

## The Internationalization of the Service Franchising Operations: Decision Making During Internationalization Process A View in International Consulting / Training Business

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### ABSTRACT

This paper deals with service franchising concepts expanding to other countries. Many of the franchise systems are very successful on an international level. But during our investigation, it was found that only 50% are successful, i.e. their business still works 5 years after their decision to go abroad. So the questions arises which combination of factors led to success and which combination of factors will be non-successful. Exactly about the success factors we do not find any evidence in international literature. We want to close this gap with our research project using the example of consulting companies, e.g. so the process of their internationalization is our focus.

Assuming that the service franchising concept is already working in one country and they want to expand abroad to another country they will meet many questions and problems to adapt. We want to research on this very process of internationalization.

For this issue we develop a research model in the next step. In this process we define three processes: Phase 1: Decision Making, Phase 2: Project of Internationalization, Phase 3: Result.

In the first step we develop several research questions on the topic. Following this we develop a system of key success factors (KSF) for this internationalization processes: The first part is the decision making part, e.g. why and how we decide to go international. Which internal and external factors are key to make a going abroad decision? As a second step then the process going international starts, e.g. we ask which are the KSF during the project phase leading to success? And thirdly, after five years in the new country, e.g. at the end of the internationalization project we try to find out which KSF are the most important on the result side.

To make all the KSFs measurable we define then special variables. All variables for all KSFs in all phases will be set up in a special system of indicators.

To connect the indicators logically we define several hypothesis, e.g. we try to research how the indicators are related to each other. We want to know which hypothesis we expect to be supported /not supported in our study.

Then our research plan starts with review of the literature. Based on that we will develop a questionnaire and send it out to the headquarters of selected consulting companies. We will then focus on their experience going abroad from their home country.

The indepth analysis of our study using statistical methods will generate interesting results. Based on that we will develop conclusions, strategies and managerial recommendations for successful internationalization of a consulting company.

**Keywords:** Service Franchising, Internationalization, Key Success Factors, Measurable Indicators, Decision Making, International Consulting Companies, Project Management, International Business Expansion Strategies .

### 1. Introduction and Definitions

Franchising has been successful for many years. MOYNE (1997) says that he origin of franchising is uncertain. Hoffman and Preble (1991) suggest that it originated in the United Kingdom in the middle Ages, when King John of England reportedly granted franchises to tax collectors. But business franchises began in the eighteenth century with German brewers who contracted with beer halls to serve as their distributors. However, widespread use of franchising started in the United States around 1860 when the Singer Sewing Machine Company utilized it in 1863 to sell products to its own sales force, which in turn had to find a market for them. He then mentions other famous companies who use franchising, such as General Motors since 1989 and Rexall in 1902. In the 1930s franchising first started booming in restaurant chains. Traditionally, franchising was applied in retail and service industries and restaurant chains. According to Moynes it was only in the 1980s when it began being applied in the banking sector (Interstate Bancorp, Golden, Colorado). In the last twenty years the educational institutions have caught the franchising bug. A good number of universities are now offering their degrees through local and foreign franchises (Moynes 1997).

Today the newest trend in franchising is e-franchising - with franchiser and franchisee doing their part in e-business. On the other hand, we have more franchisers involved in cross-border activities. Here the trend of globalization is helping franchising spread throughout the world into new areas and new markets.

Nevertheless research about franchising in the sector of service industries is very poor and research referring to international consulting business even does not exist. This is the gap we will fill with our study.

#### 1.1. Trends in Globalization and the Impact on International Franchising Business

The globalization trend also affects the franchise business. International franchise business is global business, but the companies take a great risk as there is no fundamental research on how to go international with a national franchise system in the service industry. Asia, South America, Central America and Mexico are the areas of greatest international franchising growth. The IFA Educational Foundation shows that many companies take many risks and do not gather all of the information needed for international transactions.

In today's world the internationalization process in business is becoming increasingly important. (Yip, Biscary and Monti,

1998) provide some first research results on the internationalization process of companies. They identify as risk factors the inexperience of companies and the lack of resources and capabilities. This is typical for SMEs, whereas big multinationals bring in their extensive experience on international markets.

Another risk factor they mention is that internationalization projects are carried out in an unsystematic manner. The authors say that investment will leverage the benefits of the initial competitive advantages a company brings to the international marketplace. (Moyne, 1997, p. 4-5)

All of these trends of globalization and internationalization also help the less developed countries. Franchising is a good tool with which to transfer know-how to these countries. There are many advantages for less developed countries (LDC) to learn the franchise business. Franchising helps create jobs, franchisers usually provide training and education programs to staff and franchisees. But franchising also creates entrepreneurs in these countries. This is a big chance for them and there are many successful examples. Even Harvard Business School shows this transfer process of know-how in many of its publications. Monye (1997) shows a successful case study about a hospital chain in India. And also Connell and Lovermann (1996) worked on this case showing that from this company the new form of HMO organizations were formed using both systems of ownership at once, namely wholly -owned and licensing. (Connell, J.O., 1996, p. 7).

The role of the master franchisor is understood as entrepreneurship. He is innovative, risk-taking and proactive (Morrison Allision, 2000, pp. 69-70).

Obviously there are many success stories (Axel Gloger 1997) referring to all types of companies, but it is not possible to find literature describing the process of internationalization with franchising. One goal of this study will be to fill this gap. We would like to find out how consulting firms are doing their internationalization projects and what are the success factors to be successful in the new country.

## 1.2. The Basic Idea of the Study: Combination of Decision Making and Internationalization Process

The previous sections show clearly that in the today's situation we do not find a lot of information about decision making and the process of the internationalization of services companies in general and for the case of the consulting company business, it is one of the objectives of this study to fill this gap.

We work from the management point of view of a franchisor going international. We will consider the process of internationalization and want to find out the key success factors during this process. We will focus on management decisions concerning the internationalization of an existing national franchise system. Which are the key decisions and at what point of the process does the franchisor take them?

To illustrate a little bit the research idea we will bring here some questions, research areas and ideas about this study: We will combine the process of internationalization with the decision making process. We want to show when the decision makers are taking which key decision and what are the

consequences for the next step. We will establish a process for the internationalization project in three phases: Phase 1: Before the project, Phase 2: During the process of Internationalization and Phase 3: After the project.

The following research questions refer to the three phases in our research model and draw the range of the research area:

**Q1: Phase 1:** Which combinations of internal factors are "best" to continue the project? Which patterns lead to positive and which to negative management decision?

**Q2: Phase 1:** Which combinations of the external key success factors do impact most the success of executing the internationalization project? Which patterns lead to positive and which to negative management decisions?

**Q3: Phase 2:** Is formalization or application of the principles of project management more important for a successful project?

**Q4: Phase 2:** To what degree is adaptation cost a key success factor for the internationalization process?

**Q5: Phase 3:** Which target is most important to reach to have a successful project? To what degree do we need to achieve the global targets set when starting the project?

**Q6:** Can we recognize overall patterns of key success factors for successful and/or for failed projects?

Having done this study we will clarify the decision making and the process of internationalization for the case of international consulting companies - a type of Service Company where there are no specific research results around.

## 2. Review of Literature

### 2.1. Definitions

#### 2.1.1. Service

In a pure sense a service is intangible (Bateson 197; Berry 1989), you cannot touch the service. Providing services in this sense means that a service provider can provide its service only together with the customer, e.g. when the provider is communicating with the customer. Example of this type of services is consulting, teaching, bank or insurance companies. But one can find another type of service in a less pure sense, e.g. service franchising concept selling products around a service (Furrer, 1997).

Other key aspects of services are heterogeneity (Langard et. al. 1981), perishability (Berry 1975); and simultaneity of production and consumption (Grönroos, 1977).

Onkvisit and Shaw (2004) show that there are two major categories of services, namely: consumer service and business service. Some services are also named non-tradable.

Clark and Rajaratham develop another meta-classification of services, namely contact-based services, vehicle based services, asset-based services and object-based services. In their system, consulting business belongs to contact-based services because people cross borders to engage in transaction. They say to be engaged with a foreign culture is the second criterion to be in international business. This definition is very bright but also useful and can be accepted quite generally. It is also useful to focus the research activities. They found that the contact-based services meet all the basic aspects of a classic service characteristics: intangibility,

heterogeneity, perishability and inseparability. Referring to WTO / GATS they expect the next century to be a good century for service industries.

Several authors say that service sector is expanding and will be a more important part of the economy (Grünmoos 1999, Clark/Rajaratnam 1999, Frazer Winsteda/1998, Czinstoka 2004).

### **2.1.2. Mode of Internationalization and Mode of Entry**

Basically, international business means to cross the border for a business activity. In the literature there is always a discussion if we can compare the mode of Internationalization in the markets of goods and manufacturing with the market of services. Ekeledo and Sivakumar (2003) found that the entry mode of manufacturing firms cannot be applied in the decision making of service firms. In their paper they show that in the discussion there are the transaction theory, the eclectic theory of FDvI and the resource-based theory. The resource-based theory focuses on the company and says that company keeps the sole ownership as standard entry mode. The company adapts strategies that their resources can support. So the expansion refers to a good fitting of external opportunities and company's resources (Conner, 1991, Hambrick, 1989).

This shows that for a service company (including consulting companies) there is no clear decision making which is the best mode of entry. Because there is such a great variety of services Kostecki (1999) states that there are more different entry modes for services than for goods.

Sarathy (1994, p. 116) provides a good overview about the Internationalization conditions for services. Beside the already mentioned basic conditions of intangibility, heterogeneity, perishability, he adds three more key conditions for service companies: Consumer participation in service creation / delivery, high fixed costs structure and service as a process. Especially these conditions are very important for consulting companies in international business.

In this study we will focus on consulting companies going abroad and we will follow the whole process of internationalization as well as the decision making during this process.

### **2.2. Export Decision in Service Markets and Process Of Internationalization Export Decision**

According to Frazer /Patterson (1998) during GATT round 1993 where exporting of services was liberalized "the vast majority of service firms are still not marketing their services internationally" (Frazer /Patterson 1998, p 294).

In their paper they see a trend that many manufacturing companies are exporting their product related services because they go for global business. Reza Etamad-Sajadi (2008) confirms this topic as well. He says that this sector is under represented in the growing international export businesses. Describe the situation of service economy in the computer related services.

"While services represent a rapidly growing sector of world exports, this sector is still proportionately under-represented in the international trade." (Frazer / Patterson, 1998, p. 294).

In the research world the situation seems to be similar because "there has been very little research regarding the exporting of services (Sharma, 1989, Frazer / Patterson, 1998, p. 295). They state that there are several aspects that make the international marketing of services more complex than the international marketing of goods. They mention the intangibility, the inseparability between producer and consumer, the perish ability and the strong dependence of interpersonal relationships. Due to lack of scientific literature about international service marketing they used the methods of qualitative depth interviews with marketing managers of 20 service firms. The results were compared with exporting literature. They want to find factors that distinguish the companies involved in export service business from those not involved in this business. They study in US consulting business. They find that size of employees of the company is an important factor. Referring to export barriers the distinctive factors are adjustments, costs, and uncertainties, know-how and resource limitations, export /import restrictions, competitions and lack of support, suitability of services and price." (Frazer / Patterson, 1998, p. 301). They found that all these factors are "significantly greater obstacles by the non-exporters than by the exporters" (Frazer / Patterson, 1998, p. 302). They only found two exceptions, namely the factor of competition and the factor lack of support. They also have very interesting findings refereeing to aspects of motivation and domestic environment. The authors found a whole family of factors in the area of know-how and resources limitations that are significantly different in the group of exporters than in the group of non-exporters: "...lack of contacts in foreign markets, difficulty in gaining foreign market entry, lack of knowledge to assess export market opportunities, lack of capital and inadequate commitment of resources"(Frazer / Patterson, 1998, p. 306).

To sum up their findings they state that the reasons for non-exporting in consulting business "are similar to those that restrict goods manufacturers from exporting." (Frazer / Patterson, 1998, p. 310).

They advice the companies that are planning to export to get the know-how of international marketing before starting the adventure. They advice the public organizations to start educational seminar targeting on non-exporting companies to motivate them to turn into exporting companies. The authors only studies one service sector in one country. They give a whole range of further research areas: "Research is needed to see if the findings from this study hold true in other service industries and in other countries....It is important also to attempt to better understand how service managers.....make the decision regarding whether to export or not" (Frazer / Patterson, 1998, p. 308).

The literature about process of internationalization is in a starting stadium. Only the model of Ahlert can be used in our study. As seen earlier, he divides the process of internationalization in three phases: starting, going and being international. On the other hand he does not give any time line of these phases. He is only giving very small information about the main activities in each of the three phases. On the other hand he is providing information about the master changes to be taken by the franchisor when expanding abroad.

Later on, we will call this group of factors "internal decision factors..."

Ahlert is very much focusing on the trade mark aspects and not too much on the key decisions to be taken during the process. In his study we can see the changes in the marketing process at the end of the internationalization process. On the other hand we cannot follow how these changes happen during the process and we cannot see the time line of the internationalization process.

On other topic that we found in the literature is the question of control mode of the franchising system in the case of expanding abroad. Is the whole control-mode or is it the franchising concept that leads to propensity of the system? "The propensity to franchise internationally was found to be directly related to (i) monitoring costs, associated with geographical and cultural distances between the principal ... and its foreign agents, (iii) the degree of host countries contextual uncertainty but inversely related to the services firm level of brand name asset specify (Fladmor-Lindquist / Pauren 1995, 1238).

This study has a good methodology to find indicators for their variables but they only have a poor database of 12 companies. Also they are dealing with US companies where in general export is not a key factor. Referring to the control mode we found one more study of Jeffrey L. Bradach. In this book "Franchising Organisation" he deals with restaurant chains as well and find interesting patterns in all chains. One of his key finding was "that a mixture of company and franchise-units made the chains stronger than an exclusive reliance on either one - indeed, that was one of the most intriguing leads that provoked this research." (Bradach, 1998, p.193)

### Process of Internationalization

Referring to internationalization we find studies about the internationalization of several branches such as retailing. Irena Vida's study (2000) and Levant Altinay. They say that the internationalization of franchising is under-researched (Levent Altina, 2000, p.5). Comparing domestic and international franchising research he says, "The internationalization of franchising has received limited academic attention." Levent Altina, says, "The internationalization of franchising has received limited academic attentio." Levent Altina, 2000, p.3). He mentioned the well-known model of Eroglu (1992) This model combines the underlying determinants and process of the internationalization of US franchise system (Erogolu 1992). Eroglu distinguishes the following group of factors: Organisational, Environmental, Perceived risk, Perceived benefits. These factors have a positive correlation and lead to the intention of internationalization. He then refers to the studies of Karapur and Sashi using "the transaction cost analysis to examine internal and external attendance and develop hypothesis accordingly. (Levent Altina, 2000, p.3). Referring to these two projects he says that "They do not go so far to investigate and conceptualize the implementation of international franchising, in terms of transferring franchising systems across national borders.(Levent Altina, 2000, p.3).

Ahlert (2002) provided their newest studies (Ahlert *et al.* 2002) to us. In the mentioned study Ahlert workson the

success factors of a franchising system. Conducting a study on the German market he develops a theoretical frame to define exactly what a success factors means for a franchising system. Secondly he provides a statistical analysis on the significances of each of these factors. His concept of eight success factors for franchising systems is based on a previous Delphi study of the Institute of Handel management and Netzwerk marketing. Their study refers to service network organisations and Ahlert is applying it to service franchise network organisation.

### Sectoral Studies

Kirchherr (1993) provide an interesting study about franchising in the industrial sectors. He shows that under certain conditions the application of franchising as a distribution system is useful. In his book he is developing a whole strategy mix for the industrial sector using franchising as a basic application to this sector.

Also Kathryn Frazer Winsted and Paul G. Patterson ((1994, p 310) are studying in their paper in the industrial sector. They are testing several hypotheses about the exporting barriers for service suppliers following their manufacturer customers. They also say that this type of services has also the key conditions such as intangibility, perish ability and so on. Referring to typical export barriers they found that there are many non-tariff barriers in the service industries but they are not stronger than in exporting goods industries. They found that service is more complex to sell "And this makes dealing with cultural differences and relationships more critical for services than for goods."

For the US market Lafontaine provides an important contribution. Her research usually is based on statistics of the US franchise market or on legal aspects in this market. Her studies show some misconceptions about franchising exist in the market. In reality franchising business is a business that does grow and internationalize like any other business (Lafontaine 2005).

Referring to our research proposition of decision making Lafontaine shows that franchisees cannot take decisions on their own but depend on the franchisor (Lafontaine 2005, p 292).

### 2.3. International Franchising - where it happens

**Table 1:** Market and operational characteristics

Table III Market and operational characteristics (ranked by frequency)						
	Overall (%)	North America (%)	South America (%)	Europe (%)	Asia (%)	Africa/Oceania (%)
<b>Growth sectors</b>	Restaurants (23) Misc. services (21) Retail-non food (19)	Restaurants (60) Bus services (20)	Restaurants (66) Misc. Services (33)	Restaurants (36) Retail (21) Misc. services (21)	Restaurants (27) six other sectors	Restaurants (25) Construction (25) Misc. services (25) Retail (25)
<b>Franchise export nations</b>	France (14) Germany (10) USA (7) China (7) Egypt (7)	USA (20) Mexico (20) UK (20)	Argentina (17) Paraguay (17) Portugal (17)	France (24) Germany (18) Spain (12)	China (18) S.E. Asia (9)	Africa (17) Australia (8)
<b>Franchise import nations</b>	USA (42) UK (15) France (7)	Canada (22) Spain (22)	USA (28) France (6) UK (6)	USA (36) UK (20) France (8) Germany (8)	USA (55) Japan (18) Italy (9) Singapore (9)	USA (33) Australia (33) UK (33)
<b>Tax/legal factors</b>	Royalty taxes (14) Contract laws (8) No franchise laws (8)	Royalty taxes (33)	Royalty taxes (15) VAT (15) Tariffs (15)	VAT (20) No franchise laws (20) Contract laws (20)	Royalty taxes (15) Contract laws (15)	Variety of issues
<b>Socio-cultural factors</b>	Tastes, habits (36) Price sensitive (9)	Tastes, habits (38) Commitment (13) Convenience (13)	Tastes (44) Price sensitive (22) Dynamic society (11)	Tastes (21)	Tastes (25) Religion (25)	Tastes (50) Price sensitive (25) Currency depreciation (25) Corruption (25)
<b>Ethical issues</b>	Code of ethics (33) Honesty, trust (22)	Code of ethics (20)	N/A	Code of ethics (14) High ethical practices (7)	Honesty, trust (9)	

Hoffman and Preble (2004) provide a good statistical overview which countries are in international franchising business. This statistic shows that export business in Europe usually deals in the neighboring countries due to some cultural and historical ties (Hofmann, Preble, 2004 p. 105). For the case of Portugal, Gonçalves and Duarte (1994) provide similar results. Portuguese Systems usually expand to Spain and later on to UK. The motivation usually is that Portuguese market is very small. They also find that only very few Portuguese systems have plans to export their services in the next years. And their expansion plans usually go to Spain.

In the second part of the table we find the most important operational issues exporting franchising companies have to deal with. For our study we consider these issues as success factors.

First we will select the countries where we are doing the study. The table of Hofmann and Preble (2004) is very helpful for your study. It provides basic information to select the right countries and we will have a representative sample for our study. The selection process has several steps: Firstly, we will focus in Europe on the category of Misc. Services (21%) This category excludes especially the restaurant and retail chain and we are close to our definition of services. Secondly, we will focus on the three countries with the highest import rates in Europe: UK, France, Germany, e.g. we will focus on franchise systems based in one of these three countries and working in Germany or France. In these countries we will have the highest responsibility to find a high number of consulting companies doing international business in these countries.

### 3. Theory Building and Hypothesis

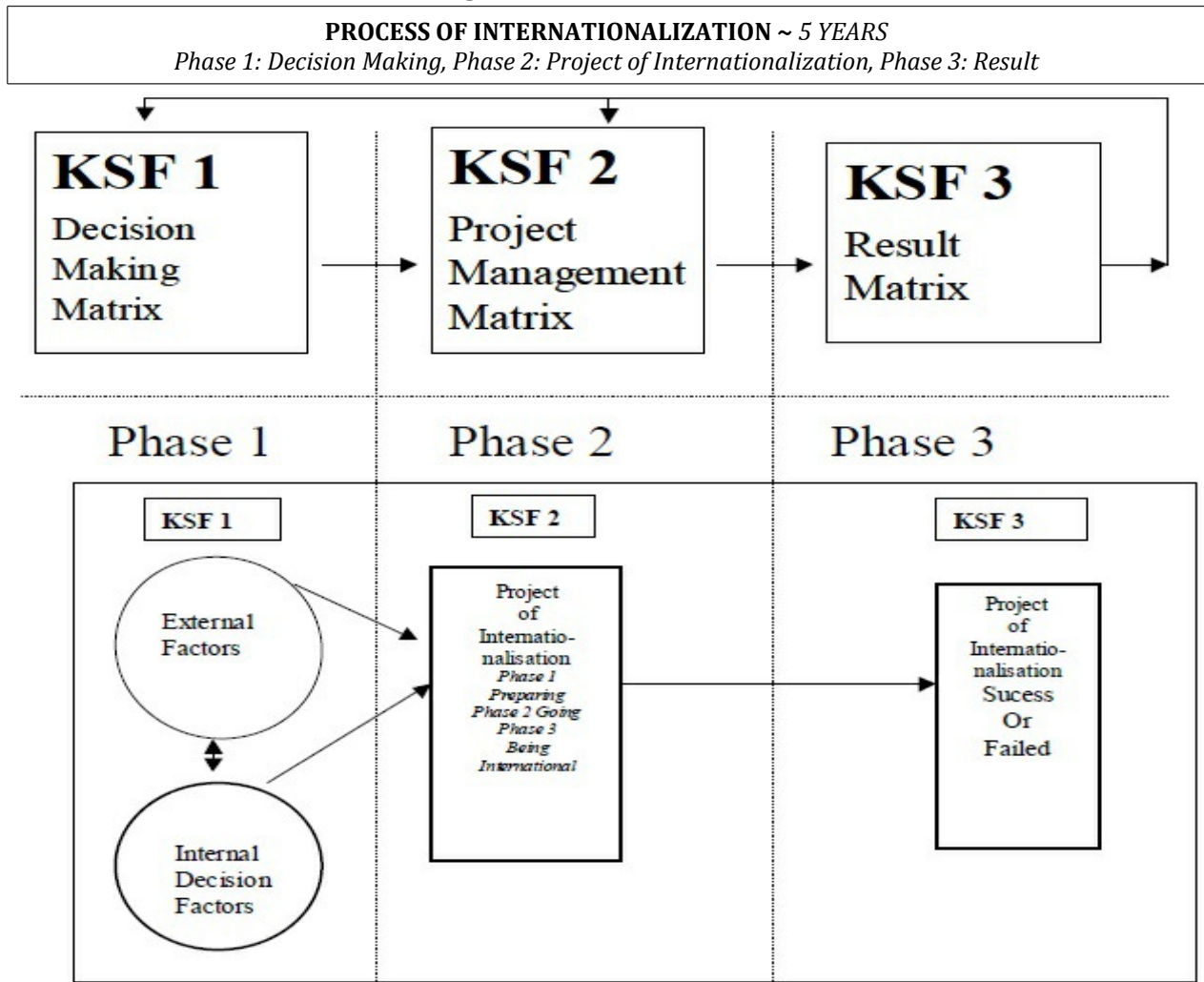
In this study we take the management view of a franchisor taking into consideration a project of internationalization of his existing franchising system. In the following paragraph we explain the elements of the model from left to right side. According entrepreneurial experience it takes three to five years to establish a new company in a new country. Therefore a time horizon of three to five years will produce useful and sustainable results in this study. To review the results of the internationalization projects will help us to verify and the findings of the process. Only on this way we receive consistent results.

As we have seen in the previous chapter the scientific authors provide articles and books to the motivation and success factors as well as to the process of internationalization of a franchise organization. The success factors are grouped in many ways. From a point of view of a franchisor these factors have to be considered as external factors that cannot be changed by any management decisions. Later on, in our model, we will call this group of factors as "external factors".

#### 3.1. The research model

We would like to close this gap in the international franchising research by providing a new model which combines the two aspects, e.g. success factors, the timeline of the internationalization process and the decision making process.

**Figure 1: The Research model**



**Table 2: Selected KSF in the Research Model**

The Selected Variables in Each Phase		
Phase 1	Phase 2	Phase 3
KSF 1	KSF 2	KSF 3
<i>External Factors</i>	6) Formalized Project Organization	9a) Reaching Overall Key Target
1) Legal Aspects	7) Applied Instruments of Project Management	9b) Reaching Revenue Targets
2) Labour Market		9c) Reaching Customer Targets / Market Share
3) Financial Market		
<b>Internal Factors</b>	8) Adaptation Costs / Adjustment Costs	
4) Commitment of BoD		
5) Economic Readiness / Resources		

**3.1.1. Conceptual Overview**

In this model we will distinguish three phases: Phase 1 Decision Making Phase, Phase 2 Phase of Running the Expansion Project and Phase 3 Results at the end of the project. For each phase, we will establish a matrix of Key success factors. For every single phase we would like to find

out the "best" combination of key success factors. The procedure is very similar in all three phases: With the results of each phase we try to find out the "best" combination of key success factors. So the *pattern* of the key success factors are the key issue. Which patterns lead to a positive result, e.g. the decision is positive to proceed in the next phase. On the other

hand: which patterns of key success factors lead to negative results, e.g. includes the decision stopping the internationalization project immediately. Comparing the best results combination with the results of the former two matrix we will be able to find out the ideal combination of key success factors to start, develop and establish an international franchising company. From this results we then can derive recommendations and strategies of internationalizations for the relevant business format - e.g. international consulting and training companies.

### 3.1.2. Description of the Elements of the Research Model

#### External and Internal Factors

Our model starts with two types of factors to impact the management decision to start the process of the internationalization project in the franchising organization. On the one hand we consider factors such as economic growth, inflation rates, legal aspects. For a manager (CEO) of a franchising company these factors are *external factors* for him because he cannot manage them through his decisions. Similar like Ekeledo and Sivakumar (2003) we consider this category of key success factors refer to the guest country.

The second category is the *internal factors*. The decision maker (CEO) can have a great impact on this type of factors through his strategic decision making and his decisions. If he takes all the right decision in the right place at the right time he will be able to start the project e.g. take the go/no go decision. As you can see in the chart, not only the commitment is important but also the economic readiness of the company. Therefore here we selected two factors. According to Ekeledo and Sivakumar (2003) the resources as a consequences of the internal factors. For our study the resources is the base to be able to take a decision on an internationalization project, e.g. we have a different emphasis in our model.

#### Internationalization Process as a Project

Going abroad is something very special and very new for any franchising company. Therefore it is very useful for the franchisor to use the methods of project management. This means that he has to organize his activities according to a concept of several phases. Let's take the proposed concept of Ahlert with the three phases of preparation, going international and being international. In his study Ahlert does not show very clearly which are the main activities in each phase. Neither he does not show very clearly the milestones of each phase nor does he say anything about the timeline of such a project of internationalization.

But from a management point of view it is a key success factor to apply the methods of project management in a very proper and professional way. It will help us to structure the main activities in our study.

#### The Result of the Internationalization Process: Successful or Failed franchise system

According to international standards this type of project needs about three to five years. After this timeline we can see very clearly if the project has been successful. If it does so, we will have a successful franchising system in the new guest country. If the system is not successful in the new guest country the

franchisor has to shut down his activities after a certain time. And also this result we can measure very clearly.

#### Developing the System of Key Success Factors

We will develop the Key Success Factors for each part of the model. For each phase we will select around three key success factors that would be relevant for this part of the model. This allows us to have a different view on the process. In each phase we will focus on that decision maker that is most in the focus of the relevant phase. By changing the point of view in each phase we will be able to focus on the main decision makers in every single phase. Doing so we will be able to really receive an indepth management point of view allowing us to produce the most relevant results and then derive conclusions and developing recommendations.

In phase 1 we will have a more *company-inside view*. We select the KSF from the point of *view of the CEO* who has to take the decision to start the expansion project or not. Principally, the decision here can be go or no go.

In phase 2 we take the point of view of the *project manager* that is managing the project. We will select the most important key success factors from his point of view. In phase 3 we take the point of view of *the manager of the new established company* ( e.g. *Master Franchisor*) after 3 to five years. Having been already on the foreign market for several years he will have to take the key decision to stay or to shut down the new company. What would be his key success factors.

#### Putting together the results of the three phases

As you could see in each phase we have positive and negative types of results. For each of these six types of results we will providing indepth analysis material and then be able to cluster families of key success factors e.g. patterns of negative and positive key success factors. What does it mean? Firstly, this allows deriving conclusions for the most positive case (e.g. everything successful in each phase) and the most negative case (e.g. nothing worked and the interntaionalization project failed). Secondly, we will receive a wide range of results between these two extreme results. This allows conclusions and giving recommendation on how to manage such an internationalization process successfully. All these results will be tested with adequate statistical methods (e.g. F-test or similar) to weight the variations and the significance of the results. Thirdly, having received a range of results in Phase 3 we then can track backwards which overall combination of key success factors are the most successful ones to establish a process of internatioanlization. On the other hand from the negative (not successful) results we can conclude recommendations and strategies to improve the success rates of future internationalization process in franchising. As we deal with qualitative management aspects we have to work with indicators that help to illustrate what is behind the key success factors. The next table shows the connection between the key success factors and its indicators.

**Table 3: Key Success Factors and Its Indicators**

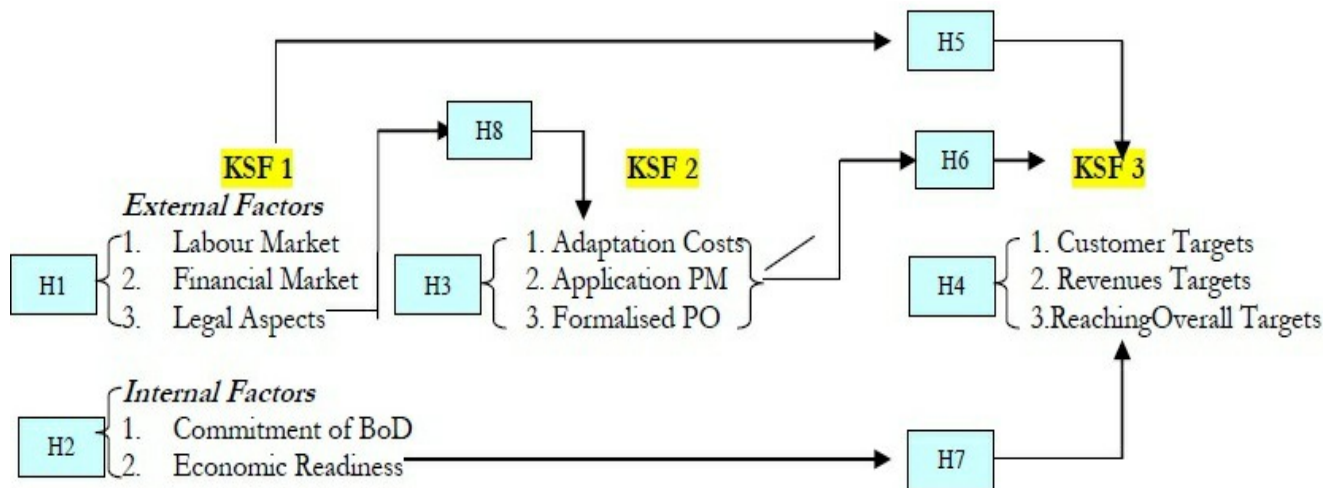
Key Success Factors	What we mean by that in this project	Possible Research Area	Indicators
<b>Phase 1 / KSF 1</b>			
<b>External Factors</b>	<b>Referring to the new guest country</b>		
1) Legal Aspects	Are there special laws to establish easily a new company?	Is tax a KSF?	Law for Start ups
2) Labour market	Potential of possible Master Franchisors there?	Is finding manpower a KSF?	Precondition on Labour Market for Start-ups
3) Financial Market	Is it easy to get bank credit for start-up in the guest country?	Is finding capital a KSF?	Tax Reduction Law for Start-ups
<b>Internal Factors</b>	<b>In the home company in the decision making process</b>		
4) Commitment of Board of Directors to new Expansion Projects and Formal Decision Making on Level of Board of Directors	Does the BoD support formally and substantially the expansion project? Is there a formal decision making process in the company concerning the project?	Is commitment and formalisation a KSF?	Official Decision Document
5) Economics Readiness for Project (Budget, Resources, Human Resources)	Has the company enough resources for the project according to a business plan	Are economic resources a KSF? And to what degree?	Business Plan approved
<b>Phase 2 / KSF 2</b>			
6) Formalised Project Organisation	If company establishes a formal project organisation the project has a certain strategic meaning for the whole company	Is Formal Project Organisation a KSF? And to what degree?	Business Plan approved
7) Applied Instruments of Project Management	Applying principles and instruments of Project Management: Project Organisation, Project Plan, Project Budget, Project Resources	Is application of project management instrument a KSF? And to what degree?	Established an official PO in the business plan: Example: Regular meetings, milestones, resources
8) Adaptation Costs	Adjustment costs to adapt system to the new country	To what degree can he use Standardization?	Estimated costs in the Business plan, Percentage of Adaptation costs
<b>Phase 3 / KSF 3</b>			
9a) Reaching the Overall Key targets set in phase 1 (out of the business plan)	Did company reach the General key targets set in the business plan in phase 1 and to what degree?	Is reaching Overall Target a KSF?	% of Reaching Target
9b) Reaching Revenue Targets	Did the company develop according to business plan?	Is reaching Revenue Targets a KSF?	% of Reaching Target
9c) Reaching Customer Targets / Market Share	How many new customers did the company get in the new market? What market share did it reach	Is reaching customer Targets / Market Share a KSF?	% of Reaching Target

Source: Own Table



### 3.2. Developing Hypothesis

**Figure 2: Hypothesis Overview**



#### Hypothesis for Each Project Phase

First we will develop the hypothesis referring to the each phase of the research model.

Phase 1 (Key Success Factors 1 to 5)

<b>H 1</b>	Doing a ranking with the external factors we expect 1. Labour market, 2. Financial market and 3. Legal aspects representing the power of impact on decision makers to go/no go into the next phase.
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*Reason:* The study of Hoffman and Preble (2004) show that in each country the impact of the external factors are to be considered very different from the new companies coming to this country. Bus Hoffman and Preble (2004) do not provide specific information about the international consulting companies.

Opening a new franchising business is personal business. So to find the "right" person is more important than to find the capital or to take care about special laws and contracts. This is supported by our former pre studies in 2000 und 2005 where we find that "finding the right person" is considered a key success factor in the franchising market.

*We expect the hypothesis to be supported by the results of the study.*

<b>H 2</b>	From the internal factors we expect the commitment from the Board of Director to be more important than the economic readiness for the project.
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Baiscally international franchising can be considered as a means of establishing entry barriers (similar to vertical integration), as a means of minimization of co-ordination costs (Kedia / Ackermann 1994,p. 59). According to my practical experience the commitment of the BoD is one of the key success factors of any type of project - and it is more important than the economic base of the project. Even if the budget is there but the commitment is not there the probability that the project will fail is very high.

*We expect the hypothesis to be supported by the results of the study.*

Phase 2 (Key Success Factor 6 to 8)

<b>H 3</b>	From the three key success factors we assume that the ranking will be 1. Adaptation costs, 2. Application of PM instrument and 3. Formalised project organisation.
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*Reason:* As we have seen in the study of Hofmann and Preble (2004) we have no clear indications about the ranking of the key success factors neither in a general way in service industries nor in a more specific way referring to international consulting business. According to our pre studies in 2000 and 2005 we have seen that franchisors going international under estimate the adaptation costs to a great extent. And after they are surprised it did not work well. As franchisors are more practical people the stringent application of the PM instruments is more important for them to be successful than the formalised organisation. On the other hand also the degree of formalised project organisation can be a key success factors.

*We expect the hypothesis to be supported by the results of the study.*

Phase 3 (Key Success Factor 9a, 9b, 9c)

<b>H 4</b>	Referring to the results we expect that reaching customer targets /market share is the most important key success factor in this group. To reach the revenues targets we assume to be the second important key success factor in this group.
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*Reason:* In the literature there is no study or research about the final results of expansion projects. Only if a new company has a certain market share it has also a certain awareness in the market. If the awareness of the customer or the market is too low, sooner or later it will fail. This hypothesis is also supported by the well-known life-cycle curve.

*We expect the hypothesis to be supported by the results of the study.*

### Hypothesis referring to all phases of the project

Our second group of hypothesis connects key success factors from different phases

<b>H 5</b>	The more positive key success factors there are in phase 1, the more positive successful companies we will have in phase 3.
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*Reason:* Positive results have a positive effect on the people involved in the project. On the other hand if the company receives negative indications already in the beginning it is not ready to invest more money and manpower in such a type of project and will stop it already after phase 1.

*We expect the hypothesis to be supported by our study results.*

<b>H 6</b>	The more professional the project is managed in phase 2, the more positive successful companies we will have in phase 3.
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*Reason:* In today's global business world it is important to use professional management skills to lead a project to success. So, if the project team is familiar with methods of project management and business administration, it has a high probability to lead the project to a full success.

*We expect the hypothesis to be supported by our study results.*

<b>H 7</b>	If the factor "economic readiness" (in phase 1) is positive, the probability is higher that we have a higher percentage of success full companies in phase 3.
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*Reason:* The economic base (e.g. resources) is very important to be able to decide for an internationalization project and to manage it in a successful way. Without resources of money, manpower and infrastructure the project will fail, even if the team is very motivated.

Resources are a precondition for good decisions. As mentioned before her we have a different approach from Ekeledo.

*We expect the hypothesis to be supported by our study results.*

<b>H 8</b>	The financial impact of legal aspects on the total of the adaptation costs is never higher than 20% and are not so high as other parts of the adaptation costs (e.g. such as translation costs).
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*Reason:* In every country the legal conditions to set up and install a new company are very different. Usually these Legal aspects generate some additional costs. But we expect them to be low, especially if we compare it with other parts of adaptation costs (e.g. translation costs for business documents).

*We expect the hypothesis to be supported /not to be supported by our study results.*

## 4. Methodology and Research Plan

To receive our the interesting results on a qualitative base we have to follow this procedure:

### Part 1: Empirical Data Collection and Analysis

As explained in section 2.3. the study of Hofmann and Preble ( 2004) will help us to select the most important countries. We will select France, Germany and U.K. as those three markets with the highest import rates. We will send out questionnaires in all three countries and hope to receive in each country 50 filled questionnaires. e.g our data sample is around 150 data sets. We will receive the relevant address data sets from the national franchising organisations and from

CD-ROMs in the international franchising business. We will work with email send outs and only if the data sets is not strong enough we will use telephone calls. With statistical methods (e.g. F-test or similar) we will verify the results to be on the save side.

### Part 2: Developing Conclusions, Recommendations and Strategies

Based on the results of the quantitative part we can begin to develop recommendation and strategies for international consulting companies. We will develop organisational strategies using the results of phase 1 and 2 . On the other hand phase 3 allows us to develop market entry and market developing strategies for consulting companies.

## 5. Conclusions

International Franchising business is very successful and is a growing industry in many countries and sectors. Unfortunately the service franchising is under researched. Much of the research is based in one sector or is focused on market entry modes or decision making process only.

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