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A Study of the Impact of Culture on International Business Format Franchising: The Case of Taiwan

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A study of the impact of culture on international

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Teresa (Hui-Heng) Chen

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This work has not previously been submitted for a degree or diploma in any university.

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     Teresa (Hui-Heng) Chen

ABSTRACT

The focus of this research thesis is to examine the impact of culture on international franchising strategies adopted by American and Japanese international franchisors when entering Taiwan. Franchising has, over many decades, been demonstrated as a highly successfully means of engaging in commercial business operations. Franchising is a market related business method that is based on contractual arrangements that delineate responsibilities, decision rights and resources of the franchisor and franchisee. There are two recognised franchise systems comprising of the product/trade-name system and the business format franchise systems. In contrast to the product/trade-name system, the business format franchise system provides a complete and proven system of business operations and establishes an ongoing support relationship between franchisor and franchisees. In this thesis, the focus will be upon the business format franchise system.

Franchising has expanded rapidly in domestic markets and also in the international marketplace. Franchisors have developed consumer confidence in their products/services and brand names through store design, recognisable arrangement of merchandise and high levels of service, which are consistent across franchise outlets. Franchisors provide customers with a range of quality-controlled options both in service industries and the consumer goods market. Customers trust the reliability and consistency of franchise brands and consequently, choose franchised products over lesser-known products. International franchisors have been able to increasingly take advantage of successful brand identities to advance and operationalise well-developed business packages. Franchise companies are able to penetrate international borders using their iconic status as a platform, while their prior-developed and successful business

structures enable them to minimise both cost and risk in international set-up. The growth and dynamics of franchising are examined in this research.

There are three distinct theoretical frameworks offered to explain the unique franchisee mode of entry: firstly, the resource-based perspective; secondly, the economics-based perspective; and thirdly, the information asymmetry perspective. These factors will be discussed in this research.

Resource scarcity theory promotes the notion that franchising is a means for overcoming capital and managerial constraints in the overseas marketplace. Local franchisees are usually able to provide financial capital, a board of knowledge of local customs and market conditions, economic networks and important political affiliations to international franchisors. On the cost and risk continuum, franchising, as a transferable business format, can be seen as a relatively low risk and low cost option.

Agency theory is underpinned by the concept of relationships, where one person acts on behalf of another for mutual benefit. In the franchising context, the two actors in the relationship are the franchisor and franchisee. The arrangement between both parties, if it is functioning properly, results in benefits that are greater than if each party acted alone. However, the more diverse and culturally distant that the market of origin is from the newly intended market, the greater the need is for adaptation. Supporting and maintaining franchises is more complex and potentially difficult when cultural contexts are traversed and the distance between franchises is great. This may result in international franchise monitoring costs being significantly higher than those incurred by

the local business franchisor. As a result, the direction of international activity focuses on international expansion with geographically and culturally aligned markets.

The information asymmetry theory is aligned closely to agency theory and it is important to note its impact on franchising. Franchising covers a wide range of service industries which often contain considerable intangible assets. Information transfers are highly complex especially in an international arena where culture, language and business practices and conventions are often disparate from one another. The degree of intangible assets combined with the complexity of information transferred will exacerbate the problems of information asymmetry.

Franchising is a now a global phenomenon which has proven to be highly popular in many developed and developing countries. However, most companies engaging in international expansion must make necessary adjustments to their product, services, operations, human resource trends and/or business formats. Further, success in the domestic market does not guarantee successful outcomes in the international marketplace. Customers' needs, wants and demands are often more complex in the international arena and managing resources, especially staff, may become problematic due to the need to adopt different cultural values.

Each country culture has different customs, languages and laws which make cross-border expansion more challenging and potentially problematic. Understanding cultural differences and making necessary adjustments is an imperative foundational assumption for successful outcomes for both franchisors and franchisees. This research

is directed to cultural adaptation and is designed to explore the following broad research question:

> *How does culture impact on franchisor and franchisee marketing and management decisions when adapting to an international environment, specifically when Japanese and American food industries enter Taiwan?*

Cultural adaptation in the context of international franchising has not received extensive attention in the research literature. This is especially true of the Taiwanese situation, which is the focus of this research. Taiwan is a significant context for examining franchising in the economy due to the political and cultural idiosyncrasies it presents and a lack of research in this country domain. According to the Taiwan Chain Store Franchise Association (TCSFA, 2009), there were over 1,300 franchise firms and 87,894 franchised outlets operating in the nation in 2008. International franchise plays an important role in the development of the Taiwanese franchising industry. Japan and America represent the two major home countries for franchise organisations expanding into Taiwan. Taiwan has a unique culture, as indicated in many studies, and this has been extensively explored in Hofstede's cultural dimensions. Hofstede's cultural dimensions refer to power versus distance, individualism versus collectivism, uncertainly versus avoidance, masculinity versus femininity, and long-term versus short-term orientation. These dimensions have been widely applied to international marketing and business strategy studies.

The methods adopted for this investigation are multiple case studies, expert panel determinations, and in-depth interviews with American and Japanese-based international

franchisors in Taiwan. Qualitative research data will be used to assist in developing a model using thematic analysis.

This research will provide significant insight to academics, marketers, government policy makers and franchise associations through the following managerial and academic contributions:

1. Area development franchising, a multi-unit outlet mode, is a popular entry mode for international franchisors operating in Taiwan. The rationale for the use of area development franchising includes accumulated special assets, profits, protection of brand equity and Taiwanese culture.

Multi-unit outlets can reduce the problems of free-riding and underinvestment, a common problem inherent in Taiwanese culture. Franchise is conceptualised in vastly different ways within Taiwanese culture, which contrast and conflict with assumptions held by franchisors operating within developed nations. A franchised business is regarded within Taiwanese culture as a family business. It has minimal management structure, a low level of staff skill and is dominantly cash-based. It most clearly resembles the 1990 Chinese Family Business (CFB) management style. The CFB management style has become the dominant form of overseas Chinese business organisation, and one of the major forms of Asian business within Asia itself. Under this management style, franchisees assume that the franchise outlet, its products and its profits are the sole domain of the core owning family. This can lead to endemic problems such as free-riding and brand hijacking. In addition, the legislative protection of intellectual property does not appear to be respected in most parts of Asia. These

attitudes increase the probability of "brand hijacking" behaviours once franchisees have gained the operational know-how in running the business.

2. Empirical investigation conducted in this research identified that there are two central control mechanisms. These are transactional mechanisms in the form of contract, relational mechanisms in the form of trust, cooperation and communication within the franchise network, information exchange and the harmonization of conflict. The use of area development franchising emerges from qualitative findings as a further control mechanism available to international franchisors.

Further, this investigation indicated that, when developing cross-cultural franchises within a Taiwanese cultural context, relational mechanisms promote more effective and successful franchise operations than do contract-based relationships. The Chinese respect for harmony within guanxi cultures such as in Taiwan, mean that problems are solved through cultural practices of mediation and compromise rather than through the legal system. Therefore, the use of contracts is a highly ineffective method for dealing with arguments between the franchisor and franchisee.

3. The empirical investigation of the research identifies organisational, strategic and environmental factors as the main drivers influencing the international franchisors choice of entry mode when entering the Taiwanese marketplace. Further, international experience of the firm, the firm size, brand name asset specificity and the capability in distance management emerged as influencing factors. In addition local market complexities and the cultural distance surfaced as important factors.

4. The empirical investigation of the research indicated that modifications in the service marketing mix are an inevitable course of action for successful franchise arrangements within the Taiwanese marketplace. The adaptations of peripheral components of format include the product-mix, local marketing, pricing structure and human relations practices.

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Teresa (Hui Heng) Chen

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Chapter 1 Introduction

1.1 Background of the Research

Franchising is a market related business method that is based on contractual arrangements that define responsibilities, decision rights and resources of the franchisors and the franchisees. It has become an increasingly popular business method globally over the past three decades. Franchising originated in the United States of America which is herein referred to as the U.S.A or America. According to the International Franchising Association (IFA) in the U.S.A in 2005, there were over 900,000 established franchise outlets, providing more than 11 million jobs with an annual payroll of U.S.$ 278.6 billion. This trend is still advancing.

There are essentially two different types of franchise systems, the product/trade-name system and the business format franchise system. The majority of franchise growth has been attributed to the business format franchising system (Chan & Soon, 1992; Felstead, 1994), which requires franchisees to replicate, in different locations, the entire franchisor's business concept other than the right to use its trademark.

Franchising is not just a U.S. phenomenon. It has proven highly popular on an international scale. Franchising is common in Europe, parts of Asia, Australia and New Zealand (Chan & Justis , 1990; Preble & Hoffman , 1995). Asian markets are becoming increasingly attractive to existing franchisees, providing opportunities for international

expansion when market saturation is reached in their home countries. Many industries enter

international markets as their home markets become mature and offer little potential for economic growth. Meanwhile, Asian markets are largely unsaturated and poised for growth. Further, customers in these countries often have a high desire for western product/services. The popularity of international franchising in Asia grew exponentially in the 1980s when international franchisors moved toward acquiring an international presence. This included franchises in: the fast food industry, such as McDonalds, Kentucky Fried Chicken and Pizza Hut; the service industry, such as, Avis, Hilton and Mister Minit; and general retail, such as 7-eleven, The Body Shop and United Colors of Benetton (TDB & Arthur Andersen, 1997). The overwhelming success enjoyed by these businesses spawned further interest among international franchisors to expand their borders into Asia.

The development of international franchising in Taiwan began in the 1980s and reached a peak in the 1990s. Currently there are over ten large franchise systems in Taiwan from America and Japan, including 7-11 convenience stores, McDonalds and Mos Burger. Taiwan has been considered one of Four Asian Dragons that have become the fastest-growing economies in the Asian region after World War II. International franchisors were attracted to Taiwan because of the political stability, economic status and growth, a rising middle class and concurrent rise of dual wage-earning families. The popularity and success of franchising systems has also been fostered by the liberalisation of media, the influence of westernised education, the emergence of the internet, and increasing frequency (and falling costs) of international travel.

Although these positive indicators seem to facilitate the entry of franchises into the Taiwanese market, not all companies are suited to international expansion without significant adjustments to production, operation or format. For example, McDonalds spent a prolonged period of time adapting their market position and developing a marketing strategy to meet the demands of Taiwanese customers. Similarly, many franchisors must make substantial changes in order to adapt appropriately to a foreign market context. Their success will depend significantly on their ability to develop a strategy that is sensitive to the particular characteristics of a local market.

Understanding national culture is an important factor when making adjustments to processes, strategies, programs, products and service adaptations (Hite & Fraser 1988; Thompson & Merrilees, 2001). Cultural distance refers to the difference in cultural variables and includes aspects such as religion, language, material culture and social organisation between the host and home countries (Eroglu, 1992). The greater the cultural difference, the more challenging it is for franchisors to transfer a franchising system from their home country (Aydin & Kacker, 1990; Fladmoe-Lindquist, 1996). That is because the franchise design and its management system are often embedded in the cultural roots of the franchisor's home country (Huszagh et al, 1992). Various practices of the franchisor may not be transferred easily from one country to another (Welsh et al, 2006). In international franchising, culture will affect the internal management, operational business practices, and performance evaluation strategies (Eroglu, 1992; Sadi, 1994; Fladmoe-Lindquist, 1996; Alon & Mckee, 1999; Thompson & Merrilees, 2001; Choo, 2005). Others that would not easily be transferred are business practices, such as contract negotiations with franchisees (Combs & Castrogiovanni, 1994; Shane, 1996a), and day-to day practice of product, price, promotion and

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distribution strategies (Preble, 1992 ; Sadi, 1994 ; Quinn, 1998). Further, human resource management issues such as recruitment, reward, selection, the training of franchisees (Fladmoe-Lindquist, 1996 ; Justis & Judd, 2003 ; Choo, 2005), and the implementation arrangement of the relationship of franchisor and franchisee (Forward & Fulop, 1997 ; Justis & Judd, 2003). In order to create competitive advantage in the international marketplace, it is important that franchise management create a uniform brand and business strategy on an international level, while making adaptations on a local level to be market competitive and culturally attuned.

Despite the dramatic growth in franchising as an international business model, studies on international franchising remain relatively poor and sparse. Most international franchising studies have been conducted since the 1990s and have focused on exploring international franchising (Welch, 1990, 1992 ; Aydin & Kacker, 1990 ; Huszgh et al, 1992 ; Quinn, 1998). Before that period of time there was a scarcity of surveyed and conceptual research on the topic of availability, which was mainly directed at American-based franchisors (Walker & Etzel , 1973 ; Hackett, 1976 ; Grant, 1985).

This thesis examines the specific context of international franchising and the actual strategies employed by international franchisors in developing systems to serve the foreign market. In particular, it identifies international strategy adjustments made by franchise businesses in order to succeed in the Taiwanese marketplace. Within the Asian market, and particularly in Taiwan, international franchising is growing faster than domestic franchising. Taiwan is one of the Four Asian Tigers with the second most high-density population in the world. It is considered to be a fast growing economy and with rapidly changing customer tastes (Hoffman & Preble, 2004). These factors enable

franchisors to use Taiwan as the platform for introducing new and different products and services to a primed market, which is also strategically, close in relationship to the giant Chinese mainland market.

This research will contribute to academic knowledge of international franchising and provide insights that will be of practical benefit to managers within the Asian regions, particularly the Taiwanese marketplace. It will provide an understanding of the common difficulties and challenges encountered by franchisors seeking to enter or expand into this marketplace. This research may better position managers of franchises to avoid common pitfalls. Further, it will provide international managers with an awareness of the need to develop innovative and flexible marketing strategies that are responsive to the needs and wants of target foreign markets.

1.2 Research Objective

This research investigates the influences of Taiwanese culture on the development of international franchising strategies for a Taiwanese market in order to determine the following: what is an effective rationale for entering the Taiwanese marketplace; how can an international franchise relationship best be established; what variables should be adjusted to accommodate Taiwanese cultural peculiarities and; what variables should be maintained in order to perpetuate crucial and salient brand imaging?

Shane (1996a) suggests that the skills and abilities needed to franchise abroad are quite different from those needed to franchise domestically. Cultural imperatives will have a significant impact on the adoption pattern and acceptability to the market of any

franchise system. Since franchise systems tend to be mostly service-based industries, they inherently involve a high level of human resources, with a high level likelihood of cultural incompatibility in foreign environments. Research on international franchising is limited, especially in relation to investigations that explore cultural determinants. A better understanding of the relationship between culture and business practices in Taiwan is needed since it is a large and has a rapidly growing, and valuable, market potential.

Thus, this research is focused on examining the role of culture on the international franchising strategy. The thesis attempts to address the following broad research question:

How does culture impact on franchisor and franchisee marketing and management decisions when adapting to an international environment, specifically when Japanese and American food industries enter Taiwan?

The second purpose of the research is to ascertain the adaptation of the peripheral components of format. Specifically, it seeks to determine which parts of the franchising systems should be standardized and which parts of the system should be customized to local preferences. The franchise system can take advantage of standardization of the brand, product and format that franchisees receive. However, this brings about dilemmas when expanding internationally. Thus, the key issue examined in this research is how to balance adaptation and standardization in order to be successful internationally. Reaching a balance is particularly challenging in geographical and culturally different hosts countries. It should be determined how the franchise needs to adapt to its new cultural environment without losing brand image and its familiar format.

1.3 Justification for the Research

There is a lack of research regarding international franchising systems operating in Taiwan: however, the franchise industry makes a strong contribution to the Taiwanese economy. On this basis the research is considered justified. This section considers, first, the specific impact of franchising systems to the Taiwanese economy, and second, the lack of research. Finally, the specific contribution this research makes to the literature is detailed.

Besides manufacturing and agriculture, the services industry is a major economic contributor in Taiwan. According to a survey of official statistics, the total sales of the services retailing industry for 2005 in Taiwan reached approximately US$100 billion in which the franchising systems accounted for US$38 billion. Thus, the franchise industry contributed more than one-third to retail services industry earnings, representing about ten percent of the total GDP in Taiwan. In addition, the franchise industry has made a strong contribution to the economy and has provided considerable new employment opportunities.

During the past two decades, the Taiwanese economy has changed from being strongly dependent on manufacturing to relying on service industries and, in particular, franchise business formats. Domestic franchising started in the 1950s and gained momentum until the 1990s when leading international franchise systems achieved greater success in Taiwan. They brought with them a higher standard of service quality and a broader brand recognition that required domestic enterprises to adjust their skill sets and expand

their understanding. Today, international businesses dominate the franchise industries in terms of the numbers of outlets and market share. Thus, international enterprises have made a strong contribution to Taiwan's economy and have provided considerable new products, services, experience and knowledge.

Franchise business formatting originated in western countries and expanded into Asian regions in the past two decades. Franchisors may provide practical support to franchisees in terms of site selection, outlet design and finance. They also assist in helping train the local workforce with respect to operational procedures, management practices and accounting methods. This is done according to operational guidelines which serve as the backbone to the franchise agreement. However, these business formats are mostly used in western countries and their validity and implications vary from country to country. Taiwan is a country that has been strongly influenced by Confucianism where the Chinese are taught to be loyal and committed to the organisations they belong to (Lee, 2003). Western managerial phenomena may therefore not be applicable in the Chinese cultural context (Tang, 1998). Therefore, it is necessary to conduct research that examines the actual operations and investigates their relationship within the Chinese setting.

This research provides a conceptual model of the international franchising strategy. It explores the different paths followed by companies and the types of entry agreements used. In particular, it investigates the extent of standardization versus adaption across international markets that an international franchisor needs to develop or acquire, in order to gain a competitive edge in Taiwan. The research also considers differences and

commonalities between American businesses and Japanese businesses operating in Taiwan.

1.4 Research Methodology

This research aims to identify the distinctive strategies employed by franchisors in foreign markets as they relate to the changes in culture. As most studies have been undertaken in the manufacturing industry, international franchising, which is most commonly service-based, is a new phenomenon. As such, there is lack of study in this area and consequently this research commences with an exploratory qualitative study to obtain the broad context in which these conditions occur.

The method adopted for this investigative document involves the use of multiple case studies, one-on-one in-depth interviews and an expert panel within U.S.A.-based and Japanese-based international food franchisors in Taiwan. Thematic analysis is used to assist in developing a model, which is examined in chapter four.

1.5 Definition of Terms

The key terms used in this study are arranged in alphabetical order, and defined as follows:

Franchise business format – the entire franchisor's business concept, including the marketing strategy, plan, the operating manual, standards, and quality control.

International franchising- a foreign market entry mode that involves a relationship between the entrant (the franchisor) and a host country entity, where the former transfers, under contract, a business package (or format), which it has developed.

International franchising strategy - the set of controllable components of the franchise business format in operation overseas.

Taiwanese culture– based on Hofstede's dimensions of culture – power versus distance, individualism versus collectivism, uncertainly versus avoidance, masculinity versus femininity, and long-term versus short-term orientation.

1.6 Structure of the Study

The research has adapted Perry's (1998) five chapter thesis by expanding it into seven chapters.

Chapter one introduces the background to this research, provides a justification for research and details the research objectives and contributions. Moreover, it discusses the methodologies used, and outlines the thesis structure.

Chapter two provides an overview of franchising including the terms of franchising, the development of franchising, and the relationship between the franchisor and the franchisee. Further, international franchising concerns are discussed along with international franchise related theories, namely resource-scarcity, agency theory and

information asymmetry theory.   In addition, cultural studies in international franchising are examined and Hofstede's cultural dimensions and their applications are discussed.

Chapter three explores the status of the Taiwanese franchising system and highlights the importance of Taiwan as the country of study.   Additionally, the connection between Taiwan and international franchisors, particularly American and Japanese, is made.

Chapter four presents the research questions and framework, discusses different paradigms, and provides justification for the research design. Further, this chapter explains the methodology employed including sampling strategy and administration of data collection.

Chapter five presents the data analysis and interpretation of the results.   The results are related to the literature review and conceptual model.

Chapter six provides the findings from the research.   A model of international franchising is proposed and a number of propositions are offered.

Chapter seven evaluates the contributions made by the findings and gives conclusions and implications for the research.   Additionally, suggestions for further research are made.

1.7 Chapter Summary

This introductory chapter has laid the foundations for this thesis. The research objectives and questions have been established and justification for the research has been provided. The goal has been identified as the construction of a model for international franchising in Taiwan. Further, to identify influences of Taiwanese culture on the development of international franchise system processes, to assist international franchisors expanding into Taiwan. The qualitative method chosen for this research has been briefly described in the introductory chapter.

The next chapter provides an overview of previous studies on franchising. The purpose of the historical narrative is to identify the research gap out of which the broad research question has emerged.

Chapter 2 Literature review

2.1 Introduction

In this chapter, the literature review is divided into three major sections. The first section considers franchising in general and provides an overview of franchising, including the terms of franchising. The developments of franchising, and dynamics of the relationship between franchisor and franchisee, are also explored. The conclusion of this section discusses the trends in international franchise development.

In the second section, international franchising concerns are discussed. The main factors of international franchising are defined and the difference between domestic franchising and international franchising is discussed. The three theories of resource-scarcity, agency theory and information asymmetry theory are reviewed in sequence. Finally, this section identifies a number of research gaps which this thesis aims to address.

In the final section, cultural studies in international franchising are examined and Hofstede's cultural dimensions and its applications are discussed. The cultural differences between western and eastern countries are also presented. This section concludes by considering issues related to the culture that impact on international franchising strategy.

2.2 Franchising Overview

This section presents an overview of franchising with consideration given to the historical development of franchising and types of franchise systems. In addition, the origin of the term franchising and the franchisor-franchisee relationship is described.

2.2.1 The historical development of franchising

The origins of franchising can be traced back to the European Middle Ages when local governments used franchising as a way to increase the revenue of their States (Hackett, 1976 ; Vaughn, 1979 ; Hoffman & Preble, 1991). While the concept of franchising originally came from Europe, it was broadly applied to businesses in America. The widespread use of franchising started in the 1850s with the Singer Sewing Machine Company using the franchise-oriented system of distribution to sell their products (Hackett, 1976 ; Hoffman & Preble, 1991 ; Preble & Hoffman, 1995). They employed salesmen to work on commission, to exhibit, sell and repair the machines (Hackett, 1976; Vaughn, 1979 ; Hoffman & Preble, 1991 ; Justis & Judd, 2003). Since that period, many manufacturers have applied the franchise concept to business practices (Grant, 1985). Franchise systems may be broadly classified into two categories, namely product/trade name franchising and business format franchising (Hoffman & Preble, 1991). These are discussed in the following section.

2.2.2 Types of franchise systems

The types of franchise systems, relevant to this thesis, are Product/trade name franchising and business format franchising. These are discussed sequentially.

2.2.2.1 Product/trade name franchising

The first generation of franchising, called product/trade name franchising, is primarily limited to the distribution of products such as automobiles, petrol, and cordial drinks (Hackett, 1976 ; Fable & Dandridge, 1992). Manufacturers make contracts with dealers or distributors to buy and sell products or product lines (Fable & Dandridge, 1992). The first company to use motor vehicle franchising was General Motors which used car dealers in their distribution system (Vaughn, 1979 ; Fable & Dandridge, 1992). About the same time, Coca-Cola granted bottling rights across most of the U.S.A. (Vaughn, 1979 ; Fable & Dandridge, 1992).

In the 1930s, the petroleum industries faced significant management problems with their company-owned outlets (Hackett, 1976). They needed to expand rapidly and develop into large sales management organisations. However, central management capability could not be built quickly enough. The oil companies were encouraged to franchise their petrol stations to franchisees. In return, firms received rental income support and petrol marketing revenue. The franchisees worked long hours, gave customers personal attention, and developed more comprehensive services. As a result, the oil firms were able to reduce the cost of distribution (Vaughn, 1979). This business concept grew sufficiently with increased interactivity with agents. In addition to the offering of product/service and brand name, franchisors provided ongoing support. As a result, the business format of franchising emerged.

2.2.2.1 Business format franchising

The second generation of franchising, called business format franchising (Hoffman & Preble, 1991 ; Fable & Dandridge, 1992), differs from product/services franchising as

the franchisor provides the product or services as well as the entire business concept. The business concept includes the marketing strategy, equipment, operating standards, quality control, ongoing two-way communication, and general contractual assistance to franchisees (Fable & Dandridge, 1992; Preble & Hoffman, 1994).

Previous studies suggest that many well-known American household companies, such as McDonalds and Kentucky Fried Chicken, incorporated the business format franchising concept of distribution into their marketing operations in the mid-1950s (Hackett, 1976 ; Fable & Dandridge, 1992 ; Preble & Hoffman, 1994 ; Justis & Judd, 2003). This enabled them to dramatically expand (Walker & Etzel , 1973 ; Hackett, 1976 ; Grant, 1985). The business format franchising now covers a wide range of diverse businesses such as fast-food outlets, restaurants, business services, hotels and motels, recreation, entertainment and car rental services (Teegen, 2000 ; Justis & Judd, 2003).

Product/brand name franchising declined throughout the 1970s and 1980s (Falbe & Dandridge, 1992). Therefore, this research focuses on business format franchising. Business format franchising has become a highly effective strategy for business growth, job creation and economic development (Preble & Hoffman, 2006). It has been estimated that more than one-third of all U.S.A. retail trades are connected to franchising. According to the International Franchising Association, there were over 900,000 franchised outlets in establishment, providing more than 11 million jobs with an annual payroll of $278.6 billion in 2005 in America. The indicators are that there is an expansionary movement at large.

2.2.3 The origins of the term 'franchising'

The word of franchising stems from the French word "franchir", means free from servitude (Felstead, 1993). However, the term franchising has taken a generic meaning in society and has been used very broadly. Felstead (1993) concurs that there is no consensus given to the term "franchising". The managerial and social disciplines have utilised the word and incorporated it into their own contexts. A number of these are explored in the following section, with a specific discussion of definitions used in franchising literature.

2.2.3.1 Application in the general business disciplines

Franchising has been applied to a wide range of disciplines. In domestic marketing, franchising is regarded as a mechanism and channel for products and services and is sometimes considered a hybrid form of vertical marketing (Fable & Dandridge, 1992; Fulop & Forward, 1997). In entrepreneurship, franchising is considered to be a way of engaging in business (Lafontaine & Shaw 1998). In strategic management, however, franchising is conceived as an organisational form and a means of expansion (Combs & Ketchen, 1999). In international marketing, franchising is considered to be one of the entry modes to global markets (Alon & McKee, 1999 ; Doherty & Quinn, 1999). In business law, franchising is understood to be a general contractual agreement between two legally independent parties (Sherman, 1999). However, there is consensus, amongst those who adopt the term, that it involves a type of contractual agreement between parties that are independent, yet interdependent, and where there is an ongoing relationship.

2.2.3.2 Application in the franchising literature

There are a number of definitions of franchising that emerge from franchise associations and through the franchising literature. For example, the two large franchise associations, the International Franchise Association (IFA) and the Japan Franchise Association (JFA), define the term somewhat differently.

The International Franchise Association (IFA) defines franchising as:

> A method of distributing products or service incorporating two parties to the franchise system: (1) the franchisor, who grants the trademark or trade name and a business system (2) the franchisee, who pays a royalty and an initial fee for the right to do business under the franchisor's name and system. Basically, the contract binding the two parties is the franchise; but that term is often used to mean the actual business that the franchisee operates (International Franchise Association, 2006, p7)

The Japan Franchise Association (JFA) defines franchising as:

> A continuing relationship between two businesses entities based on a contractual agreement, in which the franchisor grants the franchisee the right to use the signs representing the franchisor's business. In return, the franchisee pays the consideration to the franchisor for the requirements of the business, to operate the business under the franchisor's guidance and assistance (Japan Franchise Association, 2007, p32)

In this research, franchising is defined as the organisational form in which the owner of a product or service grants another entity the right to sell or distribute their products/services, and provides an entire business package including on-going support and assistance (Justis & Judd, 2003). Franchising is where two independent entities are

built on an arms-length contract but with interdependent relationship. In turn, one entity pays direct or indirect payments in the exchange process. The granting organisation is the franchisor and the grantee is the franchisee. The franchisor and the franchisee can be a person, partnership or company.

2.2.4 The franchisor-franchisee relationship

Based on the above definition, the franchisor-franchisee relationship is an important component which needs examination. The components of the relationships are (1) a contract-based agreement (2) independent parties who are interdependent and (3) an ongoing relationship. These aspects are examined sequentially in more detail.

2.2.4.1 The contract-based agreement

A franchising contract defines responsibilities, decision rights and the resources of the franchisor and franchisee (Rubin, 1978 ; Pizanti & Lerner, 2003). This relationship is a major source of control, power and conflict (Stern & El-Ansary, 1992 ; Fulop & Forward, 1997). The contract defines the formal relationship between franchisors and franchisees (Mathewson & Winter, 1985 ; Fulop & Forward, 1997). There may be clauses in the contract, which is the formal mechanism that manages the franchisor and franchisee relationship (Quinn, 1998 ; Doherty & Alexander, 2006), that disadvantage the franchisee from territory clauses (Kaufman & Rangan, 1987 ; Hoy, 1994), reward systems (Stern & El-Ansary, 1992), termination clauses and restrictions to post-termination activities (Fulop & Forward, 1997). Thus, individuals who choose franchising as a preferred method, but regard themselves as independent business entities, have the tendency to seek autonomy in the outlet operation and may not accept the control applied by franchisors.

2.2.4.2 Independent legal parties but interdependence between the parties

In franchising, the franchisor and the franchisee are independent legal entities, each having separate ownership. Although two parties work closely together (Rubin, 1978 ; Mendelsohn, 1992 ; Shane, 1996a), the relationship is an arms length transaction (Williamson, 1991). The revenue of a franchise system is based on the profits of small localised outlets but with economies of scale associated with the entire system (Kaufmanns & Eroglu, 1998). Franchisees are dependent on the skills-base, trademark, experience and support of the franchisors (Dant & Gundlach, 1998 ; Nathan, 2004). If the franchisees attempt to reduce costs through lowering the quality of service, this may damage the image and reputation of the whole franchise system (Combs & Castrogiovanni, 1994). Thus, the two parties engage in a long-term mutually beneficial and understanding relationship. This relationship generally leads to the creation of a successful business format where quality is enhanced and maintained to the benefit of both parties.

2.2.4.3 Ongoing relationship

The franchisor and franchisee engage in an ongoing relationship (Fulop & Forward, 1997) which may last for ten years or more. At the beginning of the franchisor-franchisee relationship, the franchisee is highly dependent on the franchisor and is motivated by the franchisor's knowledge and authority (Kaufmann & Stanworth, 1995; Nathan, 2004). In the long-term, the relationship between the two parties becomes more interdependent (Nathan, 2004) as the franchisee gains more experience and knowledge of the local environments (Bradach, 1998 ; Nathan, 2004). As a result, the franchisees increase their desire to make decisions, resolve conflicts (Dant & Gundlach,

1998 ; Nathan, 2004), develop new products and discover new solutions to system-wide problems through local adaptation (Dant & Gundlach, 1998 ; Nathan, 2004).

Further, the franchisees may regard themselves as independent owners instead of being connected employees (Stanworth, 1996 ; Kaufmann & Eroglu, 1998). Bradach (1998) found that long-term franchisees, when compared to newer comparable units, have greater autonomy and fewer controls placed upon them. Also, in some instances, contracts may provide the franchisee with a degree of autonomy combined with low levels of sanctions (Yin & Zajac, 2004).

Thus, how to balance the control and autonomy of the franchisee, within the bounds of the relationship, is considered to be imperative for franchisors. Supporting and maintaining franchisees is considered particularly difficult and, subsequently, the cost of providing franchise support is higher.

2.3 International Franchising Research and Related Theories

The following section defines international franchising, presents international franchising related theories and discusses international franchising research, sequentially.

2.3.1 The definition of international franchising

Franchising is becoming one of the most popular entry mode strategies for international companies entering international markets (Quinn & Doherty, 2000). However, there are

no consensual definitions of international franchising. In this study, the definition of the international franchising is held as:

> A foreign market entry mode that involves a relationship between the entrants, called the franchisor, and a host country entity, in which the former transfers, under contract, a business package or format, which it has developed and owned, to the latter (Burns & Cross 1995, p36).

Previous studies indicate that international franchising is equated to the duplication of domestic franchising (Huszagh et al, 1992). Essentially, international franchising is a cooperative arrangement between two parties, operating from principles that are cultural-context derived (Shane, 1996 b). Teegen (2000) argues that there are distinct differences between domestic and international franchising in terms of resources, processes and modes of market access. The degree of risk and uncertainty in the international context is much higher than in the domestic environment (Hackett, 1976 ; Miller, 1992). Very little control can be exercised over the day-to-day activities of the local franchisee where great distances must be traversed for face-to-face contact. Thus, international franchising cannot be regarded as domestic franchising.

International franchising is thought of as an equivalent mode of entry to exporting without investment (Kedia, Ackerman, Bush & Justis, 1994). However, as the franchisor-franchisee relationship is on-going, international franchising may be considered to be a unique entry mode. While the franchisor and franchisee are independent legal entities, having separate ownership, the two parties work closely together in the arms length transaction (Rubin, 1978 ; Mendelsohn, 1992 ; Shane, 1996b) to establish mutually benefiting franchised systems.

Andersen (1996) suggests that many international franchisors generally make some investments when entering the international market. An example can be seen in McDonalds, who invested over U.S.$50 million in the Russian market before opening their first store in Moscow (Love, 1995). To maintain consistent quality and image, the international franchisor often has to secure equipment and local raw materials to meet quality requirements, in order to enable the protection of the brand name and trade secrets (Steinberg, 1992).

This suggests that international franchising, a unique entry mode, is substantially different from exporting domestic market franchising arrangements. This franchise arrangement can be directed to a domestic franchisee or a foreign franchisee. This may comprise of a direct franchise, an indirect franchise party owned by the franchisor, a joint venture, or a master franchisee arrangement (Burton & Cross, 1995). The degree of risk and control of the franchisor, when engaging in international franchising, can be understood as a continuum relating to the mode of market entry which ranges from wholly owned subsidiaries to direct franchising. Processes, resources, market entry mechanisms and power arrangements have to be clearly understood, recognised and, at times, adapted to suit the unique cultural context.

The following section examines three major theoretical frameworks that assist in understanding the growth of international franchising, namely resource theory, agency theory, and information asymmetry theory. These theories highlight and expand on the issues of risk, uncertainty and control.

2.3.2 International franchising related theory

In this section, theories related to international franchising are considered. Specifically, resource scarcity theory, agency theory and information asymmetry theory are discussed.

2.3.2.1 Resource scarcity theory

Resource scarcity theory explains franchising as a mechanism to access resources for business growth in areas of financial capital (Oxenfeldt & Kelly, 1968 ; Hunt, 1973 ; Norton, 1988a), human capital (Norton, 1988) and talent management (Oxenfeldt & Kelly, 1968 ; Combs & Castrogiovanni, 1994). Within the concept of resource scarcity, the local franchisee is deemed a source of capital as well as a source of information.

In the early stages of development a firm often lacks the human and financial capital necessary to expand rapidly, to achieve economies of scale, and to build the value of brands and trademarks (North, 1988a). To ease resource constraints (Combs & Ketchen, 1999) and obtain economies of scale (Martin, 1988), firms may need to franchise their outlets (Oxenfeldt & Kelly 1968 ; Caves & Murphy, 1976 ; Martin, 1988 ; Kaufmann & Dant, 1996 ; Combs & Ketchen, 1999).

As the business grows the scarcities of capital, managerial and local market knowledge reduce, and company-owned outlets may be preferred (Hunt, 1973 ; Dant & Paswan, 1998). Evidence indicates that when the franchise systems become mature, franchisors have the tendency to repurchase the most profitable franchised outlets (Hunt, 1973), add a company-owned outlet nearby (Combs & Castrogiovanni, 1994), as well as to terminate contracts in order to maximise profits (Dant & Kaufmann, 2003). Finally, the

organisational components may become a wholly company-owned system (Oxenfeldt & Kelly, 1968) unless there are less profitable or distant outlets (Hunt, 1973) or new, developing, higher-risk arenas (LaFontaine & Kaufmann, 1994).

The determinants of success for the expansion of international franchising are often different from the key success resources in the domestic market in terms of environmental and cultural dissimilarities (Shane, 1996b ; Fladmoe-Lindquist, 1996). To be successful in a foreign market, it is essential that franchisors have extensive resources before entering the market (Fladmoe-Lindquist, 1996). There are many resources needed for a franchise to be successfully transplanted into a new cultural context, including effective distance management, cultural adaptability and host country risk management skills. The key resources mentioned in the franchising literature include (1) capital requirements (Hunt, 1973), (2) human capital (Norton, 1988a), (3) managerial talent (Oxenfeldt & Kelly, 1969; Combs & Castrogiovanni, 1994), and (4) local knowledge (Combs & Castrogiovanni, 1994).

The local franchisee can be seen as a source of capital as well as a source of information (Bradach, 1998). Franchisees are usually able to provide the financial capital, a broad knowledge of local customs, market conditions, economic networks and political affiliations (Welsh, et al, 2006). The possession of local knowledge makes local franchisees the party with the greatest ability to find the most suitable strategies and make changes to fit the values of local demand and culture.

The relationship between franchisor and franchisee may become more interdependent, than independent, (Fulop & Forward, 1997; Nathan, 2004) when the role of franchisee

as a source of scarce or untappable resources is recognised. This can extend to franchisees sourcing finances for expansion across broad areas, further capturing overseas markets (Kedia et al, 1995). International franchising can alleviate the resource restrictions inherent in different entry modes such as master franchising, joint venture franchising, and direct franchising.

2.3.2.2 Agency theory

The domain of agency theory focuses essentially on relationships, in particular where one entity, the principal, depends on another entity. The secondary agent undertakes action on the principal's behalf with benefits to both parties (Bergen et al, 1992; Eisenhardt, 1989). Any employment relationship is an agency relationship (Harris & Raviv, 1978) and the franchisor-franchisee relationship is considered to be a unique case of agency consideration (Garg, et al, 2005). With regard to franchising, principals, called franchisors, grant the right to agents, called franchisees, to operate an outlet. The franchisee then pays royalties and other expenses to the franchisor (Combs, et al, 2004).

The basic assumptions of agency theory are grounded in human opportunism, bounded rationality, potential goal conflict and perceived risk preferences (Bergen, et al, 1992). Under these premises, there exist the potential problems of moral hazard, free-riding and under-investment (Shane, 1996a). The principals need to monitor agents' behaviour closely to reduce associated problems (Bergen, et al, 1992). To minimise monitoring costs firms should incorporate significant control mechanisms and provide incentives for correct adherence (Lafontaine, 1992; Shane, 1998).

Unit managers must be closely monitored by franchisors to ensure their performance is in line with the required standards (Bradach, 1998). This monitoring process incorporates a significant increase of costs to the franchisor in terms of time, money, and staffing (Fladmoe-Lindquist, 1996). To reduce the potential for low managerial standards firms, such as Taco-Bell in the U.S.A., may use a variety of incentives including higher than industry payments, greater decision-making authority and unit performance bonuses (Fladmoe-Lindquist, 1996).

International franchising operations require the franchisor to manage a remote location. International service firms are more likely to utilise franchising as a means to expand overseas, which is associated with monitoring costs (Fladmoe-Lindquist & Jacque, 1995). Distance makes it more difficult to support and maintain international franchisees, resulting in higher monitoring costs (Quinn, 1998 ; Quinn, 1999). In addition, the nature of a decentralised service system, whose geographical scope extends beyond national boundaries, may generate issues with controlling franchisee behaviour (Norton, 1988b).

The focus of agency theory is to determine a formal mechanism to manage a particular relationship given the characteristics of the parties involved and the fact that it is difficult for the principal to monitor the agent completely, due to uncertainty and the cost of obtaining information about the agent (Bergen et al, 1992). International franchisors can usually develop modified contracts to reduce franchisee opportunism and monitoring costs (Shane, 1996b ; Doherty & Quinn, 1999). In general, the use of ex-ante bonding through the levy of a large initial fee can be an effective tool for international franchisors to control for these issues (Shane, 1996b ; Doherty & Quinn, 1999). As franchisees invest a large percentage of their personal wealth in the purchase

of outlets, termination of the franchisee agreement often results in substantial financial losses for the franchisee (Alchian & Demsetz, 1972 ; Carney & Gedajlovic, 1991 ; Combs & Castrogovanni, 1994). This encourages the franchisee to take concerted interest in helping the business succeed in image, product and service.

Franchisors may have to rely on local franchisees and decentralised decision-making. Franchisors may transfer the responsibility to a local partner who sets the provisions and standards according to the local practices and regulations, and evaluates the performance of employees (Doherty & Quinn, 1999). The literature suggests that governance is an important issue for international franchisors as it may ease monitoring costs during the procedure of internationalisation.

2.3.2.3 Information asymmetry theory

The problem of information asymmetry arises in international markets where the market information is incomplete. In the case of franchising, local franchisees will have greater and more specific, knowledge of the operation in the local market than franchisors. The local franchisee has specialised knowledge, called idiosyncratic knowledge (Jensen & Meckling, 1992). Bardach (1998) found that the franchisee is a source of rich information which cannot normally be obtained through the company's own management information system. In international markets there are various business practices which are related to business regulations, employment law, and trading hours (Quinn, 1999). Due to these complexities the internationalising firm has limited ability to assess the risk of the foreign venture. Other examples arise where the cultural practices of both consumers and management differ between the home and host countries, where human resource management practices differ, and where the degree to

which domestic managers would be expected to run and better monitor the foreign operation varies (Quinn, 1999).

The problem of information asymmetry, associated with information transfer, exists in the principal-agent relationship (Arrow, 1962). Doherty (1999) proposed that the degree of the information transfer process is deemed to be a pivotal consideration in explaining entry mode choice. Intangible assets, such as managerial technology and the concept of business format, cannot be described in a patent and must be transferred by people. The degree of intangible assets leads to the seriousness of information asymmetry that will take a higher degree of adaptation (Doherty, 1999). Thus, the degree of information asymmetry associated with intangible assets plays an important factor in decision entry mode.

International franchising provides a contractual way of dealing with information asymmetry problems in international markets (Choo, 2005). Further, problems associated with information asymmetry may be overcome through franchising, as franchisees have expert knowledge of the operating conditions in the foreign country. The franchisors can diversify the financial risk and this serves to reduce the potential for moral hazard through adhering to contract fees and royalty payments of franchisees

2.3.3 International franchising research

International franchising research is relatively limited, with most literature focussing on exploratory and conceptual studies (Hackett, 1976 ; Grant, 1985 ; Welch, 1989 ; Hoffman & Preble, 1991 ; Aydin & Kacker, 1990 ; Erglu, 1992 ; Huszagh, et al, 1992 ;

Fladmoe-Lindquist, 1996 ; Elango & Fried, 1997).   These studies are discussed in this section.

Early international franchising studies commenced in the 1980s. Their central focus was American operations overseas (Hackett, 1976 ; Grant, 1985). The majority of these studies have explored product trade-name franchise system (Hackett, 1976). Later research on the internationalisation of franchising can be divided into three areas as indicated below.

The first area of research on the internationalisation of franchising is directed toward the determinants of motivations and barriers to overseas expansion, and the extent and direction of international activities (Welch, 1990 ; Aydin & Kacker, 1990 ; Erglu, 1992 ; Huszagh et al, 1992 ; Preble, 1992 ; Kedia, et al, 1994 ; Kedia, et al, 1995).

Factors influencing expansion by franchisors into international markets can be identified as twofold: external environmental factors and internal factors. External environmental factors stem from domestic environment constraints (Welch, 1990), such as market saturation and legislative restrictions, and make the domestic market less attractive (Welch, 1990). Domestic market saturation facilitates franchisors to exploit foreign markets with potentially higher profits (Aydin & Kacker, 1990).

Internal factors associated with franchisors seeking expansion into international markets are based on such factors as: the experience acquired by a business over time; knowledge gained by the franchisor (Aydin & Kacker, 1990); the timing of international expansion (Walker, 1989); and the ability to maintain standardisation over time

(Huszagh, et al, 1992). Other significant factors are the effective selection of sites and the efficient monitoring of franchisee operations (Julian & Castrogiovanni, 1995). Previous studies have highlighted the experiences of American-based firms (Hackett, 1976 ; Aydin & Kacker, 1990 ; Preble, 1992): however, it may not be appropriate to generalise these studies and apply them to the international franchise context. Further, most studies have been conducted using quantitative methods. It has been suggested, however, that qualitative studies of international franchising are more significant as they can explore company operations in greater depth (Doherty & Quinn, 1999; Frazer, 2003).

The second area of research on the internationalisation of franchising that previous studies have focused on is the theoretical development of international expansion (Quinn, 1998 ; Doherty & Quinn, 1999 ; Quinn & Doherty, 2000 ; Sashi & Karuppur, 2002) and operational issues in international franchising (Quinn, 1999 ; Quinn & Doherty, 2000 ; Frazer, 2003 ; Choo, 2005 ; Doherty & Alexander, 2006). Resource constraints, agency-theory and information asymmetry are identified as the main competing theories that are applied to international franchising.

The third area of focus in international franchise studies is the relatively new agenda of international business arising from changes in global environments, particularly burgeoning populations. Potential markets are emerging in Asia to cater for rapid growth of the population, the rise of the middle classes, liberalised markets, and the increasing demand for western goods and services (English & Xau, 2001 ; Swartz, 2001 ; Anttonen, Tuunanen & Alon, 2005 ; Welsh et al, 2006). Studies indicate that the current growth of internationalisation has brought about shifts, socially and generationally, from cultural

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similarity to cultural dissimilarity, especially in Asia (Alon, 2001 ; Swartz, 2001 ; Alon & Bian, 2005). Cultural and legal issues have become important considerations (Thompson & Merrilees, 2001) as culture impacts on the value, lifestyle, consumer behaviour and management issues for international franchisors (Hofstede, 1990). Therefore, understanding cultural and legal differences and making suitable adjustments are imperative for success in emerging/developing markets. Specific aspects of franchising that relate to marketing, operation and management strategies in emerging markets present significant cultural differences that need to be explored.

2.4 Culture and International Franchising Research

Culture is an important and complex consideration for all proposed international business strategies and practices, especially when moving businesses into culturally dissimilar regions. A number of studies have explored cultural considerations when strategising for international franchises (Fladmoe-Lindquist & Jacque, 1995 ; Hadjimarcou & Barnes, 2001 ; Alon & Mckee, 1999).   However, there is little research in the export of franchises to culturally dissimilar regions. In this section, cultural dimensions, and culture studies in international franchising will be explored.

2.4.1. The impact of culture in international business

While culture is complex and difficult it is construed by Yau (1994) to be the sum of learned beliefs, values and customs which create behavioural norms for a given society. Terpstra and Yu (1988) define culture, in business-oriented terms, as learned and shared practices with a compelling set of symbols whose meanings provide a set of orientating behaviours for members of a society.   Hofstede (1991) defines culture as the collective

programming of the mind, which distinguishes acceptance of products from the members of one group or society or nation from another.

Culture has a profound influence on all aspects of peoples' behaviours (Soares, Farhangmehr & Shoham, 2007). Cultural norms vary from one society to another and shape behavioural rules, values of faith and taste. These differences influence values, attitudes, spending and product choice. An example of this can be seen in gift-giving cultures where relationships are paramount and gifts are selected to affirm social networks (Craig & Douglas, 2005).

A gift-giving practice has been embedded in particular social-culture practices in Asia and is stratified according to degree of intimacy (Joy, 2001). It represents a courtesy and is undertaken when visiting friends or meeting for the first time. An example is seen in giving a red envelope instead of a gift at a wedding. This is different from the cultural norm of gift-giving as seen in western cultures. In addition, it is an Asian custom to give a present as part of a festival celebration.

In general, understanding of culture is important for the management of international business and is an essential component for success in business operations (Hofstede, 1991).

2.4.2 Culture studies in international franchising

The debate over global standardisation versus local responsiveness strategies is apparent in international marketing and relevant literature (Theodosion & Leonidn, 2003). While much prior research has focussed on manufacturing firms, the debate is more complex in

the international franchising context (Quinn, 1998). As franchise systems are service-based industries (Teegen, 2000 ; Alon, 2004), franchisors directly interact with customers as their product manufacturers. As a consequence, it is critical to have an understanding of local knowledge and culture and it is desirable to adapt marketing strategies to fit this. The knowledge needed includes understanding the expectations and perceptions of customers and the various aspects of management. Local innovations and adaptations are basic requirements for building a competitive advantage in international service franchising.

Previous studies have examined culture as an elementary factor in the decision-making process for international development (Eroglu, 1992 ; Pebble, 1992 ; Preble & Hoffman, 1995 ; Alon &Mckee, 1999). As growth has continued in emerging markets, especially Asian countries, a series of research studies have been conducted that explored or surveyed the franchising status of individual countries, such as China and India (English & Xau, 2001 ; Paswan & Dant, 1995). In addition, some studies have dealt with the role of culture in international franchising. These studies are described below.

A study conducted by Chan and Justis (1990) found that, in East Asia, master franchising was the major means for international franchisors and a rich understanding of cultural considerations was considered critical. For example, the international success of the McDonalds franchise has relied upon its ability to introduce major cultural change as well as being able to adapt to local culture in crucial areas. In East Asian countries, McDonalds have not only introduced the hamburger, but also helped to develop local management culture. Cultural adaptation was considered by the authors to be a key success factor for international franchisors.

Another study, conducted by Choo (2005) in East Asian countries, proposed several critical factors for international franchisors entering Asian countries. These included distance management, cultural adaptation, marketing approach and partnership management which highlighted the salient factors in franchising across cultural contexts.

Sadi's (1994) article compared case studies of American fast-food franchise systems in Japan, Canada and Russia. The results indicated that know-how, technology and trademarks are highly significant and cross-border trade is easier and more effective than with the transfer of physical goods as used in franchising. Other key success factors included quality of top management, appropriate selection of local partners, and the delivery of unique and specialised goods and services. Sadi (1994) concluded that international franchisors often require modification to the marketing mix and support systems, which will vary for each company and country.

Fladmoe-Lindquist and Jacque's (1995) study, explored the tendency to franchise internationally and monitoring cost aspects. In their study, monitoring costs, in terms of geographical and cultural distance, was positively related to engaging franchising as a means of operating in global markets. That is, international service firms operating at greater "cultural distance" from the U.S.A. are more likely to depend on franchising to control their foreign agents. However, it also suggests that the costs of monitoring and risk are greatly increased in international markets by both geographical and cultural distances.

Alon and Mckee (1999), in their article, proposed a macro environmental model of franchising in the international context. They use Hofstede's (1980) four dimensions of culture to assess how cultural distances affect franchisors in international expansion activity. They found that degree of engagement in international franchising is positively related to all four dimensions, which are, individualism, power distance, uncertainty avoidance, and masculinity of a culture.

Hoffman and Preble (2001) conducted a survey to investigate the diffusion of franchising in 24 countries and 209 franchisors. They identified a relationship between specific cultural values and the level of franchising activity within a nation. They used the Uncertainty Avoidance Index and the Individualism Index as proxies to test national cultures and found individualistic values of a culture were positively correlated with the degree of franchising diffusion. Franchising has been viewed as an entrepreneurial venture (Hoy & Shane, 1998), and individualistic nations have long been associated with entrepreneurial activity. The authors propose that the culture-entrepreneur relationship can additionally be extended to franchising activity.

Hadjimarcou and Barnes's (2001) case study explored the expansion process of The Silver Streak Restaurant, a relatively new and small franchise, into Mexico. They identified the factors associated with how franchisors overcome cultural challenges of entering Mexico as; identifying a suitable partner, adapting concepts from the host country and forming successful strategic alliances.

In summary, researches suggest that it is necessary for international franchisors to evaluate cultural differences between home and host country before making decisions to

expand internationally (Preble & Hoffman, 1995 ; Fladmoe-Lindquist & Jacque, 1995 ; Alon & Mckee, 1999). As cultural distance is associated with different types of adaptations, they are not necessarily universal; decisions need to be made on a country–by-country basis (Chan & Justis, 1990 ; Sadi, 1994 ; Hadjimarcou & Barnes, 2001 ; Choo, 2005).

The literature suggests that it is important for international franchisors to understand what cultural differences exist between the home and host country and make suitable adaptations. For the purposes of this reasearch the cultural difference between Taiwan, Japan and America will be explored. The relationship between inter-organisation strategising and the design of an international strategy to achieve a sustainable position in the Taiwanese marketplace will also be investigated. The definition of culture and essential differences between western and eastern cultures, as understood in terms of Hofstede's dimensions, will be explained in the next section.

2.4.3 Dimensions of culture

Several studies focussing attention on the impact of culture have been carried out by a range of researchers, including Hofstede (1980, 1991), Hall (1976), and Trompenaars and Hampden-Turner (1998). The most widely recognised study applied to subsequent international research has been Hofstede's dimensions of culture.

2.4.3.1 Hofstede's dimensions of culture

The classic and foundational study of cultural values, as applied to the context of marketing, is Hofstede's (1980) research into affective dimensions of culture. Hofstede's research has been widely applied in national cultural frameworks across a range of

disciplines including psychology, sociology, marketing, management and comparative cross-cultural studies (Steenkamp, 2001 ; Hui, Au & Fock, 2004).

Hofstede's five dimensions and assigned scores have been plotted for a comprehensive range of nations, making it highly applicable as a tool for further research (Smith, Dugan & Trompenaars, 1996). The first four dimensions of Hofstede's research were based on a survey of 116,000 IBM employees across 53 countries during the period spanning 1968 to 1972 (Hofstede, 1984, 1991, 2001). These dimensions were identified as power versus distance, individualism versus collectivism, uncertainly versus avoidance, and masculinity versus femininity. A fifth dimension, time-orientation, relates to long versus short-term orientation, was the work of later scholars (Hofstede & Bond, 1988). The data for this research was based on a survey in 22 countries using Bond's Chinese Value Survey (CVS) in the 1980s.

Hofstede's (1991) four dimensions of cultural values are discussed in more depth in the following section.

Power distance index

The power distance (PD) dimension can be defined as, "the extent to which members of institutions and organisations within a country expect and accept how power is distributed" (Hofstede, 1991, p.186).

In a high PD society, an individual expects and accepts that power is distributed unequally. In this situation, subordinates may be more submissive towards their superiors, accept more direction from senior management, and expect less personal power. This may be identified as an autocratic/paternalistic superior management style.

This bureaucratic approach generally uses top-down decision-making combined with strong policy drivers. Leadership tends to be based on position, authority and seniority (Chen, 2004).

In a low PD society, most people are seen as being equal with an inclination toward democratic process. Superiors' trust is seen as good under this kind of culture, working within a decentralised managerial structure. In addition, superiors are viewed as being easy to access. Thus, there is a small psychological gap between superiors and subordinates. In general, there is a flatter organisational structure, higher power sharing and empowerment as often seen in western firms (Chen, 2004 ; Whitley, 1997). Empirical studies reveal culture as having a moderating effect on empowerment and its relationship to job satisfaction (Hui, Au & Fock, 2004).

Franchisees operating in low PD countries will expect to participate more, have more communication, and have greater decision-making within their organisations. They may expect training to assist them in accomplishing their roles and to be granted a degree of empowerment relating to their skill level rather than continually, and repetitively, being told what to do. By contrast, franchisees in high PD countries will not expect as much participation and require more direction from their superiors.

In terms of PD, Taiwan scored 58 compared to America and Japan which scored 40 and 54 respectively. This indicates Taiwan is a medium to high PD country and suggests that Taiwanese employees are more comfortable with structured hierarchical levels and having supervisors make decisions. By contract Americans prefer a more participative management style.

Power distance was studied in the Taiwanese context by Bu, Pang and Craig (2001). Their research suggests that Taiwan is predominately a Chinese society with a cultural tradition drastically different from that of the west. While American employees generally emphasise the role of individuals above all other concerns, the authors study indicated that Taiwanese expect that they should behave according to their place in the familial and social hierarchy and subordinate their own needs to the larger goals of their family and society. It also indicated that Taiwanese employees have the inclination to comply with supervisory direction regardless of their firms' affiliations with the U.S.A. parent company. Further, in Taiwan's small family firms, the power of supervisors appears to be more important than the reactions of their peers and their own independent assessment.

Individualism/collectivism index

According to Hofstede (1991), individualism is connected with societies in which the ties between individuals are loose. People expect to take care of themselves and their immediate family. In individualistic societies, people respect their personal achievements and their quality of life. Collectivism is connected with societies in which there is a close-knit social structure, where people distinguish between members of the in-group and the out-group. Members of the in-group have a tendency to work with their superiors and are more motivated by their in-groups interests. This orientation leads to valuing membership and identification with networks to which one belongs.

In collectivist societies people tend to focus on the success of the group they belong to. Relationships in collectivistic societies are intimate, interdependent, strong and cohesive. Asian and Latin American countries are considered to be highly collectivist societies (Hofstede, 1980).

The individual versus collectivist dimension of culture focuses on the individual's action in inter- and intra-national relationships (Griffith, Hu & Ryans, 2000 ; Adler, 2002). For example, Mehta, Dubinsky and Anderson (2003) conducted an empirical investigation to examine the relationship between leadership style and channel partner motivation, as moderated by national culture. This moderating effect was tested using a sample of automobile dealers from the U.S.A., Finland and Poland and their national scores were predicted on the basis of Hofstede's seminal study. The result implied a strong nexus between channel leadership style and channel partner motivation but was inconsistent across cultures. Channel management strategies require adaptation in different counties. This result indicated that America, a high individualistic and low uncertainty avoidance country, should employ participative and supportive leadership styles to increase channel partner motivation.

Harrison, McKinnon, Wu and Chow's (2000) study investigated key modes through which culture influences adaptation of fluid workgroups and teams in Taiwan and Australia. They confirmed that Taiwan is a collectivist, high power distance culture that has more difficulty in adapting to fluid teams which change membership and leadership over time.

On the individualism index, Taiwan scored 17, America scored 91 and Japan scored 46. This suggests that Taiwanese employees have a stronger sense of belonging to their organisation, while Americans are highly independent of their organisation, preferring personal time, freedoms and a challenge.

Uncertainty avoidance index

Uncertainty avoidance can be defined as the level to which the members of a culture feel threatened by ambiguous or unknown situations. In high uncertainty avoidance societies, people are generally more pessimistic about their life and employment, and try to avoid uncertainty. To reduce the ambiguity and accommodate risk avoidance in employees, firms should utilise common business reward systems such as bonuses, commissions, and secure prospects for lifetime employment. It is generally agreed that in high uncertainty avoidance societies, employees desire the structure of knowing precisely how they are supposed to perform and what is going to happen in the future. Japan is a typical high uncertainty avoidance society and employment that ensures security and the lifetime work-status is popular (Chen, 2004).

In low uncertainty avoidance societies, people have a higher degree of tolerance and a willingness to take risks. Likewise, people can accept rewards of risk and generally have greater flexibility in determining how to achieve goals.

Franchisees in high uncertainty avoidance societies prefer to deal with enterprises with a renowned brand name and similar organisational values as it reduces the probability of ambiguous or unclear regulations. Through the franchising business mode they may avoid conflict and changes that may generate uncertainty.

In uncertainty avoidance, Taiwan scored 69 compared with America and Japan which scored 46 and 92 respectively. This suggests that the Taiwanese prefer to avoid risk and anxiety, while Americans neither seek nor avoid ambiguous situations.

Masculinity/femininity index

According to Hofstede (1991), masculine societies are associated with emphasis on materialism, acquisition of wealth, and lack of quality of life. Sex roles are distinctly defined and differentiated. Men are expected to be self-confident, tough, and focus on material success while women are expected to be more modest and tender, with respect for the quality of life.

Feminine societies favour social gender roles which overlap, where there is interdependence between people, and care for others. Both men and women are expected to be modest, tender, and have respect for others (Hofstede, 2001). In general, masculine societies are aggressive and competitive while feminine societies tend to be more modest and fostering.

Franchisees in high masculinity societies will generally focus on financial performance over relationships. In contrast, franchisees in high feminine societies will tend to avoid conflict to promote harmony.

On the masculinity index, Taiwan scored 45, America scored 62, and Japan scored 95. This indicates that Americans are more concerned with achievement, earnings, training and remaining up to date, whereas Taiwanese society focuses more on a friendly atmosphere, position security, physical conditions, and cooperation.

Long-term vs. short-term orientation index

The Confucian dynamism dimension refers a range of Confucian-like values. This dimension, as a relevant consideration when exploring marketing within any Asian nation, is based on Confucian philosophy and applies mainly to Southeast and East Asian cultures, such as the Peoples' Republic of China, South Korea, Japan, Hong Kong, Taiwan and Singapore.

According to Hofstede and Bond (1988), in the long-term orientation or high score on Confucian dynamism, people are expected to attach a greater importance to persistence, ordering relationship by status, thrift, and having a sense of shame. By contrast, in short-term orientation or low score on Confucian dynamism, people generally attach a greater importance to personal steadiness and stability, protecting face, respect for tradition, and the reciprocation of greetings, favours and gifts (Hofstede & Bond, 1988).

Confucian concepts

The study by Chan and Justis (1990) indicates that the cultures of East Asian countries are deeply rooted in the teachings of the Chinese philosopher, Confucius. The relationship between businesses is based on trust and mutual commitment. These societies are more interested in long-term benefits than short-term benefits. It is more important for them to maintain dignity and achieve accord and harmony than to achieve higher sale and profits. As East Asian countries are characterised by collectivist societies, with regard to family relationships, franchising seems to fit well with the existing structure of most Asian businesses.

Table 2. 1:   Hofstede's index scores for selected countries

	IDV	PDI	MAS	UAI	LTO
Western Countries					
USA	91	40	62	46	29
Australia	90	36	61	51	31
Canada	80	39	28	48	23
Rating	High	Low	Low/medium	Medium	Low
Eastern Countries					
Hong Kong	25	68	57	29	96
Taiwan	17	58	45	69	87
Japan	46	54	95	92	80
Rating	Low	Medium/high	Medium	Low/medium	Medium/high

Note: IDV= individualism-collectivism; PDI= Power distance；UAI= uncertainly avoidance; LTO= Long-term vs. short-term orientation

Source: Hofstede (1991, pp.26, 53, 84, 113,166)

Culture differences between western and eastern societies

Many studies indicate that there are significant differences between eastern and western cultures. Such differences impact individual's behaviours and is reflected in how organisations are structured and managed.

Firms which tend to be owned by founders and families in South Korea and Taiwan have a tendency towards paternalistic behaviours and often have bureaucratic control structures with centralised decision-making and little employee empowerment. Promotion is often associated with family ties and networks (Elkahal, 2001). By contrast, western firms tend to be owned by public shareholders and run by professional managers. They employ flatter management structures, are less bureaucratic, respect

individualism, usually employ decentralised decision- making processes, and empower employees. Promotion is often dependent on personal ability and merit (Elkahal, 2001**).**

Palich and Gomez-Mejia (1999) concluded that companies desiring to expand internationally require managerial adaptation due to fundamental differences in national cultures. However, these dynamics have not been used to represent the cultural diversity that may hinder the integration and coordination of efforts as required by global strategies. With the growth of emerging markets, especially in East Asia, international marketers need to have a greater knowledge of, empathy for, and willingness to adapt to new context demands.   These demands include the relative importance of management variables and differing marketing strategy principles, including human resources management, leadership styles and conflict resolution approaches. These factors will determine levels of adaptation and performance in different national contexts.

Thus, this reasearch attempts to examine how Japanese–based and America-based franchisors form their business models, strategies and governance mechanisms when taking into account the unique and affective culture of Taiwan.

Chapter 3 Country Profile: Franchising in Taiwan

3.1 Introduction

The chapter explores the status of Taiwanese franchising systems and highlights the importance of Taiwan as the country of study. It has been divided into two major sections. The first section provides an overview of the Taiwanese franchise industry in term of its domestic franchising and government programs. The second section examines the connection between Taiwan and international franchisors operating from America and Japan.

3.2 The Development of Franchising in Taiwan

The rapid growth of franchising in the U.S.A., commenced in the 1950s (Stanworth & Curran, 1999). In contrast, Taiwan lagged behind some forty years. However, the general status and types of franchise industries in Taiwan is similar to that of western countries. It includes a wide range of diverse businesses such as general retailing, food industry and business services. Acording to the Taiwan Chain Store Franchise Association (TCSFA, 2009) there were over 1,300 franchise firms and 87,894 franchised outlets operating within Taiwan in 2008. In that year the franchise industry contributed more than one-third of retail industry earnings, representing about ten percent of total GDP in Taiwan. Franchised industries have made a strong contribution to the economy and have provided considerable new employment opportunities.

The development of franchising in Taiwan can be divided into three stages comprising of introduction, growth and maturity, as noted in Table 3.1

Table 3.1: Summary of the development stages in Taiwan

Period	Stage	Characteristics	Examples
Before 1980s	Introduction stage - mainly operated by domestic manufacturers	Manufacture-distributor Retailers, company owned, small scale and traditional logistics structure	Ten-Ren Tea Group (1956) Formosa-Optical (1961) TKK Fried Chicken (1974) Mei Biscuit (1934) Shin Ton Yang Food (1967)
1980-1990	Growth stage - the development of international franchising system	Western fast food started to enter the Taiwanese food market, rapid growth of convenience stores, soaring of Taiwan stock and real-estate	Four main Convenience Stores 31 Ice Cream (1983) McDonalds (1984) KFC (1985) Marko Wholesale (1989) Welcome supermarket (1987) Pacific Sogo Department (1988)
1990-till now	Maturity stage - growth of the Taiwanese-based franchising system and international expansion	Domestic market saturated, high competition, diverse forms of business, new regulations associated with franchising, firms seeking international expansion	Far-East Shopping mall (1999) Carrefour Wholesale (1998) Tesco Wholesale (1999) Hola Furniture (1997) Starbucks Coffee (1998) Subway Fast Food (1996)

3.2.1 Introduction stage

In the early stage, franchised systems in Taiwan were mainly product/trade name operations (TCSFAA, 1994). The major activities of these franchise operations were based on product-related support activities such as manufacturing, delivery, and offered a wide variety of items (Etgar, 1978). In this stage, most Taiwanese franchised systems

were family-owned and cash-based companies. They generally relied on family labour for cost benefits and business administration (Felstead, 1993; Kaufmann & Stanworth, 1995). One of the earliest examples of franchising was the Ten-Ren Tea Group which commenced operations in 1950.

3.2.2 Growth stage

Substantial economic growth occurred in the 1980/90s, in Taiwan, with rising stock prices and real estate values which served to enhance purchasing power and increased disposable incomes. In the early 1980s the Uni President Group, the largest food manufacturer in Taiwan, in cooperation with the Japanese South Corporation, introduced franchising techniques for convenience stores. This set a precedent for Taiwanese companies to engage in technical exchange with an international franchising system (TCSFAA, 1994). Prior to this, the franchising system was generally thought of as the "pop-mom" stores and were characterised as small, family-owned and family-run businesses with little know-how requirements (Kaufmann & Dant, 1996). The distribution channel was generally controlled through the mechanism of the manufacturer and wholesaler.

The first significant international franchise that commenced operations in Taiwan was McDonalds in 1984. It gained a first-mover advantage in the Taiwan marketplace through cooperation with a Taiwanese company. McDonalds is considered to be one of the prime international success indicators in franchise expansion (TCSFAA, 1994).

Kentucky Fried Chicken commenced business in Taiwan in 1985 and more international franchises followed within ten years, including Pizza Hut in 1986, Family Mart in 1988

and Mos Burger in 1990 (TCSFAA, 1994). There are now multiple internationally branded franchisors that have entered the Taiwanese marketplace, particularly within the fast food domain. In this period the Uni President Group, known locally as 7-11, established its one hundredth outlet in Taiwan. This was a milestone in the development of franchising in the international franchising arena.

3.2.3 Mature stage

In the 1990s, the franchised system increased in popularity in Taiwan due to substantial advances in economic development, education and foreign investments. This advancement was largely due to deregulation of foreign investment and the escalation of information technologies. There were many significant improvements within this period in terms of government policies and business environments.

3.2.3.1 The Franchise Association and education initiatives

The first franchise association, Taiwan Chain-Store and Franchising Association, was established in 1991. This association assisted firms to regulate and promote business concepts and developed survey-related statistics (TCSFAA, 1994). The majority of the members were important local franchisors who recognised the threat of international franchising, which challenged the viability of their businesses.

To improve the competitiveness and efficiency of Taiwanese franchising systems, as well as to maintain fair competition and trade, the Taiwanese government enacted regulations to control the operations of franchisors. The government passed the Fair Trade Commission Guidelines on the Disclosure of Information by Franchisors in 1999.

This was amended in 2003 (http//www.ftc.gov.tw). These guidelines assisted in regulating the relationship between the franchisor and franchisee.

Education has been demonstrated as critical to the successful development of franchise., Since the 1990s, franchising education been provided through government-established formal franchising institutions. The emphasis is a combination of industrial practice and academic studies. This has resulted in enhancing the position of the franchising industry, encouraging academic research and people skilling (TCSFAA, 1995).

3.2.3.2 Growth and new initiatives

During the decade of the 1990's, the number of convenience stores increased from 1,068 to 7,500 (TCSFAA, 2008). The successful experience of the franchised convenience store outlets gave credibility to the concept of franchising within the public sphere. This strengthened the attractiveness of franchising as a viable business concept within Taiwan (Huang, 2003).

In response to the diversity of customer demand, many new business format franchises were developed. These included cosmetics/pharmacy operations, business services and education. In addition, as a result of customer demand for increased hours of operation, a greater range of locations and increased convenience, many stores now open twenty-four hours a day, 365 days a year. These include convenience stores and petrol stations. McDonalds opened its first twenty-four hour store in Taiwan in 2004 (TCSFAA, 2004).

During this time local entrepreneurs established their own Taiwanese-based franchise system by absorbing the international business know-how and combining it with their

greater understanding of local market needs. The impact of foreign franchises on the development of Taiwan franchising is discussed in the next section.

3.3. Origins of International Franchise Systems in Taiwan

American and Japanese franchisors comprise the vast majority of international franchise outlets in Taiwan (Hoffman & Peble, 2004). There are many well-known internationally recognisable franchised businesses that distance-manage a large number of outlets across Taiwan.

Table 3.2: International business format franchises in Taiwan; year established and number of outlets

International Franchise	Year Established in Taiwan	Total Number of Outlets in 2004
McDonalds	1984	362
Kentucky Fried Chicken	1985	138
Mos Burger	1990	103
Pizza Hut	1986	115
7-11	1980	3680
Family Mart	1988	1700
Circle K (ok)	1988	810
Starbucks	1998	140
21st Century	1997	125

Source: TCSFAA, 2004

Table 3.2 indicates the growth overtime. The increase in the number of international franchises in Taiwan needs to be understood in terms of the domination of U.S.A. and Japanese franchised systems: this is based on the large number of industries and degree of growth. The impact of this is discussed in the following section.

3.3.1 Connections with Japan

In the initial stages of development, the Taiwanese franchising system was heavily influenced by Japan due to similar cultural influences and underpinnings, and their geographic proximity. Taiwan was occupied by Japan over half a century before World War II (Yu & Miller, 2003). A number of older Taiwanese understand the Japanese language and appreciate traditional Japanese culture (Chu, 1998). This has had a significant impact on several aspects of Taiwanese commercial practices and lifestyles (Yu & Miller, 2003) including the delivery of services, display of merchandise and the assortment of commodities. In addition, the quality and uniqueness of services has influenced the design of operation systems and business structures (TCSFAA, 1994).

Taiwan is regarded as the platform for much Japanese international enterprise expansion into China. Based on successful experience with Taiwanese businesses, many Japanese firms authorise or cooperate with Taiwanese firms in order to more successfully operate in China (Lee, 2003). The relationship between the Taiwanese and Japanese, in these

instances, often transitions from franchisor-franchisee into partnership. For example, the international chain of 7-11 stores, once successfully established in Taiwan, annexed into China. The Family Mart group, as a representative body from Taiwan, has provided

management rights for 7-11 in China (Lee, 2003). The Uni-President Group, the largest logistics group in Taiwan, integrated many related organisations and structured a complete value chain for material procurement, manufacturing, channels, marketing, e-commerce and door-to-door delivery (www. uni- president.com.tw). The group is a major merchandise supplier to 7-11 convenience stores in Taiwan. Most of their related organisations are joint ventures or technical exchanges with Japanese companies where the Japanese company provides system know-how and unique products or services and the Taiwanese company provides local knowledge of the resource, distribution and consumer markets. Based on cooperative experience and effective relationship, they have established a new business format franchise, COSMED Pharmacy Industry.

3.3.2 Connections with the U.S.A.

Franchising systems in Taiwan have been heavily influenced by the U.S.A., having become westernized during the growth stage of development. As a result, Taiwanese society changed over the past twenty years in areas including increased liberalisation of the media, westernised education, the emergence of the Internet and falling costs of air travel and a subsequent increase in tourism to Taiwan (Hoffman & Preble, 2004). There are now a large number of Taiwanese who have been educated abroad (Yu & Miller, 2003). These graduates have had direct experience with many American franchising systems. For example, expatriate Taiwanese students have bought McDonald's hamburgers and Pizza Hut pizzas, and have rented Hertz's rental cars whilst studying in America. When returning to Taiwan they brought their new lifestyles with them.

The main influence American-based franchised systems have had on the operation of Taiwanese franchising systems has been concerned with business strategies. This has

included the management of hypermarkets and concepts of food health and safety, such as the standardisation, speed and cleanliness (TCSFAA, 2004). The collective trends having direct bearing on the nature of the product and standards of service, involve efficiency, calculability, predictability and control, which have been termed "McDonaldisation" (Ritzer, 1996).

Master franchising has been the most popular market entry mode used by American firms to move into Asian countries (Chan & Justis, 1990). Generally, most American international franchisors establish Asian headquarters to manage their Asian business with the Taiwanese operations often being one of their subsidiaries. In the case of McDonalds, the American McDonalds initially used a joint venture with a Taiwanese company as the broker for master franchising. The use of the master franchise was supported by an equity investment parent firm. When the contract expired in 1993, the Taiwanese McDonald wholly-owned company subsidiary was transferred to the America McDonalds Corporation (www.McDonald.com.tw).

Another example is KFC who utilised the master franchisee concept. The contract expired in 1994 and was terminated at that time as the American Trico Group intended to increase the loyalty fee. The Taiwanese KFC is now the wholly-owned company subsidiary belonging to the American Trico Group (www.tier.org.tw).

3.4 Differences between American-Taiwanese and Japanese- Taiwanese Franchises

There are many differences between the Japanese-Taiwan franchised system and the American-Taiwan franchised system. These variables can be seen in Table 3.3. In

general, the relationship between Japan and Taiwan is strongly relational and relies on a high level of trust and cooperation through maintenance of a long-term relationship. In contrast, the American and Taiwanese firms keep each other at arms length and have discrete contracts that are short-term purpose-based.

Table 3.3: Differences between America-Taiwanese and Japanese-Taiwanese franchisee relationships'

	America	**Japan**
Relationships	Arms length Short-term relationship	Trust Long-term relationship
Contract types	Discrete contract	Relational contract
Alliance strategy	Master franchising to wholly company-owned subsidiary	Technological cooperation or joint venture

3.5 Chapter Summary

A major impact on the development of Taiwanese franchising has been international franchisors through the 1990s. These international businesses enhanced the perceived quality of service/products and the competitive advantage of domestic franchisors. Absorbing the international know-how and experience these companies inculcate, many Taiwanese-based franchisors established private brands and expanded overseas. Despite international franchisors pioneering role in their modus operandi the Taiwanese franchise industry is deemed a relatively new industry structure.

The potential for growth within the Taiwanese market has attracted many large international franchisors. However, there are a number of issues that need to be addressed for international franchisors, with a proven business concept, to succeed in the Taiwanese marked. These variables include choice of entry modes, master franchisees and adapting international franchising strategies. The purpose of this study is to provide a framework to assist in clarifying these variables and the relationship between these variables.

The next chapter details the design utilised for the research. It discusses what methods and techniques were chosen and how the research was conducted.

Chapter 4 Research Methodology

4.1 Introduction

The literature review has provided a basis for this exploratory study which, broadly, examines how American and Japanese franchisors adapt their management and marketing practices to enter the Taiwanese market. More specifically, this research examines how they modify their systems to account for cultural uniqueness, especially in relation to local market needs and trends. This chapter consists of four sections including the research questions and research framework, the research paradigm and justification. In addition, this chapter discusses the research strategies adopted, and issues of validity and reliability.

4.2 Theoretical Model and Research Issues

A theoretical framework has been proposed (figure 4.1) in order to elucidate an understanding of the relationship between the motivations for international franchise expansion, including choice of entry mode, and cultural adaptations to the franchised business model. The preliminary model is developed from the literature of agency theory, resourced-based theory, culture theory, and international franchising theory. The objective of the research is to provide a framework to identify the key components of franchised system to be standardised and adapted to meet the requirement of local customers.

Figure 4.1 The theoretical model of research in this thesis

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┌──────────────┐        ┌──────────────┐
│   Internal   │        │   External   │
└──────┬───────┘        └──────┬───────┘
       │                       │
       └───────────┬───────────┘
                   │
                   ▼
      ┌─────────────────────────────┐
      │ Internationalisation expansion │
      └──────────────┬──────────────┘
                     │
                     ▼
      ┌─────────────────────────┐
      │  Entry Mode option      │        ┌──────────────┐
      │  *Master franchising    │        │  Impact of   │
      │  *Joint venture         │        │  Culture     │
      │  *Direct franchising    │        └──────┬───────┘
      │  *Wholly-owned          │               │
      └──────────┬──────────────┘◄──────────────┘
                 │
                 ▼
      ┌──────────────────────────────┐
      │ Adapted  franchised  business │
      │ model                         │
      │ *Marketing Mixed Strategy     │
      │ *Human resource strategy      │
      │ *Leadership style             │
      │ *Type of franchised system    │
      └──────────────────────────────┘
```
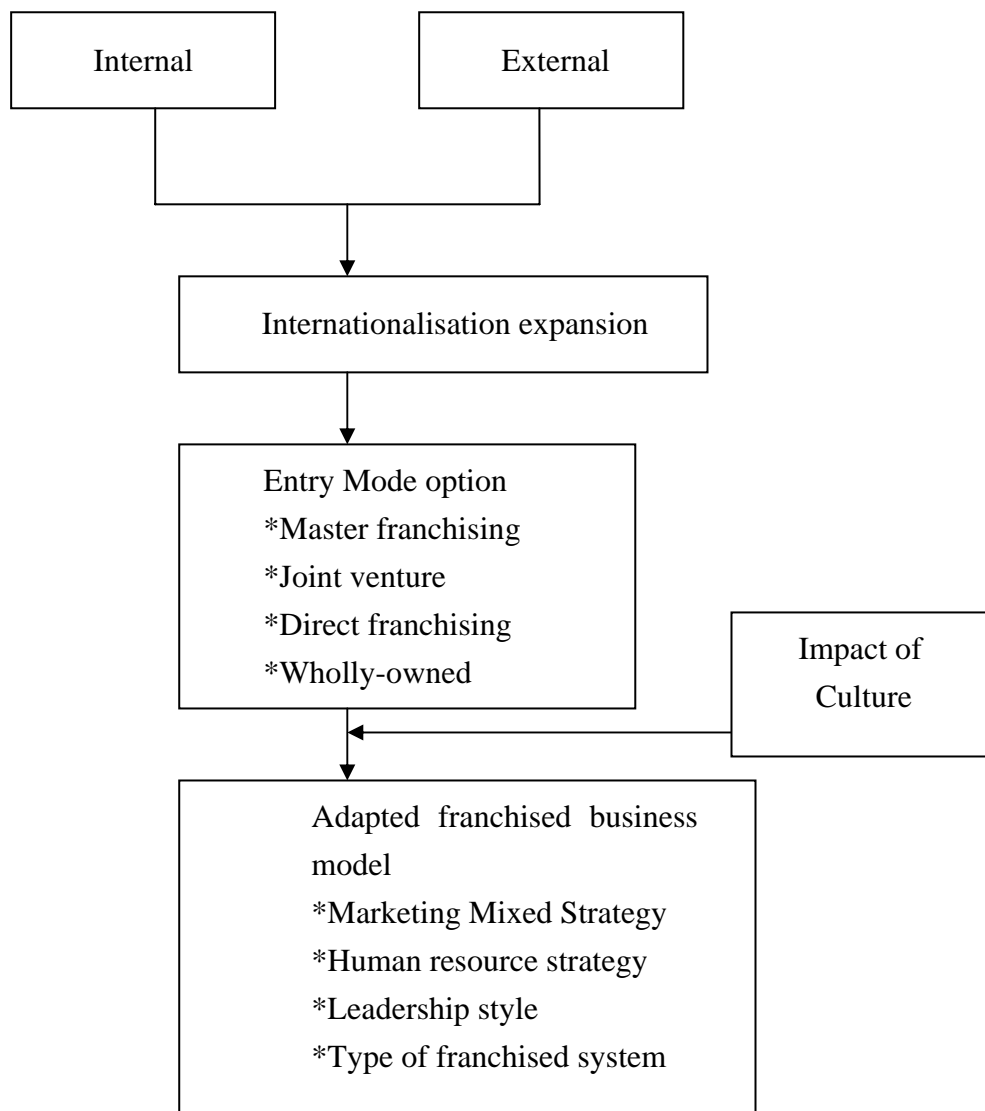
Research on international franchising has been popular in recent years with a growth in the number of companies taking their brands abroad (Etzel & Walker, 1973; Hackett, 1976). The two primary motives for this activity are internal (organisational) and external (environmental) factors. Internal factors include the possession of expertise and know-how transference (Huszagh, et al, 1992), domestic experience (Whelch, 1989), timing (Welch , 1992), managerial attitudes and perceptions (Kedia, et al, 1994) and the

desire to expand and increase profits (Hackett 1976 ; Trankhiem, 1979). External factors include inquiries by potential franchisees (Welch, 1992), following clients, domestic market saturation (Aydin & Kacker, 1990), low risk and minimal financial investment (Treadgold & Davies, 1988 ; Kedia, et al, 1994). This research serves to identify, in part, some of these motives from the perspective of international franchisors and compare the differences between American and Japanese business approaches.

The mode of international expansion is an important factor influencing success in the international marketing arena. Franchising is considered to be relatively low risk and a low financial investment entry mode compared to high-cost and high-control modes, such as those for wholly owned subsidiaries and dominant shareholdings (Treadgold & Davies, 1988). International franchising studies (Chan & Justis, 1990 ; Quinn, 1998 ; Teengan, 2000) have identified four main types of entry modes including master franchising, equity joint venture, direct investing and wholly-owned subsidiaries. However, they do not, in-the-main, deal with the relationship between motives and the choice of the entry mode.

Culture is a series of learned beliefs, values and customs that create behavioural norms for a given society. Cultural difference refers to the degree of difference between the culture and language of the home and target countries. Cultural variations are taken into account by international marketers when adapting marketing strategies. When franchisors utilise a high-control entry mode, they generally desire to standardise their business model, as the degree of control influences the adjusted franchised business operation. However, this is often tempered by cultural considerations. Franchising systems are able to take advantage of consistent products and services (Vaugh, 1979 ;

Preble, 1992 ; Quinn, 1998) and established recognition of international brand imaging (Dant & Nasr, 1998). However, different international cultural environments make it more complex and difficult to achieve organisational objectives (Huszagh et al., 1992). Eroglu (1992) proposes that a high degree of cultural difference affects the franchisor in at least two major ways. First, there are internal managerial and operational problems that are derived from differences in business ethics, practices, communication and performance measurement. Second, there are issues relating to difference of cultural understanding and appealing to local demand, particularly where product and promotion modifications are required. Sadi (1994) suggests that culturally significant differences arise in international franchising due to the need to confirm an adequate local partner and adapt marketing and operations when franchising. The literature also suggests that these types of franchise-specific adaptations are not necessarily universal and decisions need to be made on a country-by-country basis. Thus, there exists a need to analyse the cultural characteristics of each nation to design customised entry strategies that will achieve sustainability in each market. This research will explore the characteristics of Taiwanese culture, based on Hofstede's dimensions, which show how cultural sensitivity has a moderating effect on marketing mix elements and managerial issues.

Within franchise practice it is important to maintain a consistent brand concept and format. It must be determined to what extent a company will align with American or Japanese culture in its franchise, operations and choice of employee. It must also be determined to what extent it will choose to align itself with Taiwanese cultural practices and behavioural norms. International marketing studies found that most marketing adaptations are related to product and promotion, outlet design, logo design, site selection, public relations and promotional strategies (Sadi, 1994 ; Justis & Judd, 2003 ;

Quinn, 1998). In addition, as franchising is regarded as a type of service-based industry, when entering the international franchising arena modifications may be needed in various aspects of business format, including people, services process and physical evidence. This research proposes an adapted franchise business mode, with adjustments to marketing mix elements, human resources and cultural appeal to the Taiwanese marketplace.

4.3 The Research Question

Based on the previous discussion, three linked research issues will be explored. These are: the mode of international expansion, motives for internationalisation, and the moderating effect of culture on the adjusted franchised business format system. Thus, the overall research question will be:

> *How does culture impact on franchisor and franchisee marketing and management decisions when adapting to an international environment, specifically when Japanese and American franchisors enter Taiwan?*

The sub-research questions are:

- What are the motives for international franchisors entering Taiwanese marketplace?
- Does it differ between American and Japanese marketers?
- What is the most popular entry mode for international franchisors entering the Taiwanese marketplace?
- Is it different between American and Japanese marketers?

- What are the key factors associated with successful international franchising in Taiwan?

- What has to be changed to saliently reach Taiwanese culture?

- How are the key components of the international franchising system adapted in order to be successful in the Taiwanese marketplace?

4.4 Justification of the Research Paradigm

A suitable research paradigm had to be chosen before selecting an appropriate methodology for the research. A paradigm may be defined as a critical guideline to theory and research (Neuman, 2003). It is a basic set of philosophical beliefs that guides and directs actions of inquiry or research (Lincoln & Guba, 2000). In research practice, a paradigm provides procedures about how a researcher should conduct a study by specifying the most appropriate research methods. Philosophically, researchers make claims about what is knowledge (ontology), how we make it (epistemology), what values go into it (axiology), and the processes for studying it (methodology) (Creswell, 2003). There are many different opinions regarding classifying paradigms. Some researchers emphasise two, namely: positivism and post-positivism. Other authors suggest that there are three major paradigms in social sciences, namely: positivistic, interpretive and critical (Neuman, 2003). Guba and Lincoln (1994) suggest that there are four paradigms: positivism, post-positivism, constructivism and critical theory. However, the positivist and constructivist paradigms have been the most widely applied in social science research in the last three decades (Tashakkorie & Teddlie, 1998). As a consequence, this research will focus on these two paradigms.

4.4.1 The constructivist paradigm

The constructivist paradigm is based on the observation of, and scientific study about, how people learn to construct understanding and knowledge of the world through their own experience and reflections (Bettis & Gregson, 2001). Constructivists prefer to use qualitative and naturalistic approaches to inductively and holistically understand human experience in context-specific settings. Constructivism holds that the researcher is not independent from the subject of study, but is a 'passionate participant' who interacts with participants to construct the outcome (Guba & Lincoln, 1994). Therefore, the outcome of the inquiry is constructed through the joint effort of the researcher and participants during the process. It assumed that constructivism is subjective and the created knowledge is understood to depend on the interaction between the interviewer and the participants (Guba & Lincoln, 1994). This philosophic paradigm is the preferred paradigm for this research because of the nature of the research issue it addresses. Two considerations here have influenced the selection of this paradigm.

Firstly, constructivism is particularly appropriate in the area of management marketing where there is a deficiency in theory and a lack of well-established constructs and principles. The qualitative approach uses an inductive method which creates and integrates new concepts or theories through the data collection process and its examination (Neuman, 2003). A qualitative research method allows participants to express their experiences or emotional responses to the world (Ellis & Flaherty, 1992) and deeply penetrates their unique experiences and behaviours. It can then facilitate the findings of relevant factors that help researchers gain a further understanding of human behaviour and activity (Marshall & Possman, 1995).

This research investigates the impact of culture upon international franchising strategies, namely, the marketing mix elements and internal managerial issues. These variables have not been clearly identified in any previous studies and may change from country to country. In addition, many researchers recommend (Quinn, 1998 ; Doherty & Quuinn, 1999 ; Frazer, 2003) that there is a need for further qualitative studies on international franchising to explore company operations in greater depth. Constructivism is an appropriate paradigm for this research because the adoptions of subjective qualitative research methods are justified where it is deemed necessary to generate theory and to overcome problems of complexity when literature is lacking in depth.

4.5 Research Strategies

As discussed in the literature review, few studies have been undertaken in the area of international franchising, particularly in Asia. This means that the research has to start with an exploratory study to understanding the broad context in which international franchising occurs. This research addresses the research questions by using methodology which comprises of an expert panel group, a series of in-depth interviews and case studies. The overall scheme is shown in Figure 4.2.

4.5.1 Expert panel focus group

Focus groups are a useful method for conducting exploratory research. They refer to gathering information from those thought to be knowledgeable on the issues relevant to the research problem (Burns & Bush, 2000). As such, an expert panel group will be selected to form the first component of this research. The panel will comprise of three

senior academics with expertise on franchising theory, services marketing and international marketing.

The objective of the panel will be to provide a knowledge base from which suitable questions could be derived for use in the in-depth interviews with chief executives of the selected franchise firms. Additionally, the panel will assist in selecting appropriate representative organisations from international franchising systems in the Taiwanese marketplace, with which to conduct subsequent in-depth interviewing.

The focus group interview protocols will include the use of semi-structured and open-ended questioning, prompting, probing, reflecting, extending and reviewing (Carson, Gilmore, Perry & Gronhaug, 2001). It is anticipated that the focus group meeting will run for one hour and will be tape-recorded. The researcher will provide the panel with a preliminary set of questions developed from the literature. Participants will be engaged in a free-flowing group discussion and responses are most likely to be spontaneous and unconventional. Thus, the outcome of the focus group should reflect an accurate idea of participants' views and feelings (Malhotra, et al., 2002). This method will help to gain a wider range of information, insights and ideas regarding the perspective of academics and executives about international franchising strategies. It is expected that the expert panel will confirm the variables identified from literature reviews, but it is anticipated additional variables may also be identified.
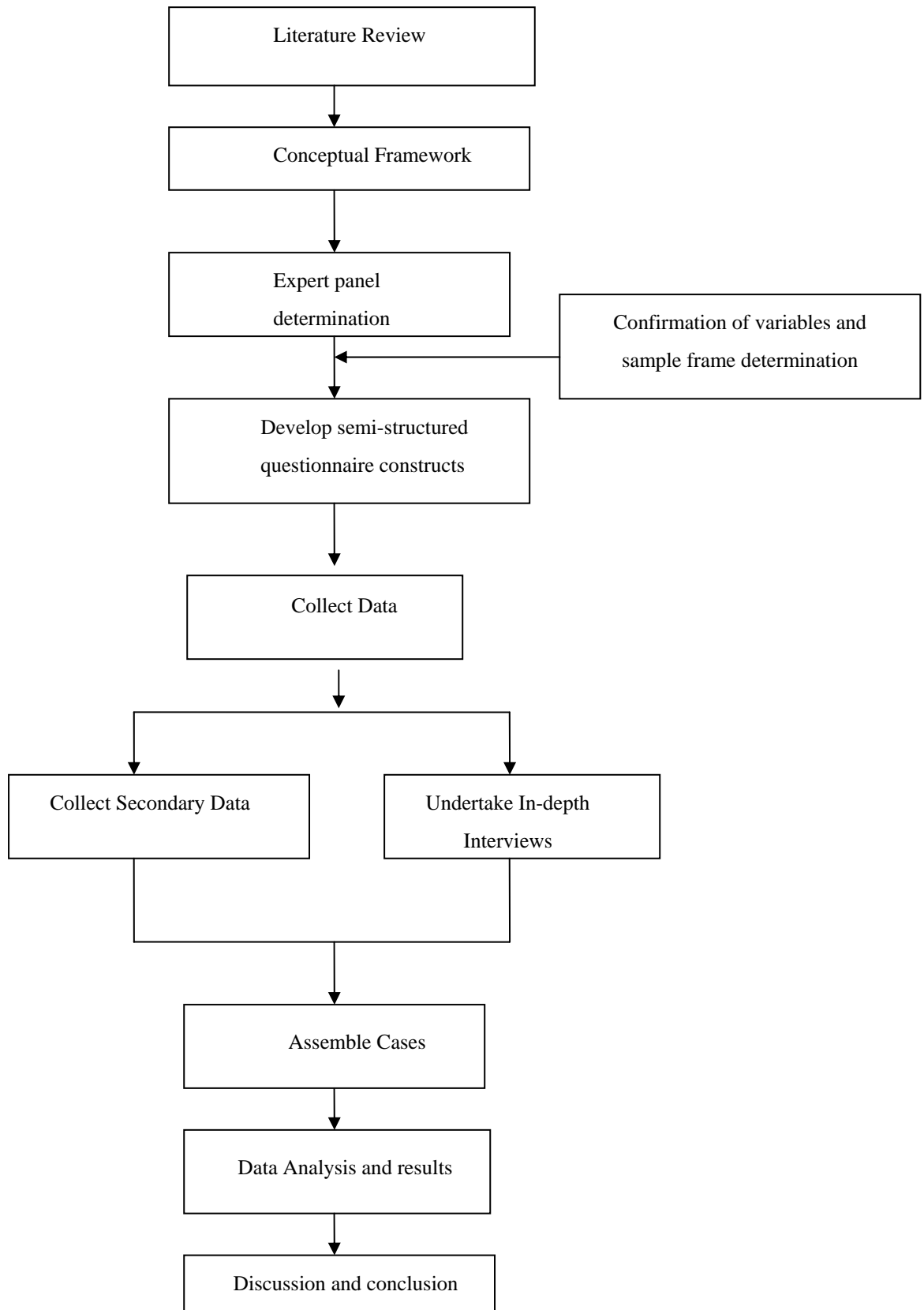
Figure 4.2: The overall research scheme

To be able to conduct a comparative study of the cultural impact on international franchising strategies of selected countries the expert panel will identify and recommend a number of industries for the study. The procedure for, and findings from, the expert panel focus group discussions can be found in section 5.2.

4.5.2 In-depth interviews

Following on from the focus group, in-depth interviews will be conducted to gather opinions and identify and explore issues through purposeful conversations and verbal communications via prepared questions (Carroll & Johnson, 1990). According to Taylor and Bogdan (1984) in-depth interviewing is a direct data collection method based on repeated face-to-face interactions between the researcher and interviewee, and is aimed at understanding interviewee's perspectives on their lives, experiences or situations, as expressed in their own words.

In this research, in-depth face-to-face interviews will be undertaken with key decision makers involved in the internationalisation-process for their firms. The objective of the in-depth interviews is to increase or qualify understandings about what components of the franchised system should be adapted and how adaptation has been undertaken during the process of internationalisation. It is expected that the in-depth interviews with key personnel of the firms will provide insights into the key success factors of the franchised systems that have been affected by adaptation strategies.

4.5.2.1 Rationale for in-depth interviews

According to Carroll and Johnson (1990), one of the important methods for decision research is the 'self-report' method. This method has the capacity for gathering opinions, identifying issues, learning the 'ropes', and exploring the situation. It is frequently used in exploratory research to check for understanding and to generate hypotheses (Kidder & Judd, 1986). As stated previously, there are few prior empirical studies undertaken in the area of international franchising as they relate to the adapted franchised business format model. Navigating the nuances of cultural differences unique to a people group is of prime importance for organisations attempting to annex their franchise internationally. Face-to–face in-depth interviews play a key role in providing rich information about these processes in order to develop hypotheses about principles that underline such cultural adaptation.

4.5.3 Case study

The case study is considered to be an elastic, empirical method of inquiry that investigates a contemporary phenomenon within its real-life context (Yin, 2003). It is useful when the boundaries between phenomenon and context are not clear and where there has been limited prior research undertaken (Yin, 2003). Case studies also provide an in-depth explanation of the particular context and situation, and may lead to further exploratory research (Yin, 2003). The case study method also offers a flexible and innovative way to collect and examine data, and allows an intensive description and analysis of single participants, an individual, group or organisation (Eisenhardt, 1989). For this research, the case study method will help gain knowledge about international franchising systems with regard to background, motives, entry mode adopted and the implementation of international strategies.

4.5.4 Sampling

This section details, first, the sampling frame and, second, the sampling strategy employed for this research.

4.5.4.1 Sampling frame

Consumer fast food organisations play an important and dominant role in franchising systems (Preble, 1992; Hoffman & Preble, 1991; Pizanti & Lerner, 2003). In recent decades there has been a significant change in the division of roles in the Taiwanese family. Specifically, there has been a significant increase in the number of working women who have removed themselves from domestic duties, such as home cooking (Stanworth, 1996). This has lead to a rise in the phenomenon of families eating outside the home (known as outside eating population) on a regular basis which has enhanced the demand for a fast food retail industry. According to the statistics Taiwan Franchising Association, Taiwan had the highest growth rate in terms of numbers of outlets in the food-retail industry in 2008. This growth has particularly been seen in breakfast-serving outlets and convenience stores. Thus, the key industry investigated in this study is the food-retail industry.

There are many well-known international food retailing franchising chains in Taiwan that have largely filled the demand of consumers. The majority of the franchising systems that have emerged are of American and Japanese origin or have at least been modelled on the success of franchises from these countries (Preble & Hoffman, 1995 ; Alon, 2004). Thus, the American food retailing franchising cluster has been selected for this study as it can be regarded as typically representing western style organisations (Pizanti & Lerner, 2003 ; Alon, 2004). To make broader comparisons, however Japan

has additionally been selected for this research, as it has a high degree of similarity to Taiwan**.**

In this research, two food retail franchise systems from each of the targeted countries will be investigated in order to determine how culture impacts upon specific aspects of the services marketing strategy. In addition, three to four key persons from each franchise system shall be interviewed to further understand the issues of implementation and strategy.

4.5.4.2 Sampling strategy

In general, qualitative researchers use non-probability sampling because of the peculiarities that relate to unusual characteristics of the population. Thus a decision regarding a representative sample is made in advance (Neuman, 2003). In this research, purposive sampling will be utilised, with the cases selected on the basis of compliance with the following three criteria (Neuman, 2003). First, unique cases that are especially informative will be chosen. Second, members of a difficult-to-reach and specialised population will be selected. Third, particular cases suitable for in-depth investigation will be identified.

Purposive sampling is particularly suitable for this research for two reasons. Firstly, interviewees are executives of selected firms who are relatively difficult to reach through alternative means (Galbraith & De Noble, 1988). Secondly, the units that have been selected for study in this stage are theoretically significant rather than statistically significant (Brewer & Hunter, 1989).

4.5.5 Administration for data collection

In this research, the data collection will be divided into two sources, comprising of primary and secondary data (Yin, 2003). The secondary data source will be gathered from the company websites, journals, annual reports, magazine articles, dissertations and other publications found in America and Taiwan, such as the Journal of Business Venturing, International Marketing Review and Journal of Global Marketing. Further, the latest census on franchising in Taiwan, conducted by the Taiwan Franchising Association and the Association of Chain and Franchise Promotion, will serve as secondary data.

The primary source for the research information will be in-depth interviews with senior managers. The in-depth interviews with executives are expected to be undertaken in their offices and scheduled at a convenient time, in order that they may be more relaxed when addressing questions. To maintain a chain of evidence which can be accessed for analysis at a later time, all the interviews are to be taped-recorded. The interviews will subsequently be transcribed prior to analysis. The transcripts will be labelled, dated and logged (Yin, 2003).

The interviews will be conducted in Mandarin. To minimise translation errors, back translation will be conducted. The first draft will be written in the English language then translated into Mandarin. The translation will be carried out by Chinese scholars and experienced market research professionals. To further ensure the accuracy of the translations, the documents will be reviewed by Taiwanese natives who are also fluent in English. The Chinese versions will be back-translated into English. The two English versions will be compared to ensure consistency of meaning. The typical interview

may take up to one hour to complete. To meet ethical requirements the transcripts will de-identified, however, the companies' names will be recorded. The recorded material will be destroyed following transcription. The individuals to be interviewed will include senior franchisee managers and international franchise managers.

Semi-structured interview questions will be used, as shown in Table 4.1. This will involve a series of open-ended questions to allow the interviewer the freedom to probe the interviewee to elaborate, or to follow a line of inquiry introduced by the interviewee. Probing questions will be included, such as "what differences…?" or "how do you…?" will be utilised as needed. The interviews will begin with similar questions, as per the guidelines below, and then, depending on the responses, move on to the additional questions.

4.6 Validity and Reliability of the Research

When undertaking research it is important to ensure the findings are reliable and valid. This can be achieved by emphasising the adequacy of the research design and through employing quality measurement procedures (Krausz & Miller, 1974 ; Selltiz, Wrightsman & Cook, 1976 ; Neuman, 2003). According to Yin (1994), the quality of a research design can be judged by four commonly used considerations. These are construct validity, internal validity, external validity, and reliability.

Table 4.1: Question protocols for in-depth interviews

Company Background
1. When, how and why was the business established?
2. What is the origin country of your home company?
3. What is the main product or service of your firm?
4. How many outlets does your firm have in the Taiwanese marketplace?
Process of Internationalisation
1. When did your first franchising system go overseas and to what country?
2. Why, when and how was expansion made into Taiwan?
3. Why did your firm select the particular entry mode to enter Taiwan?
4. Has the same entry mode been used for other markets? Why/why not?
5. What is the relationship between the host company and the home company?
6. What are the barriers for international franchisors entering Taiwan?
International Franchising Strategy-Related Issues
1. How did the host firm adapt its business format differently in Taiwan from that in the country of origin? In what aspects?
2. What are some of the demands of Taiwanese customers that have led to adaptation of product, store layout, location, etc?
3. What is the market segment? How did you select the target market and product positioning in the Taiwan market?
4. What is the product strategy in Taiwan? New product development strategy? New brand strategy? The degree of localisation
5. How did the master franchisee select the site outlet?
6. What is the promotion strategy in Taiwan? What kind of advertising does your firm use? What are the messages, style and media used?
7. What is the physical evidence strategy to maintain a unique image such as logos and trade market?
8. What is the focus on training people including franchisee or employee recruiting , and degree of empowerment?
9. How do franchisors design the services process?

4.6.1 Construct validity

Construct validity refers to the development of adequate operational measures for the concepts being tested (Yin, 1994 ; Malhotra et al., 1996 ; Emory & Cooper, 1991). In this research, the expert panel research will assist in judging the degree to which a particular variable measures what it is intended to measure. Besides the expert panel study, the literature review and examination of relevant documents, in-depth interviews with the executives of the selected firms will be conducted. Existing variables will be measured through the qualitative approach. These efforts will enhance the construct validity of this research.

4.6.2 Internal validity

Internal validity is concerned with the development of causal relationships whereby certain elements will be shown to influence other elements. In this research , to ensure internal validity, multiple sources of evidence will be utilised without reliance on one interview with a manager at each network organisation. This "triangulation of resources" (Patton, 1990, p.46) includes several in-depth interviews, documents collected from the network of the organisation, and field observations. In addition, interviewees will receive an early draft of the interview transcripts to ensure that they are accurate.

4.6.3 External validity

External validity refers to the ability to generalise findings from a specific setting to a broad range of settings and people (Neuman, 2003 ; Tashakkori & Teddlie, 1998).   It is concerned with the representativeness of the research samples. The more representative the sample, the greater is the probability that research findings have population external validity (Tashakkori & Teddlie, 1998).   Based on previous findings in related research

areas, this research begins with generating data from a selected expert panel and representatives of international food-retail franchised systems through face-to-face discussions and in-depth interviews. The participants will be managing directors, international franchise managers and Taiwanese master franchisees who have worked in the industry for approximately 10 years on average and who have decision power within the firms. The sources of in-depth interviews will offer a high degree of accuracy and will enhance the external validity of the research.

4.6.4 Reliability

Reliability is the degree to which the results of a measurement accurately represent the true "magnitude" of "quality" of a variable (Tashakkori & Teddlie, 1998). It also refers to dependability or consistency; that the same results are repeated or will recur under identical or very similar conditions (Neuman, 2003). In this research, to ensure reliability, the following strategies will be employed:

- The researcher will provide a detailed account of the focus of the research, the role of the researcher, the position of participants and the basis for using data.
- Multiple methods of data collection and analysis will be undertaken to strengthen reliability as well as internal validity.
- The data collection and analysis procedures will be reported in detail to provide a clear and accurate picture of the methods.

4.7 Data Analysis

Content analysis (Budd, Thorp & Donohew, 1967) will be undertaken on the tabulated findings of the interviews/focus groups. These findings will highlight the emergent

themes and behaviours. A set of transcripts will be created from each of the interviews. Consistent with the method outlined by Hubbert, Sehorn and Brown (1995), the unit of analysis will be the documented transcripts of the in-depth interviews. These scripts will be coded and organised using sequential incident analysis in order to develop emergent themes (Miles & Huberman, 1994) and sub-classifications of themes. Further inductive analysis will be undertaken based on an understanding of the extant literature.

4.8 Chapter Summary

This chapter has demonstrated how the research is to be undertaken. It commenced with a discussion of the theoretical paradigms in order to seek a philosophical ground for the use of an appropriate methodology for this research. Two major philosophical paradigms were discussed with respect to methods, logic, and epistemology. These paradigms are generally known as positivism and constructivism. Constructivist paradigm is regarded as a suitable approach for this research as it supports the building of theory. The aim of this research is to identify key success factors with respect to cultural adjustments in international franchising by examining the interrelationship of factors which are different dimensions of services marketing. The research process, using a multi stage method, has been identified as incorporating expert panel examinations, case studies and in-depth interviews with the executives of the firms. Research sampling, data gathering, analysis techniques and procedures to be employed for each stage of the research were discussed. To ensure the validity and reliability of research findings, this chapter has also shown how the research will adopt a series of strategies of research design and measurement techniques to assist in achieving this goal.

The qualitative research methodology will enable the researcher to acquire further understanding of the behaviours of international marketers. The next chapter will focus on analysing qualitative data which will contribute to building a framework for the international franchising study.

Chapter 5 Data Analysis and Results

5.1 Introduction

This chapter will firstly present the data collection, analysis, and results for the expert panel focus group research. Subsequently, the data collection and analysis for the in-depth interviews will be described. The results for the in-depth interviews shall then be discussed with reference to the literature review and the conceptual model prepared in Figure 4.1. Finally, this chapter presents a model of international franchising strategy particular to the Taiwanese context, as developed from the results.

5.2 Data Collection Process and Results: Expert Panel Focus Group

The expert panel focus group consisted of three senior academics with expertise in international marketing, franchise theory and practice, and consumer behaviour. Academics were selected from a Brisbane university.

A primary objective of the expert panel focus group was to determine an appropriate number of firms to engage in in-depth interviews, in order to gain appropriate scope, depth and breadth of information for analysis. A secondary objective was to identify adaptations to peripheral components of the franchising format, to provide a knowledge base from which suitable questions could be derived for use in the in-depth interviews with chief executives of the selected franchise firms.

The focus group meeting was held at Griffith University in Brisbane City. Prior to commencement, the researcher explained how confidentiality would be managed within the research process. The researcher then gave a 20-minute presentation which provided an overview of the research. The subsequent group interview ran for approximately one-hour and was tape-recorded. Interview protocols were undertaken in accord with the recommendations of Wells (1974), Durgee (1986) and Aaker and Day (1990) who suggest the use of semi-structured and open-ended questioning, prompting, probing, reflecting, extending and reviewing.

It was explained by the researcher that two central issues were to be addressed. These were industry groups selection and adaptations to peripheral components of franchising format. Participant responses to these issues shall be discussed sequentially.

5.2.1 Industry group and case selection

With regard to industry group selection it was suggested that the food industry be selected as it is a product-based franchise operation and the largest international franchise system in terms of the numbers of outlets both internationally and within Taiwan. With regard to the number of cases (firms) to be included, the researcher asked:

> "The main problem is how many case systems should be selected from Japan and America, which ones should be included and why"?

The panel suggested that four U.S.A and four Japanese franchisors be selected for further study. However, after further discussion and reflection, the panel agreed that

the sample should consist of two cases representing U.S.A. franchisors and two cases representing Japanese franchisors.

The criteria for selection of the fast food franchise systems were agreed as:

- Firms originating from, and with a maintained headquarters in, U.S.A. or Japan.

- Taiwanese master franchisees are to be directly accountable to, and in close communication, with franchise headquarters.

- Firms that have been established in Taiwan for at least 15 years.

- Firms that have expanded into at least three other countries.

- Firms that have an effective marketing mix and internal management, and have successfully adapted to fit the unique culture of the Taiwanese marketplace.

In response to the number of personnel from each case to be interviewed, one participant stated:

> "You are looking for the spread of the ownership in the franchise systems…for example KFC has an agreement with an organisation in Taiwan… It may not be possible to see the differences in results because one person makes the effective controls……. Most of the systems are generally run by area development franchisees. You should consider finding 3-4 persons in one case. That will make the survey more flexible and create increased integrity".

Further discussion resulted in the panel concluding that three personnel from each of the four cases should be sampled in order to increase the integrity of the research.

5.2.2 Adaptations to peripheral components of franchising format

To commence the discussion on the identification of adaptations to peripheral components of franchising formats when entering the Taiwanese context, each participant was given a list of variables. The variables had been identified from the four in-depth case studies and are considered to be a useful framework in critically evaluating services. These variables, namely product mix, location, price, promotion, human relations, physical evidence and process, were discussed sequentially with regard to the franchise food industry and adaptations. Details of the discussion, regarding each variable, are provided below.

5.2.2.1 Product Mix

In response to variations in the product mix, adaptations of peripheral components of format were considered necessary to meet differences in market conditions. Considerable discussion took place regarding product adaptation related to tastes, culinary preferences and portion sizes. As suggested by one participant:

> "What is about coffee and tea and what is about providing a food product? Is the hot drink a growing industry in Taiwan and what about the use of soy-milk instead of dairy milk as in U.S.A?"

After extensive debate, the panel settled on the following list of factors, and categories, as significant to product mix.

1	**Different flavours**
	The degree of spiciness
	The degree of sweetness
	The degree of saltiness
2	**Size of portions**
3	**Different ingredients**
	The degree of imported products
	The degree of meat
	The degree of seasoning
	The degree of cheese
4	**Product innovation**
	Gift packaging
	Dessert
	Side order
5	**Brand name**
6	**Soft drink**
	The amount of milk
	The degree of sweetness
	The degree of ice
	Fruit juice
	Soy-milk

5.2.2.2 Location

The variable of location raised considerable debate as Taiwan has one of the highest density populations in the world, a culture that does not engage extensively as the western countries with takeaway food, and a country that makes limited use of the motorcar.   The panel settled on the following variables as being significant factors.

1	The degree of the passing of traffic
2	Customer accessibility
3	Parking lots

5.2.2.3 Price

The expert panel considered pricing structure to be one of the peripheral components of format. They suggested that it requires a degree of flexibility driven by unique local market characteristics, including price floors and ceilings, and level of competition.

> "It seems to me the price variable should not necessarily have any influence from the basis of the parent company… I think that there should be some price variation…But it is important to investigate how the price contributes to the overall marketing mix."

Another participant extended that debate, saying:

> "In the economics and international marketing literatures price is an indicator across-nation as a kind of the proxy for the method of exchange value. In relationship to the American hamburger, if the price is $3 there it is $2.5 in India. It is used as a measure of the currency exchange."

One participant mentioned:

> The real issues are what is expected, what is new and what is the contribution of the price variable? In addition, in terms of payment, in Taiwan they have a lot of vouchers, which is not common in Japan or America.

5.2.2.4 Promotion

Franchisors choices regarding modes of promotion and media are strongly affected by culture and it is expected that, when moving into new cultural contexts, significant changes to home-nation strategies would need to be made. As one participant suggested:

> "In Taiwan, out-door advertising such as billboards are very popular, (as is) the Internet promotion. Bundle package promotion is quite popular in Taiwan as well."

A number of promotional factors were considered relevant by the panel, as listed below. The most significant considered to the Taiwanese context were advertising, personal selling, customer relationship management and sales promotion.

1	**Advertising**
	Broadcast: TV
	Broadcast: Radio
	Print: newspaper
	Print: magazine
	Out door adverting: bulletin board
2	**Personal selling**
	Indoor, point of sale
3	**Customer relationship management**
4	**Sales promotion**
	Free trials
	Special offers
	Discounts
	Coupons
	Competitions and contests
	Bundle package promotion

5.2.2.5 Human relations

Human resources management is an important issue explored in international franchising literature. Franchises, as independent businesses, are responsible for the recruitment of staff, setting appropriate wage scales and determining culturally appropriate operating hours. However local labour markets vary in terms of occupational skill structures. One participant suggested:

"People are evidently different because of the country they come from. It seems like the training is different (internationally) and salaries inflated because of the

cost issues.　The job content and the job descriptions will be (variable across different national groups).　In some cases the management functions would not be the same."

Another participant suggested:

"I would like to see some consideration on the issue of empowerment.　This is a big factor and may involve having a lot of privileges being given."

One of the panel commented:

"Does the system change that? Does the franchise system force itself on the country franchisor and allow employment differences as they impact culture?"

One participant recommended:

"Maybe we (should) think about corporate social responsibilities (CSR) as they relate to people issues.　Do firms offer the job opportunities to the handicapped?"

It was concluded that the following set of variables be considered:

1	Training
2	Job description
3	Empowerment
4	Auditing system
5	Corporate social responsibility

5.2.2.6 Physical evidence and process

Little discussion was held on the variables of physical evidence and process as it was assumed that this would become apparent and the significant factors would emerge in the in-depth interviews.

5.3 Data Collection Process: In-Depth Interviews

The four case studies contributing to this investigation represent two franchised fast food systems originating from U.S.A. and two franchised fast food systems originating from and Japan. These shall subsequently be discussed as Japanese A, Japanese B, American A and American B. The in-depth interviews were conducted between February 2008 and June 2008 with key decision makers involved in the internationalisation process of the firms. They included managing directors, international franchise managers and Taiwanese master franchisees, as indicated in Table 5.1.

All participants were contacted by telephone prior to the interview and were given the opportunity to examine the interview protocol. Interviewees agreed to participate in face-to-face tape-recorded interviews. The researcher transcribed the transcripts word by word, according to the tape-recording. The transcripts were regarded as foundational material of the research analysis.

5.3.1 Description of franchises for in-depth interviews

Franchise American A is one of Taiwan's most successful fast food franchise systems, holding the highest market-share in its field. This has been achieved through much effort and minimal adaptations. American A has achieved great success in Taiwan and has had a strong impact on the Taiwanese franchising industry by setting an example of excellence.

American B was chosen as a candidate for study as it held the third largest market share of convenience stores in the Taiwanese marketplace. However, it withdrew from the market in 2007 as the home country could not afford sufficient supporting resources. A significant problem for this franchise has been brand hijacking between the master franchisor and franchisee.

Japanese A is a fast food franchised system which holds the second largest share of the Taiwanese fast food franchise market, in terms of the number of outlets within Taiwan. Japanese A is of particular interest to this study owing to its success in spite of being a provider of unfamiliar services and product concepts as well as, prior to entry, having brand name obscurity.

Japanese B was chosen as an example of an initially failed enterprise. It serves as a source of information about how companies must flex operations, product and image in order to win back lost markets.

Table 5.1: Summary of participants' positions and length of employment

Firm Origin	Participants	Length of employment
Japanese A	Vice President	Since the beginning the firm
Japanese A	Senior Personnel Manager	Since the beginning the firm
Japanese A	Senior Japanese Managers	10 years
Japanese B	Senior Marketing Manager	Since the beginning the firm
Japanese B	Marketing Manager	10 years
Japanese B	Senior Japanese Managers	8 years
American A	Franchised department manager	20 years
American A	Purchasing manager	10 years
American A	Local Marketing Manager	5 years
American B	Senior marketing manager	12 years
American B	Human resource manager	8 years
American B	Vice president	10 years

5.4 Data Analysis Process and Results: In-depth Interviews

Thematic analysis was the overarching method of analysis for this research and was facilitated by the use of Nvivo8.0 software. This section details the concept of thematic analysis and the results of the open coding and axial coding.

5.4.1 Thematic analysis

Thematic analysis principles comprises an inductive qualitative method which analyses and reorganises phenomenon and events. In other words, thematic analysis is a way of systematically acquiring information and analysing it to develop basic theory constructs. The data collection, analysis and the development of theory are interrelated. The researcher, when conducting research, does not have the theory in advance but starts

from a research area and gradually constructs theory from the materials collected (Strauss & Corbin, 1998).

Thematic analysis focuses on the procedure of systematic coding, conceptualising, then reorganising the material into a set of organised categories. The process of coding consists of three phases: open coding, axial coding and selective coding. Nvivo8.0 software was utilised to facilitate this analysis. Nvivo8.0 is scientific qualitative software that can effectively help researchers handle, review, manage and analyse data. It is used to analyse complex non-numerical unstructured data and alleviates the need for manual sorting (Lu, 2006). Nvivo is used primarily by qualitative researchers working with rich text-based or multimedia information, where deep levels of analysis are required. This type of analysis can encompass academic studies, business intelligence, marketing research or data analysis.

The first step in using Nvivo8.0 is to create a series of projects. A project contains the documents, coding information, and associated files needed for analysis. In this research, each interview transcript was regarded as one project. The initial work of qualitative research is to code data, a concept known as a node. There are several types of nodes available in Nvivo for users. In this research, the two common nodes are discussed: free nodes and tree nodes. Free nodes are free-standing and are not associated with a structured framework of themes or concepts. Tree nodes are codes that are used to organise a hierarchical structure.

5.4.2 Open coding

Open coding is an analytic process that allows decomposition and close inspection to compare for similarities and differences. Open coding may assist in making decisions about concepts. Individual words or short sequences that make up a part of participants' statements are drawn from the data set (Strauss& Corbin, 1998). In this research, data analysis was based on interviewee transcripts, starting line by line or word by word.

The first step in theory building is conceptualising. A concept is a labelled phenomenon. It is the abstract representation of an event, object, or action and interaction that a researcher identifies as being significant in data. The purpose of labelled phenomena is to enable researchers to group similar events, happenings and objects into a common heading or classification. In this study, individual interviews were identified as one project and free nodes were coded as browsing. Conceptualization occurs through browsing raw sources and by decomposing data. There were 90 free nodes found in the research data (see appendix 1).

The second step is discovering emerging categories. There are many concepts which may emerge over the course of analysis. Certain concepts can be grouped into more abstract higher-order concept groups, called categories. Grouping concepts into categories is important because it can enable researchers to reduce the number of concepts that are interrelated. In addition, categories have analytic powers because they have the ability to explain or predict. The findings of the research have eight tree nodes, as indicated in Table 5.2.

5.4.3 Axial coding

Axial coding assists the researcher in examining features of the phenomenon, such as its cause, background, and the interactive relations of categories which may have fractured during open coding. This facilitates unitising of the paradigm model in order to reduce, induce, merge and reorganise these categories. Axial coding incorporates two steps: classification and examination of categories.

The classification process is based on the paradigm model, which incorporates three major items: conditions, strategic action/interactions and result. The explanations of the components of the paradigm contain three conditions: causal, intervening and contextual conditions.

Causal conditions usually represent sets of events or happenings that influence phenomena. In this research reasons for global expansion and firm characteristics are causal conditions. Intervening conditions are those that mitigate or alter the impact of causal conditions on phenomena. Intervening conditions, in this research, include the uniqueness of Taiwanese culture and stages of development. Strategic action and interactions are purposeful or deliberate acts that are taken to resolve a problem which shape the phenomena in some way. In this research, many adaptations were made by international franchisors to meet the demands of the Taiwanese marketplace and culture in terms of marketing, leadership style and human resources strategy. The inter-relationships between the eight motivation-based categories, see table 5.2, are examined below.

Table 5.2 Axial coding findings: Factors related to Japanese and U.S.A. based franchises entering the Taiwanese marketplace

Category	Description	Concepts
Motivations for Entering the Taiwanese Market	Why did home company enter Taiwanese marketplace?	economic factors
		attitudes and perceptions of managers
		requested by potential franchisee
Entry Modes	Relationship between home company and host company in terms of equity ownership vs. contract	joint venture franchising
		master franchising
Firm Characteristics	Nature of international business	firm size
		the international experience
		the nationality of the home company
Control Mechanism	Methods used to control and coordinate the activities performed by channel members	formal control
		informal control
Taiwanese Culture	Social norms or beliefs accepted or followed by Taiwanese	saving face: Confucian dynamism
		autocratic and paternalistic
		gaunxi network
The factors of area development franchising	Reasons for choosing company-owned outlets	Chinese family culture
		local culture
		Compliance
		accumulated special asset
		profits
		degree of complexities technology
Marketing strategy	Set of controllable elements that franchisors and franchisees put together in order to reach the market	product strategy :
		price strategy
		promotion strategy
		site selection strategy
		physical evidence strategy
Management strategy	People management practices found in the organisations	leadership style
		human resource strategy

5.4.3.1 Motivations for entering Taiwanese marketplace

In this research, the motivations for the home company entering the Taiwanese marketplace included economic factors, perceptions of managers, and requests made by the host company.   These categories further influence inter-organisation relationships and control mechanisms, and are examined below.

Economic factors

When domestic markets become saturated, firms have the incentive to exploit overseas markets with profit potential.   In addition, compared to other forms of foreign investing, franchising agreements are deemed to be lower risk with minimal financial investment required since franchisees bear the majority burden for running the business. Franchisors have built complete business methods and know-how including site selection, operating procedures and store design, all of which can be duplicated in another country with minimal investment, along with economics of scales.   One participant stated:

> "The first destination was America where we were attracted by the potential market; meanwhile we entered the Taiwanese marketplace because of geographical and cultural proximity, (and) the rapid growth of Taiwan economics."

Another participant stated:

> "Taiwan is one of their Asian destinations. The master franchisor was asked by Taiwanese master franchisee who would like to enlarge their sales"

In addition, the rapid economic growth in the 1990s and increased rates of education across the population has brought about an increase in female participation in the labour force. As females have steadily increased their involvement in the Taiwanese paid labour force, households have begun to purchase many of the goods and services women once provided for the family at home. This has increased the presence of franchised business providing goods and services to meet burgeoning market needs. Further, locally-run Taiwanese businesses have continued to employ traditional behaviours and know-how for franchise management, creating market demand for goods and service-based industries that meet international standards. Taiwan is regarded as an ideal platform from which to launch into the larger Pan-Chinese market, as it has language and cultural similarities. With the perspective of an expanding economy, international franchisors considered it prudent timing to enter the Taiwanese marketplace. As stated by one participant:

> "…the growth of Taiwanese economics and the potential (for expansion into the) Chinese market are important factors for international business to enter the Taiwanese marketplace. …………the potential market and the growth of Taiwanese economics in 1990s. Although Taiwan is not an English-speaking country, it is a highly westernised country."

The attitude and perception of managers

A contributing factor in decisions regarding international expansion is the managers' foreign market orientation. International orientation is associated with whether key management figures have lived aboard, are capable of speaking a foreign language and whether their international experiences were perceived as positive. Further, management's position may be influenced by their belief in the uniqueness of its firm's ability, their technological advantage, their marketing expertise, or their financial

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advantage to support expansion. In this research, management's perceptions about their firm's core capabilities are related to whether it had effective managerial structures, cultural adaptability, and host-country risk management skills. One participant suggested:

> "Our founder worked at a financial institution in Los Angeles in the 1960s. He frequented a local hamburger chain called Tommy's at that time. During his time in America, he became familiar with western fast food and the American entrepreneurial culture. Therefore he had a dream to expand overseas… In general, Taiwan is the first destination for most Japanese enterprises because of cultural similarities…"

Another participant stated:

> "Pizza Hut is the largest pizza restaurant chain in the world. In 1968, the first international outlet was opened in Canada. After starting its first international restaurant in Canada, Pizza Hut quickly began to expand in Mexico, South America, Australia, Europe, the Far East and Africa. Today, Pizza Hut has not only successfully been positioned in western countries but it is also profitable in Asian countries and other country throughout the world. The expansion of Taiwanese marketplace was encouraged by the ample international experience…"

Request by Host Company

Research indicates that the internationalisation of franchises is often initiated by a host party, such as a franchisee or a foreign national. Many successful international franchises, such as McDonalds and 7-11 convenience stores, have strongly influenced the operation of Taiwanese franchise systems. The demand for international franchise know-how has increased. Many enterprises actively search for the opportunities to cooperate with international business to enhance their competitive advantages. As one participant stated:

> "Before cooperating with Japanese, the founder of TECO group (had a) lack of fast food franchising business experience…"

In addition, another participant stated:

> "Most franchising enterprises were operated by Taiwanese 20 years ago; we needed new know-how and experience from international business to enhance our competitive advantage…"

It was suggested by another participant that:

> "Circle K, Taiwan, is a member of the Taiwan Fisheries Group which started out as a deep-sea fishing industry. The founder also is interested in retailing business. The group also run local department stores and has made investments in the Makro Cash and Carry Warehouse in 1989".

The concepts related to motivations for entering the Taiwanese marketplace have been identified, through axial coding, as economic factors, the attitudes and perceptions of managers, and request by the host company. Related axial coding further identifies relationships between motivations for entering the Taiwanese marker and entry model control and franchise partner selection is indicated in figure 5.1. These are discussed below.
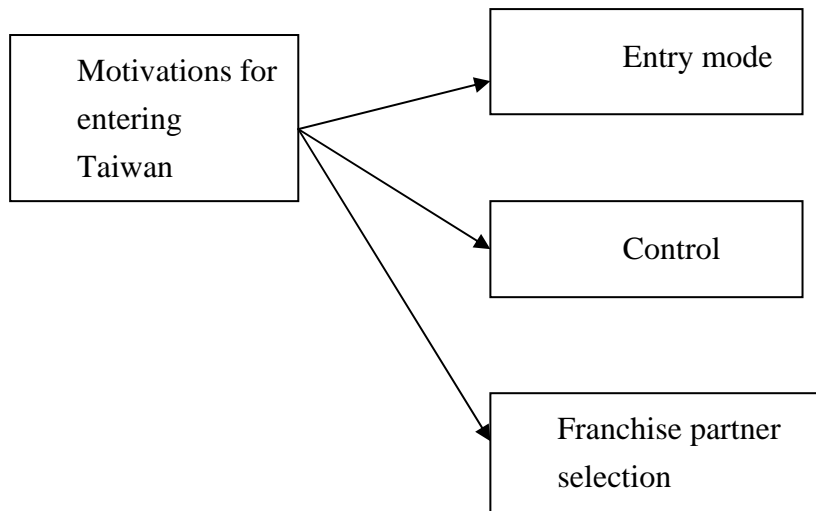
Figure 5.1: Motivations for entering the Taiwanese market (related axial coding)

Motivations for entering the Taiwanese market: relationship to entry mode

Entry mode is influenced by motivations for entering the Taiwanese market. Motivations can be divided into internal and external factors and may result in different entry outcomes. Entry modes encompass both equity ownership and non-equity ownership. If the home company focuses on economic factors as a motive for expansion, such as low investment and high profit, the company is likely to create a non-equity relationship.

In the research it was indicated that if a host company made lower resource commitment and investment, it would most likely adopt a master franchising agreement. By contrast, a franchisor who was inclined to make joint investment with a local franchisee often sought to develop the local market and establish long-term relationships with local businesses. As one participant indicated:

> "Japanese franchisor respects… partnerships, which rely on trust. In the beginning, they (are) inclined to ensure (that the) Taiwanese master franchisee can follow the rule of their franchised system. "

Motivations for entering the Taiwanese market: relationship to control mechanisms

Similarly to entry modes, motivations also impact control mechanisms. The franchise business is run under the franchise contract or legal agreement which outlines the regulations of the two parties. Franchisors utilise formal and informal controls. Formal control is expressed as contracts and informal controls are mainly executed through the establishment of a good relationship, communication and trust.

If external motives dominate the franchise relationship, contracts are deemed an important operational device but success is measured by such indicators as short-term profits. While franchisors use the contract system they may also focus upon building long-term partnerships while retaining strong control over operations. As one participant indicated:

> "The Japanese master franchisor expatriated two general managers to direct and closely monitor the business operations by keeping a watch on the store-opening strategies, field audit. They also were afraid of… losing control (of) their brand and know-how."

Another participant indicated:

> "The president was served by Japanese who is solely responsible for the overall performance of the business the vice-president was served by Taiwanese who is charged in logistics including the department of human resource, finances…"

Motivations for entering the Taiwanese market: relationship to franchise partner selection

For international franchisors, the risk of cultural incompatibility in product, managerial structures and service behaviours is higher in overseas contexts than in domestic situations. It is critical for a franchisor to find a master franchisee capable of moderating the franchise's managerial processes, products and services in order to develop successful overseas operations. The research indicates that the master franchisee is likely to be a conglomerate corporation, rather than an individual organisation, that has the ability to finance and provide administrative skills to establish and manage multiple outlets. Japanese franchisors have codes of respect embedded in significant social networks and would most likely select a franchisee or partner who shares similar cultural values. American franchisors focus on the ability and performance of franchisees and would likely select a master franchisor that is capable of providing a similar quality of product and meet performance goals. As one participant stated:

> "The franchise right of Pizza Hut, Taiwan, was taken over by Jardine group in 1990. Jardine group is granted as the regional master franchisee for a number of Asia countries. The firm can appoint a direct franchisee or a master franchisee within particular region. In this case, Pizza Hut Taiwan operates as a wholly company-owned subsidiary. To be localised, the group recruits the CEO by contract which is signed every three years depending on the performance of the outlets. "

Another participant suggested:

> "In the case of Taiwanese, we focused on the long-term relationship so that master franchisee should have the interaction experience with Japanese and financial background…"

5.4.3.2 Firm characteristics

Characteristics of a firm that are imperative factors to its success in the international arena include firm size, international experience and nationality of the home company. These are discussed sequentially.

Firm size

Firm size can be expressed in various ways including the number of employees, the number of outlets and annual sales. International franchising studies indicate that experience and size are dominant factors in expansion decisions (Walker & Etzel , 1973 ; Huszagh, et al, 1992 ; Contractor & Kaudu, 1998). This view is also supported by Walker's (1989) study where the majority of franchise participants had at least 100 domestic outlets and five years of domestic experience before expanding internationally. Thus, larger franchised systems have more resources to reduce the risks inherent in the expansion endeavour. One participant stated:

> "Royal Host, a Japanese-taste family restaurant chain operates about 400 family restaurants having established a nationwide network. It remains one of the oldest and biggest family restaurants chains in Japan."

International experience

International experience of managerial staff is one of the foundations of successful global expansion. International experience can serve to maximize the economic benefits of centrally-devised promotion and quality control programs. Experienced franchisors will find it easier to successfully manage the transfer of know-how,

procedures and programs to foreign markets than inexperienced firms. As one participant stated:

> "Before entering the Taiwanese marketplace, the parent company had ample
> international experience not only in English-speaking countries but also in
> non-English speaking countries such as Japan, Hong Kong. Taiwan is one of their
> Asian destinations."

Another participant stated:

> "Taiwan is the first destination of international expansion in Asia. Inspired by the
> successful experience of Taiwan, Japanese franchisor have expanded into Southern
> Asia, Thailand and Hong Kong three years ago..."

A firm's characteristics are related to the firm's size and international experience, as discussed above. As identified through related axial coding, the firm's characteristics are related to entry mode, control mechanism and franchise partner selection. These relationships are indicated in figure 5.2 and are explored in further detail below.
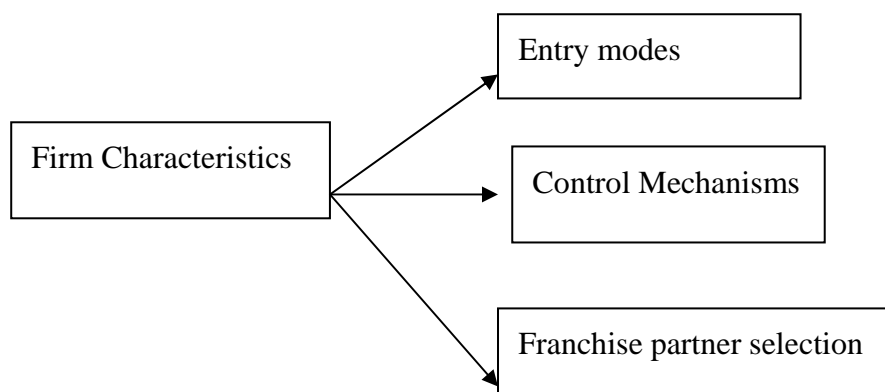
Figure 5.2 Firm characteristics and their relationship to entry mode, control mechanism and franchise partner selection (related axial coding)

Firm characteristics: relationship to entry mode

The entry modes incorporate equity ownership and other factors. The firm's characteristics impact on choice of entry mode. Older and larger franchisors are most likely to expand overseas. Further, higher degrees of business internationalisation are linked with more experienced managerial abilities. As businesses accumulate abilities and resources to handle international expansion they may take on master franchisees or wholly-owned international subsidiaries. International franchisors surveyed for this research demonstrated a preference for employing their own company consultants or experts to set up their wholly-owned international franchises. Alternatively, franchisors that lack international experience are likely to invest with a local master franchisee partner and become involved in local operations to obtain managerial experience. As one participant stated:

> "We make investment with master franchisee. Before entering Taiwanese market, we were lack(ing) of international experience, the information of Taiwanese market. We could collect local knowledge and information through company-owned outlets. Furthermore, we can monitor more closely and effectively to the behaviours of franchisees and reduce the risk of franchisee selection."

Firm characteristics: relationship to control mechanisms

Characteristics and nationality of a firm have a strong impact on the control mechanisms applied within the franchisor-franchisee relationship. Firms have different resources and unique capabilities. As a resource-base for international expansion, the more direct

contact franchisor's have with their international franchises the more likely they are to adopt localised responses and formal controls. Nearly 80 % of western franchisors have used Singapore as a platform or hub for regional franchising to manage their Asian business, including Hertz Car-Rental, Tony Roma's Ribs Restaurant (Swartz, 1997). As one participant stated:

> "Most western franchisors or business use Singapore as a platform or hub for regional franchising, headquarter is located in Singapore and manages Asian business. The meetings or trainings of area higher managers were taken place in Singapore or Hong Kong to share Asian marketing information and experience."

5.4.3.3 Entry modes

Franchisors may use various entry modes for international expansion. They can be categorised as contractual and ownership modes (Fladmoe-Lindquist & Jacque, 1995). In the research, the entry modes include two major types: joint venture franchising and master franchising. They are discussed as follows.

Master franchising

In master franchising agreements, the franchisor empowers the master franchisee to sub-franchise the business format to others within the given territory, creating a three-level franchise relationship. The master franchisee is the intermediary party between the franchisor and franchisee, and has the responsibility to sell the business format, and search and train the franchisee (Justis & Judd, 1986 ; Quinn, 1998). In this research, it was apparent that a unique form of master franchising is operating in Taiwan, where outlets are run and operated by master franchisees. This is an approach that is

closely related to area development franchising and multi-units outlets in domestic franchising agreements (Petersen & Welch, 2000).

From the perspective of agency theory, international franchisors have the tendency to adapt multi-unit outlets in the Taiwanese marketplace. Agency theory concepts, in terms of free-riding and quasi-rent appropriations, are generally exacerbated when the service delivery system is physically far removed from the home country. The cultural distance will add to the difficulty of managing a service business in a foreign environment. In particular, in the case of fast food industries, the protection of brand name capital is likely to be more strongly felt because it is difficult to protect against imitation through legal channels (Fladmoe-Lindquist & Jacque, 1995). As one participant stated:

> "Circle K signed a franchising agreement with Circle K Taiwan to delegate the executive right to use the Circle K brand name for their convenience stores in Taiwan. The master franchisor played the role of consultant to provide technical, guidance and know-how skills. We called it is technological franchising contract…….. In the first ten years contract, the outlets are company-owned that is similar to Hong Kong Circle. From its establishment, we spent ten years studying convenience store management know-how including outlet design, monitoring system, development of merchandise, POS system and staff training program."

Joint venture franchising

Joint venture franchising arrangements rely on a partnership between the franchisor and a foreign franchisee, however, unlike the master/area franchisee agreement; there is no stipulation for sub-franchising. Within the agreement the franchisor provides the core

capability such as management know-how and capital, while the local franchisee has the sites and local knowledge. As one participant stated:

> "We can monitor more closely and effectively the behaviours of franchisees and reduce the risk of franchisee selection. The task of selecting, recruiting and training outlet level manager is authorised to Taiwanese master franchisees as they understand local culture and play an important role adjust cultural gaps."

Entry mode: relationship to control mechanisms

There is a relationship between control mechanisms and entry mode for businesses expanding internationally. Risk associated with expansion and the degree of control exerted over a franchise will influence the nature of ownership and level of resource commitment in joint venture modes. Franchisors holding greater control of their franchises as shareholders share greater risk with their franchisees, and establish long-term partnerships while avoiding brand hijacking. They prefer to make investments with their franchisees or partners to access the local partner's capabilities in sales, local market know-how and, most importantly, contacts with decision-makers and business networks. When franchisors would like to reduce the risk of control by lowering the commitment of resources, they prefer contractual modes in term of master franchising. A study conducted by Andersen (1996), on U.S.A. franchisors, indicated that master franchising was the most successful mode of entry into distant and culturally dissimilar markets such as Asia. Although master franchising is an attractive mode to many franchisors in East Asia, franchisors have to give up much of the control over the master franchisee (Steinberg, 1994). However, in some areas franchisors must give up much of their control over the master franchisee in areas of business establishment protocol and in product/service quality and delivery. As one participant implied:

"We signed the franchising agreement. In the beginning, the majority of business operation was conducted by Japanese. The Japanese master franchisor was responsible for vital business decisions including the development of new product, the design and construction of the outlet and the transformation of the business know-how." yet not in the daily running of the business.

As other participant also, by implication, indicates that:

"Based on the franchising agreement, Japanese master franchisor provided the technical skills and know-how transfer with the firm and sent a Japanese deputy president to control and direct the business operations at the first 10 years of the contract in Taiwan. The deputy president monitored the outlet closely, overseeing the field operation management to maintain the service spirit of Royal Japan."

As discussed, entry mode effects control mechanisms. In turn, this affects franchise partner selection. The relationship between these variables and firm characteristics and motivations for global expansion is indicated in figure 5.3 and are explored in further detail below.

5.4.3.4 Control mechanisms

Research indicates that international franchisors exert control over their franchise network through formal and informal control. From an agency theory perspective, the franchise contract is the legal binding basis for international franchise business. This is deemed formal control and includes the length of the contract, the renewal process and the terms of termination as well as sales projections and the number of stores to be opened over a specified period.

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│ Motivations for │─────────────▶│  Entry Modes    │
│ Global Expansion│              │                 │
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┌─────────────────┐              ┌─────────────────┐
│ Firm            │─────────────▶│ Control Mechanism│
│ Characteristics │              │                 │
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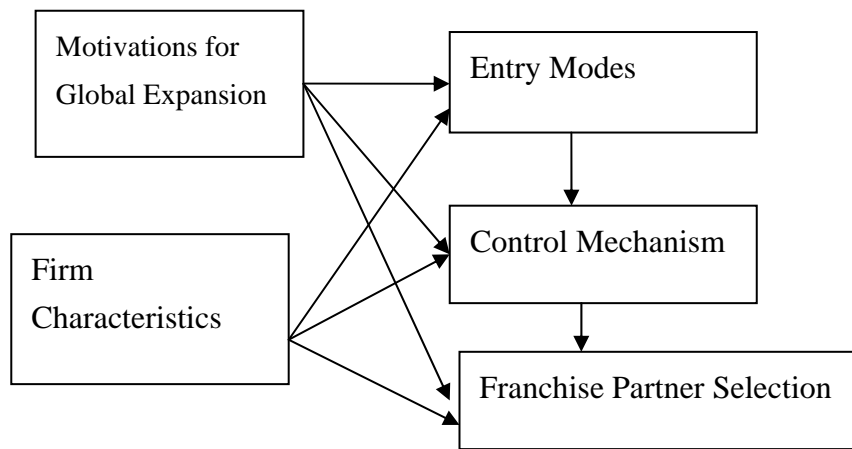
Figure 5.3 The relationship between motivations for global expansion, firm characteristics, entry mode, control mechanisms and franchise partner selection (related axial coding: entry mode/ control mechanism)

The informal control serves as the development of common beliefs and shared values between the franchisors and franchisee (Ouchi, 1980). Franchise partner selection and the development and maintenance of a communicative relationship with franchisees are managerial behaviours which effect informal control by the franchisor. Taiwanese codes of relationship invoke harmony as a higher priority than legal requirements. Therefore, within the context of Taiwanese culture, contracts are an ineffective means for managing conflict between franchise parties. A franchise relationship is culturally understood to be long-term and on-going, where communication and trust are central to success. Thus, if franchisors hope to maintain a degree control over business processes and brand/service quality and uniformity they must be willing to invest time and energy in building trust-based relationships with their franchisees. One participant stated:

"Regarding control and monitoring, we adopt an approach which is different from western countries. Besides the regular models such as field audits, mystery shoppers and POS computer system, we tend to communicate regularly with our franchisees or outlet managers through regularly meetings and training. Training is an important tool to delivery the core value and standard to employees.

…...but in Japanese mind, mutual trust is important to retain franchisor-franchisee relationship"….

It was suggested by another participant that:

"Particularly, franchise relationship is tended to be a long-term, on-going and reciprocal one where communication and trust are central to its success."

Control mechanisms: relationship to franchise partner selection

Control mechanics are saliently influenced by franchise partner selection. Franchisor-franchisee relationship is deemed a soft method of control. Franchise partner selection is, therefore, highly significant since the character of primary franchise personnel will have direct bearing upon the rapport, respect and trust capable of being established between franchisor and franchisee. Choosing a partner who shares a similar vision for a franchise brand saves the franchisor time, resource and energy involved in establishing and protecting brand equity. In this research, judicious choice of the "right" franchise partner and willingness to thoroughly investigate potential partnerships prior to making this choice has emerged as a crucial element in maintaining control.

5.4.3.5 Taiwanese Culture

In the literature, Taiwanese culture has been identified in Hofstede's cultural dimensions as a significant feature impacting upon choice of international business strategy in

Taiwan.   It indicates that many business format adaptations must been made to meet local sensitivities and demands.   Controlling for success, then, when managing an international franchise annexing into Taiwan must involve necessary adaptations of business features, including processes of personnel management, to accommodate cultural peculiarities.

In Hofstede's research, power within business relationships occurs most readily in the "master-servant" mode.   In general, within Taiwanese businesses people in positions of authority make decisions without consulting subordinates.   Staff are likely to accept directions from their boss or mangers and follow the guideline of the organisations.   As such, subordinates seldom express their opinions in regard to business protocols in order to maintain relationship harmony.   As one participant indicated:

> "Taiwanese are not used to express(ing) their opinions in public or say(ing) no to their superiors but would (be) likely to complain under (the) table because they think to have a good relationship with superiors is a way to survive…"

In Taiwanese culture, collectivism has a group/family orientation.   It is important that Taiwanese people build a close relationship with peers and associated outlets as relationships in collectivist communities are intimate, interdependent, strong and cohesive.   These relationships place a high value on loyalty.   Within collectivist cultures, employees will tend to be valued more by integrating themselves strongly with the identity and community of an outlet, enjoying the benefits derived from this and the sense of belonging it brings.   Inherent social structure will be the main behavioural control factor for in-group members. Thus, when employees of an in-group misbehave, as perceived by the wider group, other members will provide gentle guidance or make

necessary adjustments to prevent further misbehaviour. As suggested by one participant:

> "Taiwanese also think it is important to build a closer personal relationship within outlet, particularly have a good relationship with outlet mangers or franchisors that… ensure you are in group and get the identification with co-workers."

As another participant stated:

> "The outlet manager cannot be too severe to them. No punishing and criticising. Sometimes outlet manager cannot directly point out the problem. The better way resolves problems through trust third party such as peer workers."

Taiwanese society is characterised by high levels of uncertainty avoidance. Taiwanese people prefer to have clarity about what is transpiring within their context and avoid taking too much risk. They prefer formal rules, are intolerant of unusual behaviours or ideas, and are concerned about security. Therefore, franchises expanding internationally into Taiwanese culture must make relevant adjustments to their business operations to accommodate, on a service level, cultural needs of the Taiwanese.

The relationship between Taiwanese culture and adaptations of strategy, as identified through related axial coding, is expressed in figure 5.4.
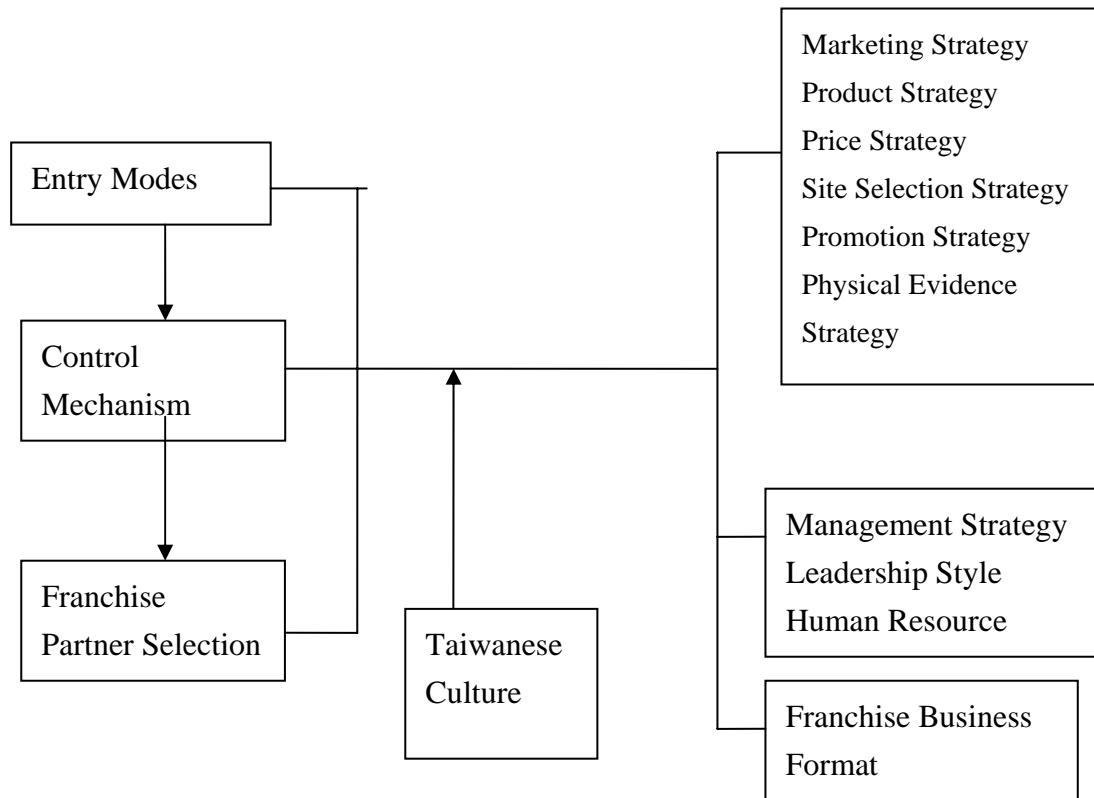
Figure 5.4 The relationship between Taiwanese culture, marketing variables and strategies (related axial coding)

Taiwanese culture: relationship to product strategy

The design or adaptation of product strategies involves a wide range of factors specific to business locality and includes issues such as the availability of indigenous raw materials and capacity for compliance with national legal requirements. Likewise, products must be adapted in order to appeal to the peculiarities of national taste, values and traditions. For example, Taiwanese culture places importance on social relationships, emphasising gift-giving and acts of favour to build and maintain relationship and friendships. In response, many internationally franchised firms incorporate gift commodities in their Asian branch protocols. The quality of gifts is an important status symbol communicating the potency of an organisation. Firms are

obligated to establish a high quality of perceived brand image with their Asian business partners, as well as establishing psychosocially relevant brand-imaging that appeals to their customers. The importance of gifts that are sensitive to the culture, as one participant stated, is that:

> "Well, gift-giving is an important custom for most Chinese. When we visit people we always have a gift with us. It represents the behaviour of social interaction and means to establish personal relationship. Most importantly, Japanese gift is the symbol of exclusive, high-class in Taiwan. It is undoubt(edly) that we can promote them very well."

In addition, this research found that services designs were influenced by Taiwanese lifestyle, the competitiveness of the market, as well as density of population and cultural references. Firms indicated an effort to "sub-tropicalise" service design. "Subtropicalisation" has involved firms extending trading hours and developing take-away services. It has involved consideration of national health and safety regulations in Taiwan owing to differing local temperature conditions. Most significantly, the American DIY product industries such as self-serve ice-cream, and the shattered-ice auto machine were deemed unsuitable. Instead, Taiwanese businesses have developed a wide range of high-service products, significantly different from American and Japanese product providers. One participant stated that:

> "All changes related to Taiwanese culture such as 24 hours trading is very popular in Taiwan. Convenience stores mostly are 24 hours. As Taiwan is located near subtropical zone, (with) no snowing in wintertime, it can trade 24 hours. Another reason is that Americans (have a high) respect for his/her own and family life and spends more time with their family. On the contrary, people in Taiwan are taken care and had personal relationship and businesses are closely related. They have more night life with their friends."

Taiwanese culture: relationship to site selection strategy

Key features for choice of site location include proximity to public transportation, density of local population and customer cultural-behaviour. The research indicated that most outlets investigated were located at high traffic points with high visibility. Department stores and prosperous commercial precincts are the most frequented shopping zones in Taiwan, where nouveau brands can easily establish a brand image through their high visibility. This phenomenon is a dominant and predictable trend across Asia. As one participant stated:

> "We take means of transport into consideration. Except Taipei City, public transportation is not very convenient in Taiwan. People like to drive motorcycle or car when they are shopping or outside dining. That is different from Japanese (culture). To enhance high visibility and brand reputation, we like to open new outlet(s) near by department store, (and in) business district(s). In Taiwan, department store and prosperous commercial area are good place(s) for new brand(s) to promote because they are the popular place for people to go shopping and (are) the symbol of high-class."

Taiwanese culture: relationship to promotion strategy

Promotional mix consists of four dimensions, which are advertising, public relationship, personal selling and sales promotion. The findings of this research suggest that, when franchisors have entered the Taiwanese marketplace, they have considered its unique legal, cultural, and consumer-behavioural characteristics. They have adapted and developed appropriate promotional strategies, usually involving local media, often promoting brand images through humorous and clever messages, and providing discounts to suit the local environment.

Master franchisors regularly use television advertising as a central means for establishing brand image and introducing new products. Additionally, local radio and billboards are popular advertising media used to promote and place products and services within the Taiwanese marketplace. In addition, firms use internet advertising strategies that effectively saturate the increasing market of internet-users in Taiwan.

Taiwanese culture is categorised by Hofstede's cultural dimensions as high in power distance and comfortable with hierarchical forms of communication. Within product promotion, sales people and opinion leaders are effective able to facilitate a high degree of product acceptance (Singh, 2005). In the case studies under investigation, firms have utilised famous people as spokespersons to promote their products. Master franchisees focus on skilling sales people in order to increase in-house procurement of products. As suggested by one participant:

> "Considering the high costs of TV advertising in Taiwan, we focus on new product–oriented promotions using high quality food material. Focus is often made on advertising products such as salmon or lobster in TV advertising to help establish a high quality marketing image. We also employ famous people to be our spokesmen, to enhance our celebrity rating and reduce product uncertainty. Pre-president Lee is also our enthusiast…"

Taiwanese people, who generally prefer avoiding uncertainty, are interested in products that provide guarantees, after sales services, free trials and lenient refund policies. Promotions which incorporate mechanisms that reduce perceived risk are highly successful in these contexts (Singh, 2005). Businesses generally guarantee customers refunds if they are dissatisfied with their products and services. Outlet managers often run free trials for novelty products and provide a customer complaint services through telephone and e-mail as strategies to reduce perceived risk. As one participant stated:

"To ensure the degree of customer satisfaction, we offer free refund if customers feel dissatisfaction with products even… (if the) product is fine. For new products promotion, besides TV advertising, (our) outlet manger also provides special price(s) or free trials to enhance the test."

Franchise product sales promotions vary greatly between the home country and the host country.   In general, Taiwanese franchises are more price-sensitive than American and Japanese franchises as Taiwanese culture values thriftiness and money saving. Thus, Taiwanese franchises provide direct discounts and continuous promotion of products to attract the attention of customers.

Strategic alliance is also a very popular marketing strategy employed within the Taiwanese marketplace, not only to enhance brand image but also to offer an extension of established trust-relationships between customer and business.   In order to break through fear of product-uncertainly associated with risk avoidant cultures, firms make alliances with well-established brands to increase the degree of product acceptance.   As indicated by one participant:

"We also introduced the famous local coffee shop E-Coffee by offering fresh coffee in our outlets. During the special holidays such as Mother's Day, Xmas or Chinese New Year, we cooperate with prominent bakeries or restaurants to provide holiday gifts, cakes or Spring Festival dishes through pre-order services."

The Taiwanese community features strong social ties between members where the family's and extended family's interests are considered above individual self-interests. Requirements of families are taken into account in their buying decisions (Griffith, Hu & Jr, 2000).   Franchises under investigation have generally focused on promoting their

charity work with children's education, services that assist kinship relationships and stress-alleviation programs. As one participant indicated:

> "In our experience, parents cannot enjoy dining unless children are taking care very much. We also have a special column for children. The very successful strategy in Taiwan is to focus on the education of children's eating habits. The designs of childrens' programs include children's menu, toys and children's activities such as picture drawing competitions or cooking competitions which fit with our family customers."

Taiwanese culture: relationship to price strategy

Price strategy is determined by cost, learning, the degree of competition and local cultural reference points. In this research price strategy incorporated cost-oriented, customer-oriented and competitor-oriented directives. The findings suggested that the customer-orientation of a food provider is the Taiwanese client's most significant consideration. However, as a part of Taiwanese cultural consideration, one party often pays for all dining parties. For this reason, the overall cost of meals needs to be relatively low to be considered culturally viable. Compared to the franchise home countries of Japan and America, the degree of competition is generally higher in Taiwan. To be competitive in the Taiwanese marketplace franchise pricing must be responsive to local clients' perceptions of value and often indexed downward.

Taiwanese culture: relationship to physical evidence strategy

The elements of physical servicescapes consist of three dimensions including ambient conditions, spatial layout and signs, and symbols and artefacts. Physical servicescapes are one of the vital aspects of a franchise package that franchisors seek to control in order to maintain consistency of brand image. Architectural and layout design involves

the physical look of the franchise system.   Franchisors under investigation in this research made some adjustments to the standardised architectural and layout designs for their Taiwanese franchises owing to high costs of real estate and difficulty of acquiring larger spaces in major Taiwan cities.   Further, the need to be considered comparable to dominant competition has also influenced changes made by franchisors to layout and design.   As stated by one participant:

"In the early stages, the outlet design was built like an original Japanese one until Starbucks entered the Taiwan marketplace in 1999 when coffee shops became part of the popular food lifestyle culture in Taiwan."

Regarding ambient conditions, theme colours have often been adjusted slightly to accommodate local cultural symbolic meaning.   As one participant stated:

"The theme colours chosen for Taiwanese outlet(s) is different from (the colours used in) Japan.   The theme colour is yellow because yellow represents (the) emperor and power in Chinese custom.   Some outlets have a balcony due to customers preferring to have a private space, (which may) seem honourable for family or a group of friends getting together. In addition, theme colour has been changed to (a shade of) blue that feel(s) younger and healthy(er)."

Logos, symbols and brand names can be regarded as the prime visual brand-identifying moniker of a franchise system that cannot be modified.   However, to suit local languages many firms have added Chinese characters to their brand name to make them easier for Taiwanese customers to decipher, remember and pronounce.

Taiwanese culture: relationship to leadership style

Leadership style impacts Taiwanese culture. According to Hofstede (1980), Taiwanese society is high in power distance. Consequently, firms appear bureaucratic, hierarchical, with central decision-making and strongly driven by policy. Leadership tends to be based on position, authority and seniority. Employees are given directives with little rationale, have reduced personal autonomy and prefer not to participate in decision-making. Staff commitment is highly associated with loyalty to the "top boss" in Taiwan.

Taiwanese firms are dominated and ruled by "top bosses" rather than by rules and procedures. As subordinates prefer to work in a harmonious environment, effective international franchisors utilise supportive leadership styles. To accomplish this leaders create a facilitative environment for task accomplishment where psychological support, mutual trust and respect, helpfulness, and friendliness are paramount. As suggested:

> "The outlet manager cannot be too severe to them. No punishing and criticizing.
> Sometimes outlet manager cannot directly point out the problem. The better ways resolve
> conflicts through trust third party such as peer workers."

Taiwanese culture: relationship to human resource strategy

International business format franchising is a contract-based organisational structure for entering new markets. Most of these franchises are business concepts related to service-based industries such as fast food restaurants, hotels and real estate services (Teegen, 2000). International franchising allows a firm to sell its service /product in

other markets because a local partner franchisee becomes the on-site local presence for actual service delivery (Teegen, 2000). Thus, appropriate human resource strategies are critical for success when international franchisors enter franchise arrangements in foreign counties.

Taiwanese culture: relationship to training strategy

Training was identified as one of the supporting services and mechanisms available to franchisors to ensure compliance and militate against the dilution of goodwill. As most outlets are run by manger-employees in Taiwan, it is inappropriate for training manuals to be translated from home country versions. These must be re-created and adapted to fit with values and norms of Taiwanese culture and inherent business structures.

Sales skills of frontline employees play an important role in motivating Taiwanese customers. Special training is provided to frontline employees to encourage assertiveness in greeting and helping their customers. Taiwanese culture predicates high uncertainty-avoidant responses. However, these responses can be influenced through personal communication with sales staff, which is able to provide specialist product and service information and offer alternatives to customers.

Employees working in societies high in power distance are apt at accepting decrees from their managers. Taiwanese business training focuses on one-way communication and employees become comfortable in being ordered to do tasks. Employee-level training concentrates on basic operations and understanding the policies of the firm. High-level mangers are generally trained overseas.

As one participant stated:

"Considering the different (cultural) background, training manuals have been revised and adapted to the Taiwanese reality. For example, Taiwanese are ashamed of expression of his/her feeling and seldom ask "why", so that you should give them clearly directions to ensure they can comprehend."

As another participant stated:

"Training manuals are not only translated from the Japanese version but also adapted to the Taiwanese situation because of the adaptation of operations in Taiwan with company-owned outlets. Initial training concentrates on standard operation processes. Besides adhering to the standard service process, we also focus on the local service as a way of building long-term friendships with customers. I always make friends with customers but it does not allow in Japan."

Taiwanese culture: relationship to promotion of employees

Cultural values within Taiwan franchise impact more strongly than the home country culture upon employment mobility and promotion within a Taiwanese franchise. Taiwan's collectivist cultural underpinnings predicate a high emphasis on inter-organisational relationships. Employees expect their organisation employers to look after them.

Taiwanese culture honours Confucian philosophy, which places emphasis on respect for authorities and for the elderly, relationship loyalty, the value of education and conformity, and upholds guanxi (obligation-based relationships with the boss, colleagues and friends). These have a unique impact upon the workings of businesses in relation to promotional protocols. Further, Taiwanese society remains highly patriarchal with males promoted more frequently than females.

In the research, firms have regulated promotion standards in terms of tenure, loyalty and interpersonal relationship. Abilities and interpersonal relationships are also important factors. One participant indicated:

> "We make clearly regulation about (grounds to be) promoted to outlet manager, that will take three years and pass(ing of) exams, trainings expect outstanding performance and prior working experience. Although the turnover rate is very high, we seldom employ outlet manger from outside. In my case, I have worked here since I was high school student and got promoted step by step…"

As stated by another participant:

> "For managerial level, we promoted from internal employee (and) seldom hire from outsides. We take loyalty, education and working experience as indicators in consideration to promote employees…"

Taiwanese culture: relationship to reward strategy

In Taiwanese business, culture impacts upon reward systems. In high uncertainty-avoidant society, people feel more threatened by uncertain or ambiguous situations. Therefore, firms are likely to have formal regulations focusing on fixed compensation systems. In the research, most franchisors utilised behaviour-based models as a reward system. That is, firms tended to adopt a fixed salary plus a bonus system. There are stipulated indicators for bonuses based on length of tenure, level of education and position. It was indicated by one participant that:

"We take outlet as the profit centre. Outlet manager(s) can get additional bonus (es) depend(ing) on the performance of (their) outlet. The salary is based on the education of employee and how many years for your work. "

Taiwanese culture: relationship to recruitment strategy

Franchising businesses are a localised and labour-intensive industry often attractive for new graduates who lack work experience. Many graduate employees may consider working in frontline services as a stepping-stone to future managerial positions. However, the majority group of frontline service employees are comprised of less educated and skilled workers. In Taiwan there is generally a high level of staff turnover in the area of frontline services. Key values common to franchised service industries act as central criteria for recruitment of outlet employees. However, while some applicants may have ample experience in franchised service-industries, divergence of corporate identities may act as a barrier to renewed employment. Loyalty and corporate compliance appear to be the crucial factors in recruitment, especially for outlet managers. One participant stated:

"The criterions of franchisees or employees are that you are interested in fast food industry, with ambition and characteristics of services employees. Most importantly is that he/she can share the same ethics value and commitment... We authorise outlet mangers to employ part time worker(s). The prime source comes from the introduction of internal employees."

Taiwanese culture: relationship to franchise business format

Most international franchisors run and operate franchised outlets in their home countries while sub-franchising outlets, or master franchisors, generally preferring to own and run

entire units operating within the marketplace. This form of master franchising is closely related to area development franchising.

In this research, the choice for area development franchising was strongly informed by motives inherent in Taiwanese culture. It is assisted by the master franchisor's access to special assets, financial reserves and technological know-how to facilitate set-up. In the initial phase, balance between the limited potential of the Taiwanese market, the high costs of real estate and initial outlay, is hard to achieve. Often, first contracts are signed for duration of 10 years. The franchisor and franchisee must consider how to break even while maintaining high levels of cooperation.

Franchising in Taiwan differs significantly from the original business format of franchising in America or Japan. A franchised business was regarded, historically, as the family business containing minimal know-how and management structure. It was a cash-based business that effectively represented the Chinese Family Business (CFB) management style. The CFB management style has become the dominant form of overseas Chinese business organisation and one of the major forms of Asian business (Chen, 1995). Under this management style, franchisees may consider their franchise outlet to belong, financially and managerially, to their own family. One participant offered that:

> "In my experience, we think it is important to follow the regulation of (the) company and tend to be very business-like all the time. But people in Taiwan are more family-oriented and business and family matters merge. In addition, Taiwanese are thrifty and pay (more) attention to their own interests."

In Taiwan, franchisors have adopted a particular franchise system that has been termed the authorised or mandated franchise system which is concerned for employee career pathways as well as their operational costs. This is a voluntary franchise system which is individual to the operator who may be reluctant to obey contractual rules and may operate according to specific, but individual, principles. Under this franchise system, franchisors develop a joint business model with a franchise outlet that gives more control to the franchisee but assists in diversifying the franchisor's risk. Meanwhile franchisees obtain more freedom and profit than the traditional outlet manager but in the process may fail to invest adequately for the future. However, this kind of franchise system tends to fit the need of the franchisee and the demand of Taiwanese culture and the Chinese Family Business model. As one participant stated:

> "Considering Chinese Family Business Management style, we made investment with (a) franchised outlet to keep higher control and avoid the problem of free-riding, (and) underinvestment. It is easy to engage franchised outlets but it is difficult to operate for a long time in Taiwan. It is a very common phenomenon in Taiwan when local franchisees get bolder, they will likely to terminate contact and run their own brand. Thus, we also encourage our franchisee to run two or more outlets."

5.5 Selective coding

Selective coding is the process of integrating and refining categories. This consists of discovering central categories, integrating these categories into the theoretical scheme and then refining the theory. Refining the theory incorporates reviewing the scheme for internal consistency and for gaps in logic, and filling in poorly developed categories, trimming excess ones, and validating the scheme.

The central categories can be grouped based on the conceptual scheme that is developed by axial coding. The central categories are indicated in Table 5.3.

Table 5.3 Selective coding: Central categories related to Japanese and U.S.A. based franchises entering the Taiwanese marketplace

Selective Coding	Content Description	Axial Coding
Internationalisation Motivations	Drivers for Franchises Expanding Overseas	Motivations for Entering Taiwanese Market
		Firm Characteristics
Inter-Organisational Relationship	Need for: Resource Exchange Co-productions, Organisation, Inter-dependent Relationship	Entry Modes
		Control Mechanisms
		Franchise Partner Selection
Culture Affect	Taiwanese Cultural Affects on the Operation of International Franchising Business	Taiwanese Culture
International Franchising Strategy	The Components of Franchise Business Format Operating Overseas	Marketing Mix Strategy
		Internal Management Strategy

5.6 Chapter Summary

This chapter has explored the data collection and outcomes of the research, through the use of an expert panel and in-depth interviews. Thematic analysis principles were used as the data analysis method which included three coding phases and in-depth interviews conducted with 12 selected key persons from four cases.   The objective of the in-depth interviews was to collect data.   The transcripts were regarded as the foundation

material of the research analysis. The investigation focused on the understanding of international motivation for expansion, internal relationship between master franchisors and franchisees, adaptations for international franchising strategies and the impact of Taiwanese culture upon this process.

Findings of the research have been proposed as a conceptual model in figure 6.1. It explores key aspects of international franchising, such as the motives behind internationalisation, the different paths followed by companies and the types of entry agreement used. In particular, it highlights the extent of standardisation versus adaptation across international markets and the mechanisms used to control and support international expansions. Most importantly, it explains the role of culture in developing an international strategy. Based on the qualitative findings, a number of propositions will be put forward in the following chapter.

Chapter 6 Findings and Propositions

6.1 Introduction

This chapter will interpret findings from the research and generate propositions based on the data. In addition, the central categories and the relationship among these categories, as discussed in chapter five, will be further interpreted in order to examine the scope of the research as related to key propositions.

6.2 Internationalisation Motives

Internationalisation motives refer to the factors influencing international businesses to enter the Taiwanese marketplace. The research indicated that these drivers can be understood from an economics and resources-based viewpoint. A number of studies (Hackett, 1976 ; Fladmoe-Lindquist & Jacque, 1995 ; Kedia, et al, 1994 ; Hoffman & Preble, 2001) identified the economic factors associated with franchising firms expanding overseas including market seeking, pursuit of growth and profit, first mover advantage and opportunity for growth in the host country. These coincide with the findings of this thesis.

Resource–based insights are supported by manufacturing literature. Resources-based theory emphasises the importance of possessing unique resources and capabilities that provide a competitive advantage for an individual firm. Penrose (1959) points to entrepreneurial and managerial capabilities as the key to her model of firm growth.

Resources-based theory views firm-specific resources, including a firm's capability, organisational culture, specialised assets, large size, reputation, and business experience (Aaker, 1989 ; Barney, 1991 ; Grant, 1991) as the drivers for a firm's expansion strategies (Wernerfelt, 1984). The study of Madhok (1997) suggests that organisational capabilities provide an explanation of entry mode strategies. An empirical study conducted by Ekeledo and Sivakumar (2003) found that firms made entry mode choices based on the consideration of a firm-specific resource that affords them competitive advantage in its target foreign market, as well as enhancing their resources. A firm may adopt a collaborative model, such as embarking as a joint venture, in order to enhance its resources or to develop its new resources (Ghoshal, 1987 ; Kogut, 1988). Further, a firm may use a collaborative model of operation in order to gain new knowledge that the firm lacks, which is a requisite for new market entry, which it cannot develop within an acceptable period of time. The findings of the thesis support this resource-based view.

International franchising research suggests that firm-specific resources allow franchisors to expand internationally (Huszagh et al, 1992 ; Shane, 1996a). Key internal capabilities include site selection, operating procedure, store design and firm size (Huszagh et al, 1992), the possession of a superior capability for dealing with franchisee opportunism and monitoring of franchisees (Shane, 1996a), international experience, degree of brand name asset specificity and the capability for distance management and cultural adaptability (Fladmoe-Lindquist & Jacque, 1995). The findings of this research suggests that crucial firm-specific resources are firm size, brand name assets specificity, international experience, the possession of a superior capabilities for dealing with franchisee opportunism and capabilities for monitoring franchisees. For

international businesses, recognising their unique resources and capabilities as a competitive advantage aids them in adopting appropriate entry modes in overseas markets.   From this, the following proposition has been made:

P1: A franchising system with specific-resources is likely to franchise internationally

6.3 Inter-Organisational Relationship

Inter-organisational relationships in the domain of franchising imply an exchange of resources, co-productions, and structures where relationships become inter-dependent. International franchising is a contractual-based business mode for entering new markets where two entities are interdependent and where the relationship between franchisor and franchisee is regarded as an on-going resource exchange relationship (Fladmoe-Lindquist & Jacque, 1996 ; Teegen, 2000).   The relationship between franchisor and franchise is an inter-organisational relationship.   The findings of the research identified the inter-organisational relationship as a function of the choice of entry modes, control mechanism and the franchise partner selection.   These interactive relationships will be explained.

6.3.1 The forms of international franchising modes

International franchising is a hybrid entry mode that allows for multiple modes of international-market entry, with variable levels of resource commitment and overall control. Alon (1999) identified five basic forms of international franchising expansion with varying levels of commitment, assumed risk and parent company control. These

include master franchising, direct franchising, direct international franchising with a subsidiary, joint venture franchising, and wholly foreign-owned subsidiaries.

The findings of the research support that master franchising is the most popular mode for western enterprises entering the Taiwanese marketplace. Master franchising is an entry mode that requires the least amount of equity ownership and level of control from the franchisor because it involves an arms-length contractual relationship with a host-country-based independent entity. Advantages of successful international master franchising include low capital expenditure and potential for rapid market growth. Further, master franchisees understand local conditions better than home franchisors, and thus maintain a high capacity of autonomous decision-making on behalf of the franchise. Difficulties arise predominantly from issues surrounding the establishment and maintenance of brand quality control.

Area development franchising is a dominant master franchising mode in Taiwan. It can attenuate agency problems of free-riding and underinvestment. The master franchisee is responsible for running and operating all outlets, and is kept accountable by a large personal investment in those outlets.

The findings of the research also suggest a third dominant mode of franchising in Taiwan; joint-venture franchising. Involving shared-equity, within a joint-venture franchising structure a partnership is developed between franchisor and franchisee which reduces opportunism and shirking from both parties by splitting financial ownership (Teegen, 2000). Under this arrangement franchisors not only take the existing

resources into account as equity but also assist in developing new resources and experience for the franchisee. This mode of franchising establishes long-term business partnerships where local business knowledge and networks are valued alongside international franchise expertise. Based on these findings, the following proposition has been made:

P2: Choice of international franchising mode incorporates the degree of resources commitment and control

6.3.2 The determinants of international franchising modes

The entry modes chosen by international enterprises depend on both organisational and environmental conditions (Contractor & Kundu, 1998 ; Alon, 2006). The findings of this research focus on the organisational determinants of the entry modes, in particular, resource-based explanation. Several studies (Contractor & Kundu, 1998 ; Erramilli, Agarwal & Dev, 2002 ; Sanchez-Peinado, Louis & Hebert, 2007) identified that firm-specific sources including firm size, brand name assets specificity, the international experience and the capability for distant management are related to the choice of entry mode. This coincides with the findings of this thesis. In the following section, the relationship between firm-specific sources and the choice of franchising modes will be discussed.

6.3.3 Firm size and age

Size and age are two common proxies used for resources in franchising literature. Size is a function of the number of outlets or the employees in the franchising system and affects many aspects of the franchisor's behaviour and its position in the market. The majority of studies indicate a positive relationship between firm size and wholly

foreign-owned subsidiaries (Terpstra & Yu, 1988 ; Kimura, 1989 ; Yu & Ito, 1988).

Huszagh et al (1992) have suggested that an increase in franchisor size leads to

economies of scale in purchasing, promotion, quality assurance and monitoring.   Large

firms have the ability or resources to absorb the risk and costs involved in the

international expansion through high equity agreement. On the contrary, smaller firms

lack resources and expertise to expand internationally and thus prefer to share

equity-agreement mode (Contractor & Kundu, 1998). As such, system size is strongly

associated with entry mode.

The findings of this thesis implied that larger international firms in Taiwan have the

tendency to operate and run outlets by themselves as they have sufficient finance and

managerial ability to support their investment and maintain long-term competitiveness.

Therefore, for international franchisors, the larger the franchise system is, the more

resource and experience they have.   They are able to attract prospective franchisees and

raise money in capital markets to handle their international business.

It was concluded previously that the choice of international franchising mode

incorporates the degree of resources commitment and control.   As a sub-proposition,

related to this, it is considered that:

P2.1: The bigger the franchise system, the more likely it is to use high-equity agreement

6.3.4 Brand name asset Specificity

Brand name is the most intangible asset to protect against potential hazard. Service companies cannot depend on patented proprietary technology or process as a protection against close substitutes. It may be justified in using a mode of entry with the high level equity investment and control when there is a risk that the brand name may be diluted by a third party (Fladmoe-Lindquist & Jacque, 1995).

Brand names are particularly valuable intangible assets that affect the perceptions of customers and, ultimately, the entire chains success. Brand name is susceptible to free-riding under the condition whereby the franchisee benefits from the positive image of brand name without following the precise format of the franchise. To avoid free-riding, franchisors with high brand name asset specificity may prefer to run outlets by themselves rather than to franchisee (Erramilli, 1991). Problems in quality control are managed through internal personnel policies rather than through control law. As a result, franchisors with less recognisable brand names are more likely to use master international franchising as it reduces the severity of potential damage to their reputation.

The findings of the thesis suggest that the problem of free-riding is more severe in Taiwan, since their cultural value of thrift may affect their respect of service quality agreements. A further reason for using high-equity agreements is divergence between franchise concept in the home and host countries. This may result from modifications that master franchisees force upon franchisors to adapt their products for local consumers. Thus, international franchisors with the greater brand name asset specificity

are likely to use high–equity agreements to protect brand equity and avoid brand hijacking.

A further sub-proposition related to the choice of international franchising mode incorporating the degree of resources commitment and control is the sub-proposition that:

P2.2: The greater the franchisor's brand name asset specificity, the more likely it is to use high-equity agreement

6.3.5 The international experience

Extensive experience in international business can be a source of competitive advantage for the firm. Some studies found that high levels of international experience are highly associated with high-equity agreements (Chang & Rosenzweig, 2001 ; Madhok, 1998). A study conducted by Fladmoe-Lindquist (1995) indicated that novice firms try to avoid making decisions about matters such as location and management of the workforce. They tend to prefer entering through low-equity modes. As they acquire knowledge of foreign markets and become more confident of their ability to assess them, they tend to take part more readily in higher equity arrangements. The majority of literature (Anderson & Gatignon, 1986) is devoted to manufacturing firms. However, the growth of international services industries has attracted interest in the field more recently.

Andersen's (1996) study on American franchisors indicated that master franchising is the most successful mode of entry into distant and culturally dissimilar markets such as Asia. These companies build on their organisational capabilities through sequential

experience in Asia, entering first through non-equity positions and later increasing equity investments as they gain experience in the chosen host country. The case of McDonalds in Taiwan illustrates this phenomenon. The findings of the research also indicated that most international firms, before entering the Taiwanese marketplace, have ample international experience in English-speaking countries such as Singapore, Hong Kong, and often establish headquarters in Singapore.

It was concluded previously that the choice of international franchising mode incorporates the degree of resources commitment and control. The subsequent sub-proposition is:

P2.3: The greater the franchisor's international experience, the more likely they are to use a high-equity agreement

6.3.6 Capability in distance management

The propensity to franchise internationally is highly related to the ability to shoulder monitoring costs associated with geographical and cultural distance between franchisor and franchisee. Some studies identified the capability of some franchisors to prevent franchisee opportunism and reduce distance monitoring costs associated with firms overseas expansion (Fladmoe-Lindquist, 1996 ; Shane, 1996a). When franchisors possess the capability for distance management they are likely to develop a higher degree of commitment to and exercise greater control over a local franchise.

The complex nature of international business renders effective monitoring of franchises an ongoing problem.   Research indicates that if franchisors lack capability for distance

management they generally prefer non-equity franchise agreements, which imply minimal business involvement.

A final sub-proposition related to the choice of international franchising mode incorporating the degree of resources commitment and control is:

P2.4: The greater the franchisor's capability for distance management, the more likely it is to use high-equity agreements

6.3.7 Control mechanisms

Franchising is proving to be an increasingly popular method of expansion for international services-based business (Quinn, 1998 ; Doherty & Quinn, 1999) and appears an important long-term strategic partnership choice for two independent entities (Fladmoe-Lindquist & Jacque, 1995). The mechanism used by the franchisors to control and co-ordinate the international franchise network is receiving much attention in international franchise research (Quinn & Doherty, 2000 ; Pizanti & Lerner, 2003 ; Doherty & Alexander, 2005). The explanations of control mechanism have been theoretically examined in the context of the exchange theory and agency theory.

A control mechanism is defined as the method used to monitor and coordinate the behaviours of franchisees to ensure consistency of the franchise system. Some studies identified that international franchisors exercise control over the franchise network through formal and informal control mechanism (Quinn & Doherty, 2000 ; Pizanti & Lerner, 2003 ; Doherty & Alexander, 2005). The formal control mechanism sets out codified rules and regulations that identify desirable patterns of behaviours. In contrast, informal control mechanisms depend upon on the development of common beliefs and

shared values between franchisors and franchisees (Koza & Dant, 2007). It is believed that a franchise relationship performs better when values and norms relating to the desired attitudes and behaviour of the both parties are shared.

The findings of this research identified that control mechanisms consist of two dimensions: transactional mechanisms in the form of a formal contract and relational mechanisms in the form of trust, cooperation and communication, information exchange, and resolution of conflicts within the franchisor-franchisee relationship. The use of area development franchising emerges from the qualitative findings as a further control mechanism available to international franchisors willing to engage on this level. Based on these findings, the following proposition has been made:

P3: Control mechanisms take two forms: formal and informal

6.3.8 Control mechanism vs. agency theory (formal theory)

Agency theory literature emphasises that the franchisor maintains control over the franchisee to minimise risk. Agency theory focuses on formal control, which is emphasised when franchisees operate outside of business-appropriate or contractual boundaries.

In general, the franchise contract formally stipulates each party's specific duties and rights but a temporal dimension has to be considered (Quinn & Doherty, 2000). Control is often tight in the early stage of international development and adherence to contracts is likely to be the most efficient means of maintaining control. Long-term franchisees

accumulate business experiences, thereby decreasing their dependence on the franchisor. However, the cost of monitoring and supporting franchises is substantially higher in international marketing than in domestic marketing. Further, the study conducted by Dant and Nasr (1998) indicates the negative relationship between age of franchise relationship and the degree of control exerted by the franchisor.

Control through the strict enforcement of contract is a unilateral mechanism. Franchisees are expected to maintain the reputation of the company through high standards of shop fittings, selling only approved products and complying with franchisor's advice under the guidelines of contract. In addition, franchisors exercise many formal control measures including financial management systems, the use of expatriates and field audits on the behaviour of franchisees. For the franchisee, complex operation manuals with highly detailed product specifications and the requirement for high levels of consistency equate with high levels of control over daily operations and greater uniformity of production.

It was concluded previously that control mechanisms take two forms: formal and informal. As a sub-proposition, related to this, it is considered that:

P3.1: Formal control in terms of the high requirement for contractual control leads to a higher degree of standardisation

6.3.9 Control mechanism vs. exchange theory (relational theory)

The social aspect viewpoint is examined through control mechanisms within the context of exchange theory. Many debates claim that agency theory focuses on the economic viewpoint through formal control mechanisms which ignore relational complexities within the franchise and fail to reflect the dynamics of the franchisor-franchisee relationship. Exchange theory focuses on informal control mechanisms in which control is utilised when the requirement is for a low level of franchisor control. This, contrary to agency theory, occurs most readily when franchisors have developed effective relationships with franchisees, with an established set of common beliefs and shared values.

Exchange theory emphasises the process of interpersonal interaction that is based on the interests of participants and the transfer of compensations between them. Exchange relations are easily created and maintained when each party views transactions as beneficial. Pizanti and Lerner (2003) examined autonomous relationships within franchise systems using exchange theory and found that franchisor-franchisee relationships deriving from exchange transactions are flexible and dynamic. The capacity of each party to arrange deals to his/her own benefit is influenced by the balance of resources between the parties. Due to the diverse background, franchisees possess different resources that may lead to differing perspectives on benefit exchange and potential conflict between the two parties so that control mechanisms may be applied when there is a need to re-establish relevant incentives for each party. Based on exchange theory, relational norms are an important informal mechanism for independent parties.

The findings of the research revealed that careful and insightful selection of a competent local franchise partner, and the development and maintenance of a communicative and trusting relationship, are skills exercised by franchisors to maintain a significant degree of control over franchise processes within Taiwan. The Taiwanese are inclined to prioritise relationship harmony over legal requirements, therefore, contracts are the last means used for resolving dispute, and yet are the most effective means for controlling the behaviour of franchisees.

A franchise relationship is intended to be long-term and ongoing, where cooperation and trust are central to its success. In this research, trust-based franchise relationships established a foundation for more successful overall performance than did contract-based relationships.

A further sub-proposition related to the proposition that control mechanisms takes two forms: formal and informal, is that:

P3.2: Informal control in terms of the low requirement for contractual control leads to a higher degree of local responsiveness

6.4 The International Franchising Strategy

The debate over standardisation versus adaptation is an ongoing one within the international marketing literature and internationalisation literature. The main challenge for franchise management is that franchising requires a high degree of standardisation to be effective. However, the pressure to adapt product or service is

great.   A number of international franchising studies suggest (Teegen, 2000 ; Queen & Dohery, 2000 ; Pizanti & Lerner, 2003) that international businesses have needed to adapt their franchise package to local conditions in many aspects of the franchise system, such as product/services, services delivery, communicated message, atmosphere, and modes of management.   Kauffman and Eroglu (1998) indicate that it is important for businesses to establish the correct mix of standardization and local market adaptation otherwise the franchise system will face the danger of system deterioration on the one hand, and over-management and hidden costs on the other.

The findings of the research suggest that franchisors practice measures of standardisation as well as adaptation in their operations within the Taiwanese market. The other emerging issue is that, while adaptation is a necessary part of the international franchising process, if there is too much alteration made to the franchise's core product or service the integrity of the franchise concept will be compromised.   Standardisation is found in the franchise brand image, logo, and operation manuals while adaptation is allowed in some areas of the product, promotion and internal management.

The findings of this research identified marketing mix and human resources strategies as the main components to be adapted for businesses expanding internationally.

6.4.1 Adapted marketing mix strategy

Marketing mix refers to the set of controllable elements that franchisors and franchisees put together in order to reach the market (Kotler, 1993).   As the franchise package explored in this study is a service-based industry, the marketing mix dimensions are to extend to marketing service mix dimensions.   A franchise system consists of a product

that addresses a want or need of the target market, is available whenever the target market wants it, at a suitable price.   It should possess qualities and characteristics that can be easily communicated or promoted in the international market.   Thus, the growth of franchise outlets depends on a particular combination of product, price, distribution, promotions, physical evidence and services process.

Some studies suggest that context-specific changes must be made to the marketing mix in order for a product to be acceptable in a foreign marketplace (McIntyre & Huszagh, 1995 ; Frazer, 2003 ; Teegen,2000 ; Quinn, 1999 ; Quinn, 2000).   The elements of the marketing mix which must be considered in the process of franchise internationalisation include product design, product development and success of a potential new product brand name, promotion and public relation campaigns, price policy, in-store customer facilities, store layout, store atmosphere, distribution channels and service space (Evans & Bridson, 2005). This research suggests that modifications to these elements of the marketing mix are a necessary course of action when entering the Taiwanese marketplace.

6.4.2 Adapted human resources management strategy

Human resources management refers to the totality of people management practices found in the organisations.   The issue of human resource management is regarded as a critical component in this research.   Franchising is an efficient method for rapidly acquiring, not just capital, managerial and labour resources, but a rich pool of skills and knowledge relating to national and international human resource management.   In addition, international franchising spans human resources, including home country franchise experts and local partner/franchisees, as an on-site presence for service

delivery and involvement in the transformation of the franchise system (Teegen, 2000). In this research classical human resource management practices are analysed including recruitment, training, financial compensation and performance appraisal as an integral part of franchise operations. From this, the following proposition has been made:

P4: The adapted international franchising business format incorporates marketing mix and human resources strategy

6.4.3 Entry modes versus international franchising strategy

International franchisors prefer to make investments with local partners who have the tendency to become heavily involved in the local operation as well as closely monitor and managing the behaviour of franchisees. Some studies have indicated a positive relationship between high percentage of equity held by the home company and the degree of standardisation of internal management practices of franchises (Braun & Warner, 2002). Master franchising as an entry mode involves the least amount of equity ownership by the parent company accompanied by a low level of control. Master franchisors are authorised with the right to run and operate the business format which they sell as a franchise package to sub-franchisees, providing guidance and strong oversight to the process. Within this context, master franchisors have a high degree of both equity and autonomy and are licensed to adapt the business format appropriately, in consultation with the parent company. The research also suggests that, conversely, wholly-owned subsidiaries are minimally adapted to comply with international cultures, and branding, promotion, product and services are highly regulated and standardised. While this mode is technically not franchised, it represents the opposite end of the business format control spectrum.

It was concluded previously that the adapted international franchising business format incorporates marketing mix and human resources strategy. As sub-propositions, related to this, it is considered that:

P4.1: The higher the percentage of equity franchisors own, the more likely the business format is to be standardised

P4.2: The lesser the percentage of equity franchisors own, the more likely it is for aspects of the business format to be locally adapted

6.5 Taiwanese Culture as the Moderating Effect

The value of a franchised business system is country-specific and must be adapted to fit new cultures (Kale & McIntyre, 1991). According to Hofstede's cultural dimensions, Taiwanese culture is characterised by high power distance, collectivism, high uncertainty-avoidance, masculinity and Confucian dynamism. The findings of research indicate that many aspects of international franchising strategies have been significantly adapted to better fit the characteristics of Taiwanese culture. An example of this is Taiwan's voucher market, which emerged from the Taiwanese cultural custom of gift-giving, and has become a key tool used in product promotion and to secure loyalty within the Taiwanese marketplace. People in Taiwan are accustomed to accept what is told to them by authoritative and trustworthy figures, therefore, opinion leaders play an important role in sales promotions and frontline sales people play a significant role in the education of customers. Product guarantees, after sales service and trial products are utilised to reduce perceived risk and scepticism toward new products. Taiwanese

society is more price-sensitive than American and Japanese societies, with cultural value placed on thriftiness and money-saving.   To cater to this cultural sensitivity successful franchises provide direct discounts and continuous promotions to attract the attention of customers, for example, "buy one get one free" promotions.

Cultural considerations for employment involve personal connections with key employers and other organisational players.   In traditional Taiwanese companies, having guanxi is often a critical factor in obtaining employment. The hiring of employees is a function of the Taiwanese ethos of collectivism, which places emphasis on social connection, valuing in-group relationships in the workplace and incorporation within a work group.

Gender roles are an indicator for recruitment, promotion and financial compensation. Although female labour force participation rates are rising in Taiwan, the percentage of women in management positions is low compared with men who are readily promoted over their female counterparts.   Based on these findings, the following proposition has been made:

P5: Taiwanese cultural considerations will impact upon choice of franchising mode and international franchising strategy

6.6 Chapter Summary

The research conducted in this study has enabled the development of a model, presented at the end of this chapter. Several propositions have been made and component factors within each category have been explored and are listed in table 6.1 and table 6.2.

Table 6.1: Summary of thesis propositions

P1: A franchising system with specific-resources is likely to franchise Internationally
P2: Choice of international franchising mode incorporates the degree of resources commitment and control
P2.1: The bigger the franchise system, the more likely it is to use high-equity agreement in global expansion
P2.2: The greater the franchisor's brand name asset specificity, the more likely it is to use high-equity agreement
P2.3: The greater the franchisor's international experience, the more likely it is to use high-equity agreement
P2.4: The greater the franchisor's capability for distance management, the more likely it is to use high-equity agreements
P3: Control mechanisms take two forms: formal and informal
P3.1: Formal control in terms of the high requirement for contractual control leads to a higher degree of standardisation
P3.2: Informal control in terms of the low requirement for contractual control leads to a higher degree of local responsiveness
P4: The adapted international franchising business format incorporates marketing mix and human resources strategy
P4.1: The higher the percentage of equity franchisors own, the more likely the business format is to be standardised
P4.2: The lesser the percentage of equity franchisors own, the more likely it is for aspects of the business format to be locally adapted
P5: Taiwanese cultural considerations will impact upon choice of franchising mode and international franchising strategy

Table 6.2: Summary of research findings as they relate to the categories of motives, relationships, entry methods, controls, culture and strategies

| Category	Operational Definition	Dimensions
Internationalisation Motives	Factors Affecting International Businesses Entering the Taiwanese Marketplace	Firm Size Brand Name Assets Specificity International Experience Capability in Distance Management
Inter-Organisational Relationships	Based on the need for: Resource Exchange Co-productions Organisation of Inter-dependent Relationships	Choice of Entry Modes Control Mechanisms
Choice of Entry Mode	Level of Commitment Assumed Risk Parent Company Control	Master Franchising Direct Franchising Direct International Franchising with a Subsidiary Joint Venture Franchising Wholly Foreign-Owned Subsidiaries
Control Mechanisms	Methods used to Control and Coordinate Activities Performed by Channel Members	Contract Mechanism Monitoring Mechanism (field audit, financial documentary, third party) Relational Mechanism (harmonization of conflict, the intensity of cooperation and the prevalence of trust)
Taiwanese Culture	Hofstede's Cultural Dimensions	
International Franchising Strategy	The Components of Franchise Business Format Operating Overseas	Marketing Strategy Human Resources Strategy Management
Marketing Mix Strategy	Set of Controllable Elements used by Franchisors and Franchisees to reach the Market	New Product Development Design/Package of Product Advertising Media Personal Sales Sales Promotions Public Relations
Human Resources Management Strategy	Total People Management Practices: Recruitment Training Financial Compensation Performance Appraisal	Method and Criteria used for Recruitment Management and Professional Training Method and Criteria for Appraisal of Managerial Staff's Professional Performance Methods and Criteria for Performance-Based Employee Incentives
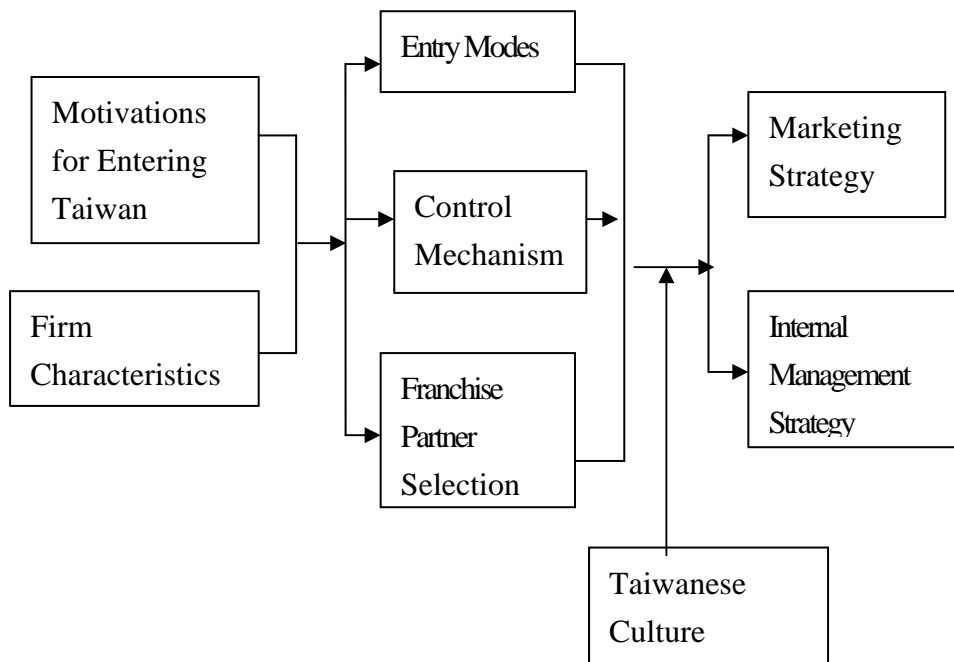
Figure 6.1 The International Franchising Strategy Model

This model makes an attempt to satisfy the research objectives. The model should be consultaged against the back drop of the extensive discussion on pages 109 to 125 of this document.

Chapter 7 Conclusion and Implications

7.1 Introduction

This chapter will conclude this thesis by making further recommendations that have arisen from the research findings.

7.2 Implications for Theory Development

This research comprises a comprehensive empirical analysis of the influences of Taiwanese culture on international franchising strategy.   Franchising has emerged over the past two decades as a salient means for global expansion of enterprises. Most literature has focused on the domestic marketing perspective with very little research undertaken from an international marketing perspective.

The unique characteristics of franchised systems warrant more in-depth research. Research into key aspects of international franchising, such as motives behind internationalisation, different paths followed by companies including modes of entry agreement and, in particular, the extent of standardisation versus adaptation across international markets, has been thin.   This research enhances prior understanding about international franchising strategies used by key food-service industries and contributes to knowledge in this area.

Existing literature has not been able to provide sufficient information and data to make detailed comparisons between the domestic market and international market operations. This research has assisted in filling this gap.

7.3 Implication for Marketers

International franchising provides a relatively low-risk commitment entry mode although there are inherent problems in monitoring, control of franchises, and transferability of the franchise system, which are complicated by cross-cultural and legal differences.   The results of this research provide insights for international businesses in developing Taiwanese marketplace strategies, informing choice of entry mode, selecting franchise partners and the marketing mix strategy.   It indicates that franchising should be country-specific and tailored, across all aspects of the business format, to the sensitivities of unique cultural marketplaces.

The results of the research also indicate potential obstacles to international franchising. It hallmarks issues of Taiwanese cultural norms and legal views, product and brand acceptance, language issues, competing goals of new outlet franchises, brand hijacking, and consistency in design, business format, image and brand consistency.

This research has also served to highlight a range of approaches to international franchising when exporting brands from America and Japan into the host country, Taiwan.   Based on the literature review, it was proposed that American and Japanese

franchise systems and business operations would need to adapt significantly to succeed in the Taiwanese marketplace. However, in-depth case studies revealed that this assumption is not necessarily true. A fundamental structural tenet of the franchise business system is decentralisation.   It is this decentralisation that creates a platform for cultural adaptation of the franchise format while maintaining the integrity of central branding.

Further, traditional family-run businesses that conform to the Chinese Family Business model are losing popularity in favour of business investments, such as franchises, that carry no long-term familial obligations. The research suggests that Taiwanese local enterprise has been impacted by western society, that it is becoming more democratic and less hierarchical in business approaches, and more embracing of the phenomenon of international franchising.

7.4 Limitations and Further Research

The main limitation of this research relates to the sample size of franchising systems used as subjects for in-depth investigation. It provides minimal representation of key industries and further research needs to be undertaken on this issue through comparative analysis of firms who represent a more diverse group in features of: industry sector, size, and national origin of franchise.   Due to the small industry sample size investigated in this study, it is beyond the scope of this thesis to exhaustively analyse the effect of industry characteristics between local and overseas firms.

Moreover, time and budget constraints meant that the research could only focus on the fast food retail industry. The conceptual model that has been constructed in this research can be further developed and used in three ways. Firstly, further inductive studies, involving various franchisors competing in a specific industry or country, can be carried out in order to determine the scope of the categories and factors. This would add to the robustness and validity of the model.

Secondly, the model can also be used to make meaningful comparisons of case study analyses of franchisors from different origins in a specific geographical region or country. Such comprehensive studies would provide valuable insights into the different competitive strategies employed or competitive advantages enjoyed by different franchisors.

Thirdly, the model serves as a useful platform for hypothesis testing using quantitative techniques to validate the correlation between the categories and factors. Multivariate data analysis may be used to determine if there exists any interrelationship between these categories. This would allow researchers to draw more generalisable conclusions.

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Appendix 1:   Open coding: Conceptualisations from the Interviews

No	Concepts	Description
No1.	Division of labour:	The right and responsibility between franchisor and franchisee: Franchisors: The Japanese master franchisor was responsible for vital business decisions including the development of new product, the design and construction of the outlet and the transformation of the business know-how. Franchisees: Taiwanese franchisee paid franchising fee and loyalty fee with the right to use brand name
No2.	International experience:	The international experience before entering Taiwanese marketplace
No3.	Training: supporting functions	Headquarters provided training
No4.	Training: informal control	Headquarters maintain brand consistency through training
No5.	Trust: relationship informal control	Besides contract, trust is also key factor for long-term relationship
No6.	Continuous supporting functions: informal control	Franchise relationship is based on mutual commitment so that the franchisor has to provide continuous support such as marketing information, promotion strategy
No7.	The background of master franchisee	The degree of familiarity with home company in terms of culture, language and related experience
No8.	The type of business format in home country	Business model in home: franchised outlet v. s company-owned
No9.	The type of business format is host country	Business model in home: franchised outlet v. s company-owned
No10.	The firm size	The number of outlets
No11.	Inter-organisation relationship: joint venture agreement	Home company made equity joint venture with host company to establish new firm
No12.	Inter-organisation relationship: master franchising	Home firm authorises business right to local company to run business
No13.	The stage of development: the first ten years	The stage is focused on the learning standard operation, the transformation of business know-how
No14.	The stage of development: the second ten years	Adjustments according to the Taiwanese environment

No15.	Motivations for entering Taiwanese marketing place: requested by potential franchisee	Taiwanese franchisees actively asked to diversify their business, through joint venture to enhance their brand awareness, gain a competitive advantage and learn new business
No16.	Motivation for entering Taiwanese marketing place: economics factor	International franchisors enter the Taiwanese marketplace because of the potential market and growth in Taiwan
N017.	Motivation for entering Taiwanese marketing place: perception of manager	The ambitions of the manger
No18.	The reason for area development franchising: local culture	The problems of culture dissimilarities can be reduced through company owned outlets.
No19.	The reason for area development franchising: compliance	Outlet managers have the tendency to listen to the top manager
No20.	The reason for area development franchising: accumulated special asset	Local franchisees lack of managerial asset, business know-how
No21.	The reason for area development franchising: profits	Company-owned outlets can earn more money than franchised ones.
No22.	The reason for area development franchising: the degree of complexities technology	Technology cannot be standardised easily, products made by order cannot be prepared
No23.	The difficulties of localisation: language communication	Because of language difficulties, interpreters are needed to translate
N024.	The difficulties of localisation: the degree of abeyance	Compared with Japanese, Taiwanese have more individual opinions
N025	The difficulties of localisation: the way of communication	The way of communication between home country and host country
No26.	The difficulties of	Who to communicate with

	localisation: lack flexibility of communication	
No27.	The difficulties of localisation: the effect of original of country	Fast food is regarded as symbol of western food, not Japanese
No28.	The difficulties of localisation: imported raw material	To maintain the consistency, many raw materials are imported from the home country and this leads to high operational cost
No29.	The difficulties of localisation: different interest consideration	The business minds between master franchisors and franchisees is different
No30.	Product adjustment: the demand for local customers	Trivial product adjustment because of local taste, such as sweeter tastes
No31.	Product adjustment: local material	Taiwanese are more interested in seafood and chicken taste than beef
No32.	Product adjustment: weather	Weather will influence lifestyle, taste
No33.	Product/services adjustment: extended trading hour	To meet local lifestyle, extended trading hours
No34.	New product development: Taiwanese culture	Taiwanese like to engage in gift- giving
No35.	New product development: the demand of local lifestyle	Outside eating and 24 hours trading is very popular in Taiwan
No36.	New product development: the effect of original of country	Taiwanese have a good impression of the image of Japanese products
No37.	New product development: extended product line	The marketing position strategy is significantly different from America so that the master franchisee has to add many local products
No38.	New product development: strategic alliance	Offer multi-choices products through strategic alliance to enlarge the product line
No39.	The degree for product uncertainty: the effect of original country	Taiwanese have a good impression of the image of Japanese or American products
No40.	Taiwanese culture: The importance of gift-giving	Gift-giving is regarded as a way of social interaction
No41.	Gift-giving timing	The key point for gift-giving
No42.	Promotion strategy: Chinese	Sales promotion for particular holidays such as Chinese New

	holidays	Year, and the Moon Festival
No43.	The utilization of ad media	Promotion through different ad media such as TV, local radio
No44.	Stamp collection: customer relationship management	Customers can obtain additional bonus by accumulated invoices, it is a way to encourage establishment customers loyalty
No45.	Public relationship	Enhance brand image through joining society activities
No46.	Public relationship: culture factor	Taiwanese would like to participate in social associations to enhance their brand image, high social status
No47.	Public relationship: strategic alliance	Donations to non- profit organisations
No48.	Public relationship: education-oriented	Free 'happy tour' program to promote pizza by teaching children how to make pizza
No49.	Price strategy: cost oriented	Pricing strategy considering the operational cost
No50.	Price strategy: competitor oriented	Pricing strategy should compare with counterparts
No51.	Price strategy: customer oriented	Considering Taiwanese culture, pricing cannot be too high
No52.	Site selection: means of transportation	The motorscooter is the main transportation in Taiwan
No53.	Site selection: Taiwanese shopping habit, lifestyle	Site selection focus on entertainment centre or commercial centre where most people gather
No54.	Site selection: population	The population within specific area
No55.	Design of outlets: Taiwanese eating culture	Design of outlet incorporates an eating theme in Taiwan
No56.	Design of outlets: colour theme	The colour theme is yellow because yellow is the symbol of grace and meets the demand of customers
N057.	Design of outlet: in store layout	Layout is changed because of the structure of real estate and services delivery
No58.	Brand image: logo	Adding Chinese characters make it is easy to remember
No59.	Service delivery	Extend trading hours, such as 24 hours trading
No60.	Services employees: level of education	Generally speaking, services employees are graduated from high school
No61.	Services employees: degree of involvement	Considering high labour cost, most employees are part time
No62.	Services employees: Less skills	Services employees don't have adequate skill for jobs
No63.	Family/group orientation	It is very important to build a close relationship with co-workers

No64.	Services employees: individualism	Taiwanese youth have more of their own opinion
No65.	Reasons for franchised outlets: managerial issues	Accumulated sufficient experience and human talent
No66.	Reasons for franchised outlets: career plan of outlet manager	For the long-term, employees are encouraged to make investments with outlet and become franchisees
No67.	Reasons for franchised outlets: operational cost of reduction	Outlet managers are familiar with the operation. Also recognise their background, all of them can reduce costs
No68.	The criterions of franchisee	People are interested in services industry, high loyalty
No69.	Training –newcomer	The standard operational process, the work ethics
No70.	Training-managers	Communication skill, international insight, consistency brand image
No71.	Training-interpersonal relationship	Focus on the establishment of long-term relationship with customers
No72.	Training: Continuing education	Encourage employees to go back to school to get a higher degree
No73.	Taiwanese culture: hierarchal order	Ready acceptance of order and essential rightness of hierarchy
No74.	Taiwanese culture: autocratic and paternalistic	Taiwanese listen to mangers and seldom express their opinions
No75.	Social value for services industry	The viewpoint of services industry in Taiwan, lower salary less skill
No76.	Promoted indicators: Clearly definition	The promoted indicators are ruled very clearly in Taiwan
No77.	Loyalty	Would like to promote an outlet manger within the organisation
No78.	Compensation system	The level of education and tenure are key indicators for compensation
No79.	Saving face: Confucian dynamism	Keeping face is important in dealing with Chinese to avoid dilemma
No80.	Taiwanese culture: gaunxi network	The better way for internal management is through a third part instead of regulation
No81.	Sales promotion: contest	Sales promotions focus on contest activities such as cooking contests
No82.	Sales promotion: strategic alliance	Cooperate with other industries to enhance brand awareness or sales

No83.	Sales promotion: combo promotion	Combine two or more products for a specific price
No84.	Sales promotion: continuous promotion	Promotional theme is changed every two weeks to attract customers
No85.	Sales promotion: discount	Buy one get one free is successful one
No86.	Sales promotion: membership card	Customer can get additional bonus or discount through membership card
No87.	Rewarded system: reduced risk, uncertainty	Guarantee minimum sales to reduce business risk
No88.	Rewarded system: Balance scored system	Besides sales, profits, turnover rate is also an important indicator
No89.	Compensation system: Higher incentive	Provide higher payment and welfare to reduce turnover rate
No90.	Taiwanese culture: Chinese family culture	Business and family matters merge