IDENTIFICATION OF ENVIRONMENTAL FACTORS THAT INFLUENCE THE CHOICE OF FRANCHISING METHODS OF U.S. RESTAURANT COMPANIES IN PAN PACIFIC REGION

by

Vipaporn Bosereewong

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APPROVED:

Dr. Mahmood Khan, Chairman

Dr. Ken McCleary

Dr. Suzanne Murrmann

Dr. K.S. Chon

Dr. W. Terry Umbreit

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Committee Chair: Dr. Mahmood A. Khan

Hospitality and Tourism Management

(ABSTRACT)

Franchising has become a proven and acceptable method of distributing products and services for both domestic and foreign markets. The pressures on franchisors to search for foreign markets have led to heightened interest in international franchising. According to Franchising in the Economy (1990), restaurants of all types rank number one, followed by business aids and services. Therefore, the restaurant industry leads the domain of business in international franchising.

The primary objective of this study was to develop a model based on experts' opinion for the selection of different franchising methods to be used as a guideline for restaurant companies that plan to franchise internationally. Environmental factors that affect international franchising in the Pan Pacific region are identified. The major methods used in franchising are: 1. direct franchising, 2. master franchise agreements, and 3. joint venture agreements. The recommendation of the most popular franchising methods for

Singapore, Korea, Thailand, and Malaysia are studied.

The study was conducted using the Delphi Technique. The list of the restaurant companies that franchise internationally was acquired from The Source Book of Franchise Opportunities (1993), and The Franchise Opportunities Guide (1993). A total of 31 restaurant companies were selected for the Delphi survey. The first task in Round I assigned to the panel members was to list the environmental factors and franchising-related factors that influence their decision to franchise in the prospected sites (Singapore, Korea, Thailand, and Malaysia).

The panel members were asked to select one of the three franchising methods for each of the four countries as well as to give reasons for their choice. The second task was to rate the level of influence of the identified factors using a five point Likert-type scale. In Round II, the panel members were asked to rate their confidence level according to each factor using the same Likert-type scale. In this round, the decision process used to select a franchise method for international franchising was presented to the panel members. Each panel member was asked whether they agreed with the process. If they did not agree with the process, they were asked to suggest changes.

It is recommended that the decision model developed from this study should be used as a guideline to franchise internationally.

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TABLE OF CONTENTS

ABSTRACT ii

ACKNOWLEDGEMENTS iv

LIST OF TABLES viii

LIST OF FIGURES xi

CHAPTER 1. INTRODUCTION 1

International Franchising 1
- Process to Proceed Internationally and concerns 5

Franchising Opportunities in Asia 8
- Singapore 9
- South Korea 10
- Malaysia 11
- Thailand 11

Statement of the Problem 13
Objectives of this Study 14
Research Questions and Propositions 15
Contributions of the Study 19
Definition of Terms 20

CHAPTER 2. REVIEW OF LITERATURE 22

Definition of Environment 22
Environmental Scanning 24
Economic Environment 27
- The Economic Environment of Industrial Countries 28
- The Economic Environment of Newly Industrialized Countries 29
- The Economic Environment of Less Developed Countries 30

Socio-Cultural Environment 31
Political Environment 38
Relationship of Environment to International Franchising, and Different Franchising Methods 41
- Direct Franchising 48
- Master Franchising Agreements 49
- Joint Venture Agreements 52

Relationship of Environment to the Decision Making Process and Decision Models 54
- Decision Models 56
Summary 65

CHAPTER 3. METHODOLOGY 66

Introduction 66
Research Questions and Propositions 67
A Proposed Generic Model 68
Data Collection 71
- The Delphi Technique 71
- Application of the Delphi Technique ... 73
- Advantages and Disadvantages 74
- General Procedure 75
- Questionnaire Construction and Data Collection Process 79
- Data Analysis Procedure 82
Summary 84

CHAPTER 4. DATA ANALYSIS AND DISCUSSION..... 85

Participation of Panel Members..... 85
Analysis of Data from Round I..... 89
Analysis of Data from Round II..... 110
- Political Factors 111
- Economic Factors 113
- Socio-cultural Factors 117
- Franchising Related Factors 119
- Situations for Considering Master Franchising Agreements 121
- Situations for Considering Direct Franchising Method 123
- Situations for Considering Joint Venture Agreements 125
- Top Ten Environmental Factors..... 127
Procedure of a Decision Process to Select a Franchise Method for International Franchising 131
A Revised Generic Model 135
Analysis of Data From Round III 137
- Political Factors 138
- Economic Factors 140
- Socio-cultural Factors 144
- Franchising Related Factors 146
- Situations for Considering Master Franchising Agreements 148
- Situations for Considering Direct Franchising Method 150

- Situations for Considering Joint Venture Agreements 152
- Top Ten Environmental Factors..... 154
Summary 157

CHAPTER 5. DISCUSSION AND RECOMMENDATIONS 159
Introduction 159
Summary of the Study 159
Summary of Findings 161
Proposition Discussed 163
Conclusions 167
Limitations 169
Recommendations 172
Recommendation for Future Research 174

Bibliography 177

Appendices 193

Appendix A: Round I questionnaire 193
Appendix B: Round II questionnaire 202
Appendix C: Round III questionnaire 206

Vita 210

List of Tables

Table 1: U.S. Business Format Franchisors Operating Foreign Outlets 7

Table 2: Most Important Aspects of the Overseas Environment 25

Table 3: Review of Studies on International Franchising 45

Table 4: Identification of Environmental Factors and Franchising related factors..... 90

Table 5: Number of Factors Suggested Under Each Category (Round I) 92

Table 6: Political Factors Listed by the Panel Members (Round I)..... 93

Table 7: Economic Factors Listed by the Panel Members (Round I)..... 94

Table 8: Socio-cultural Factors Listed by the Panel Members (Round I)..... 96

Table 9: Franchising-related Factors Listed by the Panel Members (Round I)..... 97

Table 10: Number of Panelists Suggesting Franchising Methods For Singapore, Korea, Thailand, and Malaysia 99

Table 11: Percentage of Panelists Suggesting Franchising Method for the Four Countries..... 100

Table 12: Reasons for Selecting the Franchising Method for Singapore..... 102

Table 13: Reasons for Selecting the Franchising Method for Korea 104

Table 14: Reasons for Selecting the Franchising Method for Thailand 106

Table 15: Reasons for Selecting the Franchising Method for Malaysia 108

List of Tables

Table 16: Political Factors in Rank Order of Importance (Round II) 112

Table 17: Economic Factors in Rank Order of Importance (Round II) 114

Table 18: Socio-cultural Factors in Rank Order of Importance (Round II) 118

Table 19: Franchising Related Factors in Rank Order of Importance (Round II) 120

Table 20: Situations for Considering Master Franchise Agreements in Rank Order of Importance (Round II) 122

Table 21: Situations for Considering Direct Franchising in Rank Order of Importance (Round II) 124

Table 22: Situation for Considering Joint Venture in Rank Order of Importance (Round II) 126

Table 23: Top Ten Environmental Factors in Rank Order of Importance (Round II) 128

Table 24: Decision Process to Select A Franchising Method for International Expansion 132

Table 25: Political Factors in Rank Order of Importance (Round III) 139

Table 26: Economic Factors in Rank Order of Importance (Round III) 141

Table 27: Socio-cultural Factors in Rank Order of Importance (Round III) 144

Table 28: Franchising Related Factors in Rank Order of Importance (Round III) 147

Table 29: Situations for Considering Master Franchise Agreements in Rank Order of Importance (Round III) 149

List of Tables

Table 30: Situations for Considering Direct Franchising in Rank Order of Importance (Round III) 151

Table 31: Situation for Considering Joint Venture in Rank Order of Importance (Round III) 153

Table 32: Top Ten Environmental Factors in Rank Order of Importance (Round III) 155

List of Figures

Figure 1: Cultural Influences on Buyer Behavior 32

Figure 2: Master Franchising Model 50

Figure 3: A Decision Making Model 57

Figure 4: Marketing Decision Making Model 59

Figure 5: The Decision Model for the Choice of International Entry Mode 61

Figure 6: International Entry Choice Factors Model.. 63

Figure 7: Generic Model of the Decision Process to Select a Franchise Method for International Expansion 70

Figure 8: The Delphi Technique 76

Figure 9: Generic Model of the Decision Process to Select a Franchise Method for International Expansion 133

Figure 10: A Revised Generic Model of the Decision Process to Select a Franchise Method for International Expansion 136

CHAPTER 1

INTRODUCTION

International Franchising

The move toward international franchising is increasing as the U.S. domestic market becomes saturated and opportunities in foreign markets becomes apparent (Chan, 1990). Tse and West (1992) suggested primary forces in the hospitality industry that provide the motivation for international expansion:

1) The need to increase levels of growth and profits. The US restaurant industry is maturing, limiting unit growth. It is becoming very difficult to locate and acquire prime location since US chains have penetrated most of their potential market areas.

2) Increasing levels of international business travel and tourism to the Far East. Asian and Pacific countries have become attractive locations for many multinational chains.

3) Development of brand loyalty. With the steady increase in international travel and trade, a tactic employed by chains is to follow their clients to international destinations.

The volume of foreign direct investment and international trade has steadily risen during the past two decades (Aydin and Kacker, 1990). Although manufacturing has led this

transformation, the service industry experienced outstanding growth in international markets in the 1970s and 1980s, particularly in advanced economies (Walker, 1989, Aydin and Kacker, 1990). During the 1960s, franchising in the United States evolved from a specialized method of distribution to an industry (Walker and Etzel, 1973).

With the domestic market now approaching maturity, franchising, a major component of the service industry, has expanded significantly in terms of volume and market coverage into other countries (Walker, 1989; Aydin and Kacker, 1990). Franchisors' motivations for entry into foreign markets were attributed to many factors, such as the fit of the company's intermediate and long-range objectives with foreign market potential, personal interest of one of the company's senior executives, or inquiries from potential franchisees (Hackett, 1976; Walker and Etzel, 1973). U.S. based franchisors are the most dominant force in this expansion.

During the past 20 years, the number of U.S. franchisors abroad has nearly tripled (Hayes, 1991). Restaurants represent the largest category among the various categories of business format franchises in terms of both number of franchise outlets and sales revenue (Konigsberg, 1991). Top executives of the McDonald's Corporation expect international operating income to grow by more than 20 percent annually in the next five years ("McDonald's Sees," 1993). During this

time, McDonald's plans to add 400 to 600 foreign stores a year, far outpacing additions in the United States.

According to Andersen (1991) there are five major trends that are emerging or evident now:

1. Barriers to commerce both within and between nations are driving the world toward economic integration. Deregulation or liberalization has been occurring in almost every industry. As trade barriers decrease, the franchisors have greater opportunities to expand businesses with efficiency and ease.

2. The increased opportunities for international franchising are occurring where per capita income is increasing, and there is a stable government and business climate.

3. Franchising in the U.S. should continue to grow as it did in the 1980s. By the end of the century, franchising could very well account for approximately 40 percent of U.S. retail trade.

4. Growth of U.S.-based foreign franchised operations has increased steadily during the past 15 years. Currently, 93 percent of the systems that have expanded abroad intend to increase their presence in foreign countries.

5. Improved international transportation and communication will facilitate international franchise expansion by making it easier for the headquarter to monitor, support, and manage franchise operations.

The U.S. Department of Commerce (1978) summarized the advantages that U.S. franchisors have found in penetrating foreign markets: (1) entry into international markets with minimum risk, and (2) maximum opportunity for new business ventures. Also, franchising diversifies methods of creating income (Lifflander, 1965). Aydin and Kacker (1990) presented

the advantages of international franchising over direct investment and exporting methods:

1. The financial resources required for penetrating overseas markets are fewer than those needed to expand through foreign direct investment or exporting because of the lower degree of franchisor ownership.

2. International franchisors do not have to expand domestic capacity in order to serve foreign markets as would be the case when an exporter tries to penetrate these markets.

In addition, Aydin and Kacker's (1990) research on international franchising, found that the major proportion of domestic franchisors are still reluctant to pursue growth opportunities offered by international markets, even though competition and lack of demand in overseas markets are not found to be major barriers to expansion abroad. The major reasons contributing to this reluctance are the perception of ample growth opportunities in the United States, lack of expertise, and limited financial resources.

Additionally, Izralli (1972) claimed that difficulties in finding franchisees with sufficient funds and the willingness to work hard is one of the reasons not to expand abroad. According to a study of market entry decisions by Jeannet and Hennessey (1988), franchising, compared to indirect exporting, direct exporting, sales subsidiary, licensing, contract manufacturing, assembly, and local production, can be

considered to have an intermediate range of control, asset level, variable costs, fixed costs, market shares, and risk.

Process to Proceed Internationally and Concerns

According to Vaughn (1974), the steps that should be taken in order to franchise abroad are:

1. Assure that the concept is viable.
2. Assure that the American franchisor has the capital to fulfill foreign obligations in training, supply, advertising , and whatever other fields of expertise are promised.
3. Thoroughly investigate the market for such a program.
4. Adapt the program for foreign operation.
5. Determine how, when, where, and under what conditions fees and various charges can be collected.
6. Scrutinize and prepare to cope with competition in ways quite different from those in America: business ethics may be quite different from those in the United States.

However, the risks involved in foreign ventures should not be ignored. The U.S. Department of Commerce (1978) indicated problems faced by American franchisors operating internationally that include: (1) the protection of trademarks since no facility exists for their registration; (2) no regulations to safeguard franchising agreements; (3) import restrictions on equipment; and (4) a significant percentage of

ownership shares of the business activity is required by local nationals. On the other hand, international franchising holds certain unique advantages over other types of international business. It is much less prone to economic and political risks and requires fewer financial resources since the foreign-based franchisees bear most of those burdens (Aydin and Kacker, 1990).

The business format of franchising expansion to foreign markets continues to increase rapidly. The business format franchising is a form of franchising that involves a complete format rather than a single trademark or product. This format includes a marketing strategy and plan, operating manuals and standards, quality control, group purchasing power, research and development, and training.

Table 1 shows the growth of U.S. business format franchisors operating foreign outlets from 1971 to 1989. From 1971 to 1988, there was a 160.9 percent increase in the number of U.S. companies operating outside the United States. It was estimated that approximately 20 percent of all U.S. franchise systems had foreign operations in 1990 (Franchising in the Economy, 1992). Thus, the growth indicates that penetration into foreign markets by American franchisors continues to grow, enabling them to expand and gain international recognition for their services, trade names, and products.

TABLE 1

U.S. BUSINESS FORMAT FRANCHISORS OPERATING FOREIGN OUTLETS

YEAR	NUMBER OF U.S. COMPANIES	TOTAL FOREIGN OUTLETS
1971	156	3,365
1972	175	6,153
1973	208	9,509
1974	217	9,663
1975	222	10,964
1976	234	12,348
1977	244	14,217
1978	266	17,156
1979	275	19,449
1980	279	20,428
1981	288	21,416
1982	295	23,524
1983	305	25,682
1984	328	27,021
1985	342	30,188
1986	354	31,626
1987	371	32,113
1988	394	33,020
1989	407	33,511

SOURCE: U.S. DEPARTMENT OF COMMERCE. FRANCHISING IN THE ECONOMY (1989-1992).

Franchising Opportunities in Asia

Market potential (size and growth) has been found to be an important determinant of overseas investment (Forsyth, 1972; Weinstein, 1977; Khoury, 1979; Terpstra and Yu 1988). Currently, economies in the Asia/Pacific region are the fastest growing in the world (Holman, 1992; Petitt, 1993). This area has had one of the most positive international economic trends of the past quarter century (Noland, 1990). The Institute of Developing Economies projected combined growth in the gross domestic product of 6% for 1992 and 7% for 1993 for Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Thailand, and Taiwan. These rates are sharply higher than the global economy's expected expansion of 1% in 1992 and 3% in 1993 (Holman, 1992; Petitt, 1993). Franchising in East Asia is one of the fastest growing methods of doing business (Justis et al., 1988). Food service continues to be the opening wedge of franchising into new markets including the Pacific Rim. In 1990, Kentucky Fried Chicken had 3,000 international units in 54 countries ; more than a third operated throughout 10 of the 15 Pacific Rim countries (Konigsberg, 1991). In 1993, McDonald's had 13,000 international units in 66 countries. McDonald's operated 17 units in Thailand and plan to continue this growth. The

continuing vitality of Pacific Rim Countries make these areas very attractive for franchising.

General Outlook For Singapore, Korea, Malaysia, and Thailand

Singapore

Singapore has no exchange controls. The government of Singapore is often considered to be the most stable in the region. Besher (1991) indicated that the U.S. is one of Singapore's most important economic partners. According to the Far Eastern Economic Review (1993), the growth domestic product (GDP) is expected to grow by 6.6% in 1993 compared to 6.2% in 1992. These forecasts represent rates that are among the highest in the Pacific Rim for those two years.

Besher (1991) predicted that consumer spending will continue to grow; the people of Singapore enjoy the second-largest per capita income in Asia, second only to Japan. Singapore maintains a free and open market policy with few restrictions existing (Taoka and Beeman, 1991; Besher, 1991).

No prior approval is generally required for the licensing or franchising of a business (Shannon, 1983; Justis et al., 1988). The Singapore government expects foreign companies to teach relevant skills to Singapore residents, and expatriate work permits are often restricted to ensure that this occurs

(Shannon, 1983). In Singapore, English is the language of business and the country's official language.

South Korea

South Korea has both exchange controls and foreign investment regulations. South Korea is one of the major developing countries of all of the Pacific Rim countries. Korea is America's seventh largest export market (Besher, 1991). Business operation in Korea through a subsidiary is not likely to be approved but operation through joint ventures is possible (Shannon, 1983).

The government is in the process of recognizing trademark, patent, trade name, and legal property obligations (Justis et al., 1988). Besher (1991) stated that government policy strongly encourages Korean firms to buy American in order to ease its trade deficit with Japan, while narrowing its trade surplus with the U.S. He also suggested that when doing business in South Korea, the corporation should take into consideration that: (1) social interaction is a major part of business in Korea; and (2) English usage in Korea is somewhat limited. It is used more extensively in international business, especially among top government officials and business executives.

Malaysia

Malaysia has both exchange controls and foreign investment regulations. Malaysia is predicted to be among the fastest-growing economies in the world (Besher, 1991; Holman, 1992). The government is committed to maintaining open trade policies. Justis et al., (1988) claimed that franchise royalties generally may not exceed 2-3 percent of gross sales. Operation through a wholly-owned subsidiary is not possible, but operation through a joint venture agreement or master franchise agreements basis is permitted (Shannon, 1983). The new generation is well-educated with a rising disposable income. With plentiful export and investment opportunities existing, the Malaysian market is wide open. In addition to the national language, Bahasa Malaysia, about half of all Malaysians speak and write English (Besher, 1991). This greatly facilitates business opportunities for U.S. franchisors.

Thailand

Thailand has both exchange controls and foreign investment regulations. Therefore, a non-U.S. foreign franchise must operate either through a Thai-controlled joint venture or on the basis of master franchise agreements

(Shannon, 1983). Because of the Thai-U.S. Friendship Treaty, franchisors from the United States are exempt from alien business laws and may establish franchises with local investors in Thailand (Justis et al., 1988; Chan, 1990); the repatriation of royalties or fees between 6 to 8 percent through established and recognized franchisors is not inappropriate and is considered reasonable by government control agencies (Justis et al., 1988).

English is the language of commerce in Thailand. Although Western culture has had strong and positive influences on Thailand, it is imperative to learn and utilize the many distinct business and social customs of the country (Besher, 1991).

If the franchisor can easily demonstrate that the franchise will help develop the economic strength of the country, then franchise opportunities are accepted and encouraged in these selected Pacific Rim countries (Justis et al., 1988). American franchisors could enter foreign markets by selecting different franchising methods. However, before preceding to an analysis of the different franchising methods, environmental factor data must be taken into consideration.

Statement of the Problem

Even though international franchising appears to be receiving growing attention, the growth of franchising in other countries is not as well documented as is its growth in the United States (Walker, 1989). The papers published in the field deal mostly with domestic operations and concentrate on the legal problems of franchising (Hunt, 1973; Hunt and Nevin, 1975; Aydin and Kacker, 1990).

The environment of various countries as well as the selection of franchising methods greatly affect the success rate of international franchising. The problem for this study was to identify environmental factors that influence international franchising to the prospective sites: Singapore, Thailand, Korea, and Malaysia.

In addition, this study gathered opinions and feedback from experts based on a proposed generic model for the decision process of selecting the franchising methods for international franchising. The model involves the evaluation of the importance of environmental factors, franchising-related factors, and different franchising methods. Singapore, Thailand, Malaysia, and South Korea were selected as the sites for evaluation of environmental factors. These countries were chosen because the economies of these countries are accelerating.

The research also identified the situations in which direct franchising method, joint venture agreements, and master franchising agreements are considered for international expansion into Asia. This research reports the most popular method of franchising for Singapore, Thailand, Korea, and Malaysia. To survive in the coming global battles for market dominance, companies have to become increasingly bolder and more creative in their expansion choices (Jeannet and Hennessey, 1988).

This research was conducted using the Delphi Technique. The sample consisted of U.S. restaurant companies that have properties in Asia. The participants were those who are responsible for international franchising development. The list of restaurant companies that have their units in Asia was selected from The Source Book of Franchise Opportunities (1993) and Franchise Opportunities Guide (1993).

OBJECTIVES OF THIS STUDY

Specifically, this study had the following objectives:

1. To gather opinions and feedback from experts on a proposed generic model of the decision process in selecting a franchise method for international franchising. Also, to determine

whether the decision process is accepted by the experts.

2. To identify and rank the importance of environmental factors that influence international franchising.
3. To determine and provide reasons for which of the following franchising methods would be the most popular method for Singapore, Malaysia, Korea, and Thailand: 1. direct franchising, 2. joint venture agreements, 3. master franchise agreements.
4. To determine the situations and rank the importance of each situation in which direct franchising method, joint venture agreements, and master franchising agreements are considered for Asia.

Research Questions and Propositions

Hackett (1976) studied the international expansion of U.S. franchise systems and found that host government regulations, high import duties, and retribution to franchisor are the significant factors that affect franchising. However, Walker (1989) found that the international operations of U.S. franchise systems rated supporting franchisees outside U.S.; controlling; and the significance of recruiting to be more

significant than government regulations and repatriating royalties. Shannon (1983) and Chan (1990) mainly focused their conceptual articles on franchising to East Asia on foreign regulations. Chan (1990) discussed similarities in the cultures of the East Asian people; he emphasized the importance of understanding the society and culture of the foreign market.

According to Tse and West (1992), a major problem faced by the franchisor is the selection of the franchisee; a second concern is the nature of the relationship between the franchisor and the host government. It is obvious that social moods, personal attitudes, and political action have become dynamic and determinative forces for business (Reichel, 1982). The success of international restaurant development will continue to depend on taking into account the significant cultural, geographical, and political environments of the international markets.

Therefore, the first research question in this study is:

(i) What are the political, economic, socio-cultural, and franchising-related factors that influence international franchising when Singapore, Thailand, South Korea, and Malaysia are the prospective sites?

The choice of the channel of distribution may be influenced by the country being entered (Keegan, 1984; Terpstra, 1983; Thorelli, 1980). Specially, managing an integrated company store may be more difficult in countries culturally dissimilar to the U.S.

The management techniques of the U.S. may not transfer readily to the foreign environment (Davidson, 1982). Any of the three different franchising methods- -(1) direct franchising, (2) joint venture agreements, and (3) master franchising agreements- -could be selected for international franchising (Justis et al., 1988; Chan, 1990; Konigsberg, 1991).

Selling master franchise agreements is becoming the most popular technique according to Franchising in the economy 1992. The International Franchise Association reported: "Master franchising is the method used by 57 percent of responding members franchising internationally . . . . Individual contracts (direct franchising) are used by 19 percent of respondents to the new survey, joint ventures by 12 percent, and foreign subsidiaries (direct franchising) by 6 percent" (Franchising World 1985, p.4).

The second, the third, and the fourth research questions, are, therefore, to determine:

(ii) Which of the following franchising methods- -1) direct franchising, 2) joint venture agreements, 3) master franchise agreements- -are the most popular methods for Singapore, Thailand, Korea, and Malaysia?

(iii) What are the reasons for selecting specific types of franchising methods for each country? (i.e. why master franchise agreements are chosen for Thailand?)

(iv) What are the situations in which direct franchising method, joint venture agreements, and master franchising agreements are considered?

Based on the research questions, the following research propositions were developed:

Proposition 1: The four selected countries have similarities in their environmental factors and in franchising-related factors.

Proposition 2: Political factors and franchisee-related factors are the major concerns that influence the expansion decision and operation of international franchising of the restaurant companies in Singapore, Thailand, South Korea, and Malaysia.

Proposition 3: Master franchise agreements are the most popular method of franchising by restaurant companies to expand into the above mentioned prospective countries.

Proposition 4: Reasons provide by the experts for selecting specific types of franchising methods for each country are different due to the diversity in the concept of the restaurants.

Contributions of the Study

This study will benefit both practitioners and other researchers in the hospitality industry in several areas. First of all, the study should provide an understanding of the decision process in the selection of franchising methods. Second, input from experts on a decision model will be beneficial for a restaurant company that plans to franchise in Singapore, Thailand, Malaysia, and South Korea. The model involves the evaluation of the importance of: 1) environmental factors and 2) situations in which direct franchising method, joint venture agreements, and master franchise agreements are considered. The model could be adapted to apply for any restaurant concepts.

Third, this study will add to the existing knowledge in the international franchise systems field, since published empirical research on international franchising is very limited (Aydin and Kacker, 1990). Fourth, the study will identify the most popular method of franchising for those selected countries in Asia. The appropriate method of franchising is crucial to the success of the operation because it greatly affects the competitive position of the restaurant companies.

Definition of Terms

Pacific Rim

The Pacific Rim encompasses Southeast Asia, Northeast Asia, the South Pacific, New Zealand, Papua New Guinea, Western Latin America, and the West Coast of North America up to Canada. The selected countries for this study are Singapore, Thailand, Malaysia, and South Korea.

Political Factors

The factors include variables such as relationships that might prevent the firm's entry into a foreign location or relationships that might prevent the continuation of the foreign operations, and any other government regulations or restrictions that could affect operations.

Economic Factors

The factors include variables such as tax rates, interest rates, currency parity, currency transfers, wage level, construction costs, price controls, business cycles, inflation, and overall economic condition.

Social-cultural Factors

The factors include variables such as projected number of tourists, crime rate, demographics, language, roles of women and minorities, work ethics, career expectations, average education of the potential workforce, and overall community atmosphere.

Franchising-related Factors

The factors include variables such as recruitment of qualified franchisees, quality control of international properties, on-going support to franchisees, and training franchisees.

FRANCHISING METHODS:

1. Direct franchising

Direct franchising is characterized by the fact that franchisor franchises directly to franchisees situated in the foreign country without the intervention of a third party.

2. Master franchise agreements

The franchisor enters into a master franchise agreement directly with a sub-franchisor, usually a foreign national, pursuant to which the sub-franchisor himself develops and owns franchise outlets in addition to sub-franchising outlets to sub-franchisees in the foreign country.

3. Joint venture agreements

The franchisor enters into a joint venture agreement having as a partner a national of the host country.

CHAPTER 2

REVIEW OF LITERATURE

This review of literature has been organized into the following topics:

1) Environmental factors: Definition of environment, environmental scanning, economic environment, socio-cultural environment, and political environment.
2) Relationship of environment to international franchising, and different franchising methods.
3) Relationship of environment to decision-making processes, and decision models.

Definition of Environment

Miles, Snow and Pfeffer (1974) defined environment as the network of individuals, groups, agencies, and organizations with whom an organization interacts. Slattery and Olsen (1984) suggested that the objective environment can be identified as two categories: general environment and specific environment. The general environment consists of a set of conditions, for example, economic, socio-cultural, political, and technological. The specific environment is composed of customers, suppliers, competitors, and regulatory groups.

Numerous studies focus on the economic, cultural, and political context of the environment. Kotler (1991) stated that a nation's readiness to make or import different products and services and its attractiveness as a market to foreign firms depend on its economic, political-legal, cultural, and business environment. Aydin and Kacker (1990) presented the advantages of international market expansions with relationship to the environmental factors:

1. The various risks involved in international business tend to be lower in the case of international franchising because of the type of ownership common in the industry. Costs resulting from failure risk and political risk are much less because franchising relies mostly on ownership by franchisees.

2. An ongoing franchising operation tends to be more immune to foreign exchange risk because the import-export content of local operations is either minimal or does not exist at all. Thus, any change in the foreign exchange rate will have minor impact on local market shares.

Lifflander (1965) also presented the advantages of franchising abroad with relation to socio-cultural factors and franchising-related factors. The advantages are: 1) language barriers can be better overcome by franchisees recruited locally in the foreign countries and 2) skilled management for company-owned operations is lacking for overseas operations, making it advantageous to turn over the operation there to locally recruited franchisees.

According to Kobrin et al., (1980), American firms, having sales of at least $100 million, that operate in two or more countries named political stability as the most important environmental aspect followed by foreign investment climate, and profit remittances and exchange controls (Table 2).

Environmental Scanning

Environmental scanning is the activity by which organizations collect information about their environments (Aguilar, 1967; Ghoshal, 1988). The importance of scanning is explicitly recognized both as a starting point for firms' strategic planning systems (Hofer and Schendel, 1978; Porter, 1980; Hax and Majluf, 1984) and as one of the principal techniques that initiate the organizational adaptation process (Pfeffer and Salancik, 1978; Daft and Weick, 1984).

Some literature focused on the international environment and environmental scanning. Ghoshal (1988) examined six Korean companies' environmental scanning practices. The results suggested that scanning practices of U.S. firms are diverse while those of Korean firms are similar. Kim (1992) developed a framework for identification of political environmental issues for hotel chains in newly industrialized countries in Asia. A total of 58 factors were included in his

TABLE 2

MOST IMPORTANT ASPECTS OF THE OVERSEAS ENVIRONMENT

(U.S. FIRMS WITH AT LEAST $100 MILLION IN SALES)

	Percent of Respondents
Political stability	79.5
Foreign investment climate	79.5
Profit remittances and exchange controls	69.4
Taxation	51.4
Expropriation	28.4
Political attitudes toward foreign investors	24.2
Labor strikes and unrest	21.1
Administrative procedures	15.8
Public sector industrial activities	13.3
Public image of the firm	5.3

Source: Journal of International Business Studies, 1980, (11), p.41.

framework: 26 in the law and regulation category, 14 in administrative, 10 in judicial, and 8 in lobbying categories. Preble et al., (1989) did a study on the international environmental assessment of 450 U.S. multinational companies. Only 5 percent of the companies have an environmental scanning unit as part of the planning process. Kenedy (1984) emphasized the important relationship between environmental scanning and strategic corporate planning. Also, he suggested that international companies should integrate the forecasts of environmental trends into the planning process.

There exists a high correlation between firm scanning behavior and performance in the food service industry (West and Olsen, 1988). The results determined that firms that scan the environment at greater levels were found to have higher performance. Several studies concluded that there is a link between environmental assessment and company performance (Wolfe, 1976; Grinyer and Norburn, 1975; Bourgeois, 1985; Glueck and Jauch, 1984).

According to Crawford-Welch and Tse (1990), environmental constraints are more significant to multinational than to national corporations because the environmental factors are changing at dynamic rates. Thus, environmental scanning is an important task for companies that operate in foreign countries since it is vital to the success of the operation.

Economic Environment

Economic opportunity exists when the conditions required for conducting business activities are present or can be developed, and also when adequate effective demand exists to satisfy the organizational objectives of the firm (Akhter and Friedman, 1989). Since the economic environment has been recognized as an uncontrollable factor, the consideration of economic factors is vitally important to expansion's success. The economic environment of any nation is influenced by its cultural and political-legal environments.

Kotler (1991) defined three characteristics that reflect a foreign country's attractiveness as an international market. The first is the size of the country's population. Densely populated countries are more attractive than sparsely populated ones.

The second characteristic, the country's industrial structure, can be divided into four types. The first one is subsistence economies. In this type of economy people engage in simple agriculture. They consume most of their product locally and barter the rest for simple goods and services. Second, raw-material-exporting economies are rich in one or more natural resources but are poor in other respects. Much of their income comes from exporting these resources.

Third, there are industrializing economies; in this type of economy manufacturing begins to account for between 10 and 20 percent of the country's gross national product. Fourth, industrial economies are major exporters of manufactured goods and investment funds. The third economic characteristic is the country's income distribution. The distribution of income is related to a country's industrial structure, but is also affected by the political system (Kotler, 1991).

Taoka and Beeman (1991) grouped nations according to their stage of economic development: advanced in industrialized or more developed countries, newly industrialized countries, and less developed countries. The authors stated that countries differ as to the degree of economic diversification and dependence on the production and export of primary goods.

The Economic Environment of Industrial Countries

Industrial countries are generally politically and economically stable which is important because "most firms prefer stability for overall safety and peace of mind even though it often results in lower earning" (Taoka and Beeman, 1991 p.250). The United States, Canada, Japan, Australia, New Zealand, and countries of the European Economic Community are

among the most advanced industrialized nations in the world, according to Taoka and Beeman (1991). The service sector is highly developed and growing, and educational and health care services are extensive.

The Economic Environment of Newly Industrialized Countries

In terms of this study, the newly industrialized countries are the Pacific Rim countries. These countries are Singapore, Hong Kong, Thailand, Taiwan, South Korea, and Malaysia (Kim, 1992). Industrial development has occurred during the last two decades.

Taoka and Beeman (1991) asserted that the newly industrialized countries' populations are well educated and highly skilled when compared to the less developed countries. They also claimed that, unlike most less developed countries, these newly industrialized countries do not experience a shortage of investment capital.

Governmental policies facilitate foreign investments which encourages the investment climate. Rapid economic growth and increasing importance in world trade characterize these countries. The result is that the economic center of the world has shifted from the Atlantic to the Pacific (Taoka and Beeman, 1991).

The Economic Environment of Less Developed Countries

The economic environment of less developed countries contrast with those of industrialized countries and even the newly industrialized countries. Taoka and Beeman (1991) defined a less developed country as a country that is in the early stages of economic development, has relatively low standards of living, does not make most efficient use of its resources, and has high illiteracy rates.

Most less developed countries are located in Africa, Latin America, Asia, and the former USSR. In general, these countries usually have not exploited their natural resources to their fullest (Taoka and Beeman, 1991).

Monetary uncertainty as a result of fluctuation in the dollar exchange rate (Contractor, 1981; Hackett, 1976), and cultural differences within consumer and business groups (Winter, 1970), are the factors that affect companies' plans and operations. In addition, the economic environment is in a constant state of fluctuation and must be constantly monitored and adapted to. Thus, it is crucial that the companies learn to deal with different economic conditions which play an important role in the company's success.

Socio-Cultural Environment

The study of culture is vital to the management of international business since it is part of the requirement for the success of the operation (Chow et al., 1987). In order to understand and influence consumers' wants and needs, the company must understand the consumer's culture, especially in an international environment. Jeannet and Hennessey (1988) claimed that culture is embedded in elements of the society such as religion, language, and education which influence consumers' selection of goods and services (Figure 1).

Terpstra and David (1985) defined culture as a learned, shared, compelling, interrelated set of symbols whose meanings provide a set of orientations for members of a society. Jeannet and Hennessey (1988) defined culture as the human aspect of a person's environment; it consists of beliefs, morals, customs, and habits learned from others.

Adler (1983) defined the field of intercultural management as the study of the behavior of people in organizations located in different cultures and nations around the world. The focus was on the description and explanation of organizational behavior across countries and cultures, and, perhaps most importantly, the interaction of peoples from different countries working within the same organization or

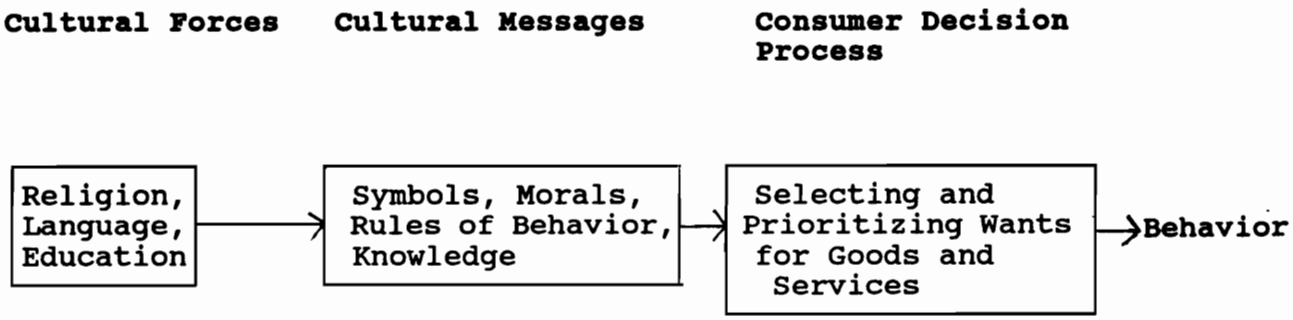

FIGURE 1

Cultural influences on Buyer Behavior

Source: International Marketing Management (1988), p.68
by Jean-Pierre Jeannet and Hubert D. Hennessey

the same work environment. Several studies have been conducted on the different facets of the cultural aspects of international business: (1) the identification of subjective culture between American and Chinese (Chow et al., 1987); (2) the influence of culture on the process of business negotiations (Graham, 1984; Adler and Graham, 1989; Francis, 1991); (3) cultural influences on international capital structures (Sekely and Collins, 1987). The findings of these studies suggest that substantial differences in bargaining styles exist across cultures.

Green and Langeard (1975) reported the results of a cross-national study conducted to compare the characteristics of samples of consumers in France and the United States. They concluded that the behavior differences could be attributed to social and environmental factors that characterize the two nations.

Thus, marketing programs may need to be substantially revised if they are to be equally effective in both countries. Recognizing and understanding the cultural differences among different groups of people could help to solve some of the problems in conducting international business (Chow et al., 1987).

Religion is part of the culture that also has an impact on economic and policy considerations for international business. Terpstra and David (1985) defined religion as a

socially shared set of beliefs, ideas, and actions which relate to a reality that cannot be verified empirically, yet are believed to affect the course of natural and human events. Because such beliefs condition people's motivations and priorities, they affect their actions.

People in many countries have religious beliefs and customs that affect the operation of multinational companies. Specific beliefs affect consumption patterns. It is well known that many religions restrict the consumption of some items: no beef for Hindus and no pork for Muslims. For business purposes, these beliefs must be respected and not ignored. Thus, religion should be taken into consideration for international expansion because it has some impact on a society's economic performance and political organization (Jeannet and Hennessey, 1988; Terpstra and David, 1985).

The educational system of a country largely reflects its own culture and heritage. Education shapes people's outlooks, desires, and motivation. Different countries have substantially different ideas about education in general, and management education in particular. Participation in secondary education affects literacy levels and economic development as well as the type of employees and executive talent that get hired (Jeannet and Hennessey, 1988). High levels of education have an influence on the acceptance of franchising products in a foreign country (Walker, 1989).

Language is a system which can be studied, described, and taught (Terpstra and David, 1985). Language is a key component of culture because most of a society's culture finds its way into the spoken language. Thus, language embodies the culture of the society. Jeannet and Hennessey (1988) claimed that knowing the language of a society can become the key to understanding its culture because language expresses the thinking patterns of a culture.

The multiplicity of languages and the parallel diversity of cultures in the world economy have a constraining influence on the operations of international business. To a large degree, successful international business depends on communication. "Languages are the principal means of communication. Every time a language and cultural barrier must be crossed, there is a potential communication problem" (Terpstra and David 1985, p.35).

International communications are heavily affected by the existence of different languages. Cross-cultural communication is one of the crucial problems regarding culture (Choudry, 1986; Adler and Graham, 1989; Francis, 1991; Terpstra and David, 1985)). Adler and Graham (1989) concurred with Condon's (1974) classification of cross-cultural communication problems into four categories: 1. Language and language behavior; 2. Nonverbal behavior; 3. Values; and 4. Pattern of thought. Condon (1974) claimed that these

categories might be considered in order of ascending perplexity. That is, misunderstandings at the level of language are often obvious and most easily corrected.

Choudry (1986) suggested an iterative translation method to overcome some problems of language translation: "It is a successive iteration process of translation and re-translation of an instrument, each time by a different translator" (Choudry, 1986, p.25). Jeannet and Hennessey (1988) suggested that a firm must adjust its communication program and design communications to include the languages used by foreign countries.

In addition, the firm must be aware that a foreign language may contain different thinking patterns or indicate varying motivations on the part of prospective clients. According to Walker's survey (1989), widespread use of English is not considered to be an important factor that affects the acceptance of franchising products in a foreign country.

Adler and Graham (1989) claimed that our understanding of nonverbal behaviors and communications, by comparison, are disorganized and incomplete. The authors explained that values, attitudes, and other comparable terms are not directly observable, broad concepts which provide a basis for understanding unrelated behaviors.

Terpstra and David (1985) defined values as charged priorities for social life that help individuals choose to act

properly in ambiguous or ambivalent situations. Thus, values and their relation to communication are difficult to investigate in a systematic way. Regarding patterns of thought, Condon (1974) stated that cultural differences at this level may result from a combination of differences in languages and values. Lewis and Chambers (1989, p. 614) stated:

> Values that are important to one culture may mean little to another. These conflicts become more intense in an industry that sells very personal services to a very diversified clientele. Different cultures reflect different beliefs, attitudes, motivation, moralities, perceptions, and rituals. Although preconceived notions of what the hotel guest wants may be discrepant with the guest's own notions in any country, they can result in disaster when marketing to different cultures. It thus goes without saying that cultural differences have a tremendous impact upon marketing mix decisions in international operations. Ignoring this impact has often resulted in expensive consequences for hotels operating in arenas outside their corporate homeland.

Harris and Moran (1987, p. 212) recommended ten criteria to companies to ease the stress and tension of cultural shock: 1) be culturally prepared; 2) learn local communication complexities; 3) mix with the host and nationals; 4) be creative and experimental; 5) be culturally sensitive; 6) recognize complexities in host cultures; 7) perceive oneself as a culture bearer; 8) be patient, understanding, and accepting of oneself and hosts; 9) be most realistic in expectations; 10) accept the challenge of intercultural

experiences.

Managers interested in facilitating intercultural communications and negotiations must be aware of the differences between values and cultural customs. Also, the international manager who was socialized within a high pressured culture, and with a strict orientation to time constraints must be willing to relax these constraints when dealing with foreign counterparts (Terpstra and David, 1985).

Differences in culture are the most distinguishing features among countries; therefore, understanding the essence of culture is essential. In addition, whether the scope of the operations is domestic or international, political environment is important to all business firms.

Political Environment

Nations differ greatly in their political environment. The political realities of the nations represent an inescapable and uncontrollable business variable that must be considered. Political risks exist when, as a result of governmental or societal actions, operations and investments of foreign firms are adversely affected (Simon 1982).

The political environment can be related to international business through the concept of political risk. Robock and

Simmonds (1989) defined political risks as any governmental actions or politically motivated events that adversely affect the long-run profitability or value of a firm. They also classified political risks into macro political risk events which affect all foreign firms, and micro political risk events which affect only one firm or a small number of firms.

Macro political risk includes such events as a governmental overthrow, or the deterioration of the political relations between the firm's home government and host government resulting in discriminatory treatment of the firm. In the future, specific political risks and the risks associated with certain geographic areas are expected to increase (Howard and Hashmi, 1991). Changes in government policies may cause problems related to repatriation of earnings and, in extreme cases, expropriation of assets (Root, 1987).

Government regulation outranked other factors as the most common problem confronted by U.S. companies franchising internationally (Blodgett, 1991; Contractor, 1981; Hackett, 1976; Walker and Etzel, 1973; Winter, 1970; Oxenfeldt and Thompson, 1968). Taoka and Beeman (1991) claimed that macro political risks were the most important form of political risk during the period of 1950 through 1965. However, in recent years micro political risk and governmental actions against foreign investments have become the trend. Risk types 1

through 6 listed below represent the basic nature of political risk events today:

1. Forced sale of equity to host country nationals, usually at or below depreciated book value.
2. Discriminatory treatment in the application of regulation or laws.
3. Barriers to repatriation of funds (profits or equity).
4. Loss of technology or other intellectual property (patents, trade marks, trade names).
5. Interference in managerial decision-making
6. Dishonesty of government officials, including cancelling or altering contractual agreements, and extortion demands (Taoka and Beeman 1991).

Kotler (1991) recommended four political factors that should be considered in deciding whether to do business in a particular country. The four factors are: (1) attitudes toward international buying of the foreign countries; (2) political stability where political instability is high, international corporations might still find it profitable to do business in that country, but the situation will affect their mode of entry. For example, franchisee-owned businesses will be more appropriate than direct company-owned franchising; (3) monetary regulations- the firm should be aware of a fluctuating exchange rate since the franchisors want the royalty fees in a currency of value to them; (4)

government bureaucracy- this factor is the extent to which the host government runs an efficient system of assisting foreign companies, including such amenities as quick licensing procedures, efficient customs handling, adequate market information, and other factors conducive to doing business.

All countries have an element of political risk as well as a potential to produce profits. The difference is in the degree and type of political risk. When a firm is planning to expand foreign investments, it should screen the political environment. Therefore, it is important for multinational corporations to develop different approaches in consideration for expansion. The wide variety of approaches range from avoidance of a high-risk country or area to joint venture with foreign counterparts.

It is inevitable that all multinational corporations must face the dynamic economic, cultural, and political environment of foreign countries. However, there can be little doubt that one of the strategies needed to maintain and expand the market share is to expand internationally.

Relationship of Environment to International Franchising, and Different Franchising Methods

Environmental factors that affect international franchising commitments was covered extensively in the

literature (McIntyre and Huszagh, 1988). Favorable economic and technological conditions in foreign countries were two of the most commonly cited environmental motivations for franchising internationally (Contractor, 1984; Contractor, 1981; Oxenfeldt and Thompson, 1968). Mendelsohn (1989) suggested that environmental analysis is necessary for international franchising. Some of the environmental factors that can have an impact on international franchising are political stability, local laws, government control of royalties, differences in cultures (Mendelsohn, 1989).

Failing to analyze environmental factors can lead to negative experiences in international franchising (Konigsberg, 1991). Chan (1990) examined some strategies for franchising in East Asia and recommended the franchising methods with regard to political environment factors. He also addressed the changes in environmental factors that effect franchising in foreign countries.

The proliferation of international franchising is due to several economic and demographic trends: 1) universal cultural trends, 2) increased disposable income, 3) improved international transportation and communication, 4) increasing educational levels, 5) rising standards of living, 6) an increasing number of women in the workforce, 7) smaller families with two or more incomes, 8) shorter work weeks, 9) younger generations willing to try out new products, and 10)

demographic concentrations of people in urban areas (Chan, 1990). Shannon (1983) discussed the political environments in terms of the regulation of foreign investment and exchange control in East Asia that affect franchising in East Asia.

A survey of a cross-section of U.S. franchisors with at least thirty units provided some problems related with the international franchising-related factors (Walker and Etzel, 1973). Three of the major problems which related to franchisee recruitment and management were: 1) difficulties in recruiting enough qualified franchisees, 2) controlling franchisees, and 3) redesigning the franchise package to make it salable overseas. Other environmental factors contributing to difficulties for U.S. companies were control over trademarks or trade names in a foreign country (Winter, 1970; Oxenfeldt and Thompson, 1968), locational problems (Hackett 1976; Walker and Etzel, 1973), and managerial problems which can arise when efforts are diverted from domestic operations (Walker and Etzel, 1973; Oxenfeldt and Thompson, 1968).

Hackett (1976) did a study of the international expansion of U.S. franchise systems. The study examined the motivations underlying overseas expansion, and the major problems involved in establishing franchise operations abroad. Results from 353 responses indicated that the top three motivations to expand overseas were the desire to take advantage of markets with great potential, to establish the company name in markets that

will be important in the future, and to fulfill the proposal from prospective or existing franchisees. The top three problems were host government regulations and red tape, high import duties and taxes in foreign environments, and monetary uncertainties and royalty retribution to franchisors.

Walker and Etzel (1973) focused on the progress and procedures of U.S. firms operating in foreign markets. Results from 149 responses indicated that 47 percent of the respondents have franchises outside the U.S. Direct franchising is the leading method, followed by master franchising. Approximately 57 percent of the responding systems began franchising during the 1960s.

Recently, Walker (1989) did a study on U.S. franchise systems expanding to foreign countries. He examined benefits and drawbacks, the stages of development, and factors necessary to establish and operate franchises outside the U.S. successfully. Results from 451 responses indicated that benefits include additional growth, added revenues, and larger markets. Some of the drawbacks are lack of control, difficulty of supporting, and cost. The top three factors that are necessary to establish international franchises are to support franchisees outside the U.S., to recruit enough qualified franchisees, and to train franchisees for units outside U.S. Table 3 represents a review of studies on international franchising.

Table 3.

Review of Studies on International Franchising

Authors	Major Contribution
Oxenfeldt & Thompson (1968)	Problems confronting international franchising
Walker & Etzel (1973)	International Franchising: Progress and Procedures
Hackett (1976)	International Expansion of U.S. Franchise Systems: Status and Strategies
Shannon (1983)	Franchising in East Asia: Laws and Regulations
McIntyre & Huszagh (1988)	International Franchising: A Retrospective Review and Research Agenda
Justis et al., (1988)	Franchising in Asia: Political Issues
Walker (1989)	Comprehensive Study of International Franchising
Chan (1990)	Franchise Management in East Asia:Status and Considerations
Aydin & Kacker (1990)	International Outlook of US-based Franchisers
Kanouse (1992)	Franchising in the Pacific Rim: Current state of franchising and Legislation Issues

Environment and its relation to franchising methods

Erramilli (1990) examined the entry modes of the various service industries. She concluded that an industry that requires the producer and receiver to be in close physical proximity, thereby enabling production and consumption to take place simultaneously (i.e. the hospitality industry), cannot be exported. Such firms are constrained to the channel of distribution modes of contractual entry, franchising, and foreign direct investment.

The appropriate choice is a critical determinant of the likely success of the foreign operation (Root, 1987; Davidson, 1982; Killing, 1982). Franchising could be the best response to the changing international business environment permitting firms to avoid the risk of direct investment (Contractor, 1981).

Franchising allows the company to enter a foreign market without a substantial investment of its resources. Aydin and Kacker (1986) added that an ongoing franchising operation tends to be more immune to foreign exchange risk because the import-export content of local operations is either minimal or nonexistent.

In addition, international franchisors do not have to expand domestic capacity in order to serve foreign markets as would be the case when an exporter tries to penetrate these

markets. Franchising has become the main area of growth for the hospitality industry and will remain its dominant form of expansion (Crawford-Welch, 1990).

Within the parameters of a company's resources and objectives, types of franchise method entry decisions should be formulated in the context of economic opportunity and political risk present in different country markets (Shannon, 1983; Akhter and Friedman, 1989; Chan, 1990). According to Walker (1989), culture differences and levels of education of the international market are the important issues to be considered in choosing the types of franchise methods.

Generally, the different franchise methods available to a franchisor can be divided into three categories: 1) direct franchising, 2) master franchise agreements, and 3) joint venture agreements (Konigsberg, 1991; Chan, 1990; Shannon, 1983). Justis et al., (1988) specifically added a franchise method in which the government acts as franchisee which is suitable for China because of its political format. The appropriateness of each type of franchise method depends on environmental situations.

Direct Franchising

In direct franchising, the franchisor franchises directly to franchisees situated in the foreign country without the intervention of a third party. Konigsberg (1991) categorized direct franchising into three different forms:

1. Direct unit franchising. The franchisor grants a franchise for an individual franchise outlet directly from his country in the same way as he would grant a franchise in his own country.

2. The establishment of a branch office. The franchisor establishes a branch office in the foreign country which acts as the franchisor for the purpose of granting franchises in the foreign country.

3. Development agreements. The franchisor enters into a development agreement directly with a developer who is a foreign national. Under the agreement, the developer agrees to develop and own all of franchise outlets in the foreign country.

Some of the advantages of direct franchising are the avoidance of having to comply with onerous foreign legal requirements, maintaining total control of the franchisor's franchise system and trade marks, and retaining total control over advertising and promotion (Konigsberg, 1991) .

However, there are some disadvantages in direct franchising. It may be difficult for the franchisor to service properly and provide training to foreign franchisees from the franchisor's country when the languages used in the two countries are different (Walker, 1989; Konigsberg, 1991).

Also, it may be more difficult for a non-resident franchisor to bring suit against a franchisee in certain jurisdictions (Konigsberg, 1991).

Master Franchising Agreements

The master franchisee may be an individual, business, or conglomerate corporation which assumes the rights and obligations to establish franchises throughout a particular country or region (Figure 2). This is a very common strategy used by American firms to franchise into Asian countries (Chan, 1990). Chan (1990) stated that McDonald's and Kentucky Fried Chicken have successfully used this strategy in Asian Markets. Bond & Bond (1991) asserted that the master franchisee has the responsibility not only to sign up sub-franchisees within specific geographic areas, but also to provide these new franchisees with the initial training and support that are normally provided directly by the franchisor. The master franchisee is, nevertheless, involved in the on-going sharing of future royalty fees. The contract between the franchisor and the master franchisee clearly describes what is expected of each party and sets a specific period within which the master franchisee must meet certain stated objectives. In return for the front-end fee paid to the franchisor for his exclusive geographic market, the master

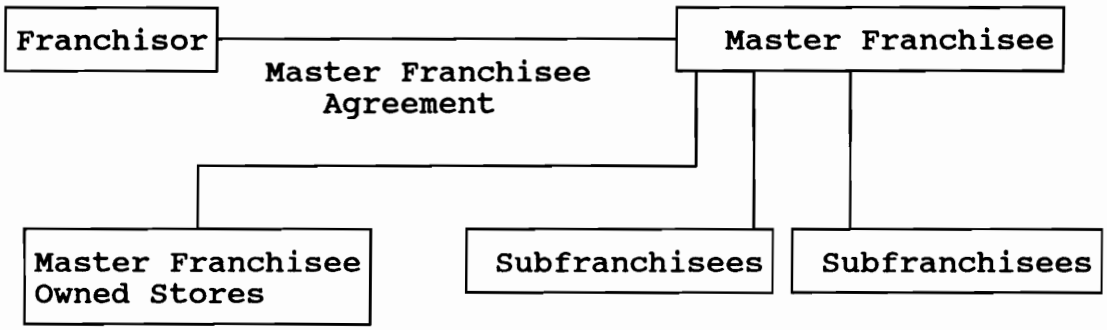

FIGURE 2

MASTER FRANCHISING MODEL

Source: Academy of Management Executive (1990) by Peng S. Chan, 4, 75-85.

franchisee receives a future stream of royalties from the franchisor based strictly on the gross sales of the franchisees that the master franchisee brings into the system (Bond and Bond, 1991). Thus, the primary success depends on the selection of the master franchisee and the support from the franchisor. Successful relationships ensure personal profits.

Master franchisee agreements have some advantages: local knowledge of the culture, politics, economics, and market of sub-franchisees can build sales and reduce or prevent costly errors. Plus, the motivation of an on-the-spot owner is translated into the possibility of lower unit costs, free extra hours of personal labor, and faster decisions for local condition changes (Tarbutton, 1986).

On the other hand, some of the disadvantages are: difficulty in enforcing franchisor's rights and in terminating a master franchise agreement, complexity in the case of business failure of the master franchisee which will affect the entire franchise system in the foreign country and will require the franchisor to take control of the remnants of the franchise system (Konigsberg, 1991).

The U.S. Department of Commerce (1990) reported that, at present, selling master franchise agreements is the most popular, cheapest and fastest technique of international franchising because master franchisees know about the laws and

local cultural nuances of the various countries (Jesitus, 1992).

Joint Venture Agreements

Joint venture, in which the franchisor joins with a local investor, is another approach that can be used to expand internationally. Unlike master franchise agreements, the franchisee does not possess any rights to sub-franchise or establish units within a particular country or region.

There may be as many joint ventures as the franchisor may want to enter within a particular country, whereas there can only be one master franchisee in a particular country (Chan, 1990). The use of joint ventures, in both international and domestic contexts, has exhibited dramatic increases in recent years (Harrigan, 1988; Hergert and Morris, 1988).
International joint ventures are also a critical concern for international business because of their growing strategic importance. Auster (1987) claimed that firms enter joint ventures in order to develop regional know-how and cultural familiarity and expertise, and to circumvent restrictions. The benefits of international joint ventures are the result of risk reduction, economies of scale and scope, production efficiencies, convergence of technologies, overcoming entry barriers and better local acceptance (Harrigan, 1985;

Contractor, 1986; Contractor and Lorange, 1988).

Other advantages are: more flexibility, access to resources not internally available or transferable, lower cost, and less investment commitment (Schilaci, 1987). Joint ventures are sometimes necessary in order to enter countries where the economy is largely under government control (Jeannet and Hennessey, 1988). In such countries, foreign investors are only allowed to take minority positions in conjunction with local firms. The advantage of joint venture is that the local political environment, economic situation, and regulations can be best understood by local people. A joint venture also spreads the risk of failure over more than one party (Contractor, 1986).

On the other hand, in the event of having to resort to the buy-sell provisions of the joint venture agreement due to disagreement between the joint venture partners, the fact that the domestic's joint venture partner is in operating control of the joint venture company places the foreign franchisor at a disadvantage (Contractor, 1986; Konigsberg, 1991).

Schilaci (1987) added that the disadvantages are: lack of trust, different management styles, lack of cooperative behavior, limited interest partners, and unwillingness to share internal skills and capabilities. Also, there could be: 1) differences in the factors motivating the joint venture partners when entering into the joint venture arrangement

thereby increasing the chances for potential conflict, and 2) difficulties in the repatriation of profits without unanimous consent of the joint venture partners (Konigsberg, 1991).

Relationship of Environment to the Decision Making Process and Decision Models

Mintzberg, Raisinghani, and Theoret, (1976) defined a decision as a specific commitment to action that involves a commitment of resources. A decision occurs at a precise moment during a continuous process of evaluating alternatives (Leigh, 1983); decision making entails the application of specific forms of thinking, such as rational and intuitive approaches. Decision making is concerned with action, such as corrective, preventive, and anticipatory measures (Leigh, 1983).

The essence of decision making is in the formulation of alternative courses of action and in the choice between these alternatives after an evaluation of their effectiveness in achieving the decision maker's objectives (Radford, 1981). Changed and unchanged conditions comprise an environment in which the central decision-problem is embedded (O'Dell, Ruppel, Trent, and Kehoe, 1984). That environment is where the causes of change will be found and where corrective changes should be instituted.

Radford (1981) suggested that organizations and individuals that are involved in decision making operate in an environment and react to stimuli in that environment. This environment may contain elements that place constraints on the manner in which the participants in the environment can operate (Radford, 1981). These elements may be social-cultural, political, and/or economic.

The environment plays a major part in the process of selecting from alternative courses of action. Environmental data are communicated to management before any possible courses of marketing action have been formulated (O'Dell et al., 1984). Selection and analysis of the key variables in a firm's environment are very important to the decision making process (Pearce and Robinson, 1983). Major environmental factors affecting marketing, suggested by O'Dell et al., (1984), are demographic, geographic, economic, technological, social-cultural, international, and legal-political.

Pearce and Robinson (1983) suggested that the external environment of a business is composed of political, economic, social, and technological forces. These forces present opportunities, threats, and constraints for firms. Since the exact nature of the environment is not always known precisely, the decision maker may have to settle for second best and hence for some rough approximation of reality (Leigh, 1983).

Decision Models

Decision models have been developed to apply methods of problem solving when a course of action must be chosen from alternatives in pursuit of organizational goals (Murray, 1986). Hill et al. (1978) illustrated a decision model in a series of six steps (Figure 3). The first step is to define the problem. The problem is defined by gathering information through environmental scanning. The second step is to identify the alternatives, which depend upon the perceptions of the decision makers.

The third step is the process of making a list and weighing the relative importance of each alternative. The fourth step is the application of decision aids mathematical techniques used to assist in the process. Effective use of decision aids is limited by the skill and knowledge of the decision makers. At this point in the decision process, decision makers may use subjective judgement rather than decision aids. The next step is the decision to choose alternatives. The final step is the implementation; action is taken to make sure that the decision is carried out as

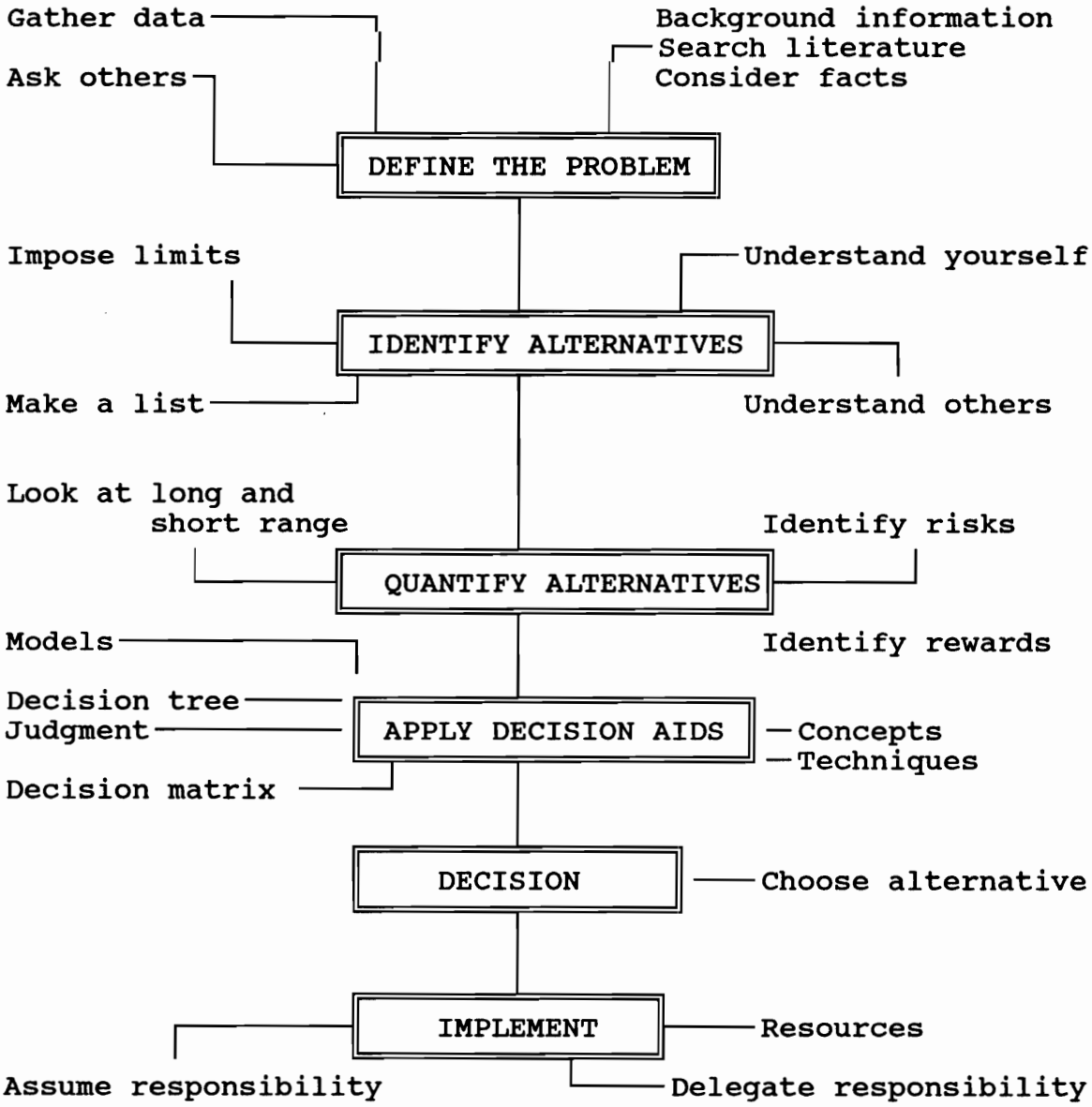

Figure 3

A Decision Making Model

Source: Making Decisions - A multidisciplinary Introduction (p. 22) by P.H. Hill, H.A. Bedau, R.A. Chechile, E. J. Crochetiere, B.L. Kellerman, D. Ounjian, S.G., S.G. Pauker, S.P. Pauker, and J.Z. Rubin (1978).

planned. This is a critical last step in the process because even the best decisions can fail due to lack of resources. Decisions trigger action, movement, and change. Feedback to make modifications and adjustment, as the process evolves is very crucial to assure that the most appropriate decision was made.

O'Dell et al. (1984) also introduced a similar decision model (Figure 4). They focused their model on marketing decisions rather than other business areas. The decision clusters associated with the major factors open to manipulation by marketers are: product development and deletion decisions, pricing decisions, channel decisions, and promotion program decisions (O'Dell et al., 1984).

The first step is to identify the central decision problem. Obtaining environmental data and information relevant to the problem is crucial. The second step is developing alternatives. These alternatives originate from the four basic objectives of the firm, which are: 1) the position in the industry sought by the firm; 2) the degree of operational stability desired; 3) the image the firm desires to project; and 4) the firm's management philosophy (O'Dell et al., 1984). The third step is selecting the appropriate criterion for a given decision-problem (goal seeking). Every marketing alternative should be evaluated as to its profit production (O'Dell et al., 1984). In this step, management

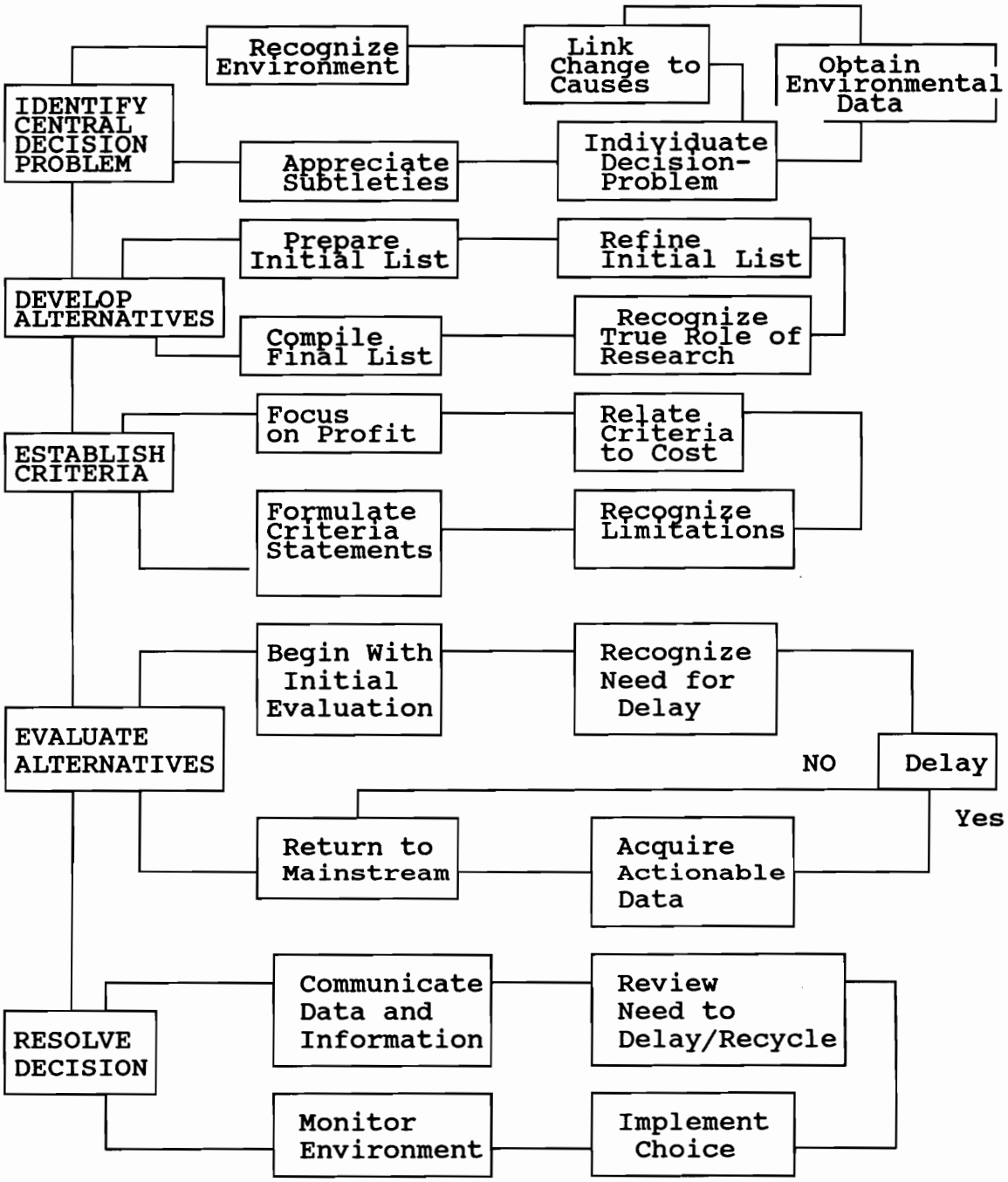

Figure 4.
Marketing Decision Making Model

Source: Marketing Decision making (p. 162) by W.F. O'Dell, A. C. Rupple, R.H. Trent, W.J. Kehoe (1984).

should designate a basis for ascertaining the best approach. The fourth step is evaluating the alternatives (judgement & choice). In this step, management should measure each approach according to the basis. The next step is to make the decision. In this step, the chosen course of action is implemented. Communication and action are done in this step. Follow-up and feedback include both formal progress reports and informal on-site inspection of developments.

Hill, Hwang, and Kim (1990) developed a decision model for the choice of international entry modes considering of control and resource commitments and dissemination risks which vary with the type of entry mode (Figure 5). The variables included strategic variables (national differences, scale of economies, global concentration), environmental variables (country risk, location familiarity, demand conditions, volatility of competition), and transaction-specific variables (value of firm-specific know-how, tactic nature of know-how).

Using the three variables, Hill et al. (1990) developed nine untested propositions. They proposed that firms that pursue a multi-domestic strategy will favor low-control entry modes; firms that pursue a global strategy will prefer high control entry modes; firms will favor high-control entry modes when the need for global strategic coordination is high, and there is a great tacit and value component of firm-specific

The characterustics of different entry modes

Entry mode	Constructs		
	Control	Resource commitment	Dissemination risk
Licensing	Low	Low	High
Joint venturing	Medium	Medium	Medium
Wholly owned subsidairy	High	High	Low

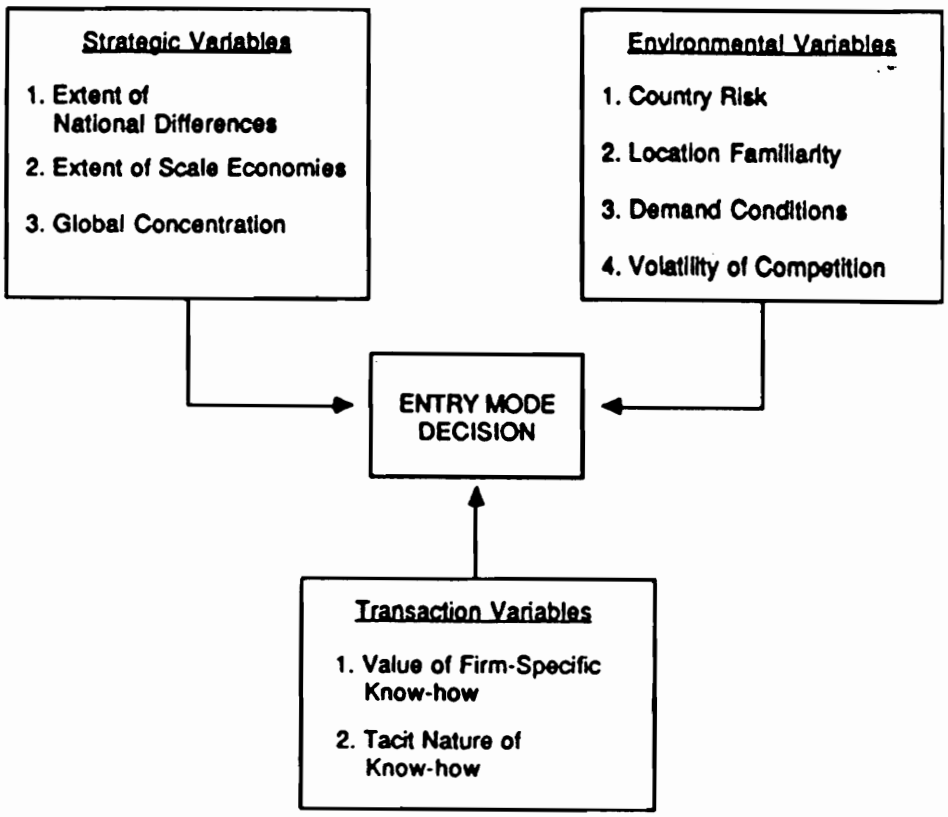

Figure 5.

The Decision Model for the Choice of International Entry Mode

Source: Hill et al., (1990) "An Eclectic Theory of the Choice of International Entry Mode" Strategic Management Journal, 11, 117-128.

know-how; firms will favor entry modes that involve relatively low resource commitment when country risk is high, perceived distance is great, and great volatility of competition is in the host market.

Hill et al. (1990) established the relationship between determinant factors and the different entry modes. However, research interest was in the manufacturing industry not the hospitality industry. Global strategies such as exchanging parts and products with other subsidiaries in the firms global system do not apply to the restaurant industry.

Dunning (1980) developed a model for explaining choice among exporting, licensing, joint venture, and sole venture modes (Figure 6). According to ownership advantages, firms must possess superior assets and skills in order to earn economic rents that are high enough to counter the higher cost of servicing these markets. Location advantages are concerned with market potential and investment risk of various locations. Internalization advantages assist the firm to compare the cost and benefit of integrating assets and skills within the firm. Agarwal and Ramaswami (1992) analyzed choices of foreign market entry mode. They examined the independent and joint influences of ownership advantages, location advantages of a market, and internalization advantages in the choice of foreign market entry modes of the U.S. equipment leasing industry. The findings implied that

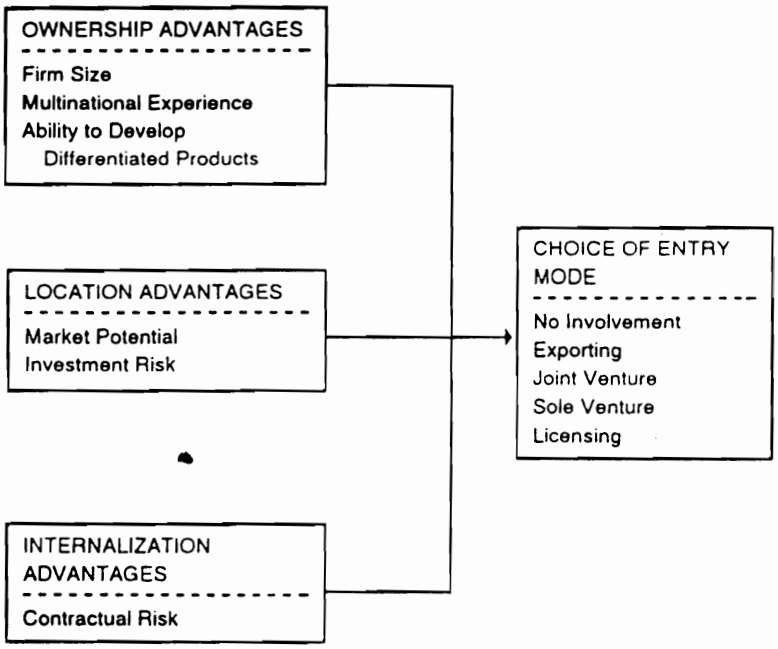

FIGURE 6.

International Entry Choice Factors Model

Source: Dunning, J.H. (1980), "Toward an Eclectic Theory of International Production: Some Empirical Tests. Journal of International Business Studies, 11, 9-31.

though firms would like to establish market presence in foreign countries through direct investment, their ability is constrained by their size and multinational experience. The joint venture mode is preferred by larger and more multinational firms. There is a tendency to avoid entry through exporting when the potential returns through other modes are high, and they prefer entry through exporting when the potential risks for other modes are high. However, firms are hesitant to enter market that are considered risky.

Hill et al. (1990) and Dunning (1980) models are tailored to the manufacturing sector not to the restaurant industry. Thus, some of the strategic variables such as global concentration may not be appropriate because the service industry depends more on multidomestic strategy than global strategy (Porter, 1991). A new model is needed to identify the variables that affect the decision to select an international franchising method. A proposed model will be discussed in the next chapter.

Besides identifying the variables, managers must continue to monitor the environment in order to formulate contingency plans and address unfavorable environmental situations. They should attempt to forecast the events as well as the impact that events will have on the restaurant.

Summary

This chapter has reviewed contemporary literature in the respective areas of environment: definition, environment relationship to international franchising and different franchising methods, environment relationship to decision making processes, and decision models.

The review of environment covered the economic, political, and socio-cultural environments. The literature review also presented details of each type of franchising method. Some advantages and disadvantages of different franchising methods were also discussed. For instance, franchisors have to incorporate environmental factors and franchising related factors before determining the best franchising method for prospective sites.

The literature review on decision models will be used as a foundation to a proposed generic model of the decision process to select the types of franchising methods for international franchising. The generic model will be discussed in detail in the following chapter. The research questions and propositions are related to the proposed model. The purpose of this model is to guide and facilitate international franchising by selecting franchising methods.

CHAPTER 3

METHODOLOGY

INTRODUCTION

The preceding chapter outlined the area of research in terms of environmental factors that affect international franchising, the types of franchising methods, and decision making models. The purpose of this chapter is to: 1) reiterate the research questions and the propositions that this study explored and examined, 2) present a generic model for the decision process of selecting the types of franchising methods for international franchising in which the research questions are related to the proposed model, and 3) discuss the Delphi technique, which was used to explore the criteria considered for international franchising.

This chapter will also present the overall design of the research, the method for selection of the Delphi panel, data collection, and analyze procedures.

Research Questions and Propositions

The purposes of this study were: 1) to identify and assess the importance of environmental factors and franchising related factors that influence international franchising for restaurants in the four prospective countries- Singapore, Malaysia, Thailand, and Korea; and 2) to identify the most popular method of franchising and reasons for its popularity. The following research questions and propositions address objectives of this study:

(i) What are the political, economic, socio-cultural, and franchising-related factors that influence international franchising if Singapore, Thailand, South Korea, and Malaysia are the prospective sites?

(ii) Which of the following franchising methods- -1) direct franchising, 2) joint venture agreements, or 3) master franchise agreements- -are the most popular methods for Singapore, Thailand, Korea, and Malaysia?

(iii) What are the reasons for selecting specific types of franchising methods for each country? (i.e. why master franchise agreements are chosen for Thailand?)

(iv) What are the situations in which direct franchising method, joint venture agreements, and master franchising agreements are considered?

Based on the research questions, this study used the following research propositions:

Proposition 1: The four selected countries have similarities in their environmental factors and in franchising-related factors.

Proposition 2: Political factors and franchisee-related factors are the major concerns that influence the expansion decision and operation of international franchising of the restaurant companies into Singapore, Thailand, South Korea, and Malaysia.

Proposition 3: Master franchise agreements are the most popular method of franchise for restaurant companies to expand into those prospective countries.

Proposition 4: Reasons given by the experts for selecting specific types of franchising methods for each country are different due to the diversity in the concept of the restaurants.

A Proposed Generic Model

One of the purposes of this study was to gather experts' opinions and feedback on a proposed generic model for the decision process of selecting the franchising methods for international franchising. The research questions were related to the proposed model. The model involved the evaluation of the importance of environmental factors, situations in which direct franchising method, joint venture

agreements, and/or master franchise agreements are considered.

A generic model (Figure 7) for the decision to select different franchising methods for international expansion for restaurants was designed based on reviews of decision theory literature (Hill et al., 1978; Leigh, 1983; Mintzberg et al., 1976; Radford, 1981; O'Dell et al., 1984; Hill et al., 1990; Dunning 1980; Pearce and Robinson, 1983).

A generic model involves a series of six steps. The first step is a plan to franchise internationally. Before proceeding to an analysis of the franchising methods, examination of environmental factors should be taken into account which leads to the second step. In this step, obtaining the data on the political, economic, socio-cultural, and franchise-related environment of prospective sites is very crucial. The third step is the consideration of different methods for international franchising. Advantages and disadvantages of the three different franchise methods (direct franchising, joint venture agreements, and master franchise agreements), is to be gathered and analyzed. Evaluating each franchise method is the next step. Company's objectives should be incorporated while evaluating each franchise method. Ranking the benefits of each alternative of franchise methods and completely analyzing the environmental data of the selected sites is performed in this step.

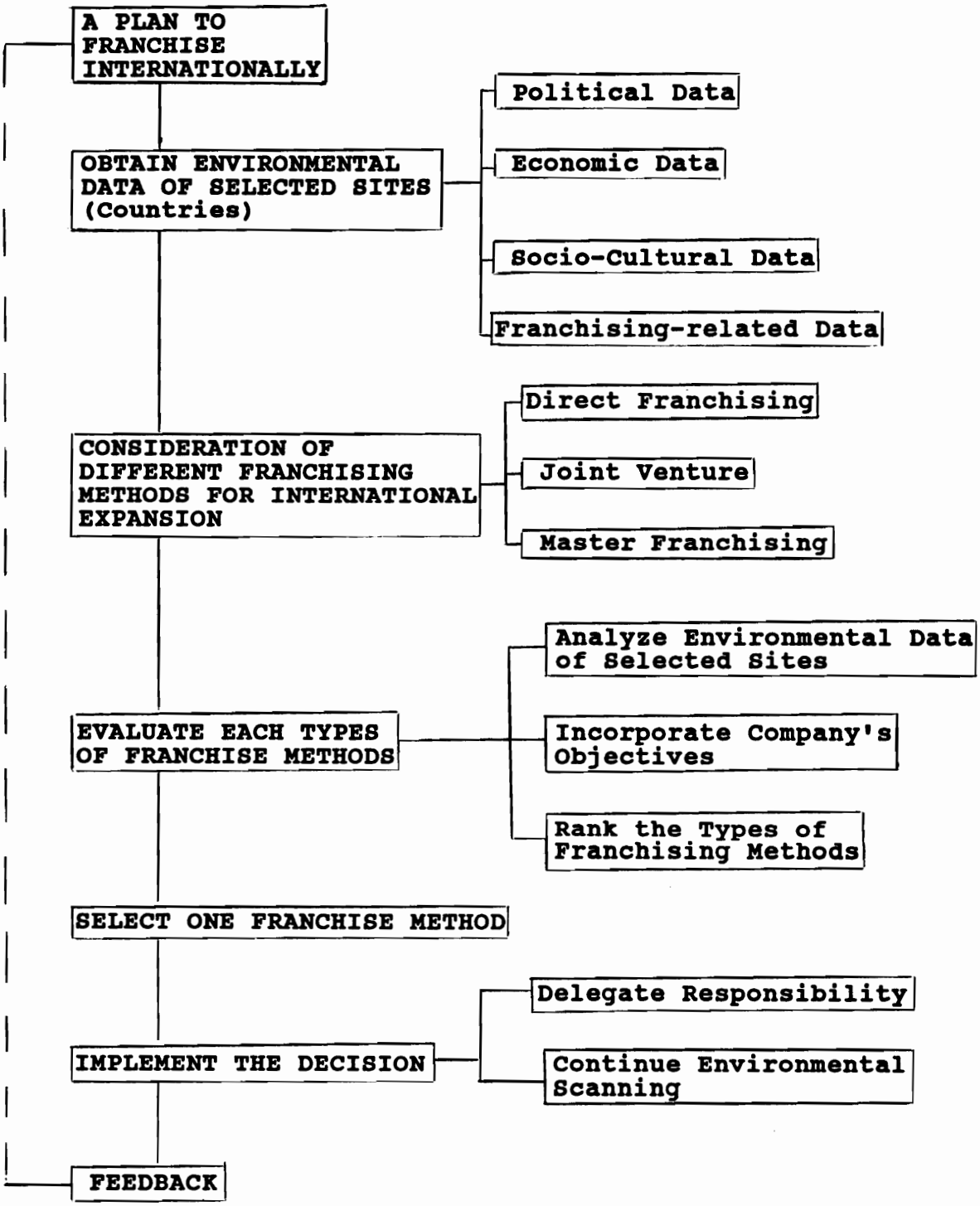

FIGURE 7. Generic Model of the Decision Process To Select A Franchise Method For International Expansion

The important factors, such as the availability of human resources, the training of franchisees, the stability of the country, the level of economic activity, the financial resources available to the franchisor, and cultural differences, are to be taken into account.

The next step is the selection of the most appropriate franchise method that best suits the company's needs with regard to a particular country. Implementation is the last step of the decision process. Continuation of environmental scanning and delegation of responsibility are included in this final step. This model can be very useful in guiding and facilitating planning and decision making in the selection of methods for international franchising.

Data Collection

The Delphi Technique

The Delphi technique was used to gather information for this study. The sample was U.S. restaurant companies that expanded their properties in at least one of the four countries through franchising. Restaurant companies that were in the process of planning to expand internationally were not included in this study because the identified factors, the rating of the influencing factors, and the rating on the

confidence level would be different between the restaurant companies that already had experience of franchising aboard and those companies that just started to plan to expand internationally.

The Delphi Technique was used since the study required a consensus of experts in the field. Further justification for using the Delphi technique is outlined in the following sections.

The Delphi technique is one of the most well established means of collecting expert opinion and of gaining consensus among experts on various factors under consideration (Linstone and Turoff, 1975; Green et al., 1990; Tersine & Riggs, 1976). It is a method for obtaining information and opinion feedback from any number of persons through sequential interrogations (Helmer and Rescher, 1960). The lack of face-to-face exposure permits anonymity of the participants (Tersine and Riggs, 1976).

According to Linstone and Turoff (1975), the Delphi technique has been found to be of significant value in designing the structure for a model and compiling current and historical data not accurately recorded otherwise. By using Delphi data, the researcher can make more rational judgments of a given situation or set of circumstances. "Delphi is the method for obtaining group judgments on factual matters, for which precise information is a matter of opinion" (Skutsch and

Hall, 1973, p.2). Cyphert and Gant (1970) found that this technique can also be utilized in the molding of opinion.

Application of the Delphi Technique

The Delphi technique has been applied to a variety of problems. The most prominent use has been for forecasting (Fusfeld and Foster 1971; Uysal and Crompton 1985; Green et al., 1990; McCleary and Whitney, 1994). At present, a variety of other application areas has been developed, such as developing causal relationships in complex economic or social phenomena, delineating the pros and cons associated with potential policy options, and evaluating possible budget allocations (Linstone and Turoff, 1975).

Green et al., (1990) used the Delphi technique to assess the environmental impact of tourism development. More recently, McCleary and Whitney (1992) conducted research using the Delphi technique to project western consumer attitudes toward travel in six Eastern European countries.

The Delphi technique is particularly appropriate when the following conditions apply:

(1) The problem does not lend itself to precise analytical techniques, but can benefit from subjective judgments on a collective basis.

(2) Time and cost make frequent group meetings infeasible.

(3) The individuals needed to contribute to the examination of a complex problem may represent diverse backgrounds with respect to experience or expertise (Linstone and Turoff, 1975).

Advantages and Disadvantages

Delphi advantages include: (1) elimination of bias by keeping the identities of the participants unknown; and (2) elimination of geographic limitations because participants do not need to meet at a common location (Tersine and Riggs, 1976). The expert opinion expressed comes from each panel, not from a group of panels, where peer pressure and the desire to conform may alter greatly any predictions given (Linstone and Turoff, 1975). Other advantages of this technique include a highly motivating environment for respondents, obtaining interesting feedback, and allowing one to share the responsibility posed by the task while not being restrained because of group pressures due to the anonymity among the respondents (Dalkey, 1969).

Weatherman and Swenson (1974) listed the following advantages of the Delphi technique:

1. It provides a means of obtaining information from a large number of persons, without restrictions imposed by geography.
2. It is easy to administer and relatively low in cost.
3. It provides a means of obtaining information about particular complex phenomena, which are often

difficult to conceptualize.

4. It permits a high degree of control by the survey manager.

However, the researcher should be aware of some of the disadvantages of this technique. Some of the major disadvantages are difficulties in mail communication, possible distortions due to the selection of participants, and lack of assurance that a particular criterion of consensus will be reached (Berstein, 1969).

Other limitations to the Delphi technique deserve discussion. First, the length of time required for the completion of the three rounds might decrease the motivation of the participants (Tersine and Riggs, 1976). Second, the results depend on the expertise of the panel members. Third, Helmer (1967) noted that it is generally difficult to find experts who will participate in Delphi studies. Fourth, high attrition occurs at the preliminary stage (Wheeller et al., 1990).

General Procedure

The steps of the Delphi technique can vary based on the intended application. Figure 8 represents a basic diagram of the complete Delphi process. The first task is to define the area of study, then to identify a likely sequence of events, and finally to research the information which has been developed in the area of study.

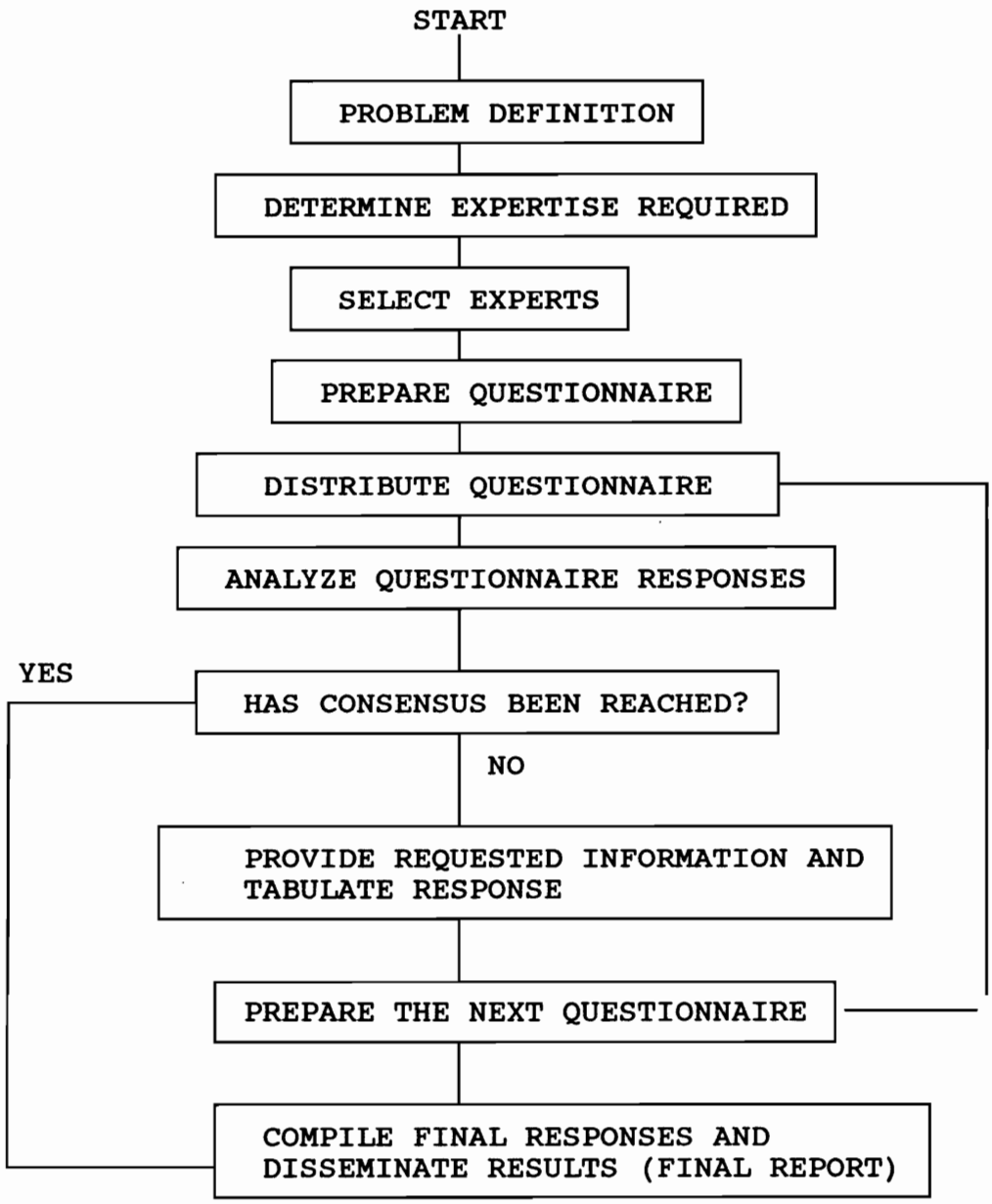

FIGURE 8

The Delphi Technique

SOURCE: Tersine and Riggs (1976)

Selecting experts is the second step. Respondent selection is very important to the value of the process and its results. According to Tersine and Riggs (1976) and Farmer and Richman (1965), there are five basic criteria in selecting participants:

1. basic knowledge of the problem area and ability to apply knowledge
2. good performance record in their area of focus
3. high degree of objectivity and rationality
4. time available to participate throughout process
5. willing to give the time necessary to do a thorough job

The third step is determining the sample size. Although there are no specific guidelines for determining the optimal number of participants, a panel of 10 to 15 members has sufficed for producing effective results (Tersine and Riggs, 1976; Brady, 1988). Green (1991) successfully conducted research on the selection of cook-chill production in hospital foodservices using the Delphi technique having only 11 respondents after the completion of the three rounds. Even though there are no specific guidelines for determining the optimum number of panel members to use, the process should start with more panel members to compensate for these panel members who drop out between rounds.

The fourth step is contacting the respondents. The panel

members should be informed about the purpose of the study, their role in reaching the results, and the importance of their effort to successful results. Helmer (1967) suggested that, in selecting experts to participate in Delphi studies, one should select the experts wisely. Since this study is based on the opinions of professionals in the area of international franchising, the appropriate panelists for this study are those who work in international franchising development. The chosen restaurants are those that expanded their companies in Asia through franchising.

Representatives from the restaurants were selected from The Source Book of Franchise Opportunities (1993), and The Franchise Opportunities Guide (1993). The selected U.S. restaurants are those that have at least one unit in Singapore, Thailand, Korea, and/or Malaysia. The total sample size was 31. Letters of invitation and Round I questionnaires were sent to all 31 restaurant companies to allow for attrition during the early rounds. One week after Round I questionnaires were sent, post cards were mailed to panelists to encourage return of the Round I questionnaire.

Regarding the development of the questionnaire, Green et al., (1990) demonstrated that a three-stage process is sufficient to gain a high degree of group consensus. The questionnaire for this research was completed after a three-stage process.

Stage 1 was the Round I questionnaire which asked the panel members to identify important factors relating to a situation under consideration. Stage 2 was the Round II questionnaire which asks the panel members to rate the importance of each factor identified in the first stage. Stage 3 was the Round III questionnaire which asked the panel members to re-evaluate the importance of each factor in light of the overall panel response to the second round.

Questionnaire Construction and Data Collection Process

The questionnaires in Round I of this study consisted of open-ended questions. The panelists were asked to identify environmental factors, situations for considering the three methods of franchising, and the most popular methods of franchising in Singapore, Korea, Thailand, and Malaysia (Appendix A). The panelists were free to list factors that were considered important to international franchising.

In addition, the panel members were asked to choose one of the three franchising methods (direct franchising, joint ventures, and master franchising) for Singapore, Thailand, Korea, and Malaysia as well as to specify the reasons for selecting the particular method. There was a total of three rounds of questionnaire in this process. Enclosed with the questionnaire was a $10 bill which served as a token of

appreciation for their cooperation.

In Round II, the panel members rated factors based on the data collected from Round I (Appendix B). Factors identified from Round I were listed with a five point Likert-type rating scale based on the factor's level of influence on the expansion of restaurants (Kim, 1992). Panel members rated factors using a scale from 1 through 5; 1 meaning not influential at all and 5 meaning extremely influential.

Also, the panel members were asked to indicate their degree of confidence in each of their responses in this round using the scale from 1 through 5: 1 meaning not confident at all and 5 meaning extremely confident. Measuring the degree of confidence in the Delphi technique was evident in research done by McCleary and Whitney (1992).

Also in this round, the decision process to select a franchise method for international franchising was presented to the panel members. Each panel member was asked whether they agreed with the process. If they did not agree with the steps of the process, they were asked to change the steps of the process as well as to add information that should be included in the decision process. At this time $20 was enclosed with the questionnaire to thank the experts for their time and cooperation.

In Round III, the questionnaire was concerned with a reexamination of the importance of each factor in light of the overall panel response to Round II (Appendix C). The questionnaire from Round III was the same as the first except that it included the mean overall influential associated with each factor. The panel members were asked if they would like to modify their initial response in the light of this information and, therefore, move the panel towards a consensus of opinion.

Also included in the Round III questionnaire was a record of the individual panel members initial response to Round II. The purpose of this information feedback was to encourage opinion convergence (Green et al., 1990; Delbecq et al., 1975). Enclosed with each questionnaire was $30 which served as a token of appreciation for their cooperation.

In each round, the material enclosed consisted of a cover letter, a brief overview of the study, an instruction sheet, the questionnaire, and a self-addressed stamped return envelope. A drawing of $150 was established after each round was completed to encourage participants to send their questionnaires back.

Data Analysis Procedure

All of the items identified by the panel members in the first round were included in the Round II questionnaire. Round II aimed to have the panel members rate the importance of each item identified in the first round. All factor scores were then summed up and averaged.

The use of a measure of dispersion such as the standard deviation in the Delphi method, was based on the research done by Kaynak and Maculay (1984), and Green et al., (1990). The rank of the first 10 impacts, based on the mean, from the most important impact factor (the largest point) to the least important impact factor (the smallest point) were presented in Round II and Round III (Green et al., 1990). Also, standard deviation and coefficient of variation about the mean of each impact were calculated for Round II and Round III (Green et al., 1990). The coefficient of variation is the standard deviation expressed as a percentage of the mean. To compare two different standard deviations, researchers computed the coefficient of variation and then discussed the difference between them (Ott et al., 1992).

According to Green et al., (1990), a reduction in standard deviation and the coefficient of variation over the two Delphi rounds represents an increasing consensus among panel members. Green et al., (1990) discontinued the Delphi

survey when the coefficient of variation fell below 50 percent for most of the top 10 impacts for round III.

For this study, a coefficient of variation that is over 40 percent would have implied that there is a disagreement between panel members. This number was arbitrarily selected instead of 50 percent because all of the factors, except one, had a coefficient of variation of less than 50 percent. In Round II, the degree of confidence from the panelists about their responses in Round II was added up and averaged out. Panel members were also asked to evaluate the process of the decision to select a franchise method for international expansion. If they disagreed with the original steps, they were asked to rearrange the steps of the process.

In Round III, the panel members re-evaluated their responses after they reviewed the group average. The panel members were asked if they would like to modify their initial responses. Also included in the Round III questionnaire was a record of the individual panel member's initial response to Round II. The purpose of information feedback was to encourage a consensus of opinion. The results of this round were utilized to establish the important criteria regarding international franchising for restaurants. The 10 most significant impacts identified by Round III of the Delphi study was included in the final framework.

Summary

The objective of this study was to gather input and feedback from experts on a proposed generic model of the decision process to select a method for international franchising. This study sought cooperation from U.S. restaurants that franchised in selected countries in Asia. This study attempted to identify the environmental factors and the most appropriate methods of franchising in the prospective countries that experts used, by employing the Delphi technique employing three rounds of survey efforts.

The upper three levels of a five-point scale of influence (5-3) was considered as the crucial criteria regarding international expansion by franchising.

The findings should provide insights for any U.S. restaurants that did not have international franchising experience in the prospective countries. The model is useful in guiding and facilitating planning and decision making in the selection of franchising methods for international franchising development.

CHAPTER 4

DATA ANALYSIS AND DISCUSSION

Environmental factors, franchising related factors, and situations in which direct franchising, joint venture agreements, and master franchising agreements were chosen, were identified using the Delphi technique. Reasons for selecting one of the three franchising methods for Singapore, Korea, Thailand, and Malaysia were identified.

This chapter reports the results of feedback obtained through survey questionnaire regarding the decision process using a proposed generic model. Participation of panel members is summarized and the results of each of the three Delphi rounds are presented. The top ten factors which resulted from Round II and Round III of the survey are presented and discussed.

Participation of Panel Members

At first, the objective of this study was aimed at identifying environmental factors, franchising-related factors, and choice of entry modes of multinational hotel firms. The survey questionnaire was sent to 25 U.S. hotel

companies that have at least one of their properties in Singapore, Korea, Thailand, and Malaysia. However, only one hotel company returned the questionnaire after the follow up of post cards and fax messages. Due to lack of cooperation from the hotel companies, this study changed from surveying hotel companies to restaurant companies.

A panel of 31 experts were invited to participate in this study. These are U.S. restaurants that franchised in at least one of the following countries: Singapore, Korea, Thailand, and Malaysia. The list of the U.S. restaurants was obtained from The Source Book of Franchise Opportunities (1993), and The Franchise Opportunities Guide (1993). An invitation letter, a $10 bill, and the first round questionnaire were mailed to all prospective panel members. Also, the researcher offered a chance to win $150 after each round was completed.

Out of 31 panel members, 17 panel members, which accounted for (54.8%), completed and returned the first round questionnaire. The duration of Round I was fifteen days. Post cards were sent one week after the survey was sent and fax messages were sent the week that the questionnaire was due. Post cards and fax messages were sent to the panel members as a reminder and an encouragement for them to respond to the survey.

Some of the respondents gave reasons for not responding the Round I survey. Three declined to respond to the questionnaire because they would be busy travelling. One called the researcher and declined to respond because the survey would be too time consuming and he would not have time to participate. Another restaurant professional wrote to the researcher that time did not permit the company to handle the survey. One of the restaurant professionals declined to answer the survey due to the large volume of surveys they receive.

Some of the companies which responded negatively, mailed back the unanswered questionnaire along with the money. For two of the U.S. restaurant franchises, the researcher had to fax the survey to England and Singapore where their offices are located.

The positions held by the 17 participants are: the CEO of the Dinnerhouse Division (1), Vice President (4), Vice President International Division (1), Vice President Franchise Development (6), Senior Vice President International Development (1), Director of Finance and Development in Asia (1), Director of Marketing (1), International Consultant (1), International Coordinator (1). According to their position, they all had strong expertise and background in restaurant franchising. The length of their experience in the position ranged from one to twenty years, with an average of seven

years. The researcher also mailed a check worth $150 to the panel member who won the drawing for Round I.

The selected seventeen U.S. restaurant franchises expanded their units extensively in the four selected countries. They had 167 units in Korea, 78 units in Singapore, 50 units in Thailand, and 32 units in Malaysia. Other countries that they expanded to in Asia are Japan (1,492 units), Philippines (140 units), Taiwan (51 units), Hong Kong (38 units), Indonesia (35 units), and China (6 units).

In Round II, a total of sixteen questionnaires were returned, making the response rate of 94.1% for the first round. The duration of Round II was fifteen days. Again, post cards were sent one week after the survey was sent and fax messages were sent the week that survey was due. In that round, a questionnaire for Round II was sent along with a $20 bill.

Again, the money was sent to the panel members as a token of appreciation for their time and cooperation. The only panel member who could not participate in this round gave the reason that he had to leave on an extensive Asian trip. At the end of this round, the researcher sent a $150 check to the panelist who won the drawing.

In Round III, a total of sixteen questionnaires were returned and the response rate was 100%. In this round, the questionnaire was sent along with $30 and a chance to win $150

after this round was completed. Again, the researcher sent a check to the restaurant that won the drawing.

Analysis of Data from Round I

Round I listed four different headings of factors: political, economic, socio-cultural, and franchising-related (Table 4). A few examples of factors to be listed were presented in each category to help the panel member answer the questionnaire. The examples of the factors came from the research (comparison of international versus domestic expansion by U.S. franchise systems) done by Walker (1989). The panel member listed factors that affect the international franchising decision to franchise in Singapore, Korea, Thailand, and Malaysia under each category. In this round, the panel members also listed situations under which direct franchising methods, joint venture agreements, and master franchising agreements are considered. The panel members also determined reasons for choosing franchising methods for the four selected countries.

Table 4

Round I: Identification of Environmental Factors and Franchising Related Factors

FACTORS	EXAMPLES OF FACTORS
1. Political	1. Limits on convertibility of local currency into foreign currency 2. Restrictions on repatriation of capital, and profit 3. Continued political uncertainty and instability
2. Economic	1. High level of economic growth 2. Substantial disposable income 3. Coping with foreign-currency uncertainties
3. Socio-cultural	1. Widespread use of English language 2. Relatively short work weeks 3. Overcoming language/cultural barriers
4. Franchising-related	1. Ability to support franchisees 2. Ability to control franchisees 3. Recruit enough qualified franchisees

According to the Round I questionnaire, panel members suggested a total of 61 factors (Table 5). Thirteen of the factors were political factors (21.3%), 20 economic factors (32.8%), 11 socio-cultural factors (18.0%), and 17 factors were franchising-related factors (27.9%). Complete listing of the four factors are presented in Table 6, 7, 8, and 9. The panel members suggested 18 situations for the consideration of the three different methods of franchising: 6 situations for the consideration of master franchise agreements, 8 situations for the consideration of direct franchising, and 4 situations for the consideration of joint venture agreements.

According to the analysis of Round I, only four of the panel members emphasized a certain country when a certain issue was applied only to that country. The factors and the emphasized countries listed by four panel members were not mutually exclusive. For example, one of the experts remarked that political instability applied only to Thailand. Yet, another expert remarked that lack of stability is the issue that should be considered for the four countries. However, most of the panel members listed the factors without emphasizing a certain country. It could be implied that most of the panel members believed that the listed items of each factor could be applied to the four countries.

Table 5

Number of Factors Suggested Under Each Category

(Round I)

CATEGORY	NUMBER OF SUGGESTED FACTORS	PERCENT (%)
Political Factors	13	21.3
Economic Factors	20	32.8
Socio-cultural Factors	11	18.0
Franchising-related Factors	17	27.9
TOTAL	61	100.0

Table 6

Political Factors Listed By The Panel Members (Round I)

1. Registration and enforcement of trade and service marks
2. Tax aspects of foreign franchising pertaining to royalties
3. Governmental legislation particularly focused on franchising
4. Limitation on foreign exchange convertibility
5. Controls on the importation of goods and supplies
6. The attitude of government to the entry of foreign franchising
7. Risk of government taking part of business
8. Government instability and uncertainty
9. Restriction on import tariffs
10. Restricting fair trade and competition with indigenous companies
11. Lack of active organized labor unions in the foodservice industry
12 Lack of onerous government social programs
13. Ability to own land as a foreign entity

Table 7

Economic Factors Listed By The Panel Members (Round I)

1. Prospects for success of franchisee
2. Real estate costs and availability
3. Ability to find local sources of supply
4. Cost and availability of raw materials
5. Rapidly growing middle class
6. High level of economic stability and growth
7. Wage level
8. Increasing levels of disposable personal income
9. Dollars spent on luxury items (i.e. dining out, fast food) vs. dollars spent on necessities.
10. A plentiful work force of young, educated people
11. Construction costs
12. Increase in number of tourists
13. Business climate affecting franchising
14. Coping with foreign-currency uncertainties
15. Sophistication in management systems and business structures
16. Inflation and interest rates under control relative to the rest of the world
17. Rapidly growing GNP which is driven primarily by exports

(table continued)

Table 7 (Cont.)

Economic Factors Listed By The Panel Members (Round I)

18. High level of taxes
19. A strong natural resource base that would enable the country to continue to generate wealth
20. International debt

Table 8

Socio-cultural Factors
Listed By The Panel Members (Round I)

1. Dietary Restrictions (do not consume beef, pork,...,etc.)
2. Availability of oriental labor
3. Growing, young population
4. A country with a strong work ethic and traditional family values
5. Overcome Cultural/language barrier
6. Cultural acceptance of a dining establishment as a place to socialize with friends and family
7. High literacy rates
8. Familiarity with the English language and American idioms
9. High educational levels
10. Increasing number of working women
11. Trend towards shortening of the work week and national development of more leisure time

Table 9

Franchising Related Factors Listed By The Panel Members (Round I)

1. Capability of potential franchisee (expertise and financial)
2. Acceptance of the restaurant concept/product by legal population
3. Ease of royalty repatriation
4. Ability to support franchisees
5. Ownership of proprietary information and technical knowhow
6. Availability of qualified franchisees
7. Training franchisees
8. Availability of supplies and specified products that meets the restaurant's standard at reasonable prices
9. Potential size of market
10. Ability to control franchisees through the legal system
11. Financial incentive (size of upfront territorial fees payable by franchisees)
12. The success of other franchised American business in a specific country
13. Interface between franchisors and franchisees
14. Reports on the operations (i.e. sales reports)
15. Suitable location for the restaurant concept (i.e. shopping malls)
16. Product testing needed to adapt menu items to local tastes
17. An entrepreneurial spirit within the country which encourages people to become franchisees

Realizing that most of the panel members did not emphasize a certain country with a specific issue, a decision was made to examine the four selected countries as a whole in other rounds of the questionnaires. Thus, in Round II and Round III, all of the factors were rated based on the importance of each issue as if that particular issue would effect Singapore, Korea, Thailand, and Malaysia as a whole.

In part B of the survey for Round I (Appendix A), the panel members also suggested franchising methods that they employed when they franchised their restaurant concept in Singapore, Korea, Thailand, and Malaysia. The panel members were asked to specify the reasons for selecting the particular franchising method. Table 10 presents the number of each franchising method selected by the panel members. Table 11 presents the percentage of the franchising methods chosen by the panel members. According to Table 11, for Singapore, 52.9 percent of the panel members selected master franchising agreements, 29.4 percent selected joint venture agreements, and 17.7 percent selected the direct franchising method. For Korea, 52.9 percent of the panel members selected master franchising agreements, 35.3 percent selected direct franchising, and 11.8 percent selected joint venture agreements. For Thailand, 52.9 percent of the panel members selected master franchising agreements, and 47.0 percent selected direct franchising. For Malaysia, 50 percent of the

Table 10

Number of Panelists Suggesting Franchising Methods For Singapore, Korea, Thailand, and Malaysia

	DIRECT FRANCHISING	MASTER FRANCHISING	JOINT VENTURE	TOTAL
SINGAPORE	3	9	5	17
KOREA	6	9	2	17
THAILAND	8	9	-	17
MALAYSIA	6	8	2	16

TABLE 11

Percentage of Panelists Suggesting Franchising Method for the Four Countries

	DIRECT FRANCHISING	MASTER FRANCHISING	JOINT VENTURE	TOTAL
SINGAPORE	17.7 %	52.9 %	29.4 %	100 %
KOREA	35.3 %	52.9 %	11.8 %	100 %
THAILAND	47.1 %	52.9 %	-	100 %
MALAYSIA	37.5 %	50.0 %	12.5 %	100 %

panel members selected master franchising agreements, 37.5 percent selected direct franchising, and 12.5 percent selected joint venture agreements.

The reasons for choosing each franchising method are presented in Table 12 for Singapore, Table 13 for Korea, Table 14 for Thailand, and Table 15 for Malaysia. However, not all of the panel members provided reasons for choosing a specific franchising method. One of the panel members did not select the franchising method for Malaysia. It is very interesting to find that if the panel members selected the same method for all of the four countries, they provided the same reasons for those four countries.

One of the companies did not choose joint venture because the company prefers to channel its financial resource towards further expansion in the U.S. As a result, any joint venture opportunity requiring a capital contribution is not pursued. The reasons that one of the panel members provided for not choosing direct franchising and joint venture are: 1) the concept of direct franchising requires a network and understanding of business in that specific country; 2) joint venturing would be limited to opportunities in which the company can directly operate the unit with a partner that has real estate interests.

Table 12

Reasons for Selecting the Franchising Method for Singapore

SINGAPORE

	REASONS FOR SELECTING THIS METHOD
DIRECT FRANCHISING	1. Since there are no requirements in Singapore for a franchisor to establish a branch or subsidiary, direct franchising would be the primary business arrangement for the company. 2. Singapore is relatively small, therefore, master franchising is inappropriate for the concept of the company. 3. To control brand penetration, brand image, and product quality by location. 4. Serviceability
MASTER FRANCHISING	1. International expansion to this country needs a local business person who is strongly familiar with the local business, climate, social structures, political environment, and local market trends to be successful. 2. The company has corporately made the decision to proceed internationally to Asia through master franchising only. 3. The company does not have the resources or knowledge to expand in any other way. 4. This method is easier to support. 5. More prompt development. 6. Local operator would be the best user of the brand name. 7. Easier to control than individual or joint venture. 8. Let the company enter the country without making a capital commitment. 9. Allow the local business person to run business without the imposition of American morality or business practices.

(table continued)

Table 12 (Cont.)

SINGAPORE

	REASONS FOR SELECTING THIS METHOD
MASTER FRANCHISING (CONT.)	10. It eliminates the need to become involved in local political issues, local taxes and eliminates any "We/They" problems that could conceivably result from direct franchising or joint venture. 11. Ability to expand to several countries at once. 12. Build an ongoing annuity with limited risk of the company's own capital. 13. As each one of the master franchises is successful, it increases the master franchising fee that the company can get from other franchise opportunities. 14. The company program works best with a master franchise license agreement with a larger, diversified, well capitalized company. 15. The company's training takes longer, and an underlying infrastructure is needed to support the operation. Granting a master franchise allow the company to work with the master franchisee to construct all or most of the infrastructure only once.
JOINT VENTURES	1. The company already has a substantial presence in Singapore with a joint venture partner. 2. Attract market, already proven through franchise development. 3. Found it to be the most lucrative option. 4. English language. 5. Open market.

Table 13

Reasons for Selecting the Franchising Method for Korea

KOREA

	REASONS FOR SELECTING THIS METHOD
DIRECT FRANCHISING	1. Direct franchising affords the company the greater control over its franchisee. Enforcement and compliance with company standard is paramount to the company. 2. To control the brand penetration and brand image, and product quality by location. 3. Serviceability 4. Government restrictions 5. Investment risk
MASTER FRANCHISING	1. The company has corporately made the decision to proceed internationally to Asia through master franchising only. 2. The company does not have the resources or knowledge to expand in any other way. 3. This method is easier to support. 4. More prompt development. 5. Easier to control than individual or joint venture. 6. Local operator would be the best user of the brand name. 7. Let the company enter the country without making a capital commitment. 8. Allow the local businessmen to run business without the imposition of American morality or business practices.

(table continued)

Table 13 (Cont.)

KOREA

	REASONS FOR SELECTING THIS METHOD
MASTER FRANCHISING	9. The company's training takes longer, and an underlying infrastructure is needed to support the operation. Granting a master franchise allows the company to work with the master franchisee to construct all or most of the infrastructure only once.
JOINT VENTURES	1. Government restrictions on foreign ownership. 2. The company successfully has a joint venture partner in South Korea.

Table 14

Reasons for Selecting the Franchising Method for Thailand

THAILAND

	REASONS FOR SELECTING THIS METHODS
DIRECT FRANCHISING	1. The company has franchisees in Thailand and support personnel to assist new operators. 2. To control the brand penetration, brand image, and product quality by location. 3. Serviceability. 4. Language and cultural differences.
MASTER FRANCHISING	1. The company has existing franchise agreement with a large Thai hotel chain. The company consented to allow the franchisee to sublicense and establish restaurants only in facilities owned or exclusively managed by them. 2. The company has corporately made the decision to proceed internationally to Asia through master franchising only. 3. The company does not have the resources or knowledge to expand in any other way. 4. This method is easier to support. 5. More prompt development. 6. Easier to control than individual or joint venture. 7. It eliminates the need to become involved in local political issues local taxes and eliminates any "We/They" problems that could conceivably result from direct franchising or joint venture.

(table continued)

Table 14 (Cont.)

THAILAND

	REASONS FOR SELECTING THIS METHOD
MASTER FRANCHISING	8. Ability to expand to several countries at once. 9. Build an ongoing annuity with limited risk of the company's own capital. 10. As each one of the master franchises is successful, it increases the master franchising fee that the company can get from other franchise opportunities. 11. The company program works best with a master franchise license agreement with a larger, diversified, well capitalized company. 12. The company's training takes longer, and an underlying infrastructure is needed to support the operation. Granting a master franchise allow the company to work with the master franchisee to construct all or most of the infrastructure only once.

Table 15

Reasons for Selecting the Franchising Method for Malaysia

MALAYSIA

	REASONS FOR SELECTING THIS METHOD
DIRECT FRANCHISING	1. To establish a presence in this new market. The company must be actively involved with building the infrastructure to support the franchise and the control to maintain standards. 2. Direct franchising affords the company the greatest control over its franchisees. Enforcement and compliance with company standards is paramount to the company. 3. To control the brand penetration and brand image by location. 4. Serviceability.
MASTER FRANCHISING	1. The company has corporately made the decision to proceed internationally to Asia through master franchising only. 2. The company does not have the resources or knowledge to expand in any other way. 3. This method is easier to support. 4. More prompt development. 5. Easier to control than individual or joint venture. 6. It eliminated the need to become involved in local political issues, local taxes, and eliminates any "We/They" problems that could conceivably result from direct franchising or joint venture.

(table continued)

Table 15 (Cont.)

MALAYSIA

	REASONS FOR SELECTING THIS METHOD
MASTER FRANCHISING	7. As each one of the master franchises is successful, it increases the master franchising fee that the company can get from other franchise opportunities. 8. The company program works best with a master franchise license agreement with a larger, diversified, well capitalized company. 9. The company's training takes longer, and an underlying infrastructure is needed to support the operation. Granting a master franchise allows the company to work with the master franchisee to construct all or most of the infrastructure only once.
JOINT VENTURES	1. Attract market, already proven through franchise development.

Analysis of Data From Round II

The objective of Round II was to rate the degree of influence of factors generated from Round I (Appendix B). Also, the panel members were asked to rate their confidence level toward each factor along with the degree of influence of that particular factor. The rating scale for the influence of each factor was set from 1, signifying marginally influential, to 5, signifying extremely influential. Similarly, the rating scale for the confidence level was set from 1, signifying marginally confident, to 5, signifying extremely confident. Data for each of the environmental factors were analyzed as follows.

According to Green et al. (1990), consensus between panel members could be reached if the coefficient of variation is below 50 percent as discussed in Chapter 3 under data analysis procedure. For this study, since most of the factors received a coefficient of variation below 50 percent, the researcher arbitrarily selected the factors that had a coefficient of variation below 40 percent to be considered as having a high degree of agreement among panel members.

Political Factors

The panel members suggested a total of 13 factors under this category. Table 16 presents the ranking of political factors from the highest means to the lowest means. This table also shows the confidence level, standard deviation, and coefficient of variance about the mean of each factor. Interestingly, only one of the factor, "ability to own land as a foreign entity", received a mean of 1.94, the rest of the factors received an above average rating which was higher than 3.0.

The item that received the highest mean (4.56) for political factor was "the registration and enforcement of trade and service marks," followed by "tax aspects of foreign franchising pertaining to royalties" for which the mean is 4.31. Surprisingly, government instability and uncertainty was not considered to be the most important impact factor for international franchising (ranked sixth). This result was different from Kobrin et al., (1980) in which political stability was considered as the most important aspect of the overseas environment in their studies.

The coefficient of variation ranged from 11.23 percent to 63.82 percent. This could be interpreted as some of the factors did not receive a consensus in the answer. The issues

Table 16

Political Factors in Rank Order of Importance (Round II)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%	CON-FIDENCE LEVEL
1	Registration and enforcement of trade and service marks	4.56	5.0	0.51	11.23	4.25
2	Tax aspects of foreign franchising pertaining to royalties	4.31	4.0	0.70	16.33	4.13
3	Governmental legislation particularly focused on franchising	4.25	4.0	0.58	13.59	4.00
3	Limitation on foreign exchange convertibility	4.25	4.5	0.93	21.90	3.88
4	Controls on the importation of goods and supplies	4.06	4.0	0.77	19.00	3.88
5	The attitude of government to the entry of foreign franchising	3.88	4.0	0.78	18.55	3.63
6	Risk of government taking part of business	3.69	4.0	0.95	25.67	3.56
6	Government instability and uncertainty	3.69	4.0	1.35	36.68	3.88
7	Restriction on import tariffs	3.56	3.0	0.73	20.42	3.38
8	Restricting fair trade and competition with indigenous companies	3.44	3.5	1.03	29.99	3.50
9	Lack of active organized labor unions in the foodservice industry	3.31	3.0	1.35	40.83	3.63
10	Lack of onerous government social programs	3.00	3.0	1.37	45.54	3.69
11	Ability to own land as a foreign entity	1.94	1.0	1.24	63.82	3.81

that obtained a high coefficient of variation (high degree of disagreement between panel members) were the factors "ability to own land as a foreign entity" (CV 63.82%), "lack of active organized labor unions in the foodservice industry" (CV 40.83%), and "lack of onerous government social programs" (CV 45.54%). The degree of confidence range from 3.38 to 4.25. This means that the panel members were quite confident in their answers. The issue that received the lowest confidence level (3.38) was "restriction on import tariffs" which could be due to panel members unfamiliarity with the import taxes of these countries.

Economic Factors

The panel suggested a total of 20 factors under this category (table 17). The factors are listed in rank order of importance (as indicated by mean) in table 13. Prospects for the success of the franchisee, and real estate costs and availability were identified as being important impacts (ranked #1, and #2). There was some degree of disagreement among panel members on some of the issues: 1) a strong natural resource base that would enable the country to continue to generate wealth (CV 42.10%), 2) high level of taxes (CV 43.52%), and 3) international debt (CV 47.93%).

Table 17

Economic Factors in Rank Order of Importance (Round II)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%	CON-FIDENCE LEVEL
1	Prospects for success of franchisee	4.56	5.0	0.73	15.94	4.25
2	Real estate costs and availability	4.44	5.0	0.81	18.34	4.13
3	Ability to find local sources of supply	4.06	4.0	0.93	22.86	3.88
4	Cost and availability of raw materials	3.94	4.0	0.85	21.69	4.00
5	Rapidly growing middle class	3.88	4.0	0.89	22.84	3.81
6	High level of economic stability and growth	3.81	4.0	0.91	23.88	3.69
7	Wage level	3.69	3.5	0.79	21.51	4.13
7	Increasing levels of disposable personal income	3.69	4.0	0.79	21.51	3.94
7	Dollars spent on luxury items (i.e., dining out, fast food) vs. dollars spent on necessities.	3.69	4.0	0.87	23.69	3.63
8	A plentiful work force of young, educated people	3.63	3.5	0.89	24.42	3.94
8	Construction costs	3.63	4.0	0.89	24.42	3.88
8	Increasing in number of tourists	3.63	4.0	1.15	31.66	3.56
9	Business climate affecting franchising	3.56	3.5	0.63	17.67	3.94
10	Coping with foreign-currency uncertainties	3.50	4.0	0.97	27.60	3.56
11	Sophistication in management systems and business structures	3.44	3.5	0.96	28.04	3.25
12	Inflation and interest rates under control relative to the rest of the world	3.38	3.0	1.02	30.36	3.69
13	Rapidly growing GNP which is driven primarily by exports	3.19	3.0	1.17	36.62	3.75

(table continued)

Table 17 (Cont.)

Economic Factors in Rank Order of Importance (Round II)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%	CON-FIDENCE LEVEL
14	High level of taxes	3.13	3.0	1.36	43.52	3.13
15	A strong natural resource base that would enable the country to continue to generate wealth	3.06	3.0	1.29	42.10	3.25
16	International debt	1.94	2.0	0.93	47.93	3.19

The three factors that were considered very influential factors, which had means above 4.00, were "prospects for success of franchisee" (4.56), "real estate costs and availability" (4.44), and "ability to find local sources of supply" (4.06). The mean for this category ranged from 1.94 to 4.56. The lowest mean and the highest mean were "international debt" and "prospects for the success of the franchisee," respectively.

The issue that received the lowest confidence level (3.13) for this category was "high level of taxes," followed by "international debt" for which confidence level was 3.19. However, the average confidence level for this category was above 3.00 which means that the panel members were quite confident on economic factors.

Socio-cultural Factors

Under this section, the panel members suggested 11 factors (Table 18). The highest mean for this section was low (4.38) compared to the highest means for political factors and economic factors which was 4.56. The factors that were identified as being important were "dietary restrictions" (ranked first), "availability of oriental labor" (ranked second), and "growing young population" (ranked third). The factors that received the low mean were "trend towards shortening of the work week and national development of more leisure time" (mean 2.63), "increasing number of working women" (mean 3.06), "familiarity with the English language and American idioms" (mean 3.19), and "high educational levels" (mean 3.19).

Only two of the factors had a high coefficient of variation (high degree of disagreement between panel members). The two factors were "trend towards shortening of the work week and national development of more leisure time" (CV 47.94%), and "familiarity with the English language and American idioms" (CV 41.65%). It was very interesting that none of the factors received a confidence level over 4.0. This means that panel members' degree of confidence was lower with socio-cultural factors when comparing their confidence level with some of the economic and political factors.

Table 18

Socio-cultural Factors in Rank Order of Importance (Round II)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%	CON-FIDENCE LEVEL
1	Dietary Restrictions (do not consume beef, pork,...,etc.)	4.38	4.0	0.50	11.43	3.94
2	Availability of oriental labor	4.00	4.0	0.73	18.26	3.50
3	Growing, young population	3.88	4.0	1.02	26.44	3.56
4	A country with a strong work ethic and traditional family values	3.69	3.5	1.25	33.90	3.63
5	Overcome Cultural/language barrier	3.38	3.5	1.09	32.23	3.25
5	Cultural acceptance of a dining establishment as a place to socialize with friends and family	3.38	3.0	1.15	34.00	3.56
6	High literacy rates	3.25	3.0	1.00	30.77	3.69
7	Familiarity with the English language and American idioms	3.19	3.0	1.33	41.65	3.69
7	High educational levels	3.19	3.0	1.05	32.84	3.63
8	Increasing number of working women	3.06	3.0	1.00	32.58	3.63
9	Trend towards shortening of the work week and national development of more leisure time	2.63	2.5	1.26	47.94	3.38

Franchising Related Factors

Seventeen factors were identified by the panel members for this section (Table 19). The factors "capability of potential franchisee" and "acceptance of the restaurant concept and product by local population," were identified to have an influence on international franchising (ranked first and second respectively). None of the factors had a mean below 3.31 which means that all of the factors are at least moderately influential to international franchising.

Since none of the factors had a coefficient of variation higher than 40 percent, there was a consensus among the panel members. Also, the panel members rated their confidence level for these factors quite high since none of the factors was rated below 3.56 and most of the factors were rated very close to and above 4.0. The issue that received the lowest confidential level (3.56) was "entrepreneurial spirit within the country which encourages people to become franchisees."

Table 19

Franchising Related Factors in Rank Order of Importance (Round II)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%	CON-FIDENCE LEVEL
1	Capability of potential franchisee (expertise and financial)	4.63	5.0	0.62	13.39	4.38
2	Acceptance of the restaurant concept/product by local population	4.56	5.0	0.81	17.84	4.06
3	Ease of royalty repatriation	4.50	5.0	0.73	16.23	4.19
4	Ability to support franchisees	4.44	5.0	0.73	16.39	4.06
5	Ownership of proprietary information and technical knowhow	4.38	4.5	0.72	16.43	4.00
5	Availability of qualified franchisees	4.38	4.0	0.62	14.15	3.88
5	Training franchisees	4.38	5.0	0.89	20.23	4.25
6	Availability of supplies and specified products that meets the restaurant's standard at reasonable prices	4.31	4.5	0.79	18.39	3.81
7	Potential size of market	4.25	4.0	0.77	18.22	4.25
8	Ability to control franchisees through the legal system	4.20	4.0	0.83	19.92	3.81
9	Financial incentive (size of upfront territorial fees payable by franchisees)	4.19	4.0	0.91	21.75	4.06
9	The success of other franchised American business in a specific country	4.19	4.0	0.75	17.91	4.06
9	Interface between franchisors and franchisees	4.19	4.0	0.66	15.64	4.06
10	Reports on the operations (i.e. sales reports)	4.13	4.0	0.89	21.46	4.13
10	Suitable location for the restaurant concept (i.e. shopping malls)	4.13	4.0	0.81	19.54	3.75
11	Product testing needed to adapt menu items to local tastes	3.94	4.0	0.85	21.69	3.94
12	An entrepreneurial spirit within the country which encourages people to become franchisees	3.31	3.0	1.25	37.74	3.56

Situations for Considering Master Franchising Agreements

The panel members suggested only six factors for this section (Table 20). All of the factors received a mean above 3.00. The factors that were identified as very influential factors for considering master franchising were "more prompt development" and "the ease to support the franchise system." The two factors that had a high disagreement among panel members (having a coefficient of variation greater than 40 percent) were "allowing local businessmen to run their business in a manner that is consistent with local business practices" (CV 43.52%) and "franchisor do not have to make a capital commitment" (CV 42.45%). The confidence scale ranged from 3.50 to 4.06 which could be interpreted that they were confident in their response.

Table 20

Situations for Considering Master Franchise Agreements in Rank Order of Importance (Round II)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%	CON-FIDENCE LEVEL
1	More prompt development	4.06	4.0	0.77	19.00	3.75
2	The ease to support the franchise system	4.00	4.0	1.21	30.28	3.50
3	Franchisors do not have to make a capital commitment	3.44	4.0	1.46	42.45	4.06
4	Significant differences in language, cultural, and legal systems	3.25	3.0	1.13	34.63	3.94
4	Local tax issues	3.25	3.0	0.93	28.64	3.38
5	Allow local businessmen to run their business in a manner that is consistent with local business practices	3.13	3.0	1.36	43.52	3.88

Situations for Considering Direct Franchising Method

The panel members identified eight factors for considering the direct franchising (Table 21). The mean of the factors ranged from 2.94 to 4.44. The standard deviation ranged from 0.63 to 1.24. The factor that received the lowest mean (2.94) was "no requirements for a franchisor to establish a branch or subsidiary;" it had a standard deviation of 1.24. The factor that received the highest mean (4.44) was "to effectively enforce and comply company's standards;" it has standard deviation of 0.63.

Only one of the factor, "no requirements for a franchisor to establish a branch or subsidiary" (ranked eighth), had a coefficient of variation greater than 40 percent. This factor also had the lowest mean which was 2.94.

Again, the confidence scale for all of the factors was above 3.0. The scale ranged from 3.31 to 4.00. The factor that was identified as having the most influence on considering direct franchising method was "to effectively enforce and comply with company's standards" (mean was 4.44 and confidence level was 4.00), followed by "greater control over franchisees" (mean was 4.19 and confidence level was 3.88).

Table 21

Situations for Considering Direct Franchising in Rank Order of Importance (Round II)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%	CON-FIDENCE LEVEL
1	To effectively enforce and comply with company's standards	4.44	4.5	0.63	14.18	4.00
2	Control of brand penetration and brand image	4.25	4.0	0.68	16.07	3.88
3	Greater control over franchisee	4.19	4.0	0.75	17.91	3.81
4	Prospected country is relatively small (i.e. limited number of stores could be opened)	3.56	4.0	1.09	30.69	3.63
5	Low resources commitment	3.19	3.0	1.11	34.78	3.56
6	Significant differences in language, cultural, and legal system	3.06	3.0	1.06	34.70	3.75
7	Local tax issues	3.00	3.0	1.03	34.43	3.19
8	No requirements for a franchisor to establish a branch or subsidiary	2.94	3.0	1.24	42.09	3.31

Situations for Considering Joint Venture Agreements

There were only four factors identified by the panel members for this category (Table 22). The mean of these four factors ranged from 3.00 to 4.38. The standard deviation ranged from 0.72 to 1.15.

All of the factors had a coefficient of variation below 40 percent. The factor that had the highest coefficient of variation (CV 38.49%) was "widespread use of English language." The factor that had the lowest percentage of coefficient of variation (16.43%) and the highest mean (4.38) was "government restrictions on foreign ownership." All of the factors received a confidence scale higher than 3.0 which could mean that panelists are somewhat confident in their responses.

Table 22

Situations for Considering Joint Venture in Rank Order of Importance (Round II)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%	CON-FIDENCE LEVEL
1	Government restrictions on foreign ownership	4.38	4.5	0.72	16.43	3.81
2	Make use of the resource of the franchisee in areas of expertise	3.88	4.0	0.72	18.55	3.69
3	Limiting exposure to risk while retaining equity in the franchise business	3.63	3.5	0.72	19.83	3.50
4	Widespread use of English Language	3.00	3.0	1.15	38.49	3.31

Top Ten Environmental Factors

Table 23 presents the top ten environmental factors in rank order of importance as indicated by means. There were some ties in the ranking which resulted in more than ten factors. There were a total number of twenty issues. The means ranged from 4.63 for number one to 4.13 for number ten. The factors that had the highest means (4.63) from all of the section, were "capability of potential franchisee" which belong to franchising related factors. The three factors that ranked second (mean of 4.56) were: "acceptance of the restaurant concept and product by local population" from franchising related factors, "registration and enforcement of trade and service marks" from political factors, and "prospects for success of franchisee."

The factors that ranked number nine were "financial incentive," "the success of other franchised American business in a specific country," and "interface between franchisors and franchisees." The mean for those factors was 4.19. The factor that received the lowest mean (4.13) was "reports on the operations."

It is interesting to find that franchising related factors belong in every rank of the top ten factors. In addition, there are three franchising related factors that ranked fifth which are "ownership of proprietary information

Table 23

Top Ten Environmental Factors in Rank Order of Importance (Round II)

RANK	CATEGORY OF FACTOR:	FACTORS:	MEAN
1	Franchising related factor	Capability of potential franchisee (expertise and financial)	4.63
2	Franchising related factor	Acceptance of the restaurant concept/product by local population	4.56
2	Political factor	Registration and enforcement of trade and service marks	4.56
2	Economic factor	Prospects for success of franchisee	4.56
3	Franchising related factor	Ease of royalty repatriation	4.50
4	Franchising related factor	Ability to support franchisees	4.44
4	Economic factor	Real estate costs and availability	4.44
5	Franchising related factor	Ownership of proprietary information and technical knowhow	4.38
5	Franchising related factor	Availability of qualified franchisees	4.38
5	Franchising related factor	Training franchisees	4.38
5	Social Cultural factor	Dietary restrictions (i.e. no consumption of beef, pork,...etc.)	4.38

(table continued)

Table 23 (Cont.)

Top Ten Factors Ranked in Rank Order of Importance (Round II)

RANK	CATEGORY OF FACTOR	LIST OF FACTOR	MEAN
6	Franchising related factor	Availability of supplies and specified products that meets the restaurant's standard at reasonable prices	4.31
6	Political factor	Tax aspects of foreign franchising pertaining to royalties	4.31
7	Franchising related factor	Potential size of market	4.25
7	Political factor	Limitation on foreign exchange convertibility	4.25
8	Franchising related factor	Ability to control franchisees through the legal system	4.20
9	Franchising related factor	Financial incentive (size of upfront territorial fees payable by franchisee	4.19
9	Franchising related factor	The success of other franchised American business in a specific country	4.19
9	Franchising related factor	Interface between franchisors and franchisees	4.19
10	Franchising related factor	Reports on the operations (i.e., sales reports)	4.13

and technical knowhow," "availability of qualified franchisees," and "training franchisees."

Only three factors with top ten ranking came from political factors: "registration and enforcement of trade and service marks," "tax aspects of foreign franchising pertaining to royalties," and "governmental legislation particularly focused on franchising" (ranked second, sixth, and seventh respectively).

Two factors with a top ten ranking came from economic factors: "prospects for success of franchisee" and "real estate costs and availability" (ranked second and fourth respectively). Only one factor in the top ten came from socio-cultural factor which is "dietary restrictions" (ranked fifth).

Procedure of a Decision Process to Select a Franchise Method for International Franchising

In Round II, the panel members were also asked whether they agreed with the decision process to select a franchise method for international franchising (Table 24) . The process was derived from the decision model (Figure 9). The objective for this section was to examine whether the proposed model for restaurant franchising, which incorporated environmental factors, franchising related factors, and situations for considering franchising methods, was acceptable to the panel members. If experts did not agree with the original steps, they were asked to rearrange the steps as well as recommend any steps that they thought were missing.

Eleven out of 16 panel members, 68.8 percent, agreed with the original process. One of the experts commented that the processes that would come after the implementation of the decision were as follows: sorting through the franchise candidate pool (step 6), interviewing qualified candidates (step 7), and selecting a candidate (step 8). One of the panel members suggested that additional procedures, such as monitoring and revising additional input, should be incorporated in the implementation of the decision step. Other suggestions from the experts included conducting economic feasibility studies of various franchising methods.

Table 24

Decision Process to Select

a Franchising Method for International Expansion

(Sample Questionnaire)

The following is a tentative decision process to select a franchise method for international franchising.

Directions
Please choose one of the following choices.

_____ I agree with the steps of the process below.

_____ I disagree with the steps of the process below. If you disagree with the steps, please rearrange in the space under 'New Steps' title.

STEP	PROCESS	NEW STEPS
0	A plan to franchise internationally	
1	Gather information on political, economic, socio-cultural, and franchising related factors of prospective sites.	
2	Consider different franchising methods for international expansion: direct franchising, master franchising, and joint venture	
3	Evaluate each types of franchising methods by: 1. Analyzing environmental data 2. Incorporating company's objectives 3. Ranking the types of franchising methods	
4	Select one franchising method	
5	Implement the decision: 1. Delegate responsibility 2. Continue environmental scanning	

Please lists other items that you think are missing in the decision process above as well as suggest the step that the item should belong to:

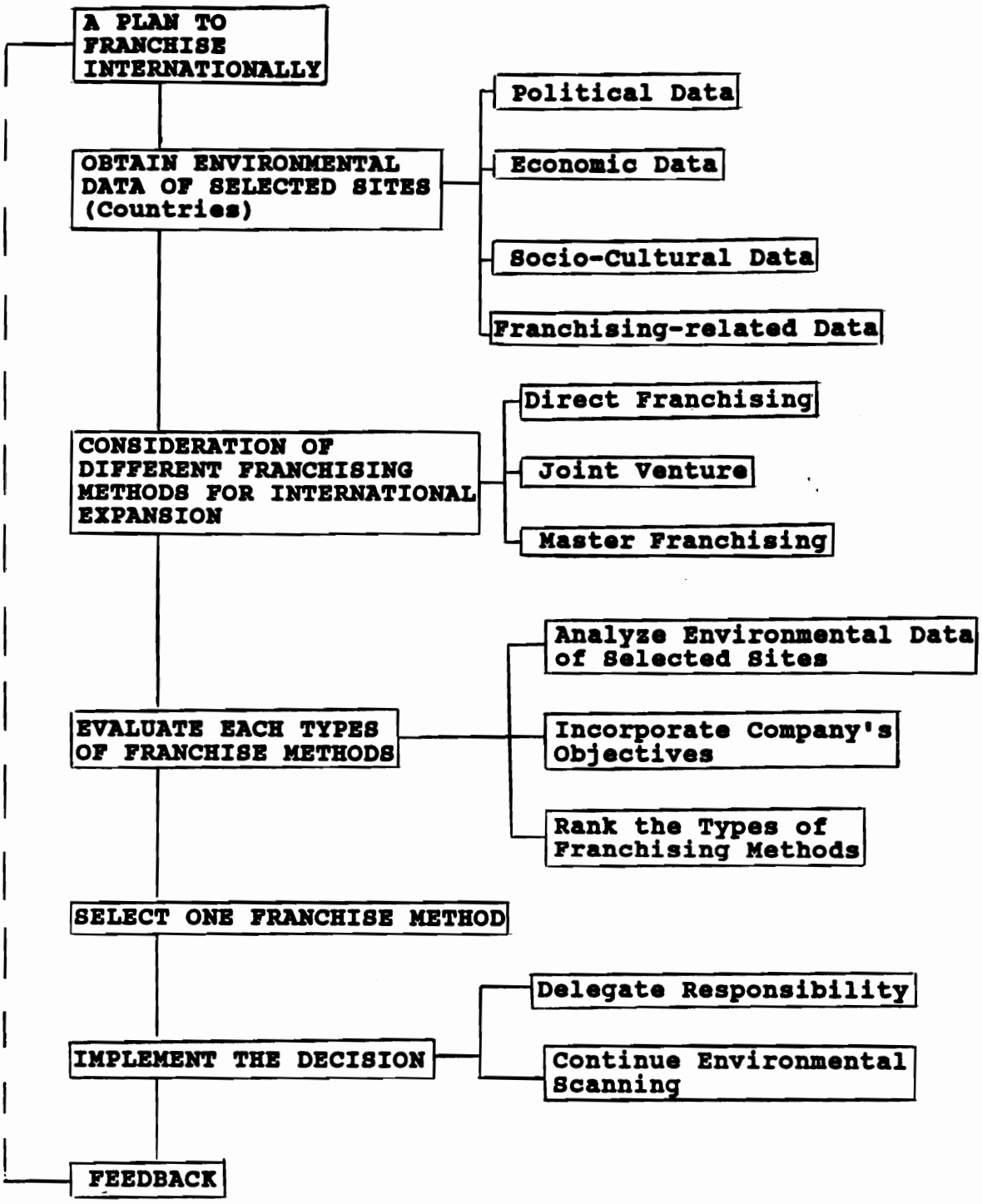

FIGURE 9. Generic Model of the Decision Process To Select A Franchise Method For International Expansion

Another expert, who generally agreed with the procedures, claimed that it should be pointed out that in small to medium sized companies, the initial decision to franchise in a particular country is usually prompted by an unsolicited inquiry. If the potential franchisee meets all the criteria and the environmental data are positive, a business arrangement is pursued. The limited financial resources of the company prohibit widespread solicitation of potential franchisees and therefore the company relied heavily on the goodwill associated with the company.

Five out of 16 panel members, 31.3 percent, disagreed with the original process. The panel members selected to choose a particular franchising method before gathering information on environmental data. Four of the companies mentioned that it was the company philosophy and a corporate decision to proceed internationally through master franchising only.

One of the experts choose master franchising as the method for international expansion because the company had a longer training process and granting a master franchise allows the company to work with the master franchisee to construct all or most of the infrastructure only once. One of the experts selected only direct franchising as a method to expand internationally in order to reflect a business philosophy and to control brand penetration and brand image by location.

A Revised Generic Model

After analyzing the results of the decision process used in selecting a franchising method for international expansion from Round II, the researcher reviewed the inputs and comments of the panel members and developed a revised model of the decision process (Figure 10). The decision process incorporated the inputs of those who agreed with the process as well as those who disagreed with the decision process. The revised model of the decision process started with a plan to franchise internationally.

The next step was to review whether the company had made the decision to proceed internationally through a certain franchising method only. If the answer was "No", then the original decision process was followed. If the answer was "Yes", the pre-selected three franchising methods that the company could choose from were direct franchising, master franchising agreements, and joint venture agreements.

Then, obtaining environmental data on political, economic, socio-cultural, and franchising related information, was the next step. Following obtaining environmental data was the incorporation of the company's objectives and an analysis of the environmental data.

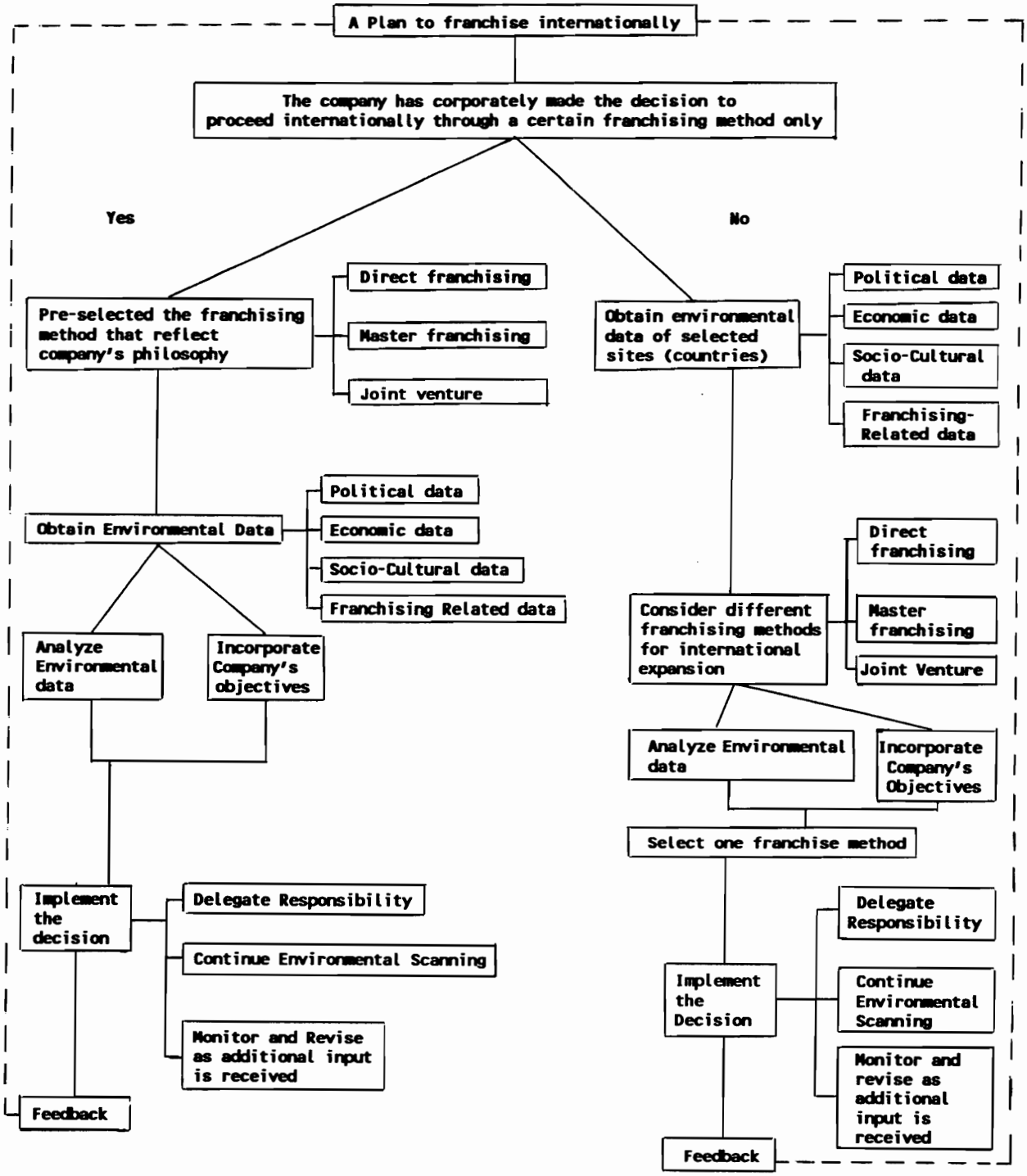

Figure 10. A Revised Generic Model of the Decision Process to Select a Franchise Method for International Franchising

Implementing the decision was the last step. The company should delegate responsibility, continue environmental scanning, and monitor and revise the information as additional input is received.

This revised model provided more complete information on how a company made a decision on selecting a franchising method and gathering the environmental data.

Analysis of Data From Round III

The Round III questionnaire was a duplication of the Round II questionnaire. The objective of Round III was to have the panel members reexamine the factors. The Round III questionnaire presented the means associated with each factor outlined by the panel in Round II and asked the individual panel members if they would like to modify their initial response in the light of this information and, therefore, move the panel towards a consensus of opinion. Again, the factors that received a coefficient of variation higher than 40 percent would be considered as having a high degree of disagreement between panel members.

Political Factors

The ranking of all of the factors of this round was almost the same as the last round even though there were some changes in the means (Table 25). Only one factor moved up from third to second. The factor was "limitation on foreign exchange convertibility." Its mean increased from 4.25 to 4.38, and its standard deviation reduced from 0.93 to 0.72. Its coefficient of variation decreased from 21.90 percent to 16.43 percent.

There was a noticeable reduction in standard deviation and the coefficient of variation over Round II for most of the factors, which showed an increasing consensus between panel members. Only two of the factors, "Registration and enforcement of trade and service marks" (ranked #1) and "lack of active organized labor unions in the foodservice industry" (ranked #9) received the same mean, standard deviation, and coefficient of variation. In this round, only two factors (compared to three factors for Round II) were considered as having disagreement between panel members: "lack of active organized labor unions in the foodservice industry" (CV 40.83%), and "ability to own land as a foreign entity" (CV 60.12%). In this round, seven of the factors had a mean of 4.00 and above compared to five of the factors in Round II. Thus, there was a move toward the opinion of a higher influence of those factors.

Table 25

Political Factors in Rank Order of Importance (Round III)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%
1	Registration and enforcement of trade and service marks	4.56	5.0	0.51	11.23
2	Tax aspects of foreign franchising pertaining to royalties	4.38	4.0	0.62	14.15
2	Limitation on foreign exchange convertibility	4.38	4.5	0.72	16.43
3	Governmental legislation particularly focused on franchising	4.25	4.0	0.45	10.52
4	Controls on the importation of goods and supplies	4.19	4.0	0.66	15.64
4	Government instability and uncertainty	4.19	4.0	0.75	17.91
5	The attitude of government to the entry of foreign franchising	4.00	4.0	0.52	12.91
6	Risk of government taking part of business	3.75	4.0	0.45	11.93
7	Restriction on import tariffs	3.44	3.0	0.63	18.30
8	Restricting fair trade and competition with indigenous companies	3.38	3.0	0.62	18.34
9	Lack of active organized labor unions in the foodservice industry	3.31	3.0	1.35	40.83
10	Lack of onerous government social programs	3.06	3.0	1.18	38.58
11	Ability to own land as a foreign entity	1.69	1.0	1.01	60.12

Economic Factors

For this round, the range of standard deviation and the coefficient of variation of the economic factors ranged from 0.60 to 1.15, and from 12.84 percent to 35.68 percent respectively compared to Round II in which the standard deviation and the coefficient of variation ranged from 0.73 to 1.36, and from 15.94 percent to 47.93 percent respectively (Table 26). None of the economic factors received a coefficient of variation above 40 percent for this round. All of the factors, except two, received a coefficient of variation lower than Round II. This information indicated that there was an increasing agreement between panel members.

In addition, there were some differences according to the ranking of the factors between Round III and Round II. For example, the factor "business climate affecting franchising" moved from the ninth place to the fifth place (the highest jump); the factor "wage level" ranked eighth in Round III but ranked seventh in Round II.

The mean for this round ranged from 1.69 to 4.69. The factor that received the lowest mean was "international debt", and the factor that received the highest mean was "prospects for success of franchisee." These factors were the same as in Round II.

Table 26

Economic Factors in Rank Order of Importance (Round III)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%
1	Prospects for success of franchisee	4.69	5.0	0.60	12.84
2	Real estate costs and availability	4.56	5.0	0.63	13.79
3	Ability to find local sources of supply	4.25	4.0	0.77	18.23
4	Cost and availability of raw materials	4.13	4.0	0.81	19.54
5	Rapidly growing middle class	3.88	4.0	0.89	22.84
5	High level of economic stability and growth	3.88	4.0	0.81	20.81
5	Business climate affecting franchising	3.88	4.0	0.62	15.98
6	A plentiful work force of young, educated people	3.81	4.0	0.75	19.67
6	Increasing levels of disposable personal income	3.81	4.0	0.66	17.18
7	Dollars spent on luxury items (i.e., dining out, fast food) vs. dollars spent on necessities.	3.75	4.0	0.77	20.66
7	Construction costs	3.75	4.0	0.68	18.22
8	Wage level	3.69	3.5	0.79	21.51
8	Increasing in number of tourists	3.69	4.0	1.01	27.51
9	Coping with foreign-currency uncertainties	3.56	4.0	0.89	25.04
10	Sophistication in management systems and business structures	3.38	3.0	0.81	23.89
10	High level of taxes	3.38	3.5	1.15	34.00
10	Inflation and interest rates under control relative to the rest of the world	3.38	3.0	0.89	26.23

(table continued)

Table 26 (Cont.)

Economic Factors in Rank Order of Importance (Round III)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%
11	A strong natural resource base that would enable the country to continue to generate wealth	3.31	3.0	1.08	32.55
12	Rapidly growing GNP which is driven primarily by exports	3.25	3.0	1.13	34.63
13	International debt	1.69	2.0	0.60	35.68

There were four factors in this round compared to three factors in Round II that were in the "very influential" category which had a mean above 4.0. Those factors were "prospects for success of franchisee" (4.69), "real estate costs and availability" (4.56), "ability to find local sources of supply" (4.25), and "cost and availability of raw materials" (4.13).

Socio-cultural Factors

Table 27 presents the responses in socio-cultural factors which ranked in order according to the mean. Again, there was some reduction in standard deviation and the coefficient of variation over Round II for most of the factors, presenting an increasing consensus among panel members. The coefficient of variation ranged from 11.43 percent to 46.51 percent for this round compared with 11.43 percent to 47.94 percent for Round II. Only one of the factors, "trend towards shortening of the work week and national development of more leisure time," received a coefficient of variation higher than 40 percent. However, its coefficient of variation showed a slight increase in the agreement between panel members since the coefficient of variation reduced from 47.94 percent in Round II to 46.51 percent in Round III.

Four of the factors, for which mean, standard deviation, and coefficient of variation remained the same as Round II, were "dietary restrictions", "availability of oriental labor", "high educational levels", and "increasing number of working women." The ranking of the factors remained the same as for Round II for the first five factors. There were some small changes in the ranking for other factors.

Table 27

Socio-cultural Factors in Rank Order of Importance (Round III)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%
1	Dietary Restrictions (do not consume beef, pork,...,etc.)	4.38	4.0	0.50	11.43
2	Availability of oriental labor	4.00	4.0	0.73	18.26
3	Growing, young population	3.94	4.0	0.93	23.59
4	A country with a strong work ethic and traditional family values	3.81	3.5	1.05	27.46
5	Overcome Cultural/language barrier	3.44	3.5	1.03	29.99
6	Cultural acceptance of a dining establishment as a place to socialize with friends and family	3.38	3.0	1.02	30.36
7	High literacy rates	3.25	3.0	1.00	30.77
7	Familiarity with the English language and American idioms	3.25	3.0	1.29	39.72
8	High educational levels	3.19	3.0	1.05	32.84
9	Increasing number of working women	3.06	3.0	1.00	32.58
10	Trend towards shortening of the work week and national development of more leisure time	2.69	2.5	1.25	46.51

Franchising Related Factors

According to table 28, the changes in mean, standard deviation, and coefficient of variation were noticeable. Their mean ranged from 3.38 to 4.81 in Round III versus 3.31 to 4.63 in Round II. The standard deviation for Round III ranged from 0.40 to 1.09 versus 0.62 to 1.25 for Round II. The coefficient of variation of the first five factors decreased a great deal. For example, the coefficient of variation for the first factor, second factor, and third factor decreased from 13.39 percent in Round II to 8.38 in Round III, from 17.84 percent in Round II to 9.41 in Round III, and from 16.23 percent in Round II to 10.81 in Round III, respectively.

None of the factors had a coefficient of variation greater than 40 percent. The highest coefficient of variation was 32.23 percent versus 37.74 percent in Round II. The factor that had the highest coefficient of variation was the factor on "an entrepreneurial spirit within the country which encourages people to become franchisees."

Thus, there was an increasing consensus among panel members for franchising related factors according to the reduction in standard deviation and coefficient of variation.

Table 28

Franchising Related Factors in Rank Order of Importance (Round III)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%
1	Capability of potential franchisee (expertise and financial)	4.81	5.0	0.40	8.38
2	Acceptance of the restaurant concept/product by local population	4.75	5.0	0.45	9.41
3	Ease of royalty repatriation	4.63	5.0	0.50	10.81
4	Training franchisees	4.56	5.0	0.51	11.23
5	Ability to support franchisees	4.50	5.0	0.63	14.06
5	Ownership of proprietary information and technical knowhow	4.50	4.5	0.52	11.48
6	Availability of supplies and specified products that meets the restaurant's standard at reasonable prices	4.44	5.0	0.73	16.39
7	Availability of qualified franchisees	4.38	4.0	0.62	14.15
8	Ability to control franchisees through the legal system	4.31	4.0	0.60	13.96
9	Financial incentive (size of upfront territorial fees payable by franchisees)	4.25	4.0	0.86	20.15
9	Suitable location for the restaurant concept (ex. shopping malls)	4.25	4.0	0.68	16.07
9	Potential size of market	4.25	4.0	0.77	18.23
9	Interface between franchisors and franchisees	4.25	4.0	0.58	13.59
10	The success of other franchised American business in a specific country	4.19	4.0	0.75	17.91
11	Reports on the operations (i.e., sales reports)	4.13	4.0	0.89	21.46
12	Product testing needed to adapt menu items to local tastes	4.00	4.0	0.82	20.41
13	An entrepreneurial spirit within the country which encourages people to become franchisees	3.38	3.0	1.09	32.23

Situations for Considering Master Franchising Agreements

There was a reduction in the coefficient of variation in all but one factor, which was the factor on "more prompt development" (Table 29). There were two factors that received a coefficient of variation higher than 40 percent in Round II. In this round, none of the factors received a coefficient of variation greater than 40 percent which meant that there was a consensus between panel members. There was a significant decrease in the coefficient of variation for the factor on "local tax issues." The decrease was from 43.52 percent in Round II to 25.80 in this round.

There were some changes in the ranking of the factors in this round. The factor "the ease to support the franchise system" moved upward from number two in Round II to number one for this round. The factor "local tax issues" moved down from number four to number six in this round.

Table 29

Situations for Considering Master Franchise Agreements in Rank Order of Importance (Round III)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%
1	The ease to support the franchise system	4.19	4.0	0.91	21.75
2	More prompt development	4.06	4.0	0.77	19.00
3	Franchisors do not have to make a capital commitment	3.88	4.0	1.09	28.07
4	Significant differences in language, cultural, and legal systems	3.50	3.0	0.82	23.32
5	Allow local businessmen to run their business in a manner that is consistent with local business practices	3.44	3.00	1.03	29.99
6	Local tax issues	3.13	3.0	0.81	25.80

Situations for Considering Direct Franchising Method

The mean of the factors ranged from 3.06 to 4.50 (Table 30). The standard deviation and the coefficient of variation of these factors were reduced compared to Round II. The standard deviation ranged from 0.52 to 1.09 for this round versus 0.63 to 1.24 in Round II. The coefficient of variation ranged from 11.48 percent to 34.81 percent for this round versus 14.18 percent to 42.09 in Round II. This information indicated that there was an increasing agreement between panel members.

Most of the factors remained the same rank as in Round II except the factor "no requirements for a franchisor to establish a branch or subsidiary" and the factor on "local tax issues." The factor "no requirements for a franchisor to establish a branch or subsidiary" ranked eighth in Round II, but ranked seventh in this round. It is very interesting to note that the influential level of the factors (mean) was increased from the last round.

Table 30

Situations for Considering Direct Franchising in Rank Order of Importance (Round III)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%
1	To effectively enforce and comply company's standards	4.50	4.5	0.52	11.48
2	Control of brand penetration and brand image	4.38	4.0	0.50	11.43
3	Greater control over franchisee	4.19	4.0	0.75	17.91
4	Prospected country is relatively small (i.e. limited number of stores could be opened)	3.88	4.0	0.72	18.55
5	Low resources commitment	3.31	3.0	0.95	28.57
6	Significant differences in language, cultural, and legal system	3.25	3.0	0.68	21.02
7	No requirements for a franchisor to establish a branch or subsidiary	3.13	3.0	1.09	34.81
8	Local tax issues	3.06	3.0	0.93	30.32

Situations for Considering Joint Venture

According to Table 31, the ranks of all the four factors were the same as in Round II. "Government restrictions on foreign ownership" was most influential for joint venture agreements. The mean ranged from 3.06 to 4.44. The standard deviation ranged from 0.63 to 0.73. The coefficient of variation ranged from 12.91 percent to 20.42 percent.

In this round, the standard deviation and the coefficient of variation of the factors decreased from the last round except the factor on "limiting exposure to risk while retaining equity in the franchise business." The coefficient of variation for that factor increased from 19.83 percent in Round II to 20.42 percent for this round. This could be interpreted as that panel members had some disagreement on this factor.

Table 31

Situations for Considering Joint Venture in Rank Order of Importance (Round III)

RANK	FACTORS LISTED BY THE PANEL MEMBERS	MEAN	MEDIAN	STD.	CV%
1	Government restrictions on foreign ownership	4.44	4.5	0.63	14.18
2	Make use of the resource of the franchisee in areas of expertise	4.00	4.0	0.52	12.91
3	Limiting exposure to risk while retaining equity in the franchise business	3.56	3.0	0.73	20.42
4	Widespread use of English Language	3.06	3.0	0.68	22.21

Top Ten Environmental Factors

The mean for the top ten factors of this round ranged from 4.25 to 4.81 versus 4.13 to 4.63 for the last round (Table 32). There were twenty-one issues for this round due to some ties in ranking. Only the top two of the factors remained in the same ranking for this round as the last round. Those factors were "capability of potential franchisee" (mean of 4.81), and "acceptance of the restaurant concept/product by local population" (mean of 4.75). The changes in ranking are due to the change in means which resulted from the modification of panel members' responses.

It is very interesting to note that not all of the factors that were top ten factors in Round II were on the top ten list for this round. The two factors that were missing in this round were "the success of other franchised American business in a specific country" (rank #9), and "reports on the operations" (rank #10).

In addition, there were three factors included in this round, but not in the last round. Those factors were "suitable location for the restaurant concept," "governmental legislation particularly focused on franchising," and "ability to find local sources of supply." These factors were ranked number 10 and their mean was 4.25.

Table 32

Top Ten Environmental Factors in Rank Order of Importance (Round III)

RANK	CATEGORY OF FACTOR	LIST OF FACTOR	MEAN
1	FRANCHISING RELATED FACTOR	Capability of potential franchisee (expertise and financial)	4.81
2	FRANCHISING RELATED FACTOR	Acceptance of the restaurant concept/product by local population	4.75
3	ECONOMIC FACTOR	Prospects for success of franchisee	4.69
4	FRANCHISING RELATED FACTOR	Ease of royalty repatriation	4.63
5	FRANCHISING RELATED FACTOR	Training franchisees	4.56
5	POLITICAL FACTOR	Registration and enforcement of trade and service marks	4.56
5	ECONOMIC FACTOR	Real estate costs and availability	4.56
6	FRANCHISING RELATED FACTOR	Ability to support franchisees	4.50
6	FRANCHISING RELATED FACTOR	Ownership of proprietary information and technical knowhow	4.50
7	FRANCHISING RELATED FACTOR	Availability of supplies and specified products that meets the restaurant's standard at reasonable prices	4.44
8	FRANCHISING RELATED FACTOR	Availability of qualified franchisees	4.38
8	POLITICAL FACTOR	Tax aspects of foreign franchising pertaining to royalties	4.38
8	POLITICAL FACTOR	Limitation on foreign exchange convertibility	4.38
8	SOCIAL-CULTURAL FACTOR	Dietary restrictions	4.38

(Table continued)

Table 32

Top Ten Factors in Rank Order of Importance (Round III) (Cont.)

RANK	CATEGORY OF FACTOR	LIST OF FACTOR	MEAN
9	FRANCHISING RELATED FACTOR	Ability to control franchisees through the legal system	4.31
10	FRANCHISING RELATED FACTOR	Financial incentive (size of upfront territorial fees payable by franchisee)	4.25
10	FRANCHISING RELATED FACTOR	Interface between franchisors and franchisees	4.25
10	FRANCHISING RELATED FACTOR	Suitable location for the restaurant concept	4.25
10	FRANCHISING RELATED FACTOR	Potential size of market	4.25
10	POLITICAL FACTOR	Governmental legislation particularly focused on franchising	4.25
10	ECONOMIC FACTOR	Ability to find local sources of supply	4.25

Again, franchising related factors belonged to every rank in the top ten list. Four of the factors came from political factors. Those factors were "registration and enforcement of trade and service marks" (ranked fifth), "tax aspects of foreign franchising pertaining to royalties" (ranked eighth), "limitation on foreign exchange convertibility" (ranked eighth), and "governmental legislation particularly focused on franchising" (ranked tenth).

Three of the factors were economic factors. Those were "prospects for success of franchisee" (ranked third), "real estate costs and availability" (ranked fifth), and "ability to find local sources of supply" (ranked tenth). Only one of the factors belonged to socio-cultural factors. That factor was "dietary restrictions" (ranked eighth).

Summary

This chapter presented the data of the study, conducted among restaurant professionals, from the results of the three rounds of the Delphi questionnaire. The Delphi questionnaire attempted to reach a consensus among all participants on the environmental factors and franchising related factors.

Thirty-one experts from the restaurant industry were invited to serve as the panel for this study. All of experts held the positions in which they were responsible for the

international expansion of their restaurants. There were 17 participants for the first round, 16 participants for the second round, and 16 participants for the third round.

In Round II, the experts rated the suggested factors and their confidence levels on a five point Likert-type scale. They also commented whether they agreed with the process of the decision to select a franchise method for international expansion.

In Round III, panel members reexamined the factors to reach an agreement. The mean of each factor from Round II was presented to panel members. Panel members reviewed the mean of each factor before rating the factors for this round.

The results were presented in ranking according to the mean of each factor. Also, the top ten environmental factors and franchising related factors were presented in Round II and Round III.

CHAPTER 5

DISCUSSION AND RECOMMENDATIONS

Introduction

In this chapter a review of the purposes and objectives established at the outset of the study are discussed. This chapter also compares the study's findings with those of prior studies found in the literature, and state limitations of this study. Appropriate conclusions are drawn from the findings of the Delphi questionnaire.

Summary of the Study

The major purpose of this study was to gather opinions and feedback from experts on a proposed generic model of the decision making process in selecting a franchise method for international expansion of restaurants. The model was designed based on a review of decision theory literature. An additional purpose was to identify and rank the importance of environmental factors that influence international franchising as well as rank the confidence level of the experts. This study also identifies the situations in which direct franchising methods, joint venture agreements, and master

franchising agreements are considered for marketing in Asia.

To identify environmental factors, franchising related factors, and situations in which the franchising methods are to be considered, this study sought assistance and support from restaurant executives. The Delphi technique was used to elicit the opinions of a panel of experts regarding environmental factors, franchising related factors, situations in which the franchising methods were to be considered, and the decision process in selecting a franchise method for international expansion.

The panel was composed of restaurant executives of for restaurant franchises which had already expanded into at least one of these countries: Singapore, Thailand, Korea, and Malaysia. The list of the restaurant companies was acquired form The Source Book of Franchise Opportunities (1993), and The Franchise Opportunities Guide (1993). A total of 31 restaurant executives received the Delphi survey. Panel members developed and rated the level of influence of each factor was measured and their confidence level for each factor using a five point Likert type scale. In Round II and Round III, the top ten factors were ranked according to their mean.

Summary of Findings

In Round I, panel members suggested franchising methods for Singapore, Korea, Thailand, and Malaysia. According to Round I results, for Singapore, 52.9 percent of the panel members selected master franchising agreements, 29.4 percent selected joint venture agreements, and 17.7 percent selected direct franchising methods. For Korea, 52.9 percent of the panel members selected master franchising agreements, 35.3 percent selected direct franchising, and 11.8 percent selected joint venture agreements.

For Thailand, 52.9 percent of the panel members selected master franchising agreements, and 47.1 percent selected direct franchising method. For Malaysia, 50 percent of the panel members selected master franchising agreements, 37.5 percent selected direct franchising, and 12.5 percent selected joint venture agreements.

There are several explanations that show direct franchising as the second most popular method for Korea, Thailand, and Malaysia but not for Singapore (where joint venture is the second most popular method). First of all, Singapore is considered to be the most stable country in the region. Second, Singapore also has an open market policy with few restrictions compared to the other three countries (Taoka and Beeman, 1991; Besher, 1991). Finally, English is the

language of business and the country's official language. Thus, joint venture in Singapore would be more advantageous than direct franchising if restaurant companies would like to retain equity and make use of local resources.

In addition, the joint venture partner could assist the franchisor in many areas because the joint partner would have more knowledge regarding local culture, commercial practices, law and regulations, and religions. Franchisors might have a greater access to government subsidies and grants through joint venture (Konigsberg, 1991). Franchisors might be more eligible for tax advantages than expansion through wholly owned corporations because the control of the company belong to the local partner. Joint venture would give franchisors the flexibility for future expansion since franchisors would gain more knowledge about social-culture of the country. It might be easier for franchisors to find local partner since franchisors would share the risk of the business.

According to the results from Round II, twenty factors were ranked among the top ten according to their importance. Most the top ten issues belong to franchising related factors, followed by political factors, economic factors, and socio-cultural factors. For Round III, twenty one factors were ranked among the top ten of the total factors. Again, most of those top ten factors were franchising related factors.

Proposition Discussed

The first proposition addressed was as follows:

Proposition 1: The four selected countries have similarities in their environmental factors and in franchising-related factors.

According to the results from Round I, only four panel members emphasized a specific country when listing factors, that is, they listed similar issues for each country. However, the factors as well as the emphasized country, listed by four panel members, were not mutually exclusive. Since most panel members did not emphasize a certain country with specific issues, therefore, the four selected countries do have similarities in their environmental and franchising related factors.

The second proposition addressed was as follows:

Proposition 2: Political factors and franchisee-related factors are the major concerns that influence the expansion decision and operation of international franchising of restaurant companies into Singapore, Thailand, South Korea, and Malaysia.

Results indicated strong support for this proposition. According to the results from Round II and Round III,

franchising related factors were included in almost all of the rankings that were in the top ten. The franchising related factor that ranked number one in both Round II and Round III was the capability of the potential franchisee.

There were three political factors included in the top ten environmental factors in Round II, and four political factors included in Round III, which is the second highest number of issues. These three political factors were registration and enforcement of trade and service marks, tax aspects of foreign franchising pertaining to royalties, and limitation on foreign exchange convertibility. For Round III, the four political factors that were included in the top ten were registration and enforcement of trade and service marks, tax aspects of foreign franchising pertaining to royalties, limitation on foreign exchange convertibility, and governmental legislation focused on franchising.

Surprisingly, political instability and uncertainty were not included in the top ten factors for Round II and Round III, whereas other studies have emphasized their importance. According to Round II and Round III results, political instability ranked sixth (mean 3.69) and ranked fourth (mean 4.19), respectively.

A study by Kim (1992) indicated that political instability exerted a strong impact upon the development and operations of multinational hotel chains in Newly

Industrialized Countries in Asia. One of the explanations for the results is that the hotel industry is more vulnerable to the political instability than the restaurant industry due to higher capital investment for the hotel construction.

A study by Kobrin et al., (1980) indicated that political stability is the number one concern for those considering the overseas environment followed by foreign investment climate. Walker (1989) studied considering factors which determine acceptance of franchising of a product in a foreign country, also ranked political stability number one, followed by the existence of a substantial middle class. One of the explanations for results obtained in this study is a move toward democracy in many parts of the world such as in Eastern Europe, thus, the concern about political instability is decreased.

However, political factors are major concerns in international expansion even though the influence of each political factor for this study was different from other studies.

The third proposition addressed was as follows:

Proposition 3: Master franchise agreements are the most popular method of franchise for restaurant companies to expand into these prospective countries.

This proposition is strongly supported by the results. The results of this study agree with the literature on international franchising which claims that master franchising is the method used by most companies. Master franchising was chosen as the method to expand into Singapore by 52.9 percent, to Korea by 52.9 percent, to Thailand by 52.9 percent, and to Malaysia by 50.0 percent. The percentages for master franchising were higher than either direct franchising or joint venture agreements. Some of the reasons that master franchising agreements were chosen over the other two methods were: 1. easier to control than individual or joint ventures; 2. it lets the company enter the country without making a capital commitment; and 3. company philosophy to select this method only for international expansion.

Thus, according to the results, master franchising agreements are the most popular method for restaurant companies to expand internationally.

The fourth proposition addressed was as follows:

Proposition 4: Reasons from the experts for selecting specific types of franchising methods for each country are different due to the diversity in the concept of the restaurants.

There was partial support for this proposition. It was expected that since there was some diversity in the restaurant

concepts and in the four countries, reasons for selecting specific franchising methods for each country should be different. However, the reasons for selecting specific types of franchising methods were different if the franchising method selected for each country was different. Interestingly, panel members provided the same reasons if they chose the same franchising method for the four countries. One explanation for this is that panel members gave reasons according to the advantages of the selected franchising method which could be applied to any country. Yet, not all panel members gave their reasons for selecting a particular franchising method.

Conclusions

The following conclusions were drawn from the findings of the study:

First, the restaurant professionals reached a consensus on environmental factors in most of the issues except on two of the political factors and on one socio-cultural factor. These three factors were "ability to own land as a foreign entity," "lack of active organized labor unions in the foodservice industry," and "trend towards shortening of the work week and national development of more leisure time." Those three factors received a coefficient of variation higher than 40 percent. This means that panel members could not

agree on the importance or influence level of these three issues. The differences in opinions regarding these three issues might be due to the diversity in their restaurant concepts.

Second, results indicated that master franchising is the most popular method used for international franchising by restaurants in the U.S., followed by direct franchising and joint venture agreement.

Third, franchising-related factors were placed most frequently in the top ten factors that were ranked according to the means obtained in Round II and Round III. In this study, political factors, especially political instability and uncertainty, were not viewed as very important, contrary to what other studies have indicated. However, this does not mean that restaurant professionals should overlook other political, economic, socio-cultural, and franchising related factors that were not listed in the top ten factors ranked by this study.

Fourth, even though none of these factors were identified as being specific to any country due to their redundancy in the issues as well as the countries, they should be valuable for analyzing environmental and franchising related environmental factors in those prospective sites.

Fifth, the nature of this research is practical because the top ten factors from both Round II and Round III and the

revised model of the decision making process used to select a franchise method for international franchising were developed using experienced restaurant executives.

Sixth, this study identified 61 factors that affect restaurants that franchise internationally. All of these factors should be examined with the top ten factors by those restaurant professionals who plan to expand internationally but have little experience with the international franchising process.

Seventh, the results of this study support the importance of environmental issues and franchising-related factors showing that they are complex and subject to change. Thus, regular environmental scanning by restaurant professionals is very crucial in implementing and adapting strategies to compete successfully in this dynamic environment.

Limitations

As with the general nature of any research, there are a number of limitations associated with this study. It is important to realize that there is no "one best way" to conduct research, but rather all research can be viewed as a series of interlocking choices in which one tries simultaneously to maximize several conflicting desiderata (McGrath, 1982). There is no one true or correct set of

methodological strategies, rather, from a dilematic point of view, all research strategies and methods are seriously flawed and it is simply not possible to do "good" (that is methodologically sound) research (McGrath, 1982).

One of the major limitations of this study is that the sample size is very limited. The restaurant franchises that were selected for this study are restaurant companies that have units in one or more of the four selected Asian countries. The list of the restaurant companies was selected from The Franchise Opportunities Guide (1993), and The Source Book of Franchise Opportunities (1993). The total qualified sample size was 31. Therefore, the results of this study depend heavily on the expertise of the participating restaurants.

In addition, due to the nature of the Delphi technique, the problem of attrition of experts exists during each round. In order to cope with this problem and maintain the motivation of the experts to participate fully, a drawing of $150 was offered after each round was completed. In Round I, the researcher sent a $10 bill along with the questionnaire. In Round II and Round III, the researcher send $20 and $30, respectively, as a token of appreciation to increase the response rate.

The letter also addressed the importance of the participants' responses to the completion of the researcher's

Ph.D. degree. Postcards were sent as a reminder within one week after the restaurant companies received the questionnaire. Facsimile messages were also sent as a reminder on the week that the questionnaire were due.

There were several reasons for the attrition of panel members. One reason was that panel members had to travel extensively. Another restaurant declined to participate because the restaurant received so many questionnaires that they did not have time to fulfill all such requests.

Another limitation of this study was that issues and countries listed by panel members were not mutually exclusive. Thus, it was not feasible to continue to specify each country in the next round of the survey. However, a majority of the panel members did not specify the countries with the listed factor. Thus, the decision was made not to identify factors as being specific to any country.

Recommendations

Environmental and franchising related issues are a major concern in international franchising. Lack of attention to possible influence of factors may lead to an unsuccessful operation in foreign countries which have different environments. The following recommendations are made for utilization of the results of this study and the model of decision making process used to select a franchise method for international franchising:

1. The model could be used as a planning tool for decision makers just starting the decision process. This model should be beneficial for those restaurant professionals who have little experience in international expansion making them aware of the the input from those experts in this field.
2. All of the identified factors developed through this study should be used as guidelines for restaurant companies when planning to expand their franchises into those prospective sites. Even though some of these factors were not identical or ranked in the same order of importance as other studies done by Kobrin et al., (1980), Walker (1989), and Kim (1992), these factors should be

reevaluated and considered according to each company's needs and focuses. Each factor should be reviewed regarding its influence level and the confidence level of panel members toward each factor.

3. Top ten factors from Round II and Round III should be examined closely in their final analysis after all of the identified factors have been reviewed. The top ten factors will give a complete overview of what factors were considered to be most important of all the factors in concerning environment and franchising-related problems.
4. The results of this study would provide information concerning the most popular franchising method for internationally inexperienced restaurant professionals. Currently, master franchising is a trend-setting method for expanding internationally. However, restaurants should evaluate their concepts, strategies, and objectives before selecting the best franchising method for international expansion. They also should analyze the situation for considering each of the three franchising methods identified by this study and adapt those situations to their own needs. The appropriate

method of franchising could greatly affect the competitive position and success of restaurant franchises.

Recommendations For Future Research

Since international franchising is increasing due to the saturation of the domestic market and opportunities in foreign markets, more research in this area is crucial due to the dynamic environment of the foreign market. The findings and recommendations from this study suggest some future research topics related to this particular area:

1. This study of environmental factors was conducted among restaurant professionals. The results represent the franchisors' perspective. It is recommended that broader bases, such as master franchisees, franchisees (from direct franchising), and joint venture partners of each countries, would contribute to the enumeration of the environmental factors since local people may have a broader perspective of their own countries' environments.
2. Although a model of the decision making process used to select a franchise method for international franchising was developed from panel

members, another study should be done to test the model to see whether further details or processes are needed which would increase the validity of this model.

3. One of the major limitations of this study is the small sample size. This study had to concentrate on restaurant companies that franchised in one or more of the four chosen countries (Singapore, Korea, Thailand, and Malaysia) which limited the focus to a certain segment of the restaurants. Future studies should conduct similar research, but change the research method to case study choosing one segment of the restaurant at a time and then comparing the results. The results would be more reflective of each segment and increase the generalizability of the study for each segment.
4. Replication of this research should be conducted to investigate and pursue any change in the influence in factors as well as any change in the factors themselves. Some factors may have a high rating for a period of time and some new factors may arise. Thus, keeping the factors current would assist restaurant professionals to be aware of any changes in the environment.

5. This study focused only on four countries in Asia. Future studies should broaden the range to other parts of the world (i.e. Eastern Europe) to find out differences and similarities in the results. The information and results of the findings for each parts of the world should be made available publicly for restaurant professionals. Each restaurant franchisors need to analyze and synthesize the information in light of their restaurant concepts and objectives. The decision model developed from this study could be adapted to apply to any restaurant concept.

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APPENDIX A

Round I Questionnaire

September 15, 1993

Benihana of Tokyo
8685 NW 53 Terrace
P.O. Box 020210
Miami, FL 33102

Dear

International franchising has become a popular channel of distribution. Environmental factors and franchising related issues are important to the management in decision making for international expansion. These factors also effect the choice franchising methods.

I am conducting this study to develop a decision making model for the selection of international franchising method to Singapore, Thailand, Korea, and Malaysia. You are among the selected few who have been asked to participate in the development of the model by giving your expert opinion on decision factors and success characteristics of different franchising methods.

The process that will be used to collect the information is called the Delphi method. Anonymity is a characteristic of the Delphi Technique. Therefore, your name will not be associated with responses during the study. This method had been used with success in situations where there are differences of opinion on specific topics. For the purposes of this study, the Delphi method will involve three rounds. For the first round, you will be asked o identify key elements in the political, economic, socio-cultural, and franchising-related environment. in the second and third round you will then be asked to rate the factors with regard to the importance of each.

September 15, 1993

The response from the third round will be analyzed and a decision model will be developed based on the environmental factors that are considered to be important from your rating. This model would serve as a guidelines for the restaurants that do not have international expansion experience into those countries.

To let you know that your response of the research questions is very crucial to my completion of my dissertation which is the last milestone to earn a Ph.D. degree, I am offering an opportunity to win $150 in a drawing which will be done after each round is completed. Please Fax the response back to (703) 552-1271 or mail it no later than October 1, 1993.

If you have any questions regarding the process, please feel free to contact me at (703) 552-8235. I look forward to working with you.

Cordially,

Vipaporn Bosereewong, MBA
Doctoral Candidate
Virginia Polytechnic Institute and State University

Participant's Background

Company Name _____

Participant's Name _____

Position _____

Telephone Number _____ **Fax** _____

Number of Restaurant Units in the Following Countries:

_____ **Singapore** _____ **Thailand**

_____ **Korea** _____ **Malaysia**

_____ **Other in Asia (please specify)** _____

ROUND 1.

PART A.

Direction:

Please identify very specific issues in the following environmental factors that affect the decision to expand to Singapore (S), Thailand (T), Malaysia (M), and Korea (K). (see the attached page for definition of the environmental factors).

When a certain issue is applied only to a certain country, please put the first letter of that country at the end of the issues in parenthesis. (i.e., Political instability (T). (T) means political instability factor applies only to Thailand).

I. Political factors

Examples:

1. Limits on convertibility of local currency into foreign currency...etc.
2. Restrictions on repatriation of capital, and profit...etc.
3. Continued uncertainty and instability on the political..etc.

These are only given as examples. Feel free to add more factors that you feel are appropriate.

II. Economic factors

Examples:
1. High level of economic growth...etc.
2. Substantial disposable income...etc.
3. Coping with foreign-currency uncertainties...etc.

These are only given as examples. Feel free to add more factors that you feel are appropriate.

III. Social Cultural factors

Examples:

1. Widespread use of English language...etc.
2. Relatively short work weeks...etc.
3. Overcoming language/cultural barriers...etc.

These are only given as examples. Feel free to add more factors that you feel are appropriate.

IV. Franchisee-related factors

Examples:

1. Ability to support franchisees...etc.
2. Ability to Control franchisees...etc.
3. Recruit enough qualified franchisees...etc.

These are only given as examples. Feel free to add more factors that you feel are appropriate.

V. Franchising Methods

What are the criteria for considering a direct franchising method for international expansion to Asia?

What are the criteria for considering a joint venture agreement for international expansion to Asia?

What are the criteria for considering a master franchising agreement for international expansion to Asia?

PART B

I. There are three franchising methods that could be used for international expansion which are: 1. direct franchising, 2. joint venture, 3. master franchising (see the attached page for definitions on each types of franchise methods).

DIRECTION:
Please choose only one type of the above franchising method that would be appropriate for:

Singapore: _____
Please specify the reasons for selecting this method of franchising:

Thailand: _____
Please specify the reasons for selecting this method of franchising:

Korea : _____
Please specify the reasons for selecting this method of franchising:

Malaysia :_____
Please specify the reasons for selecting this method of franchising:

THANK YOU VERY MUCH

DEFINITIONS:

I. **Political factors** include variables such as relationships that might prevent the firm's entry into a foreign location or relationships that might prevent the continuation of the foreign operations, and any other government regulations or restrictions that could affect operations.

II. **Economic factors** include variables such as tax rates, interest rates, currency parity, currency transfers, wage level, construction costs, price controls, business cycles, inflation, and overall economic condition.

III. **Social-cultural factors** include variables such as projected number of tourists, crime rate, demographics, language, roles of women and minorities, work ethics, career expectations, average education of the potential workforce, and overall community's atmosphere.

IV. **Franchising-related factors** include variables such as recruitment of qualify franchisees, quality control of international properties, on-going support to franchisees, training franchisees.

Franchising Methods:

1. **Direct franchising:** Direct franchising is characterized by the fact that franchisor franchises directly to franchisees situated in the foreign country without the intervention of a third party.

2. **Master franchise agreements:** The franchisor enters into a master franchise agreement directly with a sub-franchisor, usually a foreign national, pursuant to which the sub-franchisor himself develops and owns franchise outlets in addition to sub-franchising outlets to sub-franchisees in the foreign country.

3. **Join venture agreements:** The franchisor enters into a joint venture agreement with a national of foreign country partner.

APPENDIX B

Round II Questionnaire

ROUND II

RATING OF ENVIRONMENTAL FACTORS AND FRANCHISING RELATED FACTORS

Below is a listing of factors that was identified from your contribution to the **ROUND** I survey.

DIRECTIONS

1. Please indicate **how influential you feel each factor [F]** is to the international franchising in the four prospective sites which are Singapore, Korea, Thailand, and Malaysia.

Rating Scales [F]

5 = Extremely influential	4 = Very influential
3 = Moderately influential	2 = Somewhat influential
1 = Marginally influential	

2. Please indicate **the degree of confidence [C] in your response to each question.**

Rating Scales [C]

5 = Extremely confident	4 = Very confident
3 = Moderately confident	2 = Somewhat confident
1 = Marginally confident	

***Please fill in the number for the rating scales for each factor in the **underline space.** (i.e., political stability 5 4 means the factor is extremely influential and you are very confident)

Political Factors	F	C
1. Governmental legislation particularly focused on franchising	___	___
2. Tax aspects of foreign franchising pertaining to royalties	___	___
3. Controls on the importation of goods and supplies	___	___
4. Registration and enforcement of trade and service marks	___	___
5. The attitude of government to the entry of foreign franchising	___	___
6. Government instability and uncertainty	___	___
7. Limitation on foreign exchange convertibility	___	___
8. Restricting fair trade and competition with indigenous companies	___	___
9. Restriction on import tariffs	___	___
10. Lack of active organized labor unions in the foodservice industry	___	___
11. Lack of onerous government social programs	___	___
12. Ability to own land as a foreign entity	___	___
13. Risk of government taking part of business	___	___

Economic Factors	F	C
1. A plentiful work force of young, educated people	___	___
2. Real estate costs and availability	___	___
3. Construction costs	___	___
4. Business climate affecting franchising	___	___
5. Wage level	___	___
6. Cost and availability of raw materials	___	___
7. Prospects for success of franchisee	___	___
8. High level of economic stability and growth	___	___
9. Increasing levels of disposable personal income	___	___
10. Rapidly Growing GNP which is driven primarily by exports	___	___
11. Coping with foreign-currency uncertainties	___	___
12. International debt	___	___
13. Ability to find local sources of supply	___	___
14. Inflation and interest rates under control relative to the rest of the world	___	___

Economic Factors (Cont.)	F	C
15. A strong natural resource base that would enable the country to continue to generate wealth	___	___
16. High level of taxes	___	___
17. Dollars spent on luxury items (i.e., dining out, fast food) vs. dollars spent on necessities.	___	___
18. Sophistication in management systems and business structures	___	___
19. Rapidly growing middle class	___	___
20. Increasing in number of tourists	___	___
Social Cultural Factors	F	C
1. Familiarity with the English language and American idioms	___	___
2. High literacy rates	___	___
3. High educational levels	___	___
4. Increasing number of working women	___	___
5. Overcome cultural/language barrier	___	___
6. Cultural acceptance of a dining establishment as a place to socialize with friends and family	___	___
7. Availability of oriental labor	___	___
8. Trend towards shortening of the work week and national development of more leisure time	___	___
9. A country with a strong work ethic and traditional family values	___	___
10. Growing, young population	___	___
11. Dietary Restrictions	___	___
Franchising related Factors	F	C
1. Capability of potential franchisee (expertise and financial)	___	___
2. Financial incentive (size of upfront territorial fees payable by franchisee	___	___
3. Reports on the operations (i.e., sales reports)	___	___
4. Product testing needed to adapt menu items to local tastes	___	___
5. The success of other franchised American business in a specific country	___	___
6. Ease of royalty repatriation	___	___
7. Acceptance of the restaurant concept/product by local population	___	___
8. Ability to support franchisees	___	___
9. Ability to control franchisees through the legal system	___	___
10. Ownership of Proprietary information and technical knowhow	___	___
11. Availability of qualified franchisees	___	___
12. Interface between franchisors and franchisees	___	___
13. Training franchisees	___	___
14. Suitable location for the restaurant concept(ex.shopping malls)	___	___
15. Availability of supplies and specified products that meets the restaurant's standard at reasonable prices	___	___
16. An entrepreneurial spirit within the country which encourages people to become franchisees	___	___
17. Potential size of market	___	___
Criteria for considering master franchise agreements:	F	C
1. The ease to support the franchise system	___	___
2. More prompt development (i.e., do several countries at once)	___	___
3. Significant differences in language, cultural, and legal systems	___	___
4. Franchisors do not have to make a capital commitment	___	___
5. Allow local businessmen to run their business in a manner that is consistent with local business practices without the imposition of American morality or business practices	___	___
6. Local tax issues	___	___
Criteria for considering direct franchising:	F	C
1. Prospected country is relatively small (i.e., limited number of stores could be opened)	___	___
2. No requirements for a franchisor to establish a branch or subsidiary	___	___

Criteria for considering direct franchising: F | C

3. Greater control over franchisee
4. To effectively enforce and comply company's standards
5. Local tax issues
6. Significant differences in language, cultural, and legal systems
7. Control of brand penetration and brand image by location
8. Low resources commitment

Criteria for considering joint venture: F | C

1. Government restrictions on foreign ownership
2. Limiting exposure to risk while retaining equity in the franchise business
3. Make use of the resource of the franchisee in areas of expertise
4. Widespread use of English Language

The following is a tentative decision process to select a franchise method for international franchising.

DIRECTIONS

Please choose one of the following choices.

_____ I agree with the steps of the process below.

_____ I disagree with the steps of the process below. If you disagree with the steps, please rearrange in the space under 'New Steps' title.

STEP	PROCESS	NEW STEPS
0	A plan to franchise internationally	
1	Gather information on political, economic, socio-cultural, and franchising related factors of prospective sites.	
2	Consider different methods for international franchising: direct franchising, master franchise, joint venture.	
3	Analyze environmental data from step 1. Incorporate company's objectives. Analyze each franchising methods and rank the franchising methods.	
4	Select one franchise method	
5	Implement the decision: Delegate responsibility	

Please lists other items that you think are missing in the decision process above as well as suggest the step that the item should belong to:

OTHER COMMENTS (YOU MAY ADD ENVIRONMENTAL FACTORS):

COMPANY NAME: _____

PARTICIPANT'S NAME: _____

YEARS IN THIS POSITION: _____

THANK YOU VERY MUCH FOR YOUR TIME AND SUPPORT

APPENDIX C

Round III Questionnaire

ROUND III
REEXAMINATION OF FACTORS

The following list is a duplication of round two. **Round three gives the participants an opportunity to reach an agreement on the influential of factors** to franchise to Singapore, Korea, Thailand, and Malaysia.

This round gives you a chance to reconsider your initial responses in comparison with the average ratings mad by all participants.

Rating Scales

5 = Extremely influential	**4 = Very influential**
3 = Moderately influential	**2 = Somewhat influential**
1 = Marginally influential	

DIRECTIONS

1. **Review each factor and the average ratings by all participants.**
2. **Compare your response with average ratings of each factor.**
3. INDICATE YOUR DECISION TO CHANGE YOUR RESPONSE BY FILLING IN A NEW RATING UNDER CHANGE TO OR KEEP YOUR RATING AS IT IS BY MARK (X) IN UNDER NO CHANGE

****

Y = Your response from round II
Avg = Average responses from all participants from round II
CHANGE TO = Fill in a new rating if you decide to change your answer
NO CHANGE = You would like to keep your response for the particular factor as it is.

****

EXAMPLE:	Y	AVG.	CHANGE TO	NO CHANGE
Example 1. POLITICAL INSTABILITY	**1**	**4.5**	**4**	

This means that after your analyze the group answer, you decide to change your answer from 1 (marginally influential) to 4 (very influential).
However, if you decide not to change your answer, you just mark (x) under "NO CHANGE" without filling any number under "CHANGE TO".

Political Factors	**Y**	**Avg.**	**Change to**	**No Change**
1. Governmental legislation particularly focused on franchising				
2. Tax aspects of foreign franchising pertaining to royalties				
3. Controls on the importation of goods and supplies				
4. Registration and enforcement of trade and service marks				
5. The attitude of government to the entry of foreign franchising				
6. Government instability and uncertainty				
7. Limitation on foreign exchange convertibility				
8. Restricting fair trade and competition with indigenous companies				
9. Restriction on import tariffs				
10. Lack of active organized labor unions in the foodservice industry				
11. Lack of onerous government social programs				
12. Ability to own land as a foreign entity				
13. Risk of government taking part of business				

Economic Factors	Y	Avg.	Change to	No Change
1. A plentiful work force of young, educated people				
2. Real estate costs and availability				
3. Construction costs				
4. Business climate affecting franchising				
5. Wage level				
6. Cost and availability of raw materials				
7. Prospects for success of franchisee				
8. High level of economic stability and growth				
9. Increasing levels of disposable personal income				
10. Rapidly Growing GNP which is driven primarily by exports				
11. Coping with foreign-currency uncertainties				
12. International debt				
13. Ability to find local sources of supply				
14. Inflation and interest rates under control relative to the rest of the world				
15. A strong natural resource base that would enable the country to continue to generate wealth				
16. High level of taxes				
17. Dollars spent on luxury items (i.e., dining out, fast food) vs. dollars spent on necessities.				
18. Sophistication in management systems and business structures				
19. Rapidly growing middle class				
20. Increasing in number of tourists				

Social Cultural Factors	Y	Avg.	Change to	No Change
1. Familiarity with the English language and American idioms				
2. High literacy rates				
3. High educational levels				
4. Increasing number of working women				
5. Overcome cultural/language barrier				
6. Cultural acceptance of a dining establishment as a place to socialize with friends and family				
7. Availability of oriental labor				
8. Trend towards shortening of the work week and national development of more leisure time				
9. A country with a strong work ethic and traditional family values				
10. Growing, young population				
11. Dietary restrictions				

Franchising related Factors	Y	Avg.	Change to	No Change
1. Capability of potential franchisee (expertise and financial)				
2. Financial incentive (size of upfront territorial fees payable by franchisee				
3. Reports on the operations (i.e., sales reports)				
4. Product testing needed to adapt menu items to local tastes				
5. The success of other franchised American business in a specific country				

Franchising related Factors (Cont.)	Y	Avg.	Change to	No Change
6. Ease of royalty repatriation				
7. Acceptance of the restaurant concept/product by local population				
8. Ability to support franchisees				
9. Ability to control franchisees through the legal system				
10. Ownership of Proprietary information and technical knowhow				
11. Availability of qualified franchisees				
12. Interface between franchisors and franchisees				
13. Training franchisees				
14. Suitable location for the restaurant concept(ex.shopping malls)				
15. Availability of supplies and specified products that meets the restaurant's standard at reasonable prices				
16. An entrepreneurial spirit within the country which encourages people to become franchisees				
17. Potential size of market				

Criteria for considering master franchise agreements:	Y	Avg.	Change to	No Change
1. The ease to support the franchise system				
2. More prompt development (i.e., do several countries at once)				
3. Significant differences in language, cultural, and legal systems				
4. Franchisors do not have to make a capital commitment				
5. Allow local businessmen to run their business in a manner that is consistent with local business practices without the imposition of American morality or business practices				
6. Local tax issues				

Criteria for considering direct franchising:	Y	Avg.	Change to	No Change
1. Prospected country is relatively small (i.e., limited number of stores could be opened)				
2. No requirements for a franchisor to establish a branch or subsidiary				
3. Greater control over franchisee				
4. To effectively enforce and comply company's standards				
5. Local tax issues				
6. Significant differences in language, cultural, and legal systems				
7. Control of brand penetration and brand image by location				
8. Low resources commitment				

Criteria for considering joint venture:	Y	Avg.	Change to	No Change
1. Government restrictions on foreign ownership				
2. Limiting exposure to risk while retaining equity in the franchise business				
3. Make use of the resource of the franchisee in areas of expertise				
4. Widespread use of English Language				

COMPANY NAME: _____

PARTICIPANTS NAME: _____

THANK YOU VERY MUCH FOR YOUR TIME AND SUPPORT !!

VITA

Vipaporn Bosereewong was born on May 18, 1965, in Bangkok, Thailand. She completed her high school education at Dana Hall School, Wellesley, Massachusetts. She received a Bachelor degree in finance from Boston University in 1988. She received an MBA degree in international Business from Bentley College in 1990.

In August 1991, she entered the graduate school at Virginia Polytechnic Institute and State University to study for a Ph.D. in Hotel, Restaurant and Institutional Management. Her major area of interest is franchising and marketing. She was a Vice President of Internal Affairs for TTRA in 1992, and a Vice President of Finance in 1993.

At the time of the completion of this dissertation, she was a member of the management team of Embassy Suites Windsor Plaza in Bangkok, Thailand.

Vipaporn Bosereewong