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Entry mode and institutional conditions to consider when entering a new market:

The case of fashion apparel franchising in Germany.

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Abstract

Background: Literature suggests that franchising as an entry mode for internalisation gains more and more popularity. However, existing literature shows many studies concerning franchising do not focus on industries. Hence, very little research is done when it comes to franchising in the low-to-medium cost fashion apparel industry. At the same time, the growing fashion apparel industry is becoming more and more important due to the business opportunity it brings for organisations. In this context, Germany as being the biggest apparel market in Europe is attractive for international organisation to expand to. For entering the German market through the franchising entry mode, the information about underlying market environment and relevant actors play a vital role to reduce risk of encountering uncertain obstacles in the process.

Purpose: Entering a new market as a franchisor can be challenging due to different dynamics that can be found in different markets. Therefore, the purpose of this thesis is to explore institutional conditions of the current fashion apparel industry in Germany and to find out which institutions in Germany could help an organisation in terms of information on prevailing conditions, to successfully enter the German market.

Method: To attain the purpose of the research, a qualitative approach employing a single case with two embedded units of analysis is used. Purposive sampling is used to select research participants based on their expertise about the topic. The empirical data is collected through semi-structured interviews with 12 participants, which resemble 3 different actors, the German consumers, the German Franchise Association and Tjjarat AB, a fashion apparel company seeking to expand to Germany. Supplementary data, such as official governmental and associations website, is used to support the empirical findings. Secondary data is acquired using literature, web sources and legal documents. The empirical findings are analysed with the help of the thematic analysis and the institutional theory as well as the Uppsala internalisation model.

Findings: The empirical findings present that there are several normative conditions which depict behaviours and what is considered to be acceptable in the German market. Firstly, there is no franchise fee collected by the franchisor in the fashion apparel industry. Furthermore, brand awareness, consistency, reputation and quality as well as price, design and variety play an important role in the consumer shopping behaviour and decisions. It was also found that there is no specific franchise law but rather a combination of existing legislation, such as the German Civil and Commercial Code, Competition law, Consumer law and Unfair trade law that form the jurisdiction for franchising in Germany.

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IV List of abbreviations

CEO: Chief Executive Officer

DFV: German Franchise Association

EFF: European Franchise Federation

GDP: Gross Domestic Product

H&M: Hennes & Mauritz AB

M&L: Martin & Lyla

MD: Managing Director

Tjjarat: Tjjarat AB

UK: United Kingdom

USA: United States of America

1 Introduction

In this chapter, background information and context about the study is provided. We further derive into a research problem and purpose from the background information, including research questions that will be key drivers of this study. Finally, delimitations of the study are discussed followed by definition of terms and notes regarding specific aspects that need clarification.

1.1 Background

Internationalisation is a subject that have over the years been studied in the field of business to explore dynamics and complexities of expanding a business into a new market. Yang, Lin and Ren (2018, p.7) define internationalisation strategy as “a production, operation and investment mode for an enterprise to expand its geographical space to other countries or regions”. Firms adopt this strategy with the aim of expanding their investment, operations or products, often at a certain development stage (Sun & Huang, 2014). Such diversification has its downsides and upsides (Yang et al., 2018). The downside of internationalisation is driven by the fact that firms have to adapt to a number of factors, such as culture and values of the new country, political systems, laws and regulations and different economic conditions (Martin & Sayrak, 2003; Wei & Chen, 2011 cited in Yang et al., 2018). The upside, however, firms can enjoy reduced corporate risk, widened operations and growth (Buckley & Casson, 2009).

Which mode of entry a firm choose for its internationalisation strategy is dependent on different factors. Literature describe a variety of entry modes that firms uses for its international operations; one of them is franchising. The strategy is described by researchers as one that firms use to foster entrepreneurship (Michael, 1996), make products and services available, where otherwise a sole corporation could not reach (Sanghavi, 1998) and a tool for market penetration (Spinelli, Rosenberg & Birley, 2004).

The franchise concept has continued to gain popularity over the years, with research tying it to the success of big companies around the globe. The concept involves two parties entering into an agreement, with one party (franchisor) giving another party (franchisee) the rights to operate a business in a specific geographic location for a defined period under a brand name without having to necessarily own the trademark of the brand (Dahlstrom, 1996; Spinelli et al., 2004). Franchising is “a type of license that a party (franchisee) acquires to allow them to have access to a business' (the franchisor) proprietary knowledge, processes, and trademarks in order to allow the party to sell a product or provide a service under the business' name” (Kenton, 2017).

Although the business model gained popularity in the 1950s, the concept dates back to the medieval ages (Felstead, 1993; Baresa, Ivanovic & Bogdan, 2017). Companies like Burger King, Coca Cola, Kentucky Fried Chicken, to name a few have for many decades thrived through franchising (Felstead, 1993). The strategy is said to be useful for both small, big, local, international and newly formed businesses (Felstead, 1993; Baresa et al., 2017), while further promoting cross-border economic integration (Sanghavi, 1998). Franchising is also said to be resilient with economic crises (Calderon-Monger, Pastor-Sanz & Ribeiro-Soriano, 2016). Data indicates an average annual growth of 4.5 percent in the European market between 2007 and 2011, and annual franchise unit growth for franchisees with one unit by 7.8 percent under the same period (European Franchise Federation, 2015).

The fashion industry has not been left behind in using franchising as a method for expansion and business growth. Sweden's Hennes & Mauritz AB (H&M) has grown its business considerably over the years, operating 4,900 stores in 71 markets with annual turnover of EUR 20.16 billion in sales (H&M, 2018). Although H&M's general expansion strategy is mainly focused on stores owned by H&M, franchise opportunities are used to enter markets to which access would be otherwise denied due to regulations. Spain's Zara has among others become a household international brand, retailing in 62 countries by January 2006 with 2,692 stores (Lopez & Fan, 2009).

Yet, existing literature shows many studies concerning franchising do not report on a specific industry scope, thus showing a wide gap in industry studies (Rosado-Serrano, Paul & Dikova, 2018). When it comes to franchise research in the fashion and clothing industry very little research has been done and the existing research is limited on retail operations (Doherty & Alexander, 2006), on the importance of geographic location choice (Paul & Feroul, 2010) and on causes for failure in the retail industry (Burt, Dawson & Sparks, 2003).

Some research regarding international franchising also compares different industries focusing on partner selection (Altinay, 2006) and the relationship of franchisors and franchisees (López-Bayón & López-Fernández, 2016). Additionally, many existing studies examine the factors that influences the relationship between franchisors and franchisees in international franchise partnerships (Doherty, 2009; Altinay & Brookes, 2012; Brookes, 2014), but none are focusing on the German fashion apparel franchise market, even though the German fashion apparel industry is of immense importance as it is the biggest apparel market in Europe (Statista, 2017).

It is important to note that franchise strategy comes with its paradoxes regardless of the industry. Franchising enables firms to grow and realise profits through expansion (Kirby &

Watson, 1999; Anwar, 2011). This is influenced by among other things, changes and increase in consumer demands, technological innovation and attractive emerging markets (Anwar, 2011) which create opportunities for firms. On the contrary, expansion has been associated with negative results and has become more turbulent over the years, hence the need for careful planning to ensure readiness for the conditions presented in the new markets (Hoffman & Preble, 1991). The desire to grow rapidly put firms at a risk of overexpansion. One example of failure from overexpansion is described by Spinelli et al. (2004), where Boston Markets expanded too fast, lost track of its origin and eventually filed for bankruptcy.

Another notable paradox is innovation and entrepreneurship. Franchise systems have been described as entities that do not allow changes to the business format, requires replication rather than innovation and want conformity rather than creativity (English & Hoy, cited in Price, 1997). As most franchise units are owned by entrepreneurs, these are individuals who are profiled as rule breakers, they experiment and take risks, and this is at times regarded as a paradox. Entrepreneurial activities of franchisees tend to increase as the competition in the market grows, and the more they gain experience, they get frustrated by goals and objectives presented by franchisors (Tuunanen & Hyrsky, 2012). Linder and Foss (2015) argued that both parties bring wealth of capabilities and resources that are beneficial such as skills and experience to the business, hence collaboration is important to leverage on these resources.

As such, knowledge of the underlying market environment and relevant actors (including knowing which actors gives more knowledge and the type of information that can be obtained) play a vital role in internationalisation, hence franchising, for without such information there is a risk of encountering uncertain obstacles in the process.

1.2 Research Problem

This research is done within the scope of foreign market entry mode. Johnson & Tellis (2008) defines market entry mode as “a fundamental decision a firm makes when it enters a new market because the choice of entry automatically constrains the firm’s marketing and production strategy.” The emphasis of this definition is on the objectives of the firm, what it seeks to achieve and the intended methods of achieving the results. In this regard, this study looks at the institutional conditions in the host country a firm intends to expand in, in this case, Germany’s fashion apparel industry within low and medium cost segments. The study further explores learning opportunities from different actors that forms institutions within formal and social systems.

According to Buckley and Casson (1998), firms aspiring to enter foreign markets have a variety of strategies to do so, including but not limited to franchising, joint venture, foreign direct

investment, exporting, licensing and mergers and acquisitions. This research falls under the scope of franchising. Franchising is used as a business growth and entrepreneurship path (Spinelli et al., 2004). The business model offers opportunities in different industries globally, such as employment and recruitment services, accounting, fashion, hospitality etc. Regulating the business model differs depending on industry, company operations and whether operations are domestic or international (Dahlstrom, 1996).

Aliouche and Schlenrich (2011) argued that market attractiveness has a direct relationship with geographical location, with European countries ranked as highly attractive due to stability of its political and legal systems. Germany accounts for more than one-fifth of European Union's Gross Domestic Product (GDP) and is the world's fourth largest economy (US Commercial Service, 2018). German's franchising industry grew by 4.8 percent in 2016 with trade taking 30 percent of the shares. By 2018, the industry's revenue amounted to EUR 122 billion (German Franchise Association, 2018).

The German Franchise Association (DFV) indicates a dynamic growth in different sectors. There has been a 3.6 percent growth in franchise partnerships, with more than 128,000 franchise partners coming from more than 990 franchise systems. Trade sector (inclusive fashion) took 24 percent market share during the year (DFV, 2018).

There has been a large-scale restructuring in the European fashion and textile industry (Keenan, Saritas & Kroener, 2004), with a large number of the industry's companies located mainly in France, Germany, Italy, Great Britain and Spain (Lopez & Fan, 2009). The same calls for understanding of operational issues encountered in franchise operations. Hoffman and Pebre (2004) outlines social-cultural, ethical and legal issues as key components in international business expansion. Further research indicated that franchisor's knowledge on specific matters of the business contributes to brand resonance and building trust with franchisees (Badrinarayanan, Suh & Kim, 2016).

Although much has been written about franchising, the current research and industry reports do not address the need for industry specific knowledge about the fashion apparel industry in Germany. Entering a new market as a franchisor can be challenging due to different dynamics that are present in different markets. Therefore, the research problem for this study is:

Entry mode research on franchising is currently based on sectors which limits availability of industry specific knowledge for entry into fashion apparel market in Germany.

Due to such lack of knowledge, firms and research community have limited insights into critical elements of internationalisation within fashion apparel industry, such as institutions and

challenges posed by them, and how firms ought to adapt to become relevant. In their study, for example, Welch and Luostarinen (1988) argued that structures that work in one area need to respond to demands and the diversity posed by a different operation, and that improving the mechanisms to reflect the current situation (in this case international expansion) demonstrates maturity and commitment to internationalisation. As such, this study addresses both theoretical and practical gaps of the German fashion franchise apparel industry.

1.3 Research purpose and questions

In a view of the above background and research problem, the focus of this research is on the essentials of entering the German market as a franchisor in the fashion apparel industry. Within the fashion apparel industry, we focus on the low-to-medium cost fast fashion sector. The research particularly focuses on key stakeholders, such as associations, regulatory bodies, consumers and institutional conditions that act as enablers to foreign market entry, with the intention to uncover learning platforms for both societal and formal institutions.

In order to define the research purpose, it is of distinct importance to clarify what type of study is done. In literature, the research purpose can be classified into three types: descriptive, explanatory and exploratory. Explanatory research deals with explaining the relationship between two or more variables and is most often aligned with a quantitative approach (Saunders, Lewis, & Thornhill, 2009). Descriptive research is used when a specific portray of profile of persons, events or situation needs to be drawn (Robson, 2002). This involves having advance knowledge of the studied topic. Exploratory research aims to find new insights while looking at a phenomenon from a new perspective. It is particularly used when the nature of the problem is unsure (Saunders et al., 2009). Our research intends to explore the institutional conditions of the current fashion apparel franchise industry in Germany, to obtain insights on how a non-German franchise business can successfully expand into the German market. Therefore, an explorative approach is used, as we want to explore and find new insights which are not yet existent for the fashion apparel franchise industry. Furthermore, we are doing that by examining whether consumers or associations can give us more insights regarding prevailing institutional conditions for franchisors who would like to enter the German market. To do that, we aim to answer the following research questions:

1. How do institutional conditions affect franchising entry mode in the German market?
2. Does a franchisor entering the German market learn more on the prevailing institutional conditions from local associations or customers?

1.4 Research Contribution

Our research contributes to the field of entry mode research, specifically to the franchising research as being an assertive part of the entry mode studies. The research gives new insights on foreign market entry theories and internationalisation and addresses different institutional conditions for the German franchise environment, in particular, the fashion apparel industry and within the industry the focus is on low-to-medium cost fast-fashion.

Furthermore, as indicated in the introduction, there is little research that has been done in the fashion apparel franchise industry in Germany, hence this study addresses this gap and therefore provides future researchers with the following:

1. A basis for examining industry specific franchise environment in foreign markets entry.
2. Practical application of Uppsala internationalisation model and institutional theories in studying and understanding conditions that affects internationalisation in the fashion apparel industry through franchising, including learning obtained from different institutional groups.

Regarding the value of the research for the business world, it remedies the issue of lack of information about franchising in the apparel fashion industry in Germany and helps guide businesses to enter the German market smoothly.

Following steady growth over the years in the Germany franchise industry, coupled by population growth and steady growth in purchasing power, foreign investors are particularly attracted to invest in the country, while the German government views franchising “as an engine that drives the establishment of businesses and livelihoods in Germany ...” (Germany Trade & Invest, 2017).

Further reports indicate that the German apparel market value for 2019 is estimated to EUR 56.019 million and the forecast for the following years are nearly the same (Statista, 2018). This not only motivates our research but also shows big potentials for the future. As a consequence of the lack of research existent regarding this topic and the forecast for the German fashion apparel market, our research helps franchise businesses to expand into the German apparel market under considerations of institutional conditions found in Germany and thus contributes to already existing studies. Furthermore, franchise businesses can benefit from the comparison of whom to learn more from; consumers or associations, while integrating the learning outcomes when expanding to Germany.

1.5 Delimitation

This research is conducted within the area of Global Management in Business Administration. As this is a wide field of study, certain restrictions have been set to narrow down the scope, as follows:

- The research encompasses non-equity mode of foreign market entry, specifically franchising. Therefore, other entry modes will not be part of this study.
- The research is bound geographically and focuses on Germany; hence no other countries will be part of the analysis.
- The research only takes into consideration, normative and regulative conditions within the institutional conditions. Thus, cognitive conditions will not be part of this study.
- The focus is narrowed down to fashion apparel, hence other consumer textile industries are not included in this research and are not part of empirical data collection. Additionally, the research is bound to fast fashion (low to medium cost segment), hence other fashion segments are not part of the study.
- The franchise industry consists of multiple actors, however, for the purpose of this research only consumers, the case company and franchise industry association are part of empirical data collection and analysis.

1.6 Definitions and notes

Definitions:

Born-global firm: firms that operate internationally from their inception, with or without local market presence.

Franchisor: a firm or entity that owns a brand name and license it to third parties in exchange for fees and royalties while they remain the owners of the trademarks and other related legal ownership structures.

Franchisee: an individual or firm that enter into a contractual agreement with a franchisor to use their brand or trading name without having to own the brand itself.

Direct franchising: based on a contract between an individual franchisee and a franchisor granting permission to open and run a franchise unit in the specified region, also listed as one of the simplest types of internationalisation, according to DFV.

Master franchising: franchisor permits a franchisee to own multiple franchise units in a specified region where the franchisee can choose to run the units themselves or sub-franchise them. A typical contract entitles the master franchisee with a role of the franchisor in the local market in accordance with the franchise agreement.

Indirect franchising: an independent foreign subsidiary is formed by the franchisor. The subsidiary concludes contracts with local franchisees and oversees the operations. It also acts in the capacity of the parent company's headquarters in the region.

Notes:

Currency: for consistency purposes, some currencies in the study were converted to Euro (EUR).

- Conversion tool: www.xe.com
- Conversion date: March 21, 2019
- Exchange rate SEK: SEK1 = EUR0.096
- Exchange rate USD: USD1= EUR0.896

2 Frame of reference

This chapter presents current knowledge related to the topic. It starts by discussing the concept of entry modes and factors that affect or influence firm's decision on mode of entry to a foreign market. Then internationalisation is explored with insights on fashion apparel industry and the Uppsala internalisation model is presented. We further narrow down entry mode types to franchising and conclude the chapter with a discussion on institutional theory.

2.1 Entry modes to foreign markets

Literature provides different ways of entering into a foreign market. Depending on a type of business, internationalisation is a result of different factors and triggers. Firm's decision to entry mode are either on equity or non-equity mode. Equity mode involve setting up a subsidiary in the foreign market through joint venture (Pan & Tse, 2000; Johanson & Vahlne (2009) cited in Suseno & Pinnington, 2018). Non-equity mode of entry involves transactions such as exporting to overseas markets and entering into contractual agreement with business partners in the country of expansion (Suseno & Pinnington, 2018). Further research indicates that issues such as centralised versus decentralised, local versus global and adapted versus standardised are fundamental in foreign market entry decisions, and that knowledge management of the issues is required in both local and international level (Buckley & Ghauri, 2004).

Firms choose different foreign market entry modes and strategies based on their motives and overall objectives. The level of control a firm requires also plays a key role in deciding between low or high control modes (Blomstermo, Sharma & Sallis, 2006). Research has over the years discussed entry modes such as joint ventures, direct and indirect investment, franchising, licensing, exporting, mergers and acquisitions and greenfield investments (Hill, Hwang & Kim, 1990; Taylor, Zou & Osland, 2000; Herrmann & Datta, 2002; Blomstermo et al., 2006). To enter a new market, one of these mentioned market entry modes need to be chosen (Schellenberg, Marker & Jafari, 2018). These entry modes have different characteristics, as summarised in the table 1 below:

Characteristics/Determinants	Shared-Control Entry (Joint Ventures, Contractual agreements)	Full-Control Entry (Greenfield, Investments, Acquisitions)
Extent of risk exposure (Influenced by resource and asset commitment; risk sharing by partners)	Low-Moderate	High
Returns (Directly related to ownership and control)	Low-Moderate	High
Resource commitment (Associated with entering foreign market and maintaining operations, increases with increasing ownership and control)	Low-Moderate	High
Knowledge of local markets (Enhanced with local partners. Exchanges with partners facilitate access to knowledge needed to understand environment)	Low-Moderate (Given access to partner knowledge base)	High (Must develop knowledge base independently)
Control (Directly related to ownership)	Moderate	High

Table 1: Characteristics of full-control and shared control entry modes. Adapted from Herrmann and Datta (2002, p.556).

Buckley and Casson (1998, p.547) set up a basic approach that can be used to determine foreign market entry strategies that is defined by five dimensions: “(1) where production is located, (2) whether production is owned by the entrant, (3) whether distribution is owned by the entrant, (4) whether ownership is outright, or shared through an international joint venture and (5) whether ownership is obtained through greenfield investment or acquisition.”

The first four dimensions determine entry strategies that are consistent with the main objective of this study, franchising. The strategy is discussed further in the coming sections. However, it is also of vital importance to understand influences behind entry mode decision of a firm.

2.1.1 Entry mode decision

Selecting a mode of foreign market entry is influenced by various factors. These may include firm's extra regional expansion, decision makers and their characteristics, information availability and the firm's environment (Wiedersheim-Paul, Olson & Welch, 1978). There is an assumption that market commitment and market knowledge affect commitment decisions and how decisions are made (Andersen, 1993). Further research shows that firms tend to be more aggressive in their entry mode selection when they have advanced knowledge of their markets (Erramilli & Rao, 1990). Entry mode decisions, like in other areas of businesses are influenced by factors that relate to the business' environment.

2.1.2 Factors affecting entry mode decision

All entry modes are different and may be sustaining different objectives (Meyer, Estrin, Bhaumik & Peng, 2009). However, foreign entry behaviour plays a vital role in the economic success of firms (Burgel & Murray, 2000). Firm size, international experience and competition are among others, factors that influence internationalisation and selection of entry mode (Omar & Porter, 2011).

Without exclusivity, below internal and external factors are discussed due to its coverage in a wide range of literature, showing its importance in foreign markets entry mode decisions.

2.1.2.1 Internal factors

Characteristics of the firm

This covers firm history, goals, products and size. "A firm's asset power is reflected by its size and multinational experience, and skills by its ability to develop differentiated products. When a firm possesses the ability to develop differentiated products, it may run the risk of loss of long-term revenues if it shares this knowledge with host country firms. This is because the latter may acquire this knowledge and decide to operate as a separate entity at a future date" (Agarwal & Ramaswami, 1992 p.4). However, firms with capabilities of developing differentiated products are less likely to enter markets perceived to have high investment risks (Agarwal & Ramaswami, 1992).

Aulakh and Kotabe (1998) argued that a firm's size may constrain the firm's willingness to commit resources to foreign markets due to its abilities. Young firms, for example are said to

be more fragile at infancy stage and have more positional disadvantages than well-established firms (Sapienza, Autio, George & Zahra, 2006). Having large domestic markets on the contrary, places firms in a better position competition-wise in terms of technology, marketing expertise, financial resources, and production capacity (Ekeledo & Sivakumar, 1999).

Unique competencies

In order to succeed internationally, a firm needs to possess intangible and beneficial knowledge-based assets and replicate the knowledge throughout its operations to enable it to compete successfully in chosen markets (Martin & Salomon, 2003). When deployed both domestically and internationally, the advantageous knowledge strengthens firms and allows them to compete with other rivals (Buckley & Casson, (1976) cited in Martin & Salomon, 2003). These competencies can be of a wide range, from having specialised technological knowledge to a unique knowledge about customers' needs in the firm's environment (Helfat & Lieberman, 2002).

Also, necessary to understand, is that acquisition and development of such knowledge needs to be positioned at pre-internationalisation phase to be able to develop cutting-edge products (Weerawardena, Mort, Liesch & Knight, 2007). Wiedersheim-Paul et al. (1978) argued that the more the firm is aware of its unique competencies, the more likely it is to implement its knowledge and exploiting its advantage through foreign markets.

Resources

Some entry strategies allow firms to share resources between the new entrants and the foreign market firms, while other modes do not provide such opportunities, hence the choice is dependent on the extent to which the new entrant requires such resources (Meyer et al., 2007). Prior research provides that a firm's excess resource capacity (current and anticipated) within areas like marketing, finance or production tends to push firms into considering expansion (Wiedersheim-Paul et al., 1978).

New ventures may not have financial resources at the time of founding but have an advantage of getting parent firm resources such as management advise and capital. Getting access to these initial resources depends on the extent to which a parent firm transfer resources such as brand name, personnel, physical assets and organisational systems (Helfat & Lieberman, 2002). Firm's growth and survival is also moderated by resource fungibility, which permits resources to be deployed for alternative uses other than its original objective at low cost, the importance of which is visible in the discretion and flexibility in executing strategies (Sapienza et al., 2006). Such resources also play a role on whether a firm diversifies to multiple markets

at the same time, to new industries or to different geographical locations (Helfat & Lieberman, 2002).

Management team

One of the critical determinants of international expansion is knowledge, hence experience with foreign markets entry is key to internationalisation (Sapienza et al., 2006). Whether a firm is in its infancy stage or established, prior managerial experience and exposure to foreign markets (from prior employment) determines the outcomes throughout the internationalisation process. Further research suggests that the Chief Executive Officer's (CEO) functional background, tenure and international experience are linked with full-control modes, findings that were observed in high-performing firms, and that the possibility of newly elected CEOs opting for lower risks and commitment modes is high (Herrmann & Datta, 2002). Hence, "...with greater position tenure, CEOs become more familiar with the decision process and acquire greater task knowledge, expertise, and experience along with increased power within the organisation" (Herrmann & Datta, 2002, p.556).

In accelerating internationalisation, owners and managers profiles are characterised by a learning and entrepreneurial orientation and global mindset which makes them an integral part in acquiring and dissemination both technological and non-technological information within the firm; spearheading the learning, unlearning and knowledge integration process facilitate achievement of international objectives (Weerawardena et al., 2007).

Thus, as an important asset, experience provides additional support in making decisions that impacts survival of the firm (King & Tucci, 2002).

In addition to the internal factors of a business, external factors which affect the entry mode choice need to be considered.

2.1.2.2 External factors

Environmental factors

Overseas markets are inherently risky due to different circumstances that surrounds the operations such as different market systems, political and cultural matters, which advocates for gradual involvement (Johanson & Vahlne, 1977; Johanson & Vahlne, 1990). According to Brouthers and Nakos (2004), non-equity modes are preferred by firms entering markets with high environmental uncertainties to shift or reduce risks towards the organisation, while equity modes are employed where uncertainties are perceived to be low.

At the same time, firms are forced to choose an entry mode due to institutional conditions that favours certain options, for example entering a market through joint venture due to pressures ascending from state-owned firms, while greenfield and foreign direct investment modes may be selected for countries that offer special industrial zones and real estate that facilitates setting up of such establishments (Meyer & Nguyen, 2005). Some countries also pose certain trade barriers or restrictions that may influence entry mode choice. These include tariff barriers that involve imposing import taxes or non-tariff barriers that include laws and regulations that favour local products (Ekeledo & Sivakumar, 1999).

Competition

Foreign markets bring strong competition to new entrants and can be monopoly or multiple competitors. The existence of monopoly for example, is associated with high competition cost which favours strategies that give long-term control to the new entrant such as acquisition over greenfield investment, and also favours arrangements like licensing over subcontracting or franchising (Buckley & Casson, 1998). Other studies indicate that when there is market domain overlap between local and foreign firms in the same industry, competition intensifies for the local firm. However, the frequency of encountering each other in other markets is high, hence the degree of rivalry for both firms increases significantly (Baum & Korn, 1996).

A study that involved Swedish firms revealed that firms with stable or increasing market share in their local markets are likely to expand abroad. However, increased competition in local markets by local or foreign firms, or the tendency of local competitors to go to foreign markets also stimulates the need to go abroad (Wiedersheim-Paul et al., 1978).

Market opportunities

Availability of opportunities drive firms to choose a certain entry mode in a host country, in consideration of characters such as ease of entry, growth rates, scaling potential and ability to transfer technological advantages to the host country (Hennart & Park, 1993). Although market opportunities are not the only determinant of entry choice, their influence on the firm's willingness to expand abroad is strong (Wiedersheim-Paul et al., 1978).

Additionally, availability of information on available opportunities in foreign markets stimulated by governments (both for local and foreign markets) and their involvement have possible influence on entry mode choice and internationalisation (Wiedersheim-Paul et al., 1978).

To further understand this phenomenon and its relevance in answering our research questions, it is of utmost importance to look at internationalisation and its key elements.

2.2 Internationalisation

Internationalisation offers firms opportunities as a result of access to new and bigger markets, exposure to new technologies and best practices, and advantages of economies of scale (Pereira, Fernandes & Diz, 2009). The interest of international operations of businesses have been growing rapidly over the years, with academic activity in the area stimulated by many elements of concerns such as businesses themselves, governments, and trade unions (Welch & Luostarinen, 1988). Although international expansion presents opportunities for growth and value creation, its implementation involves various unique challenges in addition to those commonly related to local market growth (Lu & Beamish, 2001). For example, while businesses are concerned with making their operations more competitive and effective in the global environment, governments are concerned with ensuring a positive national interest in the process, and trade unions have concerns about working conditions and their influence on the overall process (Welch & Luostarinen, 1988).

Firms choose to diversify internationally in response to challenges such as competition from both local and international businesses with new and innovative products, services or processes (Pereira et al., 2009). Internationalisation is a strategy that is used by both small firms and large corporations and is said to be one of the most strategic options (Lu & Beamish, 2001). There is contrasting evidence from different studies on the subject of internationalisation of firms. Johanson and Wiedersheim-Paul (1975) provides that firms operate locally and gradually grow in international operations; while Knight and Cavusgil (2004) argues there is a substantial number of “born-global firms” emerging worldwide, despite scarcity of resources that characterise new businesses such as finances and human resources. These firms are known to leverage on capabilities such as knowledge and innovativeness to achieve significant success in foreign markets (Knight & Cavusgil, 2004).

Challenges associated with new geographical expansion are among other things related to the foreignness of the market, since capabilities developed to operate in the local market are often unsuitable for a different market, hence the need to acquire and develop new knowledge, capabilities and relationship with stakeholders (Lu & Beamish, 2001). This implies that a firm’s strategy to internationalisation is dependent on different factors, including personnel. Morris, Kuratko and Covin (2011, p.182) described people as “... the heart and soul of any enterprise” and that “... Human Resource Management function must play a strategic role in developing core competencies and achieving sustainable competitive advantage through people.” Researchers on the people subject have indicated its importance to corporations for many decades. Lorange (1986) argued that human resource function is vital to successful implementation of corporate ventures such as licensing agreements, joint ventures and other

methods of business cooperation. Overall personnel policies and type of people determines the outcomes of internationalisation throughout the process (Welch & Luostarinen,1988).

At the same time, evidence indicates that international diversification success is not only dependent on skills, knowledge and experience of foreign markets, but also to the exposure of a range of threats and opportunities (Welch & Luostarinen,1988). Some methods can be adapted by businesses due to certain constraints posed by using the other methods (Carstairs & Welch (1980), cited in Welch & Luostarinen,1988). Influencing factors to the choice of internationalisation mode come from both firm-level, industry-level and type of company (Maçães & Dias (2000), cited in Pereira et al., 2009). Internationalisation strategy decision focuses on identification of markets to be reached, offerings to be placed on international markets, and choice of appropriate entry mode to the identified market (Pereira et al., 2009).

To further put the role of knowledge in the internationalisation process into perspective and address research questions in this study, Uppsala internalisation model is one of the theories used as a point of reference with the aim of uncovering key antecedents of venturing abroad.

2.2.1 Uppsala internationalisation model

The internalisation of the firm is seen as a process, which increases the company's activities. These activities are the result of various types of learning (Johanson & Vahlne, 1977). The model implies growing international operations and involvement of the firm within the foreign markets the firm is operating in (Schellenberg et al., 2018). According to this model, firms will first target markets which are neighbouring countries due to their physical closeness. The reason for entering close markets are similarities in terms of culture, economy, politics and geographical proximity (Johanson & Vahlne, 1977).

Johanson and Wiedersheim-Paul (1975) suggested four steps in the internationalisation process of a firm, also known as “establishment chain”:

- First stage: No regular export activities; the firm does not have any direct information channels to and from the market and has not made any resource commitments.
- Second stage: Export through independent agents or representatives; there is a channel to the market where the firm gets regular information and knowledge on factors that influence sales.
- Third stage: Establishment of sales subsidiaries; the firm has gained control to the market's information channels and can decide the extent of information flow. This is a stage where a firm gets direct experience of factors which influence resources.

- Fourth stage: Establishment of manufacturing or production units in the foreign market; the resources commitment is at a larger scale. At this point, a firm is more knowledgeable on foreign markets, including risks and opportunities that the markets present.

The importance of these stages results from the extent of firm's involvement in the market. As a firm moves towards different stages, it leads to different market information and experiences, and also leads to larger resource commitments (Johanson & Wiedersheim-Paul, 1975). The authors however argue that it is possible for firms not to follow the chain because some markets might be small and do not need a firm to reach the resource demanding stages and that firms with experience from other foreign markets are likely to jump the chains. Firms that deviate from the chain may be influenced by their products characteristics, existing relationships and networks in the market, changes in top management (Björkman & Eklund, 1996), engaging in non-equity investments, hence operate internationally from inception (Hennart, 2013) and stable environmental conditions (Jiménez, 2010) which inspire incremental dynamics between commitment and knowledge (Figueira-de-Lemos & Hadjikhani, 2014).

In essence, the model's core message is that market knowledge plays a significant role in internationalisation of a firm and that lack of knowledge increases uncertainty towards the foreign market (Johanson & Vahlne, 1977). A recent study by Vahlne and Johanson (2013) observed that coping with uncertainties enables to a high degree the management of developing a business. On the one hand, general knowledge can be gained through books and other sources with relevance to the market's characteristics and consumers. On the other hand however, specific knowledge is acquired through experience and operational activities in the market (Forsgren, 2002). Johanson and Vahlne (1977) identified four mechanisms of internationalisation as market knowledge, commitment decisions, current activities and market commitment, in order of sequence. This implies that no commitment decisions can be made without knowledge, there will be no expansion activities without commitment decision and there will be no market commitment without activities, hence knowledge carries the weight of the entire process and that "market knowledge and market commitment are assumed to affect decisions regarding commitment of resources to foreign markets and the way current activities are performed" (Johanson & Vahlne, 1990, p.11).

Further development of the Uppsala model includes pre-export activities in which emphasises on the importance of firm's behaviour before internationalisation, looking at factors such as characteristics of decision makers, availability of information and firm's environment (Wiedersheim-Paul et al., 1978). Furthermore, the factors are interrelated, such that "it is a

two-way process: the decision-maker is influenced by his environment and at the same time is creating a new environment through his and the firm's activities" (Wiedersheim-Paul et al., 1978, p.48).

In practice, Uppsala model internationalisation process has been observed in a several empirical studies, including in studies of Sandvik AB, Atlas Copco, Facit and Volvo (Johanson & Wiedersheim-Paul, 1975), H&M (Chetty & Campbell-Hunt, 2004), Oynurden kimya (Erdilek, 2008) and IKEA (Jonsson & Foss, 2011). One thing that these firms have in common, is that their international expansion was gradual; they started small and eventually increased their involvement and commitment as they continue to gain knowledge in foreign markets.

Although the Uppsala model is credited to be among internationalisation models that is frequently used by firms, there have been some criticisms over its applicability for firms from different industries and settings. Forsgren (2002) argued that incremental entry may pose higher risks than early entry since the internationalisation process takes long, and that delays could result in missing opportunities that markets presents at certain periods of time. It is also worth noting that new environments create more business opportunities than those available in firm's domestic markets.

The issue of knowledge limitations for example can be tackled by hiring managers with knowledge and experience with the foreign country's environment (for example culture, regulations, market dynamics etc) and practices to reduce the risk of uncertainties (Forsgren, 2002; Ojala & Tyrväinen, 2009). Firms that operate in international markets from the outset leverage on their key capabilities such as "entrepreneurial orientation, international orientation, international marketing skills, international innovativeness, international learning ability, international networking capability, and international experience" (Hennart, 2014). Nevertheless, the model serves as a good starting point for our study which looks at internationalisation through franchising, with learning and knowledge being one of areas the research questions is addressing.

2.2.2 Internationalisation of fashion apparel

Academic debate on fashion retailing internationalisation has been highlighted by authors such as Fernie, Moore and Lawrie, (1998), Moore (1998), Moore, Fernie, and Burt, (2000, 2004), and Moore and Burt (2001). However, these studies focus on firms entering the United Kingdom (UK) markets, luxury fashion brands or based predominantly in the United States of America (USA) (Doherty & Alexander, 2006). The rapid growth of internationalisation activities by firms from 1980s has shown considerable global success and has seen power shift from manufactures and wholesalers to retailers (Fernie & Alexander, 2010). However, Mollá-

Descals, Frasquet-Deltoro and Ruiz-Molina (2011, p. 1979) warns that “internationalisation does not always guarantee a good performance for fashion retailers.”

Both managers and academics consider fast fashion as a unique method which supports the reduction of lead time, responding to market trends quickly and the benefits it brings over economic recession concerns (Runfola & Guercini, 2013). Previous research work has highlighted internationalisation with examples from some of major fashion brands; H&M and Inditex-Zara. According to Runfola and Guercini (2013), 70 percent of Inditex’s sales are in Europe, while H&M’s main markets are in Sweden, Spain, Germany, Netherlands, France, UK, Norway and Switzerland. Some of small and mid-sized European companies have been growing rapidly in their home markets and are now faced with pressures of expanding internationally due to having their sales revenues concentrating in their local markets (Runfola & Guercini, 2013). Additionally, the increasing levels of market saturation and competition assert pressure on firms to internationalise (Lopez & Fan, 2009), responding and contributing to the globalisation process (Mollá-Descals et al., 2011).

Several trends characterise the internationalisation of fashion retailing. First, there has been a major shift in the global manufacturing of textile (Jones, 2002 cited in Runfola & Guercini, 2013). Second, there has been an increasing trend in the seasonal collections which demand provision of fashion apparel for as fast as on weekly basis (Sheridan, Moore & Nobbs, 2006; Doyle, Moore & Morgan, 2006). Third, the need for innovative relationship in the whole supply chain of clothing and textile network is crucial (Runfola & Guercini, 2013). Finally, expansion through foreign markets is considered to be a sustainable growth strategy (Alexander & Doherty, 2010).

The internationalisation process may differ across fashion apparel firms, and so are results in their foreign operations (Mollá-Descals et al., 2011). However, entry mode for fashion apparel industry is as key, and it is influenced by trading conditions, market position, expansion strategies, the firm’s expertise, perceived risks and the extent to which a firm is ready to commit its resources (Forslund, 2015, cited in Bai, McColl & Moore, 2017). Furthermore, the first stages of fashion retail internationalisation may not be profitable, as observed by Mollá-Descals et al. (2011), hence long-term planning and strategies is of utmost importance. The authors further argued that internationalisation can in the long run bring economies of scale and economies of scope in logistics and sourcing, and in management systems and technologies, respectively.

Another important aspect in fashion internationalisation is efficiency, as observed by Moreno and Carrasco (2016) in their study on internationalisation and market positioning in textiles fast

fashion. The authors found a positive relationship between efficiency and internationalisation, and that efficiency increases as the firm increases its experience, skills and expansion. These findings support previously discussed literature on the importance of experience and knowledge in the internationalisation process.

2.3 Franchising

Franchising has been an area of interest for researchers for many years. Shane (1996, p.73) defines franchising as “an organisational form based on a legal agreement between a parent organisation (the franchisor) and a local outlet (the franchisee) to sell a product or service using a process and brand name developed and owned by the franchisor.” This relationship involves the franchisor selling the rights to its business system, products specifications and trade name to a franchisee (Combs & Ketchen Jr., 2003). Firms looking to expand their business can do so through opening more company owned outlets or through granting third parties’ rights to establish franchise outlets (Shane, 1996).

2.3.1 Franchising dynamics and challenges

Following the dynamics that franchise business systems face, firms choose to operate their businesses based on different strategies. Franchise research points out ways that a firm can operate within franchising; where franchised units and company-owned units coexist and where these units operate independently (Bradach, 1997; Perrigot, Cliquet & Piot-Lepetit, 2009). Using franchise and company-owned outlets simultaneously has its benefits and challenges. According to Bradach (1997), firms face challenges in the areas of maintaining uniformity and adapting to market changes within the entire franchise system. However, where the franchise strategy involves mixing both company-owned and franchise outlet, research proves such operations to be more efficient than predominantly franchise chains (Perrigot et al., 2009). Michael (2000) observed that when a franchisor owns some units while franchising others, and implements long-term training programs, it tends to increase franchisee’s compliance with standards and increase the bargaining power of the franchisor.

With consumers expecting to get the same offerings across the world and increase in competition, it calls for firms to respond to new opportunities and threats. Pressure arising from such environment forces firms to change their systems to accommodate the same, with the main issue being how to get the entire franchise system to adapt to the new standards (Brachad, 1997).

Just as in other business relationships, franchise arrangements are also prone to challenges that can arise from conflict between parties involved. From neoclassical economic perspective, potential tension arises from pricing and profit maximisation behaviours of the parties involved

(Spinelli & Birley, 1996). This may lead to the problem of opportunism (Shane, 1996), which is a result of two parties entering a relationship with possibilities of serving differing objectives and goals (Chiou, Hsieh & Yang, 2004) and seeking to maximise incentives, a problem that can possibly be mitigated by the “perceived value of the trademark” where a franchisee will remain in the relationship in consideration of exit costs (Spinelli & Birley, 1996).

The dynamics of franchise systems exposes firms to different kinds of risks. Franchisees are exposed to conditions that are beyond their control, such as local economic situations that may eliminate or reduce their capital, because they are limited by investment choices, including requirements to operate in certain geographical locations (Michael, 1996). Earlier research suggests that while the brand name benefits both the firm and consumers, there is a risk that local franchise managers may offer products or services of lower quality than what consumers associate the brand name with, which may increase inefficiencies that are associated with high costs of monitoring the operations (Norton, 1988).

2.3.2 Managing a franchise business

The early stages of international franchising involve selecting a market and a partner. While the market selection process enables firms to screen the market before taking the market attractiveness factors into account that lead to selection decision (such as demographics and economics), strategic partner selection process looks at the business and local knowledge, finances and common understanding of the brand and business at large, among others (Doherty, 2009).

The relationship that exists between a franchisee and a franchisor creates an interorganisational form, where the parties are both independent and liable for their organisations (Spinelli & Birley, 1996; Chiou et al., 2004). The business model has a constant factor: the outward appearance is a replication of a business system around the world, depicting the same look, feel and experience. On the inside however, is a whole different business arrangement that involve different parties owning different outlets, including those directly owned by the franchisor (Bradach, 1997). At the same time, personnel are managed differently; those working for parent organisation outlets belong to its hierarchy, while those on the franchise outlets belong to the franchisee’s hierarchy (Bradach, 1997). While a franchisee makes decisions about local operations due to their knowledge about their trading conditions, the franchisor make decisions about products and its production, marketing strategies and how to standardise the overall marketing process (Michael, 1996).

Modes of payment in franchise agreement differ from business to business, however, the most common are through payment of ongoing royalty and advertising fees resulting from sales

revenue or through an up-front fee (Shane, 1996). The franchisee is also expected to adhere to operational standards that are determined by the franchisor (Bradach, 1997).

At the beginning of a franchise relationship, there is a legal agreement that outlines terms and conditions that governs the relationship which among others includes length of the contract, sales projections, terms of termination, renewal process and number of outlets to be opened (Doherty & Alexander, 2006). Further discussions indicate that although these contracts give franchisors power and control over franchisees, they are not used on day-to-day basis as a threatening tool to franchisees, but more time is spent on getting the right franchise partner to mitigate potential difficulties (Doherty & Alexander, 2006).

However, according to Shane (1996), control mechanisms is one of the key dimensions of a franchisor's business system such that parties involved in the franchise transaction need to invest in the same to manage risks associated with issues such as opportunism. Opportunism can be controlled, among other methods through bonding, where a franchisee pays a financial bond to the franchisor that can be forfeited should the franchisee act in such a way that is contrary to the agreement. In this case, the loss of financial incentive forces the franchisor to avoid any opportunistic actions (Shane, 1996). The author further provides that close monitoring through frequent auditing of records, facilities and set standards enables a franchisor to understand the franchisees operations better.

On the contrary, excessive control hinders innovation and adaptation (Bradach, 1997). This statement indicates that when the emphasis on franchise arrangement is on control, the environment becomes less hospitable, hence creating a business environment that is bound to delivering in accordance with the contract terms and less motivation on experimenting new ideas and innovations. In an earlier study, Michael (1996) argued that the need for standardisation constrain franchisees from fully utilising their human capital, including their knowledge about the business and local conditions.

A franchise system is strengthened by the relationship built between involved parties through communication. The role of communication in the franchisee-franchisor relationship is broader; it influences franchisee's trust and satisfaction towards the whole franchise system, thus active, two-way communication is important in executing the strategy (Chiou et al., 2004). These findings show that the franchisee remain in the franchise system when the flow of information is among key priorities of the franchisor. Another factor that is linked to building trust and satisfaction is competitive advantage of the franchisor's system, such that improving operations efficiency, brand equity and economies of scale enables the firm to remain competitive by responding to market demands and changes (Chiou et al., 2004).

It is also worth mentioning that having a well-defined strategic direction and vision puts a firm in a better position in implementing its franchising agenda, for without it, the risk is high of losing its competitive advantage and dilution of the franchise concept across markets and corporate image at large (Quinn & Doherty, 2000). As such, knowledge creation and management are one of the challenges facing franchise systems in recent years. This is because these systems have become larger and geographically dispersed, hence it has become critical for franchisors to “know what they know” (Lindblom & Tikkanen, 2010). The franchisee’s ability to manage their business determines the success of the franchisor, therefore it is at franchisor’s best interest to ensure the franchisee is knowledgeable through ongoing mentoring and training, and provisioning of daily operations information such as product information and pricing (Watson, Stanworth, Healeas, Purdyb & Stanworth, 2005).

Efficient processing of information and new knowledge creation are important in dynamic business environment (Lópes et al. (2005), cited in Lindblom & Tikkanen, 2010). According to Nonaka (1994), creation and structuring of organisational knowledge begins from individual level, then moves to group level and lastly to organisational level. In this process, “both intra-organisationally and inter-organisationally as knowledge is transferred beyond organisational boundaries and knowledge from different organisations interacts to create new knowledge” (Nonaka et al. (2000; 2006), cited in Lindblom & Tikkanen, 2010, p.183). Lindblom and Tikkanen (2010, p.186) further observed that “knowledge is the most significant competitive asset that a franchisor possesses under business format franchising” and that “the knowledge held by franchisees is especially valuable because franchisees with an entrepreneurial orientation can be true innovators and catalysts for change.”

2.3.3 Why firms expand in foreign markets through franchising

Following the rapid growth of internationalisation through franchising, it has become researchers’ mission to explore and understand motives behinds development of international expansion strategies (Shane, 1996). One of the reasons franchising is used as an expansion strategy is its potential to diversify risks. In the presence of both business and human capital risks, it minimises organisational costs demanded by the industry (Michael, 1996), and provides the financial capital required for the expansion (Kaufmann & Dant, 1996).

Kaufmann & Dant (1996) describes business format franchising as one that enables entrepreneurs to grow their businesses in geographically dispersed locations, in the sense that it provides convenient context on the relationship between the business strategy and the management and implementation of the same. The authors further clarify that following the span of control that a franchisor has towards the franchisees; the strategy provides discreet measures that becomes important in analysing incentives provided. Once the franchisor

showcases their know-how, it becomes easier to attract new franchise partners, and a franchisee can create their own franchise units and in other cases a franchisee becomes a source of hiring new franchisees (Perrigot et al., 2009). This fuels growth, as found out by Kaufmann and Dant (1996), where multi-unit franchising contributes to growth that otherwise would not be possible if there was no capital acquisition. This is also supported by Shane (1998) who found that franchise systems, especially new ones are more likely to thrive if they are structured in such a way that they economise on agency costs.

Another influencer for international franchising is capabilities. As observed by Shane (1996), franchisors who have developed strong monitoring capabilities that reduce opportunism seek for overseas opportunities. This statement implies that franchisors are motivated to expand abroad because they have assurance of effective management of the franchise units through capabilities that they have developed. Because businesses rarely possess all needed resources and skills needed for international expansion, once they acquire critical capabilities they move forward with expansion (Fladmoe-Lindquist, 1996). Some of the specific capabilities that are needed for international expansion, according to Fladmoe-Lindquist, 1996, p.433) include: “distance management, cultural adaptability, host country policy evaluation, and exchange rate management.”

There are different factors that influence international franchising of businesses. According to Contractor and Kundu (1998), various country characteristics play a vital role. These may include the foreign country’s openness to global businesses, economic development, cultural distance with the home country and risks associated with the foreign country, such as political and business uncertainties. This implies that if the foreign country’s environment is favourable and align with the firm’s expansion requirement and strategies, there is a likelihood of being motivated to expand abroad. Furthermore, the dynamics that come with franchising allows franchisors to merge their resources with franchisees country-specific strengths, hence achieving the desired flexibility by both parties (Sashi & Karuppur, 2002). Because franchise systems are long-term strategic relationships, Contractor and Kundu (1998), points out four advantages of franchising:

- Control over the brand name remains with the franchisor.
- The standard provisions in the franchise contract reduce bounded rationality problem and anxiety on the involved parties.
- Capital investment and asset specific risk is incurred by the franchisee.
- The franchisor has advantage over volatile markets; franchisee pays up-front fee and ongoing royalties that are based on revenue.

Additionally, franchising allows cultural diversity, reduces the risk of exchange rate fluctuations, and allows operational responsibilities transfer to franchisees, while the franchisor remain in control of the system (Sashi & Karuppur, 2002). The risks and opportunities presented in this subsection are a result of market institutions that determine conditions to which firms operate with.

We use institutional theory to explore these environmental uncertainties in a quest to answer the research questions. In strengthening the Uppsala model's view of market learning and knowledge, this theory brings light to the role of formal bodies or associations and consumers (the institutions) in internationalisation.

2.3.4 Institutional theory

This theory examines in which way firms enter and later operate in foreign markets considering institutional context. Institutional change is key to understanding historical changes because of its ability to shape how societies evolve over a period of time and provide a structure to daily activities, hence play a role in reducing uncertainties (North, 1990). The institutional context is defined by the foreign market country's specific rules, norms and values (Davis, Desai & Francis, 2000; Meyer & Nguyen, 2005). According to Kostova (1999), institutional environments promote and restrict certain kinds of behaviours in terms of what is acceptable or appropriate in a country in reflection to available rules and laws.

The key concept of the institutional theory is isomorphism, which indicates that one firm in the same market with the same institutional context resembles another firm with the same environmental conditions, such as the same industry in the same foreign market (DiMaggio & Powell, 1983; Hawley, 1986; Scott, 2008). Isomorphism is also a way companies leverage on to achieve legitimacy, as such they get approval and acceptance from external stakeholders, a trait that is critical for survival of organisations (Kostova, Roth & Dacin, 2008).

Scott (2008) summarised the institutional contexts in three pillars namely; regulative, normative and cognitive. Regulative forces consist of rules and laws. Cognitive forces are conception by which meanings in environment are created. The normative forces are referring to values and norms (Peng & Heath, 1996).

In defining institutions, Scott (2008, p.48) argued that "institutions are comprised of regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life." This statement implies that institutions are multifaceted, made up of social activities, structures and material resources (Scott, 2008).

Although cultural-cognitive forms part of institutional elements, however, as it is not the focus of this study, it will not be discussed further.

According to North (1990), institutions consist of both informal constraints (conviction, codes of conducts and behaviours) and formal constraints (contracts, economic and political rules). A country's environment is a reflection of its institutional characteristics, as aspects such as social knowledge, regulations, rules and cultural norms are captured in the institutional profiles. Institutional environment affects firm's strategic decisions such as selection of alliance partners for example. In their study on Russia and China, Hitt, Ahlstrom, Dacin, Levitas and Svobodina (2004) found a striking difference among the two nations. Chinese firms tend to take long-term view with a focus on managerial and technological capabilities and other intangible assets in their partner selection process due to the country's stable and supportive institutional environment. Russian firms, however, focus on short-term outcomes to align with the country's turbulent institutional environment, looking at financial capital access and other complementing assets that will support its uncertain operating conditions.

2.3.4.1 Regulative institutions

Institutions give explicit regulatory processes, such as sanctioning activities, setting rules and monitoring (North, 1990; Scott, 2008). These processes involve establishment of rules and inspection of conformity, and where necessary punish or reward. The components are primarily from governmental legislations and may come from specialised actors such as courts and police (Scott, 2008). Furthermore, these rules act as guidelines for organisations and "... can lead to organisations complying with laws and also individual compliance with laws or may require a reaction if there is a lack of law or regulation in the entrepreneurial firm's region" (Bruton, Ahlstrom & Li, 2010, p.422). Institutions promote certain behaviours and restrict other types (Kostova, 1999). Scott (2008) provides that there is always a regulatory body to hold organisations accountable and can range from an individual within the firm, whose job is to ensure compliance to accrediting body sending individuals to firms to assess conformity.

Kostova and Roth (2002) argued that the host country's institutional environment may exert pressure on the firm to adopt practices that are found in the new market, which may lead to deviating from parent company's practices to comply with the new requirements and become identical with other firms in the industry in ways of operating. On the contrary, the authors observed that some subsidiaries were not completely isomorphic with other industry players and the institutional conditions were constrained, especially when the parent companies were somewhat powerful. Additionally, internalisation of practices enforced by regulatory systems become a challenge as employees view it as something that was imposed from external environment (Kostova & Roth, 2002). Even though firms could get away with such violations,

the success is highly dependent on how severe punishments are and the effectiveness of the institutions monitoring system (North, 1990).

Scott (2008) further noted that sanctions, force and other enforced regulations are subject to existence of informal or formal laws and rules. As such, threat of sanctions for example may be imposed by powerful actors such as rulers to secure legitimacy and firms may be forced to comply. However, although the concept of regulations brings assumptions on constraints, it may not always be the case, because there are other types of regulations that are enablers, such as conferring powers and licences that benefits some of the stakeholders in the institutional environment (Scott, 2008). Institutional environments that are favourable influence adoption of rules, laws and regulations in a positive way (Kostova & Roth, 2002).

2.3.4.2 Normative institutions

Just as regulatory bodies, societies form part of the institutions. These represent behaviours that are a result of interactions in the society; they include both organisational, social or professional societies (Bruton et al., 2010). This pillar consists of both values and norms, with an emphasis on obligations in social life coupled with prescriptive and evaluative aspects of societal norms that enable social action (Scott, 2008), and belief and assumptions about human behaviours and individual nature (Kostova & Roth, 2002). Values are aspects of what is considered to be proper and desirable (Bruton et al., 2010), coupled with standards that can be assessed (Scott, 2008). Norms are concerned with defining goals and objectives and how to pursue them in alignment with values (Scott, 2008). This implies setting applicable rules for a certain action and describing how it is to be executed fairly. One example from Scott (2008) is that, a firm's goal may be to make profit. Achieving this goal requires a firm to stipulate business practices that will guide the execution.

It is important to note that values and norms are applicable to all members of a certain society, but some apply to only select groups based on activities and goals from assigned roles and their positions (Scott, 2008). The informal constraints mentioned earlier play an important role in regulating "economic exchanges" in different countries, and their influence on firms and individual behaviours is significant despite possibilities of overnight changes of formal rules that may result from judicial or political decisions (North, 1990). Firms entering a foreign country are ought to conform with normative forces in the country due to its influence in line with isomorphic patterns within their industry (Yiu & Makino, 2002). Additionally, a firm's competitive advantage stems from "its internal culture as well as broader influences from the state, society, and interfirm relations that define socially acceptable economic behaviour" (Oliver, 1997).

Important to note is that normative forces tend to change from time to time. Meyer and Peng (2005) argued that informal institutions are not constant, and that culture for example fade away as individuals are exposed to different social aspects, including contact with the media and consultants from different areas. For example, value systems for individuals aged below 30 is radically different from older ones. Additionally, the way of doing business is different from country to country. In Russia for example, their culture favours personal relationships, making informal networks important in business operations (Meyer & Peng, 2005).

This chapter provided a broad view of what is known about the research topic. To answer the research questions, the following chapter discusses the design and practicalities that facilitated the study.

3 Methodology

The purpose of this chapter is to provide clarification of methods used to conduct the research. Within the chapter, the research philosophy, approach, choice, design, data collection and analysis are illustrated. In addition, concerns regarding research quality and ethics are addressed.

In the previous chapters, we have among others described the background of the problem, the purpose of this research and the research questions. Additionally, a systematic literature review related to our topic was conducted, where we explored existing literature related to our topic. Identifying and accessing relevant academic literature was done, with the help of the Web of Science database. We used peer-reviewed journal articles to assure the quality (Easterby-Smith, Torpe, & Jackson, 2015). The search has been conducted via the basic function of Web of Science. Keywords such as “franchising AND Germany”, as well as “internalisation AND market entry”, “fashion retailing AND internalisation”, “Uppsala internalisation model” and “institutional theory” were used. The total research from that search resulted in 32.148 articles. This was then narrowed down through filtering. Firstly, it was narrowed down by focusing on articles in the area of business, management and economics. By doing that we minimised the articles to 8523. In addition, we narrowed down the articles by looking at the relevance by focusing on topic and title. This helped us to refine our search to 732 articles. To find the most relevant ones among those, we read the abstracts and give them a relevance score of 1 to 5, with 5 being the highest relevance. Thus, the total number of remaining articles were 293 keeping only the most suitable ones. Additionally, a snowball approach by further analysing the references given in relevant articles, was used to gain more insights on the topic from relevant authors.

The methodology chapter aims to give explanations for why certain methods to answer the research questions are used, and what the origin and the connection to the methods used are. Therefore, this chapter is divided into a modified version of the different layers of the research onion by Saunders et al. (2009). The modified research onion represents the methodology sections adopted by us.

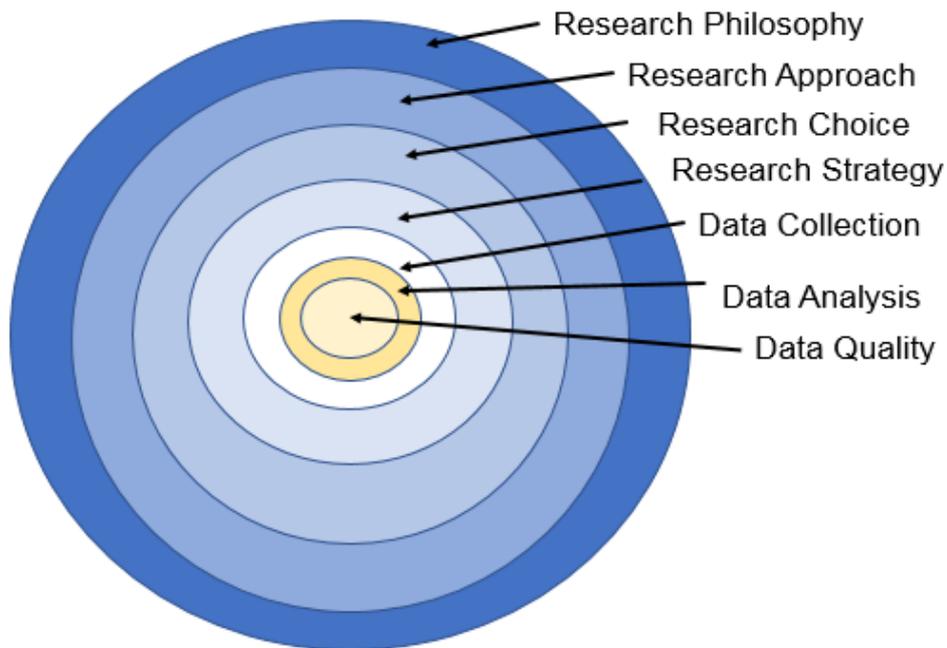


Figure 1: Adapted methodology, based on Saunders, Lewis, & Thornton (2009, p. 108)

We use this model to explain our methodology as it illustrates the connections between research philosophy, approach, strategy, data collection, analysis and quality. Depending on which research philosophy we adopt, it contains assumptions about the way we should view the world which underpins the research strategy and methods chosen (Saunders et al., 2009). Thus, one layer of the onion is connected to the next layer, which also gives the causation why specific methods are chosen in the following layer.

3.1 Context of the study

The context of the research is as the research questions suggest, the exploring of the prevailing institutional conditions on the German market by comparing the learning outcomes of association on the one hand, and consumers on the other hand. Hence, this subchapter is providing the reader with the context of the study by presenting the different parties connected to this research.

3.1.1 Company

This research is done in partnership with Tjjarat AB (Tjjarat), a company based in Nässjö, Sweden that deals with outsourcing services, including textile products. The firm has recently launched its first business to customer company, Martin & Lyla (M&L), a fashion apparel brand that operates through franchise mode. The brand has two operational stores in Sweden and one in Italy and plans to expand to more locations in the near future, including Germany.

Tijarat was founded in 2016 as a consulting business and has expanded its range of offering over the years, with offices in London - UK, Dubai - UAE, Trieste - Italy, Karachi and Lahore - Pakistan with annual turnover of EUR 257 thousand as of 2018 and 19 employees across the operating locations.

Although this thesis is written in collaboration with the Swedish company mentioned above, the research does not take Sweden as a starting point, but rather aims to function as a support for all the franchisors worldwide who aim to expand into the German market by presenting the institutional conditions in the fashion apparel franchise industry. Furthermore, the thesis compares the learning outcomes from the association and consumer regarding prevailing market conditions, which helps franchisors to understand whom to learn more from, when entering the German market.

3.1.2 Association

The association we chose to be the most relevant for this study, with regards to learning about the institutional condition in the franchise apparel sector, is the DFV due to their market and industry knowledge and expertise. The organisation is an umbrella organisation for the franchise industry of Germany and was founded 1978. They are based in Berlin and their aim is to provide their members with several services and benefits. The core concern of the organisation is the economic, social and political representation of the industry's interests, such as supporting the more than 350 members with expansion plans.

3.1.3 Consumers

To have a country-wide representation, consumers interviewed in this study were chosen from all over Germany (North, South, West, East). In total we interviewed ten consumers, five females as well as five males to have a gender balanced sample. In the context of this study, the consumers enlightened us about prevailing institutional context in the German market, especially focusing on normative conditions, including purchasing and shopping behavior.

3.2 Research Philosophy

Research philosophy is a term that refers to the nature of the knowledge and the development of it (Saunders et al. 2009). Saunders et al. (2009) and Easterby-Smith, Thorpe, and Jackson (2015) agrees that the understanding of the philosophical issues helps the researcher to understand their role in the research methods and it clarifies the research design as the knowledge of the philosophy helps to determine which design is suitable. A wide variety of scientific ideologies are available with slightly different explanations. In order to bring clarity and consistency, we follow the framework by Easterby-Smith et al. (2015).

3.2.1 Ontology and epistemology

Easterby-Smith et al. (2015) describes two dimensions of research philosophy: ontology and epistemology. While ontology is about the reality, and specifically how the reality and existence is perceived, epistemology represents views about the most appropriate ways researchers can use to enquire into the nature of the world and the theory of knowledge. The authors explain four different ontological positions namely, realism, internal realism, relativism and nominalism.

Ontology

The ontological position adapted in this study is relativism, which assumes that there is no single reality to be determined, and that reality of the observed phenomena is created by the different views of researchers and thus the reality depends on the perspectives from which the phenomena is observed (Easterby-Smith et al., 2015). This is aligned with our study as we aim to explore how institutional conditions affect the franchise entry mode in Germany and whether consumers or the association can give more valuable input regarding the institutional conditions.

On the contrary, realism assumes that physical and social worlds exist independently of any observations made about them, and that there is only one reality which can be directly accessed through researchers; internal realism suggests that there is a single reality that cannot be accessed directly and that to access the reality the researcher has to gather the data to create the “true” approximation of the phenomena; while nominalism suggests that the social reality is created through language and discourse, which is why there is no truth and all facts are based on human creations (Easterby-Smith et al., 2015).

This research has been conducted from both consumer and association perspectives, which is aligned with the relativistic position, as it assumes that there is no single reality, since it is determined and created by different perspectives. These perspectives are influenced by the context, such as the country, the people are surrounding it (Easterby-Smith et al., 2015), which forms part of institutions in alignment with institutional theory as described in chapter 2.

Epistemology

The epistemological position adapted is social constructionism, where the reality is based on subjectivity and is socially constructed by people whom also give meaning to the reality, and it values variables such as experiences, feelings and language, contrary to positivism which assumes that the social world exists externally and that it can be measured through objective methods rather than subjective ones, such as sensation, reflection or intuition where an

independent researcher from the environment observes, collects empirical data and verifies through formulated hypothesis (Easterby-Smith et al., 2015).

Our research focuses on the German market and the actors that form institutions (consumers and association) within the market, to construct a reality which is based on different actors and subjective inputs such as experiences and what is deemed valuable in their own world. In doing so, data has been collected from both consumers, industry association and a company aspiring to enter the market. This helped to understand their subjective views and perspectives, which relates to the constructionist position, where the researcher needs to understand different experiences and perspectives and then construct their own knowledge.

3.3 Research Approach

Saunders et al. (2009) distinguish between three types of research approaches: deductive, inductive and abductive. A deductive approach is applied, when the researcher is aiming to test and validate an existing theory which starts by collecting data, followed by the formulation of a hypothesis which is derived from the data and it ends with testing the hypothesis to either verify or falsify the theory (Easterby-Smith et al., 2015). In contrast to this approach, is the inductive approach where the data collection is done to identify patterns and themes, which helps to derive and build the theoretical framework and the generation of new theories (Saunders et al., 2009). The abductive approach is a mixture of both deductive and inductive approach, where themes and patterns can be identified in the existing phenomena, but at the same time the researcher can test a theory even after the data collection (Easterby-Smith et al., 2015). Furthermore, it can be used as a falsification strategy (Dubois & Gadde, 2002) and to emphasize ways in which data can generate new theory (Saunders et al., 2009).

For this research an abductive approach is applied, as we consider it the most suitable. Firstly, primary data was collected through interviews with DFV as well as German consumers to understand the normative and regulative conditions that these institutions bring in international expansion, in order to conduct a learning comparison between the two. This aligns with the Uppsala internationalisation model that put emphasis on prior knowledge and learning, as risk aversion is of utmost importance for companies expanding, which is why knowing the institutional conditions, such as prevailing norms and regulations are important to successfully enter the market. To expand our horizon, the case company enabled us to gain insights into both theoretical and practicalities of internationalisation and franchising in general. Thus, we use a combination of both Uppsala model and institutional theory to derive our conclusions.

To delimitate our research, we focused on the normative and regulative conditions in Germany. The Uppsala internalisation model is used to understand the learning process in foreign market

entry including the need to avert risk for companies expanding abroad and the institutional theory helps us identify regulatory and normative conditions in the market, which makes the abductive approach the most suitable for this study. Moreover, as abductive is a flexible mixture of both inductive and deductive approach, we use elements from both approaches.

The flexibility of abductive approach enabled us to structure the study such that we did not necessarily have to construct hypothesis or test a theory from the outset, but rather collect data and derive a conclusion based on findings. Thus we conducted interviews to understand different meanings and opinions from different perspectives which is suggested for inductive approaches but at the same time we used elements such as comparing the steps of Uppsala internalisation model with the internalisation strategy of the case company which is aligned with a deductive approach as we use an existing theory in comparison to a real internalisation process of an organisation.

3.4 Research Choice

The research choice is of fundamental importance when doing research. The research can either be a qualitative, quantitative or a mixture of both. A qualitative research aims to understand social life, methods and meanings, which rather consists of words than numbers (McCusker & Gunaydin, 2015). Whereas quantitative research aims to understand meaning derived from numbers collected (Bryman, 2012).

Saunders et al. (2009) differentiate between mono method and multiple methods. A mono method is used, when only a single data collection technique and corresponding analysis procedure is used, and multiple methods are used when more than one data collection technique and analysis procedures to answer the research question, is used. A mono method is for instance a single qualitative data collection technique, such as focus group, with qualitative data analysis procedures.

In contrary, a multi-method would be if a combination of techniques is used within either quantitative or qualitative research. Within the multiple methods there is not only the multi-method but also the mixed methods. This means that techniques and analysis procedures can be mixed using both qualitative and quantitative research (Saunders et al., 2009).

For our research we used a multi-method qualitative research as we wanted to explore insights of different institutions: the association and consumers to determine from whom a franchisor, who wants to enter the German market, learns more about the institutional conditions in the German fashion franchise industry. We focused on different experiences and opinions to examine norms and regulations of the German fashion apparel sector rather than numbers. In

doing so, we collected data via interviews with the association and consumers. We interviewed the consumers, because we wanted to be able to ask follow-up questions to understand the behavioural patterns and different reasons behind the answers.

We also focused on having a balanced sample of gender, and in terms of representation of the German market we made sure to have consumers from north, west, south and east of Germany to assure the quality of the representation of the market. We also interviewed the case company to understand how the Uppsala internalisation model plays a role in expanding into a new market, and if any, what other internationalisation processes exist. The collected data is supported by the incorporation of findings from secondary data, such as already existent literature, company and industry publications and websites of relevant institutions.

3.5 Research Strategy

After clarifying the research philosophy, research approach and choice for our research methodology, a clear research strategy is needed. Saunders et al. (2009) describe multiple research strategies which can be used for exploratory, descriptive and explanatory research. The chosen research strategy aims to fulfil the purpose of the study by helping in answering the research questions.

For this research, case study method suits the best for our qualitative study. According to Yin (1994) the case study method shall be used when the researcher investigates a present phenomenon by examining the contextual conditions, as they are intertwined. With our research, we want to explore the institutional conditions when entering the German fashion franchise market, which goes in hand with Yin's statement. Moreover, the case study method helps to gain a rich understanding of the background (Morris and Wood, 1991), which we focus on with our research as we seek to understand and compare learnings from consumers and industry associations.

3.5.1 Case study design

When using a case study method, it needs to be decided on, which variation in terms of design is applied (Saunders et al., 2009). Yin (2009) distinguishes by the number of cases examined, a single or multiple case method. In addition, a case study can be either holistic, meaning that it will be concentrated on researching the phenomenon as whole e.g. a whole organisation, or it can be embedded. An embedded case study method is used when also several sub-units such as departments or specific work groups of the organisation are examined or compared (Saunders et al., 2009).

This study applies a single case with two embedded units of analysis, which can also be called a single case with nested cross case comparison. In our research, the case is the German market. As we want to explore the fashion apparel franchise industry in the German market, we are focusing on two embedded units, the franchise association and consumers. The reason behind this, is that we compare from whom a franchisor who would like to enter the German market, could learn more regarding institutional conditions in the German franchise fashion apparel sector.

The insights from the comparison of these two units will help international franchisors to understand the norms and regulations of the German market from different perspectives. Thus, franchisors who plan to enter the German fashion apparel sector can decide whether the consumers can help them more to understand prevailing conditions or the association and can take actions accordingly. We chose Germany as our single case, as the German apparel industry has the highest estimated value in Europe and also due to the collaboration with the case company, who wants to expand into the German market.

Furthermore, we apply a single case study, as it is considered beneficial when the phenomena researched is unique or critical (Yin, 1994). In our case, there is rarely any research done for the German fashion apparel franchise industry, which makes our research unique, as it is the first of its kind.

3.6 Data Collection

This subchapter presents the sampling strategy used, as well as primary data collection and the secondary data collection techniques.

3.6.1 Sampling

According to Easterby-Smith et al. (2015) the first step in the preparation for data collection is choosing a sampling strategy that informs and justifies the potential research participants and methods for data collection. Sampling strategies are connected to the type of research done, in this case a qualitative research. The goal of every qualitative sampling strategy is the identification of instances of phenomenon under research (Luker, 2008). It can be distinguished between probability, also called representative sampling and non-probability, also named judgemental sampling (Saunders et al., 2009). Probability sampling is used when inferences from the sample about the population to answer the research questions need to be made, which aligns with a quantitative approach. Whereas, non-probability sampling is used when an in-depth study is undertaken, that aims to have a specific purpose (ibid.), which aligns with a qualitative approach.

For our research a non-probability sampling is the most suitable as our study is focused on one case, namely Germany and we are conducting an in-depth study to examine prevailing institutional conditions when entering the German franchise fashion industry. Within the non-probability sampling there are many sampling techniques. For our research we used a purposive sampling with an appropriate focus.

In a purposive sampling, researchers select participants based on their own judgement and predetermined criteria, whether those selected are contributing to the research (Bryman, 2012). According to Saunders et al. (2009) the purposive sampling is often used when the sample is smaller such as in case study research, which again is the case in our research. Within the purposive sampling there are different focuses which can be chosen from; in our research we are following a typical case sampling. A typical case sampling is used, to illustrate a usual profile by using representative cases. The aim of this strategy is to illustrate the “typical” for the readers of the research (Saunders et al., 2009).

This strategy is most suitable for our research because, as we are focusing on the German market, the participants of the sample are actors of this specific German franchise fashion industry. Therefore, respondents interviewed were selected based on these predetermined criteria to ensure the quality of the data collected for the empirical study.

The DFV was chosen due to its knowledge and expertise within the studied topic. Founded in 1978, the association has a network of over 350 franchisors who are members which assures their industry knowledge and expertise as they support their members with expansion plans. As a member of the European Franchise Federation (EFF), DFV operates on the basis of their code of conduct, which guarantees quality in terms of its services.

Consumers were interviewed on the grounds that they are German natives who have been end users of apparel fashion products in the market over the years to assure the relevance of their input. To ensure we capture opinions from a wide representation, interview participants were from different parts of Germany (north, south, east and west), and gender distribution was equal between males and females.

3.6.2 Interviews

Our primary data collection technique is non-standardised qualitative interviews. This technique is used when the study is of exploratory nature, especially to understand the reason behind different opinions and meanings (Saunders et al., 2009). Furthermore, this technique is aligned with the epistemological position of constructionism, where the focus is on understanding the meanings of different phenomena from different perspectives. As stated by

Saunders et al. (2009), for a constructionist epistemology semi-structured and in-depth qualitative interviews are well suited.

In semi-structured interviews, the interviewer follows a script, only to some extent. The interview guide of the researcher has moderately formulated questions, which can slightly change according to the direction which the interviewees take (Bryman, 2012). Furthermore, the sequence of the questions can be changed according to the direction of the interview (Saunders et al., 2009). The semi-structured interview approach for the data collection is most suitable for this research, as only through this approach we are able to answer the research questions but still give the interviewee enough freedom in order for us to explore the phenomenon and learn from the knowledge of the interviewee. All our interview guides can be found in appendix 1. In addition, the choice of data collection technique is aligned with our interview preparation and execution process.

3.6.3 Interview Process

As stated by Saunders et al. (2009) careful preparation is the key to a successful interview. We started by developing a list with a pool of all relevant participants which we considered could give us deep insights to answer our research questions. Afterwards we formulated e-mail templates in German and English to invite the associations and consumers for an interview. Additionally, an interview guide for each group was created. All the questions in each interview guide aimed to gather data to be able to answer the research questions. In the interview guide with the associations, we focused on prevailing institutional conditions in Germany, focusing on norms and regulations and their existent experience with fashion franchises. The interview guide for the consumers aimed to find out existent normative conditions when buying apparel in Germany, to understand shopping behaviour, and that for the case company aimed at understanding their operations and overall international expansion strategies.

Each of the interview guides were formulated with open-ended questions to prevent bias (Easterby-Smith et al., 2015) and to explore the topic while giving the interviewee the chance to talk freely within the area of the question given (Saunders et al., 2009). Saunders et al. (2009) also state that the open-ended question design is common in semi-structured interviews. Prior to every interview extensive research about the research topic and the interviewee and their situational context was gathered, which is aligned with the recommendation of Saunders et al. (2009). Moreover, an interview guide or a short description about the topic was sent to the interviewee, to increase the credibility (Saunders et al., 2009). The location of the face-to-face interviews were chosen based on the preference of the

interviewee. The Skype interviews location were based on the availability of the group rooms at the university.

In the beginning of each interview, the interviewee was greeted and thanked. Furthermore, the interviewee was informed about confidentiality and asked for consent of recording the interview. Every interview guide was divided into following parts: Introduction (confidentiality, permission for recording, introduction of the person, position, role), general questions, specified German market related questions, ending (asking for permission for follow up if necessary, thanking etc.) All questions in the interview guide were formulated with comprehensible language as suggested by Bryman (2012). In addition to the open-ended questions, follow up questions were asked immediately if the information given was significant for the research topic (Bryman, 2012). All information about the interviews, including the selection criteria and the duration are listed in table 2 below:

Actors	Selection criteria	Respondent	Duration	Performance medium
Consumers	Knowledge of fashion apparel related normative conditions	C1	26 min	In-person interview
		C2	24 min	In-person interview
		C3	32 min	In-person interview
		C4	28 min	In-person interview
		C5	35 min	In-person interview
		C6	37 min	Skype interview
		C7	23 min	Skype interview
		C8	32 min	Skype interview
		C9	27 min	Skype interview
		C10	31 min	Skype interview

Tijarat AB	Case company	Affan Rashid - CEO of Tijarat AB and M&L	65 min	In-person interview
DFV	Knowledge of the German franchise industry	Torben Brodersen - Managing Director of DFV	72 min	Skype interview

Table 2: Interview details

3.6.4 Supplementary data

To support the primary data findings, we also used supplementary data. Thus, we used official websites of the DFV as well as official governmental website to look for relevant information regarding our research topic. Table 3 represents the list of websites used.

Name of website	URL
German Franchise Association	https://en.franchiseverband.com/ https://www.franchiseverband.com/aktuelles-erfahren/
Thomsonreuters	https://uk.practicallaw.thomsonreuters.com/4-633-5269?transitionType=Default&contextData=(sc.Default)&firstPage=true&comp=pluk&bhcp=1
Bundesministerium für Justiz und Verbraucherschutz	https://www.gesetze-im-internet.de/englisch_bgb/ https://www.gesetze-im-internet.de/hgb/BJNR002190897.html

Table 3: Supplementary data sources

3.6.5 Secondary Data

Next to our primary data collection through interviews, we also considered secondary data for answering our research questions. Secondary data is data which has already been collected for a different purpose prior to our research (Saunders et al., 2009). There are three types of secondary data, namely documentary, survey-based and multiple resource. Documentary secondary data consists of textual and non-textual information, survey-based secondary data consists of already existing data for a survey, which has already been analysed for its original purpose, and multiple resource secondary data consists of information to specific area or time in the form of journals, books etc. (ibid.).

In this research, we used multiple sources of secondary data, which included diverse peer-reviewed articles and journals, as well as German regulations found in the legislation and

published reports by associations. The secondary data collection helped us to answer the institutional conditions part, especially the regulative conditions within these, by reading the German law. Moreover, academic literature was also used to support our findings gathered through the primary data collection. Additionally, the internet as secondary source of information, was used among others, to gather information about different franchisors. This data is used in the data analysis, especially to connect primary findings and driving the conclusions.

3.7 Data Analysis

As this research is based on a qualitative design and the data collection is of qualitative nature, the data analysis approach used, is consequently of qualitative nature. Saunders et al. (2009) suggest that the non-standardised and complex data collected through qualitative techniques, firstly need to be summarised and then categorised to derive meaning from the data. Prior to the analysis all our interviews conducted were transcribed to assure the best possible conditions for the analysis (Saunders et al., 2009). According to Bryman (2012) one of the mostly used method for a qualitative data analysis, is the thematic approach. In this approach, researchers are searching for emerging core themes which are then split into subthemes. This approach is illustrated with the help of a matrix structure as seen on table 4 below:

Interview	Core theme			Core theme	
	Sub theme	Sub theme	Sub theme	Sub theme	Sub theme
1					
2					
....					

Table 4: Thematic analysis approach matrix, based on Bryman (2012)

Due to the richness of data collected through the interviews, the thematic analysis helped us to summarise and compare the data. This analysis approach is beneficial as it allowed us to analyse the data between and within the cases. For this research, we first familiarised ourselves with the data by going through the transcripts several times. We then worked with different highlight colours to mark contents which belong in the same category. Afterwards, we named the themes which emerged next to the highlighted passages within the transcripts. The next step was repetitions of reading and looking for new themes. Then we looked at all existing themes identified and put them in core themes. In the end, we put our results with the core

themes, subthemes and in which interview we collected the data in a matrix, as illustrated in table 4.

3.8 Quality

To assure the quality of the research, we focused on the criteria for assessing the trustworthiness for naturalistic inquiries by Guba (1981). We realised them by ensuring credibility, transferability, dependability and confirmability throughout our qualitative research (Guba, 1981). Credibility assesses the true values of the research and thus it assures internal validity of the data (ibid.) To assure credibility, we only interviewed participants with expertise background to our topic. We further compared the data given throughout the interview with each other, to check whether there are internal contradictions.

The second method used to assure credibility, is triangulation. When using the triangulation techniques, the data collected are cross-checked by applying different methods (Bryman, 2012). In our research, the main data collection technique was semi-structured interviews with key actors of the fashion franchise industry in Germany. We interviewed actors of the same group at different times with the same questions. To support the primary data collected, secondary data was used to strengthen the findings. Thus, triangulation was used by using multiple types of sources to draw convincing conclusions (Yin, 2009).

According to Guba (1981), transferability measures whether the results apply in other contexts or to other subject and thus being generalisable and applicable. As this research is using a single case study strategy, the unique results of this research can be used for studies with similar field, since there is almost no existing research done for the specific research of the German fashion franchise industry. For generalisation purposes, the consumer interviews were balanced. We interviewed females as well as males and we also choose representative interviewees from different areas of Germany (north, east, west, and south) to guarantee the representativity of the German market. Since the data collected is representative, it can be generalised and thus transferred for future research.

Another Guba's quality criterion is dependability. Dependability addresses the issue, whether the research could be replicated with the data collected for the research (Guba, 1981). In our research, we focused on explaining every step by giving a clear design, strategy and describing our methods and data. Furthermore, we transcribed all interviews and other notes concerning the data analysis to assure dependability of our research.

The last quality criterion of Guba is confirmability. It evaluates in how far the results of the research are depending on the researcher. Thus, confirmability addresses the neutrality of the

research and objectivity (Guba, 1981). Since this research is done in collaboration with a company who would like to expand into the German franchise fashion industry, it could be assumed that we are to some extent biased due to our previous work with the company. According to Saunders and others (2009) interview preparation minimises the risk of biases. For that, we extensively prepared for each interview and focused on our verbal and non-verbal behaviour, for not affecting the interviewees responses. In the data analysis we can assure confirmability due to the fact that our methods are clearly stated in the sections above. Furthermore, the transcripts were sent to the respondents, which had then the chance to evaluate if the interpretation of the results were right.

3.9 Research Ethics

According to Saunders et al. (2009) researchers face ethical concerns throughout every stage of the research, from collecting the data, towards the data analysis phase and the reporting of the data. Research ethics refer to the appropriate behaviour by the researcher in association with the rights of the subject of the research and anyone who is directly affected by it (Saunders et al., 2009). Thus, the research should be designed and executed in a moral and responsible way by the researcher. In doing so, we followed the below listed key principles in research ethics described by Saunders et al. (2009) and adapted from Bell and Bryman (2007).

The ethics principles are divided into two sections; (1) those aimed at protecting research participants (ensuring that no harm comes to participants, respecting the dignity of research participants, ensuring a fully informed consent of research participants, protecting the privacy of research participants, ensuring the confidentiality of research data and protecting the anonymity of individuals or organisations and (2) those aimed at protecting the research community (avoiding deception about the nature or aims of the research, declaration of affiliations, funding sources and conflicts of interest, honesty and transparency in communicating about the research, avoidance of any misleading or false reporting of research findings (Saunders et al., 2009).

To ensure that we did not exert any pressure to potential interviewees, we contacted them during the initial stages of the study, introducing the research agenda explicitly and what we expect of them. Only those who showed interest to participate were further contacted for interviews. Participants were also given the freedom to choose the mode of interview (i.e. face-to-face or Skype) for their convenience and privacy purposes.

In line with Saunders et al. (2009) statement, informed consent was obtained from all participants, where once again were advised of the research purpose and how it is conducted, including getting permission to record the conversations, and that the recordings and raw-data

will be accessed by the researchers only and will be saved on secure external hard-drive to avoid unauthorised access.

Additionally, we coded participants and company names of those who wish to remain anonymous to protect their identities. Specifically, we did not release names of companies that were mentioned during an interview with one of the participants as an example of failed companies within the franchise sector.

After finalising collection of data, we transcribed the interviews and sent the scripts to participants to ensure accurate presentation of findings. Furthermore, motivation behind all techniques and methods used in this study were presented in the methodology section. This enabled us to remain transparent and honest throughout the process.

It is also important to note that this research was done in partnership with a company, Tjjarat, as mentioned earlier. Researchers of this paper came into contact with Tjjarat for the first time during an internship that was conducted at the company between June and August 2018. It was during this period that the company expressed their interest in the German market and suggested the thesis partnership. We, however, were no longer employees of Tjjarat at the time of conducting the research. We neither have binding contract, nor have we financial commitment from the company. The work has been conducted independent from the company, and the relationship thereon has strictly been that of researcher-participant.

To avoid biases and conflict of interest, research processes were followed from initial stages, including depending on academic articles to derive a research problem, which led to the identification of research purpose and questions. Additionally, the company has not been part of the process, apart from the initial meetings where they expressed their interest in the German market, a follow-up email from us aimed at giving partial update and to get a final word whether we understood their concerns (we also informed them of reasons for not involving them in the process), a scheduled interview that was conducted with its CEO with a purpose of obtaining relevant data for our study, and an email to the CEO with his transcribed interview for his review of captured context . This “distance” has enabled us to focus on conducting this study academically without influence from the company.

4 Empirical data

The purpose of this chapter is to present the most substantial empirical findings in relation to the research questions. Firstly, data from the interviews is described. Then the findings from secondary data is presented.

4.1 Interviews

4.1.1 Affan Rashid: CEO of Tijarat AB, the parent company to M&L

M&L started in 2018 as the company's first business-to-customer brand serving fashion apparel to low- and medium-income consumers as a result of Tijarat AB having access to data and trends in the textile industry. In describing how the company was formed, A. Rashid said *"we have been a textile provider for a lot of companies in Sweden, and for those companies we are managing the whole supply chain solutions. Having all this data gave us the strength [in terms of] knowing the trends for Sweden and Scandinavia"* (CEO of Tijarat). A. Rashid added that the flow of immigrants to Sweden for the past two years also influenced their decision into starting the company: *"... it convinced us to have something with a mix of eastern and western styles"* (CEO of Tijarat).

The company operates under a franchise model; 100 percent of its stores are owned by business partners, while Tijarat owns the brand name. *"We sell our franchise at a very good price, that is why we have four already in Sweden and have three applications being processed"* (CEO of Tijarat). He added *"... the outlets in Jönköping and Stockholm are already running, the one in Malmö is in renovation phase and we have secured a location for Gothenburg"* (CEO of Tijarat).

About the reasons for operating the business as franchise, A. Rashid indicated that several elements played a role into reaching the decision, one of them being expertise. He said: *"we have a good strength in the supply end, but not selling... we only want to be involved up to the product delivery in the outlet. We don't want to be involved in the daily selling of the products"* (CEO of Tijarat). He further added that they want to grow fast and believe that collaborating and involving other parties will facilitate that. *"Our plan is to grow to at least 100 outlets in the near future, ... franchise is the best option"* (CEO of Tijarat). The strategy also allows the parties involved to share responsibilities. The CEO said that the franchisees handle daily stores operations while Tijarat provides support in terms of training, provision of relevant systems and software, management of supply chain, logistics, branding, marketing and specialised

campaigns for specific stores. In return, Tijarat earns from the franchise fees which is a once off payment, ongoing royalty fees and from products margins. Franchisees are also given the freedom to sell merchandise from different brands, with a ratio of 60:40, 60 percent being M&L products.

Interestingly, the company's first store was in Trieste, Italy. This was run as a pilot to test the concept and its likelihood of success and a source of learning since the company had no prior experience with franchise business. An already existing store was converted to a brand outlet, with half the store carrying M&L's products. *"it was a successful trial ... we have earned around EUR 70,000 in one year..." (CEO of Tijarat)*. The CEO is optimistic of the progress and plans are underway to expand to other European countries, including an agreement with the European Enterprise Network to offer the franchise in near future.

M&L is eyeing Germany for their next market in their expansion strategy. When asked why this market over other countries, A. Rashid said that as Europe's largest economy, he expects a *"healthy competition"* which will serve as yet another learning point as the brand expands further. *"... [Germany] is Europe's import hub, [they] are the highest buyers of clothes in the region... [and are] major importers"* (CEO of Tijarat). He also indicated that the population for M&L's target market (youth, middle age, with the need for styles that are inspired by both eastern and western culture) is in Germany.

Major learnings from the Italy trial have been management of stock, as they have sometimes faced "shortages" in the store (where they have had to use air and truck shipments), seasonal differences and consumer preferences: *"We buy products with dark colours for example for Sweden, whereas in Italy we sell light colours"* (CEO of Tijarat).

4.1.2 Torben Brodersen: Managing Director of German Franchise Association

DFV provides a variety of services to its members. These are: constant support and consultation, system finder, financing options through cooperation, practical support in acquiring qualified franchisees, provisioning of industry information, networking, support of import/export, access to legal database collection relevant to franchises and mediation procedures. T. Brodersen mentioned the most relevant services of the association are the transfer of know-how between members and quality management. DFV guarantees quality through a certification process. Every member has to go through this process every three years and meet all the standards. *"We look into the franchise contracts, services provided by the franchisor and the third main part of the certification is survey among franchisees, to estimate franchisee satisfaction"* (MD of DFV).

About the overview of the franchise industry in Germany, we found that there are approximately 993 franchise systems and 128000 franchisees. There are in total 167000 franchise businesses with a turnover EUR 122.8 billion as of 2018. T. Brodersen highlighted the benefits of franchising in Germany is the sharing of work as well as responsibilities and capabilities and benefiting from synergies of franchisors and franchisees. The gradual increase of franchise businesses and franchisees makes the franchise concept very attractive, especially for small to medium enterprises. Furthermore, Germany is located in the middle of Europe and has a strong economy with high purchasing power among consumers.

When asked about a foreign franchise business entering the German market, T. Brodersen mentioned the importance of a *“clear appearance on the German market” (MD of DFV)* and a unique selling proposition which is adopted to the German market needs. For finding out whether the foreign concept works in Germany a firm needs to invest in a pilot store. Moreover, other criteria such as the franchise type needs to be decided upon.

About the regulations in Germany and the role of the country of origin, T. Brodersen stated that there is *“no franchise law in general but we have off course jurisdiction that make the whole legal environment clear” (MD of DFV)*. The role of the country of origin of the franchisor thereby plays no role. Only that the smoothness of the entrance in the market depends on the international experience of the franchisor.

About the fashion apparel industry in Germany, T. Brodersen mentioned how unique it is, as the industry work with a “no fee” system, meaning that franchisors do not get any entrance fee which is normally estimated between EUR 5000 to 25000 and also not a monthly royalty fee which lies between 1 to 10 percent. *“It is a characteristic for the fashion apparel franchises that franchisors are earning money with the margin of the product only” (MD of DFV)*. He also mentioned that this brings the challenge of maintaining rentability and maintaining strong and happy franchisees. Normally, the fees which are paid by the franchisees are used by the franchisor to provide services to the franchisees such as training, improving networks, controlling and marketing, but due to the “no fee” condition maintaining happy and satisfied franchisees is a challenge. Another challenge highlighted is multichannel management, T. Brodersen mentioned an example of a company who had a 50 percent sale on the online channel, but not in the stores which led to unhappy franchisees. Moreover, the importance of staying innovative as a challenge was listed, as this makes a firm stay relevant and maintaining of uniformity in stores, as *“customers like common appearance of the franchise networks” (MD of DFV)*.

About the consumer role in the fashion apparel franchise sector, T. Brodersen also mentioned the high brand awareness and reputation as well as the brand concentration of consumers. Furthermore, he also mentioned while referring to the challenge of multichannel management, the online and offline price comparison by consumers. By that he meant that consumers tend to compare online and offline prices and buy from the channel which is more affordable. Thus, when there is a sale online but not in stores consumer are going to order from the online store, which then again affects the offline franchise stores in a negative way.

4.1.3 Consumers

For confidentiality and anonymity purposes, any identifiable information for participants in this section has been hidden, and the letter “C” followed by a number is used instead.

In the following table, we illustrate background for interview participants from consumers segment:

Consumers	Gender	Location	Platform preference	Average earnings (EUR)	Apparel spend on a single shopping event (EUR)	Shopping frequency
C1	Male	Southern	Online	1000	20 - 100	Needs based
C2	Female	Southern	Offline	200	30 - 50	Every five weeks
C3	Male	Eastern	Offline	1600	50 - 200	Twice per month
C4	Male	Western	Online	580	100 - 350	Every 3 to 4 weeks
C5	Male	Northern	Online	600	50	Once per month
C6	Female	Northern	Online	400	50 - 80	Once per month

C7	Male	Southern	Online	450	50 - 200	Once to three times per month
C8	Female	Western	Needs based	1300	30 - 600	Needs based
C9	Female	Northern	Offline	3000	100	Every third week of the month
C10	Female	Eastern	Offline	700	80 - 100	Once per month

Table 5: Background information of interviewed consumers

The triggers for buying from specific brands varied. Respondent C8 indicated that sustainability practices of the brand are one of important determinants of purchase: “... *H&M ... have a conscious line with clothes that are made from sustainable resources.*” Another reason mentioned by respondent C3 was the brand reputation and what it represents. Giving an example of Nike, this consumer said the look of the brand makes individuals who like sports and fitness to “*identify themselves with the brand, and so do I.*”

According to respondents C1, C5, C6 and C7 style and trends are among other things that influence their purchase decisions. Brands need to fit their style, liking and must be fashionable. “...*it’s basically about looks...*” said C1. They also must keep up with the trend in the market, considering clothes within fast fashion go out of trend fast and that they are more impressed with new collections. Respondent C7 added that they buy from brands with “...*fashionable clothes... and have new collection.*” Respondent C5 gave an example of Adidas’ ‘Original’ clothes line, saying that “*it’s the style...*” that drives them to buy. Another element mentioned was fitting, because some brands have different fitting and measurements for their clothes, which makes it difficult to get a perfect fit: “*I’m very tall and some brands don’t have sizes for people like us... I’m very specific when I want to buy so it is not too short.*” (C1)

Another reason for purchase from certain brands that was mostly mentioned (C2, C4, C8 and C10) was affordability. Companies must ensure their products are priced in such a way that they can afford, and that if they are too expensive, they will have to choose between buying clothes and other basic needs: “*I’d rather buy food than clothes if I’m short of money*” (C5). Respondent C4 said that they “... *go for middle price sector ...*” with brands like Zara because

they “... don't have funds to go for high end sector which I would love to” and that they have to spend within their budget. Similarly, Respondent C8 said “H&M... have clothes that are not very expensive...” On the contrary, respondent C10 added that “there are some items which I would buy more expensive” depending on brand and quality. Quality is of utmost importance, as mentioned by respondents C3 and C9. They need to keep the products for long, hence materials used must ensure they stay with the original looks for a while.

The interviewed consumers had variations in terms of the rate of buying clothes and platforms they use to buy. Respondents with higher earnings (C3 and C9) buy up to two times per month, while others purchase clothes less frequently or only when needed: “I don't have specific times, I buy only when I need something” (C8). However, respondent C5 indicated that although their shopping depends on needs at times, they are “...very spontaneous” sometimes.

Whether buying online or from physical retail stores, these consumers have different reasons for different platforms. Respondents C1, C6 and C7 indicated that they buy more online because it is convenient and easy to find different products and that “... you have everything in one place; you don't have to walk through different places” (C1). Respondent C6 added that shopping online is “... more convenient, easy to return and fast” while respondent C7's sentiments are that they “... can do it from home...” and that they do not have to worry about opening hours.

On the contrary, buyers from physical stores indicated that purchasing clothes offline reduces the complexities that online shopping presents, including having “less articles to choose from” (C2). Respondents C3 and C9 cited the need to try and ensure something fits drive them to go to a physical store. Although respondent C5 indicated they buy more from online stores, they also go to physical stores because they want to “... check how clothes fits.” The same sentiments are shared by respondent C8, that buying from a physical store gives assurance that the items are “... a perfect fit” because they can try them on. C8 also said that physical stores serve their purpose when they need something urgently because it is fast and easy. Respondent C7 said they are more inclined to buy from a brand that is easily accessible. For example, Zara and H&M “... are in my city” so it is easy to visit their stores and buy something as opposed to having to go a long way to find a store.

When asked about buying from a new brand that has just entered the market, the respondents said there is a possibility of buying, but with different reasons and conditions. Respondent C1 said they need to have prior knowledge of the brand and its products, for example “...if I see a commercial online... and see there are some good products I will walk down the city to check what they have.” The same sentiment is shared by respondent C4 that, they would most likely

be triggered to buy by adverts and C10 who indicated that hearing about the new store on social media or from family and friends would influence their decision to buy. *"... if I check their website or their Instagram, and that I like the styles I would consider..."* (C5).

Respondent C8 indicated that they will only buy if the new brand offers more or at least match what they get from their current brands, and that the new brand must provide uniformity, that, the brand has to be consistent in their services and offerings, and keep the same standards throughout their stores, and that they *"... don't want to be forced to go to a [certain] store because they are better than others, I want to get the same everywhere ... based on what is convenient for me."*

Another reason is promotion and discounts, as mentioned by respondents C3, C7 and C9. Both customers said that they will be attracted to good offers and perhaps special surprises. Specifically, respondent C9 said *"... some special events like doing your make-up for free."* Respondent C7, the new brand can *"... catch my attention through promotion... or give me a voucher"* while respondent C3 said that they should be offered *"... some good offers."*

Store's appearance is another major influencer to buying from a new brand. Respondent C2 indicated the need for the store to look attractive and have good atmosphere. According to respondent C10, when a store looks clean, classy and nice it sends a message of exclusivity even though it has cheap offerings, and that it should not look *"... messy, super colourful and with weird lighting."*

Additionally, new brands must have affordable products (C2, C4, C7), friendly employees (C6), have products of good quality (C1, C4, C8), and a wide range of products that customers can choose from (C10).

When asked about the likelihood of repurchasing apparel from the new brand, lifespan of the previously purchased products was one of the major mentioned elements (C6). Respondent C2, C3 and C9 and said that if they wear the piece of clothes often and still look good, they will most likely repurchase from the brand again. Consumers must be able to wear the clothes for a long time and that the clothes should *"not [be] falling apart after wearing it one time."* (C7).

Service is another determinant, as indicated by respondent C5 and C8. Respondent C9 said *"kindness of staff"* and if they made them *"... feel comfortable last time"* will drive them to becoming a regular customer. Respondent C8 cited *"... how the people treated me"* as a reason for re-purchase from the brand. For respondent C5, service is a huge factor, such that the company must *"... deliver [the goods] fast... and in a good packaging."*

4.2 Observations from German Franchise Association's website

The association describes the German market as one of the strongest countries in the world economic wise, and that the country is the “land of start-ups”. The market is praised for its growing economy (the country's GDP is approximately EUR 41,000, which is 25 percent above the average value of the European Union. There has been an increase of 30 percent in GDP over the past ten years), high consumption expenditure, stable political environment *and “a legal system that makes it easy to start up a company, protects intellectual property rights and facilitates the efficient enforcement of rights”* with *“fair and transparent taxation”* (DFV, 2019).

Corporate entities are taxed in a combination of corporate and trade tax, where the corporation tax imposed by the Federal Republic is 15 percent, capital gain tax of 25 percent for subsidiary companies with profit distribution to foreign holding companies (which can sometimes be reimbursed if there is double-taxation agreement) and local authority taxes which have legal minimum limit of 7 percent and maximum limit of 17.2 percent.

Through its “International Committee”, DFV supports foreign firms entering the German market end-to-end. The association is a first point of contact (there are other institutions also which offer such services) for firms aspiring to establish a franchise system in Germany. They *“... help to establish contact with a network of franchise systems that are already successful on an international level and boast long-standing relationships with lawyers and consultants who specifically work as associated supporters”* (DFV, 2019).

To establish a successful franchise system in Germany, the association suggests several steps to be followed, including having a pilot phase where the franchise concept is tested *“... under realistic conditions and adapted to suit the German market ...”* (DFV, 2019) whenever necessary. Below are steps recommended to be followed:

1. Preliminary test: market analysis and feasibility study are conducted to uncover important aspects such as fee systems, public relations, franchise handbook and other strategies that influences the entry strategy. This is where the franchisor can consider whether to use master franchising, direct or indirect franchising.
2. Preparing pilot operations: this involves translating and adapting the franchise handbook to meet guidelines from the association, where necessary and calculating franchise fees, identifying suppliers and understanding their terms and conditions for delivery.

3. Running the pilot: at this stage the franchisor focuses on obtaining the right licences and permits, monitoring the operations while focusing on profits and balance. Using experiences from the pilot, a franchise contract is developed.

4. Establishing the franchise system: at this stage the franchisor finalises the handbook, fee structures and contract while developing an advertising strategy and recruiting potential franchisees.

While running the pilot may seem as a delay to internationalisation, the DFV recommends it highly on the basis of quality over speed, which “... *creates trust and more security with regard to the implementation of the further expansion process*” (DFV, 2019). The pilot operation is important, for among other things, it helps check acceptance of the business model and its products and services in the desired market, adapt the concept’s standards to that of the target country due to differences in foreign markets and check the suitability of the local partner(s).

Other important factors to be considered include financial resources, entrepreneurial personality, experience with business development through franchise and respective laws and regulations that apply to franchising and business in general.

About the membership of the DFV, it is not compulsory as a franchisor or franchisee. However, members must go through a thorough review process and abide to its code of ethics which is adapted from the EFF.

4.3 Observations from legal documents

There are no specific franchise laws regulating the franchises business in Germany. The jurisdiction which applies for the offer and sale of franchise businesses is governed by the general provisions of the contract law (German Civil Code), the consumer law, commercial law (German Commercial Code), competition law and anti-trust law.

4.3.1 German Civil and Commercial Code

Especially, the German Civil Code and the Commercial Code needs to be looked at when entering into franchise agreements as it gives all relevant information about the franchise licence and how the license agreement works.

A franchise contract is an atypical contract, consisting of elements from diverse contract types such as license, work and service, as well as purchase agreement depending on the franchise business. The jurisdiction for the different contracts can be found in the German Civil Code as well as in other contract laws.

The German Civil Code plays the most important role, as the general provisions are regulating the offer and sale of franchisees.

4.3.1.1 Franchise agreement standards

The Civil Code needs to be looked at, when the franchisee needs to sign a standard franchise agreement. According to the Civil Code all standard term provisions must be reasonable and in good faith otherwise they are not valid. When selling a franchise to the franchisee, the franchisor needs to clarify the franchisee pre-contractual terms about all circumstances of the franchise according to the Civil Code and the DFV's guidelines. These are among others, detailed information about the franchise concept, including actual numbers of franchisees and the date of the start of the franchise system.

Furthermore, the franchisor needs to appoint all people in charge to act on behalf of the franchisor and the franchise offer must include the performance and experience from the pilot phase and the number of human resources and necessary investments. Additionally, the franchisor needs to provide the franchisee with information necessary to conduct a location analysis and on information about distribution channels of the franchise products or services.

It is also necessary that all pending lawsuits with potential impact on the franchise business are clearly communicated, as well as all memberships to franchise associations. Moreover, a clear franchise contract and a franchise handbook with all standard appendices needs to be provided by the franchisor. And it needs to be decided upon the term of the franchise agreement as the German law does not impose a minimum or maximum. It is further of utmost importance according to the German Civil Code, that the franchisor does not provide any misleading information in the franchise system to avoid future damage claims. In addition, a further prerequisite mentioned in the Civil Code is the investment of the franchisee for starting the business must not exceed EUR 75.000.

4.3.1.2 Termination of the franchise contract

When looking at the termination of the franchise contract, the franchise contract is considered terminated when the period ends unless otherwise mentioned through a renewal clause in the contract. It can also be terminated by both sides with prior notice depending on the duration of the contract. According to the German Commercial Code, a one-month notice is required if it is the first year of the term, a two months' notice is required when it is the second year of the term etc. The parties can prolong the notice but cannot shorten it according the Commercial Code.

4.3.2 Foreign law recognition in franchise agreement

Regarding the recognition of foreign law in the franchise agreement, German courts are recognising the choice of foreign law in a franchise agreement between a non-German and a German party. In case of a dispute between franchisor and franchisee, mediation is usually used to resolve it. In case, the franchisee does not comply with the business standards, systems and requirements of the franchisor, the franchisor may be entitled to claim damages according to the Civil Code and Commercial Code. Furthermore, contractual penalties could be agreed upon in the franchise agreement. In case of severe breach of the contract, the franchisor can terminate the franchise agreement.

4.3.3 Competition law

Regarding non-compete obligations, they are treated like purchase obligations under competition law. It restricts the franchisee's freedom of business activities and protect the know-how transferred by the franchisor to the franchisee. Furthermore, under the competition law falls the German anti-trust law which is fully harmonised with the European anti-trust law since 2005. Despite of the non-compete obligations, competition law also provides further restriction on the guarantee of an exclusive area and price fixing. Moreover, the unfair trade law encompasses the jurisdiction for unfair acts of competition such as among others the attacks on business reputations, unreasonably manipulating or exploiting of consumers, misleading or comparative advertising.

4.3.4 Consumer law

The consumer law provides everything a German consumer can expect about guarantees, exchange, pricing, payment, sales and opening hours in Germany in accordance with the directive 1999/44/EC. Thus, a franchisor needs to incorporate the law within business operations.

4.3.5 Disputes

In general disputes are handled by the civil courts, which can be local, regional, higher regional or federal supreme courts depending on the dispute. On the contrary, mediation as mentioned above is increasingly used. In addition, arbitration proceedings can be used.

4.3.6 Exchange controls

Regarding exchange control and withholding on payments, there are no exchange controls of currency regulations on foreign franchisors in Germany and the withholding tax is paid by the franchisee on behalf of the franchisor which is 15 percent. The solidarity surcharge can amount up to 5,5 percent of the income tax payable.

5 Analysis and discussion

In this chapter the empirical findings are combined with the theoretical framework. Firstly, the international expansion process is presented in accordance with our findings, then the institutional conditions found are presented. Afterwards, the connection is shown, how these institutional conditions are affecting the franchise entry mode in Germany. Secondly, the learning outcomes, regarding prevailing conditions on the German market, of the two institutions consumers and DFV are compared, evaluated and put in relation to the case company.

This study addresses the problem of foreign market expansion to the German fashion apparel industry, and how institutions play a role in the entry process. Uppsala internationalisation model and institutional theory is used as a basis for this study to analyse the entry process, institutional conditions and knowledge derived from each institution. Figure 2 presents firm's expansion and experiential learning process in accordance with our empirical findings:

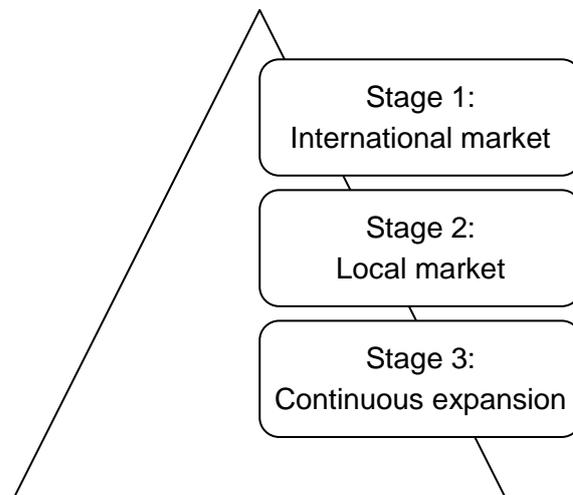


Figure 2: Firm's market entry stages within fashion apparel franchising

It was discussed in chapter 2 that market expansion is a gradual process that begins with firms developing strong holds in their local markets before expanding internationally, and then slowly enter new markets. The reason behind this is to allow firms to gain considerable experience and resources that can be used to their advantage in their international strategy, as it allows firms to get access to markets and gather valuable information. Our empirical findings contradict this. Figure 2 indicates a firm can expand internationally at any stage of its lifecycle and does not necessarily have to follow certain steps to enter new markets, which is contrary

to the study by Johanson and Wiedersheim-Paul (1975), which advocates for a gradual expansion for learning purposes. As part of learning, Tjjarat (which is a Swedish company) initiated a pilot in Italy to test its franchise concept which served as a basis for its operating standards to other markets, including Sweden. The firm later started operations in Sweden and continues to work on expanding further internationally.

Tjjarat can be categorised as a “born-global” firm, as its overall strategy has been on international operations from the beginning which is constant with Knight and Cavusgil (2004) findings that such firms tend to leverage on other capabilities such as innovativeness and knowledge to succeed internationally.

Although Tjjarat began its operations internationally, the firm has been keen to customise its strategy based on market conditions and opportunities, including taking advantage of institutions such as the European Enterprise Network to expand to other European markets, a possibility to expand through joint venture in London and offering different products in different markets. In other words, there is high level of adaptation to local environment and circumstances, a trait that is highly discussed in literature as key to international expansion success.

However, our findings reveal that entering the German market using results from another country’s pilot could be problematic, mainly because circumstances are different from market to market. Specifically, it is required by the law to disclose results of the pilot to potential franchisees, according to the Civil and Commercial Code. Findings from DFV also indicate that such pilots enable firms to get a holistic view of the franchise concept, including but not limited to adaptation of products or services, operational standards, matching with right business partners, regulatory requirements and PR and marketing strategies. This has been true to Tjjarat as the company has had to adjust their clothes lines in terms of colours between Italy and Sweden, as the former market prefer brighter colours while the later prefers darker colours.

As some of the benefits and reasons for firms to use franchising as an expansion strategy abroad is the ability to share resources and capabilities, as discussed in chapter 2. This is found to be true in our study as evidence from both Tjjarat and DFV suggests the same. Tjjarat is leveraging on its expertise and network within textile supply chain and resources from franchisees to scale its business further, a strategy that has so far worked out well, enabling the firm to focus on its key competencies while other parties deliver the rest, including daily operation of the stores. This is supported by Lindblom and Tikkanen (2010) as the resources and knowledge created by the franchisee is deemed valuable under the business franchise format as franchisees are considered to be innovative and change catalysts.

Based from the findings, it is safe to say that firm's decision to expand to international markets depend entirely on its resources and capabilities, coupled by its overall business model and strategy and that knowledge about franchise and new market entry can be obtained from different sources, contrary to Uppsala model by Johanson and Wiedersheim-Paul (1975) which advocates for gradual expansion. As discussed in chapter 2, companies like H&M exercised gradual expansion starting with local markets, while others have expanded internationally from the outset.

However, there is no denying the power of previous international markets knowledge and experience in the overall expansion process (the core message of Uppsala model, and was also observed from DFV's findings), which Tijarat has addressed by employing and partnering with individuals who have certain skill sets and experiences that are beneficial to its business, confirming findings by Forsgren, (2002); Ojala and Tyrväinen (2009), although as advised by DFV, entering the German market requires extensive understanding of the market through a well planned and executed pilot project.

Another notable finding is the fact that consumers have mixed preferences in terms of whether buying from online or physical stores. Although consumers were keen to indicate which platform they prefer best, all of them confirmed to purchase from both platforms based on needs and convenience. It is worth mentioning that majority of the consumers prefer online purchase (and they also compare prices between physical and online stores before purchasing), which brings light to the multi-channel management challenge that was highlighted by DFV, where franchisees are not satisfied with their franchisors when they offer online discounts without considering physical stores (discounts and low prices were also among major purchase triggers in our findings).

Perhaps one of the most interesting findings is the fact that franchisors within fashion apparel industry in Germany do not charge franchise fees, and only get financial gains from product margins, which is contrary to both practical and theory, as seen in Shane (1996), and Contractor and Kundu (1998). Findings from Tijarat also contradicts this revelation, since the company has been proud of its '*attractive*' franchise fee as one of the reasons for its success. Such information is vital from initial stages, as it allows a firm to better understand how to distribute its financial resources to meet general operational and support costs, and at the same time meet customer demands and what they view as acceptable as discussed in chapter 2 and chapter 4. In other words, a blanket strategy will not work for the German fashion apparel franchise industry, hence attention is needed to adapt and customise mode of operation in this market.

The above expansion and learning process call for the need to understand institutional conditions that need to be taken into account for a firm looking to venture into the German market.

5.1 How do institutional conditions affect franchising entry mode in the German market?

To answer the first research question, normative conditions found through the interviews are summarised and backed by literature. Then the connection to the effect on franchising in the German fashion apparel franchise is made. Afterwards the same is done for the regulative conditions.

5.1.1 Normative conditions in German's apparel fashion industry

In chapter two normative conditions were defined as norms and values that are based on human behaviour which are resulting from interactions in the society (Bruton et al., 2010; Scott, 2008; Kostova & Roth, 2002). A norm is "*something that is usual, typical or standard*" (Oxford dictionary, 2019). Hence, in the light of the interview with DFV and consumers some norms for the fashion apparel franchise industry were identified, which depict behaviours and what is considered acceptable in the market.

Our findings from the studied institutions derived below norms:

Franchise fees

Among the most interesting findings was that the fashion apparel franchise industry in Germany operate differently; franchisors do not receive franchise fee and ongoing royalties from franchisees, an exclusive arrangement only within the fashion industry in the country. This is contrary to known practices and literature (Contractor & Kundu, 1998), as such fees are among top benefits for franchising, as discussed in chapter 2. In this situation, franchisors' earnings come from product margins.

Findings from Tijarat and DFV indicate that franchisors take advantage of franchise fees to provide solid support to franchisees, including among others, marketing and advertising, training, systems and related software and ongoing operational support. It is however not known how franchisors in the apparel fashion industry mitigate this challenge to remain in business and constantly remain relevant in the environment they operate in.

Brand

Brand was found to be one of the core themes, which German consumers as well as the association highlighted as very important when entering the German fashion apparel franchise industry. *Brand consistency* is defined as a practice to always deliver messages in accordance with the brand values in the same tone, same presentation of the brand logo and repeating colour schemes throughout visual brand elements (MerlineOne, 2019). Constant with this definition, consistency within the look of the store, the sizes, and the standards of the stores in terms of service and atmosphere are considered to be a key factor that makes consumers buy from a specific brand, consistent with findings by Bradach (1997), that maintaining uniformity throughout the system is one of the challenges firms encounter in franchise operations as consumers expect the same standards everywhere. When it comes to service, it was highlighted that there is a need to be comfortable when entering the store. Hence, employees need to be kind but also empathetic to see if a customer e.g. needs help or wants to be left alone. Thus, customer happiness is determined by showing empathy and understanding, which in turn leads to great service (Mitranescu, 2019).

Furthermore, the arrangement of the clothes as well as lighting and the common design and appearance of the store was mentioned and plays an important role when it comes to brand reputation, which was the next identified subtheme. *Brand reputation* is defined as “a collective representation of a brand’s past actions and results that describes the brand’s ability to deliver valued outcomes to multiple stakeholders” (Fombrun & Rindova, 1996, p.10). Under brand reputation, consumers were mentioning the look of the brand is important, which determines whether something is bought from the brand or not. Moreover, consumers have the need to identify themselves with brand and what it stands for. Thus, shopping from that brand should bring “personal enjoyment” as well as create a “positive experience”.

Next to *brand reputation*, was *brand awareness*. According to the Oxford dictionary (2019), brand awareness is “the extent to which consumers are familiar with the distinctive qualities or image of a particular brand of goods or services”. Promotion on online platforms such as Instagram and Facebook, as well as offline promotion through vouchers and flyers was identified to be substantial to increase brand awareness, especially for new brands. Furthermore, also advertising both online and offline, as well as a personal preference and the recommendation by friends and family and influencers creating a brand image, were examined to be of high relevance when buying from a brand. This was also supported by T.Brodersen who mentioned that brand awareness and reputation are very important for German consumers.

When it comes to quality, we identified that good materials, the life span of the cloth, including the fitting after washing does not only improve brand reputation and affects the shopping decision but it is also connected to brand consistency, as consumers are expecting the quality to be on the same level for all products of a brand. In addition, quality is seen in close relation to another main theme, price. The better the quality, the more consumers are willing to pay. Moreover, when comparing the relevance of quality and brand awareness, we found out that the brand of clothing is rather unimportant. When the quality is good in terms of fit, material and longevity of the product, then the consumer would buy the product, even though the brand is new and thus have a low brand awareness and reputation.

Price

It was found that German consumers shopping decisions are triggered by low prices, hence affordability of apparel. When it comes to fast fashion items, consumers want to have affordable apparel choices because of the fast arising and diminishing of trends. However, low prices do not necessarily mean they will purchase such apparel, but quality has to be convincing too. It is also worth noting that despite the trend of buying low-cost fast fashion, consumers are willing to spend more money on quality products as mentioned above, provided value for money is realised.

Design

Another core theme we identified is design. All interview participants said that the look and style of clothes is of utmost importance, and that buying will depend on if they are as per their personal liking and preference. Additionally, our findings show that consumers need clothing that fit well and correlate with their body types. Most notably about fitting was that some consumers are very tall, hence sizing need to consider such characteristics as they are driven to buy from certain brands because they have sizes that fit their needs.

Furthermore, apparel needs to be trendy and fashionable and colours needs to be according to the season.

Variety

Consumers want to enter an apparel store and find products which could dress them from head to toe. In other words, when they go to a store, they expect to find different types of clothes, for example shirts, trousers, jeans, shoes etc to avoid visiting different stores at a single shopping event. They also want a variety of colours for a specific item and constantly new collections.

Impact of the normative conditions to franchising

When looking at all the normative conditions for the German fashion apparel franchise industry, many connections regarding the effect on the franchising entry mode can be made.

The “no franchise fee” condition which was described in the empirical findings forces the franchisor to adapt to this situation, as normally all fees such as the entrance fee and the monthly royalty fee are used to provide services to franchisees and thus assuring their satisfaction, which then again leads to good operations in store. However, due to the missing fees franchisors who would like to enter the German fashion apparel market need to find a solution to that challenge, as they are only going to earn through the profit margin of the products. Also, franchisors need to think about a solution how to keep franchisees motivated and attracted. This is because trainings and marketing as well as special know-how transfer is normally done in exchange for a fee, which keeps the franchisees close and up to date to the operational business of the franchisor.

When it comes to consumers, franchisors who want to enter the German fashion apparel industry, especially the fast fashion low-to-medium cost sector, need to consider the following which could affect the business operations in Germany: in general it can be said, that German consumers like affordable clothes with good quality. The better the quality, the more they are willing to pay.

Furthermore, quality is also the main determinant when buying, compared to brand awareness and reputation. For a franchisor entering the German market this means, that they need to be prepared for these market conditions and the consumer needs and behaviours. Also, various brand names were mentioned during the interviews indicating a high competition among low-to-medium fast fashion companies.

Another important point to consider when entering the German market, is the need for consistency. Thus, a new brand needs to first develop a common store design and optics, and be sure that all the needs of the consumer are met before entering the market. Hence, the pilot phase is of immense importance to see whether the brand concept works in Germany.

5.1.2 Regulative conditions in German’s apparel fashion industry

As reported by the Managing Director (MD) of DFV and strengthened by several online sources as well as literature, there is no specific franchise laws in Germany. It is rather a combination of existing legislation, such as the German Civil and Commercial Code, competition law and unfair trade law, which form the jurisdiction for franchising as explained in chapter 4.

Kostova and Roth (2002) argued that the host country's institutional environment may exert pressure on the firm to adopt practices that are found in the new market, which may lead to deviating from parent company's practices to comply with the new requirements, regulations and become identical with other firms in the industry in ways of operating. Not only this needs to be considered when entering the German market, but also the special regulative conditions when entering the market, such as the disclosure of pre-contractual terms about all circumstances of the franchise according to the German Civil Code and DFV's guidelines. These include:

- A detailed information about the franchise concept.
- The need to appoint all people in charge to act on behalf of the franchisor.
- The franchise offer must include the performance and experience from the pilot phase and the number of human resources and necessary investments.
- The franchisor needs to provide the franchisee with relevant information to conduct a location analysis and on information about distribution channels of the franchise products or services.
- All pending lawsuits with potential impact on the franchise business needs to be stated, as well as all memberships to franchise associations needs to be clarified.
- Clear franchise contract and a franchise handbook needs to be provided.
- Initial investment for a franchisee to start a business must not exceed EUR 75.000

All these pre-contractual terms need to be met and prepared for, when entering the German market. Expanding into the German market, means adapting to the local market, but at the same time securing the core elements which makes the franchise business unique.

Other important laws that a new market entrant must be aware of and comply to, include:

- Consumer law: provides everything a German consumer can expect about guarantees, exchange, pricing, payment, sales and opening hours in Germany in accordance with the directive 1999/44/EC.
- Commercial law (German Commercial Code): provides guidelines for among others, contract length and termination terms, currency regulations, payments and recognition of foreign laws in a franchise agreement.
- Competition law: protects, among others the know-how transferred by the franchisor to the franchisee, provides restriction price fixing and addresses non-compete obligations.
- Unfair trade law: provides jurisdiction for unfair acts of competition such as among others the attacks on business reputations, unreasonably manipulating or exploiting of consumers, misleading or comparative advertising.

Generally, the German laws provide enough coverage for all the franchise operations, hence understanding and complying to these laws facilitates a successful market entry.

5.2 Does a franchisor entering the German market learn more on the prevailing institutional conditions from local associations or customers?

Whether one learns more from associations or consumers depends highly on the type of knowledge a firm requires to successfully become a franchisee in German’s fashion apparel industry. Figure 3 summarises information flow and knowledge gained from both institutions:

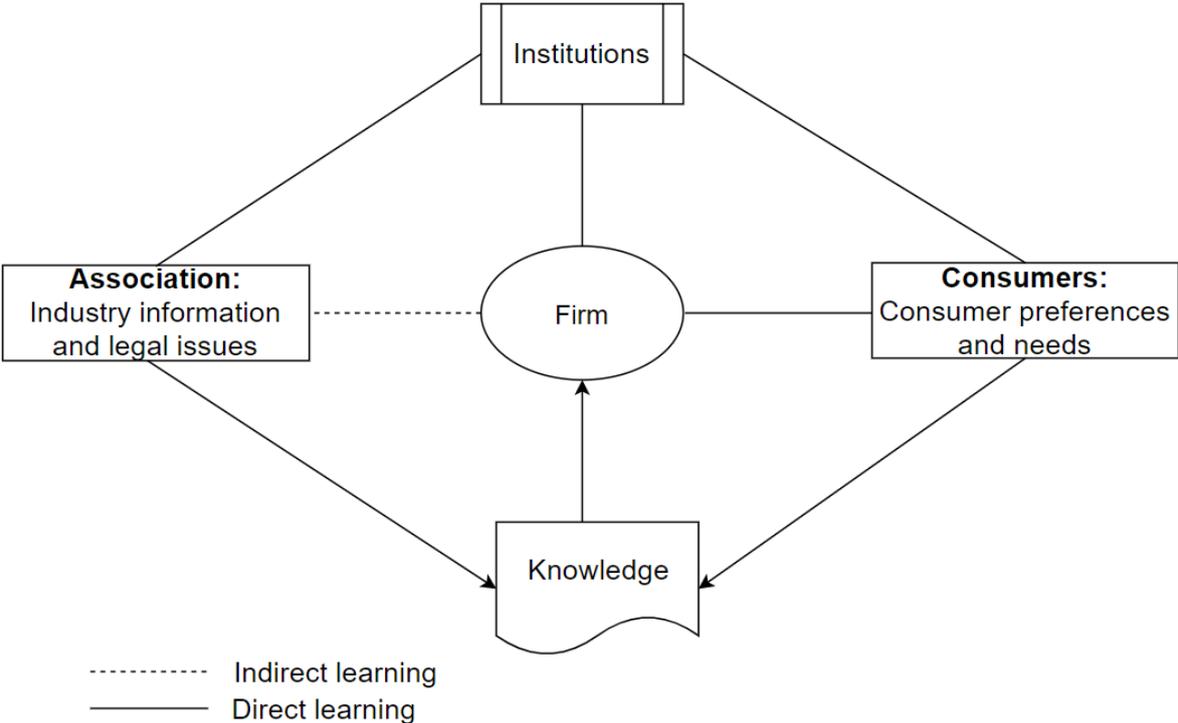


Figure 3: Institutional learnings from German’s fashion apparel franchise industry

Our findings show that firms can learn from both consumers and associations, the difference however is on how the knowledge is acquired from these institutions; direct or indirect. Figure 3 depicts a unified relationship between firms and both formal and societal institutions. The learning process starts by firm seeking knowledge from potential consumers of the new market and associations that support franchise businesses in the respective region.

The inner solid line signifies acquisition of knowledge by a firm by engaging directly with consumers, while the dotted line implies acquisition of knowledge through engaging third parties with expertise in the industry sought for entry. The outer arrows pointing to ‘knowledge’ sums up the market learning process from both institutions, in a sense that in the end, the information collected is consumed by a firm for its expansion purposes.

From consumers point of view, a firm collect necessary information by engaging directly with them, without having to go through 'middle-men'. Here, one learns what is viewed as acceptable, and gets first-hand knowledge from potential consumers, hence giving a firm a chance to craft its strategy and offerings in accordance to their needs and preferences. The advantage of using consumers is that one gets holistic insights on the overall thinking process, to as small details as possible. Our study indicated that consumers care about things like small gestures of appreciation, how many washes should a piece of clothes endure, store arrangement, including how mannequins are dressed and exclusivity of the clothes (how many pieces of the same design are being sold). This indicates that understanding these dynamics are of utmost importance in building long term relationships with consumers and will enable firms to proactively manage uncertainties that otherwise they would have to encounter in future.

The same firm can choose to acquire industry knowledge from associations. They facilitate the learning process, but indirectly. This is because firms have a possibility of acquiring the same knowledge through third parties. These may include associations (like DFV), management consultants, chambers of commerce, lawyers, diplomatic missions etc. DFV for example as indicated in the empirical findings, provides consultation to franchisors in areas including financing options, recruitment of qualified franchisees, networking etc. It is worth noting that some of these institutions provide rather limited support based on their areas of expertise. Legal entities for example are able to advise on regulatory matters while management consultants are able to advise on management and operational strategies. DFV, among other things provide industry information to new entrants to enable them to understand the current and future trends and make informed decisions, and most importantly guiding them through the pilot project as discussed in the empirical findings as one of the most important things that an entrant must do.

In all cases, consumers and associations provide learning that is of utmost importance to firms. Our findings indicate that neglecting any of the two might prove to be problematic and that they both play a role in providing valuable knowledge to firms expecting to enter international markets. As discussed in chapter 2, foreign market country's specific rules, norms and values defines institutional context (Davis et al., 2000; Meyer & Nguyen, 2005). Our findings agree with that of Kostova (1999), where institutional environments promote or restricts behaviours in terms of what is acceptable or appropriate.

To put this into context, consumers define what they expect to get and benefit when they purchase fashion apparel, while formal institutions (for example regulatory) set rules and laws that govern what and how consumers get products. This is constant with the core of institutional

theory; isomorphism (Kostova et al., 2008), a concept that suggests firms need to get approval and acceptance from external stakeholders for its survival. Achieving legitimacy requires a high level of learning, hence both institutions in this study have a significant importance in their respective roles. In this research, the association guides firms into the right direction to enable them to get the legitimacy needed by providing them with needed resources, while consumers provide first-hand information about their expectations.

6 Conclusion

In this chapter a summary of the research by answering the research questions is given. Moreover, limitations of the research as well as managerial implications are presented. Finally, suggestion for further research are given.

The purpose of this research was to explore prevailing institutional conditions in the German fashion apparel industry within the low-to-medium cost segment to help international franchisors who want to enter the German market, to be prepared upon entrance. To reach this purpose, we set two research questions. The first question was: how do institutional conditions affect franchising entry mode in the German market? And the second question was: Can a franchisor who aspire to enter the German market learn more on prevailing institutional conditions from associations or consumers?

In order to answer the research questions, institutional theory and Uppsala internationalisation model were used as theoretical frameworks for analysing the institutional conditions German fashion apparel industry and international expansion process. The primary data was collected via Skype and in-person interviews. The three sets of participants' groups were the German consumers, DFV and Tijarat (the case company). Supplementary data, such as official governmental websites and associations were used to strengthen the primary data findings and secondary data was used to collect further information, such as through legal documents.

Regarding how institutional conditions affect franchising entry mode in the German market. We found several normative conditions: the "no franchise fee" condition of the German fashion apparel franchise industry need to be considered by all franchisors who want to enter the German market, as normally franchise fees are providing the franchisor with assets to provide services to the franchisees, which are vital to guarantee franchisee satisfaction and in the long run guarantee successful business operations. When it comes to consumer behaviour, franchisors who enter the market need to meet the consumers' need in terms of affordable clothes with good quality. Quality was identified to be of distinct importance to German consumers when buying. It even dominated brand awareness and reputation. Also, the need for brand consistency, in terms of store optic, sizing, quality, customer service was identified and needs to be met by all franchisors who would like to enter the German fashion franchise industry. Regarding regulative conditions: it was found that there is no single franchise law but a combination of existing legislation (German Civil Code, Commercial Code, Competition law,

Unfair trade law and Consumer law) which form the jurisdiction for franchising. Therefore, all franchisors who decide to enter the German market need to comply with these laws.

Regarding the second research question, if a franchisor can learn more from consumers as being one institution or the association, we found that franchisors who would like to enter the German market can acquire knowledge from both institutions, only with the difference in how the knowledge is acquired, direct or indirectly. On the one hand, firms can learn direct from consumers to understand social norms and and get consumers' views on what is considered to be accepted in the market. On the other hand, firms can get such knowledge indirectly from institutions such as among others, associations, legal consultants and management consultants. However, it is of utmost importance to understand that a combination of learning from both social (consumers) and formal (associations) institutions is valuable, as it enables firms to get holistic information from industry experts and potential end users.

6.1 Managerial implications

This study provides firms with practical considerations on fundamentals that need to be taken into account when planning to expand to the German fashion apparel market through franchising. It provides exclusive insights on key challenges that the market presents, such as managing a multi-channel business with online and offline operations and operating the business without franchise fees.

Firms that can develop strategies to mitigate these challenges presents themselves an opportunity to differentiate from other players in the market and get ahead of the competition. One of the things that a firm can do is to constantly keep open communication and align online and physical store offers or find a mechanism to distribute sales revenues from online stores with franchisees. Additionally, to cater for the fact that the German franchise industry within apparel fashion does not impose franchise fee to their franchisees, firms can look at ways to operate within earnings from product margin or find ways to introduce other revenue streams in the business line to cover operational costs that might arise.

The research further provides firms with an overview of consumer expectations within the industry, thus, enabling managers to plan on how to address such needs.

Finally, the study exposes firms to knowledge of environmental conditions created by both formal and societal institutions that are key to success. Firms can use this information to evaluate their strategy and business model and align it with the necessary requirements, as these institutions are key stakeholders in business operations. It is worth noting that the pre-

contractual terms discussed before are among most important factors that define firm's international expansion strategy.

6.2 Theoretical implications

This study contributes a further understanding to internationalisation literature. It has provided the basis for examining foreign market entry modes within specific franchise environment. It has further provided a practical application of Uppsala internationalisation model and institutional theories in studying and understanding conditions that affects internationalisation in the fashion apparel industry through franchising, including learning obtained from different institutional groups and its implications to firms.

Additionally, the research contributed further learning in the internationalisation process, that firms have a possibility to succeed internationally irrespective of whether they choose to venture internationally from initial stages. The study also provides a learning model for the studied institutions (consumers and associations).

6.3 Limitation of study

Although we believe that the data collected was sufficient to fulfil the purpose and answer the research questions, more actors could have been included to widen the scope. This could be interviewing more consumers and other institutions such as diplomatic missions, management consultants, legal institutions and consultants etc. Additionally, interviewing franchisors who are already in the researched market and industry could have provided insights into other aspects that we were unable to explore.

The research focused on Germany; hence findings cannot be replicated to other countries as their environments are different, governed by different rules and regulations, and markets have consumers with different behaviours and expectations. At the time of writing this research, Germany had no specific laws that govern franchising; hence findings might be altered should the country implement specific franchise laws in future.

Additionally, the study focused on low to medium cost segment in apparel fashion industry, hence other segments such as high-end fashion were not part of this study.

6.4 Recommendations for further research

In a view of the aforementioned limitations, a quantitative study can widen the scope of the research; it can be conducted to include other variables such as demographics and cover multiple countries to evaluate their implications within normative and regulatory conditions and

derive to models that firms can use to make informed decisions in different markets. Investigating multiple countries can provide comparison insights into other variables such as culture and their role in the overall international expansion process.

A comprehensive longitudinal study to franchisors in the German apparel fashion industry will also be useful to uncover antecedents on franchise operations within the industry and how businesses sustain themselves in the wake of the findings that the German fashion apparel market does not charge franchise fees. It will also be useful in terms of management of multi-channel operations.

Finally, we recommend a cross-segments comparison study to explore differences within fashion apparel segments, including high-end, in order to spot both theoretical and practical differences in international market entry journeys.

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Appendices

1. Interview guide

1.1 Interview with German Franchise Association's Managing Director

General questions:

1. Please give us a brief description about the association and your role.
2. Please give us an overview of the German franchise industry.
3. What services does the association provide for franchisors and franchisees?
4. How do you support franchise businesses in Germany?
5. What does it take for a foreign company to open a franchise business in Germany?
6. What regulations govern the franchise industry and how favourable are they?
7. How does the company's country of origin play a role in the process?

Fashion apparel industry specific questions

8. Describe how the fashion apparel sector is doing within the franchise industry?
9. What is your experience with fashion apparel franchise businesses?
10. Please give us an example of success and a failure case.
11. (Can you give us a specific example of success and failure in the fashion apparel industry?)
12. What did they do right/wrong?
13. What challenges are there in the fashion apparel franchise industry?
14. What opportunities does the German market present to franchisors in the fashion apparel industry?
15. Do you have anything else that can be of value in our research?

1.2 Interview with Tjirat AB's Chief Executive Officer

1. Please give us a brief description about Martin & Lyla and your role.
2. What is your growth strategy in your local market?
3. What is your motivation to expand abroad?
4. What markets does your company have presence on, and why did you choose those markets?
5. You mentioned you have a franchise store in Trieste, Italy. What challenges did you face during the process of opening and overall operations?

6. Why did you choose Italy as your first market and not Sweden since it is your local market?
7. How did you come to a decision to use a franchise strategy for your international expansion, and why?
8. What other strategies are you using to enter foreign markets?
9. You have indicated you want Germany to be your next market, why Germany?

1.3 Interview with consumers

General questions

1. Please give us a brief description about yourself.
2. How old are you? (not mandatory)
3. Where are you from in Germany? (North, South, East, West)

General consumption questions

4. What are your favourite fashion apparel brands, which are operating in Germany?
5. Why do you buy from those brands and not from others?
6. What are the triggers that make you buy from this or these brands?
7. How often do you shop? (Year, month, week)
8. How much do you spend on average in a single shopping event?
9. What do you look at when you want to buy cloth?

Specific questions on new fashion apparel brand

10. How likely is it for you to buy clothes from a new no-name company who just opened in Germany?
11. What does a new brand need to offer you, in order for you to enter the store and actually buy from them?
12. What determines for you, if you are going to repurchase apparel from this new brand?