

## THE ROLE OF RELATIONSHIP AND FORMALIZATION IN DECIDING THE INTERNATIONAL FRANCHISING MODE\*

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### ABSTRACT

This study aims to find out which international franchising mode has been selected depending on the different formalization levels of franchising contracts as well as the level of relationship between the main company and the dealer. The study has been conducted on the international franchising experiences of two Turkish fast fashion retail companies. The research question has been tried to be solved by focusing on the international franchising strategies of these two companies in the Iran, Russia, Saudi Arabia, Dubai and Qatar between 2005 and 2015. Document examinations and 7 interviews revealed differences and similarities between the international franchising strategies of two companies. Multiple case analysis has shown that level of formalization and relationship are effective in deciding the international franchising mode. The research findings have indicated that both relationship and formalization could be low in the single unit franchising mode, however the area development franchising mode has required higher relationship level. Besides that analyses found out that when master franchising mode has been chosen, the partners would have higher level formalization and relationship levels.

**Keywords:** *International franchising mode, Turkish fast fashion retail sector, the level of relationship, formalization.*

**JEL Codes:** *L1, M1, M3*

## ULUSLARARASI FRANCHISING BİÇİMİNİN SEÇİMİNDE İLİŞKİNİN VE STANDARTLAŞTIRMANIN ROLÜ

### ÖZ

Bu çalışmanın amacı, farklı biçimlendirme ve ilişki seviyesine göre ne tür uluslararası franchising biçiminin seçildiğini ortaya koyabilmektir. Bu çalışma, Türk hızlı moda perakende sektöründeki iki firmanın uluslararası franchising deneyimleri üzerinden gerçekleştirilmiştir. Araştırma sorusu, bu iki firmanın 2005 ve 2015 yılları arasında İran, Rusya, Sudi Arabistan, Katar ve Dubai'deki uluslararası franchising stratejilerine odaklanılarak çözülmeye çalışılmıştır. Doküman incelemeleri ve 7 görüşme iki firmanın uluslararası franchising stratejileri arasındaki benzerlik ve farklılıkları ortaya çıkarmıştır. Çoklu vaka analizi biçimlendirme ve ilişki seviyesinin uluslararası franchising biçiminin seçiminde etkili olduğunu göstermiştir. Araştırma bulguları single franchising'de hem ilişki hem de biçimlendirme seviyesinin düşük olacağına, alan geliştirme franchising biçiminde ise, ilişki seviyesinin daha yüksek olacağına işaret etmektedir. Bunun yanı sıra, analizler, taraflar arasındaki ilişki ve biçimlendirme seviyesi yükseldikçe master franchising biçimini seçildiğini ortaya koymuştur.

**Anahtar Kelimeler:** *Uluslararası franchising biçimi, Türk hızlı moda perakende sektörü, ilişki seviyesi, standartlaştırma*

**JEL Kodları:** *L1, M1, M3*

\* This study is based on Yalçın Köklü's master thesis (*How to Decide the International Franchising Mode: A Research Study in the Turkish Fast Fashion Retail Sector*) which was conducted in Adana Alparslan Türkeş Science and Technology University Institute of Social Sciences under the supervision of Assoc. Prof. Dr. Mustafa Özseven.

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## **INTRODUCTION**

When the international franchising literature is carefully examined, it is remarkable that there are numerous empirical and theoretical studies to identify the single unit franchising, area development franchising, master franchising and joint venture franchising (Alon, 2006; Barringer and Ireland, 2012; Dant and Nasr, 1998, p.14; Garg and Rasheed, 2003, p.340; Geringer, 1991, p.41; Geringer and Hebert, 1989; Grewal, Iyer, Javalgi and Radulovich, 2011, p.538; Jindal, 2011, p.550, 551; Kaufmann and Dant, 1996, p.346; Rasmussen, Mosey and Wright, 2011, p.1318). Furthermore, some other studies has been tried to explain that how and which dynamics influence the relationship level between the main company and the dealer (Altinay and Brookes, 2012, p.280; Brookes and Altinay, 2017; Davies, Lassar, Manolis, Prince and Winsor, 2011, p.324; Dev, Erramili and Agarwal, 2002, p.93; Doherty and Alexander, 2004, p.1309; Elango and Fried, 1997; Madanoglu, Alon and Shoham, 2017, p.31; Rosado-Serrano and Paul, 2018; S. P. Bronn and C. Bronn, 2003; Wright and Grace, 2011, p.488). The development of trust, communication, knowledge transfer and resource transfer have been explained in the related studies. On the other hand, the formalization dimension, which is thought to be effective in standardizing the relationship levels between the parties in franchising system has been discussed (Cox and Mason, 2007, p.1056; Kaufmann and Eroglu, 1998, p.70, 71; Michael, 2002, p.328). At this point, it is remarkable that the question of "What mode of international franchising is chosen?" in different relations and formalization levels in international business is not very well known. Paralel to this question, an empirical study has been conducted in the Turkish fast fashion retail sector. The theoretical fundamentals of this study is told in the next part, and then some informations are given about the Turkish fast fashion retail sector. The study continues with the methodology of the study. Finally, research findings are reported and results are summarized.

## **THEORETICAL FUNDAMENTAL OF THE STUDY**

The four types of the international franchising modes are remarkable in the literature. These are single unit franchising (Jindal, 2011, p.550, 551), area development franchising (Barringer and Ireland, 2012, p.499), master international franchising (Alon, 2006), and Joint venture franchising (Geringer and Hebert, 1989; Geringer, 1991, p.41; Rasmussen et al., 2011, p.1318). In single unit franchising mode, the franchisor gives the dealership to a single company and to a single location (Barringer and Ireland, 2012, p.500). However, in area development franchising mode, the rights to the dealer to open many shops in the permitted part of the related region are given (Barringer and Ireland, 2012, p.499). The main company authorizes the dealer in order to open a store as well as granting sub-franchise to the same company in all around the company in the master franchising mode (Alon, 2006, p.69). Joint venture franchising refers to the formation of a partnership by combining the resources

of more than one company and structuring an organization in accordance with the content of this partnership (Rasmussen et al., 2011, p.1318).

International franchising literature indicates that company specific factors (Agarwal and Ramaswami, 1992), country specific factors (Alon 2006) and market specific factors (Agarwal and Ramaswami, 1992; Lu, Karpova and Fiore, 2011) are effective in choosing the international franchising mode. The sub-dynamics that develop specific to these factors are determined by the company's asset specificity (Agarwal and Ramaswami, 1992), financial capability (Doherty, 2007; Moore, Fernie and Burt, 2000), brand equity (Lu et al., 2011) and international experience (Luo, 2001).

Aside from all those, it has been revealed that cultural distance (Alon, Toncar and Mckee, 2004), government restrictions (Luo, 2001; Taylor, Zou and Osland, 2000), market potential (Agarwal and Ramaswami, 1992; Alon et al., 2004; Madanoglu et al., 2017) and market competition (Rosado-Serrano, Paul and Dikova, 2018; Taylor et al., 2000) have been effective depending on these countries and market specific factors.

There are additional confirmations from the Turkish context. It has been indicated that the host country and company specific factors can be effective in choosing the entry mode by studies that have been performed in the Turkish context (Nas, Okan, Düzgün and Çam, 2020; Özgen and Özseven, 2012; Özseven, 2011; Savaşçı, 2007; Sezgili, 2017). When deciding on the choice of international franchising mode, these factors should also be considered as they are affecting the franchisor's decision (Altınay and Brookes, 2012; Madanoglu et al., 2017; Rosado-Serrano and Paul, 2018).

According to Grewal et al.'s study (1991, p.539), the assessment of new entry opportunities requires joint actions. Therefore, the entrepreneurial dynamics of franchisors and franchisees and parallel franchise relationships are indispensable for a successful partnership (Grewal et al., 1991, p.539). Both companies are interdependent in order to achieve common actions, achieve a healthy relationship, achieve the set goals in the international franchising (Grewal et al., 1991, p.539). At this point characteristics of partners have gained importance in understanding the effects of relationship on international franchising mode choices (Wright and Grace, 2011). According to Wright and Grace (2011), franchisees naturally have different personalities and different ways of doing business, so each franchisee area seems to have different perceptions in how they manage the business. Authors conceptualized them in the relational dynamics model and determined that the four elements affect the nature of the franchised area, these are; attitude, passion, dependence, and respect (Wright and Grace, 2011, p.494-495). Rosado-Serrano and Paul (2018) indicated that knowledge transfer, trust, communication and resource transfer are the dynamics in the formation of relationship between the main company and the dealer.

In the international franchising, trust development is dependent on the commitment (Altınay and Brookes, 2012, p.280), the uncertainty level (Davies et al., 2011, p.324), and adaptation of the culture of the main company (Rosado-Serrano and Paul, 2018). The expectations of franchisor from franchisee about following the

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standards and protecting brand value in the local market would effect the trust level of franchisor (Altinay et al., 2014; Davies et al., 2011). If franchisee fullfills the contractual obligations, the trust level will increase (Davies et al., 2011). Communication contains informally sharing ideas between the sides (Altinay and Okumus, 2010, p.543) as well as establishing channels to meet the needs of both sides (Rosado-Serrano and Paul, 2018, p.184). These channels might be visits, making phone calls, and performing regular meetings (Gorovaia and Windsperger, 2010). These produce close ties between the both sides and increase the communication level (Gorovaia and Windsperger, 2010). Resource transfer is about the capital and human resources for helping the dealer in the management of the stores (Dev et al. 2002, p. 93; Elango and Fried, 1997; Madanoglu et al. 2017, p.31), on the other hand, knowledge transfer is about the sustaining technological, operational and marketing information to the dealer (Brookes and Altinay, 2017; Grewal et al. 2011, p.546; Rosado-Serrano and Paul, 2018, p.184).

Basic forms of management, rules and terms of agreement is set parallel to the formalization level between the sides (Cox and Mason, 2007, p.1056; Kaufmann and Eroglu, 1998; Michael, 2002, p.328). There are two main types of formalization such as enabling and coercive formalization (Adler and Borys, 1996, p.66; Hoy and Sweetland, 2001, p.298). Hoy and Sweetland mentioned that enabling procedures encourage open dialogue, interpreting difficulties as possibilities, promoting confidence, accepting differences, building on learning from errors and rejoicing in the unforeseen (Hoy and Sweetland, 2001, p.298). However, in the coercive formalization, punishment is implemented in any violation of set of rules (Adler and Borys, 1996, p.65).

Dant and Nasr claim that franchisors seek to minimize the opportunism of franchisees with making efficient terms in the contract so that they can control the franchisee more (for example, providing more digital integration, increasing active audits) (Dant and Nasr, 1998, p.8, 9). Harming a franchisor (principal) by disclosing proprietary franchise details, failing to pay royalties, failing to meet quality requirements, or free-riding at other outlets could be hindered by the formal contracts (Combs, Michael and Castrogiovanni, 2004, p.911). Hence, the main company can standardize the activities of dealer by setting of rules (Cox and Mason, 2007, p.1070).

Parallel to these informations, in this study, it is tried to be understood that what international franchising mode could be chosen at different levels of relationship as well as formalization. An empirical research has been performed in the Turkish fast fashion retail sector to reveal this.

### TURKISH FAST FASHION RETAIL SECTOR

Byun and Sternquist (2008, p.135) redefined Fast Fashion as "a marketing strategy for reacting to the *latest fashion trends* by constantly updating items with a short refresh period and *turning the inventory* at a fast pace." (Guercini, 2001; Moore and Fernie, 2004). Authors add that fast fashion is regarded as the fashion market's "supermarket" segment in the true sense (Byun and Sternquist, 2008, p.136). Rapidly changing customer demands is the main dimension of fast fashion retail sector to adopt

the types of the products and prices (Byun and Sternquist, 2008). The concept of fast fashion as a sector that basically needs to use three influential factors together. These are fast delivery, fast product change, renewal and daily fashion, as well as price sensitive product structure. Operational and logistical structuring, and design and affordability factors are critical to be forefront of the competitors (Caro and Marti'nez-de-Albe'niz, 2015, p.242-243).

When we look at the opening processes of Turkish fast fashion retail brands abroad, it can be easily seen that the shops started in neighboring countries (Researcher's field notes). In the following processes, each brand goes for growth in markets suitable for its segment. Factors such as the size of the market, competitive company analysis, pricing strategies, and market gaps have been evaluated and then the market to be entered has been selected (Researcher's field notes). Due to having own store concept, the company wants the implementation of its concept intact (Researcher's field notes). This point increases the investment costs, hence company can choose the franchising model to enter the market (Researcher's field notes). However, some factors have been cautiously evaluated during the selection of the partner in the host countries as well as the choosing of international franchising mode.

Apart from these dynamics, the international franchising mode literature have revealed that relationship level could be effective in deciding the international franchising mode (Rosado-Serrano and Paul, 2018). The formalization level also could be effective during the decision process. All in all it is required to be perform an empirical study to clearing up this mystery. An empirical study has been performed in the Turkish fast fashion retail sector.

## METHODOLOGY OF THE STUDY

The qualitative research methods have been followed in this study. When the literature is carefully reviewed, it could be seen that international franchising mode, relationship and formalization level are affected by some factors of company, market and country (Agarwal and Ramaswami, 1992; Doherty, 2007; Madanoglu et al., 2017; Moore and Burt, 2007; Moore, Fernie and Burt, 2000). These factors are derived from the company's asset specificity, brand equity (Moore and Burt, 2007), financial capability (Doherty, 2007; Moore and Burt, 2007), the international experience (Doherty, 2007; Luo, 2001). Country-based factors include country risk (Agarwal and Ramaswami, 1992), cultural distance between the host country and the home country (Moore and Fernie, 2000), restrictions from the government of the country of entry. The market potential and the level of competition in the market stand out as factors originating from the market (Taylor, Zou and Osland, 2000). The existence of these dynamics requires that the companies to be included in the research and the countries in which they enter should be equal to these factors. The existence of these factors has required to selection of multiple case analysis (Eisenhard and Graebner, 2007, p.27). Therefore it has been paid attention that the companies to be selected from the Turkish fast fashion retail sector and the countries they have entered are close or the same in terms of these factors. In this way, these factors will be somewhat controlled, hence the

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relationship between the mode of international franchising, the level of formalization and the level of relationship between the parties would be clearly seen.

Parallel to these explanations, during the selection process of the research companies, company sizes and level of experiences in the same markets have been wanted to be the close (Doherty, 2007). Hence, the market, company and country specific factors were able to had been controlled. In this direction, Company X and Y have been selected and time period was determined as 2005-2015.<sup>§</sup> The more informations could be revealed about the research companies in this section. However it has been decided not to provide company-specific information because of the concern that such information may lead to the disclosure of the identities of the companies. Therefore X and Y letter codes have been given to the companies In order not to decipher them. Appropriately, the total market share of companies X and Y in the relevant period was approxiametely 15-18% for each (Document Reviews). Between 2005 and 2015, the sales figures of companies X and Y were close to each other in Turkish market (Interview notes). Similarly, these companies have had 20 years of international experience until 2005 (Document Reviews). The similarities of these factors for companies X and Y have been effective in their selection in the study. When the document examinations have been performed, it has been found that the research companies have had operations between 2005 and 2015 in Russia, Qatar, Saudi Arabia, Iran and Dubai. In this way, the above mentioned variables had been controlled in terms of companies and countries. It should be noted that it is seen that the country risk of Iran increased compared to other countries between the years of 2005-2015 (Organisation for Economic Co-operation and Development (OECD, 2020), 2005-2015). For example, while Iran's country risk level was '4' in 2005 (Russia's '4' in the same period), it was '6' in 2010 and '7' in 2015 (OECD, 2020). However, Russia's country risk level remained at '4' in all three different years (OECD, 2020). The risk levels of Saudi Arabia, Qatar and Dubai have been realized at '2' levels in each period (OECD, 2020). These information revealed the necessity of evaluating the Russian and Iranian markets in one cluster, and Saudi Arabia, Qatar and Dubai in a different cluster in the evaluation of the research findings (OECD, 2020).

### **DATA COLLECTION**

Document examinations and interviews have been used in the collection of data. Document examinations were related to international franchising and growth strategies of companies (for the near and far period), target countries, and general franchising conditions for new investors. These documents were totally 115 pages. Another

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<sup>§</sup> It should be noted here that Companies have entered these markets before 2005. However, 2005-2015 period has been chosen as a research time period parallel to control variables. Some types of franchising mode haven't been seen during the data collections and analysis. For instance, product-brand name franchising (Alon, 2001), which might have been the former mode of franchising strategy in these markets before 2005, hasn't been chosen by the companies between 2005-2015.

method of collecting data has been interviews. While selection of the interviewees (Int), it has been taken care to have people directly involved in the operations of these two companies in the markets. The interviews were held in the last days of May 2020. Due to the worldwide outbreak of COVID-19 during these periods, electronic tools were used to conduct the interviews. '7' interviews had taken a total of 6 hours and 42 minutes. The shortest interview has taken 42 minutes, and the longest one has taken 68 minutes. Semi-structured interview form has been followed during the interviews. The questions were about -which international franchising mode has been chosen- if any changes have been in international franchising mode, why these changes have been- during these process what type of standardization has been followed- in which issues the main company has supported the dealer. And also, communication and trust have been tried to be understood during the interviews. Interviewees have been asked complementary and additional questions in order to find answers to the research question. It should be stated here again that the answer to the research question has been tried to be sought from the perspective of the franchisor. This have had caused the data to be collected by the franchisor. Detailed information about the data collected through interviews is shown in Table 1. As can be seen from the table, some interviewees have had experiences in both companies. Hence it has been achieved to perform comparison between two companies. The collected data were written in Word program. Total data lasted 32 pages and 11260 words which was typed in Times New Roman, 12 points in 1.5 lines. Then, data analysis has been done.

**Table 1. Data Collection**

The Research Company	Company X	Company Y	
Document review	62 pages	53 pages	
Interviews	Interviewee /Duration		
	Int.1/ 60 min.	Position: <i>Retail Planning Director</i>	Position: <i>International Sales Director</i>
	Int.2/ 56 min.	Position: <i>International Sales Manager</i>	Position: <i>International Franchise Manager</i>
	Int.3/ 66 min.		Position: <i>Int. Franchise Development Manager</i>
	Int.4/ 65 min.	Position: <i>Int. Sales Region Manager</i>	
	Int.5/ 68 min.	Position: <i>International Operations Director</i>	
	Int.6/ 42 min.		Position: <i>Int. Franchise Development Manager</i>
	Int.7/ 45 min.	Position: <i>International Sales Director</i>	

### Data Analysis

Abductive approach is the main theme of the data analysis. Navigation between the datas and theoretical facts have been parallel to the explanations of abductive approach literature (Charmaz, 2006, p.103,104; Dubois and Gadde, 2002; Gioia et al., 2013, p.21-22). By mixing up the prior theoretical models with new conceptual ideas

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is the aim of the research to develop the existing theory (Dubois and Gadde, 2002). In this way, data structure has been formed from the data and theory during the analysis (Gioia et al., 2013; see Figure 1).

Codings have been done by the researchers independently as well as unaware of each other's codings. The compatibility level of the coders between initial encodings was %88,12. Compliance level is close to the compliance level of the previous studies (See: Goodrick and Reay, 2011, p.389). The coders came together and re-analyzed the data for the dissidences and then provided consensus on the results.

If the main company gives only one franchise in the market, it has been coded like that single unit franchising mode was chosen (Kaufman and Dant, 1996). If one dealer has been authorized to open more than one store in a certain region, it has been coded like that area development franchising was chosen (Barringer and Ireland, 2012). If all market is dedicated to one dealer, it has been understood that master franchising has been chosen (Alon, 2006, Barringer and Ireland, 2012). If partnership structure has been established in the relevant country, it has been coded that joint venture franchising format has been chosen (Dinu, 2018; Rasmussen et al., 2011). If the main company informally has given the dealer authority in various fields, it has been coded as the trust level is high (Altınay and Brookes, 2012; Rosado-Serrano and Paul, 2018). If there has been well established communication channels between the sides, it has been coded as communication is high (Doherty & Alexander, 2004; Rosado-Serrano and Paul, 2018). If the main company transfers the operational knowledge to the dealer, the knowledge transfer is high (Ghantous et al., 2018, p.21). If the main company has provided human resources, material and know-how to the dealer, it has been coded as resource transfer is high (Dev et al., 2002; Rosado-Serrano and Paul, 2018). If the main company standardize all the practices of the dealer by contractual articles as well as punishment in any violation of them (Adler and Borys, 1996), it has been coded as formalization is high. However, if the main company prefer to solve conflicts informally as well as discipline the dealer by human relations and grant partial rights to it (Adler and Borys, 1996), it has been coded as formalization is low. How data has been coded can be seen in Table 2.

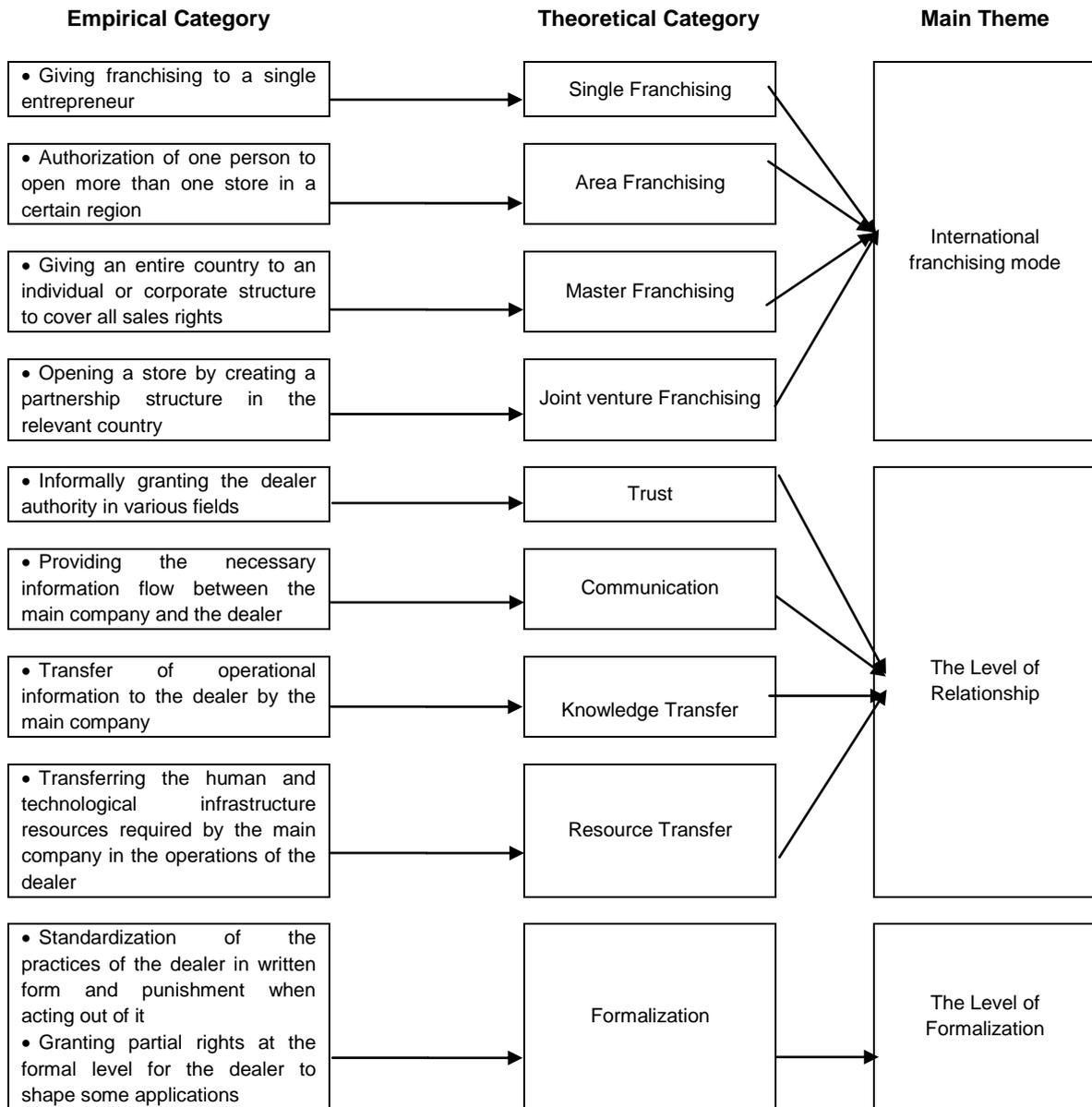


Figure 1. Data Structure

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**Table 2. Examples of Coding**

<b>Mode of International Franchising</b>	<b>Sample Expression</b>	<b>Sample Coding</b>
Single Franchising	<i>"...Therefore, we may not be able to control such a large geography, if we give a master franchise to a single company, so it can be divided into parts and given a single franchise..."</i>	Granting Single Franchise
Area Franchising	<i>"...We have identified strong investors who are regionally engaged in retailing in Iran..."</i>	Granting Area Franchise
Master Franchising	<i>"...For example, with the Master Franchise agreement made with Al-Hokair in Saudi Arabia, all sales rights in this country, retail, online, wholesale, sub-dealership, etc. given to this group..."</i>	Granting Master Franchise
Joint Venture Franchising	<i>"...For example, in Saudi Arabia, you have to make an agreement with a local company. At least 51% of the shares must be in the local company..."</i>	Granting Joint Venture Franchise
<b>The Level of Relationship</b>		
Trust	<i>"...because the company you work for as Master Franchising is a company that can meet your professionalism. You trust, you give the brand rights to the other party..."</i>	Trust is High
Communication	<i>"...We are connected to dealers' stores with online cameras... Also there are reports, daily, weekly and monthly..."</i>	Communication is High
Knowledge Transfer	<i>"...they provide central training, promote collections, make motivational arrangements..."</i>	Knowledge Transfer is High
Resource Transfer	<i>"...How did this happen, the entire system infrastructure, operation structure, supply chain, together with a structure managed from one head office, and the stock burden (company X) undertakes..."</i>	Resource Transfer is High
<b>Formalization</b>	<i>"...you can create a trust environment by linking them to the contract in the first place..."</i>	Formalization Level is High
	<i>"...90% is managed by relationships. Agreements detailed in 60-70 pages are repeatedly sent to lawyers, after signing, they are stored in the archives of the legal department, and that contract is not looked at once during the working period..."</i>	Formalization Level is Low

## FINDINGS

### Franchising Modes and Practices of Companies in International Markets

The coding results indicated that Companies X and Y had chosen different international franchising modes for Russia, Iranian, Saudi Arabia, Qatar and Dubai markets. Parallel to this, research findings have been reported in separate sections for each groups.

#### Iranian and Russian Markets

During the entrance of Company X to the Russian market, managers of the Company X had chosen the coordinated growth strategy. It is seen that when Company X noticed the level of market potential and demand, Company X has started to follow different strategy by launching its own operation. It can be clearly said that Company X made a contract for single unit franchising and then chosen the area franchising mode. It is possible to understand this from the following expressions of interviewee (Int) (The statements given in parentheses in the interviewee statements were added by the author):

“...This is a model. If I also establish my own brand, I will first establish my own company and then implement the franchising ...” (Interviewee (Int.) 5).

Company X has granted a partial freedom to its partner, while establishing a regional office in order to coordinate store activities. There have been some critical issues behind this decision. One of the point is that Company X wanted to monitor the performances of dealership by comparing with expectations. The other point is that Company X has measured the results of underpinnings to the dealer in about the logistics, finance, operational and technological infrastructure. The following expressions of an interviewee confirm these arguments:

“...This is how it started at (company X)... In other words, dealers come to meetings at the beginning of the season, place their orders, determine product deadlines, shipments are made in cash or with a letter of guarantee during the shipment period, they are shipped for the season, the customer buys and sells them. While it was a revolving business within the framework of sending goods and receiving money, we completely changed the structure in Russia in 2007. In the meantime, we had around 130 independent franchise dealers (consisting of 70 customers) in Russia. We switched to a structure that turns 50% of our total turnover on the franchise. How did this happen? A structure was established where the entire system infrastructure, operation structure, supply chain and sales operations were managed from a single center. We switched to a structure in the form of a determined commission rate, that is, a certain share rate from the turnover, where the stock burden (company X) is undertaken...” (Int. 5).

The document examinations and interviewees indicated the same pattern for the Company Y in te Russian market. Company Y has launched its operations as single

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unit franchising format, however Company Y has made new dealings with other entrepreneurs to open new franchises in other regions of Russia. It was noticed that the effects of local market conditions were effective for this decision. These local market restrictions could be said as geographical, ethnic and climate terms. These conditions has prevented for choosing the master franchising mode. It is possible to understand this from the following interviewee expressions:

“...How the Single Franchising decision is made: The market that the main company wants to enter may be a large geography, for example Russia, there are different federal regions, the distance is different, their characteristics are different, their ethnic structure is different, and their climate is different. Therefore, we may not be able to control such a large geography if we give a Master Franchise to a single company, so it can be divided into parts and given a Single Franchise. This is the first factor. The second factor is that if it is considering entering the country institutionally, the Single Franchise is given as a preliminary preparation, the brand perception is created and it may be opening a store in the regions that it does not open without throwing the existing single franchisee out of the game...” (Int. 2).

The main finding for the behaviors of the Companies in the Russian market is evolution from the single unit franchising to the area development franchising mode. Why has this decision patterns been seen? The gradual increases in mutual trust and communication with the dealers is one dynamic. The main company has maintained the transfer of resources and informations to the franchisee. It is possible to understand this from the following statements of the interviewee who explained a practice of Company X:

“...The manager of the first store you opened is the person who will carry all your know-how. We sent the manager from here. When the store went to 5, we sent the regional manager...Of course, this is a cost, but with only one store, it is not a franchise model...” (Int. 5).

Beside the relationship, it has been noticed that formalization level was also effective to take such a this decision for the Russian market. Protecting the brand reputation, providing the fashionable products as well as adequate finances are the main dynamics for this decision. The following interviewee notes confirm this claim:

“...In other words, the head office manages all the details such as product selection, pricing, and placement. The reason is, when I took over in 2007, 35-40% of the total operation (on an amount basis) was pending in the current account. So actually this was creating a complete liquidity (cash flow) problem. Due to the country's conditions, there are no printed documents such as usable checks and bills, no bank guarantee letters. There are no intermediary cash payment tools such as credit cards. Therefore, there is a serious risk arising in this situation. There is no situation where you can get a mortgage...” (Int. 5).

These kinds of implementations and strategies has revealed that Company X moved from Single franchising mode to area development franchising mode as the

level of relationship and formalization in the market increases. Additionally, the company had chosen the area franchising mode to increase the value adding and sales volume based on the store. Hence, when the Company X detected the potential in the market in a few years after Single franchise mode, it had offered the area franchising mode to their dealers which they have well relationship within the higher formalization.

The same pattern has been found for the Company Y in the Iranian market. It is seen that Company Y has chosen the single unit franchising mode firstly. However, as time passes, Company Y has chosen its strategy as area development franchising by dividing the country into geographical regions. Why the Company Y hasn't chosen the Master Franchising mode in the Iranian market? Trust level to the dealer was effective in this decision. This trust level has been determined depending on how the dealer could protect the brand value of the main company in the market. But, some negative experiences of the franchisors about the franchisee's behaviors had induced the decreases in trust level in the Iranian market. Furthermore, capability of the dealer in the management of logistic operations have been also effective to take this kind of decision. It is possible to understand this situation from the following interviewee statements:

"...This difference arises because you divide it as Single Franchise (SF) and Master Franchise (MF) in the first place, because the company you work for as MF is a company that can meet your professionalism. You trust, you give the brand rights to the other party. You say you (franchisee) will increase the value of my brand and control consumer behavior. These become inevitable in MF..." (Int. 2).

"...We experienced a similar event in Iran. In the company where we started as SF and had very serious negotiations, we finally gave up MF with this company due to reasons such as customer attitude, slowing down operations and not being able to manage logistics correctly. We stayed in a certain area of Iran and searched for another MF for another region of Iran..." (Int. 6).

Coding results has indicated that Companies X and Y were not rigidly adhere to the contractual procedures in the Iranian market. Instead of higher level of formalization, Companies tried to consist mutual trust and well communication channels between the parties. Companies have developed the communications by regular visits, phones, e-mails, and using other electronic tools (Gorovaia & Windsperger, 2010). As a result of this, dealers haven't fully standardized the activities by the contracts and so, formalization level has remained low. It is possible to understand this from the following statements of the interviewee who worked in both companies X and Y:

"...The Middle East is already a slippery ground... Among these, there were agreements that we closed the store and removed from that area. The issues like trust and communication that you have just mentioned must be structured in the contract...So you do not only make a business plan in the contract. These stores, in these cities, in these shopping malls, in accordance with our standards, etc. You

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guarantee it with manuals that it will be made in accordance with all these standards...” (Int.1).

The chosen of this path was based on the experiences of the managers in the Iranian market. The managers indicated that if any punishment procedures had had been chosen instead of the collaborative procedures, they would have lost the market share and some amount of money. Parallel to this argument, they have decided that making warnings about the failures of dealers and pointing out the true ways to them could have been adequate in the management of the dealership. One of the interviewees explained this situation as follows:

“...A business that started with a lot of appetite can turn into an absurd retailing over time. I have memories when I found out that the store was closed in the country I visited, so the other person criticizes us; You cannot ship goods, you do not support us etc., but I made a visit, the store was closed. We had 2-3 stores, one has no goods in it, the other sent the goods to another store. The sign was not on, the lights were not lit etc. When faced with such situations - especially if you have an aggressive boss - you can cancel the entire agreement as per the contract. However, I generally followed the strategy of disciplining the other party while earning money. I followed the path of finding a way to encourage them by saying like; this is wrong! this is against this contract! you are shooting at your own leg! etc...” (Int.1).

### **Saudi Arabia, Dubai and Qatar Markets**

Companies X and Y have implemented the same strategies during the entrance to Saudi Arabia, Dubai and Qatar markets. The coding results revealed that both companies have chosen master franchising mode. It should be noted here that it has been the legal obligation having a local partner during the entrance to this market in all sectors. So, Companies have been obliged to choose master franchising mode. The following expression proves this argument for Company X:

“...For example, in Saudi Arabia, you must make an agreement with a local company. At least 51% of the shares must be in the local company...” (Int. 2).

However, this entry mode partially includes the elements of the joint venture franchising mode. On the other hand, having a partnership with such a powerful company by the financial and operational sides could have provided some advantages to the main company. The following expressions prove this argument for Company X:

“...(Company X) had done business in the Middle East for many years with incompetent franchises and weak contracts. It entered the market before anyone else, but a few stores opened, remained that way, opened half-closed. Then there was a period of evolution and transfer of managers. It has transformed, signs have changed, internal store standards etc. have changed. Franchise terms also changed there. They took a breakthrough 3-5 years ago; they are now growing in the Middle East with strong groups and strong business plans, they entered with Master Franchise...” (Int.1).

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“...Master ... Because 51% company ownership means that the company belongs to this person, you will do a Master Franchise. ...” (Int. 5).

This type of partnership had also provided power to companies in rough competitive conditions. This is confirmed by the following interview notes:

“...Speaking of the Middle East, for example, when entering Qatar or Saudi Arabia, SF is not possible. You have to deal with large retail group companies. You are already included in the companies that operate large-scale operations...” (Int.2).

At this points it should be noted here that this kind of joint venture franchising haven't included the elements of acquisition and merger. The contract have carried elements of master franchising. However some elements have revealed joint venture franchising mode in some respects. For instance, granting all retail and wholesale rights to the local company includes sub-franchise and online sales channels being given to the company. The following interviewee statements confirm this situation:

“...The biggest advantage of (company Y) was that it made an agreement with Al-Hokair, one of the strongest companies in the regions of Saudi Arabia and UAE at the time. Al-Hokair is a Saudi Arabia-based company with around 45 of its own shopping malls in the Middle East and a billion-dollar group that has acquired MF of more than 60 brands in the Middle East, including the Inditex group. (Company Y) entered the market with this group and grew rapidly. It seriously opened stores in Saudi Arabia and Qatar, with 4-5 stores a year, this was its biggest advantage. For example, with the MF agreement signed with Al-Hokair in Saudi Arabia, all sales rights, retail, online, wholesale, sub-dealership etc. given to this group...” (Int. 3).

These findings could have persuaded the researchers for just local market conditions were effective for choosing the master franchising mode. However, it was found that trust level between the partners were determinative in deciding the master franchising mode. Trust have meant that big sales potential as weel as the authorization of the local dealer in this kind of master franchising mode. Especially, local partner has also been working with other popular firms in it's sector. It has been seen that this and being a professional company were the another dynamic for the franchisor to develop trust. Besides that both sides could have found an opportunity to perform an operation of minimum 20-30 stores by a single contract. This can be seen from the interviewee notes:

“...This difference arises because you divide it as SF and MF in the first place since the company you work for as MF is a company that can meet your professionalism. You trust, you give the brand rights to the other party. You say to the dealer that you will increase the value of my brand, you will control consumer behavior. These are becoming inevitable at MF....” (Int. 2).

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On the other hand it has been found that practices have been rigidly noted in the master franchising mode. This has pointed out that standardization level had high between the parties as well as relationship. Due to giving the all market to one dealer, main company had standardized the operations. Therefore dealer has found itself under the obligation of fulfilling the commitments of business plan. The statements of interviewee confirm this fact:

“...For example, you are expected to do what the brands you are competing with do there. Let me sample; you work with a large retail group, you opened A store. There are also brands like B, where the same group works, and stores beside you. Once a week, the visual merchandisers of these brands come to the stores, prepare their windows, invite them to their countries and give training at the center, promote their collections, and make motivational arrangements. But when you pop in every 3 months and say what you are doing, Mr. Ali, the problem begins. Every other brands take care of their stores here, but you don't. If you don't take care of it, your dealer hold you responsible for it, and this obligation mentions in the contract. These places also have strong competition, costs, rents and other expenses. The man who invests with these costs makes a tight contract with you ...” (Int.1).

It has been noticed that the main company have wanted to take guarantee of fulfillment of the contracts by dealer. This assurance has shown itself by adding the provisions that can be met with penalties in case of any violation to the contract. It should be noted here that brand reputation and financial power of the main company was also effective while set of rigid rules. This condition could be understood from the following statements:

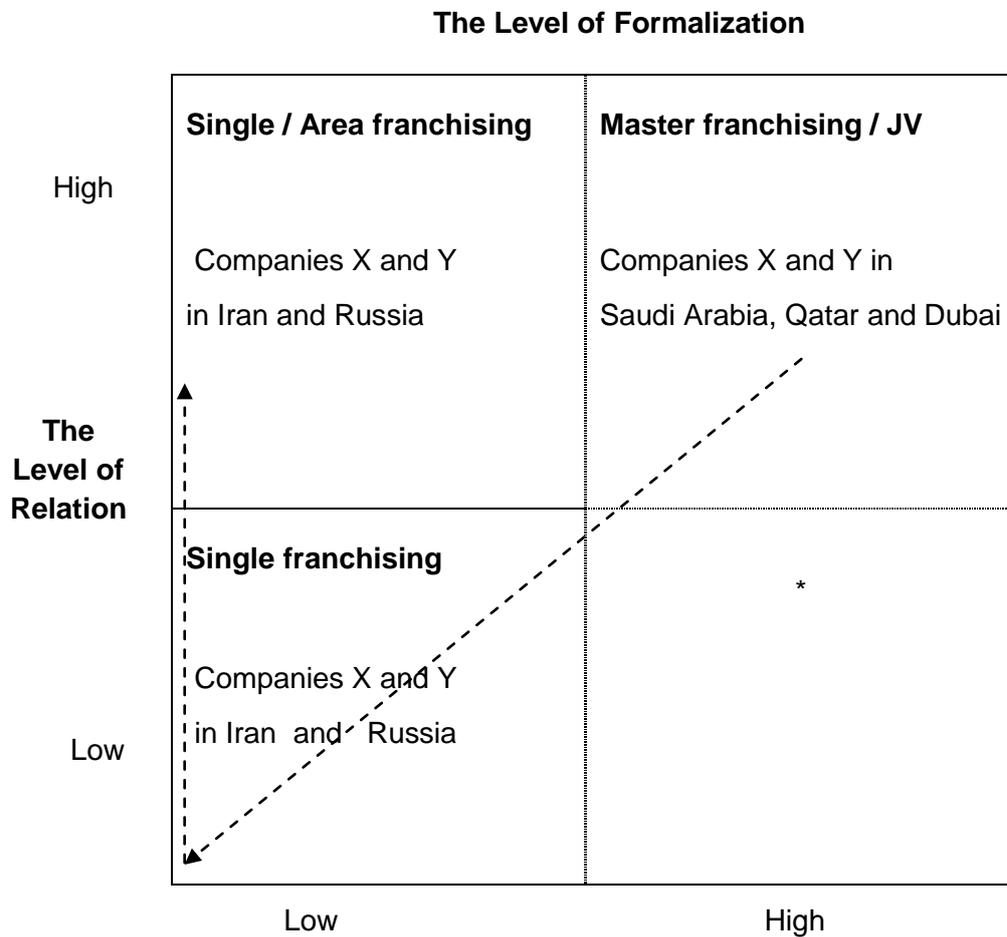
“...In the first place, they are not included in the main contract while shaking hands. Companies do not include penal clauses in their main agreement. They make additional contracts outside of the main contract and all these penal clauses and criteria are included in this additional contract. Accordingly, the process is followed. Therefore, the strength, perception and structure of the company that shape the relationship here are also very important, but the most important issue is that when you give MF to the dealer you expect from him to perform all these matters...” (Int. 2).

### **THEORETICAL DISCUSSION**

Research findings have indicated that the level of formalization and relationship is effective in deciding international franchising mode. As seen in Figure 2. when the level of relationship between the parties is high, however the formalization is low, Companies have chosen the single unit franchising and area development franchising mode. This fact could be understood from the strategies of companies X and Y in the Iranian and Russian markets. However, it has been found that if the level of relationship between the partners decreases, main company choose the single

franchising mode during the entrance to these markets. These facts reveal that when the formalization degree is same, relationship level is determinative in choosing the single or area development franchising mode.

The followed strategies in Saudi Arabia, Dubai and Qatar markets show differences from the Iranian and Russian markets (See Figure 2). As mentioned in the previous sections, there has been rough competition in these countries and this local market factor has induced the both research companies to form a partnership with local company. However, this local market factor is not only factor to choose Master franchising or Joint venture franchising in these markets. The analyses have indicated that both formalization and relationship are high between the main company and dealer.



**Figure 2. International Franchising, The Level of Relationship and Formalization**

\*: In this study, it was not determined that the level of formalization was high and the level of relationship was low in any cases of this study.

Note: While completing this typology, the author was inspired by the study of Ramus, Vaccaro and Brusoni (2017, p.1279).

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These research findings support the prior facts in the international franchising mode literature. Companies X and Y have chosen single unit franchising mode in the Iranian and Russian markets without setting of rigid rules in the contracts. Especially, they have preferred to discipline the dealer with informal procedures. This overlap with the findings of Garg and Rasheed (2003, p.340). Especially, the main company has tried to overcome the problem of free-riding by close surveillance (Dant and Nasr, 1998, p.14). The research findings haven't shown conformity to the literature in some respects. Jindal (2011, p.551) has indicated that the level of control could be low in single unit franchising. Our findings have shown that Company X has produced solution by providing a regional manager instead of disciplining the dealer by set of contractual rules. It should be noted here that this way mostly preferred in the area development franchising mode, however it has been seen that it was preferred in the single unit franchising mode as well.

These research findings have supported the prior facts of literature about the master franchising mode as well (Alon, 2006). Our research findings have shown that when the main company has wanted to implement the fast growth strategy in the competitive markets, master franchising mode would be chosen. At this point, Alon (2000) found out that master franchising mode can provide well established supply chain and conditions in the management of operational activities by forming closer relationship with the dealer. Similarly, it has been revealed that Company X has chosen the master franchising mode in Saudi Arabia, Dubai and Qatar markets as of these dynamics.

If there are any possibility of deviation by the dealer, main companies could set of rigid rules (see Wright and Grace, 2011). In addition to this, trust between the parties could improve efficiency, profitability, and operational success (Rosado-Serrano and Paul, 2018; Wright and Grace, 2011, p.488). It has been observed that Companies X and Y have tried to ensure operational success by creating a relationship based on trust rather than formalization in the Iranian market. Especially, the increase of the communication level between the parties has lead to the increases in the trust level instead of set of formal rules (Rosado-Serrano and Paul, 2018). However, it has been noted that this fact has been achieved by keeping the formalization level high in Saudi Arabia, Qatar and Dubai markets. Competitive dynamics in these markets were also prominent in choosing the master and joint venture franchising modes in these markets (Akremi et al., 2010, p.932; Cox and Mason, 2007, p.1070). While preferring these modes, Companies have formed well communication channels to transfer their goals to the dealers. These findings overlap with the ideas of Grewal et al. (2011, p.543) and Doherty and Alexander (2004, p.1309). The main dynamics of these preferences in these market is that main company has wanted to protect its brand identity and reputation (Akremi et al., 2010, p.932; Cox and Mason, 2007, p.1070). Kaufman and Eroğlu (1998) mentioned that operational standardization is essential in the nature of franchising. In this study, formalization was seen to be more prominent in master franchising and joint venture franchising. Finally, in the article, it is mentioned that the main company can transfer information (e.g. store visit and training) and resource

transfer (e.g. technology infrastructure and administrative transfer) (Dev et al., 2002, p.93; Ghantous et al., 2018, p.21). It has been shown that this fact has been arisen in the mode of area and master franchising.

## CONCLUSION

Research findings have revealed that there is a relationship among the international franchising mode, level of formalization and relationship between the parent company and the dealer. When the levels relationship and formalization are both low, the research companies have chosen the single unit franchising mode in the Iranian and Russian markets. However, as the Companies have realized the market potential, changed their strategies into the area development franchising mode by ascelating the relationship level, but have kept formalization level same (Alon et al., 2004, p.173; Madanoglu et al., 2017, p.31; Rosado-Serrano and Paul, 2018). Why has this strategy not been master franchising? Because of the lackness of sufficient organized retail companies, the companies couldn't have chosen the master franchising mode. However, Companies have chosen the master franchsing mode in middle east markets by forming high level of relationship and formalization. It should be noted here that during the entrance to the Saudi Arabia, Dubai, and Qatar markets forming a partnership is the obligation which is dictated by the governments. So, it is the remarkable factor in choosing the Master Franchsing mode in these markets. It has been realized that geographical conditions are also effective in deciding the franchising mode. For example, Russian and Iranian markets have larger geography, and this condition has been indicated by the interviewees about chosing the area franchising mode than the Master franchising mode.

Some limitations were encountered in the process of carrying out this study. First of all, in the collection of data, full detailed data about companies could not be reached. The other limitation was the risks and market potential levels of the markets were not completely equal in the period of 2005-2015. Some changes could be during these period. This limitations could be overcome in future studies. However this study is able to provide saturated implications for the managers when deciding the international franchising mode in the Iranian, Russian, Saudi Arabia, Qatar and Dubai markets. Especially, interviewee expressions have indicated that managers could find an opportunity to form practical relationship channels with the dealer instead of contractual rules in area development franchising. However, formalization should be kept high in master franchising mode. Finally, when the both levels of relationship and formalization are low, single unit franchising mode sould be chosen. These findings have been developed based on the 7 interviews and some document reviews. Hence, there should be performed more studies to make general the findings. As mentioned above, level of risk, competition, market potential and obligations showed some differences across the markets. They have potential for effecting on the generalizable of the findings. Future research could test the robustness of this study's findings in the different markets, which they have similarity about these factors.

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