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Entry and Operation of Internationalized Franchise: Developed versus Emerging

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Introdução
Late internationalization of those franchisors from emerging countries such as Brazil may raise different practices and trends that are found in franchisors of developed markets. A significant difference lies in the fact that in developed markets such as the US, the international movement of franchises is mature, having existed for more than 40 years. Franchise internationalization in emerging markets is recent, and only intensified in the early 2000s.

Problema de Pesquisa e Objetivo
This study seeks to analyze the entry and the operation methods of Brazilian companies when they internationalize, and contrast them with the way international companies operating in Brazil perform their management. In addition, we sought to investigate the levels of control and investment in the executives' views that participated in the study.

Fundamentação Teórica
Studies identified the countries that would be the target for the franchises (where to expand) (EROGLU 1992; DOHERTY; ALEXANDER, 2004) and tried to understand the choice of the entry mode in foreign countries (how to expand) (ALON, 2006) in addition to the motivation for the franchise companies to expand operations abroad (why to expand) (QUINN, 1998). These studies have assumed that the decision to internationalize is part of the company's strategies.

Metodologia
The research method adopted was a descriptive study based on the application of interviews and literature review. The concern in qualitative studies is to answer the question "What is happening here?" (GIBBS, 2009) and this is exactly the purpose of this study. The focus is to provide a description of the processes studied emphasizing the strategy of companies.

Análise dos Resultados
The subsidiary method in each target country, little studied in academic circles, proved to be the most used by franchisors for developed countries (69 percent). It seems to be a natural evolution in order to enter and operate a franchised network. Although little used by Brazilian franchisors (16 percent), it is the method of operation used by the two Brazilian companies that longer operate overseas.

Conclusão
The fact is that most of the studied Brazilian companies are only beginning their internationalization experiences and use methods to prospect foreigner markets without large investments. They claim not to be able to afford more expensive methods, but they risk losing control of the expansion and its outcomes in the target markets. Returning to the question that has guided this study it is concluded that foreign franchisors in Brazil clearly evidence a more mature level than Brazilian companies.

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Entry and Operation of Internationalized Franchise: Developed versus Emerging

Introduction

Since the 1970s, many studies have sought to explain the international expansion of the franchising industry in developed countries. (HACKETT, 1976; ELANGO, 2007). Recently, studies began to emerge about franchisors seeking opportunities in emerging economies and they show that these markets are growing rapidly. International franchisors have stepped up investment in these countries (ALON, 2004; WELSH; ALON; FALBE, 2006). There are also a considerable number of franchises from emerging countries that are launching in international markets (THOMAS; DI GREGORIO; GONZALEZ, 2013; AGUIAR; CONSONI; BERNARDES, 2014).

Late internationalization of those franchisors from emerging countries such as Brazil may raise different practices and trends that are found in franchisors of developed markets. A significant difference lies in the fact that in developed markets such as the US, the international movement of franchises is mature, having existed for more than 40 years. Franchise internationalization in emerging markets is recent, and only intensified in the early 2000s.

Most emerging countries go through a process of opening their borders to increased international trade flow and investments (KHANNA; PALEPU; BULLOCK, 2010) China, India, Mexico and Brazil are important emerging markets. Understanding of franchise internationalization in emerging economies needs strengthened, as studies are still quite limited. However, the emerging countries since the early 1990s have shown significant growth in franchise sectors in their domestic markets (WELSH et al. 2006).

Evidence from different parts of the world shows franchising internationalization in the emerging economies (THOMAS et al. 2013). Emerging economies are defined as countries in the process of structural reforms and rapid economic growth (as measured by gross domestic product per capita), but are still behind the developed economies.

There are abundant examples of franchises in emerging countries who sought internationalization. The Argentinean companies Freddo and Havanna, who specialize in candies and milk ice cream, have a strong presence in Latin America and more recently started operating in countries like the United States and England. Pardo's Peruvian Chicken, which has franchises in Chile, United States and Brazil, according to the ABF (Brazilian Association of Franchising), now has more than 100 brands active in other markets (ABF, 2016).

Amongst the largest players in the sector in the world, by number of domestic units, five emerging countries are most prominent: China, India, Philippines, Brazil and Mexico and in number of brands Brazil is second only to China with South Korea being the third ahead of even the United States.

Studies of international franchise expansion are interesting for both academics and executives. Aliouche and Schlentrich (2011) are emphatic that executives are frustrated by the lack of tools to decide when the company starts planning with a view to internationalization.

This study seeks to analyze the entry and the operation methods of Brazilian companies when they internationalize, and contrast them with the way international companies operating in Brazil perform their management. In addition, we sought to investigate the levels of control and investment in the executives' views that participated in the study.

The time to launch the internationalization of franchising in emerging countries compared to the internationalization in developed countries was the chosen point for this

research subject - analysis of chains operating in Brazil compared to the Brazilian companies that operate abroad.

The main contribution of this study lies in the possibility that both academics and administrators in franchising companies can note a phenomenon already experienced by marketing networks longer involved with internationalization movements. Special emphasis is placed on companies in the franchising market in emerging countries. The findings may lead to a pattern that can be used as a tool, so companies can prepare strategically for the future of their operations based on models already tested and approved.

To prepare this qualitative and exploratory study, we have used a semi-structured script applied to franchises with operations in Brazil, domestic and international, of which 47 were identified. The sample has 31 Brazilian franchises and 16 international franchises.

In the next section, we will synthesize existing views on international expansion franchises. In third section, we will present the research methodology. In fourth section, we will present the results. Finally, we will discuss the implications of our findings.

Theoretical Background

Franchise internationalization

Based on the following prominent theories of international business: the model of Uppsala (JOHANSON; VAHLNE 1977) ; the eclectic paradigm (DUNNING 1988) ; the transaction cost analysis model (ANDERSON; GATIGNON, 1986) ; the studies focused on the internationalization of franchising have been developed since the early 1990s (AYDIN; KACKER 1990 ; EROGLU, 1992; GONÇALVES; DUARTE, 1994; BURTON; CROSS, 1995; FLADMOE – LINQUIST; JACQUE, 1995; ALON, 2006).

We must ponder the following aspect that franchises have a particularity in relation to traditional theories of internationalization and there is no way to gradually developing the internationalization. To Stanworth and Dandridge (1994) franchising is a business that consists essentially of an organization or company known as the franchisor with a business package tested on the market centered on a product or service. The franchisor through a contractual relationship relates to other companies known as franchisees often small, self-financed and self-managed, which will then operate under the franchisor's brand to produce and/or trade goods and services according to what is specified by the franchisor format. Franchise operations are permeated by services, this being the essence.

The internationalization of franchise studies has focused mainly on the US, Canada and Western Europe franchise networks, (DOHERTY; ALEXANDER, 2004; WELSH et al., 2006). The American market is the largest and most developed in franchising and as would be expected is also the most studied.

Studies identified the countries that would be the target for the franchises (where to expand) (EROGLU 1992; DOHERTY; ALEXANDER, 2004) and tried to understand the choice of the entry mode in foreign countries (how to expand) (Alon 2006) in addition to the motivation for the franchise companies to expand operations abroad (why to expand) (QUINN, 1998). These studies have assumed that the decision to internationalize is part of the company's strategies.

When deciding the internationalization, the company should have some well-defined strategies, amongst them: the target market, the products and services to offer, the entry strategies into new markets, systems to control performance and risk (ALIOUCHE, SCHLENTRICH; FRAZER, 2012). From this perspective, Quinn and Alexander (2002) and Aliouche and Schlentrich (2011) have proposed some models to expand franchises into international markets. Usually, in these models the authors highlight three key points: examining the target market, examining the company internal factors and choosing the best entry mode.

"Where to expand" – This is the process of identifying the countries (or regions) which are ideal to direct the operations to and the determination of which of those are priority countries (or regions) (ALIOUCHE; SCHLENTRICH 2011). The emerging markets are becoming an attractive option. There is a tendency in academic literature to focus on the attractiveness of franchises in developed countries. This is due to the fact that retail-franchising opportunities in the US are becoming saturated because of increased competition (WELSH et al., 2006), which is not evident in emerging countries.

During the identification process, companies do not always make use of well-grounded criteria. Brazilian companies can be directed towards a country because it is the place where the investor is from. The search for foreign investors in franchising brands induces the internationalization, which often was not part of the actual strategy of the companies (AGUIAR; CONSONI; BERNARDES 2014)

In contrast with the manufacturing companies, the franchising companies cannot access other markets simply through exporting. This is because they do not sell products only, the essence of many of them is to provide services and thus the product becomes only part of the operation. (LAFONTAINE; LEIBSOHN 2005)

Funds can impact "where to expand". Companies may perceive greater advantage in not leaving their home environment and simply keeping working with the structure they have, or choosing one country over another considering the investment and the return that it will provide. There is also the matter of finding ideal partners in the country of destination.

"Why to expand" - What are the reasons for the franchises to expand their business internationally?

From this perspective, one must consider the different strategies that guide the franchise internationalization processes, which according to Quinn (1998) may be motivated by either reactive or proactive behavior. Reactive internationalization is driven by limitations of the internal market and reduced opportunities for domestic growth. In turn, proactive internationalization stems from the search for international markets even if the domestic market faces limitations.

According to Elango (2007), an explanation of the motive for the internationalization of franchises in developed countries is that the market is already saturated or the franchise model was exploited in such a way that to invest more in this market would not bring satisfactory return. Mendelsohn (1994), for example, presents a factor that may be specific and very common to the franchise sector. He states that the pressure international investors interested in entering franchises in their countries exert influence on the decision to internationalize. In a recent study of internationalized Brazilian companies, Aguiar et al. (2014), agreed with this assertion taking the view that most companies are directed towards internationalization by investors who contact the company aiming to introduce the brands to the countries they live in. This applies to both foreigner investors as well as Brazilians living abroad.

"How to expand"- Second phase is discussion on how to expand. The methods of entry and operation in international markets compiled from the traditional literature are: (i) Franchisee-owned; (ii) Direct Franchisee; (iii) Master Franchise; (iv) Joint Venture and (v) Franchisee from a subsidiary, with own office abroad (BURTON; CROSS, 1995; QUINN; ALEXANDER, 2002; ALIOUCHE; SCHLENTRICH, 2011). Control levels and investment in the internationalization of franchises are closely linked to methods of entry into foreign markets (JELL-OJOBOR, WINDSPERGER, 2013).

The franchise chains, when operating outside of their home country, are expected to encounter trade-offs. If the network does not operate with a local partner – ***third party***, it can be exposed to a lack of knowledge within the host country, which will demand more investment of time and funds to adjust the process. Direct franchising directly to franchisees can exercise more control over the entire operation and this could result in better investment returns. On the other hand, they need a structure to control and train the franchise network, which affects the costs. Control over operations is total in the operation of a franchisee-owned unit in the destination country, but the amount invested in the international operation will be much higher and possibly the return provided will be less than projected. In addition, the time consumed is prohibitive. Third party strategies such as joint venture or franchise from a master franchisee can potentially only need low investment since only international operational staff needs to be trained by the network. The problem is that the returns may be less than expected as the partner of the destination country invests and must be compensated (SANGHAVI 1991). It is not only the end consumer who must be perceived as a factor responsible for profits. The distributor, in this case the agent who gets associated to the third party franchisor, is not only a passive and facilitation agent in the sales process to the end user, but also an important customer whose business should be well constructed.

Starting in the wrong way will damage the initial strategy operation and can cause irrecoverable loss to the brand in the destination country. It can provoke a blow to the franchise image for instance. This may frustrate future expansion plans or even put an end to the internationalization project. (DOHERTY; ALEXANDER, 2006).

Table 1 shows the main entry methods of franchises, key aspects and comments on the available literature of each.

Table 1: Modes of Franchising Operation in International Markets

	Operation Mode	Key Aspects	Literature
	Franchisee-owned	The franchisors themselves operate a unit or units outside their country. This may be the option found by the networks for eventual adaptations needed before starting the process of selling franchises. Own Unit	Combs and Ketchen (1999) and Alon (2001) argue that this method is not the most common as having no partner the network does not benefit from rapid expansion at low cost, which is a precept of the franchise system; On the other hand, it may be more profitable.
Franchises directly to franchisees	**Franchises Directly from Country of Origin**	The franchisor controls the franchises from the home country. There is no station or franchise office in the country of destination. Low investment with high risk of losing control of the operation	Common when the targets are culturally close which was proved in some studies on American networks operating in Canada, the United Kingdom (WELCH, 1989). Brazilians also use the networks in geographically distant destinations which can compromise the operation

Third-party	**Franchisee from a subsidiary (its own office in another country)**	A complete new business unit is formed. The proximity to the franchisee is much higher. By being present in the country and play all the roles inherent to a local franchiser the network closely monitors the development of the business and benefits from the exchange of experience among the franchise agents.	System often used by mature networks and has significant operations in the country destination. Although some authors consider it as a variation of direct franchising system (BAENA GRACIÁ; CERVIÑO; FERNANDÉZ, 2009; QUINN; ALEXANDER, 2002) the cost of installation must be taken into account.
	Master Franchising (or Area Franchise)	A local operator is responsible for selling and control operations in a given territory. The partner must be chosen very carefully. In addition to having control of the local operation, the partner needs his capital compensated, so the return is to divide into one more fraction.	The master franchise may be an option (ALON, 2006) for small businesses with little -known brands. The lack of internal structure would not be a significant problem for the company; the local partner would bear the costs. Error in the choice of partner will put everything in risk of losing.
	Joint-Venture	It is used in countries where the law requires association with a local partner and in culturally distant markets. This model has all the nuances of a traditional society.	The franchisor may resort to entering a new market starting from a joint venture. In this case, he typically establishes an association with a local business with the aim of developing the area jointly (GONÇALVES; DUARTE, 1994)

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This study focuses primarily on issues related to the expansion and control of its operations.

Research Methodology

The research method adopted was a descriptive study based on the application of interviews and literature review. The concern in qualitative studies is to answer the question "What is happening here?" (GIBBS, 2009) and this is exactly the purpose of this study. The focus is to provide a description of the processes studied emphasizing the strategy of companies. After analyzing a list of Brazilian franchising companies and foreign companies operating in the country, 55 were contacted that attended the ABF Franchising Expo between 2012 and 2015. The ABF Expo is the largest fair in the country and is held on a yearly basis.

For the study we initially chose Brazilian companies who own or have once owned units operating abroad. Of the 42 companies interviewed, 11 questionnaires were discarded due to the lack of relevant information. After verification and validation of all data, the responses of 31 domestic companies that satisfied all chosen criteria were considered. Twenty-one foreign companies operating in the country responded to the questionnaire. For the purposes of this study the companies whose origin was in developed countries were chosen. As a result, five questionnaires were discarded resulting in a sample of 16 companies for the study.

The data was analyzed in July 2014. All information and results have been verified and confirmed via phone and e-mails. Table 2 presents a summary of the companies studied. It shows: the country of origin; the business sector of operation; the year of the company foundation; the year when the company went international and the first country where operation took place; the entry mode used for the first international investment; if they

changed or not the way they currently operate the business; the strategy that company currently uses overseas or if it has abandoned the international operation.

Table 2: Sample Studied

Country of origin	Sector	Foundation Year	1st Operation: Year/Country	Entry Mode	Change Strategy	Current Operation Strategy
National Franchises						
Brazil	Clothing	1907	2007 USA	Franchisee-owned	No	
Brazil	Clothing	1949	2007 USA	Franchises Directly	No	
Brazil	Food	1952	2009 Angola	FranchisesDirectly	No	
Brazil	Education	1958	1985 Argentina	Franchisee-owned	Yes	Office
Brazil	Education	1961	1991 USA	*Master*Franchisee	No	
Brazil	Education	1972	2010 USA	FranchisesDirectly	No	
Brazil	Education	1977	1989 Portugal	Franchisee-owned	Yes	Office
Brazil	Food	1981	2011 USA	Franchisee-owned	Yes	Office
Brazil	Food	1984	2008 Paraguay	FranchisesDirectly	No	
Brazil	Education	1987	2002 USA	*Master*Franchise	No	
Brazil	Food	1987	2002 Portugal	FranchisesDirectly	No	
Brazil	Food	1987	2009 Paraguay	FranchisesDirectly	No	
Brazil	Services	1987	2010 Panamá	FranchisesDirectly	No	
Brazil	Clothing	1988	2007 Venezuela	FranchisesDirectly	No	
Brazil	Services	1989	2013 Mozambique	FranchisesDirectly	No	
Brazil	Accessories	1990	2008 USA	FranchisesDirectly	No	
Brazil	Clothing	1991	2004 Peru	*Master*Franchise	No	
Brazil	Food	1992	2002 Paraguay	FranchisesDirectly	Yes	Closed
Brazil	Services	1993	2002 Angola	FranchisesDirectly	No	
Brazil	Education	1993	2006 Angola	*Master*Franchise	Yes	Office
Brazil	Services	1993	2009 Japan	FranchisesDirectly	No	
Brazil	Services	1995	2005 Argentina	FranchisesDirectly	Yes	Office
Brazil	Clothing	1995	2014 Italy	FranchisesDirectly	No	
Brazil	Services	1997	2006 Venezuela	FranchisesDirectly	No	
Brazil	Food	1999	2004 México	*Master*Franchise	No	
Brazil	Accessories	2001	2007 Portugal	*Joint Venture*	Yes	Own Unit
Brazil	Accessories	2002	2010 Portugal	FranchisesDirectly	No	
Brazil	Accessories	2005	2007 USA	Franchisee-owned	Yes	Master
Brazil	Services	2005	2010 USA	FranchisesDirectly	Yes	Master
Brazil	Services	2005	2013 Dubai	FranchisesDirectly	No	
Brazil	Services	2007	2010 USA	FranchisesDirectly	No	
International Franchise						
Austria	Accessories	1895	1980 England	Franchisee-owned	Yes	Office
Denmark	Accessories	1982	2003 USA	Franchisee-owned	Yes	Office
Spain	Food	1979	1993 Portugal	Franchisee-owned	Yes	Office
USA	Services	1906	1960 Canada	FranchisesDirectly	Yes	Office
USA	Food	1940	1967 Canada	FranchisesDirectly	Yes	Office
USA	Food	1953	1969 Canada	Franchisee-owned	Yes	Office
USA	Food	1960	1983 Canada	FranchisesDirectly	Yes	Master Franchise
USA	Food	1965	1980 Canada	FranchisesDirectly	Yes	Office
USA	Services	1969	1986 Canada	Master Franchise	No	
USA	Services	1988	1992 England	Franchisee-owned	Yes	Office
USA	Services	1991	2009 South Korea	FranchisesDirectly	Yes	Master Franchise
USA	Services	2000	2005 Canada	FranchisesDirectly	Yes	Master Franchise
France	Personnal Care	1976	1996 USA	FranchisesDirectly	Yes	Office

Portugal	Services	1986	1990	Poland	Franchisee-owned	Yes	Office
Portugal	Clothing	2004	2014	Brazil	FranchisesDirectly	Yes	Office
Switzerland	Food	2007	2011	Brazil	Master Franchise	No	

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Sample considerations - The companies surveyed, both Brazilian and international have at least 50 successful operations in their local markets. These companies present significant differences when analyzed taking into consideration the year of internationalization and foundation.

Figures 1 and 2 show the year of the businesses foundation versus the year of the internationalization, regardless of whether they were or not in franchising activities at the time.

Figure 1:Foundation Year x Year of the Internationalization of Brazilian Franchises

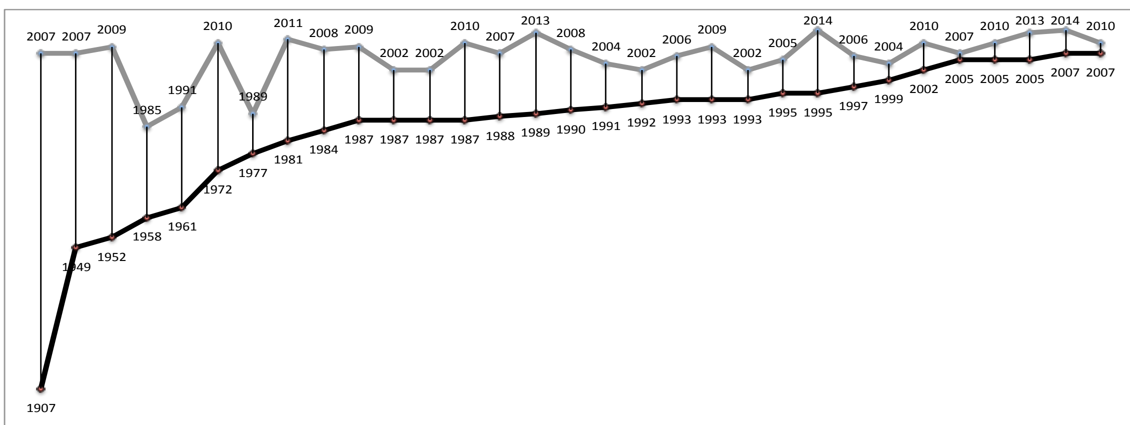

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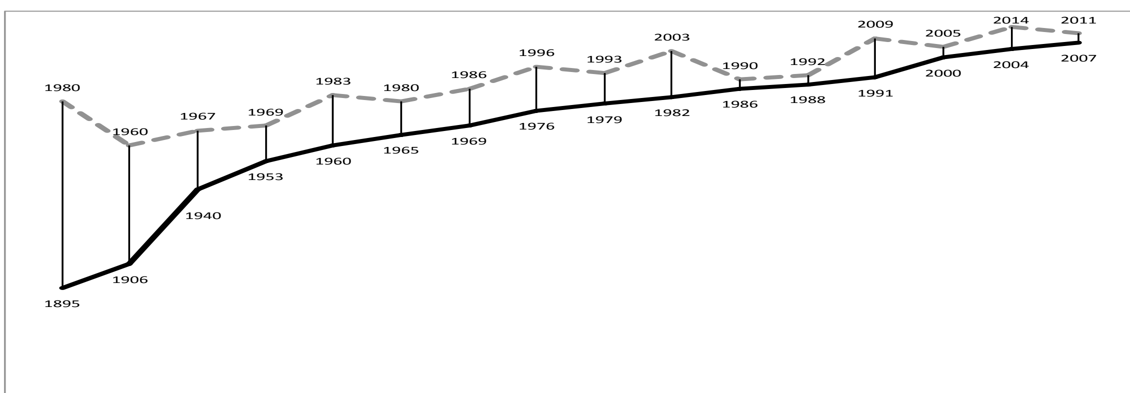
Figure1 shows that recently the process of internationalization of Brazilian companies of the sample has become faster. Taking into account all the companies the average period for internationalization is 21 years. When analyzing the internationalization excluding the three outliers companies it is 15.5 years on average.

Figure 2:Foundation Year x Year of the Internationalization of Brazilian Franchises



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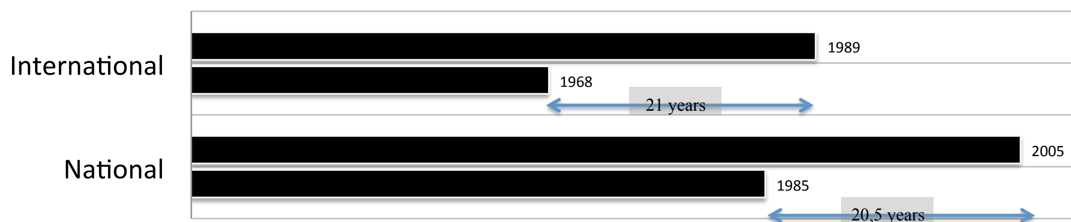
International companies averaged 21 years of internationalization. Brazilian companies in the sample, excluding the two outliers, had 16 years on average of internationalization. Comparing average of foundation dates of international and domestic companies, this showed that international companies are older.

Figure 3 represents the average period for internationalization of international companies with year of foundation (1968) and year of internationalization (1989), and for domestic companies with year of foundation (1985) and year of internationalization (2005).

Figure 3: Average Compared to Year of Internationalization and Foundation



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As can be seen and had already appeared in studies presented in the literature review developed countries have numerical advantage in years of internationalization, but on average they do not show greater speed when seeking new internationalization.

Findings and Discussion

For 30 percent of the sample of Brazilian companies, the method of operation has not changed since the time they became internationalized. Amongst international companies only 12 percent keep operating as they did initially. Table 3 explains the operating modes acknowledged by respondents and their perceptions about control and investment.
The following is a compilation of perceptions concerning each operation mode.

Franchisee-Owned - Where franchisors test their concepts and adjust the method of operation for new franchisees. According to most respondents, it is not a long-term strategic option as the business purpose of these companies is to sell franchises and not operate them. According to Combs and Ketchen (1999) and Alon (2001) this is a method that does not take advantage of rapid expansion at low cost, which is a franchising system precept. On the other hand, it may be the most profitable. As the control in this case is high, international companies have reported, as shown in the theories, that the operation investment level was high, but the control was clearly exercised. No problems with franchisees would happen at the beginning of operations, since they were not part of the business at that time.

Table 3: Summary of Entry Methods, Control and Investment Levels

Operation Mode	Description	Control	Investment

Franchisee-owned	No partner, associate or any barrier between the company and the operation, the entire culture can be transferred without interference. Despite the cost, international companies in the sample indicated this as the most effective to start an operation in a new market.	High	High ON ANY SCALE
Franchises directly (from the country of origin)	The control of the operation, without a constant consulting company on site, can affect the uniformity and the operation; domestic firms reported cases ranging from changing menu of products, advertising not aligned with the headquarters and even communication problems.	Low	Low ON ANY SCALE
Master Franchising or Area Franchise	Costs and investment in this method must be taken into account, depending on the number of units may become impractical. Keeping an entire system for sale and control with low financial results may not be feasible at first and may even lead to the closing of the transaction in the destination country. However, when the operation is mature, this is the method pointed out as a natural evolution for international franchise networks.	Medium	Low ON ANY SCALE
Joint venture	The local partner, with whom the company will share operation control, is one key element. Some respondents even reported the end of an operation due to wrong choice of overseas partner.	Medium	Medium ON LOW SCALE Low ON HIGH SCALE
Direct franchisee from a subsidiary, its own office in another country	The joint venture agreement is generally used in countries with very complex legislation where a local partner can make a difference. In the case of the sample, the only company that used this method had an agreement between close relatives.	High	High INITIALLY LOW SCALE Low ON HIGH SCALE

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Franchises directly (from the country of origin) - This is often the preferred option of domestic companies starting out in the internationalization process. This mode of operation can be extremely profitable in the short term. Franchisors invest little cash. In the long term, the brand image can be affected, if defined operational patterns are not followed. Among the international companies that opted to franchise directly from the country of origin, only two brands, in contrast to Brazilian companies, did not do so in countries geographically nearby. In this case, American franchising companies operating in Canada, as pointed out in Welch studies (1989) and Burton and Cross (1995).

Master Franchise and Joint Venture - In the franchise called “Third party“, the dependence on local partner is large. When this partner understands the business and the organizational culture combines these aspects with good relationships and good information flow, this method can be an attractive option for development in foreign markets. Usually the master franchisee absorbs part of the costs, which makes operational investment lower. If a joint-venture agreement occurs, the initial cost can be shared between the partners. Thus, it does not become a high investment. Both third-party agreements (Master Franchise and Joint Venture) bring a distinctive element frequently out of scope of the existing literature. According to respondents, these operating modes experience influence on the Third Party, so the franchise in actuality is not always exactly the one envisaged by the country of origin. This study does not intend to characterize all these nuances.

Subsidiary - Internationalized franchises from developed countries of the sample predominantly use a subsidiary (BURTON; CROSS, 1995). That seems to be the trend in franchising companies. To the managers interviewed, despite the initial cost, this operating mode is what ensures greater control in foreign operations. With the maturing of the operation, financial costs can be diluted. Problems that may occur, such as loss of franchise identity, are avoided in this mode. Unlike the directly from the country of origin mode of franchise where there is no third-party too, being close and controlling the operation prevents small deviations of conduct by franchisees and improves the perception of the local market.

Figure 4 shows the relationship between franchisor and franchisees or third party, the nuances of the changes that these relationships provoke and their main positive and negative impacts. In franchisee-owned mode, as the franchisor owns the company there are no communication problems, but it excludes the benefit of raising third-party funds. In franchises directly (from the country of origin), the franchise does not suffer from the influence of others, but without effective control it may lose uniformity. Respondents were emphatic in stating that the presence of a third party changes the business whether a master or a joint venture agreement. These changes can cause benefit or cause damage to the franchise structure in the country. Thus, choosing the right partner is key to the international operation. Franchise from a subsidiary requires a group highly aligned with the company of origin.

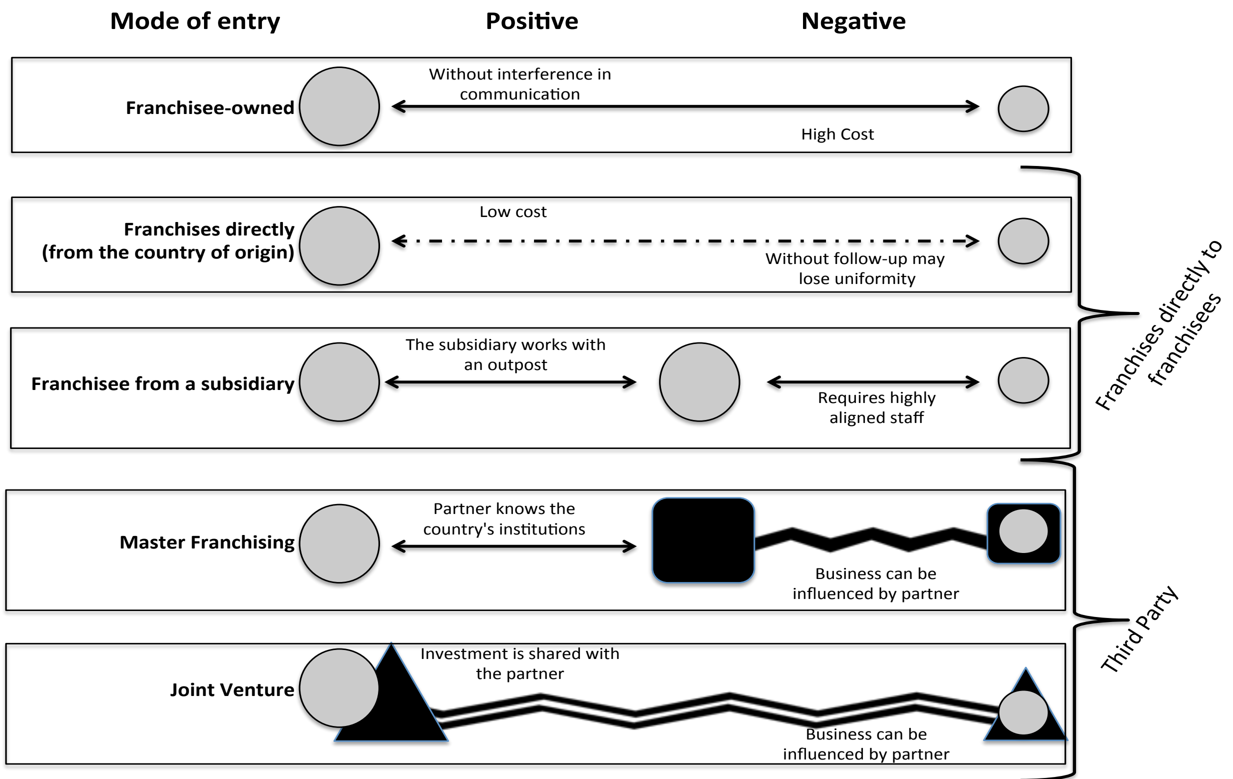
With the learning acquired selling units seemed natural in a business where success will guaranteed. An office operating as subsidiary was the chosen strategy by many respondents. One example is a respondent who has over 40,000 points of sale around the world and in the words of its International Director "... it would be impossible to operate so many stores, so many different cultures without an advanced post in those countries. However much the media are very advanced, living the reality of the place in day-to-day is different and brings countless benefits for the company. "

In another case the Marketing Director of a large international cosmetics company went further, "... we have fixed, in different way, the organizational culture. Our local office is a natural extension of the company with the difference that here everybody speaks Portuguese and understands the demands of local franchisees, legislation and economic environment. This helps us to understand each country and once we are a company department, the headquarters receives the information without interference. The company uses an office with people trained in its headquarters.” In her view, it would be very difficult that a partner alone could pass on completely the culture and the essence of the company. As the Brazilian subsidiary is an extension of headquarters the information exchange occurs naturally. A third party, be it master franchisee or partner (joint venture), is also a customer and would bring in another influence via its own operation and system.

Brazilian companies, as already mentioned, often use the franchise direct method in its first internationalization attempt and suffer a number of problems. The lack of operational control without a constant consulting company on site can affect the uniformity and the operation. Companies reported various disappointing outcomes with regard to this way of operating.

One Brazilian company operating in a geographically near market but without a proper structure for the country had problems with control. In this case, the franchisee as reported by the network expansion manager thought that his seafood restaurant franchisee could also sell "barbecue”. As this franchisor did not have a field consultant to carry out periodic visits to the operation, it took a while until the headquarters could discover what was going on.

Figure 4: Positive and Negative Points in Operation Modes



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Despite the problems when asked why Brazilian companies do not change the way they operate in such a market most reported that internationalization is not a primary strategy of companies. Many simply regard the operation as a laboratory to verify from this experiment if the brand has potential for internationalization to be further developed in future.

However, international companies see internationalization as a key strategy within its portfolio of options, considering that in their countries there are no simple opportunities for steady and robust growth. Having a subsidiary in the destination countries seems to be a natural evolution and satisfy a need for consolidated companies.

One of the latest Brazilian franchises to internationalize, already relying on information and guidance, chose to settle directly with an office fully formed in the destination country. This office is responsible for the opening of the first units of the brand and when the operation becomes strong enough, it will be parent of new units that will be sold to franchisees. This movement according to its manager's information will bring greater control of the network overseas.

This undertaking, even after being subsidized initially by the Brazilian government, was only made possible by a large investment in the brand. According to one of the managers "Due to the fact that the company had already considerable structure in the domestic market and financial health, it could choose this strategy for its first internationalization." Table 4 summarizes the current operating mode of Brazilian and international franchises by percentage.

Table 4: Sample Current Operation

Origin	Franchisee-owned	Franchises-directly	Master Franchising	Joint-Venture	Subsidiary
Brazil	6	58	19		16
International			31		69

Font: Authors

The Master Franchising and Subsidiary methods were the only ones found in the sample in international franchises. Based on this result, both from the respondents reports and on data, the longest average operation time in foreign markets, 24 years in the sample for international franchises and eight years for Brazilian franchises, it seems that the companies not only seek greater control but also the reduction of the risk capital employed when internationalizing.

Conclusions, Limitations and Future Research

The results showed that franchisors from developed countries prefer to use a subsidiary in the destination country.

The subsidiary method in each target country, little studied in academic circles, proved to be the most used by franchisors for developed countries (69 percent). It seems to be a natural evolution in order to enter and operate a franchised network. Although little used by Brazilian franchisors (16 percent), it is the method of operation used by the two Brazilian companies that longer operate overseas. As a second choice, foreigner companies (31 percent) use master franchisees. It is also little used by Brazilian companies (19 percent). Foreign companies ignore stores and direct franchises, which is the preferred method of Brazilian franchisors (58 percent).

The internationalization maturation of the franchises in developed countries be it by the experience that comes with passage of time or due to volume increase in foreign operations, culminate in the search for strategies that would provide greater control of the operation. Other factors also affect the business. For example, the geographic distance causing disfigurement of the business due to the lack of close monitoring. Simple franchising from the country of origin with little control should advance to next level.

Creating a subsidiary of the franchisor to act as an advanced post in the operation at the destination country with communication without interference has high initial cost, but this is diluted as the network increases. Directors of international franchises recommend this as the safest way to keep control and achieve solid growth using one of the principles of the franchise, third-party capital. This method, equipped with personnel aligned with the company of origin, brings the core of what is franchise, a proven and standardized business even if it is remote from the home country. Of course each country has peculiarities and adaptation is mandatory in the operations and sometimes even in the products, but uniformity is one of the pillars of the system. Without it one more of the attractions of the franchise is lost.

The fact is that most of the studied Brazilian companies are only beginning their internationalization experiences and use methods to prospect foreigner markets without large investments. They claim not to be able to afford more expensive methods, but they risk losing control of the expansion and its outcomes in the target markets.

The opportunity to study consolidated operations versus more recent entry operations reveals the gap between the beginning of the process and mature operations. In the study it is clear that the entry strategies of Brazilian franchisors are still at an experimental stage. Many are not ready to safely increase the number of units overseas and ensure control over their operations.

Returning to the question that has guided this study it is concluded that foreign franchisors in Brazil clearly evidence a more mature level than the Brazilian companies that go abroad. The foreign companies have clarity concerning the importance of a close control over the operations, which is reflected in their preference for the more engaged models of entry and operation.

A clear limitation of this study lies in the number of international companies that responded to the survey.

The study sought to understand whether there are significant differences between franchisors of developed and emerging countries when operating in international markets. Being a relatively unstudied field it raises questions and opens up space and need for future studies.

For the management of franchisors, this paper points out that the subsidiary is a natural evolution of entry and operation mode when it is desired or it is needed to control the expansion of networks in other countries. Thus, managers of franchisors in emerging countries should carefully examine the subsidiary option in the target country when their company considers accelerating international growth.

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