigning controlled autonomy (rather than full autonomy) to the company's franchisees.

According to company A's manager,

We do not give full autonomy to our franchisees. They must tell us every movement they want to take for the operations. ... if they have an idea to improve their performance, at first, they have to prepare and send us a folder that includes the reason of the improvement, steps they want to take in details, and the materials they want to use. If it is logical, and do not damage franchise concept unity and brand's reputation, we do major and minor adjustment on this idea and send them back to execute in their stores.

...we allow them to have autonomy on selection of human resource management. They can select their own employees by following the human resources guide provided by us. For example, sales persons cannot be older than 25 or younger than 18 or they cannot hire an unexperienced store manager.

... they have full autonomy on premium payments. Nevertheless, we provide our franchisees with premium rates, how much extra should they pay as premium, but it is up to them to follow the payment rates or not.

According to company B's manager,

Our franchise agreement has an item, which determines the franchisee's marketing efforts, and there is a minimum limit for each different marketing activities to exceed. Based on this item, they have

²⁰ In case of an unexpected event such as Covid-19 pandemic or financial crises, franchise network performance may heavily decrease. Therefore, the risk-free business environment can be accepted as, a regular financial year for the franchise operations that have no unexpected events.

the autonomy to come up with fresh ideas for marketing activity, and execution of them. However, we cannot allow them to do everything by themselves without consulting us. If they come up with new ideas, they have to counsel with us before executing them.

... they have autonomy to select their human resources. We train them about, how our company's employee should behave, and what specifications they should have. Based on this training, they can select their employees. However, we have right to inspect them any time. Yes, they have autonomy to select employees but they have to follow in our franchise terms.

... it is not right to give full autonomy to franchisee. We have a standard franchise concept to execute. Nevertheless, we are aware that the unexpected events can be happened, and we can make slight adjustments in our franchise procedures based on these events. ...we can give some space to our franchisees to use their own judgement in minor occasions. However, on major occasions that can affect franchise operations, they have to consult us before using their own judgements.

According to company C's manager,

...we get full payment for each product before shipping them to our franchisees.

...as a company, our top managers interested in profit, rather than growth in a foreign market until now.

... our franchisees have full autonomy in human resource management, marketing activities, and discount rates. ...we have an item in franchise agreement about the marketing expenses, and we have to pay half of the expenses. Therefore, they have to consult us about marketing activities before executing them.

...if our franchisees continue to buy more product, we let our franchisees to handle their stores as they want ...

According to company D's manager,

Our franchisees have autonomy to select their own human resources. We send them the company's human resource guide, which we use for our company-owned units. It specifies the number of employees and managers they have to hire, and minimum requirements needed by persons to operate franchise operation. However, it is up to them to choose the person they want to work with.

... we only use ADF ... we assign them with the full marketing rights. They decide on which marketing activity should be executed. However, they have to prepare a feasibility report about it, and send this report to us before executing the marketing activity. If the marketing activity is appropriate for our franchise concept, we let them to execute it.

According to company E's manager,

Our franchisees have autonomy to select complementary products to increase the sales. We do not have home appliances or other electronic devices in our product lines. By adding complementary products from other brands as a group to the franchised stores, our franchisees can increase their sales. However, we do not allow them to offer or sale any product that compete with our products. Therefore, we direct them to some of the complementary brands, which their products can be coupled with ours, but it is up to our franchisees to select or not to select one of them.

...they have full autonomy on promotions and pricing, and partial autonomy on marketing activities. Our product line comprises niche products. For example, the product A might be the best seller in the country A, but not in the country B. Therefore, we may need to come up with specific and product-based marketing strategies in different markets for these niche product. If the product B is the best seller in the franchisee's stores rather than product A, they can base the product B for their marketing activities.

As regards franchisee's autonomy in the international franchise operations, it can be assumed that the controlled franchisee's autonomy provides new strategies for the company's international franchise operations, and helps the company to adjust their franchise procedures more quickly in case of unexpected events. Moreover, controlled franchisee's autonomy in marketing activities may increase the company's sales and profitability in the host market, which have culturally distinctive elements. On the other hand, the full franchisee's autonomy on the company's international franchise operations may create risk for brand name reputation, and franchise concept unity. It can be assumed that the franchisors with high-risk aversion are not willing to provide franchisees with full autonomy on international franchise operations. However, the use of controlled franchisee's autonomy in international franchise operations increases the speed of international franchise procedure adjustment in case of unexpected occasions.

However, in the case of companies that have an opportunistic relationship with their franchisees, the rate of franchisee's autonomy increases in the international franchise operation. It can be assumed that the level of franchisor's opportunistic propensity, adjust the rate of franchisee's autonomy used in international franchise operations.

As regards Table 3.1., it can be assumed that the rate of franchisee's autonomy in international franchise operations inversely proportional to the franchisor's company

size. Companies' managers stated that Turkish companies provide international franchisees with lower the rate of franchisee's autonomy in international franchise operations, and decision-making mechanism by the growth in the company's size.

As regard to the information provided by sample companies (A, B, C, D, and E), it can be assumed that the Turkish franchisors allow their franchisees to have full or controlled autonomy in the international franchise operations. One of the sample companies (C) has an opportunistic relationship with the company's franchisee's and therefore, their franchisees have full autonomy in the international franchise operations. The other four sample companies' (A, B, D, and E) franchisees have full autonomy in human resource management and controlled autonomy in marketing activities. Besides human resource management and marketing activities, one sample company's (E) franchisees have full autonomy in complementary products (non-competitor brand's products) selection and product pricing in international franchise operations.

4.3.2.4 Franchisee Performance Measurement and Know-How Transfer

Transfer of franchisor's know-how and franchisee performance measurement have similar procedures in the implementation stage. Transfer of know-how can be considered as the transfer of massive information to the franchisee by franchisor about the franchise concept in the first stage of the franchise relationship, and continues, improved, and adjusted information transfer in the later stages. In a strategic propensity-based franchise relationship, franchisors improve and adjust their know-how by measuring franchise performance in later stages. This measurement allows franchisors to highlight the network problems and their solutions by time. Both know-how transfer procedures and franchise performance measurement bases continuous communication, visitation, and the franchisor's inspection throughout the franchise relationship.

According to company A's manager,

...they have similar processes. We have a franchise operation team of 15 people. Each of them has specialized in only one franchised area.

Their primary duty is to travel across the countries to visit our franchisees, set up trainings about our franchise concept, control and analyze franchisees' financial records, and prepare a detail report for the company.

Most of our franchisees having a problem with undeveloped retail sector in their countries. They have money, but they do not know how to manage a retail store. In such cases, we send a manager to live there, and help franchisees to manage and operate their stores.

First, each month we send our operational and visual team to visit our franchisees. Second, we control the weekly reports. Third, we discuss about these weekly reports with our franchisees via "Skype for Business". Fourth, we control their monthly financial reports. These four steps help us to measure our franchisee's performance, and improve their operational performance.

... every six months, we perform franchisee contentment survey via independent survey company, and based on survey result, we adjust our franchisee support procedures.

We are continuously communicating with them. If they face with any problem in operational process, they can reach as easily.

According to company B's manager,

We have a long training period for our franchisees. Both in Turkey, and their countries. After training, performance measurement and operational improvements proceed with inspections based on a checklist. Our inspectors do these inspections by informed or uninformed controls. Also, we track their all transactions via our online system.

Number of the inspections we perform depended to countries' size. For example, we have 16 stores in the Kazakhstan, and 3 stores in the Ivory Coast Republic. We have assigned a team member for the Kazakhstan to be there all the time. However, in the Ivory Coast Republic, we can do the same level of inspections by visiting only three or four times a year.

According to company C's manager,

...if our franchisees continue to buy more product, we let our franchisees to handle their stores as they want ...

If there is a problem, our franchisees reach us via e-mail or direct phone calls. Every six month, they visit us in Turkey to order new products. If there is something they want to know, they usually ask us during that time.

According to company D's manager,

We have documentation process. Our franchise team visits each possible store location in the host market for three or four days, and prepare a feasibility report about it, which determines number of possible costumers, minimum and maximum number of possible sales, and estimated budget for franchise operations. Based on this documentation, our team set up an initial training program for our franchisees.

We mainly use "WhatsApp" application for communication. We have two groups, one of them between franchise team and franchisee, and other one for managers. It helps us to communicate very fast in case of any problem. Moreover, every two months our team set up an online meeting with "Skype". In these meetings, we are discussing on financial reports and operational improvements with our franchisees. Every six months, our franchise team set up face-to-face meetings in franchised country or Turkey.

Every two months, our franchise team visits the franchisee's store for inspection and support.

According to company E's manager,

In the franchised stores, company's franchise concept and procedures should be executed very well. Because, almost fifty percent of the workload depended to sales person marketing skills. If a sales person do not perform very well, our franchisees may face with serious financial problems.

We provide our franchisees with a manual which specifies franchise concept procedures. However, it is not enough to provide them with a manual. We have to make sure that, they understand and follow the procedures. Therefore, we set up training program about our franchise concept.

We communicate with our franchisees via e-mail for routine improvements. Our team meet with them in time of business fairs. Also, we have scheduled inspections.

Almost thirty percent of our products changes in every three months. Therefore, our franchisees visit us every three months to update their inventory with new products.

Information flow is a time-consuming process. It is not possible to expect high performance from franchisees, if you do not frequently support and communicate with them. We are the source of basic information, but we learn with them. Therefore, its two-way learning process. First, we provide them a franchise concept, and second, they provide us feedback. In return, we adjust our procedures and improve our franchisee's operations.

As regard information provided by sample companies (A, B, C, D, and E), franchise know-how transfer has two stages. The first one is the initial training for the franchise concept, and the second one is adjusted and improved know-how transfer based on new occasions in franchisee's operational processes and performance. In the first stage of know-how transfer, franchisors provide their franchisees with the company's main franchise concept and procedures, and list of minimum qualifications for employees and managers. In the second stage of know-how transfer, franchisors inspect the franchisee's operations, measure their performance, adjust and improve franchise concept procedures, and support franchisees to execute these procedures. Therefore, the second stage of the know-how transfer can be accepted as one of the determinants of successful franchise relationship and franchise network performance. In terms of know-how transfer, use of online communication programs such as, "WhatsApp and Skype", business or franchise fairs in host markets, and franchise team members who are assigned for specific locations, can be accepted as main tools of information transfer. In terms of franchisee performance measurement, franchisee's financial reports, and store-based reports prepared by franchise team members, can be accepted as the main source of information. Therefore, it can be assumed that the frequency and quality of communication in the second stage of know-how transfer, determine the franchise relationship and international franchise network performance.

4.3.2.5 Trust in Franchise Relationship

Trust between franchise partners can play an important role as a bridge to form good business relations between the home country and international markets, help franchisor to increase their franchisee's performance, and franchisees to solve their operational or managerial problems by franchisor help. However, some companies may not rely on trust to execute their operations in foreign markets. In terms of company size and financial strength, either the franchisor or the potential franchisee may play the dominant role in a franchise agreement. Therefore, companies' size and financial strength determine the level of trust in a franchise relationship. If the franchisor's company size and financial strength is higher than the potential franchisee, the franchisor plays the dominant role in the provisions of the franchise agreement. On the other hand, if potential franchisee's company size and financial strength are higher than the franchisor, the franchisor may need to give up on important protection rights

in a franchise agreement. Therefore, the company's size and financial strength can be accepted as the main determinants for the level of trust between franchise partners.

According to company A's manager,

... most important thing is relationship management here. ... In our franchise contract we have heavy provisos that protects our company. But there could be times we have to manage them, or they have to manage us. Therefore, we communicate with our franchisees all the time.

... we have the power to direct, control, and support our franchisees, and they aware of this. Therefore, our franchisees free to ask for support, in case of any problem. ... If you communicate and support your franchisees, you do not have to pay extra effort to build trust.

In reality, there is no place for absolute trust in business relationship. However, trust form itself with good relationship management as a side-effect.

According to company B's manager,

Trust is a very important fact. However, in the big companies such as us, business contracts are dominant players. We have over 750 stores, and one store does not affect us. If there is a major problem between company and franchisee, they are free to leave from our franchise relationship. Therefore, we have the power to force potential franchisees sign a contract, which protects our company.

If a potential franchisee contact with us to open ten stores, they have to follow our rules. Because, they are asking for less two percent of our operations. However, if you are a small company and you have only 40 stores, you have to give up from something important for your company. Because, potential franchisee asking for twenty five percent of your company's operations. Therefore, you have to rely on trust rather than protection of franchise contract.

According to company C's manager,

... we know our franchisees, and we have been trading with each of them at least five years now. ... They were our company's wholesalers once. Therefore, selection of franchisee and our relationship with them bases our past and trust between us.

According to company D's manager,

We have no interest in trust for our business relationships. It is about your power. If our franchisees do not comply with our rules, we are not going to take any risk to put our operations in danger.

According to company E's manager,

Trust is a very important factor to do business with foreigners. Because, if you sign an agreement with them, they will expect to see you with them in case of any problem. If you help them to set up franchise store from beginning to end, if you help them to solve their problems such as, return of broken products, product shipment, store layout, discounts and promotions, operational or managerial problems, franchisees will increase their performance to increase your company's reputation.

Business relations are like two different sides of one coin. If you help them and form the trust between you and your company's franchisee, you can rely on them to whenever you need a help.

As regard information provided by sample companies (A, B, C, D, and E), it can be assumed that, the role of trust in the franchise relationship inversely proportional to the company's size and financial strength. As regard sample companies (A, B, and D), the level of trust is minimum in their relationship with international franchisees to decrease business and financial risks. It is more important for sample companies (A, B, and D) to protect the company's franchise concept unity with protection provisions in the franchise agreement. On the other hand, sample companies (C, and D) rely on trust in their franchise relationship with their international franchisees to increase their franchise network performance. As regards Table 3.1., companies' managers stated that increase in the franchisor's financial strength and company size, reduces the importance of trust in the international franchise relationship.

4.3.3 Motifs of the International Franchise Relation Development

The selection of right franchisees for the company's international operations and management of international franchise relationships are two of the major factors for the creation of a successful franchise network and international expansion processes. As regards to Turkish franchisor's perspective, the selection of right franchisees is based on four main factors. Financial-based factors, which is based on potential franchisee's financial strength, background, and turnover. Experience-based factors,

which is based on franchisee's retail experience, and business experience. Operational and managerial factors, which is based on franchisee's team organization, and active business life. Relationship-based factors, which is based on franchisee's previous and current business partners and franchisee's relationship with them, chemistry and trust between franchisee and franchisor (historical relationship), franchisee's legal background, and problems with third parties, and franchisee's willingness and eager to learn franchisor's company's procedures. These four main factors can be accepted as the determinants of the first part of the partnership relations in international franchise operations.

As regards Turkish franchisors' perspective, international franchise relationship development can be accepted as the second part of the partnership relations in international franchise operations. Therefore, it is important to develop a good relationship with selected franchisees to increase franchise network performance and decrease the operational risks.

As regard to Figure 4.3.2, franchise partnership relations of Turkish franchisors in international markets are based different factors.

As regard sample companies (A, B, C, and D), one of the major determinants of good relationship development is the creation of a sustainable/long-term relationship between franchisor and franchisee. A sustainable/long-term relationship provides franchisors with high franchise network performance, and increased brand reputation and profitability in the long run.

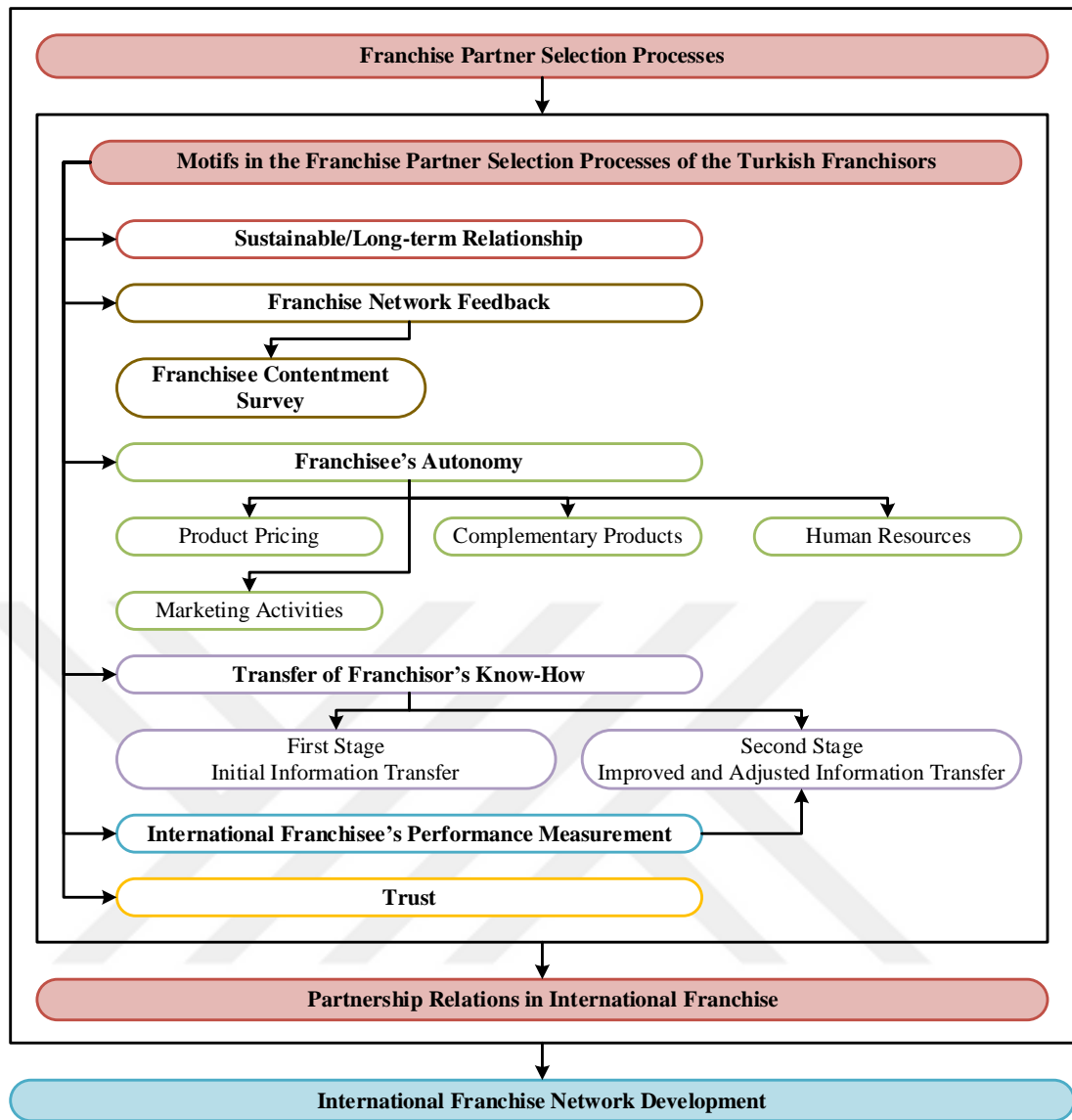


Figure 4.3.2 Partnership Relations in International Franchise Operations

As regards sample company (A), one of the major determinants of good relationship development is the collection of franchise network feedback. Collection of franchise network feedback is based on franchisee contentment surveys. Franchisee contentment surveys provide the franchisor with the source of problems in the franchise network. It allows the franchisor to improve and adjust the company's franchise procedures.

As regard to sample companies (A, B, C, D, and E), one of the major determinants of good relationship development is franchisee's autonomy in international franchise operations. Sample companies (A, B, and D) stated that controlled franchisee's autonomy provides new strategies for the company's international franchise

operations, and helps companies to adjust their franchise procedures more quickly in case of unexpected events. On the other hand, the full franchisee's autonomy on the company's international franchise operations may create risk for brand name reputation, and franchise concept unity for large size companies. In terms of autonomy, sample companies (A, B, and D), allow their franchisees to have controlled autonomy on marketing activities, and full autonomy on human resource management, and sample companies (C, and E), allow their franchisees to have full autonomy on marketing activities, product pricing, human resource management, and complementary product selection.

As regards sample companies (A, B, D, and E) two of the major determinants of good relationship development are the transfer of franchisor's know-how and measurement of franchisee's performance. According to the information provided by sample companies, the franchisor's know-how transfer has two stages. The first one is the initial training for franchise concept which a franchisor provides their franchisees with the company's main franchise concept and procedures, and list of minimum qualifications for employees and managers, and the second one is adjusted and improved know-how transfer based on new occasions in franchisee's operational processes and performance operational performance, in which a franchisor inspects franchisors operations, measure their performance, adjust and improve franchise concept procedures, and support franchisees to execute these procedures. It is important to connect the franchisee's performance and the second stage of the franchisor's know-how transfer. Based on franchisee's financial reports and store-based reports prepared by franchise team members, the franchisor can measure franchisee's performance and accordingly adjust and improve international franchise concept procedures.

As regard sample companies (A, B, C, D, and E), one of the major determinants of good relationship development is trust. However, it is important to mention that trust has an inversely proportional relationship to the company's size and financial strength. According to information provided by sample companies (A, B, and D), large size companies with high financial strength have the power to force their potential franchisees to sign a franchisor dominant international franchise agreement to protect the company's franchise concept unity. According to information provided by

companies (C, and E), small size companies rely on trust in an international franchise relationship to increase sales and franchise network performance.

4.4 International Franchise Network Problems

One of the important milestones of international franchise network development with high performance is to determine the source of problems and finding perennial solutions for them. As regards to international franchise literature, scholars argued and theorized the network problems and their solutions such as resource-based theory (Carney & Gedajlovic, 1991; Doherty, 2009; Doherty & Alexander, 2004; Jell-Ojobor & Windsperger, 2014; Norton, 1988; Oxenfeldt & Kelly, 1969), agency theory (Alon et al., 2012; F. N. Burton & Cross, 1995; Doherty & Quinn, 1999; Eisenhardt, 1988; Fladmoe-Lindquist & Jacque, 1995; Garg & Rasheed, 2003; Grewal et al., 2011; Jensen & Meckling, 1976), and transaction cost theory (Baena, 2012; Brookes & Altinay, 2011; F. Burton et al., 2000b; Heide & John, 1992; Hoffman & Preble, 2004; Meyer, 2001; Meyer et al., 2009; Sashi & Prasad Karuppur, 2002; Williamson, 1985).

4.4.1 International Franchise Network Problems Argued by Resource-Based Theory

As regards resource-based theory, Doherty and Alexander (2004) stated that opportunistic propensity for international franchise expansion processes may create opportunistic problems in the franchise network, and the probability of franchise agreement termination may increase. As regard to sample companies (A, B, C, D, and E), only one of the sample companies (C) adopt the opportunistic propensity for their international franchise operations. Through the information provided by the company in previous sections in the research; it can be assumed that opportunistic propensity provides franchisees with an increase in the sales if the franchisor succeeds with the creation of trust and a sustainable/long-term relationship with current business partners. On the other hand, sample companies (A, B, D, and E), adopt the strategic propensity for their international franchise operations, which bases franchise contract and contract termination in case of serious problems to eliminate problems caused by opportunistic propensity. It can be assumed that, creation of sustainable/long-term relationship with current business partners based on trust, decrease the probability of

international franchise network problems occurrence caused by opportunistic propensity.

4.4.2 International Franchise Network Problems Argued by Agency Theory

4.4.2.1 Moral Hazard Problems

As regard to agency theory, Doherty and Quinn (1999), and Jensen and Meckling (1976) stated that one of the major problems in the franchise network is moral hazard or opportunism, which defined as, "...the potential for agents to operate in their own self-interest against the objectives of the principal" (Doherty & Quinn, 1999, p. 228). According to Fladmoe-Lindquist and Jacque (1995), moral hazard problems of the agent increases through the geographical and cultural distance and lack of monitoring the agents, which the increase in the distance between the franchisor and the franchisee, increases the possibility of high franchisee costs occurrence (Jensen & Meckling, 1976).

As regard to company A's manager,

We do not have direct problems with our franchisees. We do our homework about market and franchisee very well, and we do not work with someone, who do not want to follow our business concept. If they engage in things which we do not approve, we will terminate the agreement.

As regard to company B's manager,

It is important to protect concept unity. In today's word business models are continuously changing, and we are adapting our franchise concept to follow these models. From time to time we are having problems about business model changes with our franchisees such as, non-compliance to business plans and disobey to minimum product purchase limits from us.

As regard to company C's manager,

We do not have problems with our franchisees. We are not working with people that we do not know. ...we know our franchisees for a long time. Therefore, our relationship, our meetings,

and our business transactions are very good, and we can manage each other.

...if our franchisees continue to buy more product, we let our franchisees to handle their stores as they want ...

As regard to company D's manager,

We had a problem about expansion plan with our franchisee once, and it was all. Our franchise agreement has certain items, and they have to be executed directly by our franchisees.

As regard to company E's manager,

We are having problems about acceptance of new products based on cultural differences all the time. For example, we want to send a product to our franchisee which we sold the product as best seller in our own stores. However, they refuse to sell them without trial. Most of the time, their excuses are cultural-based; it will not be sold, our customer will not like the color of the product, it is expensive for our customers.

We had a problem in Germany about the un-licensed and prohibited products. One of our franchisees replaced a few company's products with locally made cheap products. We had to terminate our franchise agreement.

As regard information provided by sample companies (B, D, and E,) Turkish franchisors deal with moral hazard problems such as non-compliance to business plans, disobey to minimum product purchase limits, disobey to expansion plans, refuse to sell company's new products, and replace of company's product with un-licensed and prohibited locally made cheap products.

On the other hand, sample companies (A, and C) do not deal with moral hazard problems. In the case of company C, franchise relationship bases opportunistic propensity. Therefore, franchisees are free to execute their own operations. In the case of company A, the franchisor does not deal with moral hazard problems, because of the protection of the franchise agreement. As regard to sample companies (A, and D), protection of international franchise network from moral hazard problems relies on the international franchise agreement, and termination of the agreement (A, D, and E) in case of moral hazard problems. It can be assumed that the number of protection items

in the international franchise agreement determines the probability of moral hazard problems.

4.4.2.2 Shirking

As regard to agency theory, Brickley and Dark (1987), and Rubin (1978) stated that the hired managers might tend to shirk on their duty, which assigned by the principal, because of their fixed compensation. As a result, high monitoring costs will be occurred in term to ensure that the hired manager act in the principal's interest. Elango and Fried (1997) stated that "... franchisee-owned units are likely to perform better than company-owned units because the contract between the principal (franchisor) and the agent (franchisee) is designed to keep their financial interest closely aligned" (Elango & Fried, 1997, p. 71).

As regards Turkish franchisors, sample companies (A, B, C, and D) do not deal with shirking problems. According to information provided by companies in previous sections, it can be assumed that the franchisors protect their international franchise operations from shirking by relying on the international franchise agreement, and termination of the agreement.

As regard to company E's Manager,

You cannot just rely on your store manager to do your job. You have to be in contact with them all the time. For example, we had a franchisee in Europe. He opened the store for his wife and left the store to his store manager. After a while, there was huge decrease in performance or sales. We had to terminate the franchise agreement to protect our brand name.

As regard to the information provided by sample company (E), shirking creates problems for brand name protection and decrease in the franchisee performance.

4.4.2.3 Free-Riding

As regard to agency theory, Hill and Kim (1988) argued, companies with the well-known brand name, perceived by customers as the company with better quality

products and guarantees, which “potentially reduces their ability to detect differences in the quality of service received from different units” (Garg & Rasheed, 2003, p. 341) of the franchise network. In such cases through the high geographical dispersion that reduces the risk of caught by monitoring processes, franchisees might tend to use low quality raw materials to increase their profitability (Garg & Rasheed, 2003).

As regards Turkish franchisors, sample companies (A, B, C, and D) do not deal with shirking problems. However, one of the sample companies (E) has dealt with free-riding problems.

As regard to company E’s manager,

We had a problem in Germany about the un-licensed and prohibited products. One of our franchisees replaced a few company’s products with locally made cheap products. We had to terminate our franchise agreement.

As regards the information provided by the sample company (E), free-riding problems increase the probability of franchise contract termination. According to information provided by companies in franchisee performance measurement and know-how transfer section of the research, it can be assumed that, increase in the number of international franchised store inspections, direct communication with franchisees, and international franchisee performance measurement processes decrease the probability of free-riding problems occurrence.

4.4.2.4 Price-Bonding

As regards to agency theory, Rubin (1978) stated that the “franchising reduces monitoring needs by aligning the incentives of the agent (franchisee) and the principal (the franchisor) by making the franchisee a residual claimant on revenue” (as cited in Alon et al., 2012, p. 8) by upfront payments and royalty fees. Therefore, in the process of internationalization of the franchise network, price-bonding by charging high upfront payments reduces the franchisee’s opportunistic behaviors through the possibility of contract termination that results in forfeiture of the high upfront payments (Shane, 1996b).

However, as regards the information provided by the sample companies (A, B, C, D, and E), there is no support or price-bonding problem occurrence within the Turkish franchisors' international franchise network.

4.4.2.5 Adverse Selection

As regard to agency theory, Hill and Kim (1988) stated that companies with well-known brand names are considered as the company with better quality products and guarantees. Therefore, the well-known brand name increases the number of potential international franchisees willing to become a company's franchisee (Baena & Cerviño, 2012) through the perception of franchisor's tangible and intangible capitals acquisition. Norton (1988) stated that company managers have limitations on the control of their agencies, subject to the bounded rationality, and the increase in geographical distance, where the information asymmetry and opportunism might arise (Demirbag et al., 2008). Hence, the increase in geographical distance and lack of foreign market knowledge, "creates an incentive for the less qualified to misrepresent their abilities to obtain employment" (Shane, 1996a, p.219).

However, as regards the information provided by the sample companies (A, B, C, D, and E), there is no support or adverse selection problem occurrence within the Turkish franchisors' international franchise network.

4.4.2.6 Information Flow

As regard to agency theory, Garg and Rasheed (2003) stated that the distortion of information through opportunistic franchisee behaviors necessitate the strict monitoring procedures of the franchisor, where the procedures lead to higher monitoring costs.

However, as regards the information provided by the sample companies (A, B, C, D, and E), there is no support or information flow problem occurrence within the Turkish franchisors' international franchise network.

4.4.2.7 Inefficient Risk-Bearing

Inefficient risk-bearing can be accepted as decision conflicts between the principal and its agent related to the alignment of resources that cause important agency problems. An agency problem arises through the franchisees' perception to the return of their investment, where the franchisee "has a large proportion of his wealth and income tied to the performance of the unit, his investment portfolio will be undiversified" (Brickley & Dark, 1987, p. 405).

However, as regards the information provided by the sample companies (A, B, C, D, and E), there is no support or inefficient risk-bearing problem occurrence within the Turkish franchisors' international franchise network.

4.4.2.8 Quasi-Rent Appropriation

As regard to agency theory, Garg and Rasheed (2003) argued that the post-contractual opportunism may arise within the franchise network through quasi-rents. If the franchisor able to refuse to engage in the renovation of the franchise contract to demand higher royalty fees, the franchisee either has to pay high fees or terminate the contract and lose initial franchise payment (Garg & Rasheed, 2003). On the other hand, the franchisee may refuse the pay royalty fees (Choo, 2005) or negotiate upon agreed fees through arguing "the contract enforcement costs are higher than benefits" (Garg & Rasheed, 2003, p. 342).

However, as regards the information provided by the sample companies (A, B, C, D, and E), there is no support or quasi-rent appropriation problem occurrence within the Turkish franchisors' international franchise network.

4.4.3 International Franchise Network Problems Argued by Transaction-Cost Theory

4.4.3.1 Cultural Distance

As regards transaction-cost theory, cultural distance represents the costs arisen from the cultural differences between the home country and the host country. Anderson and Gatignon (1986) stated that the distance between cultural norms and values of countries, compose natural barriers by the size of the cultural differences to the transfer of managerial skills, and a company's products and services. Moreover, Eroglu (1992) stated that in the absence of the understanding of cultural differences, disruptions within the operational framework, and the problems in understanding of the host country's market demands might arise (Eroglu, 1992). In such cases, companies may need to deal with high transaction costs or financial and business risks.

As regard to company A's Manager,

We had cultural-based problems. We have an international category team. Our team members travel to countries and investigate our competitor's product lines and customer base. After investigation, they prepare a report, which identifies the demanded and best seller products, consumer trends, preferred colors, and form of the product. For example, we have special collection for Kazakhstan. Kazakhstan's climate is very cold. Therefore, we prepared special collection based on cold climate. They are looking for cold protection up to -30 or -40 Celsius in the product. In Balkans we have another collection for body types. Our customers looking for XL or bigger size products. We do not sell these items in Turkey. In Saudi Arabia, we sell Arabian slippers. It is special kind of product for them. It is culturally accepted product, and it is hard to sell them in other part of the world.

We have learnt these from our mistakes. For example, we sent our winter collection to Kazakhstan, and just a week later they asked for winter collection. Our franchisee told us the collection we sent was can be usable only for spring. We were not thought about climate differences until that time. However, when we realize that we are losing money because of customer demands, we had to prepare a special collection to cover our mistakes.

Locally made products attract more customers for big companies. They know your company's reputation, they know it is an international company, and if they see a local made label on the product, they become more loyal to your brand. We started to produce some of our products in Morocco, and Kazakhstan. Our sale records

showed us, locally made products has serious percentage in our total sales in the host market.

As regard to company B's Manager,

Local knowledge is very important. You have to work with someone, who know and understand the local traditions and culture to be successful. For example, recently we opened a franchised store in Turkmenistan, and sent them one of our best seller collections. Our franchisee told us the collection will not be sold, because the collection does not fit with consumer demands and culture. We were insisted on the collection, but we had to take back all the items we sent.

Another problem is the body size. For example, the products we sell in the Afrika and in the Russia are totally different. In the Afrika, women have bigger hip size then Russia. They are demanding for XL or bigger size products or products with more color. However, in Russia customers demanding for tall and tight products. In Saudi Arabia, it is forbidden to sell products with skull or cross images. In Europe, there is a demand for them.

As regard to company E's Manager,

We are targeting gulf countries, Turkic republics, and Russia in the first place. Our main criterion for market selection is cultural similarities. The reason is our product line. ... Our product line comprises niche products.

In Africa, Iran, and Azerbaijan, products with golden colors are more popular then Europe. However, in Europe, our customers demanding for more elegant styles with white and grey colors. For example, in Turkey, our best seller is tea glass but in Europe our customers demanding for coffee mug.

Promotions are different. In Turkey, you have to label your product with fifty percent of discount and maybe twenty percent plus. However, in Europe our customers do not like complicated discount numbers. When they see fifty plus twenty, they think there is a problem with the brand.

We have halal certificate and halal labels on our products. You may ask why do you need for such a product line. Because, we are using bone dust in some of our products, and in China producers uses pork bone dust with the same product. In Saudi Arabia, you cannot sell them.

As regards the information provided by sample companies (A, B, and E), the cultural distance between the home and the host country has a crucial effect on, product design, marketing promotions, and product content. Sample companies (A, and B) stated that

the lack of cultural understanding increases the business costs, and it is important to understand consumer's demands and host country's cultures to reduce transaction costs. It can be assumed that an increase in the cultural distance between home and host country, increases the probability of transaction cost occurrence, and influence the company's product's design, content, and development processes based on local culture.

4.4.3.2 Geographical Distance

One of the issues concerned by the franchisors is the geographical distance between home and host country. In today's world, transportation of the company's products getting easier day by day with help of developments in transportation systems. This situation allows franchisors to locate their logistic headquarters in the home country, and reduce the cost of production by learning curve effect. As the trade-off, locating logistic headquarter in the home country, increases the cost of transportation products to host countries and lost in product quantity.

As regards to characteristics of IF operations, acceptance trade-off on cost bases the business, and financial risk. In terms of legal, political, and economical context, companies with foreign direct investment strategies may struggle with instant changes in the host country's legal, political, and economic environments, which may cause the loss of investments. Therefore, franchising provides companies with reduced business and financial risks by trade-off on cost.

As regard to company E's Manager,

We were having serious problems with the shipment of products to our franchisees. Our product comprises too many fragile and heavy items. Therefore, shipment through the overland routes less costly for us compare to other kinds of shipments. In the short distance, we are dealing with minimum lost in quantity. For example, from Istanbul to Bursa, lost in quantity is minimum. However, from Turkey to Kosovo or Tunisia, lost in quantity is maximum. In some shipments lost in quantity reached up to 30 to 40 percent of the products. We dealt with serious problems, until we figure out the packaging problems. Another issue with having franchisee in long distance is customs duty. If you need to pass three or four countries to send your products, you

need pay customs duty for each of the country you passed. It might not be problem for some of the companies. However, for companies like us is a problem.

As regards the information provided by sample company (E), it can be assumed that the increase in geographical distance between home and host country increases the cost of the product by loss in a high percentage of quantity based on transportation processes. However, it is important to consider the type of products and transportation processes. As regard to sample companies (A, B, C, and D), there is no support for geographical distance-based problems.

4.4.3.3 Legal and Political Context

As regard to transaction cost theory, in the process of international expansion, quality of the political institutions plays a crucial role in the term of market entry for foreign investors (Meyer, 2001) because, in the absence of quality in the “political institutions may create uncertainty through changes in governments, industrial policy, or corruption” (Hoffman et al., 2016, p. 105). Moreover, regulatory institutions also critically affect the franchisor’s propensity to international expansion because, the regulations affecting the terms of licensing, the context of the contract, labor rights, incentives and privileges, and business entry barriers, which may determine the success or failure of franchise expansions (Hoffman et al., 2016).

As regard to company A’s Manager,

We are interested in franchising, where a host country does not allow hundred percent foreign direct investment. It is a protective governmental decision for local business owners.

Another issue is health policies. Each country has its own obligations for public health. For example, in Turkey we have to run 15 to 20 chemical tests before placing the products to our stores. However, in Europe or in another country, we may need to run more 20 different chemical test. If there is a missing test, we have to wait for the result, which may take more than a month, and we have to keep our products in the customs in that time period.

As regard to company B's Manager,

Political and legal agents very effective for us to decide how should we enter the market. Some countries do not allow full investment by foreigners.

Country's political environment is important. For example, in Ivory Coast Republic is very risky for us. We do not trust banking systems, and customs. Therefore, we decided to work with franchisee there.

As regard to company D's Manager,

... in gulf countries %100 foreign investment is forbidden; therefore, we have to do our operations with local people.

Political events very effective on our business. For example, in Lebanon there is no president more than three years. There are too many public revolts. In country with political uncertainty, banking systems collapses in very short time. Foreign investors escape from the country with their many, which causes to decrease in purchasing power. We had to change a lot of investment plans because of political instability. We saw the war in Syria and Libya. In Algeria we saw public revolt. After the public revolt, military gained power on government. They closed the banking system to other countries to block money flow to outside, and limited the amount of money you can transfer.

In Egypt, it is forbidden to sell camouflage products, because of the civil war.

If you are producing your products in Pakistan, you cannot sell them to India or via versa.

As regard to company E's Manager,

It is impossible to separate the international business from political events between countries. Last ten years were very beneficial for Turkish companies, who wants to do business with gulf countries. However, last events between Turkey and gulf countries changed that. Know, we are facing with serious business barriers. For example, our franchisee located in Libya was not able send money to Turkey, or we were not able to send our products to our franchisee.

Historical events effect the political relations. In Korean War, Turkish army was sent to help South Korea. Today, if you want to do business with South Korea, you do not need to worry for serious problems.

Fluctuation in international political relations is determining the today business patterns.

As regards the information provided by sample companies (A, B, D, and E), it can be assumed that the political relationship between countries, political instability in host country, and public health and trade obligations very effective on international franchise network development. In case of unexpected events such as civil war, public revolts, and military coups, companies' financial risk immensely increases by the occurrence of the corruption, collapse of banking systems, international trade barriers, and limitation on money flow between countries. Fluctuations in political relations between the two countries increase the cost of the business in the host country by international trade barriers. Moreover, legal institutes play a crucial role in international franchise network development. In the case of public health, the cost of the business in a host country may increase by the product testing processes and required health certificates for products. Furthermore, obligations about the protection of local markets affect the company's decision-making processes about entry mode strategies.

4.4.3.4 Economical Context

As regard to transaction cost theory, transaction costs increase through the foreign country's economic instability caused by crises, political instability and adverse economic movements, such as inflation or higher interest rates (Sashi & Karuppur, 2002), which increases the economic uncertainty and high perceived risk for market entry for a risk-averse franchisor (Baena, 2015; Eroglu, 1992).

As regard to company B's Manager,

Country's political environment is important. For example, in Ivory Coast Republic is very risky for us. We do not trust banking systems, and customs. Therefore, we decided to work with franchisee there. If you are working in company with international branches, you have to expect a problem any time. Recently, we had to deal with devaluation in Kazakhstan. Currency lost is value by almost fifty percent. We had to prepare all financial plans from zero. We had to change all of the product prices. Our accountants were about to lose their minds.

As regard to company D's Manager,

Political events very effective on our business. For example, in Lebanon there is no president more than three years. There are too many public revolts. In country with political uncertainty, banking systems collapses in very short time. Foreign investors escape from the country with their many, which causes to decrease in purchasing power. We had to change a lot of investment plans because of political instability.

As regards the information provided by sample companies (B, and D), it can be assumed that political instability and economical fluctuations are directly proportional. An increase in political instability affects the banking systems and consumer purchasing power, which creates a high financial risk for international companies. Moreover, economic crises and unexpected devaluations decrease the value of host countries' currency, which creates high financial and business risks for the company's international operations.

4.4.3.5 Global Health Concern and Pandemic

As regards to the information provided by sample companies (A, B, and C), a new branch can be added transaction cost theory such as global health concern and pandemic. In 2020, the world is facing a global economic crisis caused by the Covid-19 virus. The virus affecting both human health and local or international business operations. As regards to prevention of the spread of the virus, governmental institutes closed down public places and implemented heavy trade barriers such as the prohibition of import, closure shopping malls, closure of services and entertainment industry, the prohibition of touristic activities, the prohibition of international flights, and more.

As regard to company A's Manager,

Each country has its own obligations for public health. For example, in Turkey we have to run 15 to 20 chemical tests before placing the products to our stores. However, in Europe or in another country, we may need to run more 20 different chemical test. If there is a missing test, we have to wait for the result, which may take more than a month, and we have to keep our products in the customs in that time period.

Right now, we are facing with Covid-19. We have prepared emergency scenarios for the virus. We called back our Turkish managers from the field, closed most of our stores, stopped our product's transport. Based on emergency scenarios, we are implementing new procedures to all of our stores both in Turkey and international markets.

As regard to company B's Manager,

Because of virus, we had to closed most of our stores in international markets. We are facing with serious financial crises now and losing serious amount of money. We were thinking that, if we face with some financial problem in a location, we can balance with money flow from another location. However, this virus created a global risk for all of our operations, and we do not know what to do.

As regard to company C's Manager,

We are not able to send our products to our franchisees, because of the corona virus. Customs do not accept products, and our trucks stacked in Habur customhouse. We are having with raw materials. We are buying some of our raw materials from China, and we cannot import them right now.

As regards to the information provided by companies, two of the sample companies did not mention about the Covid-19 virus. Part of the data collection process of research (from company D, And E) started before the Covid-19 pandemic. Therefore, there is no information provided by sample companies (D, and E) about the Covid-19 virus and its effects on international franchise operations.

As regards to the information provided by sample companies (A, B, and C), unexpected global diseases heavily affect the franchisor's global operations. It is important to understand that, estimated and tested emergency scenarios gain importance in case of unexpected global events, which an event can cause the collapse of financial systems, closure of global business operations, and block of international transportation systems. However, according to information provided by sample companies, Turkish franchisors have been caught unprepared for the global effects of the Covid-19. As a result, Turkish franchisors are threatened by serious financial crises and risks.

Moreover, companies' managers stated that companies with high financial strength can be negatively affected by the company's own business procedures in case of unexpected global events. As regard sample companies (A, B, and D), procedures of international operations base profitability, high control mechanism, and risk aversion, which increases by operating a high number of company-owned retail stores. It can be assumed that companies with a high number of company-owned retail stores threatened by serious financial risks than companies with a high number of franchised retail stores. Because, as regards the nature of the franchising, financial risk is carried by franchisees, which reduces the financial risk for the franchisor.

4.4.4 Discussion on the International Franchise Network Problems

Problems within the international franchise network have been argued by scholars under the different theoretical disciplines for many years. Scholars such as Oxenfeldt and Kelly (1969), Norton (1988), Carney and Gedajlovic (1991), Doherty and Alexander (2004), Doherty (2009), and Jell-Ojobor and Windsperger (2014) argued on the international franchising by using resource-based theory as primary theoretical discipline. They theorized that franchisor's or franchisee's resources are the main determinant of the international franchise relations if the relationship between the franchisor and the franchisee bases opportunistic propensity. They argued that opportunistic propensity may create serious problems that lead to the franchisor decision-making mechanisms to franchise contract termination.

Company's manager (C) stated that, opposite to literature, Turkish franchisors, who are adopting the opportunistic propensity in the beginning stage of the franchise network development, gain access to increased foreign markets easily, as well as an increase in the sales. However, sample company (C) stated that opportunistic propensity should be adopted, if the relation between franchisor and franchisee is based on a successful business relation from past and trust, which decrease the probability of opportunistic behaviors.

Jensen & Meckling (1976), Eisenhardt (1988), Burton and Cross (1995), Fladmoe-Lindquist and Jacque (1995), Doherty and Quinn (1999), Garg and Rasheed (2003), Grewal et al., (2011), Alon et al., (2012) argued on the international franchising by

using agency theory as a primary theoretical discipline. Scholar argued that franchising is a mutual relationship between the two distinct firms, in which a firm has its own goals. Therefore, if there is a conflict that occurs from divergent goals, the problem may lead the franchisor decision-making mechanisms to franchise contract termination. Garg and Rasheed (2003) stated that within a franchise network franchisor may face seven main problems such as, shirking, price-bonding, adverse selection, information flow, inefficient risk-bearing, free-riding, and quasi-rent appropriation, which are the problems mainly bases the opportunistic behaviors.

Companies' managers (A, B, and D) stated that companies with high financial strength do not deal with agency problems within the international franchise network. Because the companies with high financial strength have the power to force potential franchisees to sign a franchisor dominant franchise contract. Moreover, an increase in the number of stores owned by the company or franchised increases the franchisor's power during franchise contract negotiation processes. In the case of agency problems, sample companies strongly stated that, if the franchisees do not keep pace with the franchisor's franchise procedures, franchisors can terminate the international franchise contract.

However, in the case of the sample company (E), agency problems occur from the cultural distance. If the company has a unique or niche product line that may not be fitted with the host market's cultural background, moral hazard problems increase. Moreover, the sample company (E) dealt with shirking and free-riding problems. These two problems base franchisee's opportunistic behaviors. As regard to Table 3.1., case company (E), can be accepted as small size company, and therefore, sample companies' (A, B, and D) statement about a high volume of financial strength which decreases the agency problems can be accepted as true.

In terms of other agency problems, companies' managers stated that there are no supports for price-bonding, adverse selection, information flow, inefficient risk-bearing, and quasi-rent appropriation problems occurrence within the Turkish franchisors international franchise network.

Williamson (1985), Heide and John (1992), Burton et al., (2000b), Meyer (2001), Sashi and Prasad Karuppur (2002), Hoffman and Preble (2004), Meyer et al. (2009), Baena (2012), and Brookes and Altinay (2011) argued on the international franchising by using transaction cost theory as a primary theoretical discipline. Scholars argued that the success of the international franchise network is based on the successful transaction of franchisor tangible and intangible resources to a franchisee from the host country. However, the transaction processes can be affected by external influencers such as cultural and geographical distance between the home and the host country, host country's legal and political institutions, unpredicted economic movements within the host country, and as a new source of the transaction problem; global health concern and pandemic.

Information provided by the companies' managers (A, B, D, and E) reveal that Turkish franchisors deal with problems argued by transaction cost theory. Sample companies (A, B, and E) stated that cultural distance between the home and the host country affects the acceptance of the company's products by local consumers, the company's product design, expansion processes, and international franchise relations. Sample company (E) stated that, if the company has fragile products within the company's product line, geographical distance is an important factor which increases the company's cost of the product by quantity lost during the transportation processes. Sample companies (A, B, D, and E) stated that legal and political stability and institutions in the host country have a direct effect on the Turkish franchisors' international franchise operations and governance mode selection processes. Sample companies (B, and D) stated that political instability increases the probability of downward economic movements, and in case of unpredicted economic downturns, Turkish franchisors may deal with financial problems, which bases an increase in the transaction cost. Sample companies (A, B, and C) stated that a new source of transaction problem has been arisen by the emergence of the Covid-19 pandemic. Companies' managers stated that an unexpected global event such as Covid-19, companies may face serious financial crises. Because, governmental institutes closed down the public places and implemented heavy trade barriers such as the prohibition of import, closure shopping malls, closure of services and entertainment industry, the prohibition of touristic activities, the prohibition of international flights, and more to prevent from the spread of the virus.

As regard to the information provided by sample companies, Turkish franchisors mainly deal with agency and transaction cost problems in the international franchise operations. As regard to Figure 4.4.4., Turkish franchisors dealt with moral hazard, shirking, and free-riding problems, which are labeled under the agency theory-based problems, and transaction problems caused by host country’s economical, legal and political context, cultural and geographical distance between the home and the host country, and global health concern and Covid-19 pandemic, which labeled under the transaction cost theory-based problems.

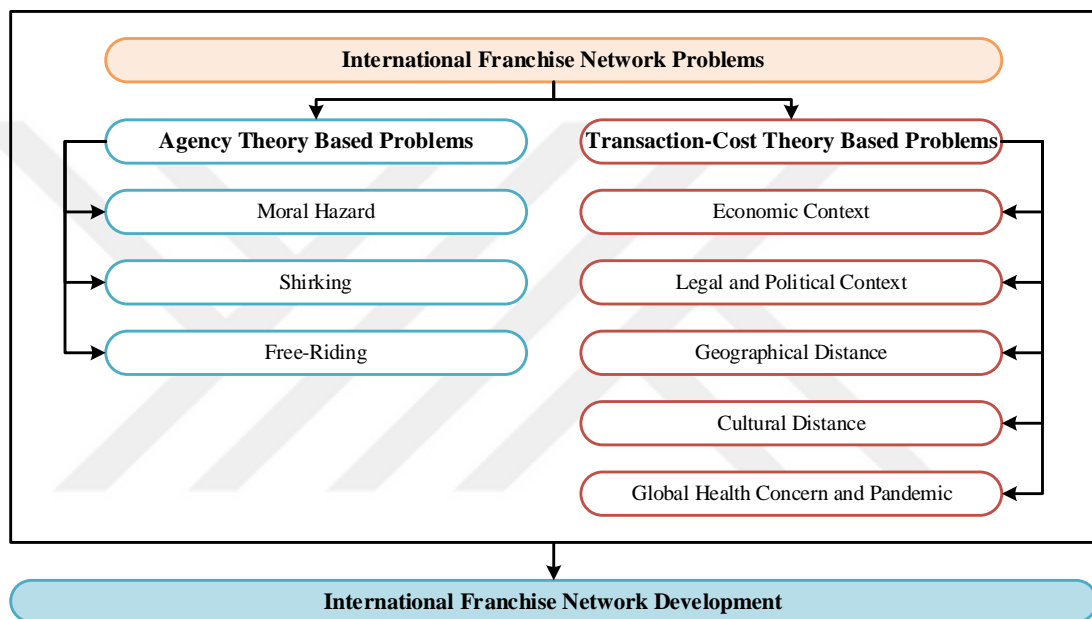


Figure 4.4. Turkish Franchisors’ International Franchise Network Problems

CHAPTER V

CONCLUSION

5.1 Discussion of Findings

In the present qualitative research, four main research questions have been examined by in-depth interviews with Turkish international franchisors. By the present research, collection of information about the Turkish franchisors' international franchise operation procedures has been the aim, and the research findings revealed details of the Turkish franchisors' decision-making mechanism on; governance mode selection for international operations, international target market ranking and listing procedures, international franchisee selection procedures, processes of the international franchise relationship management, and international franchise network problems.

The present research started with the question of "How Turkish franchisors select the governance modes for their international franchise operations?". As regards the information provided by the case companies, two mainstream of the international franchising are revealed; motifs behind the selection of franchising as international entry mode strategy, and types of governance modes selected by Turkish franchisors. Information provided by companies' managers revealed that, selection of franchising as an international entry mode strategy by Turkish companies is based on two main influencers; home country related factors and host country related factors.

As regards the home country related factors, selection of entry mode as franchising dependent on the company's financial strength, the company's size, and incentives provided to Turkish companies by the Turkish government. Information provided by companies' managers revealed that the use of governmental incentives in international franchise operations depended on the company's financial strength and the company's size. If the company's financial strength and the company's size is large enough to control its operations without the need for a foreign partner, companies tend to use governmental incentives in company-owned units. However, if the company's

financial strength and the company's size not large enough to control foreign operations without a foreign partner, they tend to use governmental incentives in their foreign franchise operations to attract and support new franchisees. Therefore, it can be concluded that the government incentives fill the gap of the company's financial strength needed to achieve successful international franchise network development. As regards the company's financial strength and the company's size, the volume of the company's financial strength and the company's size are two main determinants of risk management within the international business framework. Information provided by the companies' managers revealed that an increase in the financial strength and number of international units, allows companies to shift money flow from one location to another to support international business networks. It can be concluded that, in a stable business environment, if the volume of the company's financial strength and the company's size are large enough to support international operations, Turkish companies tend to select high control governance modes for international business operations. However, if the volume of the company's financial strength and the company's size are not large enough to support international operations, Turkish companies tend to select franchising to share financial risk and burden with a foreign partner (franchisee).

As regards the host country related factors, selection of entry mode as franchising dependent on the financial and business risks perceived by the Turkish companies, host country's market size and the number of potential store locations, and international trade barriers implemented by the host government for foreign investment. Information provided by companies' managers revealed that trade barriers and prohibitions implemented by the host country's legal institutions and obligations for the international trade, influence the Turkish companies' governance mode selection procedures. If the trade barriers and prohibitions create financial risk or forbid foreign direct investment, Turkish companies tend to select franchising as an entry mode strategy to eliminate trade barriers and prohibitions through a local partner (franchisee) and protect the company's reputation and business concept unity. As regard the information provided by sample companies, an increase in the host country's market size and the number of potential store locations positively influence the company's decision-making mechanism for foreign investment. However, an increase in the proportion of financial and business risks perceived by the company

negatively influence foreign investment decisions. It can be concluded that, if the proportion of financial and business risks perceived by the companies is high, Turkish companies tend to select franchising to reduce financial and business risks and benefit from market potential through a local partner (franchisee).

In terms of governance modes under the franchise concept, Turkish franchisors manage international franchise operations through direct franchising, master franchising, and area development franchising as the governance modes. Information provided by companies' managers revealed that selection of different types of franchise governance modes influenced by the governance mode-specific factors. As regard the information provided by sample companies, if the volume of the company's financial strength and the company's size are not enough to operate company-owned units in a host market, Turkish franchisors select the direct franchising as governance mode to increase company's sales. Moreover, if the Turkish companies (small size) export company's products to foreign markets, they tend to select direct franchising as governance mode to protect the company's product line unity, and reduce the competition over the manufacturing. However, in the case of large companies, Turkish companies use direct franchising only for market testing and information collection purposes in the secondary target markets.

As regard to host country's characteristics, if the Turkish franchisor label the host country's market as large size market, and consider the potential franchisee as low-skilled to manage diversified geographical areas at the same time, Turkish franchisors tend to select area development franchising as governance mode for international franchise operations. Moreover, Information provided by companies' managers revealed that the nature of the area development franchising provides the franchisor with control over the internationally franchised units. Because area development franchising allows the company's franchisee to open multiple stores in a given location but does not allow to sub-franchise franchisor's business rights. Therefore, it can be concluded that risk-averse Turkish companies select area development to increase control over internationally franchised units. On the other hand, if the Turkish franchisor labels the host country's market as a small size market, and consider the potential franchisee as high-skilled to manage a single block of undiversified geographical area, Turkish franchisors tend to select master franchising as governance

mode for international franchise operations. Moreover, companies' managers stated that if the volume of the company's financial strength and the company's size are not large enough to operate company-owned stores in the host country, Turkish franchisors select master franchising to increase protection of product line unity, and reduce the competition over the manufacturing cost through company's franchise concept.

In addition to the Turkish company's governance mode selection processes, the Information provided by companies' managers revealed an additional stream within the international franchise network procedures; target market listing and ranking processes. Information provided by companies' managers revealed that Turkish companies use two main practices to rank and list the target markets. Market research-based ranking and listing processes, and franchisee-based ranking and listing processes. As regard franchisee-based ranking and listing practice, Turkish franchisors dependent on current business partners to start franchise operations in the foreign markets, which allow the franchisor to start their franchise operation without extra cost for market and franchisee research. On the other hand, market research-based ranking and listing practice dependent on the franchisor's resources to collect information about the foreign markets, which increases the costs of host market research. However, as a benefit, market research-based ranking and listing processes provide the franchisor with more flexible and strategic decision-making procedures and a high rate of return on investment. Information provided by companies' managers revealed that Turkish franchisors mainly uses three categories to assign priorities (rank) to a host country's market; host country-specific factors, host market-specific factors, and consumer-specific factors. In terms of host-country-specific factors, Turkish franchisors investigate and analyze the host country's micro-economic records, gross domestic product level, availability of money transfer channels, geographical distance between the home and the host country, and host country's obligations on international trade to determine the investment priority of the host country. In terms of host-market-specific factors, Turkish franchisors investigate and analyze the host market saturation, competition over company's product line in the host market, host country's retail infrastructure, availability of potential store locations and qualified human resources, probability of business success, and potentiality of wholesale, retail, and e-commerce opportunities. In terms of consumer-specific factors, Turkish franchisors investigate and analyze the consumers' characteristic in the host market such as consumer trends,

consumer's cultural background, and cultural similarities between home and host country, age and gender distribution of consumers, consumer's purchasing power and money spent on company's product line.

As regards to the present research, sample companies have revealed their international franchisee selection and relationship management procedures as the answer for the second and third research questions of "What are the determinants of potential franchisee selection procedures for international franchise operations?", and "How Turkish franchisors manage and improve business relations with their international franchisee?".

As regard the information provided by case companies, Turkish franchisors use four main categories (financial-based factors, experience-based factors, operational and managerial factors, and relationship-based factors) to select potential franchisees for the company's international franchise operations. Case companies stated that selection of potential franchisee dependent to potential franchisee's characteristics such as franchisee's financial strength, franchisee's financial background, franchisee's financial turnover, franchisee's retail and business experience, franchisee's current team organization and current business life, chemistry and trust between potential franchisee and franchisor, franchisee's willingness to understand franchisor's brand's processes, franchisee's previous and current partners, and the relationship between these previous and current partners. Case companies' managers stated that management of franchisee relations bases six main categories; creation of sustainable/long-term relationship, continuous franchise network feedback, rate of franchisee's autonomy, transfer of franchisor's know-how, international franchisee's performance measurement, and creation of the trust. As regard to the information provided by sample companies, creation of sustainable/long-term relationship with franchisees provide franchisors with high franchise network performance and increased brand reputation and profitability in the long run. Moreover, the creation of the sustainable/long-term relationship with franchisees demands the continuous franchise network feedback, which can be achieved by franchisee contentment surveys. Because, the franchisee contentment survey provides the franchisor with the source of problems within the international franchise network, and it allows the franchisor to improve and adjust the company's franchise procedures.

Information provided by companies' managers revealed that there is a strong association between the transfer of franchisor's know-how procedures and the franchisee's performance measurement procedures. According to information provided by companies, the franchisor's know-how transfer has two phases. The first one is the initial training for franchise concept in which a franchisor provides their franchisees with the company's main franchise concept and procedures, and list of minimum qualifications for employees and managers. The second one is adjusted and improved know-how transfer based on new occasions in franchisee's operational processes and performance operational performance, which a franchisor inspects franchisors operations, measure their performance, adjust and improve franchise concept procedures, and support franchisees to execute these procedures. In terms of association, Turkish franchisors use similar information sources for the franchisee's performance measurement and adjustment of the franchisor's know-how transfer (in the second phase). As regard to information sources, Turkish franchisors use the franchisee's financial reports and store-based reports prepared by franchise team members, to measure franchisee's performance, and accordingly adjust and improve international franchise concept procedures.

Moreover, information provided by companies' managers revealed that there are two main supporters within the process of sustainable/long-term relation creation; creation of trust between franchise partners, and rate of franchisee's autonomy. As regard to the information provided by sample companies, there are two types of franchisee autonomy; full franchisee autonomy and controlled franchisee autonomy. Case companies' managers that controlled franchisee's autonomy provides new strategies for the company's international franchise operations, and helps companies to adjust their franchise procedures more quickly in case of unexpected events. On the other hand, the full franchisee's autonomy on the company's international franchise operations may create risk for brand name reputation, and franchise concept unity for large size companies. As regard to Turkish franchisors, large size sample companies allow their franchisees to have controlled autonomy on marketing activities, and full autonomy on human resource management. On the other hand, small size sample companies allow their franchisees to have full autonomy on marketing activities, product pricing, human resource management, and complementary product selection. As regards the creation of the trust, the case company's manager stated that trust

inversely proportional relationship with the company's size and financial strength. As regards large size companies, a high volume of financial strength provides franchisors with the power to force their potential franchisees to sign a franchisor dominant international franchise agreement to protect the company's franchise concept unity. On the other hand, size companies rely on trust in an international franchise relationship to increase sales and franchise network performance.

International franchise literature argued on the international franchise network problems through theoretical disciplines (mainly) such as resource-based theory, agency theory, and transaction-cost theory. Therefore, present research bases these three theoretical disciplines to highlight the Turkish franchisors' international franchise network problems. As regards the present research, sample companies shared the problems within the company's international franchise network as the answer to the fourth research question of "What are the main international franchise network problems that Turkish companies faced during the international operations?".

According to information provided by sample companies, Turkish franchisors do not deal with the problems argued by the resource-based theory. In terms of problems argued by the agency theory, only three of the agency problems (moral hazard, shirking, and free-riding) stated by the Turkish franchisors. In terms of problems argued by the transaction-cost theory, problems which influenced by the host country's economical, legal, and political context, problems caused by cultural and geographical distance, and problems based on global health concern and as an emergent issue pandemic, stated by the Turkish franchisors.

Information provided by companies' managers revealed that companies with a high volume of financial strength do not deal with agency problems within the international franchise network. Because the companies with high financial strength have the power to force potential franchisees to sign a franchisor dominant franchise contract. Moreover, if the franchisees do not keep pace with the franchisor's franchise concept procedures, Turkish franchisors terminate the international franchise contract. However, in the case of companies with a low volume of financial strength, Turkish companies dealt with agency problems. Information provided by companies' managers revealed that, if the company has a unique or niche product line that may not

be fitted with the host market's cultural background, the probability of the moral hazard, shirking, and free-riding problems increases.

Information provided by companies' managers revealed that cultural distance between home and host country influence the acceptance of company's products by local consumers, company's products design, expansion processes, and international franchise relations, and geographical distance between home and host country may increase the company's cost of the product by quantity lost during the transportation processes. As regards to host country's economical, legal, and political context, legal and political stability and institutions in the host country have a direct effect on the Turkish franchisors' international franchise operations, and governance mode selection processes. Political and legal instability increases the probability of downward economic movements, and in case of unpredicted economic downwards, Turkish franchisors may deal with financial problems, which bases an increase of the transaction cost. As an emergent issue, case companies' managers stated that a new source of transaction problem has been arisen by the emergence of the Covid-19 pandemic. Companies' managers stated that an unexpected global event such as the Covid-19, companies may face serious financial crises. Because, governmental institutes closed down the public places and implemented heavy trade barriers such as the prohibition of import, closure shopping malls, closure of services and entertainment industry, the prohibition of touristic activities, the prohibition of international flights, and more to prevent from the spread of the virus.

5.2 Limitations of the Study and Future Research

Although franchising started in Turkey with the opening of McDonald's in 1986, there are a limited number of articles and theses in Turkish databases on the local and international operations of Turkish franchisors. Therefore, the gap in the literature offers an opportunity to conduct a research on the operational procedures of Turkish franchisors within the international franchise network. Hence, the gap provides us with the opportunity, the present research aimed to be an initial attempt that explores the procedures of Turkish franchisors' international franchise operations by adopting case study approach. As regards the case study approach, Yin (1994) suggested that the

case study approach provides researchers with insights for the areas in which the existing data is limited or does not exist.

As regards the limitations of the study, the retail sector in which the case study data was collected can be accepted as the first limitation of the study. The present research conducted case study on five Turkish franchise companies. Although the present research provides insight into the Turkish franchisors' (in the retail sector) operational procedures for international franchise operation, there are multiple sectors that are remaining to be explored. Therefore, the first limitation of the present research can be accepted as a reminder of an opportunity for the future researches that covers the other sectors.

The present research collected the case study data through in-depth interviews from the Turkish franchise companies' managers, and the data collection approach allowed us to classify and separate major topics highlighted by the companies' managers. Although the present research provides us an initial insight into the highlighted major topics, the additional gaps within the franchise literature that can be filled by the quantitative research methodology still remain.

As regards the present research, the scope of the case study data focused on the selected six major topics that are argued by the scholar in the international franchise literature such as, motifs behind the selection of franchising as an international entry mode strategy, classification of the types of franchise governance modes, the target market selection procedures of the franchisors for international franchise operations, the international franchisee selection procedures, international franchise network problems, and international franchise relationship management procedures. However, there are some additional major and sub-topics related to Turkish franchise networka that are remaining to be explored or improve. Therefore, we are suggesting for the future research to focus on the topics such as provisions of the international franchise contract, effects of the Covid-19 in international franchise operations, improvement of franchisee contentment surveys, and why the companies franchise their competitive advantage under a franchise concept in return of the monetary value.

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APPENDIX A

Questions related to propensity to international franchise, and governance mode selection

Purpose of the section

The aim of this category is to identify, why Turkish companies decided to expand international markets via franchise as an entry mode, and why and by who this decision have taken by the company.

1- Why the chosen governance mode was chosen by the firm at the stage of expanding to international markets and what are the advantages of this governance mode has for the company.

Additional Notes, and Key Points:

2- Whether the different expansion methods have been tried for international market entry before becoming an international franchise company, and what experiences that these initiatives bring to the business.

Additional Notes, and Key Points:

3- Within the framework of international expansion, who were decided to give franchise agreements to international markets, and what kinds of opportunities or company goals caused these decisions to be taken.

Additional Notes, and Key Points:

4- If the idea of franchise expansion has been brought up primarily by someone in international markets, what kinds of resources that potential franchisee offer to the firm, how these resources are perceived by the company managers and how these resources are affected the company managers' decisions.

Additional Notes, and Key Points:

5- In case of being an international franchisor, whether any incentives provided to the company by any organization that located in the borders of the Republic of Turkey, and if any incentives provided which incentives have been used.

Additional Notes, and Key Points:

6- If the franchisor has franchise experiences before international expansion, how these experiences have affected the international expansion process and what are the differences between the domestic franchise experiences and the experiences obtained from international operations.

Additional Notes, and Key Points:

Questions related to propensity to international franchise partnership relations and partner selection procedures

Purpose of the section

The aim of this category is to identify, how Turkish companies select its franchisees and targeted markets, and how the company manage its franchise relations with its franchisees.

1- Whether an official schedule applied when determining the target market to be given to the franchise in the international markets is followed,

If there is, what are these steps,

If not, what kinds of purposes have been followed to select targeted markets.

Additional Notes, and Key Points:

2- Whether an official schedule applied when determining the potential franchisees to be given to the franchise in the international markets is followed,

If there is, what are these steps,

If not, what kinds of purposes have been followed to select potential franchisees.

Additional Notes, and Key Points:

3- How and how often continuous communication with international franchisees is provided, how the intangible resources (know-how) of the franchisor are transferred, and whether special trainings are provided to franchisees for intangible resource transfer.

Additional Notes, and Key Points:

4- In the strategies developed against the competition from other companies in the international markets, what is the role and importance of the franchisee in franchise network, and how these strategies obtained from franchisees affects the business policies in franchise network.

Additional Notes, and Key Points:

5- In the steps taken for the international franchise network development, what is the role and importance of the franchisee in these processes, what kinds of development policies are followed, and whether a specific expansion policies are followed.

Additional Notes, and Key Points:

6- Whether there are new strategies that the franchisee added to the firm's international franchise network while developing the strategic decisions, and how these strategic decisions effects firm's international franchise network.

Additional Notes, and Key Points:

7- Within the framework of the international franchise agreement, in which field (marketing, advertising and promotion management, human resource management and procedures) autonomies are granted to the franchisee and what are the advantages and disadvantages of these autonomies for the franchise network

Additional Notes, and Key Points:

Questions related to international franchise network problems

Purpose of the section

The aim of this category is to identify the problems that arise from either franchisees or host governmental organizations, and how Turkish franchise companies deal with these problems before expansion, during expansion processes, and after expansion into international markets.

1- Whether foreign country-based problems arise for franchise operations after granting franchise rights to the franchisee such as, economical, legal, political, or other kinds of problems.

Additional Notes, and Key Points:

2- Whether franchisee-based problems arise in franchise network after granting franchise rights to the franchisee.

Additional Notes, and Key Points:

3- What kinds of decisions or sanctions have been applied in terms of resolving the problems that arise in the franchise network.

Additional Notes, and Key Points:

4- If emergency situations (war, economic crises, etc.) occur in the foreign market, what kinds of precautions will be taken by firm against these situations

Additional Notes, and Key Points:

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