The Choice of Governance Modes of International Franchise Firms

*Development of an Integrative Model*

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**Abstract.** This paper examines the evolution of the international franchise research with special focus on the governance modes of the international franchise firm and develops a new model for the franchisor’s choice of the international governance modes. International governance modes in franchising refer to wholly-owned subsidiaries, joint venture franchising, area development franchising and master franchising. Although many studies on the governance modes of the international franchise firm have been published in the last two decades, no prior study develops an integrative framework that investigates the determinants of the international governance modes by combining organizational economics and strategic management perspectives. Specifically, this study explains the governance modes of the international franchise firm by applying transaction cost theory, agency theory, resource-based and organizational capabilities theory and property rights theory.

**Keywords.** International franchising, governance modes, integrative model, literature review
1 Introduction

In the past two decades, researchers have tried to explain international franchising from different theoretical angles. International franchise studies can be classified into five research streams: Studies that focus on franchise internationalization compared to domestic operations (e.g. Huszagh et al., 1992; Eroglu, 1992; Kedia et al., 1994; Julian and Castrogiovanni, 1995; Shane, 1996b; Fladmoe-Lindquist, 1996; Quinn and Alexander, 2002; Elango, 2007; Mariz-Pérez and García-Álvarez, 2009; Alon et al., 2012), the host country conditions and their impact of international franchising (e.g. Preble, 1995; Sanghavi, 1998; Alon and McKee, 1999a; Alon and Banai, 2000; Castrogiovanni and Vozikis, 2000; Hoffman and Preble, 2001, 2004; Welsh et al., 2006; Alon, 2006a; Grünhagen et al., 2010; Aliouche and Schlentrich, 2011; Baena, 2012), the propensity to franchise internationally (e.g. Fladmoe-Lindquist and Jacque, 1995; Contractor and Kundu, 1998a, 1998b; Petersen and Welch, 2000; Sashi and Karuppur, 2002; Erramilli et al., 2002; Pak, 2002; Castrogiovanni et al., 2006; Dunning et al., 2007; Doherty, 2007; Picot-Coupey, 2006, 2009), the cross-border franchisor-franchisee relationship (e.g. Dant and Nasr, 1998; Quinn, 1999; Quinn and Doherty, 2000; Pizanti and Lerner, 2003; Doherty and Alexander, 2004; Lafontaine and Oxley, 2004; Choo, 2005; Kalnins, 2005; Altinay and Miles, 2006; Paik and Choi, 2007; Szulanski and Jensen, 2006, 2008; Doherty, 2009; Grewal et al., 2011), and the choice of international franchise governance modes (e.g. Walker and Etzel, 1973; Hackett, 1976; Chan and Justis, 1990, 1992; Konigsberg, 1991; Zietlow, 1995; Ryans et al., 1999; Burton et al., 2000; Preble et al., 2000; Jones, 2003; Frazer, 2003; Hoffman and Preble, 2003; Garg and Rasheed, 2006; Alon, 2006b; Preble and Hoffman, 2006; Choo et al., 2007; Chen, 2010; Brookes and Roper, 2011).

The aim of this study is to review the international franchise literature and develop an integrative model to explain the franchisor’s choice of international governance mode. According to Konigsberg (2008), the most important governance modes of international franchise firms are wholly-owned subsidiary, joint venture franchising, area development franchising and master franchising. The research deficit in the franchise and market entry literature relates to the scarcity of theoretical explanations of the governance modes of the international franchise firm, as most studies are exploratory or descriptive. Only few studies apply different theoretical perspectives to explain the governance modes of the international franchise firm (e.g. Fladmoe-Lindquist and Jacque, 1995; Fladmoe-Lindquist, 1996; Contractor and Kundu, 1998a, 1998b; Burton et al. 2000; Quinn and Doherty, 2000; Sashi and Karuppur, 2002; Pizanti and Lerner, 2003; Paik and Choi, 2007; Castrogiovanni et al.,
Our study attempts to fill this gap by developing an integrative model to explain the governance modes of the international franchise firm using transaction cost theory, agency theory, resource-based theory, organizational capabilities theory and property rights theory. Specifically, this model defines the major generic governance modes of the international franchise firms, such as wholly-owned subsidiary, joint venture franchising, area development franchising and master franchising, and explains their determinants by deriving hypotheses from organizational economics and strategic management perspectives.

How do these modes differ from the governance modes of international firms in general and the franchise governance modes in domestic settings? Compared to the governance modes of international firms in general (e.g. Gatignon and Anderson, 1988; Hill et al., 1990; Malhotra et al., 2003), these modes are unique to international franchise firms. Although some of the modes, such as joint ventures and wholly-owned subsidiaries, are used by other international firms in the manufacturing and service sector, the specific control structures, ranging from master franchising, area development franchising, joint venture franchising to wholly-owned subsidiaries, distinguish international franchise firms from other international firms (Zietlow and Hennart, 1997; Contractor and Kundu, 1998b; Konigsberg and Rosenstein, 1991; Konigsberg 2008). Under the dominant control mode classification in the international market entry literature (e.g. Andersen and Gatignon, 1986; Welch et al., 2007; Hashai et al., 2010) franchising belongs to the medium-control modes. This research stream however does not differentiate between the various governance structures within the franchise mode. Furthermore, the governance modes of the international franchise firms are different from the modes of the domestic franchise firms, although area development franchising (as multi-unit franchising) and master franchising are applied in domestic settings as well. However, contrary to multi-unit agreements in domestic franchising, area development agreements in international franchising typically involve the grant of exclusive rights “to develop franchise outlets within a specified territory” (Konigsberg, 2008: 142, 147). Consequently, the governance modes of international franchise firms have specific characteristics that deviate from the modes in domestic settings and of international firms in general.

What is the contribution of this study? This study provides a theoretical contribution to both the franchise and the market entry literature as it develops a new model of the franchisor’s choice of the governance modes of the international franchise firm by integrating strategic management and organizational economics perspectives. The strategic management
perspective (in particular the resource-based and organizational capability view) focuses on the choice of governance modes to gain competitive advantage by exploring firm-specific resources and organisational capabilities, and the organisational economic theories (transaction cost, agency and property rights theory) focus on the choice of governance modes to reduce transaction and agency costs or increase residual income, due to uncertainty/information asymmetry or non-contractibility of assets. Accordingly, governance modes are not only cost-minimizing mechanisms as argued in transaction cost and agency theory but simultaneously knowledge-creating mechanisms in order to gain competitive advantage as argued in resource-based and organizational capabilities theory (e.g. Madhok, 1997; Pitelis and Teece, 2009). Therefore, this study provides new theoretical insights by demonstrating how the combination of organizational economics and strategic management perspectives extends our understanding of the determinants of governance modes of the international franchise firms (Whetten, 1989; Corely and Gioa, 2011).

Overall, this study contributes to the recent call in organizational economics, strategic management and marketing for the integration of different theoretical perspectives to explain the governance structure of the franchise firm (e.g. Combs et al., 2004, 2011; Dant, 2008; Dunning et al., 2007; Welsh et al., 2006; Hussain and Windsperger, 2010; Rindfleisch et al., 2010; Windsperger, 2013). Similarly, Brouthers and Hennart (2007), Canabal and White (2008) and Morschett et al. (2010) argue that entry mode research benefits from the application of integrative frameworks to explain the different market entry modes. Furthermore, Cheng et al. (2011) argue that developing new international business theory in general requires an interdisciplinary-based approach.

The paper is organized as follows: Section 2 provides an overview of the relevant international franchise literature. Section 3 discusses the different governance modes of the international franchise firm and introduces the concept of control. Section 4 develops the integrative model of governance modes of the international franchise firm based on transaction cost theory, agency theory, resource-based theory, organizational capabilities theory and property rights theory. Section 5 discusses the results and derives conclusions.
2 International Franchise Literature

The studies in international franchising can be classified into five major research streams. These are summarized in Table 1 and in the Appendix.

Insert Table 1

2.1 Domestic versus International Franchising

One research stream investigates the factors that influence the tendency toward internationalization of the franchise firm, which mainly belong to the firm-internal environment. Huszagh et al. (1992) and others (e.g. Eroglu, 1992; Kedia et al., 1994; Julian and Castrogiovanni, 1995; Shane, 1996a; Fladmoe-Lindquist, 1996; Alon et al., 2012) refer to firm characteristics, such as the age and size of the franchise firm, as well as tangible and intangible resources and capabilities (e.g. Julian and Castrogiovanni, 1995; Mariz-Pérez and Garcia-Álvarez, 2009) of international franchisors, which support them in successfully expanding business operations. Studies find that international franchisors, compared to domestic ones, possess large financial capital to absorb possible failure (Eroglu, 1992), increased reputation and brand awareness, superior experience (e.g. site selection, store layout, procurement, local adaptation of operational procedures), and economies of scale in monitoring and advertising to manage the physically and culturally distant franchise networks (e.g. Fladmoe-Lindquist, 1996; Alon et al., 2012). Furthermore, the top management’s attitudes, such as the international orientation towards expansion, profitability and risk, are important determinants distinguishing domestic from international franchisors (e.g. Eroglu, 1992; Kedia et al., 1994).

2.2 Host Country Conditions and Impact of International Franchising

A second literature stream shows that aside firm-internal and strategic variables, which mainly focus on the franchisor’s control or monitoring capabilities (Hoffman and Preble, 2001), macro-environmental factors are important for explaining international franchising (Alon and McKee, 1999: p.77). Analysing different countries and regions, e.g. developed, emerging and developing countries (Preble, 1995; Alon and Banai, 2000; Hoffman and Preble, 2004; Welsh et al., 2006; Grünhagen et al., 2010; Aliouche and Schlentrich, 2011; Baena, 2012), these studies show that host country conditions, such as economic (e.g.
disposable income level, economic growth rate, level of urbanization, development of infrastructure, financial (e.g. development of banking sector, monetary stability, level of interest and inflation), demographic (e.g. size of middle income class, population growth rate, female labour participation), political differences (e.g. governmental regulations, political stability, ownership restrictions, exchange rate controls, royalty repatriation, import restrictions), and cultural distance (e.g. Hofstede, 1991), strongly affect international franchising. Furthermore, this literature stream also analyses the “social, economic, cultural, political and marketplace” (Grünhagen et al., 2010: p. 1) impact of international franchising for stakeholders, e.g. local franchisees or consumers (Welsh et al., 2006; Grünhagen et al., 2010).

2.3 Propensity to Franchise Internationally

A third literature stream investigates the firm’s propensity to franchise internationally compared to expand with company-owned operations. Based on the transaction cost theory and/or agency theory, these studies show that the franchisors have a higher propensity to franchise internationally when environmental uncertainty in the host country is high (i.e. under high political, economic and currency instability and cultural distance), in order to maintain flexibility, minimize investment risks and transaction costs, such as monitoring costs, adaptation costs and switching costs (Fladmoe-Lindquist and Jacque, 1995; Contractor and Kundu, 1998a, 1998b, Castrogiovanni et al., 2006). In addition, based on the transaction cost theory, the impact of transaction-specific investments on the franchisor’s level of control is analysed (Fladmoe-Lindquist and Jacque, 1995; Contractor and Kundu, 1998a, 1998b).

Likewise Erramilli et al. (2002) analyse the different international market entry modes in the hotel industry, but exclusively from a resource-based and organizational capabilities perspective. They show that if tacit, imperfectly imitable knowledge, resources and capabilities are the main drivers of the international franchisor’s competitive advantage in the host country, higher control modes are preferred. In line with this view, international franchisors have a dual strategic motivation of exploring new knowledge as well as exploiting host market opportunities (Pak, 2002; Dunning et al., 2007), resulting in different international governance modes. Finally, the research results indicate that the franchisor’s strategic orientation of fast market entry through franchising, compared to company-owned units, finds no empirical support (Contractor and Kundu, 1998a; Pak, 2002; Dunning et al., 2007).
2.4 International Franchisor-Franchisee Relationship

Deepening the agency-theoretical considerations, a fourth literature stream applies case study analysis to investigate the franchise contract terms used in international franchisor-franchisee relationships, such as pricing structure, restrictive performance schedules and unilateral cancellation clauses (e.g. Quinn, 1999; Quinn and Doherty, 2000; Pizanti and Lerner, 2003; Doherty and Alexander, 2004; Choo, 2005; Altinay and Miles, 2006; Szulanski and Jensen, 2006; Paik and Choi, 2007; Doherty, 2009). In addition, some quantitative work investigates the international franchisor-franchisee relationship (Dant and Nasr, 1998; Lafontaine and Oxley, 2004; Kalnins, 2005; Szulanski and Jensen, 2008). The findings show that exclusive reliance on formal control to monitor the international franchise networks is inadequate (Choo, 2005; Dant and Nasr, 1998). Therefore, alternative theoretical approaches, based on stakeholder theory, exchange theory and resource dependency theory are important (e.g. Quinn and Doherty, 2000; Pizanti and Lerner, 2003; Doherty and Alexander, 2004; Altinay and Miles, 2006; Paik and Choi, 2007), to explain informal, commitment-based behaviour (Doherty and Alexander, 2004; Doherty, 2009; Grewal et al., 2011).

2.5 International Franchise Governance Modes

Finally, the last literature stream highlights the choice of different governance modes by international franchisors, such as wholly-owned subsidiary and company-owned outlets, direct franchising, area development franchising, master franchising and joint venture franchising. As one of the earliest works on international franchising, Walker and Etzel (1973) and Hackett (1976) summarize the different cross-border entry strategies, such as company-owned operations, direct franchising, area development franchising, master franchising and joint venture franchising, and illustrate the most significant problems and motivational factors perceived by U.S. franchisors with international franchising. Similarly, Zietlow (1995) investigates the different franchise entry modes used by international U.S. franchisors to expand into foreign markets. Konigsberg and Rosenstein (1991) develop a conceptual framework on the different international franchise modes and outline the influences of firm-internal factors and environmental conditions on the choice of direct franchising, such as single-unit franchising, area development franchising and franchising through the establishment of a wholly-owned subsidiary, indirect franchising such as master franchising, and joint venture franchising in an international setting.

Ryans et al. (1999) investigate the use of international master franchising by surveying
its advantages and disadvantages from the perspective of U.S. international franchisors. In addition, Alon (2006b) provides a conceptual approach to analyse international expansion strategies with master franchising, by deriving hypotheses on the impact of economic (i.e. market size, intensity of competition, and demand variability), social (i.e. franchising acceptance/knowledge, entrepreneurial culture, and geographical and cultural distance) and political/legal (i.e. country risk, corruption, and legal framework) factors on the franchisor’s choice of international governance mode.

Burton et al. (2000) analyse the choice of U.K. franchisors between direct international franchising and international franchising via intermediaries, i.e. master franchisors or area developers. They apply transaction cost theory, arguing that especially with the establishment of larger franchise systems in the host country, international franchising with an intermediary reduces some of the transaction costs inherent to direct international franchising. However, additional intermediary-related costs may arise under indirect franchising, for instance due to disagreements on turnover targets, corporate image, fee structures and profit redistribution.

Hoffman and Preble (2003) examine the conditions under which conversion franchising is more efficient than recruiting new franchisees. They argue that international franchisors more likely choose conversion franchising under economic (tight credit policies), market (restricted real estate market), competitive (saturated markets) and technological changes in the foreign markets. Confirming resource-based and organizational capabilities arguments, converting experienced franchisees provides the franchisors access to partners with high managerial capabilities, access to strategic locations, existing customer base and local market knowledge, such as consumer preferences, cultural values and location-specific marketing methods. Preble and Hoffman (2006) combine the three generic franchise modes (i.e. direct franchising, area development franchising and master franchising) with strategic approaches (i.e. first-mover, platform and conversion strategies) to develop a strategic choice framework. Based on the franchisors’ experience and capabilities and various market conditions, the authors offer a contingency model on strategy formulation and implementation to franchisors.

Growing contribution on cross-border franchising with different franchise governance modes is provided by qualitative research, such as single and multiple case studies (e.g. Preble et al., 2000; Jones, 2003; Frazer, 2003; Choo et al., 2007; Chen, 2010; Brookes and Roper, 2011). Chan and Justis (1990, 1992) examine the challenges faced by U.S. franchisors, such as McDonald’s, Kentucky Fried Chicken, Hilton Hotel system and Coca Cola, when entering the markets of East Asia and the European Community. Preble et al. (2000) describe
the advantages of the different modes of franchising, in particular in hospitality and fast-food industries in Israel. Examples include Days Inns, Meridian Hotels, Domino’s Pizza and McDonald’s, which used conversion franchising, master franchising and direct franchising as successful entry modes into the Israeli market. Jones (2003) analyses the legal restrictions on foreign direct investments (FDIs) in the Middle East countries by conducting a single case study on the U.K. department store Debenhams, which established a franchise agreement with the partner M&H Alshaya to successfully enter the Middle East market.

Frazer (2003), Choo et al. (2007) and Chen (2010) focus on the Asian region and analyse the governance mode choice of U.S. or Australian fast-food franchisors, such as company ownership, area development franchising, master franchising and joint venture franchising. Frazer shows that Australian franchisors adapt their products to Chinese consumer preferences, but are reluctant to codify their systems and marketing-mix of their products. Overall, the results indicate that expansion into China is involved with franchisors’ difficulties in finding reliable partners and monitoring geographically and culturally distant franchisees. Consistent with resource scarcity theory, Choo et al. (2007) find that U.S. franchisors, when entering the Singaporean market, were highly dependent on their Singaporean franchisees' resources to establish the brand, such as financial capital, access to prime retail sites, human capital and market knowledge. Moreover, Chen (2010) explains the advantages of multi-unit area development franchising when compared to single-unit and sequential multi-unit franchising in Taiwan. Chen shows that U.S. franchisors benefit from the local area developer’s financial resources, managerial and country-specific experience and good relationships with local governments. High investments of the Taiwanese area developers in the local multi-unit chain reduce agency problems and the franchisor’s exposure to cultural and legislative hazards, such as brand hijacking.

Finally, Brookes and Roper (2011) examine the inter-organizational processes used to control international master franchise agreements from operational, relational and evolutionary perspectives. This case study is conducted in the international hotel industry investigating an international master franchise agreement between a US-based hotel franchisor and its European master franchisees. It identifies the specific interorganizational processes for quality and financial control, decision-making, co-ordination, and communication and how these change over time in master franchise relationships. It highlights that these processes are decentralized in the formation stage, centralized in the development stage and decentralized in the maturity stage. In addition, it provides empirical evidence that relational control acts as complement to formal control in master franchise
agreements.

Overall we can conclude that only few studies apply and combine different theoretical approaches to explain the franchisor’s choice of international governance. These are listed in Table 2.

Insert Table 2

The application of different theoretical approaches and the empirical results from quantitative and qualitative studies lead to the conclusion that more than one theoretical perspective must be applied in explaining the different governance modes of international franchise firms (Eisenhardt, 1988, 1989; Combs et al. 2004). In order to tackle the complexity of understanding the franchisor’s choice of international governance mode, a multi-theoretical framework needs to be developed. Therefore, the aim of this study is to develop an integrative model of the governance mode choice of the international franchise firm by deriving hypotheses from transaction cost theory, agency theory, resource-based and organizational capabilities theory and property rights theory.

3 Control and Governance Modes in International Franchising

In this study, we apply the concept of control developed in the property rights theory (e.g. Grossman and Hart, 1986; Baker et al., 2008; Windsperger et al., 2009/10) to differentiate the various governance modes of the international franchise firm. Scholars in international business research have been studying control in international ventures for decades (e.g. Geringer and Hebert, 1989; Hennart, 1991; Glaister, 1995; Mjoen and Tallmann, 1997; Groot and Merchant, 2000; Chalos and O’Connor, 2004; Jaussaud and Schaaper, 2006; Choi and Beamish, 2004; Karhunen et al., 2008; Liu et al. 2013). However, in this research, control is a very heterogeneous concept, which does not provide precise criteria to define the various governance modes. According to the property rights theory, the governance structure of a firm refers to the structure of control rights consisting of two interrelated parts: ownership and decision rights (Hansmann, 1996; Windsperger and Yurdakul, 2007; Baker et al., 2008). Applied to franchising, the governance structure of the international franchise firm refers to the structure of control rights (ownership and decision rights) allocated to the franchisor and the local partners in the foreign countries. Therefore, in our integrative framework, the various governance modes of the international franchise firm are differentiated according to the degree of control which is operationalized by the
distribution of ownership and decision rights between the franchisor and her/his partners (i.e. joint venture partners, area developers, master franchisors including sub-franchisees) at the foreign markets (Konigsberg, 2008). This distinction between different international governance modes, based on ownership and decision rights, is compatible with the approach of Brown et al. (2003), who distinguish market entry modes by separating ownership and control. When the franchisor expects a high market potential and growth in the foreign market, the establishment of a wholly-owned subsidiary (WOS), located in the host country, may be an efficient governance form (Konigsberg, 2008: p.91ff). Under WOS, the franchisor will be able to exercise full control over the system know how, as well as how the trademarks, products and services are being used by franchisees in the foreign market. Area development franchising (ADF) - or multi-unit franchising\(^1\) in domestic settings - is a direct franchise partnership, which compared to WOS provides considerable financial and managerial relief to the franchisor (Konigsberg, 2008: p.95ff). The franchisor (or foreign subsidiary) is granting the developer the right to own and operate franchise outlets within an exclusive territory (Konigsberg, 2008: p.127ff), in compensation for a substantial development (territory) fee, initial fees and ongoing royalty payments. Development agreements may either be granted to foreign developers directly from the franchisor’s home country or from the foreign subsidiary (Konigsberg, 2008: p.94). The choice depends on the number of development agreements a franchisor intends to establish in a particular host country. The greater the developer’s exclusive territory is, the more financial and human resources s/he must commit to the local franchise network expansion and the more control rights must be granted to her/him.

As an alternative to the establishment of a direct relationship with franchise partners in the host country, the franchisor can grant a third party the right to establish and operate the franchise system in the foreign country. Under a master franchise agreement, the franchisor assigns an exclusive right to the sub-franchisor (master franchisor). The master franchisor has the right and duty to establish the franchise system in the foreign country by opening company-owned outlets as well as granting franchises to foreign sub-franchisees. Under a master franchise agreement, the relationship between franchisor and foreign sub-franchisees is indirect. It is the foreign master franchisor who enters into a relationship with the foreign sub-franchisees by granting unit franchise agreements for each franchise outlet to be established in the foreign country. Since the master franchisor is exclusively responsible for the successful

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development, operation and marketing of the franchise network in the entire host country, s/he must be granted more residual decision rights.

Between high control modes with the establishment of WOS and lower control modes with ADF and MF lies joint venture franchising (JVF), where the franchisor enters into an equity relationship with a partner from the foreign country to set up a joint venture company in the host market. In order to expand the franchise system to the host market, the franchisor enters into either a development agreement or, more typically, a master franchise agreement with the joint venture company, which will be granted the exclusive right to develop the franchise system in the foreign country. Therefore, it is the joint venture company who enters into a relationship with the foreign sub-franchisees. The franchisor can exercise residual control rights over the foreign sub-franchisees through her/his equity participation and voting rights in the joint venture company. However, s/he has to share these rights with her/his foreign venture partner (Konigsberg, 2008: p.235ff). Compared to ADF and MF, JVF provides the franchisor with more residual control rights (Anderson and Gatignon, 1986; Erramilli and Rao, 1990; Contractor and Kundu, 1998b), while at the same time sharing costs and benefits with the local joint venture partner.

To summarize, we can conclude that the degree of control increases from MF, ADF, JVF to WOS because more ownership and decision rights are allocated to the franchisor. Compared to WOS, JVF and ADF, MF agreements do not allocate ownership rights but only decision and residual income rights between the franchisor and the master franchisor.

4 Integrative Model of Governance Mode Choice of the International Franchise Firm

4.1 Overview of the Model

As explained in the previous section, the different governance modes of the international franchise firm are related to the franchisor’s level of control, which is operationalized by the proportion of ownership and decision rights, which increases from MF, ADF, JVF to the establishment of WOS. Figure 1 gives an overview of the research model based on transaction cost theory (TCT), agency theory (AT), resource-based theory (RBT), organisational capabilities theory (OCT) and property rights theory (PRT).
In our integrative model, the following variables influence the franchisor’s choice of the international governance mode: Environmental uncertainty, behavioural uncertainty, transaction-specific investments (based on TCT and AT), and the system-specific assets, local market assets and financial assets (based on RBT and OCT) and intangibility of assets (based on the PRT). In addition, environmental uncertainty moderates the impact of behavioural uncertainty, transaction-specific investments, local market assets and financial assets on the level of control. Furthermore, the intangibility of assets moderates the effects of system-specific assets, local market assets and financial assets on the franchisor’s level of control. In the following, first we will explain the main hypotheses, and second the moderator effects of environmental uncertainty and intangibility of assets.

4.2 Transaction Cost Theory and Agency Theory


Environmental Uncertainty Hypothesis

Environmental uncertainty in the foreign markets increases the firm ex ante and ex post transaction costs, especially search, information processing and adaptation costs (e.g. Williamson, 1991). Environmental uncertainty can be distinguished according to three dimensions, i.e. institutional uncertainty (e.g. Williamson, 1991; Alon, 2006c), economic uncertainty (e.g. Sanchez-Peinado and Pla-Barber, 2006; Alon, 2006c; Kor et al., 2008) and cultural uncertainty (e.g. Kedia et al., 1994; Julian and Castrogiovanni, 1995; Fladmoe-Lindquist and Jacque, 1995; Contractor and Kundu, 1998a, 1998b; Quinn, 1999; Sashi and Karuppur, 2002; Erramilli et al., 2002; Alon, 2006c). Institutional uncertainty refers to changes in political, regulatory and judicial rules and policies. Economic uncertainty refers to the unpredictability of the demand and competition in the host country, and cultural uncertainty results from the lack of knowledge of the foreign culture (Miller, 1992, 1993), such as language, business practices, gender role, ideology, religion and work ethic (Hennart
Environmental uncertainty requires local responsiveness and adaptation of the standardised franchise business format to the specifics of the foreign market environment. Based on the information processing view of organization (Simon, 1947; Williamson, 1975) higher environmental uncertainty, due to the franchisor’s lack of information to evaluate the sociocultural, economic and institutional peculiarities of host countries, requires more local information processing capacity by delegating coordination tasks to local partners. Hence franchisors can effectively reduce the challenges of environmental uncertainty in host countries by transferring residual control rights to the local partner. Consequently, franchisors will choose a lower control mode, such as ADF or MF, due to the partners’ higher local information processing capacity of dealing with human capital, suppliers, customers, competitors and regulatory authorities and their higher flexibility to adapt to environmental changes (e.g. Fladmoe-Lindquist, 1995; Contractor and Kundu, 1998a, 1998b; Burton et al., 2000; Sashi and Karuppur, 2002; Grewal et al., 2011). Overall, under high environmental uncertainty due to cultural, economic and institutional differences between home and host countries, the franchisor will choose governance modes with a lower level of control (see Figure 1):

**H1: The higher the transaction costs due to environmental uncertainty, the higher the franchisor’s tendency to use lower control modes.**

**Behavioural Uncertainty Hypothesis**

Agency problems arise from behavioural uncertainty, due to shirking and free-riding, especially when market conditions are not easily predictable and information asymmetry is high (e.g. Jensen and Meckling, 1976; Jensen, 1983; Eisenhardt, 1988; Bergen et al., 1992; Doherty and Quinn, 1999). In an international setting, agency costs due to behavioural uncertainty are exacerbated by geographic distance (e.g. Caves and Murphy, 1976; Rubin, 1978; Mathewson and Winter, 1985; Brickley and Dark, 1987; Martin, 1988; Norton, 1988a, 1988b; Lal, 1990; Minkler, 1990; Brickley et al., 1991; Lafontaine, 1992; Thompson, 1992; Sen, 1993; Combs and Castrogiovanni, 1994; Castrogiovanni and Justis, 1998; Hopkinson and Hogarth-Scott, 1999; Alon and McKee, 1999b; Fladmoe-Lindquist and Jacque, 1995; Castrogiovanni et al., 2006). Agency costs can be reduced by increasing monitoring and/or creating stronger incentives for the network partners. Franchisor’s investing in monitoring systems to reduce opportunistic behaviour (Eisenhardt, 1988, 1989; Minkler, 1990) results in
high monitoring costs, especially under high environmental uncertainty. Compared to company-owned outlets, franchising reduces monitoring costs through better goal alignment between the franchisor and her/his local partners. The local partners are residual claimants and face high-powered incentives to maximise effort in maintaining high service and product quality thereby reducing agency costs (e.g. Rubin, 1978; Fladmoe-Lindquist, 1991). Particularly, lower control modes, such as international multi-unit (area development) franchising and master franchising, may mitigate the agency problems, such as adverse selection, free-riding, inefficient information sharing, through long-term goal alignment between the franchisor and local partners (e.g. Shane, 1996a; Garg and Rasheed, 2006; Chen, 2010). Consequently, the monitoring cost-increasing effect of behavioural uncertainty increases the franchisor’s propensity to choose lower control modes, such as ADF and MF (see Figure 1).

**H2:** The higher the monitoring costs due to behavioural uncertainty, the higher the franchisor’s tendency to use lower control modes.

**Transaction-Specific Investments Hypothesis**

Transaction-specific assets include tangible assets, such as equipment and facilities, as well as intangible assets such as training (Anderson and Weitz, 1986), which are tailored to the partnership (Williamson, 1979, 1985; Klein et al., 1978). Depending on the (I) symmetry or (II) asymmetry of transaction-specific investments between the franchisor and her/his local partners, the franchisor will choose either more lower- or higher-control modes.

Ad (I):

The partnership between the franchisor and franchisees requires dedicated bilateral investments in transaction-specific assets to realize the rent-yielding potential of firm-specific assets (Madhok and Tallman, 1998; Ghosh and John, 1999). These bilateral transaction-specific investments lock the local franchise partners into a relationship with the franchisor in the host market (Anderson and Gatignon, 1986; Rokkan et al., 2003), thereby creating mutual dependency, which results in more cooperative behaviour to realize the relationship-specific rents (e.g. Brown et al., 2000; Rokkan et al., 2003).

The franchisor provides the efficient transfer of the relevant system-specific assets, i.e. the franchise package to the local partners. The franchisor may invest in transaction-specific training, operational manuals, communication systems and other standardized features of the
franchise package to guarantee an efficient transfer of system-specific assets, such as the brand name capital of her/his products and services and sales as well as marketing strategies, to the local partners. Furthermore, the franchisor may provide site-specific start-up and implementation support, as well as adaptation services of the standardized franchise package. Through these investments, the franchisor guarantees that the franchise partners will be able to maintain high quality standards and prevent brand name degradation with the transfer of system-specific assets to the host market. Similarly, the franchise partner is required to invest in transaction-specific assets, such as trademarked furnishing, fixtures and equipment, customer relationship building and supplier networks (Heide and John, 1988; Carney and Gedajlovic, 1991) as well as specific activities to develop the brand name in the host market. As a result, high bilateral transaction-specific investments of the franchisor and the foreign partners, i.e. joint venture partner, area developer and master franchisor, may influence the international franchisor’s choice of governance mode by using a lower level of control.

Ad (II):

Under conditions of strong brand name value and high system-specific assets, the franchisor must commit substantial financial and human resources in dedicated activities to facilitate value creation with the transfer of the franchise package across firm boundaries (Madhok and Tallman, 1998: p.332). In this case, the franchisor’s high transaction-specific investments may result in high relational risk because the local partners may free-ride or shirk due to their lower degree of dependency under relatively lower transaction-specific investments. For example, when the risk for brand name degradation through free-riding is high, an increased tendency to enter markets with higher control modes is observed (Fladmoe-Lindquist and Jacque, 1995). Consequently, the international governance structure decision depends on the extent of transaction-specific investments by both the franchisor and the local partners. Hence the following hypotheses on the impact of transaction-specific investments on the level of control can be formulated (see Figure 1):

\[ H3a: \text{The higher the franchisor's transaction-specific investments relative to the franchise partners' investments, the higher the franchisor's tendency to use higher control modes.} \]

\[ H3b: \text{The higher the franchise partners' transaction-specific investments relative to the franchisor's investments, the higher the franchisor's tendency to use lower control modes.} \]
4.3 Resource-based Theory and Organizational Capabilities Theory

In contrast to the coordination and agency cost-minimization of TCT and AT, RBT and OCT explains the governance mode by focusing on the value creation through system-specific know how and brand name assets as well as local market assets (Madhok, 1997; Meyer et al., 2009; Pitelis and Teece, 2010). Due to the heterogeneity and embeddedness of the franchisor’s system-specific assets (e.g. Barney, 1991; Kogut and Zander, 1992; Teece et al., 1997), codification and transfer of know how and assets across firm boundaries are constrained (e.g. Teece, 1977; Rumelt, 1984; Kogut, 1988; Conner, 1991; Foss, 1993). Therefore, the distribution of critical assets between the franchisor and the local partners, which determines the competitive advantage of the network, influences the franchisor’s choice of international governance mode. In franchising, we can distinguish three critical assets, i.e. the system-specific assets of the franchisor as well as the local market and financial assets of the network partners.

System-specific Assets Hypothesis

The franchise system’s specific assets, know how, resources and capabilities (we name them ‘system-specific assets’), such as proprietary know how, communication system, store layout, customer competence, marketing and R & D capabilities, advertising and promotion, site location, and monitoring techniques (e.g. Kacker, 1988) have a high rent-yielding potential for the franchise firm, because they are difficult to codify and transfer across firm boundaries and hence cannot be easily imitated (Sarkar and Cavusgil, 1996). Erramilli et al. (2002) show that the greater the competitive advantage generated by imperfectly imitable capabilities (such as the franchisor’s organizational competence and quality competence), the higher the firm's probability of choosing a higher control mode, such as management service contracts relative to franchising becomes. Accordingly, based on the RBT and OCT, the franchisors will choose higher control modes (such as JV or WOS) as international governance form when high monitoring and knowledge transfer capacities are required to ensure efficient implementation and deployment of the system-specific know how in the host countries. Hence, the following hypothesis can be formulated (see Figure 1):

\[ H4: \text{The more important the franchisor’s system-specific assets for value creation, the higher the franchisor’s tendency to use higher control modes.} \]
Local Market Assets Hypothesis

In cross-border franchising, a franchise package may only be successfully implemented if it is adapted to the requirements of the foreign market, such as different local tastes, preferences, income, media habits and cultural values. In particular in the service industry, where inseparability of production and consumption of services suggests close buyer-seller interactions, the need for local market knowledge is specifically important (Erramilli and Rao, 1993; Blomstermo et al., 2006). Therefore, competitive advantage can only be realised, if the franchisor efficiently combines local market know how with system-specific know how.

The local market assets refer to “knowledge of the particular circumstances of time and place” (Hayek, 1945: p. 521) and result in efficient location-specific know how regarding advertising, marketing, sales, customer relations, quality control, human resource management and product innovation. Due to the firm specificity (i.e. heterogeneity and embeddedness) of local market assets, they are difficult to acquire by the franchisor. Several empirical studies in international franchising (Contractor and Kundu, 1998a, 1998b; Erramilli et al., 2002; Doherty, 2007; Sashi and Karuppur, 2002) show that the greater the rent-yielding potential of the local market assets of the foreign partners, the higher the franchisor’s propensity to use lower control modes becomes, such as ADF and MF (Chan and Justis, 1990; Preble et al., 2000; Pak, 2002; Jones, 2003; Dunning et al., 2007; Choo et al., 2007). In conclusion, integrating the local market assets of the foreign partners with the franchise business format will increase the competitive advantage of the network in the host country. Hence the following hypothesis on local market assets can be formulated (see Figure 1):

\[ H5: \text{The more important the franchise partners’ local market assets for the value creation of the network, the higher the franchisor’s tendency to use lower control modes.} \]

Financial Assets Hypothesis

In addition to operational resources and capabilities, local partners’ financial resources may help to overcome the franchisor’s financial constraints when s/he expands to foreign markets (Oxenfeldt and Thompson, 1969; Caves and Murphy, 1976; Gonzalez Diaz and Solis-Rodriguez, 2012). International franchise firms can more easily and less expensively finance the system growth when they have access to the local partners’ financial resources. In this situation, the foreign partners’ financial assets support the internationalisation and
successful implementation of the franchise business format in the host country. Therefore, from a resource-based perspective, franchisors that are constrained by financial resources to expand their business in the foreign market will favour lower control modes, such as JVF, ADF and MF. The following hypothesis on financial assets can be derived (see Figure 1):

\[ H6: \text{The higher the financial resources required for implementation of the franchise concept in the foreign market, the higher the franchisor’s tendency to use lower control modes.} \]

4.4 Moderator Analysis

An integrative model on the choice of governance modes of international firms, based on organizational economics and strategic management perspectives, requires the inclusion of important inter-theoretical interaction effects (e.g. Slangen and Hennart, 2007). In the following, we extend our framework on the choice of governance modes of the international franchise firm by analyzing the moderator effects of environmental uncertainty and intangibility of assets (see Figure 1). Environmental uncertainty and assets intangibility function as moderators because both increase the impact of the transaction and agency cost variables ‘behavioural uncertainty and transaction-specific investments’ and the resource-based variables ‘local market assets, system-specific assets and financial assets’ on the franchisor’s level of control.

Environmental Uncertainty as Moderator

Environmental uncertainty moderates the impact of behavioural uncertainty, transaction-specific investments, local market assets and financial assets on the franchisor’s level of control (see Figure 1).

Environmental uncertainty results from changes of economic and institutional factors, such as market conditions, technological innovations and political systems and regulations, leading to unpredictability and information asymmetry (Bergen et al., 1992). The franchisor may find it difficult to evaluate whether differences in performance are due to agents’ opportunistic behaviour or to unforeseen changes in the environmental conditions (Mathewson and Winter, 1985). The challenge of performance monitoring under a highly uncertain business environment can be mitigated through local partners, who are residual
claimants and face high-powered incentives to provide the specific knowledge at the local market. Consequently, the franchisor’s propensity for using lower control modes to mitigate agency problems increases with environmental uncertainty.

**H2-1:** Environmental uncertainty positively moderates the impact of behavioural uncertainty on the franchisor’s tendency to use lower control modes.

Under high environmental uncertainty, high transaction-specific investments require coordinated adaptation by the network partners. They result in high sunk costs in the case of contract termination (e.g. Williamson, 1991; Shelanski and Klein, 1995; Rindfleisch and Heide, 1997). Under increasing environmental uncertainty, the impact of transaction-specific investments on transaction costs, such as renegotiation, haggling, adaptation and safeguarding costs, and hence on the level of control depends on the extent of transaction-specific investments by the franchisor relative to the local partners. If the franchisor’s transaction-specific investments are high relative to the local partners, the franchisor’s hold-up risk increases with increasing environmental uncertainty resulting in a higher tendency toward using higher control modes. Conversely, if the franchise partners’ transaction-specific investments are high relative to the franchisor, the franchisor’s hold up risk decreases due to the franchise partners’ higher switching costs and hence the higher dependency under increasing environmental uncertainty. In this case, the tendency toward lower control increases. Consequently, depending on the extent of transaction-specific investments by the franchisor and her/his foreign partners, environmental uncertainty increases the impact of transaction-specific investments on the tendency toward higher or lower control modes (see Figure 1).

**H3a-1:** Under high transaction-specific investments of the franchisor relative to the local franchise partners, environmental uncertainty positively moderates the impact of transaction-specific investments on the franchisor’s tendency to use higher control modes.

**H3b-1:** Under high transaction-specific investments of the franchise partners relative to the franchisor, environmental uncertainty positively moderates the impact of transaction-specific investments on the franchisor’s tendency to use lower control modes.
Expanding into foreign markets requires specific knowledge regarding the cultural, institutional and local market environment. Under high environmental uncertainty, local market knowledge and adaptation of the standardized business format to the foreign market environment becomes more important for the creation of competitive advantage through transferring residual control rights to local partners (Pizanti and Lerner, 2004; Szulanski and Jensen, 2006, 2008; Paik and Choi, 2007). As a result, environmental uncertainty increases the impact of local market assets on the franchisor’s use of lower control modes (see Figure 1).

H5-1: Environmental uncertainty positively moderates the impact of local market knowledge on the franchisor’s tendency to use lower control modes.

An increased environmental uncertainty will lead to higher information asymmetry between the franchisor and the external suppliers of capital. This results in greater importance of the local partners' financial resources for the implementation of the franchise business in the host market. Therefore, environmental uncertainty increases the importance of the local partner’s financial assets for successful implementation of the franchise network in the host country. This interaction effect can be summarized as follows (see Figure 1):

H6-1: Environmental uncertainty positively moderates the impact of financial assets on the franchisor’s tendency to use lower control modes.

Intangibility of Assets as Moderator

According to the property rights theory, non-contractibility due to intangibility of assets influences the allocation of residual rights of control (e.g. Grossman and Hart, 1986; Hart, 1989; Hart and Moore, 1990; Maness, 1996; Foss and Foss, 2005; Kim and Mahoney, 2005, 2006). Contractibility of assets refers to the extent to which the franchisor and franchisees’ assets can be codified and transferred to the local partners. The impact of non-contractibility on the choice of the governance modes of the international franchise firm has not been examined in the franchise literature yet. Based on the property rights view, we can formulate the following proposition: The higher the intangibility of assets (system-specific assets, local market knowledge assets and financial assets), the higher is their rent-yielding potential in the network, and the stronger is their influence on the franchisor’s governance mode decision.

As argued above, firm-specific resources and capabilities are the basis for the franchise
firm’s competitive advantage by realizing strategic rents. The higher the intangibility of the system-specific assets, the more control is required by the franchisor to successfully implement the system-specific know how at the local markets, and the greater is the effect of system-specific assets on the tendency toward using higher control modes.

**H4-7: The intangibility of system-specific assets positively moderates the impact of system-specific assets on the franchisor’s tendency to use higher control modes.**

In order to adjust to the foreign market environment, the adaptation of the franchise business format requires specific local market know how as exploration and exploitation capabilities (e.g. innovation, human resource management and marketing capabilities) (March, 1991). Therefore, the franchisor will transfer more residual control rights (i.e. ownership and decision rights) to the network partners, when the local market assets are highly intangible and hence non-contractible. Franchisor’s use of lower control modes will increase the rent-yielding potential of the network by creating high-powered incentives for local partners to explore and deploy the outlet-specific knowledge, such as developing new offerings, modifying existing routines and finding solutions to system-wide problems (Kaufmann and Eroglu, 1999; Sorenson and Sorensen, 2001). Consequently, the intangibility of exploitation and exploration capabilities of the foreign local partners increases the impact of local market assets on the franchisor’s propensity to use lower control modes.

**H5-7: The intangibility of local market assets positively moderates the impact of local market assets on the franchisor’s tendency to use lower control modes.**

In addition, intangibility of foreign partners’ local market assets moderates the impact of financial assets on the franchisor’s level of control (Windsperger and Dant, 2006). Even if the franchisor can obtain finance for her/his investment project from the external capital market (Rubin, 1978), the foreign network partners are in a better position to circumvent information asymmetry faced by the external suppliers of capital (Martin and Justis, 1993; Norton, 1995). When the local partner’s market assets show a high degree of intangibility, it is difficult to communicate the profitability of the franchise business to external lenders. Local partners may evaluate the investment risk associated with the franchisor’s business concept more accurately, as they have also access to the local market know how for the successful implementation of the franchise business format in the host market. Therefore, the
higher intangibility of outlet-specific know how of the foreign franchise partners, the greater is the positive impact of financial assets on the tendency toward lower control modes.

H6-7: The intangibility of local market assets positively moderates the impact of financial assets on the franchisor’s tendency to use lower control modes.

To summarize our multi-theoretical framework on the franchisor’s choice of international governance modes, we can state that environmental uncertainty, behavioural uncertainty, transaction-specific investments, system-specific assets, local market assets, financial assets and intangibility of assets influence the governance mode choice of the international franchise firm. Table 3 summarizes the research hypotheses.

5 Discussion and Conclusion

The review of the franchise literature reveals that research regarding the franchisor’s choice of international governance modes has been under-explored. Starting from this research deficit, this study presents the first comprehensive model on the choice of international governance modes by franchisors. Specifically, we develop an integrative model on the governance mode choice of the international franchise firm by applying transaction cost theory, agency theory, resource-based theory, organizational capabilities theory and property rights theory. According to the allocation of ownership and decision rights between the franchisor and the network partners, the following governance modes are distinguished: Wholly-owned subsidiary, joint venture franchising, area development franchising and master franchising. Franchisor’s level of control increases from master franchising, area development franchising, joint venture franchising to the wholly-owned subsidiary. The main results of our integrative model regarding the franchisor’s choice of lower control modes can be summarized as follows: The franchisor’s use of lower control modes (such as master franchising and area development) is positively associated with the foreign partners’ transaction-specific investments relative to the franchisor’s investments, the levels of behavioural and environmental uncertainty, the foreign partners’ intangible local market assets relative to the franchisor’s intangible system-specific assets, and the franchisor’s constraints to finance the international system growth. In addition, the positive relationship between the franchisor’s use of lower control modes and behavioural uncertainty, foreign
franchise partners’ relatively high transaction-specific investments, foreign franchise partners’ intangible local market assets relative to the franchisor’s intangible system-specific assets and the franchisor’s financial resources for international expansion is stronger under high environmental uncertainty.

What is the contribution of our study to the international franchise literature? First, to the best of our knowledge, no prior study in the international franchise literature explains the governance modes of the international franchise firm by integrating organizational economics and strategic management perspectives, such as transaction cost theory, agency theory, resource-based theory, organizational capabilities theory and property rights theory. Therefore, our study contributes to the recent call in organizational economics, strategic management, marketing and international business literature (e.g. Combs et al., 2004, 2011; Brouthers and Hennart, 2007; Picot-Coupey, 2006, 2009; Hussain and Windsperger, 2010; Rindfleisch et al., 2010; Morschett et al., 2010; Grewal et al., 2012; Windsperger, 2013) to develop multi-theoretical models in order to explain the governance structure of networks.

Second, our study develops a governance mode concept for the international franchise firm, based on the property rights view (Hansman, 1996; Baker et al., 2008). In our integrative framework, we differentiate the various governance modes of the international franchise firm according to the degree of control which is operationalized by the distribution of ownership and decision rights between the franchisor and her/his partners (i.e. joint venture partners, area developers, master franchisors including sub-franchisees) at the foreign markets. This governance mode concept may also provide a first step to solve some of the recently discussed issues regarding the concept of foreign operation modes in the international market entry literature (Benito et al., 2009, 2011). Using the property rights perspective, foreign operation modes should be differentiated according to the distribution of ownership and decision rights. Non-equity modes only allocate decision rights, while equity modes allocate both decision and ownership rights between the partners (Windsperger et al., 2009/10). Our governance mode framework is also related to the ‘bundling model’ of Hennart (1988, 2000, 2009), which is based on the apportionment of equity (i.e. ownership rights). We extend this view and use decision and ownership rights to differentiate the various governance modes.

While our integrative framework is based on the major theoretical perspectives for the explanation of the governance modes of the international franchise firm, additional variables may influence the franchisor’s governance mode choice. In particular, governance structure
determinants derived from the institution-based perspective (e.g. Peng, 2002; Combs et al., 2004, 2011; Brouthers and Hennart, 2007; Huang and Sternquist, 2007; Williamson, 2008; Peng et al., 2008, 2009; Mudambi and Swift, 2011; Mackelburger et al., 2012), the national culture theory (e.g. Kogut and Singh, 1988; Hennart and Larimo, 1998; Malhotra et al., 2011; Steenkamp and Geyskens, 2012) and the international strategy theory (e.g. Harzing, 2002; Cui and Jiang, 2008; Pehrsson, 2008; Liang et al., 2009) may increase the explanatory power of the model. Especially, when analysing the franchise firms’ international market entry strategies, formal and informal institutional rules, such as political (e.g. corruption, transparency), legal (e.g. economic liberalisation, regulatory regimes), societal factors (e.g. culture, ethic norms), and franchisor’s strategic orientation (e.g. global versus multi-domestic strategy) may be considered as further explanatory variables. In conclusion, additional influencing factors may be considered as main or moderator effects to increase the explanatory power of the model.

What are the implications for future research? Our multi-theoretical framework consists of a large set of variables that influence the governance structure decision of the international franchise firm. This requires testing the model by applying qualitative and quantitative methods. Case study analysis may enable the investigation of large amounts of contextual variables. In addition, triangulation of multiple research methods (Yin, 2008), such as combining qualitative and quantitative methods (Creswell, 2009), may be a successful strategy to evaluate such a complex governance structure model. Furthermore, an important future challenge will be to test the integrative model by conducting large-scale surveys (Parkhe, 1993). Specifically, empirical studies should test the governance choice model by focusing first on the different theoretical models - organizational economics approaches (TCT & AT) and strategic management approaches (RBT & OCT) - without inter-theoretical interaction effects (see Figure 1), in order to highlight the explanatory power of the different theoretical perspectives. Second, they should focus on the moderator role of environmental uncertainty and intangibility of assets in order to show the importance of the inter-theoretical interaction effects for the explanation of the international governance modes in franchising.

Moreover, our governance concept should be also applied to the foreign operation modes of international firms in general (Hennart, 2009; Benito et al. 2011, 2012). If the foreign operation modes are differentiated based on the distribution of ownership and decision rights, researchers will be better able to analyse the determinants of the structure of residual control rights under different governance modes. For instance, greenfield investments and acquisitions are characterized by a high degree of equity involvement of the
international firm, but the allocation of decision rights (as structure of real authority) may deviate from the allocation of ownership rights.

While this paper is largely conceptual, it is inspired by the view that “there is nothing more practical than a good theory” (Lewin, 1952: p.169). Our theoretical model may provide some advice for franchisor-managers when deciding on international governance modes. For instance, lower control modes (such as master franchising and area development) should be used under relatively high transaction-specific investments of the foreign franchise partners, higher levels of behavioural and environmental uncertainty, highly intangible local market know how of the foreign franchise partners relative to the franchisor’s intangible system know how, and tight financial constraints of the franchisor to expand in foreign markets. However, it is important to acknowledge that these practical conclusions are based on the assumption that the major relationships of our integrative framework will be empirically supported.
References


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Norton, S.W., 1988b. Franchising, brand name capital, and entrepreneurial capacity problem, Strategic Management Journal, 9 (Summer Special Issue), 105-114.


Table 1: Classification of the international franchise literature

<table>
<thead>
<tr>
<th>Author</th>
<th>Year</th>
<th>Journal</th>
<th>Method</th>
<th>Theory</th>
<th>Data Source</th>
<th>Sample size</th>
</tr>
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<td>Ergu S.</td>
<td>1992</td>
<td>International Marketing Review</td>
<td>Conc.</td>
<td>-</td>
<td>n.a.</td>
<td>-</td>
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<tr>
<td>Kadla B.L., D.J. Ackerman, R.T. Rutishauser</td>
<td>1994</td>
<td>International Marketing Review</td>
<td>Quant.</td>
<td>-</td>
<td>P</td>
<td>70 U.S.-based international &amp; 72 U.S.-based domestic-only franchisors</td>
</tr>
<tr>
<td>Julian S.D., G.J. Castrogiovanni</td>
<td>1995</td>
<td>Journal of Small Business Management</td>
<td>Quant.</td>
<td>-</td>
<td>S</td>
<td>1,005 U.S. franchisors</td>
</tr>
<tr>
<td>Quinlan B., D. Alexander</td>
<td>2001</td>
<td>International Journal of Retail &amp; Distribution Management</td>
<td>Conc.</td>
<td>-</td>
<td>n.a.</td>
<td>-</td>
</tr>
<tr>
<td>Elango B.</td>
<td>2002</td>
<td>Journal of Small Business Management</td>
<td>Quant.</td>
<td>-</td>
<td>S</td>
<td>500 leading U.S. franchisors</td>
</tr>
<tr>
<td>Frelee J.F.</td>
<td>1995</td>
<td>Journal of Small Business Management</td>
<td>Quant.</td>
<td>-</td>
<td>P</td>
<td>13 franchise countries</td>
</tr>
<tr>
<td>Gunp D., D. McNees</td>
<td>1999</td>
<td>Multinational Business Review</td>
<td>Conc.</td>
<td>-</td>
<td>n.a.</td>
<td>-</td>
</tr>
<tr>
<td>Petersen B., L.S. Welch</td>
<td>2000</td>
<td>International Business Review</td>
<td>Qual.</td>
<td>-</td>
<td>P</td>
<td>2 Danish clothing &amp; footwear companies</td>
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<tr>
<td>Shimzu C.D., P.M. Karuppu</td>
<td>2002</td>
<td>International Marketing Review</td>
<td>Conc.</td>
<td>AT, TCT, Int. market entry</td>
<td>S</td>
<td>n.a.</td>
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<td>Emanini M.S., K.S. Agnew, C.S. Dev</td>
<td>2002</td>
<td>Journal of International Business Studies</td>
<td>Quant.</td>
<td>OCT</td>
<td>P</td>
<td>139 franchising and MSC entry modes</td>
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<tr>
<td>Plot-Coskey K.</td>
<td>2006</td>
<td>International Review of Retail, Distribution and Consumer Research</td>
<td>Qual.</td>
<td>-</td>
<td>P</td>
<td>6 French international retail chains</td>
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<td>Plot-Coskey K.</td>
<td>2008</td>
<td>Recherche et Applications en Marketing</td>
<td>Qual.</td>
<td>-</td>
<td>P</td>
<td>43 questionnaires of French fashion retailers</td>
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<td>Quinlan B., D. Alexander</td>
<td>2000</td>
<td>International Marketing Review</td>
<td>Qual.</td>
<td>AT, Marketing channels</td>
<td>P</td>
<td>1 U.K. international retail company</td>
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<tr>
<td>Picart M., I. Lenard</td>
<td>2003</td>
<td>International Small Business Journal</td>
<td>Qual.</td>
<td>AT, Exchange theory</td>
<td>S</td>
<td>1 domestic-only Italian fast food chain and 2 U.S. international fast food chains</td>
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<td>Choo Stephen</td>
<td>2005</td>
<td>Asia Pacific Journal of Management</td>
<td>Qual.</td>
<td>AT</td>
<td>P</td>
<td>1 U.S. and 2 Australian fast-food chains</td>
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<tr>
<td>Suzuran G., R.J. Jensen</td>
<td>2006</td>
<td>Strategic Management Journal</td>
<td>Qual.</td>
<td>-</td>
<td>P</td>
<td>1 U.K. multinational hotel group</td>
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<td>2008</td>
<td>Research Policy</td>
<td>Qual.</td>
<td>-</td>
<td>P</td>
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<td>Hackel D.W.</td>
<td>1976</td>
<td>Journal of International Business Studies</td>
<td>Quant.</td>
<td>-</td>
<td>P</td>
<td>85 U.S. international franchise firms</td>
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<td>Elwood J.K., S. Lutz, R. Krumpel</td>
<td>2002</td>
<td>Marketing Management</td>
<td>Quant.</td>
<td>-</td>
<td>P</td>
<td>28 U.S. international franchisors</td>
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<tr>
<td>Jones M.</td>
<td>2007</td>
<td>International Journal of Retail &amp; Distribution Management</td>
<td>Qual.</td>
<td>-</td>
<td>P</td>
<td>1 U.K. international retail company</td>
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<td>Frayer L.</td>
<td>2003</td>
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<td>Quant.</td>
<td>-</td>
<td>P</td>
<td>9 Australian fast-food retail franchise chains</td>
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<td>Prestle J.F., R.C. Prestle</td>
<td>2008</td>
<td>Journal of Marketing Channels</td>
<td>Quant.</td>
<td>-</td>
<td>P</td>
<td>1 U.S. international food franchise systems</td>
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<td>Albert J.</td>
<td>2008</td>
<td>Multinational Business Review</td>
<td>Conc.</td>
<td>-</td>
<td>n.a.</td>
<td>-</td>
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<tr>
<td>Chen H.</td>
<td>2010</td>
<td>International Journal of Organizational Innovation</td>
<td>Quant.</td>
<td>AT</td>
<td>P</td>
<td>4 U.S. international franchise systems</td>
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<tr>
<td>Brookes M., A. Rooper</td>
<td>2011</td>
<td>European Journal of Marketing</td>
<td>Qual.</td>
<td>-</td>
<td>P</td>
<td>1 U.S.-based hotel franchisor</td>
</tr>
</tbody>
</table>

1 Conc. (Conceptual), Quant. (Quantitative), Qual. (Qualitative)

2 AT (Agency theory), TCT (Transaction cost theory), RBT (Resource-based theory), OCT (Organisational capabilities theory)

3 P (Primary data source), S (Secondary data source)

4 As the paper contains both, a quantitative study and a qualitative study, it is summarised under its focal method.
Table 2: Major theories applied to international franchise governance modes

<table>
<thead>
<tr>
<th>TCT</th>
<th>AT</th>
<th>RBT / OCT</th>
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<td>Choo (2005)</td>
<td></td>
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</tr>
<tr>
<td>Castrogiovanni, Combs and Justis (2008)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Garg and Rasheed (2006)</td>
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<tr>
<td>Paik and Choi (2007)</td>
<td></td>
<td></td>
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<tr>
<td>Chen (2010)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grewal, Iyer, Javalgi and Radulovich (2011)¹</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ complemented by signalling theory, ² complemented by resource scarcity theory, ³ complemented by resource dependency theory

TCT (Transaction cost theory), AT (Agency theory), RBT (Resource-based theory), OCT (Organisational capabilities theory)

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Figure 1: Integrative Model

[Diagram of integrative model with various theoretical concepts and levels of control, including Wholly-owned subsidiary, Joint venture franchising, Area development franchising, Master franchising, and Intangibility of assets.]
### Table 3: Research hypotheses on the governance modes of the international franchise firm

<table>
<thead>
<tr>
<th>Environmental uncertainty</th>
<th>Hypothesis</th>
<th>H1</th>
<th>The higher the transaction costs due to environmental uncertainty, the higher the franchisor’s tendency to use lower control modes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Behavioural uncertainty</td>
<td>Hypothesis</td>
<td>H2</td>
<td>The higher the monitoring costs due to behavioural uncertainty, the higher the franchisor’s tendency to use lower control modes.</td>
</tr>
<tr>
<td>Interaction effect</td>
<td>H2-1</td>
<td>Environmental uncertainty</td>
<td>Environmental uncertainty positively moderates the impact of behavioural uncertainty on the franchisor's tendency to use lower control modes.</td>
</tr>
<tr>
<td>Transaction-specific investments</td>
<td>Hypotheses</td>
<td>H3a</td>
<td>The higher the franchisor's transaction-specific investments relative to the franchise partners' investments, the higher the franchisor's tendency to use higher control modes.</td>
</tr>
<tr>
<td></td>
<td>H3b</td>
<td>The higher the franchise partners' transaction-specific investments relative to the franchisor's investments, the higher the franchisor's tendency to use lower control modes.</td>
<td></td>
</tr>
<tr>
<td>Interaction effects</td>
<td>H3a-1</td>
<td>Environmental uncertainty</td>
<td>Under high transaction-specific investments of the franchisor relative to the local franchise partners, environmental uncertainty positively moderates the impact of transaction-specific investments on the franchisor's tendency to use higher control modes.</td>
</tr>
<tr>
<td></td>
<td>H3b-1</td>
<td>Environmental uncertainty</td>
<td>Under high transaction-specific investments of the franchise partners relative to the franchisor, environmental uncertainty positively moderates the impact of transaction-specific investments on the franchisor's tendency to use lower control modes.</td>
</tr>
<tr>
<td>System-specific assets</td>
<td>Hypothesis</td>
<td>H4</td>
<td>The more important the franchisor's system-specific assets for value creation, the higher the franchisor's tendency to use higher control modes.</td>
</tr>
<tr>
<td>Interaction effect</td>
<td>H4-7</td>
<td>Intangibility of assets</td>
<td>The intangibility of system-specific assets positively moderates the impact of system-specific assets on the franchisor's tendency to use higher control modes.</td>
</tr>
<tr>
<td>Local market assets</td>
<td>Hypothesis</td>
<td>H5</td>
<td>The more important the franchise partners' local market assets for the value creation of the network, the higher the franchisor's tendency to use lower control modes.</td>
</tr>
<tr>
<td>Interaction effects</td>
<td>H5-1</td>
<td>Environmental uncertainty</td>
<td>Environmental uncertainty positively moderates the impact of local market know how on the franchisor's tendency to use lower control modes.</td>
</tr>
<tr>
<td></td>
<td>H5-7</td>
<td>Intangibility of assets</td>
<td>The intangibility of local market assets positively moderates the impact of local market assets on the franchisor's tendency to use lower control modes.</td>
</tr>
<tr>
<td>Financial assets</td>
<td>Hypothesis</td>
<td>H6</td>
<td>The higher the financial resources required for implementation of the franchise concept in the foreign market, the higher the franchisor's tendency to use lower control modes.</td>
</tr>
<tr>
<td>Interaction effects</td>
<td>H6-1</td>
<td>Environmental uncertainty</td>
<td>Environmental uncertainty positively moderates the impact of financial assets on the franchisor's tendency to use lower control modes.</td>
</tr>
<tr>
<td></td>
<td>H6-7</td>
<td>Intangibility of assets</td>
<td>The intangibility of local market assets positively moderates the impact of financial assets on the franchisor's tendency to use lower control modes.</td>
</tr>
</tbody>
</table>
### Appendix: Literature Review on International Franchising

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Publ. year</th>
<th>Study</th>
<th>Journal</th>
<th>Summary</th>
<th>Applied theoretical perspective</th>
<th>Applied methodology</th>
<th>Dependent variable</th>
<th>Data</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kedia B.L., D.J. Ackerman, R.T. Justis</td>
<td>1994</td>
<td>Determinants of Internationalisation of Franchise Operations by US Franchisors</td>
<td>International Marketing Review</td>
<td>The study revealed that firm manager attitudes, such as the desire to expand and the desire to increase profits, had more influence on the internationalisation decision of U.S. based franchisors than did firm characteristics such as system size.</td>
<td>-</td>
<td>Discriminant analysis and factor analysis</td>
<td>Internationalisation via franchising</td>
<td>P</td>
<td>70 U.S. based international franchisors and 72 U.S. based domestic-only franchisors</td>
</tr>
<tr>
<td>Julian S.D., G.J. Castanogiovanni</td>
<td>1995</td>
<td>Franchisor Geographic Expansion</td>
<td>Journal of Small Business Management</td>
<td>The authors examined the influence of environmental (market) conditions, i.e. type of business, and firm characteristics, such as system size, on U.S. based franchisors’ geographic expansion efforts. Among others, the study revealed that larger franchise systems seek expansion in more geographic areas due to more cumulative experience, larger tangible and intangible resource base and wider brand name recognition.</td>
<td>-</td>
<td>Multiple regression analysis, univariate F-test, and chi-square test</td>
<td>Breadth of geographic expansion</td>
<td>S</td>
<td>1,005 U.S. franchisors</td>
</tr>
<tr>
<td>Shane S.A.</td>
<td>1996</td>
<td>Why Franchise Companies Expand Overseas</td>
<td>Journal of Business Venturing</td>
<td>The author concentrated on the agency and governance costs inherent to international franchising and empirically proved that U.S. franchisors who intended to expand internationally possessed superior capabilities in ex-ante bonding and monitoring of foreign franchisees.</td>
<td>Regression analysis</td>
<td>-</td>
<td>Indication of seeking foreign franchisees</td>
<td>S</td>
<td>815 largest U.S. franchisors</td>
</tr>
<tr>
<td>Fladmoe-Lindquist K.</td>
<td>1996</td>
<td>International Franchising: Capability and Development</td>
<td>Journal of Business Venturing</td>
<td>The author integrates dynamic capabilities with administrative efficiency and risk management theory to identify critical franchisor capabilities required for internationalisation, such as distance management, cultural adaptability, host country policy evaluation and exchange rate management. Based on the theoretical framework, she derived four international franchisor types, i.e. integrating, constrained, conventional and worldwide franchisor.</td>
<td>RBT, OCT and AT</td>
<td>Conceptual approach</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Quinn B., N. Alexander</td>
<td>2002</td>
<td>International Retail Franchising: A Conceptual Framework</td>
<td>International Journal of Retail &amp; Distribution Management</td>
<td>The authors developed a conceptual framework to explain the development of international retail franchising, based on whether retail companies applied franchising in domestic markets prior to their internationalisation.</td>
<td>-</td>
<td>Conceptual approach</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Publ. year</td>
<td>Study</td>
<td>Journal</td>
<td>Summary</td>
<td>Applied theoretical perspective</td>
<td>Applied methodology</td>
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<td>Data</td>
<td>Sample size</td>
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<tr>
<td>Elango B.</td>
<td>2007</td>
<td>Are Franchisees with International Operations Different from Those Who Are Domestic Market Oriented?</td>
<td>Journal of Small Business Management</td>
<td>The author proved that international franchise firms faced declining domestic market growth and possessed strong monitoring capabilities. Contrary to the author's assumption of similar contract terms to decrease managerial complexity and create trust, particularly royalty rates were lower for international franchisees.</td>
<td>-</td>
<td>Binary logistic regression</td>
<td>Internationalisation via franchising</td>
<td>S 500 leading U.S. franchisors</td>
<td></td>
</tr>
<tr>
<td>Mariz-Pérez R., T. García-Alvarez</td>
<td>2009</td>
<td>The Internationalization Strategy of Spanish Indigenous Franchised Chains: A Resource-Based View</td>
<td>Journal of Small Business Management</td>
<td>The paper applies resource-based theory to investigate the factors impacting on the internationalization decision of franchise chains. The empirical results prove a positive relationship between the franchise firm's intangible assets, i.e. trademark value and chain reputation and monitoring costs and experience, and its exposure to expand abroad. However, the franchisor's knowledge and expertise do not result in any significant influence on the internationalization decision.</td>
<td>RBT, OCT</td>
<td>Discriminant analysis</td>
<td>Internationalisation via franchising</td>
<td>S 316 Spanish franchise chains</td>
<td></td>
</tr>
<tr>
<td>Alon I., L. Ni, Y. Wang</td>
<td>2012</td>
<td>Examining the Determinants of Hotel Chain Expansion through International Franchising</td>
<td>International Journal of Hospitality Management</td>
<td>The authors tested the impact of price bonding, domestic geographical scope and scale, firm experience, franchise proportion and the incidence of multi-unit franchising on franchise internationalisation in the hotel industry. The regression results were further triangulated with qualitative interviews collected from industry executives.</td>
<td>AT</td>
<td>Binary logistic regression</td>
<td>Internationalisation via franchising</td>
<td>S 17 U.S.-based hotel chains</td>
<td></td>
</tr>
<tr>
<td>Sanghavi N.</td>
<td>1998</td>
<td>Franchising as a Tool for Small Medium Sized Enterprises (SME) Development in Transitional Economies: The Case of Central European Countries</td>
<td>Management Research News</td>
<td>The author explained the positive impact of international franchising for the development of local small and medium sized enterprises (SMEs) and the challenges for international franchisees in expanding to transitional economies of Central European countries.</td>
<td>-</td>
<td>Qualitative approach</td>
<td>N.A.</td>
<td>S N.A.</td>
<td></td>
</tr>
<tr>
<td>Alon I., D. McKee</td>
<td>1999</td>
<td>Towards a Macro Environmental Model of International Franchising</td>
<td>Multinational Business Review</td>
<td>The authors provided a conceptual macro environmental model of international franchising based on economic, demographic, distance and political dimensions.</td>
<td>-</td>
<td>Conceptual approach</td>
<td>N.A.</td>
<td>N.A. N.A.</td>
<td></td>
</tr>
<tr>
<td>Alon I., M. Banai</td>
<td>2000</td>
<td>Executive Insights: Franchising Opportunities and Threats in Russia</td>
<td>Journal of International Marketing</td>
<td>The authors described the environmental conditions of franchising in Russia, i.e. the political and legal, economic, social and financial environment, and proposed a normative framework for international U.S. franchisors entering the Russian market.</td>
<td>-</td>
<td>Qualitative approach</td>
<td>N.A.</td>
<td>S N.A.</td>
<td></td>
</tr>
<tr>
<td>Castrogiovanni G.J., G.S. Vozikis</td>
<td>2000</td>
<td>Foreign Franchisors Entry into Developing Countries: Influences on Entry Choices and Economic Growth</td>
<td>New England Journal of Entrepreneurship</td>
<td>The authors described factors on the environmental level, the network level and the individual level, which impacted on the foreign entry modes of international franchisors when entering into the markets of developing countries. Propositions on international franchising in developing countries were developed and policy implications provided.</td>
<td>-</td>
<td>Conceptual approach</td>
<td>N.A.</td>
<td>N.A. N.A.</td>
<td></td>
</tr>
<tr>
<td>Hoffman R.C., J.F. Preble</td>
<td>2001</td>
<td>Global Diffusion of Franchising: A Country Level Examination</td>
<td>Multinational Business Review</td>
<td>The study confirmed that strategic (firm) factors were more strongly related to cross border franchise diffusion than country-specific (environmental) factors in twenty-four nations.</td>
<td>-</td>
<td>Partial correlations, hierarchical regression analysis</td>
<td>Global diffusion of franchising</td>
<td>P 24 local international franchise associations</td>
<td></td>
</tr>
</tbody>
</table>
A deepening of the survey data provided by Preble (1995) on the status, challenges and future prospects of international franchising. Current data investigated forty countries diffused in six continents of North America, South America, Europe, Asia, Africa and Oceania.

The study provided a status report and stakeholder model of international retail franchising in emerging and developing countries, such as Central and Eastern Europe, Mexico and South America; Asia, and other areas (India, Kuwait, South-Africa).

The author illustrated the opportunities for international franchising in emerging markets and proposed a framework by ranking twenty emerging countries according to their population, GDP per capita, urbanisation and income distribution.

Consumer perceptions of Western fast-food franchises were characterised by a sequential transformation, moving from rejection toward assimilation.

The paper develops a global index of international franchise expansion that ranks 143 potential expansion target countries according to their market risk (i.e. political and economic, legal and regulatory, cultural and geographic) and market opportunity profiles. The authors find that the evaluation of host countries is a systematic, strategic approach, with macro-environmental factors having different relative influence on internationalisation decision and success.

Controlled modes of international service operations: The propensity to franchise. The authors explained the internationalisation decision of U.S. based service franchisors via franchising and company ownership. They confirmed a positive impact of higher monitoring costs (e.g. higher geographic and cultural distance), and a negative impact of brand name asset specificity, while the measures on environmental uncertainty resulted in sometimes opposing outcomes.

Franchising versus company-run operations: Modal choice in the global hotel sector. Primarily based on transaction cost theory and agency theory, combined with organisational capabilities and strategic behaviour literature, the authors examined the influence of external (environmental/country characteristics) and internal (firm-specific and strategic) factors on the global hotel firm's choice between company ownership and franchising with the international expansion.

The authors analysed Egyptian consumer perceptions of Western fast-food franchises and the social, economic, cultural, political and marketplace impacts in the Middle East. Along with Eckhardt and Mahi's (2004) consumer agency categories, they showed, among others, that Egyptian consumer brand perceptions were characterised by a sequential transformation, moving from rejection toward assimilation.

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<tr>
<th>Author(s)</th>
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<th>Study</th>
<th>Journal</th>
<th>Summary</th>
<th>Applied theoretical perspective</th>
<th>Applied methodology</th>
<th>Dependent variable</th>
<th>Data</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petersen B., L.S. Welch</td>
<td>2000</td>
<td>International Retailing Operations: Downstream Entry and Expansion via Franchising</td>
<td>International Business Review</td>
<td>The study conducted an industry survey, followed by a case study with two cases in the Danish clothing and footwear industry. Illustrating franchise internationalisation as an outcome of a shift from upstream wholesaling to downstream involvement in retailing activities. Only after having developed a strong background of operational experience in the international market, retailers applied franchising to benefit from increased growth, low investment and low risk.</td>
<td>-</td>
<td>Mail survey and multiple case study</td>
<td>Propensity to franchise internationally</td>
<td>S+P</td>
<td>Mail survey with 60 companies; Case study with two Danish companies in the clothing and footwear industry</td>
</tr>
<tr>
<td>Sashi C.M., D.P. Karuppur</td>
<td>2002</td>
<td>Franchising in Global Markets: Towards a Conceptual Framework</td>
<td>International Marketing Review</td>
<td>The authors analysed factors that motivated market entry via international franchising and influenced the different incentive structures of initial fees and royalties in franchise agreements. A conceptual framework with several propositions (including two propositions on master international franchising) for an integrated multidisciplinary approach for franchising was developed.</td>
<td>AT and TCT</td>
<td>Conceptual approach</td>
<td>Propensity to franchise internationally</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Erramilli M.K., S. Agarwal, C.S Dev</td>
<td>2002</td>
<td>Choice between Non-equity Entry Modes: An Organizational Capability Perspective</td>
<td>Journal of International Business Studies</td>
<td>The study applied the organisational capabilities perspective to explain the choice of non-equity entry mode in the multinational hotel industry. The authors confirmed the choice of management service contracts (MSC) compared to franchising when immutability of resources and capabilities and availability of investment partners were high and availability of management capabilities was low. Franchising was preferred when the development of the local business environment was high.</td>
<td>RBT and OCT</td>
<td>Logistic regressions</td>
<td>Propensity to franchise internationally compared to MSC</td>
<td>P</td>
<td>139 franchising and MSC entry modes</td>
</tr>
<tr>
<td>Pak Y.S.</td>
<td>2002</td>
<td>The Effect of Strategic Motives on the Choice of Entry Modes: An Empirical Test of International Franchisers</td>
<td>Multinational Business Review</td>
<td>The choice between equity and contractual entry modes depends on the international franchisor's strategy, i.e. static market seeker or dynamic market learner approach. International market seekers are franchisors who recognise the significant role and take advantage of (exploit) foreign franchisees and thus, apply contractual modes to efficiently and quickly penetrate host markets. Dynamic market learners are franchisors who monitor foreign rival firms and apply equity entry modes to gain overall, global competitiveness with the accumulation (exploration) of new knowledge and organisational competencies in foreign markets.</td>
<td>-</td>
<td>Binary logistic regression</td>
<td>Foreign equity investment vs contractual mode choice</td>
<td>P</td>
<td>60 U.S. and 12 U.K. international franchisors</td>
</tr>
<tr>
<td>Castrogiovanni G.J., J.G. Combs, R.T. Justis</td>
<td>2006</td>
<td>Resource Scarcity and Agency Theory Predictions Concerning the Continued Use of Franchising in Multi-outlet Networks</td>
<td>Journal of Small Business Management</td>
<td>The study tested the change in the international franchisors' mix between company-owned and franchised outlets and confirmed that franchisors with wide multinational scope increased their proportion of franchised outlets while franchisors with large outlets and start-up costs emphasised company-owned outlets (agency-theoretic view). Furthermore, franchisors decreased their proportion of franchised outlets as they grew in size (resource scarcity view). However, contrary to the resource scarcity-based hypothesis, franchisor age was positively related to the subsequent proportion of franchised outlets.</td>
<td>Resource scarcity view and AT</td>
<td>Hierarchical regression analysis with three models</td>
<td>Change in the propensity to franchise internationally</td>
<td>S</td>
<td>439 U.S. franchisors</td>
</tr>
<tr>
<td>Picot-Coupey K.</td>
<td>2006</td>
<td>Determinants of International Retail Operation Mode Choice: Towards a Conceptual Framework Based on Evidence from French Specialised Retail Chains</td>
<td>International Review of Retail, Distribution and Consumer Research</td>
<td>Based on a multiple case study in the Franch international fashion retail industry, the author developed a conceptual model on the determining factors that influenced the operation mode choices in foreign markets. Operation modes were distinguished among the four dimensions of dissemination risk, control, flexibility and resource commitment, and their choice was influenced by the firm's international marketing policy and company profile and foreign market characteristics, and further moderated by the firm's internationalisation motives and relationship networks.</td>
<td>-</td>
<td>Multiple case study</td>
<td>Expansion mode choices</td>
<td>P</td>
<td>Six French international retail chains</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Publ. year</td>
<td>Study</td>
<td>Journal</td>
<td>Summary</td>
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<td>Sample size</td>
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<tr>
<td>Dunning J.H., Y.S. Pak, S. Belodra</td>
<td>2007</td>
<td>Foreign Ownership Strategies of UK and US International Franchisors: An Exploratory Application of Dunning’s Envelope Paradigm</td>
<td>International Business Review</td>
<td>The authors tested the influence of eight static and dynamic Ownership, Location and Internalisation (OLI) determinants on U.S. and U.K. franchisors’ choice of foreign market entry via equity ownership or franchising. The core assumption was based on the international franchisors’ strategic intent of both (static) resource exploitation and (dynamic) resource exploration. Specifically, the nationality of the firm (static O variable), recognition of foreign applicants’ role (static L variable) and acknowledgement of foreign locations as a source of learning (dynamic L variable) were found to be relevant with the franchisors’ international entry mode decisions.</td>
<td>Binary logistic regression</td>
<td>Propensity to franchise internationally</td>
<td>P</td>
<td>12 international U.K. franchisors and 60 international U.S. franchisors</td>
<td></td>
</tr>
<tr>
<td>Doherty A.M.</td>
<td>2007</td>
<td>The Internationalization of Retailing - Factors Influencing the Choice of Franchising as a Market Entry Strategy</td>
<td>International Journal of Service Industry Management</td>
<td>Multiple case study to explore the organisational and environmental factors that influenced the U.K. international fashion retailers choice between franchising and alternative entry modes, such as company-owned operations, in foreign markets.</td>
<td>-</td>
<td>Multiple case study</td>
<td>-</td>
<td>6 U.K. international fashion retailers</td>
<td></td>
</tr>
<tr>
<td>Picot, Couley K.</td>
<td>2009</td>
<td>Determinants of a Retailer’s Choice of International Expansion Mode: Conceptual Model and Empirical Validation</td>
<td>Recherche et Applications en Marketing</td>
<td>Based on the complex model on determinants influencing the operation mode choices of French international fashion retail chains (proposed by the author in her work of 2006, see above), several hypotheses were developed and tested with PLS approach.</td>
<td>PLS approach</td>
<td>Expansion mode choices</td>
<td>P</td>
<td>43 questionnaires of French fashion retailers</td>
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</table>

### INTERNATIONAL FRANCHISOR-FRANCHISEE RELATIONSHIP

<table>
<thead>
<tr>
<th>Autor(s)</th>
<th>Publ. year</th>
<th>Study</th>
<th>Journal</th>
<th>Summary</th>
<th>Applied theoretical perspective</th>
<th>Applied methodology</th>
<th>Dependent variable</th>
<th>Data</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dant R.P., N.I. Nasr</td>
<td>1998</td>
<td>Control Techniques and Upward Flow of Information in Franchising in Distant Markets: Conceptualization and Preliminary Evidence</td>
<td>Journal of Business Venturing</td>
<td>The study analysis the control techniques of U.S. franchisors and specific factors, i.e. repeat purchase industry, age of the franchise relationship, multi-unit franchising and host market competition, to reduce the information asymmetry and increase an efficient upward information flow by their franchisees located in the Middle East and Africa.</td>
<td>AT</td>
<td>Multiple Indicators and Multiple Causes model</td>
<td>Franchisees’ willingness to provide information to the franchisor</td>
<td>P</td>
<td>20 U.S. based international franchisors</td>
</tr>
<tr>
<td>Quinn B.</td>
<td>1999</td>
<td>Control and Support in an International Franchise Network</td>
<td>International Marketing Review</td>
<td>The study shows that non-coercive sources of power, i.e. the franchisor’s provision of support activities to franchisees, guaranteed a higher degree of control over international franchisees and their collaboration than did coercive sources of power (i.e. exercised through the franchise contract to ensure adherence to the franchise agreement and protection of the franchise trademark). However, at the initial phases of franchise network growth, the quantity and quality of franchisor support functions suffered from lack of local adaptation (cultural and legal), and high price and long delivery time.</td>
<td>-</td>
<td>Longitudinal ethnography</td>
<td>Franchisor coercive vs. non-coercive means of control over franchisees</td>
<td>P</td>
<td>One U.K. international retail franchise system operating in the natural-based body care market</td>
</tr>
<tr>
<td>Quinn B., A.M. Doherty</td>
<td>2000</td>
<td>Power and Control in International Retail Franchising - Evidence from Theory and Practice</td>
<td>International Marketing Review</td>
<td>The study observes that in an international setting, control through non-coercive franchisor support activities advocated by the marketing channel literature becomes more costly, and coercive sources of power (relating to agency theory), exercised through stipulated franchise contract terms, is more efficient. However, a precondition for effective contract enforcement is the existence of a strong and well-defined brand and concept. In the absence of these conditions, non-coercive sources of power may be the only way to influence franchisee behaviour and enhance control.</td>
<td>AT and Marketing Channel Literature</td>
<td>Longitudinal ethnography</td>
<td>Franchisor coercive and non-coercive control mechanisms over franchisees</td>
<td>P</td>
<td>One British retail franchise system operating in the natural-based body care market</td>
</tr>
<tr>
<td>Pizziari I., M. Lerner</td>
<td>2003</td>
<td>Examining Control and Autonomy in the Franchisor-Franchisee Relationship</td>
<td>International Small Business Journal</td>
<td>Based in the formal contract-related approach of agency theory and the dynamic approach of exchange theory, the study investigates and provides a concept on control and autonomy in the franchisor-franchisee relationship, which is influenced by four parameters, i.e. the franchising concept (simple versus complex), chain size, chain age and contract length.</td>
<td>AT and Exchange Theory</td>
<td>Multiple case study</td>
<td>Control vs. autonomy in the franchisor-franchisee relationship</td>
<td>P</td>
<td>One domestic-only Israeli fast-food chain and two U.S. international fast-food chains</td>
</tr>
</tbody>
</table>
The study examines the differences in contractual practices between domestic and Mexican franchisees, applied by U.S. and Canadian franchisors. According to P Six U.K. international agency theory, the financial structure of the franchise contract should provide franchisees with high powered incentives to decrease franchisor monitoring costs. The authors prove the legitimacy of marriage analogy rooted in the relationship marketing literature, and find the international franchisor-franchisee relationship passes through four stages, i.e. recognition of relationship need, partner search, evaluation of potential partners, and agreement, while being dominated by mutual attraction and trust. The study reveals a negative relationship between the observed tendency of U.S.-based fast-food franchisors to include large development commitments and master franchise venture survival in the foreign markets. Large commitments are due to bounded rationality by overestimating foreign market potential, power seeking to decrease franchisee opportunism or simple franchisor opportunism to gain market coverage and outrival competitors.

<table>
<thead>
<tr>
<th>Author(s)</th>
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<th>Sample size</th>
</tr>
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<tbody>
<tr>
<td>Doherty A.M., N. Alexander</td>
<td>2004</td>
<td>Relationship Development in International Retail Franchising Case Study Evidence from the UK Fashion Sector</td>
<td>European Journal of Marketing</td>
<td>The authors prove the legitimacy of marriage analogy rooted in the relationship marketing literature, and find the international franchisor-franchisee relationship passes through four stages, i.e. recognition of relationship need, partner search, evaluation of potential partners, and agreement, while being dominated by mutual attraction and trust.</td>
<td>Relationship marketing</td>
<td>Multiple case study</td>
<td>Different stages of the franchisor-franchisee relationship</td>
<td>P</td>
<td>Six U.K. international fashion retailers</td>
</tr>
<tr>
<td>Lafontaine F., J.E. Oxley</td>
<td>2004</td>
<td>International Franchising Practices in Mexico: Do Franchisors Customize Their Contracts?</td>
<td>Journal of Economics and Management Strategy</td>
<td>The study examines the differences in contractual practices between domestic and Mexican franchisees, applied by U.S. and Canadian franchisors. According to agency theory, the financial structure of the large franchise contract should provide franchisees with high powered incentives to decrease franchisor monitoring costs. Hence, in case of low customisation costs, contract customisation, i.e. lower royalty rates and initial fees, is predicted, due to a relatively unknown brand, while otherwise high-powered incentives may be achieved with an increased propensity to franchise compared to company-owned outlets in foreign markets. However, empirical evidence is found for increased similarities between domestic and cross-border contracting practises.</td>
<td>AT</td>
<td>Binary logit</td>
<td>Different fees and proportion of franchising in Mexico vs. home country</td>
<td>S</td>
<td>209 U.S. and Canadian franchise systems</td>
</tr>
<tr>
<td>Choo Stephen</td>
<td>2005</td>
<td>Determinants of Monitoring Capabilities in International Franchising: Foodservice Firms within East Asia</td>
<td>Asia Pacific Journal of Management</td>
<td>The author analysed the formal control mechanisms applied and capabilities needed by U.S. and Australian fast-food franchisors in order to prevent franchisee opportunism in East Asia. In particular, the franchisor’s ability to charge high initial fees (ex-ante bonding) depends on franchisor size and franchise and international experience, the application of restrictive performance schedules requires the ability to select appropriate franchisees, and exercising formal control in brand management implies having local market knowledge.</td>
<td>AT</td>
<td>Multiple case study</td>
<td>Franchisor monitoring capabilities</td>
<td>P</td>
<td>One U.S. and two Australian fast-food chains</td>
</tr>
<tr>
<td>Kalnins A.</td>
<td>2005</td>
<td>Overestimation and Venture Survival: An Empirical Analysis of Development Commitments in International Master Franchising Ventures</td>
<td>Journal of Economics and Management Strategy</td>
<td>The study reveals a negative relationship between the observed tendency of U.S.-based fast-food franchisors to include large development commitments and master franchise venture survival in the foreign markets. Large commitments are due to bounded rationality by overestimating foreign market potential, power seeking to decrease franchisee opportunism or simple franchisor opportunism to gain market coverage and outrival competitors.</td>
<td>-</td>
<td>Binary logit and Tobit analyses</td>
<td>Master franchise venture survival</td>
<td>S</td>
<td>142 international master franchise contracts by U.S. fast-food chains</td>
</tr>
<tr>
<td>Alltay L., S. Miles</td>
<td>2006</td>
<td>International Franchising Decision-making: An Application of Stakeholder Theory</td>
<td>The Service Industries Journal</td>
<td>The stakeholder approach reveals the importance of business culture compatibility, i.e. the firm’s understanding of organisational values and strategic direction, with the pre-contract stages of international franchising, i.e. the identification and selection of franchisees.</td>
<td>Stakeholder approach</td>
<td>Single case study</td>
<td>Decision-making process on franchisee selection</td>
<td>P</td>
<td>One multinational U.K. hotel group</td>
</tr>
<tr>
<td>Szulanski G., R.J. Jensen</td>
<td>2006</td>
<td>Presumptive Adaptation and the Effectiveness of Knowledge Transfer</td>
<td>Strategic Management Journal</td>
<td>The study shows that contrary to the traditional belief, presumptive adaptation, i.e. two or more changes of original, firm-specific practices, as quickly as possible to fit the local environment, is counterproductive on network growth and performance, and transfer effectiveness is enhanced with cautious, gradual adaptation, that copies/preserves the original as closely as possible.</td>
<td>-</td>
<td>Quasi-experiment</td>
<td>Transfer effectiveness with presumptive adaptation</td>
<td>P</td>
<td>One Israeli service master franchisor</td>
</tr>
<tr>
<td>Paik Y., D.Y. Choi</td>
<td>2007</td>
<td>Control, Autonomy and Collaboration in the Fast Food Industry</td>
<td>International Small Business Journal</td>
<td>The study analysis the different levels of control and autonomy of U.S. franchisees exercised over their domestic (U.S.) and international franchisees in the fast-food sector. In particular for activities concerning local market adaptation, marketing and location selection more autonomy is granted to international franchisees. The foreign franchisee's level of autonomy grows with local success, multi-unit ownership format, market growth stage and low competition, while it is unaffected by the franchisee’s experience and results in more collaboration with increased competitive level.</td>
<td>AT, marketing channel theory, resource-dependency theory</td>
<td>Multiple case study</td>
<td>Control vs. Autonomy in the international franchisor-franchisee relationship</td>
<td>P</td>
<td>Five U.S. international fast-food chains</td>
</tr>
<tr>
<td>Author(s)</td>
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<tr>
<td>Szulanski G., R.J. Jensen</td>
<td>2008</td>
<td>Growing Through Copying: The Negative Consequence of Innovation on Franchise Network Growth</td>
<td>Research Policy</td>
<td>The study analysis MBE's cross-border franchising activities and the transfer of complex, causally ambiguous and imperfectly understood productive processes on network growth. It proves a positive effect of copying more exactly in the initial years and, inversely, a negative effect of quick, presumptive innovation (adaptation) to fit the local environment, on local network growth.</td>
<td>-</td>
<td>Baltagi-Wu panel data regression</td>
<td>Network growth</td>
<td>P 23 national master franchise networks</td>
<td></td>
</tr>
<tr>
<td>Doherty A.M.</td>
<td>2009</td>
<td>Market and Partner Selection Processes in International Retail Franchising</td>
<td>Journal of Business Research</td>
<td>The study identifies the strategic and opportunistic market and partner selection process and finds that strategic-oriented firms first screen the host market on key economic and demograhic criteria before they select potential partners on basis of financial stability, business knowhow, local market knowhow and the chemistry between partners, whereas the opportunistic selection is guided by a partner approach, for example attracted by the firm's brand, and opportunistic selection on basis of financial stability and business plan, determining market selection.</td>
<td>-</td>
<td>Multiple case study</td>
<td>Market and partner selection process</td>
<td>P Six U.K. international fashion retailers</td>
<td></td>
</tr>
<tr>
<td>Grewal D., G.R. Iyer, R.G. Javalgi, L. Radulovich</td>
<td>2011</td>
<td>Franchise Partnership and International Expansion: A Conceptual Framework and Research Propositions</td>
<td>Entrepreneurship Theory and Practice</td>
<td>The study explores the entrepreneurial orientation of franchisor and franchisees, their interdependence in the franchise partnership and the positive impact on franchise expansion in terms of speed, scale and scope, and strategic and financial system performance. In addition, the moderator effects of franchise resources increase network performance, such as local market knowledge, marketing capability and relationship-specific investments, business/market conditions (e.g. laws and regulations, market/opportunities and conditions) and environmental uncertainty.</td>
<td>AT, TCT, RB1, resource scarcity view, signaling theory</td>
<td>Conceptual Approach</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Walker B.J., M.J. Etzel</td>
<td>1973</td>
<td>The Internationalization of U.S. Franchise Systems: Progress and Procedures</td>
<td>Journal of Marketing</td>
<td>The study surveys the entry strategies applied by U.S. international franchisors, such as single-unit franchisers, master (area) franchisers and company owned outlets. Foreign expansion usually initiates in Canada, followed by Mexico, Australia, England and Japan. Foreign franchisers are recruited by using trade magazines, or business and local newspapers, and franchisers receive a standardised training package, consisting of training manual, classroom training and/or on-the-job training. The study also summarises the most frequently quoted problems encountered in establishing franchises in foreign countries.</td>
<td>-</td>
<td>Descriptive statistics</td>
<td>N.A.</td>
<td>P 70 U.S. international franchise systems</td>
<td></td>
</tr>
<tr>
<td>Hackett D.W.</td>
<td>1976</td>
<td>The International Expansion of U.S. Franchise Systems: Status and Strategies</td>
<td>Journal of International Business Studies</td>
<td>The study surveys the most frequently used international franchise types by U.S. franchisors and the major reasons for choosing them. Single-unit franchising is preferred to penetrate foreign markets and reduce (financial) risk, master or area franchising provides control and coordination advantages, and the establishment of majority or minority joint ventures is due to local legal requirements, financial considerations and risk reduction.</td>
<td>-</td>
<td>Descriptive statistics and Kendall's coefficient of concordance</td>
<td>N.A.</td>
<td>P 85 U.S. international franchise systems</td>
<td></td>
</tr>
<tr>
<td>Chan P.S., R.T. Justis</td>
<td>1990</td>
<td>Franchise Management in East Asia</td>
<td>Academy of Management Executive</td>
<td>The study describes the applied franchise modes applied by U.S. franchisors with the expansion to East Asia. Master franchising is the most frequently applied one, followed by direct single-unit franchising and joint venture franchising. The major benefits of master franchising and joint venture franchising are the local partner's understanding about political and bureaucratic problems and his cultural familiarity. Joint venture franchising may often be the only available option to enter the Asian market, as local governments restrict foreign direct investments, and hence, the establishment of wholly-owned subsidiaries and company-owned units is rarely used in East Asia.</td>
<td>-</td>
<td>Qualitative approach</td>
<td>U.S. international entry mode choices into East Asian market</td>
<td>S</td>
<td>N.A.</td>
</tr>
<tr>
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<tr>
<td>Konigsberg A.S.</td>
<td>1991</td>
<td>Analyzing the International Franchise Opportunity</td>
<td>In: Gramatidis, Y./Campbell, D. (eds.), International Franchising: An In-Depth Treatment of Business and Legal Techniques, Deventer: Kluwer 1991.</td>
<td>The paper summarises the advantages and disadvantages of international franchising and the different international franchise modes, i.e. direct franchising, such as single-unit franchising, area development franchising and franchising through the establishment of a wholly-owned subsidiary, indirect franchising (master franchising) and joint venture franchising. The mode selection criteria are also discussed, such as availability of human resources, financial resources and communication systems, geographic and cultural distance, political systems/stability, legal systems and specific restrictions, economic development, nature of products/services and training of franchisees.</td>
<td>-</td>
<td>Conceptual approach</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Chan P.S., R.T. Justis</td>
<td>1992</td>
<td>Franchising in the EC: 1992 and Beyond</td>
<td>Journal of Small Business Management</td>
<td>The study explores the impact of specific factors on the entry mode choices applied by well-known international U.S. franchisors to expand into the European Community, such as master franchising, joint venture franchising and wholly-owned subsidiaries and corporate outlets.</td>
<td>-</td>
<td>Qualitative approach</td>
<td>U.S. international entry mode choices into the European Community</td>
<td>S</td>
<td>N.A.</td>
</tr>
<tr>
<td>Zietlow D.S.</td>
<td>1995</td>
<td>Wholesalers in International Franchising</td>
<td>Illinois Business Review</td>
<td>The author defines the different international franchise modes, i.e. direct single-unit franchising, the establishment of a wholly-owned subsidiary, area development franchising, master franchising and joint venture franchising. The survey on U.S. franchisors' international mode choices reveals that master franchising, followed by area development franchising is the most frequently applied strategy, while wholly-owned subsidiaries and joint venture franchising are less popular.</td>
<td>-</td>
<td>Descriptive statistics</td>
<td>N.A.</td>
<td>P</td>
<td>43 U.S. international franchisors</td>
</tr>
<tr>
<td>Ryans J.K., S. Lotz, R. Krampf</td>
<td>1999</td>
<td>Do Master Franchisors Drive Global Franchising</td>
<td>Marketing Management</td>
<td>The study explains the advantages and resulting increase in the use of cross-border master franchising. It surveys the disadvantages and challenges perceived by U.S. franchisors with international master franchising, i.e. the master franchisors' inefficient communication with their sub-franchisees and the franchisors' lack of control over master franchisors.</td>
<td>-</td>
<td>Descriptive statistics</td>
<td>N.A.</td>
<td>P</td>
<td>39 U.S. international franchisors</td>
</tr>
<tr>
<td>Burton F., A.R. Cross, M. Rhodes</td>
<td>2000</td>
<td>Foreign Market Servicing Strategies of UK Franchisors: An Empirical Enquiry from a Transaction Cost Perspective</td>
<td>Management International Review</td>
<td>The study tests the impact of firm-specific and location-specific factors on transaction costs (monitoring costs, search costs, servicing costs, property rights protection costs, intermediary-related costs) associated with the choice of different franchise modes when expanding to host countries, i.e. direct franchising and franchising with an intermediary (area developer or master franchisor).</td>
<td>TCT</td>
<td>Multinomial and binomial probit model</td>
<td>Direct (single-unit) franchising vs. master &amp; area development franchising</td>
<td>P</td>
<td>15 U.K. international franchise systems</td>
</tr>
<tr>
<td>Preble J.F., A. Reichel, R.C. Hoffman</td>
<td>2000</td>
<td>Strategic Alliances for Competitive Advantage: Evidence from Israel's Hospitality and Tourism Industry</td>
<td>International Journal of Hospitality Management</td>
<td>The paper outlines the advantages and disadvantages of strategic alliances in the Israeli hospitality and restaurant industry. Popular examples include Days Inns, Meridian Hotels, Domino's Pizza and McDonald's who use direct franchising and master franchising, through converting existing local entrepreneurs, as successful entry modes into the Israeli market.</td>
<td>-</td>
<td>Multiple case study</td>
<td>N.A.</td>
<td>S</td>
<td>Three international hotel chains and two fast-food chains</td>
</tr>
<tr>
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<tr>
<td>Jones G.</td>
<td>2003</td>
<td>Middle East Expansion - The Case of Debenhams</td>
<td>International Journal of Retail &amp; Distribution Management</td>
<td>The author analysis the environmental conditions for retail expansion into the middle East, such as policy restrictions on foreign direct investments, weak political structures and diverse demographics and psychographics on the one side and the modernisation of economies with low tariffs and a wealthy, fast growing population on the other side. The study describes the opportunistic partner approach of U.K. department store Debenhams by M&amp;H Alshaya, a wealthy family in the Middle East region who, beside Debenhams, operates several other international franchise brands under separate area development agreements.</td>
<td>Single case study</td>
<td>N.A.</td>
<td>P</td>
<td>N.A.</td>
<td>P</td>
</tr>
<tr>
<td>Frazer L.</td>
<td>2003</td>
<td>Exporting Retail Franchises to China</td>
<td>Journal of Asia Pacific Marketing</td>
<td>The paper outlines the advantages and problems encountered by Australian franchisors with expanding into China. The case study on Australian fast-food retail franchisors reveals three governance modes, i.e. master franchising, joint venture franchising and company-owned operations. The main problem and challenges experienced are finding reliable partners pant product adaptations to local consumer taste preferences.</td>
<td>-</td>
<td>Multiple case study</td>
<td>N.A.</td>
<td>P</td>
<td>Nine Australian fast-food retail franchise systems</td>
</tr>
<tr>
<td>Hoffman R.C., J.F. Preble</td>
<td>2003</td>
<td>Convert to Compete: Competitive Advantage through Conversion Franchising</td>
<td>Journal of Small Business Management</td>
<td>Based in resource-based arguments, conversion franchising is positively related to gaining local brand awareness and increased franchisor experience and managerial capabilities. The study further confirms an increased competitive advantage through domestic and international conversion franchising, e.g. acquisition of the local franchisees' economic resources (e.g. location resources, human resources, existing customer base), market knowledge (e.g. local conditions, customer preferences) and franchise knowledge.</td>
<td>RBT and OCT</td>
<td>Discriminant correlation analysis</td>
<td>Decision to use conversion franchising</td>
<td>P</td>
<td>72 North American franchisors</td>
</tr>
<tr>
<td>Preble J.F., R.C. Hoffman</td>
<td>2006</td>
<td>Strategies for Business Format Franchisors to Expand into Global Markets</td>
<td>Journal of Marketing Channels</td>
<td>The paper offers a contingency model on strategy formulation and implementation to franchisors, seeking competitive advantage with expanding to foreign markets. Based on the franchisors' experience and capabilities, and varied host market conditions (i.e. rapid growth, complex and competitive), the authors match two sets of strategies, i.e. the traditional generic franchise forms (direct franchising, area development franchising and master franchising) with strategic approaches (first-mover, platform and conversion), creating combination strategies for achieving competitive advantage in similar versus dissimilar global markets. The strategy relationships are summarised in three multipart propositions for future empirical testing.</td>
<td>-</td>
<td>Conceptual approach</td>
<td>Decision to use direct, area development and master franchising, under different strategic market conditions</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Garg V.K., A.A. Rasheed</td>
<td>2006</td>
<td>An Explanation of International Franchisors' Preference for Multi-Unit Franchising</td>
<td>International Journal of Entrepreneurship</td>
<td>The paper explains the advantages of international multi-unit franchising (IMUF) compared to international single-unit franchising (ISUF), particularly in solving agency problems. IMUF is able to reduce the franchisor's agency costs encountered with ISUF, such as shirking, increased monitoring costs due to dealing with many single franchisees (recruiting, selecting, training), free-riding and inefficient upward information sharing due to the multi-unit franchisee's higher investment in the multi-unit chain and hence long-term-profit orientation. Furthermore, inefficient risk-bearing (under-investment) is also reduced with IMUF, as the multi-unit franchisee can diversify his investment portfolio and amortise investment costs on multiple outlets. In addition, the risk of quasi-rent appropriation by both parties, franchisor and franchisee, is decreased due to the mutual interest in an ongoing partnership.</td>
<td>AT</td>
<td>Conceptual approach</td>
<td>Propensity to use international multi-unit franchising compared to single-unit franchising</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Publ. year</td>
<td>Study</td>
<td>Journal</td>
<td>Summary</td>
<td>Applied theoretical perspective</td>
<td>Applied methodology</td>
<td>Dependent variable</td>
<td>Data</td>
<td>Sample size</td>
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<td>Alon I.</td>
<td>2006</td>
<td>Market Conditions Favoring Master International Franchising</td>
<td>Multinational Business Review</td>
<td>The author develops nine propositions regarding the propensity to international master franchising, based on three economic variables (market size/potential, intensity of competition, demand variability), three social considerations (franchising acceptance/knowledge, entrepreneurial culture, geographical and cultural distance) and three political/legal considerations (country risk, corruption, legal framework).</td>
<td>-</td>
<td>Conceptual approach</td>
<td>Propensity to use master international franchising</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Choo S., T. Mazzarol, G. Soutar</td>
<td>2007</td>
<td>The Selection of International Retail Franchisees in East Asia</td>
<td>Asia Pacific Journal of Marketing and Logistics</td>
<td>The paper shows that U.S. food service retailers lack international franchise experience in Singapore and subsequently are depending on local partner resources to successfully implement, adapt and grow the brand in East Asia. Therefore, careful franchisee selection based on resources, such as financial strength, local knowledge and access to prime retail sites, is critical.</td>
<td>Resource scarcity view</td>
<td>Multiple case study</td>
<td>Importance of franchisee resources for franchise system performance</td>
<td>P</td>
<td>Five U.S. international food retail franchise systems</td>
</tr>
<tr>
<td>Chen H.</td>
<td>2010</td>
<td>The Explanations of Agency Theory on International Multi-unit Franchising in the Taiwanese Marketplace</td>
<td>International Journal of Organizational Innovation</td>
<td>The paper provides insights in the preference of American food franchise systems to enter Taiwanese markets via multi-unit area development franchising compared to single-unit and sequential multi-unit franchising, which is influenced by the criteria of selection of area developer, franchisee opportunism (e.g. free-riding, under investment, inefficient upward information sharing), adverse selection minimisation, franchise system uniformity and the Taiwanese culture.</td>
<td>AT</td>
<td>Multiple case study</td>
<td>International expansion via (multi-unit) area development franchising</td>
<td>P</td>
<td>Four U.S. international food franchise systems</td>
</tr>
<tr>
<td>Brookes M., A. Roper</td>
<td>2011</td>
<td>International master franchise agreements: An investigation of control from operational, relational and evolutionary perspectives</td>
<td>European Journal of Marketing</td>
<td>The authors examine the inter-organizational processes (i.e. for quality and financial control, decision-making, co-ordination, and communication) used to control international master franchise agreements from operational, relational and evolutionary perspectives. The case study highlights that these processes are decentralised in the formation stage, centralised in the development stage and decentralised in the maturity stage.</td>
<td>-</td>
<td>Single case study</td>
<td>Control within international master franchise agreements</td>
<td>P</td>
<td>One U.S.-based hotel franchisor</td>
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S (Secondary data), P (Primary data), AT (Agency theory), TCT (Transaction cost theory), RBT (Resource-based theory), OCT (Organisational capabilities theory)