MASTER'S THESIS

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Adoption of Franchising

Cultural barriers and pitfalls in Iran

Nastaran Abizadeh

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Supervisors:

Dr. Amir Albadavi

Dr. Esmail Salehi Sangari

Prepared by:

Nastaran Abizadeh

Tarbiat Modares University Faculty of Engineering

Department of Industrial Engineering

Lulea University of Technology

Division of Industrial Marketing and E-Commerce

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Abstract

As the result of globalization, today's business environment is undergoing a fundamental transformation. Franchising, as a business format for market penetration, has become an accepted strategy for business growth, job creation and economic development. It helps companies to expand into foreign market. It also helps companies to adapt to different cultures and business rules. This thesis focuses on cultural obstacles of franchising in Iran. To identify the cultural barriers, an interview guide was designed based on Hofstede's cultural model. The interview was conducted among owners, managers and employees of two of the biggest franchising companies that are already working in Iran. For analyzing the data gathered during the interviews, Grounded Theory was used in its three different coding levels, to translate the data and discover the main cultural barriers facing by franchising companies in Iran

Key words : Franchising, cultural barriers, grounded theory, Iran

Contents

Chapter One

Introduction

1. Introduction

This chapter will discuss background to the area of research followed by the research problem discussion. And then research objectives will be discussed.

1.1. Background

As the result of globalization, today's business environment is undergoing a fundamental transformation (Kotler & Armstrong, 2001). According to Brake (1995) this movement is so widespread that investment and patterns of trade are being shaped by companies that operate on a global level. To be able to compete in this business environment, companies have to start looking at their businesses from an international point of view. In this constantly changing environment, it is vital for companies to understand the role of culture differences and develop a business that is capable of working across cultures hence they need to have a flexible organizational culture.

According to Hoffman and Preble (2004) Franchising is a well working theory that helps companies adapt to different cultures and business regulations Cited by Engman and Thornulund (2008). According to Quinn (1998), franchising has become the cornerstone of international expansion of companies. The author argues that there are many advantages with franchising as an entry mode such as ability to expand the company rapidly and lowering the risk by spreading it across the networks.

Horovitz and Kumar (1998) have suggested that franchising is the appropriate market entry strategy in countries that are culturally distant to the home market and those that have relatively few barriers (such as stiff competition, high costs, and legal restrictions) to overcome.

According to Hunt (1972) Successful franchising relationships consist of three dimensions 1) the business relationship (day- to-day activities that help provide acceptable products and services to customers); 2) the nonbusiness relationship (the cooperative association that exists between the franchisor and the franchisee); and 3) the legal relationship (the contract that exists between the franchisor and the franchisee, and that prescribes the responsibilities and obligations of both parties). In a foreign market environment, maintenance of the first two relationships depends on the cultural distance from the home market, while the maintenance of the third relationship depends on the extent of legal barriers that have to be encountered in the local market. The terms "cultural distance" or "legal barriers" are relative, however, and any given country market would lie somewhere along a continuum with regard to either cultural distance or the extent of legal barriers.

The purpose of this paper is to build a framework that would examine the nature of the cultural barriers that are likely to be faced by franchisors In Iran.

1.1.1 History of franchising

Franchising as a business concept is fully established in the USA dates back to at least the 1850s when Isaac Singer wanted to increase the distribution of his sewing machines. But franchising gained acceptance as a type of business at the beginning of the 20th century. The automobile industry and the soft drink industry were the first to adopt the so-called product and trademark franchising. Later, in the 1930s, the petroleum industry franchised the gasoline service stations.

Since then many European countries found to be adapting franchising. Even developing countries are benefiting from franchising. As franchising as a business model has grown, so has research interest in it as a means of global strategy. Kidwell et al. (2007) stated that researchers have examined such topics as control and power in international franchising cited by Doherty and Quinn, (1999); Quinn, (1999); Pizanti and Lerner, (2003), control techniques used by franchisors to monitor franchisees in distant markets cited by Dant and Nasr (1998), the inability of franchise chains to coordinate price, quality and advertising (Michael,2002), and resource scarcity and agency theory explanations for franchise growth cited by Alon (2001). the past decade has witnessed international retail academics examining a limited range of franchising issues such as in-depth company experiences cited by Sparks, (1995); Quinn, (1998b), power and control in international retail franchising cited by Quinn, (1999); Quinn and Doherty, (2000) and the theoretical development of the area cited by Doherty and Quinn, (1999); Quinn and Doherty, (2000); Doherty and Alexander, (2004). According to Doherty (2007), researches on franchising have been dominated by the studies on how companies, that have domestic franchising business, bring their tested franchising into the global market. Yet few studies have focused on the cultural barriers of franchising.;

1.2 Definition of franchising

According to Quinn (1998), franchising is considered to be a relatively low cost, low control entry mode, Franchisors sell the right to market goods and services to franchisees who use the franchisor's brands and business methods (Combs et al., 2004). Luangsuvimol and Kleiner (2004) define franchising as "a long-term, continuing business relationship wherein for a consideration, the franchisor grants to the franchisee a licensed right, subject to agreed requirements and restrictions, to conduct business utilizing the trade and/or service marks of the franchisor and also provides to the franchisee advice and assistance in organizing, merchandising, and managing the business conducted to the licensee". According to Sashi and Karppur (2002) the transaction between franchisor and franchisee is influenced by different factors, such as technical complexity, brand name, unstable environment, cultural diversity and opportunistic behavior. These factors affect transaction cost and the mode of operation in global

market. Root (1994) defines entry mode as an arrangement that makes possible the entry of a company' product, technology, human skills and other resources into a foreign country.

1.3 Problem Discussion

Franchising has grown to be a dominate distribution tool for goods and services. Now days, franchising makes it possible to purchase a wide range of product and service from all over the world (Birkeland,2002). According to Hofman and Preble (2004), East Europe, Middle East and Asia are regions where franchising is emerging. Franchising has become an accepted strategy for business growth, job creation and economic development. It is now a recognized and reputable way of doing business. Franchise systems are present in most Industry sectors, and the economic impact of franchising is substantial and growing. The role of franchising in the growth of global entrepreneurship and new ventures in a variety of industries should not be underestimated. For example, in the United States, franchise chains account for more than 40% of retail sales, and are a prominent business model in such industries as lodging, printing/copying, restaurants and tax preparation (Combs et al., 2004). There are many cultural and legal barriers for adoption of franchising as a business strategy in Iran. The benefit of franchising for the economy should not be under estimated.

1.4. Importance of the subject

Many leading international businesses have grown through franchising. The franchise model enables business owners to expand their business in partnership with independent entrepreneurs while retaining control of the business model. It is estimated that franchises account for 14 percent of the world's total retail sales. In Europe, there are 170,000 franchising units, providing employment to approximately 1.5 million people and accounting for a total turnover of approximately 160 billion Euros. In the U.S. approximately one in every twelve new businesses is founded on a franchising agreement. In developing countries, over the last decade, the expansion of franchising has also been significant. For example in Malaysia the total franchise sales were recently estimated at about US$ 5 billion providing employment to 80,000 people and creating over 6,000 franchisees (Wipo). According to reviewed literature, Franchising has an important role in all economies, yet due to its global importance, little attention has been paid to it in Iranian market. There are so many barriers facing Iranian firms for adapting franchising

such as cultural, legal, economical, political and tariff barriers. According to already existing managers of franchising business in Iran, one of the most important barriers facing franchisor and franchisees is cultural barriers. Cultural barriers stem from the differences in cultural variables (material culture, social organization, religion, language, aesthetics, popular culture, etc.) between the host and home countries. The greater the differences in these cultural variables, the greater are the "cultural distance" between the host and home countries (Eroglu 1992). The greater the cultural distance, the more challenging is the task of transferring a franchising system from the home Country (Fladmoe-Lindquist 1996). The main purpose of this study is to identify the main cultural factors in the way of expansion of franchising in Iran.

1.5. Purpose and research questions

Since the markets of developed countries are becoming more saturated and competition is diminishing profit potential, more and more franchisors are looking to emerging market economies (Alon and Toncar 1999). This thesis provides an overview of Iran franchise environment and the cultural environment of Iran. It should be taken into consideration that rapid changes in any aspect can ultimately change the favorability of the environment for franchising, or any other business type. The objective of this thesis is to study the importance of franchising and barriers and pitfalls companies are facing for granting a franchise license and how to overcome these obstacles.

RQ: What are the franchising cultural barriers in Iran?

1.6. Outline of the thesis

This thesis consists of 5 chapters. In the first chapter, we briefly gave an outlook of the subject and stated the research problem and importance of the franchising in a country's economy and an overall research purpose. The second chapter provides theoretical issues related to the topic and a review of the literature related to the subject. In the third chapter the different method implemented in this study will be introduced. Fourth chapter deals with data gathering and data analysis. Finally, in the last chapter findings and conclusions derived from research and theories is presented.

| Introduction | → | Literature review | → | Methodology | → | Data gathering Data analysis | → | Findings and conclusions |
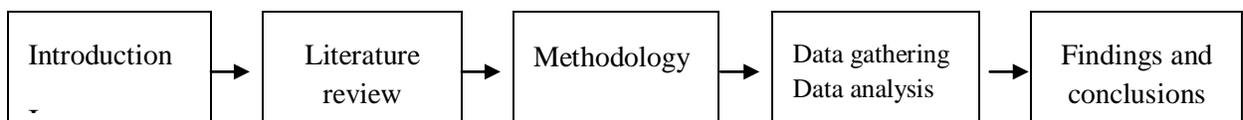
Figure 1.1 Outline of the thesis

SOURCE: Author's design

Chapter two

Literature review

2. Franchising theories

In this chapter an overview of the previous studies is presented. The different types of franchising and the main reasons for franchising will be presented by a brief review of the franchising theories followed by the literature related to culture and cultural barriers. At the end we'll explain the importance of culture and cultural barriers in the way of franchising. Finally the most relevant theories for this research will be summarized in a conceptual framework.

2.1. Franchising

Franchising is one of the most popular and successful strategies for businesses to enter new markets and expand operations. Franchising enables the franchisor to enter a new market with

very low risks and initial investment. Franchising systems are facing new challenges every day, such as: legal issues, marketing campaigns, franchisee- franchisor relationship, use of high tech systems, etc. (Saleh and Kleiner, 2005). According to Quinn (1998), franchising is considered to be a relatively low cost, low control entry mode. Franchisors sell the right to market goods and services to franchisees that use the franchisor's brands and business methods (Combs et al., 2004).

In a franchising arrangement, a supplier (the franchisor) grants a dealer (the franchisee) the right to market its products in exchange for some type of consideration, such as a financial commitment and an agreement to conduct business in accordance with the standards specified by the franchisor (Pride and Ferrell 2000). According to Clarke Franchising can be defined as a "type of business arrangement in which one party (the franchisor) grants a licence to another individual, partnership or company (the franchisee) which gives the right to trade under the trade mark and business name of the franchisor"

Luangsuvimol and Kleiner (2004) define franchising as "a long-term, continuing business relationship wherein for a consideration, the franchisor grants to the franchisee a licensed right, subject to agreed requirements and restrictions, to conduct business utilizing the trade and/or service marks of the franchisor and also provides to the franchisee advice and assistance in organizing, merchandising, and managing the business conducted to the licensee". Franchising has also been seen as an alternative to individual self-employment decisions to start an independent small business (Kaufmann, 1999; Williams, 1998).

As said by Justis & Judd (1998) franchising is a key tool in the entrepreneur's toolbox. In a franchising relationship, a franchisor sells the right to use its trade name, operating systems, and product specifications to a franchisee. The franchisee is permitted to offer the franchisor's product/service under the franchisor's name within a specified region and time period. Felstead (1993) describes franchising as a business relationship whereby a franchisor permits a franchisee to use its brand name, product, or system of business in a specified and ongoing manner in return for a fee. In terms of market entry mode strategies available to international retail companies', franchising has proved an increasingly popular mode of operation in recent times (Doherty and Quinn 1999). Retailers also appear to have found franchising to be a valuable means by which to develop their businesses. The strategy of franchising has been traditionally associated with the service sector, and in particular the fast food restaurant business (English and Willems, 1992). However, in more recent times, franchising has been increasingly adopted across a range of other retail sectors. Franchising is considered as a market entry strategy for international retail companies. Franchising is increasingly used as a means of entering foreign markets. For niche

retailers such as Body Shop, Yves Rocher, Sock Shop and Benetton, it has become the cornerstone of international expansion activity, providing them with the opportunity to rapidly build a global operation, without exerting considerable financial pressure on domestic retail operations. Franchising has also found favor among more traditional retailers, those companies without a strong global appeal, where it has been employed as part of a balanced portfolio of entry strategies, rather than as the sole means of international expansion. Such companies have included the supermarket and hypermarket operators Casino (France) and GIB (Belgium) and UK variety stores Marks and Spencer and BhS. In such cases it has often been used as a low cost/low risk alternative for expansion to internationally diverse economies.

2.2. Motives for franchising

As said by Alon and McKee (1999), although the international franchising is growing and expanding rapidly the motives and factors that influence companies to franchise is unknown to many. Understanding the factors that influence the intention of companies is important. Welch Has introduced a model that explains the motives for choosing franchising instead of other forms of market penetration.

2.2.1. Motives for franchising internationally by Welch

Quinn (1998) refers to a theory by Welch that argues that a complex interaction of different factors influence a company to franchise internationally. The main factors that influence the company are direct stimuli, background factors and decision maker's characteristics (Engman & thornlund, 2008) these factors are shown in the figure 2.1.

Figure2.1. Motives for franchising by Welch

Direct stimuli:	Background factors:	Decision makers:
• Internal • External	• Network speed • Expantion ethos • Learning process	• Values • Attitude • Experience • Knowledge

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Franchisor
interest in
international
operation
        ↓
International Entry
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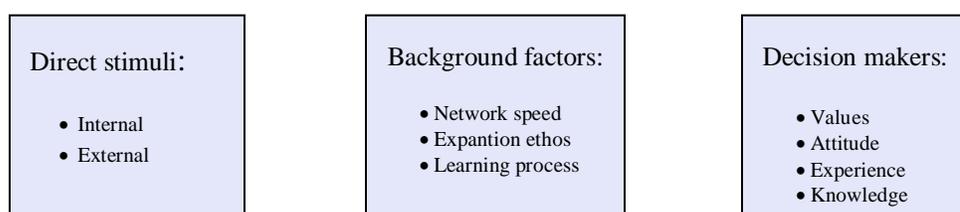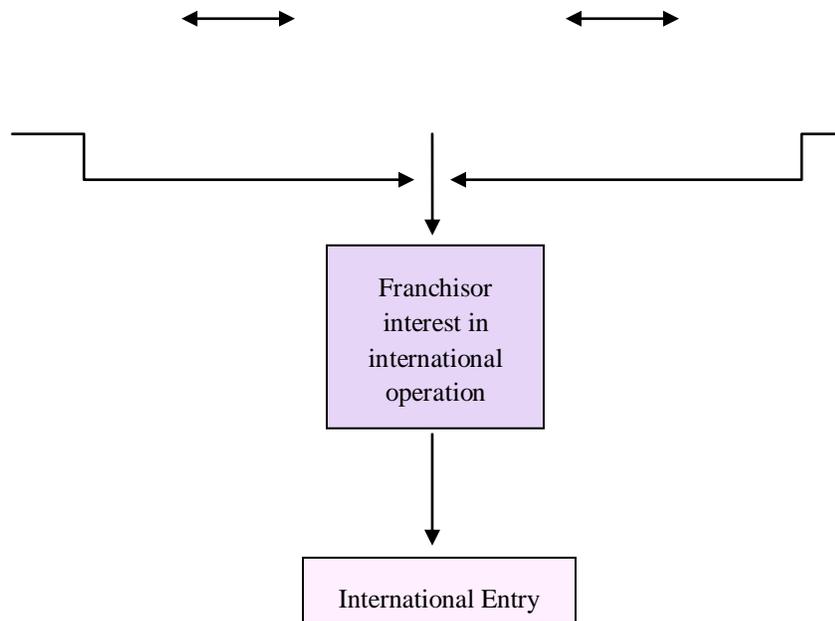
Source : Quinn (1998)

According to Welch (1990) the background prepares a company for international move. There are three factors that influence the decision to franchise internationally. Network spread, Expansion ethos and learning process. Background do not influence the franchising process but it prepares a company for the move. Direct stimuli can be internal or external. Internal stimuli are any excess capacity in the firm resources, or any unique competency. According to Welch (1990) External stimuli are any factors that motivate the company to franchise internationally such as orders from foreign customers, domestic competitors entering foreign market, high level of competition in domestic market and various market opportunities in foreign market. The last factor is the decision makers. Making the decision to internationalize not only depends on the company and its environment but also on the characteristics of individuals in the company such as knowledge, value, attitude and experience.

2.3. Reasons for franchising

According to by Lafontaine and Kaufmann (1994), the literature on franchising suggests a number of explanations for it. The three predominant ones are the transaction costs approach derived from Williamson's work, the resource constraints theory, and principal-agent theory. The transaction costs approach argues that franchising is used as an alternative to full diversification

where conditions militate against the firm being able to pass Porter's better-off test. This situation is likely to occur where a firm would face heavy administrative costs, particularly those of monitoring and control, as a result of diversification the resource constraints theory argues that the cost-of-entry is the main barrier to total diversification, especially into new markets. It argues that businesses initially move into franchising because they are unable or unwilling to access all the resources required to expand into new markets. The final theory used to explain franchising the principal-agent theory is more concerned with explaining the continued existence of franchise systems than their origins. It argues that franchising can be mutually beneficial for the franchisor and franchisees and so there is no reason for them to be fully integrated (Boyle, 1999).

2.3.1. Resource scarcity

The use of franchising has principally been explained by resource arguments and agency theory. Resource scarcity theory proposes that companies are motivated to franchise primarily as a means of raising capital (Oxenfeldt and Kelly, 1968). Franchising allows the franchisor to overcome internal resource constraints by providing access to franchisees' resources. The franchisees pay an initial fee to join the system, and also provide a constant and on-going stream of finance to the franchisor, via 'royalty' incomes or management fees, in return for continual support. In addition to requiring financial resources, in the early stages of development the franchisor will require informational and managerial resources (Michael, 2002). The franchisor will require information regarding desirable locations, information regarding sources of labor and site managers to implement the business concept. As franchisees operate typically in markets and communities of which they are themselves members and have considerable local knowledge, they can provide such information. Thus, franchisees bring to the franchise system not just financial capital, but also knowledge of geographic locations and labor markets, and their own managerial labor; that is they represent an efficient bundled source of financial, managerial and information capital (Dant and Kaufmann, 2003). This resource scarcity view would suggest that in the long-term franchised chains will revert to company owned networks cited by (Oxenfeldt and Kelly, 1968) and has prompted a number of studies who have attempted to test this proposition. It is argued that companies are motivated to franchise primarily as a mean of raising capital. For firms with limited resources, the financial capital franchisees provide enables them to expand. Thus those companies lacking in resources will favor franchising compared to firms

that are relatively resource rich, a proposition supported by research undertaken by carney and Gedajlovic (1991) cited by (Watson et al. 2005). Capable managers may be co-opted through franchising to overcome this human capital constraint. The particular feature of resource constraint explanations is the implicit view that franchising is a second-best solution forced upon the company by temporary circumstances. Franchising may be perceived as a short-term strategy for expansion in the face of resource constraints, with the longer-term intention of a reduced role for franchising. Even when franchising is not initially conceived as a temporary strategy, franchisors' resource constraints will recede and with them the need to rely upon franchisee resources will decrease. Hence, resource constraint theory is associated with the franchise redirection debate. This debate, about long-term changes in the proportion of company owned and franchised units in a channel, has dominated much of the economic research in franchising. According to resource constraint theory, franchise chains will initially franchise near to 100 per cent of outlets, but as resource constraints are relaxed the need to franchise is lessened, and the proportion of franchise chains will move towards 0 per cent (Hopkinson and Hogarth, 1999). It should be noticed that validity of the resource scarcity has been questioned (Kauffman and Dant, 1996). It is argued that as franchisees have their financial risk concentrated in a single, or at least limited, number of outlets, they will demand a high rate of return on their investment to compensate them for the risk they bear. As such it would be more efficient to sell shares in the whole chain, thus diversifying the risk. In addition if franchising were simply a means to overcoming capital market imperfections, then it would be expected that, as franchisors mature , they would reduce their reliance on franchising. However there appear to be no empirical evidence to support this. (Watson et al. 2005)

2.3.2. *Agency theory*

Agency theory is based on the concept of the principal-agent relationship where one party (the principal) delegates work to another (the agent) who performs the work on a day-to-day basis. In the standard theory of the firm, under the divorce of ownership from control, shareholders represent the principals in the relationship and management the agents. In the context of the principal-agent relationship, agency theory highlights the importance of the information transfer process, the information asymmetry problem Cited by (Arrow, 1962) and associated monitoring costs. This information asymmetry problem arises in the principal-agent relationship because

agents, being in day-to-day control of a company, have detailed knowledge of its operations. The principals have neither access to this knowledge, nor, in many cases, the ability to interpret information, if access was perfect. Doherty and Quinn (1999) contend that the franchisor-franchisee relationship parallels the principal-agent relationship, thus allowing agency theory to provide insights into international retail franchise activity. Table 2.1 adapted from Doherty (1999) and Doherty and Quinn (1999) outline key aspects of agency theory which make it particularly suitable for analyzing the international retail franchisor-franchise relationship.

Table 2.1. Reasons for applying agency theory to international retail franchising

Emphasis on	Realistic behavioral assumptions
1.Importance of information asymmetry, information transfer process and associated monitoring costs	**bounded rationality**
2.Profit maximization through intermediate product markets, i.e. intangible assets such as knowledge and technology	**Potential for goal conflict**
3.Economic motives such as risk and incentives	**Potential for opportunism**

Source :(Quinn and Doherty)

2.3.3. Transaction cost

Transaction cost analysis has also been used to explain the adoption of franchising. Transaction cost refers to the costs arising during some forms of economic exchange, principally due to uncertainty and opportunism. Transaction costs can be categorized as being bargaining; maladaption or monitoring cost, but it is this latter category upon which the majority of the franchise literature has focused to explain the incidence of franchising. Monitoring costs principally incurred due to opportunistic behavior by agents. And it is argued that franchising provides incentives, by making franchisees residual claimants, to reduce opportunitistic behavior and therefore monitoring cost (Watson et al 2005). Transaction cost economics (Williamson,

1985) is widely used alongside agency explanations of franchising. Transaction cost economics relates the choice of firm governance structure to the comparative costs of planning, adapting and monitoring. Two behavioral characteristics are central to transaction cost economics: bounded rationality (the inability to predict all future states); and opportunism (the tendency to act for personal benefit). Transaction-cost economics highlight the investment in transaction-specific assets, which in effect creates hostages within inter-organizational relationships. The effectiveness of inter-organizational arrangements depends upon the appropriate use of hostages to limit rather than encourage opportunism. Transaction cost economics contributes to the development of franchising theory. Contractual safeguards are created to protect against moral hazard (opportunist exploitation). Many of the contractual clauses within the franchise agreement are interpreted as ex ante safeguards. In this way, the contract is not seen as an arbitrary use of unilateral power by the franchisor. The contract is seen instead as a complex monitoring agreement, within which each side posts hostages, in order to facilitate effective centralized monitoring and to prevent externality costs. (Hopkinson and Hogarth, 1999)

Figure 2.3. Reasons for franchising
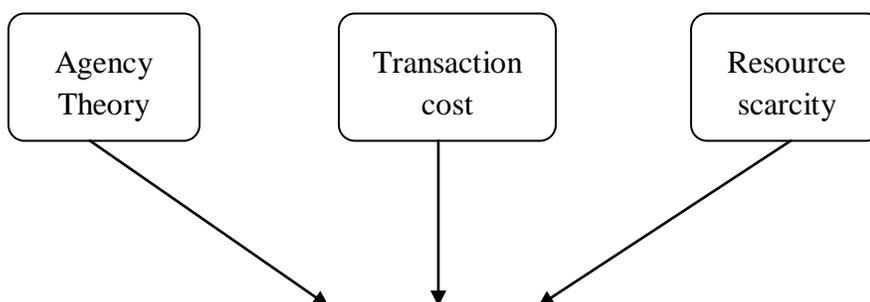
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│                          │
│  Reasons for franchising │
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Source: Authors design

2.4. International franchising in emerging markets

In recent years, franchising has experienced phenomenal growth both in the U.S. and abroad. The success factors are well documented (e.g., Shane and Spell, 1998; Alon, 2004). Alon and Tocar (1999) believe that since the markets of developed countries are becoming more saturated and competition is getting harder, more and more franchisors are looking to emerging market economies. While in the U.S., Canada, and parts of Western Europe franchising has reached domestic market saturation, emerging markets are still available. Emerging markets have 80% of the world's population, are among the fastest growing target markets for international franchisors (Welsh and Alon 2001). Franchising has been advocated as a method of growth for developing countries, providing know-how, and advanced marketing and management practices that are of high importance in the post-communist countries (Alon and Toncar 1999). Because business format franchising focuses on the transfer of retail know-how rather than on product distribution, it is the form of international franchising most likely to have a direct effect on the economic development of developing countries (Kaufmann and Leibenstein 1988). Since Iran is a populated developing country, franchising can be beneficial for its growth. Yet many known and unknown barriers are preventing foreign companies to penetrate Iranian market and domestic companies to adopt franchising as a way of expanding their business both in Iran and abroad.

2.5. Culture

According to Abdin (2008), Culture is that what we are, Our way of speaking, eating, dressing, believes, norms, values and judgment everything included in our culture. Studying culture of a nation includes the overall study of a nations lifestyle, living standards, way of interaction everything they do from the morning up to go to the bed in late night included their culture. Not only that, believes, values, norms, and judgment also included into their culture. The author later mentions that: Culture is Set of commonly held values, a way of life of a group of people

includes knowledge, belief, art, morals, law, customs and habits, in other words it's everything that people have, think and do as members of their society.

Abdin (2008) explains the origins, Elements and consequences of culture. These factors are mentioned in the table 2.2.

Origins	Geography (climate etc.), History, Technology, political economy, Social Institutions (family, religion, school etc.)
Elements of culture	Values, Rituals, Symbols, Beliefs & Thought Process, language ,norms, Laws, taboos, technology
Consequences	Consumption decisions& Behaviors, Management Style

Table 2.2. Origins, Elements, and consequences

2.6. The effect of culture on franchising

Alon and McKee (1999) developed "a macro environmental model" of international franchising. According to this model, there are four factors important to a country analysis including:

(1) economic, (2) demographic, (3) distance, and (4) political dimensions. Two more dimensions were added by Anttonen et al. (2005). They were (5) culture and (6) legislation. Culture variables according to Hofstede, (individualism/collectivism, power distance, uncertainty avoidance, and masculine/ feminine) affect the feasibility and acceptance of a franchise system.

Cultural barriers stem from the differences in cultural variables (material culture, social organization, religion, language, aesthetics, popular culture, etc.) between the host and home countries. The greater the differences in these cultural variables, the greater are the "cultural distance" between the host and home countries (Eroglu 1992). The greater the cultural distance, the more challenging is the task of transferring a franchising system from the home Country (Fladmoe-Lindquist 1996). As mentioned by Hawkes et al. Culture affects managerial business practices such as contract negotiation with prospective franchisees, operational business practices such as day-to-day implementation of the product, price, promotion, and distribution strategies, and personnel management practices such as hiring of and communicating with

employees and performance evaluations (Eroglu 1992; FladmoeLindquist 1996; Alon and McKee 1999).

The successful expansion of franchising systems into a country likely depends on its cultural "context." Hall (1976) dichotomized cultural contexts as being high or low. In a low- context culture, such as in the United States, information is contained in explicit codes that are written down or verbally expressed in exactly the way they are meant. In a high- context culture, in contrast, information is contained either in the physical context of the communication, or it is internalized in the values of the communicators, so that words are not to be taken at face value, but meaning must be inferred. Examples of high-context cultures are found in countries in the Middle East, the Far East, Latin America, and Africa. High-context cultures generally function with much less legal paperwork than is deemed necessary in low- context cultures (Keegan and Green 2000). This is likely to make franchising operations relatively difficult in highcontext cultural environments, because making local franchisees strictly comply with the franchise contract (which is the backbone of the franchising relationship) becomes more difficult in such environments.

To ensure success in international markets, franchisors must improve their understanding of the diverse cultural forces at work around the world. Sometimes, a concept will not fit a foreign cultural lifestyle at all. For example, a well known American bagel franchisor sold its rights to development in Lima, Peru, without realizing that Peruvians did not eat breakfast (Bucher 1999). Adaptation to local cultural norms will often be necessary. An American restaurant franchisor allowed its Egyptian franchisees to develop special food products for the menu during the Muslim holy month of Ramadan. In Saudi Arabia and Qatar, where local customs required the seclusion of women in public places, this franchisor had to alter their restaurants to include "family areas" that women could visit (Martin 1999). Hence it is important to know the factors of culture in target market company, Either it's a foreign country trying to penetrate Iranian marker or Iranian company willing to see its right to a franchisee.

2.7. High context versus Low context culture

The successful expansion of franchising systems into a country likely depends on its cultural "context." Hall (1976) dichotomized cultural contexts as being high or low. In a low- context

culture, such as in the United States, information is contained in explicit codes that are written down or verbally expressed in exactly the way they are meant. In a high- context culture, in contrast, information is contained either in the physical context of the communication, or it is internalized in the values of the communicators, so that words are not to be taken at face value, but meaning must be inferred. Examples of high-context cultures are found in countries in the Middle East, the Far East, Latin America, and Africa. High-context cultures generally function with much less legal paperwork than is deemed necessary in low- context cultures (Keegan and Green 2000). This is likely to make franchising operations relatively difficult in high context cultural environments, like Iran because making local franchisees strictly comply with the franchise contract becomes much difficult in such environments.

2.8. Hofstede Cultural Model

Alon and McKee (1999) have suggested the use of Hofstede's (1980) four dimensions of culture to review how international expansion by a franchisor might be affected by cultural distance. They have proposed that the level of international franchising is positively related to all four of Hofstede's dimensions: individualism, power distance, uncertainty avoidance, and masculinity of a culture. From 1967 to 1973, Hofstede while working at IBM as a psychologist, he collected and analyzed data from over 100,000 individuals from 50 countries and 3 regions. From the initial results, and later additions, Hofstede developed a model that identifies four primary Dimensions to assist in differentiating cultures: Power Distance - PDI, Individualism - IDV, Masculinity - MAS, and Uncertainty Avoidance - UAI.

The implication for Iran is that foreign companies should evaluated Iranian market in terms of how different they are along these four dimensions compared to the Iran before a decision is made to expand into these markets. Below each of these dimensions are explained.

Power Distance Index (PDI) that is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally. This represents inequality (more versus less), but defined from below, not from above. It suggests that a society's level of inequality is endorsed by the followers as much as by the leaders. Power and inequality, of course, are extremely fundamental facts of any society and anybody with some international experience will be aware that 'all societies are unequal, but some are more unequal than others'. (Hofstede, 1980)

Individualism (IDV) on the one side versus its opposite, collectivism, that is the degree to which individuals are integrated into groups. On the individualist side we find societies in which the ties between individuals are loose: everyone is expected to look after him/herself and his/her immediate family. On the collectivist side, we find societies in which people from birth onwards are integrated into strong, cohesive in-groups, often extended families (with uncles, aunts and grandparents) which continue protecting them in exchange for unquestioning loyalty. The word 'collectivism' in this sense has no political meaning: it refers to the group, not to the state. Again, the issue addressed by this dimension is an extremely fundamental one, regarding all societies in the world. (Hofstede, 1980)

Masculinity (MAS) versus its opposite, femininity refers to the distribution of roles between the genders which is another fundamental issue for any society to which a range of solutions are found. The IBM studies revealed that (a) women's values differ less among societies than men's values; (b) men's values from one country to another contain a dimension from very assertive and competitive and maximally different from women's values on the one side, to modest and caring and similar to women's values on the other. The assertive pole has been called 'masculine' and the modest, caring pole 'feminine'. The women in feminine countries have the same modest, caring values as the men; in the masculine countries they are somewhat assertive and competitive, but not as much as the men, so that these countries show a gap between men's values and women's values. (Hofstede, 1980)

Uncertainty Avoidance Index (UAI) deals with a society's tolerance for uncertainty and ambiguity; it ultimately refers to man's search for Truth. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. Unstructured situations are novel, unknown, surprising, and different from usual. Uncertainty avoiding cultures try to minimize the possibility of such situations by strict laws and rules, safety and security measures, and on the philosophical and religious level by a belief in absolute Truth; 'there can only be one Truth and we have it'. People in uncertainty avoiding countries are also more emotional, and motivated by inner nervous energy. The opposite type, uncertainty accepting cultures, are more tolerant of opinions different from what they are used to; they try to have as few rules as possible, and on the philosophical and religious level they are relativist and

allow many currents to flow side by side. People within these cultures are more phlegmatic and contemplative, and not expected by their environment to express emotions. (Hofstede, 1980)

2.9. The importance of studying Hofstede model in Iran

It has been well established that countries differ in some cultural dimensions, which include sets of values, norms, and beliefs (Hofstede, 2001). In a high- context culture, such as Iran, information is contained either in the physical context of the communication, or it is internalized in the values of the communicators, so that words are not to be taken at face value, but meaning must be inferred. Examples of high-context cultures are found in countries in the Middle East, the Far East, Latin America, and Africa. High-context cultures generally function with much less legal paperwork than is deemed necessary in low- context cultures (Keegan and Green 2000). Companies in counties with similar cultural context are more likely to do business with each other. Cross cultural researchers have used different cultural dimensions in their studies for different purposes. Hofstede (1980, 1993, 2001) proposed some universal dimensions such as power distance, masculinity, uncertainty avoidance and individualism/collectivism to compare national cultures. Although Hofstede classic dimensions were developed approximately three decades ago, many researchers have applied them in recent cross-cultural studies.

2.10. The cultural environment of franchising in Iran

The unique Iranian culture creates conditions, which have to be taken into account in doing business. One of the biggest challenges is the Farsi language, which should not be underestimated in the business life. Thus, many things should be take into consideration, for example, whether or not to translate the trade name into the Farsi alphabet.

Cultural variables affect the viability and acceptance of a franchise system (Alon and McKee 1999). Cross-cultural research has employed the work of Hofstede who divides cultures along four dimensions: (1) individualism/collectivism, (2) Power distance, (3) Uncertainty avoidance (4) Sex role differentiation (masculine/feminine). Alon, Toncar and McKee (2000) have argued that particularly high levels in masculinity and individualism are preferable franchising country-related factors. Thus, Iran is among the most attractive host country alternatives, because the

culture is very masculine. In the individualism/collectivism dimension the countries score is somewhat average. In addition, power distance and uncertainty avoidance (both of which are considered as negative features) are average in Iran.

Franchising is a relatively new phenomenon in Iran. The word franchising does not exist in the Farsi language, but efforts are being made to educate the public and businesses.

Although foreign franchises are very popular between the Iranian people still Iranian market rejects western products with the aim of supporting domestic producers. This issue is a barrier which should not be ignored.

2.11.　　Current state of franchising in Iran

Franchising literature suggests a number of barriers for adopting franchising. Barriers like governmental or legal restrictions in import and export, Lack of sufficient local financing, difficulty of controlling franchises by franchisor, difficulty of making the product or service acceptable to consumers, social barriers such as cultural, ethical, language and religion and difficulty of redesigning the franchise package to make it saleable to franchisees in different countries considering different cultures and trademark, and also Patent and copy right obstacles which does not exist in Iran. Although franchising has proven to be an adaptable strategy for business expansion, Iranian firms are experiencing a very slow development compared to other developing countries especially in the Middle East. Also many barriers for system expansion such as governmental, Cultural and language barriers exist. Nevertheless, Chan (1994) believes that franchising has proven to be a highly adaptable strategy for international expansion. There are major differences between the laws in different countries regarding franchising and the franchisor-franchisee relationship. Local franchising and trade name franchisees are not a novelty in Iran. There are retailers (Shahrvand etc.), Fast-food restaurants (Boof, Ice pac etc.), food industry (Coka-cola) Carrefour supermarkets soon to be opened, services, real estates and travel agencies following franchising system locally. There are also new clothing franchises opening in Iran such as Benetton, Mango, addidas, Debenhams etc.

In some developing countries, franchising has been adopted by national governments as an approach for faster economic development and is considered a major tool for providing faster job creation and new incomes. Franchising as a market entry strategy can have advantages as many

countries benefit from the system. Issues such as perception of benefits, survival rates and franchisee motivation, predict development is well thought-out by franchisors when granting the franchise license as well as the key reasons for running a franchise business instead of other alternative forms of ownership.

The main restrictions on imports are licensing requirements and exchange controls. There are two main taxes on imports: customs duties and the so-called commercial benefit tax, which acts just like a customs duty, but has grown in importance because it can be changed by administrative decree. The rates of both these taxes are low. In addition, domestic sales taxes and income tax have minor implications for trade because they are applied at different rates to domestic activities and international trade. This section quantifies and analyzes these policies and suggests how they might be reformed. Iran's system of import licensing is governed by three overlapping classifications of goods. The first classification is set out in the import and export regulations of the ministry of commerce, which lists the ministries whose permission is needed to obtain a license to import the goods corresponding to each of the 5,113 six-digit harmonized system codes used in Iran. The second classification is the list of goods that can be imported with foreign exchange earned from non-oil exports "positive list", which contains 77 broad categories of goods . The third classification, defined in Sub-Article 29 of the Budget Law for 2000/01, is the subset of the positive list that is exempt from the requirement that imports of goods on the positive list must be paid for with foreign exchange earned from non-oil export. In addition to licensing, imports are also subject to quarantine controls. These controls do not appear to be misused to provide protection from foreign competition. Iran also imposes mandatory quality standards on imports, which are sometimes used to protect domestic producers.

Some goods on the positive list do not correspond exactly with the classification of items in the import and export regulations, and the existence of overlapping classifications complicates import licensing arrangements. Nevertheless, goods that are treated liberally under one classification are usually treated liberally under the other. It is thus possible to summarize the licensing system in a way that is approximately correct. At least when the world price of oil is high enough to provide the government with buoyant foreign exchange receipts, licenses to import goods on the positive list can usually be obtained, often with only minimal registration formalities. In contrast, licenses to import goods that are not on the positive list are very difficult

to obtain. Other than by smuggling, the most practical way of bringing these goods into Iran is to import them into the free-trade zones (within which importing is possible without a license) and then use the procedures by which limited quantities of goods can be legally imported without licenses from these zones into the customs territory of Iran.

Importers of Iran must obtain prior permission from the Ministry of Commerce by submitting the proforma invoice and order registration documents for any import. Under regulations effective May 1994, all imports must be authorized by the Ministry of Commerce before they are registered with the authorized banks. The current Commercial Benefit Tax (CBT) specified for each item has to be paid to the Ministry of Commerce. There is no limit to the amount of imports. Foreign exchange in Iran is controlled by the Government. Currencies are not freely traded and prior approval from Govt. is necessary for obtaining foreign exchange for import.

Monetary and Exchange Control Policies and Regulations are published by the Central Bank of Iran. All foreign exchange transactions must take place through this system.

Iran is having general tariff/duties set by the Ministry of Commerce and these are applicable to imports from any country including India. Most imports are subject to the commercial benefit tax, which is either specific or ad valorem. Monopoly taxes, if any, are included in the commercial benefit tax. The rate of the commercial benefit tax is specified each year in export-import regulations and these taxes are paid to customs before customs clearance. All goods imported to Iran must conform to the Ministry of Commerce Acceptable Standards

There is no non-tariff barrier/restrictive/quota system. It depends on allocation of foreign exchange and Ministry of Commerce's permission However, import of some good into Iran is restricted

Chapter Three

Methodology

3. Methodology

In this chapter we briefly discuss the methodology to be used in this research and throughout the chapter different perspectives on research method will be introduced. The research purpose, research approach and the research strategy that has been used in this research will be discussed. Then the sample selection will be summarized followed by the data collection and data analysis. Outline of methodology is illustrated below.

```
┌──────────┐  ┌──────────┐  ┌──────────┐  ┌──────────┐  ┌──────────┐
│ Research │  │ Research │  │ Research │  │   Data   │  │   Data   │
│ purpose  │  │ approach │  │ strategy │  │collection│  │ analysis │
└──────────┘  └──────────┘  └──────────┘  └──────────┘  └──────────┘
        ┌──────────────────────────────────────────────────┐
        │             Validity and reliability             │
        └──────────────────────────────────────────────────┘
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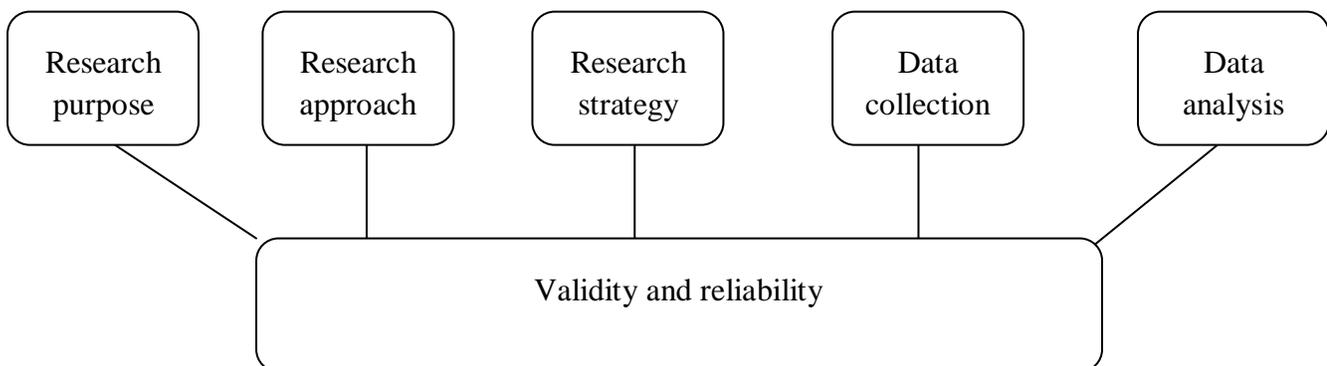
Figure 3.1. methodology issue for the thesis, **Adapted from foster 1998**

3.1. Research purpose

There are many techniques that can be used to carry out a research. Different types of research can be classified according to how much researcher knows about the problem before starting the

research. As Yin (2003) mentioned, there are three classification of research available when dealing with a research problem: Explanatory, descriptive or exploratory.

3.1.1. Exploratory

According to Yin (1994), exploratory research is often conducted when problem is not well known or it has not been clearly defined as yet, or its real scope is as yet unclear. According to Patel and Davidson (2003) the main purpose of this kind of research is to gather a lot of knowledge and different techniques are used to gather the material. Exploratory research is suitable when a problem is so hard to define specially in early stages of research process.

3.1.2. Descriptive

When a particular phenomenon of a nature is under study, it is understandable that, research is needed to describe it, to explain its properties and inner relationships (Huczynski and Buchana 1991). As Khan (2007) stated, Descriptive research is used to obtain information about the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation (Khan, 2007) in other words descriptive research describes a phenomenon as it exists . As Yin(2003) mentioned, this method is used to reach information on characteristic of a particular subject. The main objective of descriptive research is to represent a precise report of a situation. It answer to questions such as who, what, when, how and where. It may also help to determine the difference, in need, feature of subgroups and characteristics.

Descriptive research is frequently used when a problem is well structured and there's no intention to investigate cause/effect relations. The data collected are often quantitative and statistical techniques are often used to summarize the information (Yin, 2003).

This research is somehow descriptive as the gathered data was used to describe the current situation of franchising in Iran

3.1.3. Explanatory

Explanatory research is a continuation of descriptive research. The researcher goes beyond describing the characteristics to analyze and explain why and how something is happening. It can also be used when the study aims to explain certain procedures from different perspectives or situations with give set of events (Yin, 2003).

According to Yin (1994) explanatory research is useful when studies involve relation between causes and symptoms. The researcher investigates a certain stimuli or factor affects one another In this research the primary goal is to understand the nature or mechanisms of the relationship between the independent and dependent variable (Zikmund, 1994). As Yin (1994) mentioned, an explanatory research approach could also be used when the study aim to explain certain phenomena from different perspectives or situations with set of given events.

The model that is going to be used in this thesis is based on previous theories. The purpose of this research is carried out to both descriptive and explanatory directions. This research is aiming to investigate the cultural barriers and pitfalls on the way of international companies for franchising in Iran. As the main purpose of this research was to gain a deeper understanding of the concept franchising, we define this research mostly explanatory. First the topic has been explored and after gathering information we described and explained the patterns.

3.2. Research approach

According to Yin (Yin, 1994) there are two main research approaches to choose from when conducting research in social science: quantitative or qualitative method. In the quantitative method, result based on numbers and statistic, but in the qualitative approach, the focus lies on describing an event with the use of words. The best research method to use for a study depends on that studies research purpose and the accompanying research question (Yin, 1994)

Newman and Benz (1998) descried *qualitative* research as "*a detailed description of situations, events, people and interactions*". Qualitative research focus on the research that will have a better understanding of the studies objects, they also have to be relative flexible. in addition, qualitative research is the search for knowledge that is supposed to investigate, interpret and understand the problem phenomenon by the means of an inside perspective (Patel and Tebelius, 1987) characteristics of qualitative studies are that they are based largely on the researcher's own description, emotions and reactions(yin, 1994).

Quantitative is more structured and formalized. The research tries to explain phenomena with numbers to obtain results, thus basing the conclusion on the data that can be quantified. This approach is useful when conducting a wide investigation that includes many components cited by (Karami, 2006).

Based on the research questions, a better understanding of the research area will be given. To gain a better understanding of the area, instead of analyzing the gathered data statically, the research approach of this thesis is classified as qualitative as the answers to the research questions could not be quantified.

3.3. Research strategy

According to Yin (2003) there are five research strategies. Depending on the character of research question, the researcher can choose between an *Experiment*, a *Survey*, an *Archival Analysis, History* and a *case study.*

Which strategies to choose in research, can be determined by considering three conditions. The type of research question, the extent of control that researcher has over actual events, the degree of focus on contemporary as opposed to historical events. Table 3.1 shows how each conditions is connected to the five research strategies.

Table 1.1 : Relevant Situations for Different Research Strategies

Research Strategy	Form of Research Question	Requires Control over Behavioral Events	Focuses on Contemporary Events
Experiment	How, why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Archival Analysis	Who, what, where, how many, how much	No	Yes/no
History	How, why	No	No
Case Study	How, why	No	Yes

SOURCE: Yin (2003)

Survey is a technique in which information is collected from a sample of people through a questionnaire. According to Yin (1994), a Survey is research strategy which consists of "who", "what", "where", "how many" and "how much" forms of research questions.

A case study answers to how and why question. In this type of research strategy the researcher is focusing on one or few objects and the purpose is to gain a deeper understanding about event, experience, relationships and process cited by (Denscombe, 2000)

According to Wiedersheim Paul and Eriksson (1999) the possibilities of comparisons between the cases are added in a multiple case study. Miles and Huberman (1994) continue by explaining how the multiple cases make it possible to specify how, where, and sometimes also, why a certain phenomena has a specific behavior. They conclude that multiple case sampling also adds to the validity, precision and the stability of the findings. In order to address the research questions of this study, two case studies will be conducted. By conducting case studies the results can be compared and the study will be more convincing. it can also make findings more strong.

3.4. Sample selection

While doing a research, it is not possible, practical or sometimes expensive to gather data by all the potential means of analysis relevant to the research problem. Therefore, smaller chunks of a unit sample are chosen to represent the relevant attributes of the whole of units (Graziano& Raulin, 1997). This is the collection of elements or objects that possess the information sought by the researcher and about which inferences are to be made (Malhotra and Briks 1999).

In this thesis we will use multiple cases sampling because it will add confidence to our findings and also increase the reliability. Considering the fact that franchising is not mature and a few international franchisees and franchisors exist in Iran, we had to choose two different franchising. One that has been in Iran market for a few years and has overcame cultural obstacles and is running the business successfully. The other one an international franchising company that is new in Iranian market and is still facing cultural barriers.

For our two cases we based our choice on the following criteria (1) a foreign company that has at least one franchisee in Iran or is in the process of franchising (2) A company that has been

successful in global market (3) This company is willing to get bigger in Iranian market and is facing some barriers.

3.5. Data collection

According to Yin (2003), there are six sources that are used in case studies; *interview, archival records, documentation, observation, participant-observation* and *physical artifacts.*

Source of evidence	*Strength*	*Weakness*
Documentation	-Stable- can be reviewd repeatedly -Exact- contains exact names and details of an event -Broad coverage- lond span of time, many events and many settings	-Retrievability- can be low biased selectivity,if collection is incomplete -Reporting bias- reflects (unknown) bias author -Access- may be deliberately blocked
Archival record	-Same as above for documentation -Precise and quantitative	-Same as above for documentation -Accessibility due to privacy reasons
Interviews	-Targeted- Focused directly on case study topic -Insightful –provides perceived casual inference	- Bias due to poorly constructed question -Response bias -Inaccuracy due to poor recall -reflexivity –interview gives what interviewer wants to hear
Direct Observation	-Reality- cover events in real time - Contextual- covers context of events	-Time consuming -Selectivity – unless broad coverage -Reflexivity – event may proceed differently because it is being observed -Cost – hours needed by human observation
Participant – Observation	-Same as above for direct observation - Insight into interpersonal behaviors and motives	-Same as above for direct observation - Bias due to investigator's manipulation of events
Physical Artifacts	-Insightful into culture features -Insightful into technical operations	-Selectivity -Availability

Table 3.2 Six source of evidence : strengths and weaknesses

SOURCE: Adapted from Yin (2003)

In Case study, Yin (2003) has listed six forms of sources of evidence for collecting data. These are documentation, archival records, interviews, direct observations, participant observation and physical artefacts. According to Yin (2003), direct observation can involve observations of meetings, sidewalk activities, factory work, classrooms and the like. To increase the reliability of observation, evidence, a common procedure is to have more than a single observer making an observation, whether of the formal or the casual variety. Therefore, study would like to use observation. Each of the methods mentioned above have their advantages and disadvantages and the researcher must decide which method that are most suitable for the research. Yin (1994) stated that one of the most significant sources of case study information is the interview, mainly because it's concentrated on the case study topic. It is also "insightful" because it gives perceived causal conclusions. Due to a lack of information in the public domain, a series of semi-structured interviews were designed based on elements of hofstede's cultural model. These interview question were pilot tested and then a final interview were conducted with 10 owners, top managers, managers and employees of two international franchisees in Iran. We chose to perform an interview because it gave us the benefit to use every opinion that the interviewees stated during interview. Documentation could be an alternative to interviews, questionnaire, and observation. There are different types of documentation such as book, journals, web pages, Internet and newspaper etc. documentation that we will use in this thesis is journals and web pages. To conduct the interview, each respondent is first contacted by phone explaining the purposes of the research. When a respondent has agreed to participate in the interview, a copy of the interview questions is e-mailed to them. A follow-up telephone call is made a week later to make sure they got the e-mail, to give the interviewees an opportunity to think about the questions and issues and to arrange a date and time for an interview. On three occasions, the interviews were interrupted by an ongoing business or other meetings and we had to reschedule. That's completely normal since a company's top manager has a lot of tasks to take care of. Each interview lasted from 40 to 60 minutes depending on the interviewee's degree of knowledge. The interview question is in appendix 1.

The interviewees of Benetton are united colors of Benetton operational manager, Sales manager, Advertising manager and 3 employees who are in every day contact with customers. They all work in central office of Benetton. Most of them are working in Benetton for more than 2 years.

The interviewees of Debenham's are one of the share holders, 2 managers and an employee. They all started working in Debenhams recently.

Primary and secondary data

Secondary data is data that has been collected by other researchers and primary data is data that researcher gather himself during his research process. In this research, the primary data consist of information collected during the interviews and is beneficial because the data that was specific for this research has been gathered. The secondary data was the data gathered from companies' webpages.
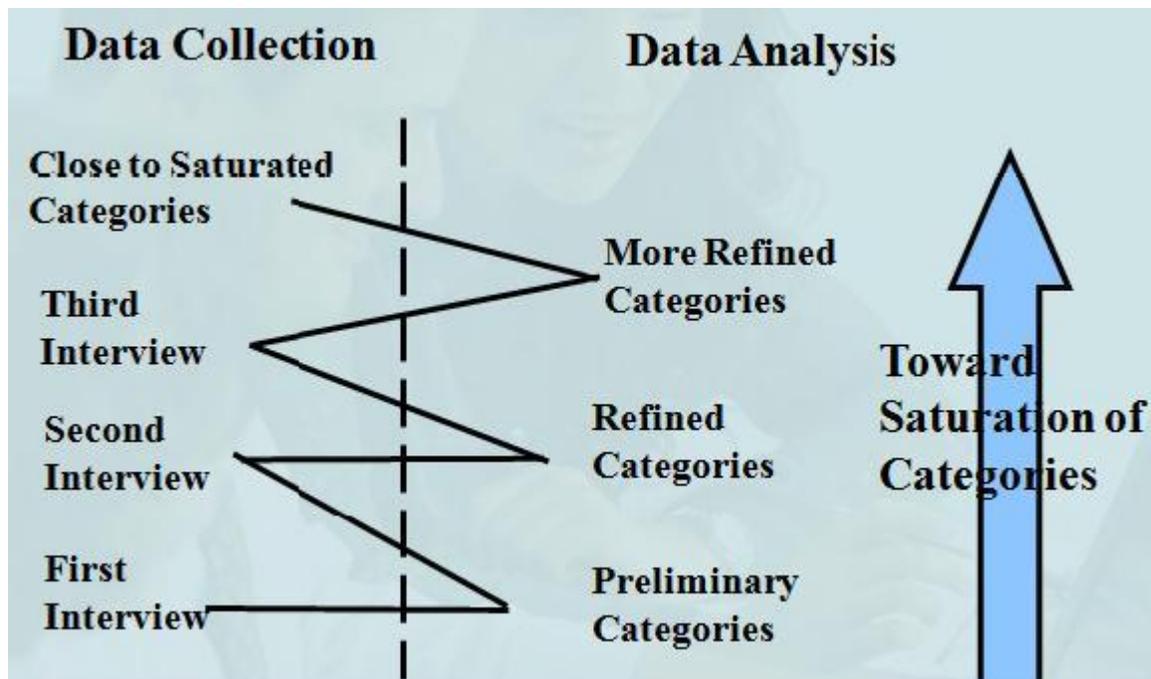

3.6. Data analysis

Grounded Theory: The grounded theory was used in analyzing the data gathered during the interviews. According to Strauss and Corbin (1998), the grounded theory stipulates that the process on data analysis involves three coding. These are open, axial and selective. First, data from the interviews are analyzed on a sentence by sentence basis using open coding. Since many questions were asked during the interviews, the interviewing notes are analyzed based on a few key words. Relationships between these key words were identified and collated to develop axial coding.

According to Strauss and Corbin (1990) axial coding is a set of procedures whereby data are put back together in new ways after open coding, by making connections between categories. The third step of the grounded theory is selecting coding. Categories and sub-categories that carry similar nature and properties are grouped, refined for regrouping. This process of grouping will continue until the individual categories can be distinctively identified, readily expressed in causal conditions, environmental conditions, organizational conditions, management strategies and consequences, and more importantly, meet the aims of investigation (Strauss and Corbin, 1990). There is no fixed rule on the numbers and types of categories and subcategories for a particular investigation. Some issues collected in the interviews may be discarded due to they do not easily fit into any particular category or criteria of the investigation. These neglected issues should be regrouped, evaluated and analyzed to confirm with the original sources before finally trashed. There is no apparent guideline on judging relevance of a particular category or sub-category, as

long the researchers have met their aims. The elimination process is one of the limitations of the grounded theory. Another important element of this Grounded Theory research process is the use of memos, which are defined as "the researcher's record of analysis, thoughts, interpretation, questions and directions for further data collection" (Strauss et al. 1998, p.110). According to Allan (2003) During the analysis of an interview, the researcher will become aware that the interviewee is using words and phrases that highlight an issue of importance or interest to the research. This is noted and described in a short phrase. This issue may be mentioned again in the same or similar words and is again noted. This process is called *coding* and the short descriptor phrase is a *code.* There are two different types of coding; *Micro-Analysis coding* is analysis technique of coding by micro analysis of the data, word by word and line by line. The problem with this technique is that it is very time consuming and since we code every single word said by the respondents, it might lead researcher to confusion as there will be some irrelevant results and the researcher will lose focus. The second technique is key point coding where the researcher only codes important key words.

Throughout the open coding, we wrote memos as a way to make a note of our ideas and concepts. The focus of our reflections was often the actual wording or formulation used by interviewees, which we then interpreted during the analysis.

Zig-Zag Theory: Zig-zag theory is an approach to data collection and analyzing the collected data. Using zigzag method the number of categories are defined.

Data Collection

Close to Saturated Categories

Third Interview

Second Interview

First Interview

Data Analysis

More Refined Categories

Refined Categories

Preliminary Categories

Toward Saturation of Categories

3.7. Validity and reliability

Validity and reliability are two valuable measures for defining the quality of the research. There are three forms of validity; construct validity, internal validity and external validity (Yin, 1994). In construct validity it is important to establish correct operational measures for the concepts that are being studied and that objective judgment is used to collect the data. Internal validity means to establish a casual relationship, which is showing that specific conditions lead to other conditions. Yin (1994) explains that the internal validity should not be used in a descriptive or exploratory study. External validity refers to establishing the field to which the findings can be generalized. The findings of a case study should be generalized analytically and not statistically.

To gain enough validity, multiple sources have been used in this thesis such as documentation, previous theories and interview. As this research's main objective is to examine and identify the cultural issues that have influence on adoption of franchising in Iran, the interview guide was designed based on cultural barriers of hofstede's model. Then a person who has good knowledge in this field read the interview guide in order to avoid error and make sure the questions were not

vague and clear enough to be understandable for interviewees. Then a pilot test was conducted to make sure the interview guide was appropriate for getting the answers we were looking for. The interview guide was constructed in Farsi and then translated in English. After pilot testing the interview guide was sent to head office of selected two companies. The choice to conduct multiple case studies also increased the validity of this study, since it provided us more information about the research problem. To ensure the reliability of this thesis, previous theories and literature and case studies were used for data collection. The interview guide was based on Hofstede's thory.

Chapter Four

Data Gathering

4. Data gathering

In this chapter data that was collected during the interviews with managers and employees of two international franchisees, Benetton and Debenhams in Tehran is presented. The chapter begins with a brief presentation of these two companies followed by analysis of the collected data gathered during interviews. The main purpose is to identify the culture elements and barriers for an international company in the way of doing business in Iran. Using the procedures stipulated by the grounded theory we will identify the main cultural barriers and at last we will compare the findings with Hofstede cultural model.

4.1. The case of Debenhams

4.1.1. Background of the company

Debenhams is a British-based retailer founded 1778 operating under a department store format in the UK and franchise stores in other countries. Its products are clothing, cosmetic and house wares. It is one of the biggest department stores in Britain. Debenhams first entered international market in 1990 when it opened its first store in the Middle East. Since then it has continued establishing more stores In the region. As of July 2008, the company, which advertises itself as the Britain's favorite department store had 147 stores covering 10.373 million square feet of retail space across the United Kingdom and Ireland. It also has 40 franchise stores with 19000 employees operating in other countries including Bahrain, Iran, Cyprus, Kuwait, Indonesia, India, Philippines, Qatar, Jordan, Turkey, Russia, UAE, Saudi Arabia, Romania, Iceland, Hungary and Czech Republic. With the Revenue £1,774.4 million, Operating income £179.8 million and Net income £79.0 million in 2007 (Wikipedia).

Debenhams entered Iran market in 2008 and opened its first store in Tehran in 2009, with the long term intention of expanding its stores into other cities as well.

4.1.2. Why franchising?

Like many retailers internationalization was a strategy that Debenhams considered as a long-term option just when a potential franchise partner suggested the idea of franchising. Since then it became a serious strategy for the company. They noticed that international franchising has many benefits. Here are the benefits from their point of view:

1. It is profitable and almost risk free as the franchisor shares the risks with the franchisees

2. Fewer constraints exists on pricing in many countries

3. Local market saturation and new market penetration for expanding into new markets with higher demand

4. Cheaper human resource in some countries compared to home country. For example the average salary of a non-professional employee in Iran is 300$ while the minimum income in European countries is 1700$

5. Faster business expansion making the brand well-known in different countries

When looking for a franchisee Debenhams always looked for countries with opportunity of a large space retailer. Middle East has proved an attractive market for European and Us companies. These countries seemed to have some of the world's wealthiest young consumers and fastest growing population

4.1.3. Reasons for choosing Iran

Being successful in other Middle Eastern countries such as Saudi Arabia, UAE, Qatar, Kuwait etc. and after years of analyzing Iran market, They decided to enter Iran market assuming the market is almost the same as these countries. The main reasons for choosing Iran are:

1. Regional market with rapidly growing population and as the result rapid growth of consumers
2. A retail market potentially worth 500$ billion in 2010
3. Plenty of native investors willing to cooperate with a foreign franchisor
4. The increasing interest of people toward their products specially young individuals
5. Reaching saturation in home country and many other countries
6. Existence of small shops selling branded clothes at much higher prices (sometimes up to 3 times more) and yet having their customers.

They intend to open 10 stores by 2012. The company has had many barriers such as economical, legal and cultural barriers but we only focus on cultural barriers.

4.1.4. Cultural issues

They described Iran as "*Culturally Distant Market with Many Legal Barriers*".

A. Marketer should be conscious about native consumer's expectations. B. Advertisement should be constructed after thinking about the cultural views of locality. C. Product design and packaging should hold local traditions accordingly. D. Finally, an international marketer must have to convert all his thinking into local people's thinking according to their culture & customs.

4.2. The Case of Benetton

4.2.1. Background of the company

Benetton is a global clothing brand, based in Treviso, Italy. The name comes from the Benetton family who founded the company in 1965. it started with 5 stores in 1979 but reached 800 within 10 years by franchising aggressively. The company's core business remains their clothing lines. Casual clothing is marketed as the "United Colors of Benetton"; there are also a fashion-oriented "Sisley" division, "Playlife" leisurewear, and "Killer Loop" street wear brands. To protect franchisees, the company does not sell online, using its websites solely for marketing purposes without listing prices. By the year 2000, the group was selling 160 million garments worldwide, annually in 5,500 stores. Most of Benetton retailers have been found to be franchisees expanding in120 countries with a network of 5,500 stores and an annual turnover of 1.8 billion euros in 2005 with 7,990 employees.

According to a Benetton's managers, the main purposes of Benetton for franchising are 1.Italian market saturated by 1970's 2.Expansion into new markets 3.Diversification. 4. Global Market Recognition. Benetton entered Iran market in 2007 and has more than 10 stores now.

4.2.2. Why franchising?

According to a foreigner manager in Benetton, Middle East Has been described as a *"potential franchising hot spot",* and the interest is so intense that many business people from the region are travelling abroad to attract potential investors. Franchising has been the most important part of Benetton's entry strategy. They believe that it provides them with local experience and it is in fact low risk yet profitable mode of entry. The Italian market had been saturated since 1980 and since then they have been entering foreign markets to stay alive. And they also mentioned resource constraints referring to low labor cost in some countries. The main strategy of Benetton has always been franchising mode of entry as they believe it is a way of faster expansion with lowest possible risk. They can operate more than 20 retailers without owning a single estate. In many countries such as Iran the price of a store in a commercial neighborhood is so high that is not affordable for a single person to own 20 stores. (sometimes up to $30,000 per Square meter).

In such countries the best way to expand your brand is to use franchising. The franchisee buys the brand name, decoration, knowledge and of course the products and operates under a famous brand name. Hence it carries low risk for both parties as the franchisee does not have to worry about failing, which many new comers face every year. The other reason they chose franchising was that a franchisee has a more complete knowledge about the environment.

4.2.3. Reasons for choosing Iran

The main factor that franchisors chose their target market is population growth that leads to increasing demand in the market. Iran is a populated country with many young people interested in their products. A last market research they've done had showed the existence of large demand for their products in countries like Iran. Sometimes Iranian people are willing to buy a fake product twice expensive as the original one. Hence they knew they will have their consumers. They also mentioned the feel-good experience of wondering and shopping in a unique non-Iranian store with non-Iranian products which is pleasant to many people. They had noticed that some of their clothes sells very well in Islamic countries hence working in Iran they focused on those type of products like scarves, long coats, plateaus, long sleeve shirts etc. and they also considered a large space for kid's clothing as they believe that parents may not buy anything for themselves but to spoil their children they buy something for their kids (If they can afford to).

On the other hand an Italian company like Benetton faces much less cultural barriers in business relationships while working with Iran since it's known that Iranian and Italian cultures are similar. As one of the top managers that had worked in Abu Dhabi mentioned they have minor cultural problems in Iran compared to other neighbor countries. Yet the political and legal issues had been breath taking for them but since this study focuses on cultural issues we will not study those issues.

4.2.4. Cultural issues

Like every franchising company, Benetton has been facing cultural barriers entering Iran market. The greater the differences in cultural variables, the greater are the "cultural distance" between the host and home countries (Eroglu 1992). The greater the cultural distance, the more challenging is the task of transferring a franchising system from the home Country (Fladmoe-Lindquist 1996). For Benetton it has been very important to evaluate Iranian market in terms of

how different they are along cultural dimensions. Although franchising is the best way to enter a foreign market as most of the employees are from the host country, yet they had to consider many factors such as their target market, different social levels, level of incomes in Iran, Iranian perception and level of acceptance of their brand. Since they never intended to change any cultural values in any country that had to adapt to Iranian market and this took more than a year to understand the demand of their customers and gain some loyal customers. For a less problematic business they have focused on men and children's clothing. This is an evidence of masculinity of societies in Iran. According to Mr. Alavi, The main barriers that Benetton had been facing in entering Iran market was religion barriers, language barrier, limitation of advertising in Iran because of the high price of billboards and unaffordable price of Television advertisements.

4.3. Data analysis

Grounded Theory:

According to Strauss and Corbin (1998), the grounded theory stipulates that the process on data analysis involves three coding. These are open, axial and selective. First, data from the interviews are analyzed on a sentence by sentence basis using open coding. Since many questions were asked during the interviews, the interviewing notes are analyzed based on a few key words. Relationships between these key words were identified and collated to develop axial coding. There is no fixed rule on the number of steps and categories or subcategories. According to Allan (2003) During the analysis of an interview, the researcher will become aware that the interviewee is using words and phrases that highlight an issue of importance or interest to the research. This is noted and described in a short phrase. This issue may be mentioned again in the same or similar words and is again noted. This process is called *coding* and the short descriptor phrase is a *code.* There are two different types of coding; *Micro-Analysis coding* is analysis technique of coding by micro analysis of the data, word by word and line by line. The problem with this technique is that it is very time consuming and since we code every single word said by the respondents, it might lead researcher to confusion as there will be some irrelevant results and

the researcher will lose focus. The second technique is key point coding where the researcher only codes important key words.

4.3.1. Open coding

The Data gathered from the interviews were analyzed by grounded theory. The qualitative data were organized into categories or keywords, and then subcategories were created to distinguish between the different points of view. Key points and codes from the data in Case Study of company B is shown in table 4.1. P indicates the key point, P_B is the key point of company B (Benetton) and $P_B 1$ indicates the first key point in the interview with respondents in company B and so on. The table 4.2 is an open coding table according to the interviews with employees, manager and top manager of Debenhams, a British clothing company that was established in Tehran only for few months. Each table shows elements that have been considered big issues for these two companies. The column "ID" shows the number of Key point for each company; the column "Key point" is a key word in the research and is exact phrase mentioned by the respondent and the last column. "Code" is how we labeled the problem mentioned by the respondent.

ID	Key point	Code
$P_B 1$	Political problems and a lot of legal issues	Political and legal issues
$P_B 2$	Export Barriers in Iran , Tariff issues	Legal issues
$P_B 3$	Resistance to western products	Resistance to change
$P_B 4$	High price of property in Iran	Financial issues
$P_B 5$	Lack of brand knowledge and expensive advertisements	Financial issues
$P_B 6$	Lack of expert labor	Lack of expertise
$P_B 7$	Lack of copy right law in Iran which increase uncertainty, Lack of trust and fear of fraud	Uncertainty

P_B 8	Low level of income and low buying power of people in Iran compared to developed countries	A large gap between dufferent levels of society
P_B 9	Currency risk	Uncertainty
P_B 10	New laws developed every day	Uncertainty
P_B 11	Most women are not financially independent while most of their customers are women	Inequality between genders
P_B 12	Religion and clothing law	Value and belief
P_B 13	Products to be imported must be compatible with national clothing norms	Resistance of a nation to change
P_B 14	Different belief of people in different regions of Iran	Different beliefs
P_B 15	Some people may not believe they are buying the original product	Uncertainty ,Fear of fraud
P_B 16	They had to reduce the variety of products and colors	Resistance to change
P_B 17	Traditional behavior of a vast group of people	Traditional values

Table 4.1 Open coding of the results of interviews with Benetton

The table 4.2 shows the open coding process of the interview with Debehnham's.

ID	Key Point	Code
P_D1	Difficulties for using their logo	Legal
P_D2	Difficulties in finding loyal employees	Employee attitude
P_D3	Sanction	Political
P_D4	Managers more involved in details	Involve manager
P_D5	Employees are expected to defend their own interest	Employees on their own
P_D6	Clothing habits of a nation	Values
P_D7	absence of efficient information and communication networks	Lack of mean of communication
P_D8	lack of incentives for hard work	Low motivation for hard work (low wages)
P_D9	traffic problems in major cities	Traffic
P_D10	The political history between the franchising country and host country	The history of franchor and franchisee country
P_D11	The different form of communicating between people, body language, slangs and language	Language, Body language
P_D12	If another company uses our logo or name there is nothing we can do, ruin our brand image	Uncertainty
P_D13	Financial problems, from over price properties in Tehran to unaffordable advertising	Financial and economical issues
P_D14	Market only for limited type of products	Product Image
P_D15	No market for colorful clothing	Product color
P_D16	Low income which leads to low buying power	Financial

| P_D17 | The difference between the religion of franchisor and franchisee company | Religion |
| P_D18 | People willing to protect domestic products | Protecting domestic products |

Table 4.2 Open coding of the results of interviews with Debenham's

After the data from the interviews were analyzed on a line by line, sentence by sentence and word by word basis, and coding the main points of the result of the interviews, then a second meeting was arranged with the interviewees to indicate the importance of these factors. The stars show the strength and importance of the barriers. For example Legal issues had been stronger and more important for company B (Benetton) than for Company D (Debenhams). The most important barriers are sub categories of culture.

Table 4.3 The main barriers to franchising in Iran

Codes	Company D	Company B
Legal Issues	*	**
Language	**	*
Body language	-	*
Religion differences	***	***
Political issues	*	***
Economic problems	*	*
Financial problems	*	**
Society Resistance to western products	**	****
Low Incomes	**	***
Unaffordable advertising	**	-
Warranty issues	-	*
After sale service	*	-
Fear of fraud	-	*
Fear of channel conflict	-	**
Currency Risks	**	*
Copy right issue	***	***
Employee attitudes	*	*
Wage differentials	**	**
Society Resistance to change	**	*
Product Image	*	*
Product color	*	**
Communication style	*	*
Beliefs	*	*

Physical features of the product	*	*
Values	*	*
Clothing habits of a nation	***	***
absence of efficient information and communication networks	**	*
lack of incentives for hard work	**	**
traffic problems in major cities	*	*
The political history between the franchising country and host country	**	**
Lack of trust	*	**

Table 4.1 Barriers to franchising in Iran

4.3.2. Axial coding

The next step in grounded theory is axial coding. According to Strauss and Corbin (1990), axial coding is a set of procedures whereby data are put back together in new ways after open coding, by making connections between categories.. In this phase we used memos in order to develop a picture of what the data meant. We grouped the more relevant key words together and put them under the same coding group.

C1	Legal, Political issues	$P_B1, P_B2, P_D1, ,P_D3, ,P_D10$
C2	Resistance to change	$P_B3, P_B13, P_B16, ,P_D18$
C3	Financial problem	P_B4, P_B5, P_D13, P_D16
C4	Uncertainty	$P_B7, P_B9, P_B10, P_B15, P_D12$
C5	Society inequality	P_B8, P_B11
C6	Belief and values	$P_B12, P_B14, P_B17, P_D6. P_D17$
C7	Employee attitude	$P_D2, P_D5. P_D8$
C8	Involve managers	P_D4
C9	Communication problem	$P_D7. P_D9$
C10	Language, Body language	P_D11
C11	Product Image	$P_D14. P_D15$

Table 4.4 The axial coding

4.3.3. Selective coding

The third step of the grounded theory is selective coding. Categories and sub-categories that carry similar nature and properties are grouped, refined for regrouping. In the open coding and axial coding we had political. Legal, Economic, financial issues. Economical and financial issues can be sub categories of culture but since this study focus on cultural barriers and cultural elements, we ignore the legal barriers and these factors will not be categorized in selective coding. We regrouped the elements from axial coding to 4 groups

1	Society inequality	C3,C5
2	Uncertainty	C4
3	Shared belief and values	C2,C6,C10,C11
4	How employees and managers behave	C7,C8

Table 4.5 The main cultural barriers for the franchising companies

1. Society inequality which consists of large difference in wages and buying power, inequality between genders

2. Uncertainty among people when they want to buy a branded product they are not sure if they are buying a real one or they are paying for a fake one. And uncertainty for the company that always has the fear of fraud when there is no guarantee or safety for their brand name copy right issues and currency risks.

3. Shared belief and values: consist of religion, language, body language, norms, values, taste of a nation, laws, habits etc. this category consist of all the elements that build a region's culture.

4. How people behave in work place or in families: The power of the manager, employee's attitude, a father's authority etc.

Zig-Zag approach was used for data collection and analysis to define the number of categories.
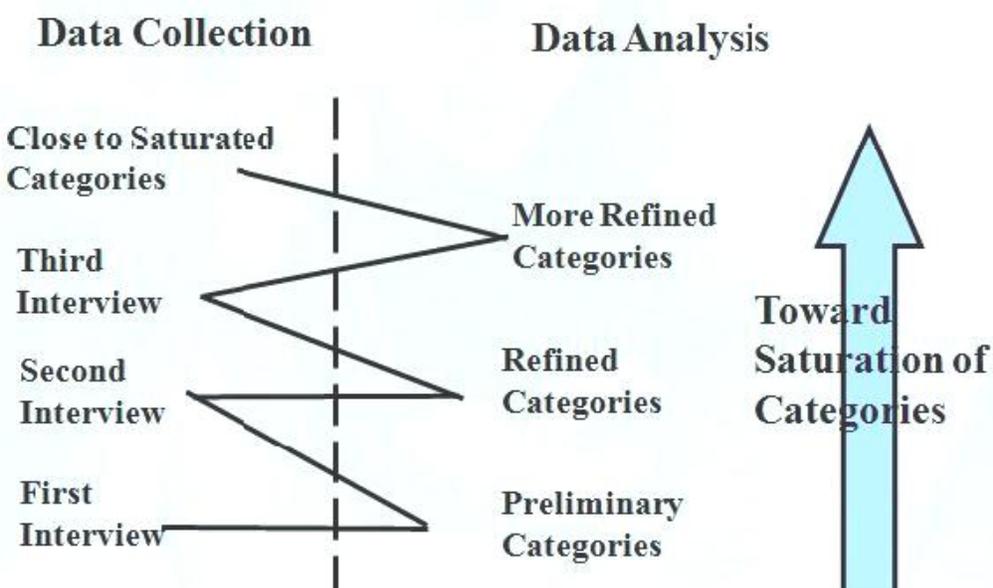
The figure below shows the four main barriers to franchising and their key points.
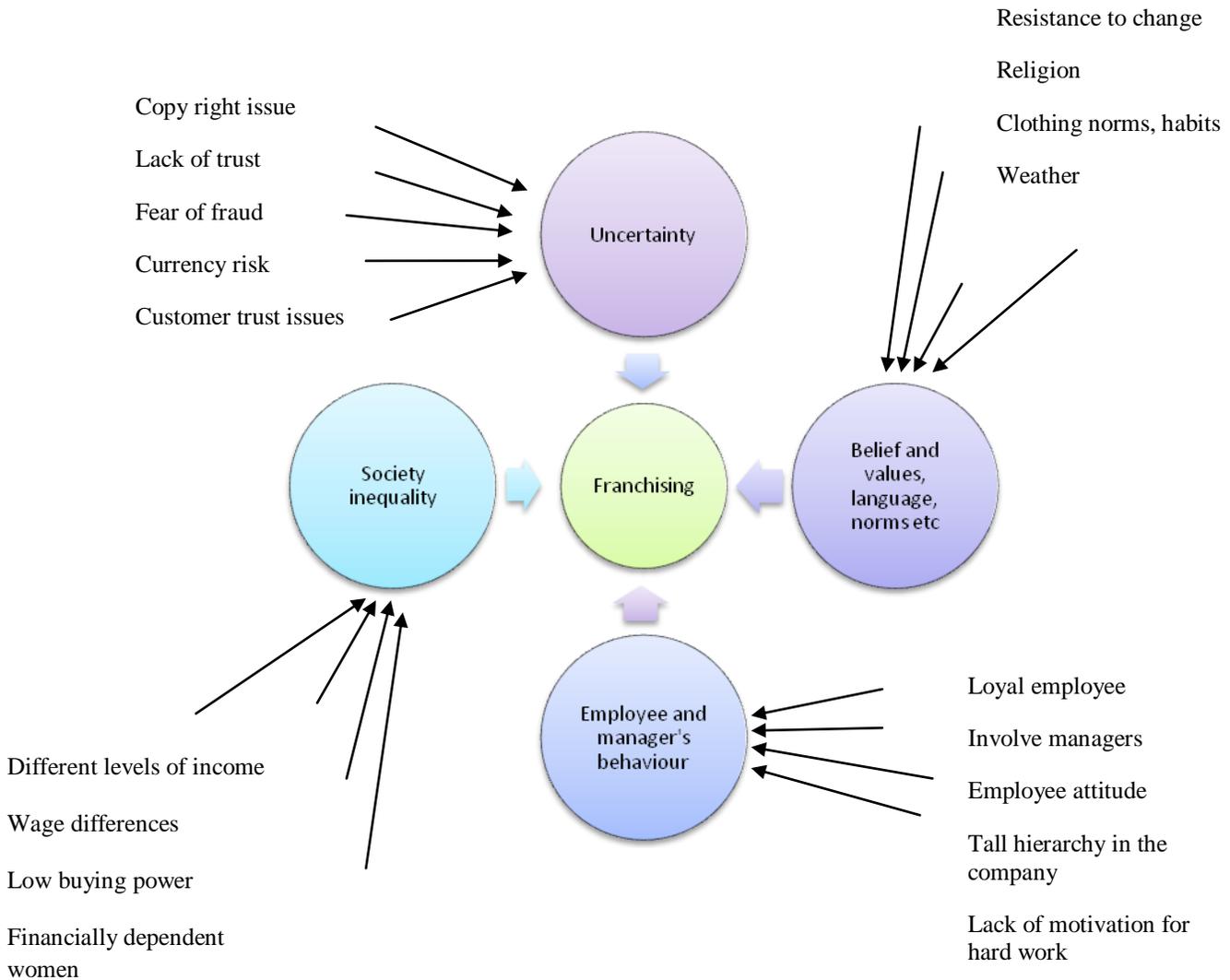
Copy right issue

Lack of trust

Fear of fraud

Currency risk

Customer trust issues

Resistance to change

Religion

Clothing norms, habits

Weather

Uncertainty

Society inequality

Franchising

Belief and values, language, norms etc

Employee and manager's behaviour

Different levels of income

Wage differences

Low buying power

Financially dependent women

Loyal employee

Involve managers

Employee attitude

Tall hierarchy in the company

Lack of motivation for hard work

Figure 4.1. Main barriers to franchising and their key points

SOURCE: the author

4.4. Comparing the results with Hofstede model

According to Hofstede Iran is listed as an uncertainty avoidance country. People in countries with high uncertainty avoidance culture, are less tolerant of opinions different from what they are used to, and on the philosophical and religious level they are strict and do not allow many

currents to flow. People in these cultures are not indifferent and contemplative, According to Hofstede, "*Uncertainty avoiding cultures try to minimize the possibility of such situations by strict laws and rules, safety and security measures, and on the philosophical and religious level by a belief in absolute Truth; 'there can only be one Truth and we have it'. People in uncertainty avoiding countries are also more emotional, and motivated by inner nervous energy*"

While studying Iranian market before market penetration, they had realized that they have the deal with a multi cultural society with different levels of incomes and different point of views. These factors fall in the Power Distance category and according to Alavi, B.et al, Iran is amongst high power distance countries, where "who want what" is more important that "what is right". It is obvious that all societies are unequal but some, such as Iran and India are just more unequal than others. As mentioned before, Collectivism is defined the level that individuals express pride, loyalty and cohesiveness in their society or families. The interview with Mr. Alavi the CEO of Benetton in Iran, showed that most of their customers had some level of brand loyalty and they acted collectivist as some customers purchase stuff to share a brand or a style with their families and friends. They believe that their customers would do shopping in their stores to feel they belong to Benetton family. Many of their customers would also motivate their families to become customers. This indicates that Iranian society is more collectivism than individualism.

The elements from grounded theory analysis are almost compatible with the hofstede's cultural model. The relation between four factors from grounded theory and hofstede's cultural model is shown below.

Categories of our research		Hofstede
Uncertainty, Resistance to change	⇒	Uncertainty avoidance
Employees and managers behavior	⇒	Power distance
Sharing same values, norms, religion etc.	⇒	Individualism Vs. collectivism
Social inequality	⇒	Masculinity Vs. Femininity

As mentioned in chapter two, in a low context culture, such as in the United States, information is contained in explicit codes that are written down or verbally expressed in exactly the way they are meant. In a high context culture, in contrast, information is contained either in the physical context of the communication, or it is internalized in the values of the communicators, so that words are not to be taken at face value, but meaning must be inferred. Iranian culture is a high context culture. According to the interviewees, doing business with a high context culture country is more difficult than with a low context culture. For establishing a successful franchisee in such countries, they have to study the country's culture and every aspect of it. Cultural barriers are one of the most important barriers for franchising, hence it should not be ignored.

Countries that have similar rate in Hofstede' indexes are more likely to be successful in doing business with each other. For example, if both franchisor and franchisee's religion is Islam, then they face less cultural barriers, as they almost share the same values, they wear same type of cloths, they eat halal meat and the list goes on.

In order to compare two cultures, the key points or subcategories that were result of grounded theory can be compared together (table 4.1, 4.2) and then by finding the category in table 4.5 see what aspect that element has effects on.

Chapter five

Findings and Conclusion

In this chapter the findings of the research will be summarized followed by implications for management and further studies.

5.1. Conclusion

As the result of globalization, today's business environment is undergoing a fundamental transformation. To be able to compete in this business environment, companies have to start looking at their businesses from an international point of view. According to Hofman and Preble (2004), East Europe, Middle East and Asia are regions where franchising is emerging. Franchising has become an accepted strategy for business growth, job creation and economic development. It is now a recognized and reputable way of doing business. Franchise systems are present in most Industry sectors, and the economic impact of franchising is substantial and

growing. In this constantly changing new environment, it is vital for companies to understand the role of culture differences.

These four categories are the main cultural barriers to franchising in Iran. Each of these categories have many sub-categories that can be found in tables in chapter 4.

1. Uncertainty, from lack of copy right law to currency risk etc.

2. Beliefs, values, language, norms, traditions, and all the subcategories of elements of the culture

3. Society inequality: the high level of income differences, wages, gender inequality etc

4. Employees attitude and manager's behavior, tall hierarchy of the company etc

Then these four categories were compared to Hofstede four cultural dimensions. And the result was presented in the table below. For example some similarities were found between Employees and managers behavior category and Power Distance Index and so on.

Categories of our research		Hofstede
Uncertainty, Resistance to change	⟹	Uncertainty avoidance
Employees and managers behavior	⟹	Power distance
Sharing same values, norms, religion etc.	⟹	Individualism Vs. collectivism
Social inequality	⟹	Masculinity Vs. Femininity

We discussed that for succeeding in franchising business format, the cultural differences should be studied before penetration. High context countries are more difficult to do business with.

Companies from countries with similar context culture are more likely to be successful in doing business with each other. For companies with different level of context it is necessary to study the culture of host country before making any further decisions. The four dimensions of Hofstede can be studied by studying the sub categories of the research's four category outcome. By studying these elements and factors, franchisors can decide whether to establish a franchising in a country or not. If the cultural context is very different, then the franchisor can decide if they want to enter that market and deal with cultural barriers, or they just want to annul their business plan.

5.1.1 Keeping the value
How do companies keep their own values while working in other countries?

According to Doherty and Quinn (1999) explain the principle- Agent relationship. The principle is the franchisor and the agent is the franchisee that operates the daily activity. The problem with the principle agent relationship is the information flow or information asymmetry problem that is when the franchisee has more information about the business that the franchisor that owns the business. Doherty and Quinn (2000) argue that control over franchisee activity is important because of the distance between principle and agent. in order to maintain control over franchisees, the franchisor needs to build a strong connection with them.

Both Debenhams and Benetton companies' managers explained that they have one or two persons from the home country working in their franchisee company trying to keep the main company values and protecting their main objectives.

Debenhams believes that in order to keep their core value they need to negotiate with companies in countries with more cultural similarities. Or find a way of monitor the franchisee's activity. On the other hand Iran and European countries are culturally distant countries

As the cultural distance increases, the transferability of the franchising system decreases (Fladmoe-Lindquist 1996). This undermines the standardization of the business format that is the very strength of a franchising system. Extensive adaptation to local markets is necessary, which increases the cost of internationalization. The relatively high-context nature of these cultures also makes it difficult to enforce elaborate franchising contracts. Unfamiliar laws and many legal restrictions further add to the costs of entering these markets. This is represented mostly by

emerging markets such as those in the Middle East, South Asia, including Iran. The manager of Benetton believe that keeping the culture of origin country is not always the best thing to do as when a foreign franchise enters a market it faces many cultural barriers and to fight with them is not going to be the answer. In fact the franchisor should adapt to their culture to some extent. He later gives the example of the world's most successful franchising McDonald's that adapt itself to each country's culture (language, food etc) customizing its food to suit the people of a country for example in Italy, Installing a spaghetti section, or in Arabic countries offering Felafel menu.

The asymmetry information problem is important for both companies so they recruited employees that not only consider the profit of franchisee but also keep the franchisor up dated.

5.2. Managerial Implication

The Companies' strategy for dealing with cultural barriers should involve these steps:

1. Identifying the nature of the barriers
2. discovering the importance of the barrier
3. Deciding on why and to what degree the barrier needs to be removed
4. Individual or group training
5. Managers and employees must know why changes are beneficial for them

5.3. Theoretical Implication

To address cultural barriers of franchising, we have done a series of interviews with 10 respondents from two big franchising companies. These 10 people consist of employees, general managers and top managers of these companies. The interviews were based on semi structured open ending questions (appendix 1). To analyze the data collected from the interviews using a grounded theory technique, the interviews were read line by line, word by word, sentence by sentence. The grounded theory consisted of three levels; first open coding step, where all the data was read word by word and key words were highlighted and coded. After open coding we

grouped the similar codes to a new category, this step is called axial coding. The third step of the grounded theory is selective coding. Categories and sub-categories that carry similar nature and properties are grouped, refined for regrouping. At last we got to the result of four categories of barriers, ignoring the political, legal and economical barriers.

5.4. Limitations of study

- Limited number of franchising companies in Iran

- At the first stages of interview the answers were vague but eventually the answers got more clear

- Few number of managers had expertise

- Difficulty in accessing the managers

- Unwillingness of interviewees to answer the questions

5.5. Suggestions for future studies

There are different areas of franchising which can be studied in Iran in future which include:

- Legal barriers of franchising in Iran

- Willingness of domestic businesses to become an international franchisee company

- Franchising of Iranian companies in other countries

- Franchising barriers in different industries

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Appendix 1: Interview questions

1. What's the company's name and what is the area of your activity?

2. Why has the company chosen to internationalize?

3. Why did the owner of the company chose franchising as an entry mode?

4. Which countries had been more interesting for the company?

5. Why did you choose Iran?

6. Have you studied Iran society before entering the market? Based on which factors?

7. If yes, what was the result of your study?

8. How do you categorize Iran society and Iran market?

9. What is your target market?

10. What do Iranian people think about your brand?

11. What was the extent of acceptance of your brand in Iran?

12. What have you done to be accepted in Iran market?

13. How do you compete with Iranian competitors?

14. Have you been facing any barrier during your market penetration? What kind of barriers?

15. Do you emphasize on uniqueness or you want your customers to feel they belong to a bigger family that are customers of a common brand?

16. What aspects do you lay emphasize on in your advertisings?

17. Is your brand and your products compatible with Iranian society? Which gender it is more well-matched with?

18. What kind of limitation you've had for getting accepted among Iranian people with their unique culture?

19. Have you noticed any changes in customer's behavior and their shopping habits since you first launched?

20. Who are your main customers?

21. Have you ever tried to establish a new culture or a new concept in your new market?

22. Which group you do more emphasize on? Men or women?

23. The rapid change in law and uncertainty avoidance of the Iran society have been beneficial for you or a pitfall?

24. What has been the cultural barriers on your way of doing business? How did you overcome these barriers?

25. Regarding cultural differences, how is your situation now?

26. How are you planning to adapt into Iranian culture?

27. Did you have common problems with society and government? Or you have had different type of barriers regarding each?

28. Have your company had the same barriers penetrating in other countries?

29. Which countries were more difficult to penetrate?

30. What is your future goal in Iran market?