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DETERMINANTS OF THE GOVERNANCE STRUCTURE OF THE INTERNATIONAL FRANCHISE FIRM A Case Study Analysis in the Automotive Rental Industry

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DETERMINANTS OF THE GOVERNANCE STRUCTURE OF THE
INTERNATIONAL FRANCHISE FIRM

A Case Study Analysis in the Automotive Rental Industry

ABSTRACT

Purpose. The governance structure of international franchise firms varies from higher control modes, such as wholly-owned subsidiaries and joint venture franchising, to lower control modes, such as area development and master franchising. Based on organizational economics, strategic management and international business perspectives, this research uses the case study analysis to empirically evaluate an integrative model on the franchisor’s choice of international governance modes.

Methodology. The study applies qualitative methods, such as in-depth case analysis, to investigate a large set of variables that influence the governance structure decision of the international franchise firm. Specifically, it applies a theory-testing case study with two major competitors in the European automotive rental industry, i.e. Europcar and Sixt. Theory-testing case research is justified by the lack of explanatory research due to the complexity of the franchisor-franchisee relationship phenomena, such as the factors that influence the franchisor’s choice of international governance modes. The investigation of the complex governance structure phenomenon requires a holistic analysis.

Findings. The case study shows that environmental, behavioral, transaction-specific, resource-based (system-specific, market-specific, financial resources) and international strategy considerations are important determinants of the governance mode decision of the international franchise firm.

Research implications. The study responds to the recent call in organizational economics, marketing, strategic management and international business literature to develop and test a multi-theoretical framework to explain the governance structure of inter-organizational networks, such as franchise networks.

Originality/value. Few previous studies in international franchising have used more than one theoretical perspective to explain the governance structure of the international franchise firm. This study contributes to the theory-testing case study literature by applying a rigorous method of conducting case research. This includes developing a theoretical framework and a systematic research design. A systematic research design requires a holistic analysis by investigating the international franchise governance modes from a variety of theoretical perspectives which are the organizational economics, strategic management and the strategy-structure perspective.
INTRODUCTION

The international expansion of franchise firms is a dynamic process that is subject to constantly changing environment conditions. By responding to the specific requirements of host markets the franchisor can choose between a variety of governance modes to operate the franchise network abroad. The major governance modes of international franchise firms are wholly-owned subsidiaries, joint venture franchising, area development franchising and master franchising (Konigsberg, 2008). These governance modes are characterized by a certain level of control, referring to ownership, decision and residual income rights the franchisor allocates between the headquarters and the foreign operations (Jell-Ojobor and Windsperger, 2014). For instance, in joint venture franchising the franchisor and the foreign joint venture partners share asset ownership, decision rights and residual income rights, while in case of master franchising the master franchisors have only decision and residual income rights (Mumdziev, 2011). While the franchise governance structure analysis attracts growing research attention, little is known about the decision-making context of franchisors to choose one governance mode over the other (e.g. Walker and Etzel, 1973; Hackett, 1976; Chan and Justis, 1990, 1992; Zietlow, 1995; Ryans et al., 1999; Burton et al., 2000; Baena, 2013). Moreover, existent studies hardly apply multi-theoretical perspectives, based on transaction cost and agency-based perspectives (Fladmoe-Lindquist and Jacque, 1995; Contractor and Kundu, 1998a,b; Burton et al., 2000; Sashi and Karuppur, 2002; Castrogiovanni et al., 2006; Garg and Rasheed, 2006; Chen, 2010; Baena, 2013) and on resource- and organizational capabilities-based concepts (Contractor and Kundu, 1998a,b; Erramilli et al., 2002). Therefore, the research deficit in the franchise and market entry literature relates to the scarcity of theoretical and empirical studies that integrate different theoretical views to explain the governance modes of the international franchise firm. In response to this deficit, this paper tests an integrative model based on organizational economics (i.e. agency theory, transaction cost theory and property rights theory) and strategic management perspectives (i.e. resource-based and organizational capability theory) by conducting a case study analysis.

We use a confirmatory research method by applying a rigorous method of conducting case research that includes developing a theoretical framework and a systematic research design (Barratt et al., 2011). “Through the development of more rigorous methods of conducting case research, the case study…can be effectively used to test theory in complex environments” (Johnston et al., 2011: 211). Why do we choose theory-testing case research? Theory-testing case research is mainly justified by the lack of explanatory research due to the complexity of the business-to-business relationship phenomena in franchising (Bonoza, 1985), particularly the influencing factors on the franchisor’s choice of international governance modes. A systematic research design requires a holistic analysis of the complex phenomenon (i.e. the international franchise governance structure) from a variety of theoretical viewpoints (Ghauri, 2004; Ghauri et al., 2009).

What is the contribution of this study? First, since few previous studies in international franchising have applied more than one theoretical perspective to explain the international franchise governance modes, this
study is a first step to close the empirical gap by applying Jell-Ojobor and Windsperger’s (2014) integrative framework to the automotive rental industry. We conduct an in-depth, theory-testing case study analysis by collecting data from two leading international car rental systems, i.e. Sixt and Europcar. In our case study analysis, we extend this governance model by including the international strategy variable (i.e. standardization and adaptation strategy) as antecedent of the international governance mode choice. Based on the strategy-structure view of Chandler (1962), we argue that the franchisor’s strategy influences his choice of the international governance modes. Second, the results of this study also contribute to the recent literature on foreign operations as mode combinations and modifications (Petersen and Welch, 2002; Benito et al., 2009, 2011). The findings indicate that franchisors combine franchise modes according to the desired level of control over foreign operations as ‘mode packages’ (Benito et al., 2012). Third, we respond to the recent calls for the use of more qualitative methods when explaining complex governance structures in international business (e.g. Hurmerinta-Peltomäki and Nummela, 2006; Sinkovics and Ghauri, 2008; Welch et al., 2011; Benito et al., 2012). Although several case studies have been conducted in international franchising (e.g. Preble et al., 2000; Petersen and Welch, 2000; Jones, 2003; Frazer, 2003; Pizanti and Lerner, 2003; Doherty and Alexander, 2004; Choo, 2005; Szulanski and Jensen, 2006; Picot-Coupey, 2006; Altinay and Miles, 2006; Doherty, 2007, 2009; Paik and Choi, 2007; Choo et al., 2007; Chen, 2010; Brookes and Roper, 2011; Forte and Carvalho, 2013), none of those applied a theory-testing case approach (Tsang, 2013). As Tsang (2013) and others (Bitektine, 2008; Doz, 2011; Birkinshaw et al., 2011) point out, particularly the case study methodology has a great potential to test theory-based frameworks on governance structures that result in a large set of complex, interconnected variables. Hence, our study adds to the theory-testing case study literature by applying a rigorous method of conducting case research (Bitektine, 2008; Gerring, 2017). In contrast to many qualitative case studies that miss sufficient details in research design, data collection, and data analysis (Barratt et al. 2011), we address this deficit in our theory-testing case study.

The paper proceeds as follows: In section two, we present the research model and the hypotheses on the governance structure of international franchise firms. In section three, we give an overview of the methodology used and a description of the sample cases. In section four, we discuss the case study findings. Finally, we conclude with discussion and implications.

OVERVIEW OF THE RESEARCH MODEL AND HYPOTHESES

Based on Jell-Ojobor and Windsperger (2014), this model distinguishes the following governance modes of international franchise firms: Wholly-owned subsidiary (WOS), joint venture franchising (JVF), area development franchising (ADF) and master franchising (MF). The franchisor’s level of control increases from master franchising, area development franchising, joint venture franchising to the wholly-owned subsidiary because more ownership and decision rights are allocated to the franchisor. Compared to WOS, JVF and ADF, MF agreements do not assign ownership rights but only decision and residual income rights
between the franchisor and the master franchisor (Mumdžiev, 2011).

The model derives several hypotheses from transaction cost theory (TCT), agency theory (AT), resource-based theory (RBT) and organizational capabilities theory (OCT). The following factors influence the governance structure of the international franchise firm: System-specific assets, local market assets, financial assets, environmental and behavioral uncertainty, and transaction-specific investments. In addition, we respond to Jell-Ojobor and Windsperger’s recommendations also to include the international strategy theory perspective into the analysis. Therefore, we complement Jell-Ojobor and Windsperger’s (2014) proposed set of hypotheses by the international strategy hypothesis. Furthermore, we fine-tune the traditional transaction cost predictions by distinguishing environmental uncertainty according to three dimensions: cultural, economic and institutional uncertainty. Figure 1 illustrates the research model which will be explained in the following.

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**International Strategy**

Based on the structure-follows-strategy view of Chandler (e.g. Chandler, 1962; Leitmannslehner and Windsperger, 2012), the international strategy theory (e.g. Bartlett and Ghoshal, 1989) argues that a firm’s foreign operation mode must be aligned with its international strategy (Grøgaard, 2012). The international strategy theory distinguishes between two major strategies: global and multi-domestic (multinational) strategy (e.g. Harzing, 2002; Brøthers and Hennart, 2007; Cui and Jiang, 2008; Pehrsson, 2008; Grøgaard, 2012). A global strategy is chosen in highly competitive industries with interconnected product markets, which enables the exploitation of scale and scope advantages and the diffusion of standardized products. For instance, Huszagh et al. (1992) showed that globalization and technology advancements lead to a convergence of consumer tastes, therefore diminishing product differentiation barriers for international franchisors. In comparison, multi-domestic strategies are applied in less competitive industries with predominately domestic competition, whereby the focus lies on product adaptation to local peculiarities and requirements (Harzing, 2000).

If we apply this reasoning to international franchising, it can be argued that firms that face global pressure will pursue a standardization strategy in markets that demand interconnected products (Harzing, 2002) of a homogenized, high-quality standard. By contrast, firms that face pressure for local responsiveness, where the focus is on gaining competitive advantage through first mover advantages as opposed to cost savings through standardization (Kaufmann and Eroglu, 1999), will pursue an adaptation strategy. These strategies have to be aligned with the governance structures (Grøgaard, 2012). Respectively, Pak (2002) and Dunning et al. (2007) confirmed that UK and US international franchisors applied equity modes of entry to gain global competitiveness with the accumulation of new knowledge and organizational competences in competitive foreign markets. Similarly, they showed that US and UK international franchisors recognized the significant role of foreign franchisees in the efficient and quick penetration of host markets. Consequently,
if the international franchise firms pursue a standardization strategy, they are more likely to use higher control modes, and if they pursue an adaptation strategy they are more likely to use lower control modes.

**H1a:** Standardization strategy is positively related to the franchisor’s tendency to use of higher control modes.

**H1b:** Adaptation strategy is positively related to the franchisor’s tendency to use of lower control modes.

**System-specific Assets**

The franchisor’s system-specific assets refer to knowhow and capabilities, such as brand management, site location, store layout, product development and procurement management. System-specific assets are converted into final products and services, which comprise all features of the franchise business format, such as technological or proprietary knowhow, communication systems, accounting systems, software, store layout, customer competence, sales and marketing strategies, R&D, advertising and promotion and monitoring techniques. The franchise system-specific assets have a high rent-yielding potential for the franchise firm, because they are difficult to transfer across firm boundaries and thus cannot be easily imitated (Sarkar and Cavusgil, 1996; Luo, 2000). Accordingly, based on the resource-based and organizational capabilities theory, the franchisors will choose higher control modes (such as joint venture or wholly-owned subsidiary) as international governance form when high monitoring and knowledge transfer capabilities are required to ensure efficient implementation and deployment of the system-specific assets in the host countries:

**H2:** The more important the franchisor’s system-specific assets for value creation, the higher the franchisor’s tendency to use higher control modes.

**Local Market Assets**

In cross-border franchising, a franchise package may only be successfully implemented if it is adapted to the requirements of the foreign market. Due to the firm specificity (i.e., heterogeneity and non-transferability) of local partners’ market assets, they are difficult to acquire by the franchisor. According to the resource-based and organizational capabilities theory, the greater the rent-yielding potential of the local market assets of the foreign partners, the higher the franchisor’s propensity to use lower control modes, such as area development and master franchising (Chan and Justis, 1990; Preble et al., 2000; Pak, 2002; Jones, 2003; Dunning et al., 2007; Choo et al., 2007):

**H3:** The more important the franchise partners’ local market assets for the value creation of the network, the higher the franchisor’s tendency to use lower control modes.
Financial Assets

International franchise firms can finance system growth more easily and less costly when they have access to the local partners’ financial resources (e.g. Oxenfeldt and Thompson, 1969; Caves and Murphy, 1976; Gonzalez Diaz and Solis-Rodriguez, 2012). In this situation, the foreign partners’ financial assets support the internationalization and successful implementation of the franchise business format in the host country. Therefore, from a resource-based perspective, franchisors constrained in expanding their businesses in the foreign market by limited financial resources will favor lower control modes, such as joint venture franchising, area development and master franchising:

H4: The higher the financial resources required for implementation of the franchise concept in the foreign market, the higher the franchisor’s tendency to use lower control modes.

Environmental Uncertainty

According to the transaction cost theory, higher environmental uncertainty, due to the franchisor’s inability to evaluate the cultural, economic and institutional peculiarities of host countries accurately, results in high transaction costs. Depending on the specific dimensions of environmental uncertainty, i.e. cultural, economic and institutional dimension, franchisors choose different governance modes to effectively reduce the challenges of environmental uncertainty in host countries.

Cultural uncertainty results from a lack of knowledge of the local customs and culture (Miller, 1992, 1993). It reflects differences in language, business practices, social structure such as income, education and gender role, ideology, religion, work ethic and consumer preferences (Hennart et al., 1998). It affects managerial and operational business practices, communication and performance evaluation, as well as the provision of attractive products and services to local customers (e.g. Eroglu, 1992). Franchise partners who are located geographically close to customers and are familiar with the local culture will be better able to modify products, services, and promotional strategies to suit the local expectations and requirements (Sashi and Karuppur, 2002) as well as adapt administrative procedures, such as management techniques and monitoring, in order to function in the foreign business environment. For instance, Chan and Justis (1990, 1992) observed that due to the unfamiliarity with the local market and the need for business format adaptation to culturally sensitive local demands, US franchisors chose master franchising as an entry strategy into the markets of East Asia and the European Community.

H5a: The higher the transaction costs due to cultural uncertainty, the higher the franchisor’s tendency to use lower control modes.

Economic uncertainty refers to the volatility of the economy and comprises the instability of the demand and competition in host countries. In situations of competitive uncertainty, the franchisor is unable to predict the number of new competitors that will be entering the host market and to reply with competitive action-taking in due time, such as aggressive pricing, advertising and distribution strategies. Demand fluctuations, resulting from frequent technological and/or economic changes, involve instability in the overall
industry and make the forecast of future sales difficult. An uncertain, changing demand and/or competitive situation create the need for strategic change, technological innovation and product adaptation (Sanchez-Peinado and Pla-Barber, 2006; Kor et al., 2008). This requires more local information processing capacity by delegating coordination tasks to local partners (Williamson, 1975; Gulati et al. 2005). Hence franchisors can effectively reduce the challenges of environmental uncertainty in host countries by making use of the partners’ higher local information processing capacity for dealing with human capital, suppliers, customers and competitors (e.g. Fladmoe-Lindquist, 1995; Contractor and Kundu, 1998a, 1998b; Burton et al., 2000; Sashi and Karuppur, 2002; Grewal et al., 2011). In order to cope with these unforeseen contingencies in the host market, franchisors will adopt lower levels of control, which allow them to flexibly adapt to the changing environment by avoiding high switching and adaptation costs.

H5b: The higher the transaction costs due to economic uncertainty, the higher the franchisor’s tendency to use lower control modes.

Institutional uncertainty refers to differences and changes in the legal, regulatory and political environment. In international franchising, institutional uncertainty is frequently associated with a high degree of government interference, high corruption and weak legal protection. High regulatory risk due to missing legal enforcement and protection mechanisms in case of disputes and copyright violation can result in high litigation costs and have a severely negative impact on a firm’s brand name and reputation. Especially in international service franchising, the core elements of the standardized business format, such as advertising, marketing and sales techniques, are well-documented in the franchise manual, and are therefore easily imitable. Since franchising requires trust (Dant and Nasr, 1998; Doherty and Alexander, 2004), honesty and respect for the law (Alon, 2006), international franchisors will choose higher levels of control, such as wholly-owned subsidiary and joint venture franchising, when institutional uncertainty is high in host countries.

H5c: The higher the transaction costs due to institutional uncertainty, the higher the franchisor’s tendency to use higher control modes.

Transaction-specific Investments

Based on transaction cost theory, the partnership between the franchisor and franchisees requires bilateral investments in transaction-specific assets to realize the rent-yielding potential of firm-specific assets (Madhok and Tallman, 1998; Ghosh and John, 1999). These bilateral transaction-specific investments lock the local franchise partners into a relationship with the franchisor in the host market (Anderson and Gatignon, 1986), thereby creating mutual dependency that results in more cooperative behavior to realize the relationship-specific rents (e.g. Brown et al., 2000; Rokkan et al., 2003). Depending on the symmetry or asymmetry of transaction-specific investments between the franchisor and her/his local partners, the franchisor will choose either lower or higher control modes (see Figure 1):
H6a: The higher the franchisor’s transaction-specific investments relative to the franchise partners, the higher the franchisor’s tendency to use higher control modes.

H6b: The higher the franchise partners’ transaction-specific investments relative to the franchisor, the higher the franchisor’s tendency to use lower control modes.

Behavioral Uncertainty

According to the agency theory, agency problems arise from behavioral uncertainty, especially when market conditions are not easily predictable and information asymmetry and/or geographic distance are high (e.g. Rubin, 1978; Brickley et al., 1991; Lafontaine, 1992; Alon and McKee, 1999; Fladmoe-Lindquist and Jacque, 1995; Castrogiovanni et al., 2006). With franchise contracts, the local partners are residual claimants and face high-powered incentives to maximize effort in maintaining high service and product quality thereby reducing agency costs (e.g. Rubin, 1978; Eisenhardt, 1988, 1989; Minkler, 1990; Fladmoe-Lindquist, 1991). Particularly, lower control modes, such as international multi-unit (area development) franchising and master franchising, may mitigate agency problems, e.g. adverse selection, free-riding or inefficient information sharing, through long-term goal alignment between the franchisor and local partners (e.g. Shane, 1996; Garg and Rasheed, 2006; Chen, 2010; Gillis and Castrogiovanni, 2012). Consequently, the monitoring cost-increasing effect of behavioral uncertainty increases the franchisor’s propensity to choose lower control modes, such as area development and master franchising:

H7: The higher the monitoring costs due to behavioral uncertainty, the higher the franchisor’s tendency to use lower control modes.

Table 1 summarizes the hypotheses.

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RESEARCH METHODOLOGY

Our case study analysis applies an explanatory, theory-testing and theory-refining research design (Yin, 2008; Dul and Hak, 2008) to examine whether the theoretical patterns, derived from the integrative franchise governance model (see figure 1 and table 1), are compatible with the empirical patterns. The theory-testing case study can provide insight into the yet little-understood causal relations of strategic, environmental, behavioral and asset-specific factors influencing the governance structure of the international franchise firm.

Operationalization of the Theoretical Constructs

Based on the integrative framework, we operationalize the determinants of the governance mode choice which guides our data collection and analysis by using the pattern matching approach. In order to move
from the theoretical concept to a systematized concept for scoring and classifying cases, measures are developed which capture the meaning of the theoretical constructs. Indicators represent systematic scoring procedures which can range from simple measures to complex aggregated index (Adcock and Collier, 2001:530). The operationalization task is crucial to preserve a chain of evidence when the investigator “shifts from data collection to within-case analysis, to cross-case analysis and to overall findings and conclusions” (Yin, 1981: p.63). Maintaining a chain of evidence enlightens the conclusion-finding process. It contributes to the construct validity of the case study.

This case study’s chain of evidence started with the definition of research questions and the adoption of Jell-Ojobor and Windsperger’s (2014) research model and hypotheses (see figure 1 and table 1). Now we proceed with the operationalization of indicators by taking into consideration research results of previous works in international franchising. The developed indicators refer to the dependent and independent variables of the international franchisor’s governance structure model which are the franchisor’s level of control under the various governance modes (as dependent variable) as well as the international strategy, system-specific assets, local market assets, financial assets, environmental uncertainty, transaction-specific investments and behavioral uncertainty (as independent variables). Table 2 (columns four and five) summarizes the indicators for the dependent and independent variables.

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Data Collection and Analysis

The operationalization of the theoretical concept is an important task for ensuring data collection, coding and analysis. Based on the operationalized indicators of the theoretical concept (theoretical patterns) interview questions were developed for data collection. The collected data was coded on the basis of operationalized indicators (empirical patterns) and then compared with the theoretical patterns in the process of hypotheses-testing (pattern matching). In the following, we describe the processes of data collection and analysis.

Our research design is built on Yin’s (2008) recommendations and chooses the international franchise firm as the unit of analysis. In this context, cases are selected on basis of providing sufficient evidence to support the integrative framework (Johnston et al., 1999). The domain of this case study is applied to the automotive rental industry. This industry is represented by well-established international franchise systems applying different franchise modes for organizing foreign franchise operations. Competition in the capital-intensive automotive rental industry is fierce, restricting the market to a few dominant global players that sustain their market leader position through consolidation with rival companies (Jacobsen, 2004) and aggressive diffusion of the franchise network. Table 3 provides descriptive information on the candidate firms of the case study sample domain.

--- INSERT TABLE 3 HERE ---
Our case study design follows theoretical sampling and hence literal replication logic where cases are purposely selected to provide compelling support for the hypotheses developed from the prior research framework (Miles and Huberman, 1994; Perry, 1998; Johnston et al., 1999; Voss et al., 2002; Altinay and Wang, 2006). The goal is to replicate and extend the emergent theory (Eisenhardt, 1989; Parkhe, 1993; Johnston et al., 1999; Yin, 2008) and hence strengthen the external validity and generalizability of the results (Yin, 2008). Therefore, in order to avoid cultural distortion of results, we limit case selection to one geographic domain (Dul and Hak, 2008) and only include European-rooted franchise systems in the final sample. Consequently, Avis Europe, due to their strong ties with American cooperation partner Avis US, American Hertz and Enterprise do not qualify as candidate cases. German-headquartered Sixt who are holding over 70% of the European automotive rental market share, together with Europcar, the global leader that were acquired from German Volkswagen AG by the French investment company Eurazeo in 2006, comprise the final ‘information rich’ (Patton, 1990) sample cases.

Data was collected between April 2009 and January 2010, primarily through a series of focused, open-ended, face-to-face interviews with the international franchise expansion directors at Sixt and Europcar headquarters in Germany and France, following a semi-structured interview guide which is included in appendix 1. Recording the interviews with a tape recorder provides an accurate rendition of the information. This and the interview guide as part of the research protocol contribute to the reduction of observer bias and greater reliability of results (Voss et al., 2002; Yin, 2008). Based on Brislin’s (1970) recommendations, translation from German and French into English and back-translation to exclude eventual translation errors is conducted by native speakers with scientific expertise in organization management.

The collected data is transcribed and reviewed to identify gaps and areas requiring further clarification. Specific information received by one case raises the need to observe those areas also in the other case. Subsequently, the investigator arranged for follow-up telephone interviews with the franchise directors to clarify information gaps and discrepancies. Overall, the interview lengths were between 45 minutes to two hours and accumulated in seven hours and 40 minutes of interview data. In addition, following the process of data triangulation (Eisenhardt, 1989; Johnston et al., 1999; Yin, 2008), the data is corroborated with secondary sources of evidence such as firm-internal documents, annual audit reports, scientific papers, newspaper articles and web-based information.

We apply the pattern matching logic to examine whether the findings of the case study (empirical patterns) are consistent with the hypotheses of the research model in table 1 (theoretical patterns). The advantage of pattern matching lies in its potential to use complex hypotheses and concepts and to analyze data from a multivariate perspective (Trochim, 1989). This supports the internal validity of the case study (e.g. Gibbert et al., 2008; Dul and Hak, 2008), which is relevant during the process of data analysis and refers to the causal relationships between variables and results.

Supported by the application of Atlas.ti software, data analysis starts with an in-depth, within-case analysis “to become intimately familiar with each franchise system as a stand-alone entity” (Eisenhardt, 1989, p.540). Following Miles and Huberman’s (1984, 1994) recommendations on case study data analysis, interim data reduction is obtained by relating the corroborated data to the beforehand operationalized indicators, thus generating (empirical) explanatory pattern codes. This is followed by analytical data fragmentation with the open coding technique. Thereby, events, ideas, observations and sentences were extracted from the multiple data sources and given conceptual (codes) and similar labels, which were grouped together to form categories and sub-categories. Categorizing the transcribed data eventually resulted in new or different concepts, thus leading to a constant refinement of the initial explanatory pattern codes. The constant questioning and comparisons while reducing the data with open coding technique decrease the investigator’s risk of subjectivity and research bias. This first level analysis resulted in 40 codes and 120 sub-codes within Atlas.ti software. By applying axial coding, data is organized by relating categories to sub-categories in a rational manner. During the coding process, several initial categories were eliminated from the coding scheme, while some concepts turned out to fit better with other categories (Strauss and Corbin, 1990). In this second level of analytical coding, codes and sub-codes were categorized into 19 code families within Atlas.ti to represent their combined relevance in explaining respective dependent and independent concepts.

In a second step, with cross-case analysis, those factors are identified that influenced the international franchise systems’ applied governance structures with the goal “to assemble the theory-supporting evidence from each case” (Johnston et al., 1999, p.209). The individual cases are analyzed to search for within-group similarities and/or differences (patterns) (Eisenhardt, 1989; Voss et al., 2002) and data are used in an aggregated cross-case analysis (Yin, 1981, p.64; Yin, 1994, p.135) by being organized around the research questions and hypotheses. If individual cases reveal contrasting ‘stand-alone’ results, appropriate examples are provided separately. However, no attempt is made to present the single franchise systems as individual case studies (Yin, 1994, p.137).

The final coding scheme is summarized in Table 2. The first five columns refer to the predicted patterns including the hypotheses, theories, theoretical constructs, operationalized indicators and evidence from the literature. Columns six, seven and eight capture the observations of the empirical analysis as empirical patterns, summarized in code families, main codes and sub-codes. In case the empirical patterns match with the theoretical ones, we may assume that the theory-based hypotheses are supported by the empirical data.

**CASE STUDY FINDINGS**

In the following, first we discuss the major international franchise modes that we observed in the automotive rental industry, and thereafter, we analyze the determinants of the governance modes of Sixt and Eu-
ropcar. Appendix 2 includes selected quotations (empirical patterns) that specify the specific franchise modes as well as the determinants influencing Sixt and Europcar’s international governance mode choice.

**Major International Franchise Modes**

The case study analysis of Sixt and Europcar’s franchise internationalization strategies focuses on three foreign governance modes which can be differentiated according to the franchisors’ degree of control (see figure 2). Both franchise systems started international expansion via the establishment of wholly-owned subsidiaries (WOS) through organic growth or takeovers in the ‘big’ European markets where franchisors contribute all necessary financial and human resources and bear full financial risk over the foreign franchise operations. WOS organize local franchise network expansion through company-owned and franchised outlets (plural form). In France, for example, Sixt own stations located in heavy traffic areas and, in addition, grant licenses to more than 30 franchisees, some of them own even more than one station (domestic multi-unit franchising). Europcar use the plural form in France whereas in UK and Spain they applied a buy-back strategy to convert franchise stations into company-owned ones. Apart from their system headquarters in Germany, Sixt established WOS in France, UK, Spain, Austria, Switzerland, the Netherlands, Belgium and Luxembourg, thereby possessing over 1,000 corporate stations. Europcar with their corporate headquarters in France own WOS in UK, Spain, Italy, Portugal, Germany and Belgium with roughly 1,800 corporate stations. Furthermore, in 2008, they took over their Australian master developer to establish direct presence outside of Europe in the Asia Pacific region.

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In the remaining countries of Europe, Africa, Middle East, Asia-Pacific and South and Central America, Sixt and Europcar expand their franchise networks via master development franchise agreements (MDF). Consistent with Konigsberg’s definition (2008: p.127ff), MDF is a special form of multi-unit franchising, such as area development franchising, established directly between the franchisor and the local partners, i.e. master developers. Under area development franchising, the area developer is granted the right to establish and operate a certain number of outlets within a particular territory, but is not allowed to sub-franchise. The scope and responsibilities of MDF go beyond those of area development franchising, as MDF covers a much greater geographic region, usually the entire country. MDF is therefore used in the same circumstances as master franchising, with the exception that the master developer’s right (under MDF) to sub-franchise is restricted to specific conditions. The empirical evidence of MDF confirms the recent trend toward higher control, which, under master franchising, is indirect and divided between franchisor and master franchisee on the one hand, and master franchisee and sub-franchisees on the other hand (Konigsberg, 2008: p.131). Consequently, relating to the recent literature on ‘mode combinations’ (Pe-

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4 Multi-unit franchising is analyzed, for example, in Kaufmann and Dant (1996), Grünhagen and Mittelstaedt (2002, 2005), Garg and Rasheed (2006), and Grewal et al. (2011).
tersen and Welch 2002; Benito et al. 2009, 2011), our findings modify Jell-Ojobor and Windsperger’s (2014) original governance structure model by adding MDF, which combines features of both area development franchising and master franchising agreements, i.e. the need to own and operate franchise car rental stations by the master developer (area development franchising-feature) in the entire country without any presence and significant intervention of the franchisor, coupled with the right to adapt the franchise system to the local institutional, economic and cultural environment (master franchising feature). In total, Sixt’s master developers own and operate around 1,000 franchise outlets while Europcar’s master developers possess around 3,500 franchise outlets around the world.

Finally, both franchise systems apply full or shared control modes in the Asia Pacific region where Europcar strategically bought back the Australian master developer to establish direct presence in 2008\(^5\), followed by the allocation of expatriate personnel in Bangkok, and Sixt entered into a joint venture (JV) partnership in Singapore. These higher control modes outside Europe provide international franchisors with the geographic proximity to penetrate the neighboring Asian countries with MDF agreements.

Traditionally, in JV agreements control in terms of ownership and decision rights is shared between the franchisor and local JV partner (Windsperger et al., 2009). Sixt and Europcar both have objections toward entering into JV agreements and allocating own financial resources and know-how. However, Europcar advise that due to high institutional and behavioral uncertainty in specific regions, such as China, joint venture franchising (JVF) is the only efficient way to bypass market entry barriers and safeguard against trademark violation. Whereas, Sixt’s JV company in Singapore possesses restricted control rights to only provide operational support with the development of the Asia Pacific region while the local MDF agreements are established directly by the franchise system headquarters. Therefore, these organizational modes may not be considered as franchise modes in the traditional sense where, according to Konigsberg, “the JV company in its capacity as [area] developer…or…in its capacity as sub-franchisor [‘master franchisor’]…establishes the franchise business in the foreign country” (Konigsberg, 2008: p.237). Rather, they relate to the literature on ‘mode modifications’ (e.g. Benito et al., 2009). They can be considered as ‘development organizations’ to assist the franchisor in developing specific regions with local MDF partnerships, e.g. for screening and monitoring of potential franchise candidates, but not entering into franchise agreements directly with the local master developers which remains in the responsibility of the system headquarters.

After a period of local learning and familiarization with the host market characteristics, local operations and routines become less specific and heterogeneous to the franchisors, who hence become less dependent on the region-specific knowledge of the JV partners. Many previous studies show a positive relation between international experience in managing foreign operations and an increase in equity commitment and control of the franchise firm (Fladmoe-Lindquist and Jacque, 1995; Contractor and Kundu, 1998a, b; Erramilli et al., 2002). For Sixt, the JV partner’s local competence and financial assets are of particular rele-

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\(^5\) Europcar Activity Report 2009: p.28.
vance in the initial stage of market access and development. Subsequently, over time, Sixt increased the equity share in the Singaporean JV company from 65% to 88%.

In sum, our case study findings regarding the international franchise governance structure contribute to the existing literature on mode combinations, mode modifications and mode changes (Benito et al., 2012). Thereby, we replace area development franchising and master franchising by MDF, which combines features of both area development franchising and master franchising agreements. Furthermore, with the modification of JVF, the local JV company supports the franchisor’s regional franchise development but is restricted in its rights of entering into direct regional MDF relationships. The international franchisor’s path-dependent increase of foreign JV equity participation contributes to recently discussed ‘mode changes’ as a dynamic process in the international market entry literature. Therefore, as illustrated in figure 3, our findings modify Jell-Ojobor and Windsperger’s (2014) original model by positioning MDF between area development franchising and master franchising while characterizing JVF as a pure development organization.

--- INSERT FIGURE 3 HERE ---

Determinants of the Governance Modes of the International Franchise Firm: The Case of Sixt and Europcar

In the following, the observed determinants of Sixt and Europcar’s foreign franchise governance modes, i.e. the establishment of WOS, MDF and JVF, are analyzed by comparing the theoretical patterns, based on international strategy theory, resource-based and organizational capabilities theory, and transaction cost and agency theory, with the empirical patterns.

*International Expansion through Wholly-Owned Subsidiaries*

The results of the pattern matching analysis of Sixt and Europcar’s choice of WOS are summarized in table 4.

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International strategy (H1a - confirmed)

Pak (2002), Alon (2006b) and Dunning et al. (2007) argue that the more franchisors seek to gain competitive advantage by engaging in international operations, the more likely they are to enter host markets via equity modes. The case study results are compatible with this view by showing that the franchise firm’s international strategic orientation (based on international strategy theory) has an important influence on the choice of governance modes.

With the established international franchise departments staffed with skilled and well-trained key person-
nel at headquarters around ten years ago, Sixt and Europcar pursue a global strategy to provide homoge-
ous, sophisticated product standard with WOS in key Western European markets (‘corporate countries’,
such as Germany, France, UK, Italy, Spain, Portugal, Austria, Switzerland, the Netherlands, Belgium and
Luxembourg). Whereas outside of ‘corporate’ Europe and complemented by local modifications, they li-
cense a standardized franchise business format through renewing existing MDF contracts, granting new
ones and entering into alliances with strategic partners. In this respect, similar strategic decisions are made
by the automotive industry, differentiating between high control modes to guarantee market communica-
tions of premium brands consistency, necessary to satisfy well-informed and demanding customers, and
lower control modes to provide cost-efficiency and local adaptation with the distribution of volume brands
(Parment, 2008).

According to Sixt, “the question is where are the customers coming from? Where does it make sense to
franchise and where to be corporate?” The answer according to Europcar is “countries that generate the
most ‘outbound’ business, i.e. business that takes place somewhere else [outside the country of origin]. It
is always good to serve the [big] business customers out of a structure which one controls”. “It is well
known that the German, French, English and Italians travel a lot. These are the big outbound markets that
generate demand, not just for business customer accounts but also for tourism [Sixt]”

In 2008 the worldwide vehicle rental market generated 75 billion Euro turnover of which around 43% ap-
pertained to the USA and Canada, 28% to Europe, 14% to Asia Pacific, 7% to Latin America and 6% to
the Middle East and Africa. The size of the European vehicle rental market is estimated to be around eight
eight billion Euros with Germany being Europe’s most significant single market, accounting for almost one third
of revenue, followed by France, UK and Spain. Apart from one strategic buy-back decision of Europcar’s
master developer in Australia in 2008, Sixt and Europcar establish WOS exclusively in homogeneous
Western European countries where maintenance of brand homogeneity and high system standard is of ut-
most importance in order to exploit the large market shares of business and private customers. This, in
return, is a viable condition to entering into long-term strategic partnerships with the tourism and mobility
industry, such as airlines, hotel chains, hotel reservation and marketing associations and also car manufac-
turers and dealers, through which joint customers benefit from comprehensive, integrated, exclusive mobil-
ity services and competitive prices, thus further contributing to the competitive position of the global car
rental firm. For example, being a partner of global distribution systems (GDS), which are worldwide pro-
grams targeting travel agents, online reservation sites, tour operators and consolidators, can significantly
accelerate reservations and sales.

Therefore, the Sixt and Europcar ‘corporate countries’ are characterized by a mature economy with a
strong business sector and high levels of private consumption, accumulating a strong demand for car rental
services inside and outside the countries of origin (outbound countries).

Resources and organizational capabilities (H2 - confirmed)

In the following, citations by Sixt and Europcar are quoted with “[S]” and “[E]”.
The competitiveness of global car rental brands and systems primarily depends on five factors: Price, vehicle availability, service quality, distribution locations and product innovation. Table 5 summarizes how these ‘competitive edge’ characteristics, anchored in Sixt and Europcar’s franchise systems, have a high potential to attract global customers.

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In order to establish a leadership position in the outbound markets, the provision of high levels of product and service standards, brand homogeneity (system-wide standardization) and constant innovations are important. “Innovations give customers a uniformly high standard of quality plus single-source support [S]. Most of the time, innovations originate from the big ‘corporate countries’. Some things [innovations] have to be tested first, which is done in corporate test markets [E]. A product innovation is always launched first in the market which generates the highest demand and biggest volume, so that one can successively ‘sweep the market’ according to market potential, feasibility and cost-benefit ratio [S]”.

Sixt and Europcar confirm that the provision of high levels of service standard and brand homogeneity is very critical to them in homogeneous ‘corporate countries’ in order “to position the brand to reflect the Company’s strategic orientation and above all to increase brand awareness abroad [S]”. In this respect, Sixt and Europcar lay particular focus on enhancing ‘state-of-the-art’ technologies in vehicle rental, such as e-marketing and e-commerce booking channels. The constant enhancement of the IT-system, a major asset and success factor of car rental transactions, is of utmost importance to them. Fleet management consists of conflicting concerns of assuring adequate vehicle availability to satisfy customer demand while maintaining a high degree of utilization for each car in the fleet. IT-tools, such as yield management and revenue management, are indispensable for strategic decisions in planning fleet size, deployment and product design and also reservations control and pricing, hence ensuring brand loyalty and customer satisfaction and achieving high yields.

In order to guarantee high levels of system innovation and system-wide standardization, Sixt and Europcar invest in incentive systems, training and professional development to increase staff performance and at the same time reduce personnel turnover and with it a loss of know-how which is related to the risk of service quality deterioration. Case study findings therefore confirm the transferability challenge of value-creating system-specific assets and resources grounded in resource-based and organizational capabilities theory which positively influences franchise firms to use higher control modes. Implementing a highly standardized franchise business format, which is needed to exploit the rent-generating system-specific know-how, results in synergistic advantages for the franchisor with the establishment of WOS. Franchisors can further benefit from favorable financial terms and conditions offered to them by external suppliers of capital, such as banking institutes, car dealers and manufacturers and insurance companies, due to their high market shares, business volumes and brand name value.

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1 Hertz Annual Report, 2009: p.16.
The ‘corporate countries’ are represented by the leading European economies of Germany, France, UK and Italy and by the matured economies of Spain, Portugal, Austria, Switzerland, the Netherlands, Belgium and Luxembourg which are characterized by homogeneous cultural, economic and institutional conditions, such as a positive consumer attitude toward travelling and vacationing, a matured business sector, a high education and qualification level of human capital, an attractive infrastructure, high income levels and demand potentials, political stability and developed legal and institutional systems. These are important conditions for the investment in R&D and human resources to exploit and develop system-specific know-how and assets. Furthermore, in homogeneous, developed countries, exploration and internalization of location-specific assets and know-how with the establishment of WOS have positive spill-over effects on the entire franchise system, thus market evaluation and learning costs can be reduced.

Transaction and agency costs (H6a - confirmed)

In ‘corporate countries’, franchisors do not rely on the external partners’ transaction-specific assets and bear full investment costs to guarantee high levels of brand homogeneity with system-wide standardization. Europcar and Sixt claim that it is important to exercise higher control in the markets that create the most demand and outbound business among business and private customers. “Markets are constantly changing. There may be product innovations by competitors, own innovations or economic changes. And therefore, one has to evaluate every year how to become better and constantly adapt” [S]. Even if investments in financial and human resources are much higher under WOS than under lower control modes, the high profits generated with the provision of a highly standardized franchise business format in economically strong markets with minor need for local adaptations and decreased market risk, due to cultural, economic, political and institutional differences, offset those costs and positively impact the franchise firms’ tendency to use higher control modes. The case study results therefore are consistent with the transaction cost perspective, which favors higher control modes to economize on transaction costs in homogeneous host countries.

In addition and consistent with agency-theoretical arguments, while “maintaining 100% brand homogeneity is important in markets with high growth potential” [S], moral hazard risk can be reduced by the franchisor’s use of standardized monitoring devices in geographically and culturally close ‘corporate countries’. Sixt and Europcar affirm that while monitoring effort increases with geographic distance, it is not considered a challenge for European countries.

International Expansion through Master Development Franchising

Table 6 gives an overview of the results of the pattern matching analysis of Sixt and Europcar’s choice of master development franchising.

---INSERT TABLE 6 HERE---

International strategy (H1b - confirmed)
“Competition among car rental industry participants is intense and, among other things, based on distribution locations” (Hertz, 2009). “If you are only a regional player, you cannot service the big contracts with, for example, IBM, Siemens and Daimler. Winning these contracts is one of the main reasons to build up and expand a franchise network [S]. The goal is to increase international presence, in order to secure the franchise system’s leading market position. Franchising offers a clear time-to-market advantage. The franchise strategy is by far the fastest way to enter a country and gain a relevant market position [E]”. Therefore, in order to sustain a globally competitive market leadership position and hence win contracts with the big corporate companies and strategic partnerships with the tourism and mobility industry, car rental companies must provide a dense network of strategic car rental locations being represented on a global scale, such as in all major city centers and airports.

Consistent with international strategy reasoning regarding realizing first mover advantages with lower control modes, Sixt and Europcar stress that the partner’s synergy effects for the local franchise network enable the franchisor to enter markets rapidly. “It is the master developer’s know-how that is supporting franchisors in quickly entering the host market. It depends on how much experience one has. If the master developer has already worked in the car rental industry before, then he knows the basics. Perhaps one has to raise the local business to an international standard. In principle however, the basic things are in place [E]”.

Accordingly, besides offering highly standardized products and services with the establishment of WOS in homogeneous host countries, Sixt and Europcar provide car rental services to customers in heterogeneous host countries via standardized franchise package to exclusive master developers. The local partners are responsible for the location-specific implementation, adaptation and operation of the franchise network. Similarly, the automotive industry applies lower control modes with the distribution of volume brands where the emphasis of communicating a global (premium) brand content shifts in favor of local adaptation (Parment, 2008).

Resources and organizational capabilities (H3 & H4 - confirmed)

In line with resource-based and organizational capabilities reasoning regarding the importance of local market assets for value generation in host countries, the exploitation of rent-generating system-specific assets to provide highly sophisticated and standardized products and services is not feasible in the case of expansion to heterogeneous host countries. On the contrary, the local franchise business format must account for country-specific peculiarities such as different customer tastes, economic conditions and regulations. For example, the implementation of all features of the reservations system, which is a vital asset in the car rental industry, is only worthwhile in a few developed European countries as “in similar markets, new things spread fast. But it makes no sense to ‘break a butterfly on a wheel’ by implementing e-invoicing and e-vouchers in Zimbabwe [E]. For more heterogeneous regions, it is not so easy to implement European software just like that [S]”. Thus in (less developed) heterogeneous countries outside of ‘corporate’ Europe new product features are introduced based on the market potential.
In doing so, Sixt and Europcar possess the necessary ‘transfer’ capabilities to standardize and transfer those rent-generating system-specific assets and know-how of the franchise business format that are critical for successful franchise operations at the local network level by external partners. Previous studies show that large international franchise systems develop efficient system-specific routines in monitoring to assure uniformity in product and service quality (Huszagh et al., 1992). Sixt and Europcar confirm that master developers receive all operational and strategic know-how and headquarters support needed to conduct a successful local car rental business. Becoming part of the franchise network, master developers benefit from a competitive brand with high awareness and reputation among a global customer base diffused through a worldwide franchise network and comprising strategic assets such as being connected to the global reservations, communication and distribution systems via sophisticated IT tools. The franchisors’ capabilities of entering into new strategic partnerships to invent cooperative product offerings, global advertising to strengthen the brand’s awareness and constantly expanding network growth further increase the franchise system value to master developers.

However, “it does not make sense to use the same advertising in Kuwait as in Spain” [E]. Due to heterogeneous host country conditions, local innovation of existent product and service features and operational and strategic processes is vital to provide a better market fit and prevent market failure with the provision of the standardized franchise business format. Sixt emphasize that market analysis is a very time-consuming process and only of interest to them in the developed ‘corporate countries’ where new knowledge is applicable system-wide and results in large synergies. On the other hand, due to their geographic positioning, master developers more easily acquire the local market assets which are important for the success of the local business but in most cases do not contribute to system-wide value addition. Consequently, Sixt and Europcar’s partner selection criteria refer to local car rental companies which already possess operational and strategic car rental know-how and experience and are able to contribute an existing fleet, customer base, location infrastructure, strategic ties and partnerships to gain competitive advantage at the local market.

Consistent with this reasoning, previous studies show that international franchisors enter into local partnerships via different forms of franchising to take advantage of local franchisee skills and resources, such as market knowledge of local tastes, labor market and recruitment, site selection and financial resources (Chan and Justis, 1990; Preble et al., 2000; Jones, 2003; Hoffman and Preble, 2003; Doherty and Alexander 2004; Dunning et al., 2007).

Summarizing, “the car rental industry is a very capital-intensive business, with fleet financing covering about 50% of the investment costs, and the risk of possible incorrect assessments of market conditions is high in host countries [S]”. Therefore, the master developer’s local market and financial assets are important when it comes to negotiating favorable financial terms and conditions with external suppliers of capital. Due to antitrust laws, car dealer and insurance rates are not homogeneously transferable across countries. Master developers possess critical know-how and organizational capabilities to establish strategic ties with car dealers, insurance companies and banks which grant them favorable local finance condi-
tions. As a result, “the more financial resources a partner has, the better it is. The franchisee must be able to set up the car rental business. He must have money and possibilities to finance it [E]. In the first two years of business the master developer will definitely not achieve a break-even point [S]”.

Transaction and agency costs (H5a, H5b, H6b & H7 - confirmed)

Based on transaction cost and agency reasoning, the establishment of WOS in all countries is not efficient due to high set-up costs of the coordination and control structure. Expanding to heterogeneous host countries in terms of cultural, economic and institutional distance increases the franchisors market failure risk such as “possible incorrect assessments of market conditions in the countries in question, changes to national legal frameworks, the costs associated with the establishment of an effective infrastructure and the need to find qualified management personnel and suitable employees. Acquiring the local market assets in most cases would mean a tremendous investment of time and money [S]”. Europcar claim that “the more distant countries are from Europe, the more difficult their management becomes” and that they “do not have enough personnel to travel every month to Zimbabwe”.

The transaction costs of doing business in heterogeneous host countries increase substantially due to the need for exploration and evaluation of local market requirements, predicting changes, adaptation of the standardized franchise business format and monitoring of geographically distant outlets on the one hand, and the often decreased market potential to provide for economic scale operations on the other hand.

Therefore, Sixt and Europcar outsource the increased transaction risks by expanding with lower control modes, i.e. MDF, to countries characterized by volatile or heterogeneous environments.

Through the effective standardization of the franchise business format, the franchisors’ transaction-specific investments to transfer the franchise package to master developers are of moderate intensity and result in economies of scale to apply the same procedures, routines and standards in many different host countries.

For example, the provision of an ‘online marketing agency’ includes ‘best practice campaigns’ for master developers to download and copy the relevant corporate identity and marketing tools and adapt them to local needs to create tailor-made advertising with flyers, posters and campaigns [E].

Sixt claim that they “equip the master developer’s first outlet in Sixt corporate design by supplying all materials directly from Germany, which guarantees that at least with the first outlet, everything is according to system standards and that franchise launch is as smooth and professional as possible. By having established the system head office, contracting with one or two additional countries does not necessarily result in higher headquarters manpower requirements. Instead, some synergy effects are achieved, insofar that the centralized system head office becomes more efficient by accelerating profitability with each signing of a new contract. By contrast, the establishment of a foreign subsidiary requires high investments initially. With franchising, the risk is minimal.”

Sixt and Europcar’s franchise network size of around 80 (Sixt) and respectively 150 (Europcar) MDF contracts (data collection took place from May 2009 till September 2010) promotes outsourcing the administrative and logistic tasks with monitoring foreign franchise activities. Thereby they offer exclusive
franchise licenses for the whole country where the franchisors only deal with one exclusive partner instead of contracting with many different ones per country. In return for granting the exclusive franchise license to master developers complemented by the franchisors’ transaction-specific support services, such as product innovations, public relations, standardization and global advertising, master developers compensate the franchisors by paying franchise fees in the form of entrance (initial) fee, royalty and marketing fees based on sales, and reservation fees. With the granted territorial exclusivity rights under MDF agreements, the master developers take over the responsibility to operate the franchise network in the entire host country and provide high transaction-specific investments in the local establishment of the brand such as trademarked outlets in highly frequented areas, fleet, market analysis and location-specific adaptations of the standardized franchise business concept, staff training and local marketing and advertising.

In this context, the franchisor support services, standardization of the business format and hence the franchisor’s increased power to enforce franchise contract terms also decreases the ex post hold-up potential as argued by transaction cost theory. Due to the master developers’ higher transaction-specific investments relative to the franchisor, the master developers’ high dependency may result in less opportunistic behavior such as hold-up and free-riding. While franchisors mainly suffer from moderate sunk costs of initial set-up investments, master developers are not able to use the investments in transaction-specific assets outside the Sixt and Europcar network. In addition, it is unlikely that they could realize a sustainable competitive advantage in the host market without being part of a global reservations system and franchise brand. “The question is whether the franchisee after contract termination can continue business without the former brand and if he will have enough business to operate the network at full capacity? The franchise stores in the corporate design are 100% system-oriented assets. Whatever the franchisee invested into brand awareness creation during expansion of the local network in order to gain market presence, he will lose, such as 3% of turnover spent on local advertising [E].”

On the other hand, by transferring the standardized franchise business format to master developers, franchisors are confronted with an increased safeguarding risk to protect intellectual property and prevent opportunistic behavior due to free-riding or other hold-up risks. “Know-how transfer is provided via training schemes, meetings, workshops and consultations once a year, as well as on a need-to-know basis [S]. The initial training leads master developers through all disciplines of car rental business from A to Z [E].”

Especially under conditions of environmental instability, master developers may abuse their strong market positions and withhold critical local market knowledge unless more favorable contract terms are offered to them. Nevertheless, according to Sixt and Europcar, the most important incentive effect for the master franchisor results from its entrepreneurial role at the local market. Particularly, high-powered incentives lead to the local implementation and adaptation of the standardized franchise business format and the upholding of a high level of homogenous product and service quality standard. Sixt and Europcar say “the franchisee as an independent entrepreneur” [S] and “own master” [E] is motivated “to make a profitable business at the end of the day. It makes no sustainable sense for the master developer to provide badly maintained vehicles which break down on half road, thus reducing daily fleet availability and consequently
his turnover [S].”

Therefore, Sixt and Europcar dedicate moderate effort to supervise master developers in host countries such as yearly audits, occasional surprise visits and the provision of regular reports. This network control is consistent with Dant and Nasr’s (1998) survey results on US franchise activities in Africa and Middle East. They reveal that tight control mechanisms restrict autonomy and independence in doing franchise business and can be counterproductive on franchisee performance. Similarly, Sixt and Europcar grant master developers the flexibility and decision rights to fully exploit intangible market-specific know-how and capabilities in innovating, adapting, implementing and operating a successful local car rental franchise network.

Through the franchisors’ knowledge management strategy all system-specific know-how and procedures are documented and become an integral part of the franchise contract. This is relevant to provide a homogeneous brand name and franchise product and service standard at the local network level. Consequently, performance and quality standards, benchmarks and homogeneous monitoring tools became applicable. Furthermore, the incorporation of the master developers’ local market knowledge in a ‘two-year’ business plan decreases the opportunistic risk of franchise partners. Based on the master developer’s ex ante market evaluation, a location-specific business plan, development plan and finance plan are established and integrated in the standardized franchise business format.

The franchise contract terms specify the duties of both parties and precisely state the location of outlets and pace of network expansion, franchise fee structure, training modalities, financial capital requirements, advertising intensity, corporate identity compliance and service level agreements. “All relevant working steps of the car rental workflow can be described, the system’s criteria of operating the franchise business are summarized and documented [E]. The standardization of the franchise business enables performance monitoring. In case of franchisee behavior that is not system-compatible, the franchisor may quit the contract at any time [S].” Then termination clauses become applicable. Those entail compensation payments and non-competition clauses and result in high sunk costs and the loss of quasi-rents for the local partners.

**International Expansion through Joint Venture Franchising**

Table 7 gives an overview of the results of the pattern matching analysis of Sixt and Europcar’s choice of joint venture franchising.

---INSERT TABLE 7 HERE---

International strategy (H1a & H1b - confirmed)

Apart from the establishment of a WOS providing a highly sophisticated franchise product and service in homogenous, developed Western European countries with large market potentials, and the outsourcing of the challenges of higher administrative effort, transaction risk and local franchise business format adaptation by benefiting from the master developers’ knowledge and financial resources in heterogeneous host countries, there may be particular environmental conditions which require a different organizational strate-
gy to enable successful expansion to particular host countries. This is the case with the regions of South America and Asia Pacific, which are characterized by high institutional uncertainty but at the same time, as confirmed by Alon and Banai (2000), Alon (2006a) and Aliouche and Schlentrich (2011), consist of the largest growing economies for service franchising, i.e. China, India, Russia, Brazil and Mexico. Also regarding the car rental industry, “in the emerging economies of Asia Pacific and South America, the mobility demand is set to increase significantly over the coming years [S].”

For these dynamic regions with increasing market growth potential, the implementation of a highly sophisticated franchise business format and the provision of a homogenous product and service quality are important to win an accelerating (outbound) market share. Pak (2002) argues that the more a franchisor is alert to rival firms’ activities, the more likely he enters host markets via higher control modes. Similarly, Paik and Choi (2007) observe that US franchisors grant less autonomy over local operations to their international franchisees, the higher the level of host market competition is. Consistent with the international strategy perspective, Sixt and Europcar confirm that the maintenance of homogeneous product and service standards and the implementation of sophisticated product innovations are more important in markets with increasing demand potentials and increased competition, such as in Asia Pacific and South America. However, simultaneously, franchisors need to adapt specific features of the highly sophisticated and standardized franchise business format to the heterogeneous conditions of these emerging growth markets. Consequently, they need to assure the provision of a franchise business format with both a high level of system-wide standardization combined with a high level of local adaptation. This is provided through the establishment of higher control modes, i.e. joint venture franchising, which closely supervise the regional network expansion by local master developers.

Resources and organizational capabilities (H2, H3 & H4 - confirmed)

Compatible with resource-based and organizational capabilities theory, Erramilli et al. (2002) show that higher control modes are more effective in culturally distant markets with less developed business environments because differences in partner capabilities and routines result in difficulties with the transfer of highly intangible system-specific assets and know-how across firm boundaries. Also studies by Chan and Justis (1990, 1992), Contractor and Kundu (1998a, 1998b), Jones (2003), Frazer (2003) and Dunning et al. (2007) present the same view of the franchise firm’s preference of higher control modes in economically less developed countries characterized by high growth and demand potential but lower absorptive capacity. However, consistent with the view of Contractor and Kundu (1998a, 1998b) and Frazer (2003), due to cultural, economic and institutional differences, the lower absorptive capacity of the local labor force and the still immature franchise sector restrict the franchisors’ efficient transfer of highly system-specific assets to provide high levels of system-wide standardization.

Furthermore, relating to the concepts of local market and financial assets relevant for the governance mode choice in the resource-based and organizational capabilities theory, huge investments in fleet and infrastructure are required in Asia Pacific and South America regions with large market size and accelerating
demand potential. For example, “in South Korea, market leaders possess a fleet of over 40,000 cars [E]”.

The need for a large fleet also increases the importance for strategic partnerships with local car manufacturers and dealers. In addition, strategic location assets, such as in all major airports, are crucial to establish a competitive leadership position on a rapid pace in the respective countries. Local master developers possess effective incentives, critical local market assets, financial assets, and location-specific knowhow to overcome the franchisors’ financial and human capital constraints and guarantee first mover advantages with a rapidly and successfully adapted and implemented standardized franchise business format in host countries. Therefore, in the dynamic but still less developed emerging markets, higher control through joint ventures guarantees the implementation of a high product and service standard while also benefitting from quick network expansion and local adaptation by master developers.

Transaction and agency costs (H5a, H5c, H6a & H7 - confirmed)

Norton (1988b) confirms that due to the trade-off between the demand and supply of capable managers, especially firms that need to expand rapidly with larger-sized operations, as is the case in the dynamic growth regions of Asia Pacific and South America, face an entrepreneurial capacity problem in screening, recruiting and training numerous qualified company-owned staff. Sixt admit that the risk of adverse selection with the recruitment of company-owned staff in the culturally very distant Asia Pacific region is very high and can result in high sunk costs.

Therefore, Sixt’s and Europcar’s intensity of transaction-specific investments in recruiting, training and monitoring increases in host countries with prospective market growth rate, still facing economic underdevelopment. For example, Europcar’s “‘man in Bangkok’ invested more than a year to establish contact and relationship to a potential partner in South Korea.” Also Sixt quote that “the country’s development and growth pace justify additional training need.”

According to Sixt and Europcar, the cultural distance is a very important factor for international governance mode decision in Asian markets. Having found a capable partner, possessing the cultural affinities, who undertakes the specific investments needed to adapt the franchise products and services to the local customer preferences, and providing him with franchise market exclusivity rights, exposes franchisors to another potential risk (Lafontaine, 2014). Relating to the hold-up problem argued by transaction cost theory, in combination with high institutional uncertainty in terms of weak franchise and property rights protection laws, the franchisor’s higher transaction-specific investments guaranteeing an efficient transfer of system-specific know-how and franchise concepts and thereby securing a high level of brand homogeneity and customer shares, result in higher dissemination and trademark violation risks in those emerging growth regions. “It is commonly known that in China there is a high risk of trademark violation [E].” As explained by Choo (2005), the so-called risk of ‘brand hijacking’ due to an eventual in-balance between system-wide standardization and local adaptation of the franchise business format is particularly high in the Asia Pacific region characterized by different cultural values, such as missing code of ethics and claim for quality, and hostile franchise business environments, such as missing franchise laws.
As pointed out by Alon (2006a) and Welsh et al. (2006), adverse institutional and political situations, such as corruption and poor legal frameworks, make licensing particularly hazardous because of the increased risks with repatriation of royalties, policing quality standards or protection of copyright and intellectual property and termination of contracts. Due to the weak legal enforcement mechanisms in the Asia Pacific and South America regions, local master developers possess an increased hold-up potential to appropriate the franchisors’ quasi-rents with high transaction-specific investments. Franchise contract terms have limited coercive enforcement power and contract termination due to franchisee moral hazard results in tedious and costly legal battles. Due to the high sunk costs and weak institutional systems, franchisors have relatively more to lose with early contract termination than master developers.

Summarizing, the high moral hazard risk of service quality dilution, brand name degradation and/or trademark violation by master developers in emerging but still immature economies requires close monitoring over the maintenance of a homogeneous quality standard. Due to the high degree of market heterogeneity, franchisors do not possess the institutional and cultural sensitivity and requisite internationalization and transfer capabilities to evaluate, recruit and supervise foreign master developers and assure the provision of a local franchise business format with both, a high level of system-wide standardization combined with a high level of local adaptation. Therefore, they develop the high-potential growth markets with MDF agreements from their distant European headquarters. In addition, regional assistance with the development of local MDF agreements is provided by Sixt’s establishment of a JV company in Singapore and Europcar’s company-owned operations in Australia, Bangkok and Florida. These higher control modes protect franchisors against property rights violation, circumvent entry barriers and provide network stability in geographically and environmentally very distant regions characterized by dynamic market growth.

Summary of the Case Study Results

To summarize the case study findings, we can conclude that the empirical patterns based on Sixt and Europcar’s analysis of the international franchise modes are largely compatible with the theoretical patterns based on international strategy theory, resource-based and organizational capabilities theory, transaction cost theory and agency theory. Table 8 illustrates the hypotheses that are supported in our case study analysis.

--- INSERT TABLE 8 HERE ---

First, international franchise firms expand via the establishment of wholly-owned subsidiaries (WOS) to host countries, characterized by a homogeneous environment, such as cultural and geographic proximity, economic development and institutional stability. This high control mode provides franchisors with full ownership, residual income and decision rights, which are needed to exploit and implement rent-generating system-specific assets to satisfy the demand of global customers in high-potential markets. Furthermore, the positive synergy effects gained with the provision of highly standardized products and services can compensate the higher set-up costs of the company-owned operations.
Second, in heterogeneous host countries characterized by cultural and economic distance, international franchise firms sustain their global position by expanding the franchise network with lower control modes, i.e. master development franchising (MDF). In order to gain competitive advantage in heterogeneous host countries, the franchisor’s orientation for system-wide standardization and innovation shifts in favor of local franchise business format adaptation. A decreased level of system innovation makes system-specific assets more transferable via the standardized franchise business format to master developers. A higher proportion of residual income and decision rights is transferred to master developers in order to mitigate opportunistic risk and increase investment incentives. In particular, the master franchisors receive incentives to maintain high service quality, explore local market assets and adapt the standardized franchise business format, such as established procedures and product and service features, to the host country requirements.

Third, for heterogeneous host countries which are characterized by an increasing market potential with an under-developed business infrastructure (e.g. the case in the emerging economies of the Asia Pacific and South America regions), the master developers’ local market assets guarantee the local adaptation of the standardized franchise business format. Likewise, the franchisor’s system innovation capabilities needed for capturing a high market share by challenging competitors with the provision of sophisticated products and services are vital. However, due to the very high institutional distance in those emerging markets characterized by missing franchise laws and protection of intellectual property rights, adverse regulatory systems and corruption, the franchise network expansion via MDF requires a higher level of formal control by the franchisor. This is ensured through joint venture franchising (JVF).

DISCUSSION AND IMPLICATIONS

The case study analysis examines the determinants of the international governance modes of two major franchise companies in the European car rental industry (i.e. Sixt and Europcar), which are the wholly-owned subsidiary, master development franchising and joint venture franchising. Matching the empirical patterns of the case study results with the predicted patterns based on organizational economics, strategic management and international business perspectives shows that multiple factors influence the choice of governance modes of the international franchise firm. The research model predicts a high level of control, i.e. through wholly-owned subsidiaries, if the economic, cultural and behavioral uncertainty are low and the franchisor’s transaction-specific investments are high to capture synergistic advantages with the implementation of rent-generating system-specific assets in homogenous host countries. On the other hand, the research model predicts lower levels of control, i.e. by using master development franchise agreements, if the economic, cultural and behavioral uncertainty are high and the franchise partners’ transaction-specific investments, local market assets and financial assets are critical to capture first mover advantages with the local adaptation of the franchise business format to heterogeneous host countries. However, under conditions of very high institutional uncertainty in the host countries, such as the absence of franchise laws
and protection of intellectual property rights, adverse regulatory systems and corruption, the franchise network expansion requires a higher level of control, i.e. joint venture franchising, by providing the franchisor with more formal control over local master development franchise agreements in foreign markets with high institutional uncertainty. Overall, the case study findings show that the empirical patterns based on Sixt and Europcar’s analysis of the international franchise modes are largely compatible with the hypotheses formulated in the research model (see figure 1).

What are the implications of this study for theory and practice? First, within the international franchise literature, few studies use more than one theoretical perspective to explain the international governance mode of franchise firms. Previous research is mainly dominated by applying transaction cost and agency theory (e.g. Fladmoe-Lindquist and Jacque, 1995; Dant and Nasr, 1998; Burton et al., 2000; Sashi and Karuppur, 2002; Lafontaine and Oxley, 2004; Perrigot, 2006; Castrogiovanni et al., 2006; Baena, 2015) and resource- and organizational capabilities theory (e.g. Erramilli et al., 2002; Hoffman and Preble, 2003; Mariz-Pérez and García-Álvarez, 2009), while multi-theoretical approaches are rare (e.g. Contractor and Kundu, 1998a, 1998b; Grewal et al., 2011). This study addresses this gap and tests a new integrative model of the governance mode choice of the international franchise firm (based on Jell-Ojobor and Windsperger, 2014) by conducting a case study analysis. Our case study analysis shows that the governance structure decision of international franchisors is determined by both cost efficiency considerations rooted in organizational economics literature (i.e. transaction cost and agency theory) as well as value-creation considerations rooted in strategic management literature (i.e. resource-based and organizational capabilities theory). By doing this, we also respond to the recent call in organizational economics, strategic management, marketing and international business literature (e.g. Brouthers and Hennart, 2007; Rindfleisch et al., 2010; Combs et al., 2011; Gillis and Castrogiovanni, 2012; Grewal et al., 2012; Windsperger, 2013) to develop and test multi-theoretical frameworks to explain the governance structure of inter-organizational networks.

Second, we extend the integrative model of Jell-Ojobor and Windsperger (2014) by including the international strategy as major determinant of the franchise firm’s governance mode choice in host countries. Starting from the strategy-structure view of Chandler (1962), international strategy theory (Harzing, 2002; Cui and Jiang, 2008; Pehrsson, 2008) examines the impact of the international strategy (global vs. multi-domestic strategy) on the international firm’s governance structure. Applying this reasoning to franchising, international franchise firms can pursue a standardization or adaptation strategy. A standardization strategy is related to offer a homogenous product standard with higher control modes, such as wholly-owned subsidiaries or joint venture franchising, in global markets, resulting in synergistic efficiency advantages to compete against global competitors. Our case study findings show that in the automotive rental industry, the franchisor’s global positioning can only be sustained with the provision of both, synergistic efficiency advantages and first mover advantages. This is achieved with choosing higher control modes in those markets where the provision of innovative, highly standardized products and services is important to capture large market shares. By contrast, an adaptation strategy focuses on local product and service adaptations with lower control modes, such as master development franchising, in order to benefit from the local part-
ners’ market assets and capabilities to adapt the franchise products and services and capture first mover advantages in heterogeneous markets.

In addition, our findings show that the international strategy theory interrelates with the resource-based and organizational capabilities arguments on the franchise governance structure decision. According to the resource-based and organizational capabilities theory, due to the specificity of rent-generating assets and resources, they are difficult to transfer across firm boundaries. The specific market characteristics, that are homogeneity or heterogeneity of the host markets in relation to the franchisor’s home country, determine the relevance of the specific assets in the pursuit of standardization versus adaptation strategy and consequently the choice of governance mode in the host countries. In homogeneous markets, the franchisor chooses a wholly-owned subsidiary to guarantee the implementation and constant innovation of highly standardized system-specific assets and procedures which are needed to exploit the high demand of global customers. In addition, the franchisor enters into exclusive partnerships with local entrepreneurs (that are the master developers in the case of Sixt and Europcar) to benefit from the local partners’ assets and competencies in efficiently implementing and adapting the franchise business format to the local peculiarities.

Furthermore, in emerging countries characterized by a global demand for franchise products of homogeneous standard which at the same time should consider local preferences, franchisors use higher levels of control with the establishment of a joint venture company. The joint venture company coordinates the transfer and implementation of the highly standardized franchise business format as well as its adaptation to local requirements, thereby exploiting the dynamic market potentials in emerging economies.

Third, our findings add to the recent literature on foreign operations as mode combinations, mode modifications and mode changes (Petersen and Welch, 2002; Benito et al., 2009, 2011). The results indicate that franchisors combine franchise modes according to the desired level of control over foreign operations as ‘mode packages’ (Benito et al., 2012). Specifically, through the use of master development franchising as ‘mode combination’, European automotive rental systems modify traditional master franchising by restricting the local partner’s higher control rights of unconditional sub-franchising. In addition, the local JV partner’s shared control rights are decreased by assigning direct control over local master development franchise agreements to the franchisor only, increasing the franchisor’s decision rights and residual income rights (‘mode modification’). Furthermore, the international franchisor’s path-dependent increase of foreign JV equity participation contributes to recently discussed ‘mode changes’ as a dynamic process in the international market entry literature (Benito et al., 2012).

Forth, consistent with the view of Hurmerinta-Peltomäki and Nummela, (2006), Sinkovics and Ghauri (2008), Benito et al. (2009, 2011) and Welch et al. (2011), this study shows that qualitative methods, such as in-depth case analysis, represent an effective strategy of investigating a large set of variables that influence the governance structure decision of the international franchise firm. Theory-testing case research is justified by the complexity of the franchisor-franchisee relationship phenomena, such as the factors influencing the franchisor’s choice of international franchise governance modes. Our study adds to the theory-
testing case study literature by applying a rigorous method of conducting case research. The application of a systematic case study approach that is based on an integrative framework can solve the problem of the inconsistent findings of inferential statistical tests in international franchising. For example, our case study shows that in general, moral hazard by franchise partners is not considered a challenge by international franchisors due to the effective unilateral power and bonding mechanism exercised through the car rental brand name and global reservation system. This observation corresponds with Contractor and Kundu’s (1998a, 1998b) regression results on the global hotel firms’ tendency towards lower levels of equity investment and control due to the bonding effect of intangible assets, such as a global reservation system and strong brand name. However, our case study further reveals that under conditions of high regulatory uncertainty in the Asian countries, international franchisors use higher control modes, i.e. joint venture franchising and wholly-owned subsidiary, to safeguard against property rights violation and brand hijacking. In this respect, our results are consistent with Fladmoe-Lindquist and Jacque (1995) who confirm a negative impact on the firm’s propensity to franchise internationally when high reputation assets are involved, due to the risk of brand name free-riding.

Finally, our case study findings also contribute to the upcoming research stream on ‘franchising in emerging and developing markets’ (Dant and Gründhagen, 2014). Increased domestic market saturation and global competition drive companies to adopt a pro-active approach towards internationalization of their business operations. Because franchising is a highly flexible entrepreneurial growth strategy, it can facilitate market entry into high-risk, high-growth markets, such as the five major emerging economies of Brazil, Russia, India, China and South Africa (BRICS) (Alon, 2006; Aliouche and Schlentrich, 2011; Dant et al., 2016).

The results of our study offer some practical recommendations for the franchisor’s international governance mode decision: First, the franchisor should choose a wholly-owned subsidiary, when host country environments are characterized by homogeneous socio-cultural conditions, such as similar consumer tastes and preferences and a high education level, and economic stability, such as a high market potential, a developed business sector, high levels of private consumption and advanced technological standards. This enables the exploitation of scale economies with the implementation of a highly standardized franchise business format. Second, the franchisor should choose master development franchising, when host countries are located distant from the system headquarters, and are perceived as heterogeneous in terms of different cultures and unstable economic environment. This generates first mover advantages as well as mitigates financial scarcity problems for the franchisor by benefitting from the master developer’s assets and capabilities needed to adapt the franchise business format to local market conditions. Finally, under adverse institutional conditions, such as a hostile franchise environment (e.g. missing property rights protection laws, high corruption), a higher level of control is advised, i.e. joint venture franchising, providing the franchisor local support to overcome market access barriers in regions with high institutional uncertainty. The joint venture company exercises a higher level of control over the implementation and operation of the local franchise network according to system standard, while at the same time protects the franchise system against the abuse of its intellectual property due to the higher behavioral hazards in markets with
high institutional uncertainty.

This study faces some important limitations. First, the criticism that case study results lack generalizability is also applicable to this study (Simon et al., 1996). The multiple case study design is based on data primarily provided by two international franchise systems in the automotive rental industry, and amplified with documentary data sources, to account for construct validity through data triangulation. The interviews are conducted with the key decision-makers responsible for the franchise system’s internationalization decisions. This substantially limits the number of possible key informants. According to Voss et al. (2002: p.205) there is a „trade-off between efficiency and richness of data”, and the optimum number of respondents. Second, compared to quantitative studies, the results of the small case sample cannot explain the choice of international governance mode of the franchisors in the whole automotive rental industry. Consequently, an important future challenge will be to test the research model by conducting large-scale surveys (Parkhe, 1993; Gillis and Castrogiovanni, 2012; Gerring, 2017) in different markets and industries (Lafontaine, 2014). Finally, while our case study analysis uses organizational economics, strategic management and international business perspectives as the major approaches explaining the governance structure of international franchise firms, the inclusion of further theories may increase the explanatory power of the governance structure model. For instance, predictions derived from the cultural theory (Freeman et al., 2012), institutional theory (Combs et al., 2009; Doherty et al., 2014; Aliouche et al., 2015) as well as the stakeholder theory (Altinay and Miles, 2006) may account for critical aspects influencing the international franchisor’s choice of governance mode when expanding into foreign markets.

CONCLUSION

This research applies case study analysis to test a new integrative model of the franchisor’s international governance mode choice based on Jell-Ojobor and Windsperger (2014). Specifically, it examines the determinants of the governance structure of the international franchise firm by deriving hypotheses from an integrative model based on international strategy theory, resource-based and organizational capability theory, transaction cost theory and agency theory. We conducted a theory-testing case study based on data from two leading international car rental systems, i.e. Sixt and Europcar. The findings show that international strategy, resource-based factors, such as system-specific, market-specific and financial resources, and environmental uncertainty, behavioral uncertainty and transaction-specific investments are important determinants of the governance modes of the international franchise firm. Consequently, international franchisors have to consider both organizational economics and strategic management factors for taking the right governance structure decision when expanding abroad.
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Dear Reviewers,

We thank you very much for your time and effort dedicated to the revision of our manuscript.

With our current revision, we paid thorough attention to address your critics which we summarized in the following:

1.) We have addressed your comment to “persuade [the] audience - through this paper - that this [theory-testing case study] is a legitimate approach”. Specifically, we included the following new paragraphs in our paper:

“…Theory-testing case research is justified by the lack of explanatory research due to the complexity of the franchisor-franchisee relationship phenomena, such as the factors that influence the franchisor’s choice of international governance modes. The investigation of the complex governance structure phenomenon requires a holistic analysis.” [compare Abstract, under Methodology, p.1]

“Few previous studies in international franchising have used more than one theoretical perspective to explain the governance structure of the international franchise firm. This study contributes to the theory-testing case study literature by applying a rigorous method of conducting case research. This includes developing a theoretical framework and a systematic research design. A systematic research design requires a holistic analysis by investigating the international franchise governance modes from a variety of theoretical perspectives which are organizational economics, strategic management and the strategy-structure perspective.” [compare Abstract, under Originality/value, p.1]

“We use a confirmatory research method by applying a rigorous method of conducting case research that includes developing a theoretical framework and a systematic research design (Barratt et al., 2011). “Through the development of more rigorous methods of conducting case research, the case study…can be effectively used to test theory in complex environments” (Johnston et al., 2011: 211). Why do we choose theory-testing case research? Theory-testing case research is mainly justified by the lack of explanatory research due to the complexity of the business-to-business relationship phenomena in franchising (Bonomo, 1985), particularly the influencing factors on the franchisor’s choice of international governance modes. A systematic research design requires a holistic analysis of the complex phenomenon (i.e. the international franchise governance structure) from a variety of theoretical viewpoints (Ghauri, 2004; Ghauri et al., 2009).” [compare Introduction, p.2]

“…Hence, our study adds to the theory-testing case study literature by applying a rigorous method of conducting case research (Bitektine, 2008; Gerring, 2017). In contrast to many qualitative case studies that miss sufficient details in research design, data collection, and data analysis (Barratt et al. 2011), we address this deficit in our theory-testing case study.” [compare Introduction, p.3]

“Theory-testing case research is justified by the complexity of the franchisor-franchisee relationship phenomena, such as the factors influencing the franchisor’s choice of international franchise governance modes. Our study adds to the theory-testing case study literature by applying a rigorous method of conducting case research. The application of a systematic case study approach that is based on an integrative framework can solve the problem of the inconsistent findings of inferential statistical tests in international franchising…” [compare Discussion and Implications, p.28]

Literature sources:


2.) The quotation of Jell-Ojobor and Windsperger’s (2014) research model on p.3 continues with a detailed explanation of it in the “Overview of the Research Model and Hypotheses” section on p.3ff.

Dear Reviewers,

We wish to thank you very much for your valued support with the revision of our paper. In the course of the review process, we have addressed your valid comments thoroughly and believe that our work has benefitted very much from your guidance. We hope that you are satisfied with our work and our revised manuscript meets your expectations. We are looking forward to your positive reply and approval for publication in International Marketing Review.

Should there be need for further questions, please contact us anytime.
Figure 1: Integrative model on the governance mode choice of the international franchise firm (adopted from Jell-Ojobor and Windsperger, 2014)
Figure 2: International Governance Modes of Sixt and Europcar

![Diagram of International Governance Modes]

**LEGEND:**
- coo: company-owned outlet
- fo: franchise outlet
- ado: area developer outlet
- mdo: master developer outlet
- sfo: sub-franchise outlet
- ADF: (regional) Area Development Franchising
- MDF: (exclusive) Master Development Franchising
- WOS: Wholly-owned Subsidiary
- JV: Joint Venture company

- Direct control of the franchisor over MDF operations
- Indirect control of the franchisor over the master developer’s sub-franchise operations
- Direct control of the WOS over company-owned, franchise and ADF operations
- Operational control of the regional WOS or JV company over exclusive local MDF operations
- WOS 100% incorporated by the franchisor
- JV equity participation
Figure 3: Control and mode combinations of the international franchise firm

Level of Control

- Wholly-owned subsidiary
- Joint venture franchising
- Area development franchising
- Master franchising
- Master development franchising
<table>
<thead>
<tr>
<th>International strategy</th>
<th>H1a</th>
<th>Standardization strategy is positively related to the franchisor’s tendency to use higher control modes.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>H1b</td>
<td>Adaptation strategy is positively related to the franchisor’s tendency to use lower control modes.</td>
</tr>
<tr>
<td>System-specific assets</td>
<td>H2</td>
<td>The more important the franchisor’s system-specific assets for value creation, the higher the franchisor’s tendency to use higher control modes.</td>
</tr>
<tr>
<td>Local market assets</td>
<td>H3</td>
<td>The more important the franchise partners’ local market assets for the value creation of the network, the higher the franchisor’s tendency to use lower control modes.</td>
</tr>
<tr>
<td>Financial assets</td>
<td>H4</td>
<td>The higher the financial resources required for implementation of the franchise concept in the foreign market, the higher the franchisor’s tendency to use lower control modes.</td>
</tr>
<tr>
<td>Environmental uncertainty</td>
<td>H5a</td>
<td>The higher the transaction costs due to cultural uncertainty, the higher the franchisor’s tendency to use lower control modes.</td>
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<td></td>
<td>H5b</td>
<td>The higher the transaction costs due to economic uncertainty, the higher the franchisor’s tendency to use lower control modes.</td>
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<td></td>
<td>H5c</td>
<td>The higher the transaction costs due to institutional uncertainty, the higher the franchisor’s tendency to use higher control modes.</td>
</tr>
<tr>
<td>Transaction-specific investments</td>
<td>H6a</td>
<td>The higher the franchisor’s transaction-specific investments relative to the franchise partners, the higher the franchisor’s tendency to use higher control modes.</td>
</tr>
<tr>
<td></td>
<td>H6b</td>
<td>The higher the franchise partners’ transaction-specific investments relative to the franchisor, the higher the franchisor’s tendency to use lower control modes.</td>
</tr>
<tr>
<td>Behavioral uncertainty</td>
<td>H7</td>
<td>The higher the monitoring costs due to behavioural uncertainty, the higher the franchisor’s tendency to use lower control modes.</td>
</tr>
</tbody>
</table>

Table 1: Research hypotheses on the governance modes of the international franchise firm (adopted from Jell-Ojobor and Windsperger, 2014)
<table>
<thead>
<tr>
<th>Theoretical Patterns</th>
<th>Empirical Patterns</th>
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</thead>
<tbody>
<tr>
<td><strong>Hypotheses</strong></td>
<td><strong>Code Family</strong></td>
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<td><strong>Theoretical construct</strong></td>
<td><strong>Main Codes</strong></td>
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<td><strong>Operationalization</strong></td>
<td><strong>Sub-codes</strong></td>
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<td><strong>Indicators applied in the international franchise literature</strong></td>
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<tr>
<td><strong>DEPENDENT VARIABLE</strong></td>
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<td>International franchise governance models</td>
<td>WOS</td>
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<tr>
<td>- Organic growth</td>
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<td>- Takeovers</td>
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<td>- Plural form</td>
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<tr>
<td>JVF Regional support with local MDF network expansion</td>
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<tr>
<td>MDF Exclusive MDF licence of franchise outlets</td>
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<tr>
<td>Sub-franchising</td>
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<td>- Franchise package for sub-franchisees</td>
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<td>- Selection of sub-franchisees</td>
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<td>- Management of sub-franchisees</td>
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<td>- Granting of sub-franchise licences</td>
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<td>- Sub-franchise fees</td>
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<td>- Termination of sub-franchise licences</td>
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<tr>
<td><strong>INDEPENDENT VARIABLES</strong></td>
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<td>H1</td>
<td>Strategic alliances</td>
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<td>International Strategy</td>
<td>Trans-Atlantic alliance</td>
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<td>- Global customers versus local demand</td>
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<td>- Franchise 'local learning'</td>
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<tr>
<td>- Market potential and economies of scale advantages through standardization strategy</td>
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<tr>
<td>- Global scale and scope and first mover advantages through adaptation strategy</td>
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<td>System-specific capabilities, such as brand name capital, corporate identity, organizational competence, quality competence, customer competence, entry competence and physical competence, Erambelli et al., 2002</td>
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<tr>
<td>- Firm size and firm age as indicators for monitoring capabilities, Swayne, 1996; Elangovan, 2007</td>
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<tr>
<td>- Monitoring capabilities of Petersen and Welch, 2000; Hoffman and Pratley, 2001</td>
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<tr>
<td>- Capabilities of business format adaptation to local market requirements, Chios, 2005</td>
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<tr>
<td>- Franchise package and centralized services and support functions, Quinn, 1999; Petersen and Welch, 2000</td>
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<td>- Documentation of the franchise business format, Quinn and Doty, 2000; Pizam and Lerner, 2003</td>
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<td>Standardization strategy</td>
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<td>- Synergistic scale advantages through system-specific assets exploitation, Dunning et al., 2007</td>
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<td>- Market share</td>
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<td>- Market potential</td>
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<td>Adaptation strategy</td>
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<td>- First mover advantages through local market assets exploration, Petersen and Welch, 2000; Pak, 2002</td>
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<td>- Number of outlets per country (scale)</td>
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<td>- Number of franchise countries (scope)</td>
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<td>System-specific assets and resources</td>
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<td>- Franchise business format management, Petersen and Welch, 2000; Hoffman and Pratley, 2001</td>
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<td>- Various reservation channels, IT and communication systems</td>
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<td>- Various reservation channels, IT and communication systems</td>
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<td>- Webpage</td>
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<td>- Call centre</td>
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<td>- Yield management, fleet management</td>
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<td>Partnerships and cooperation</td>
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<td>- Supplier network</td>
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<td>- Tourism and mobility industry, GDS</td>
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<td>Global franchise network</td>
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<td>- Geographic presence and locations</td>
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<td>Global customer base</td>
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<td>- Corporate customers accounts</td>
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<td>- Private customers accounts</td>
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<td>Products</td>
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<td>- Customer-sold segments products</td>
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<td>- Vehicle selection</td>
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<td>- R&amp;D, system innovation</td>
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<td>Human capital</td>
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<td>- Career development and training</td>
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<td>System-specific know-how and capabilities</td>
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<td>- Growth and expansion</td>
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<td>- Cultural affinity, distance management, international contract management</td>
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<td>- Standardization and adaptation</td>
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<tr>
<td>- Global advertising, marketing, networking, customer relations</td>
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<tr>
<td>Operational ‘car rental’ know-how</td>
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<tr>
<td>- Operational procedures, e.g., car damage, purchase, monitoring, service quality, logistics</td>
<td></td>
</tr>
<tr>
<td>Strategic ‘car rental’ know-how</td>
<td></td>
</tr>
<tr>
<td>- Strategic procedures, e.g., sales, marketing, advertising, pricing</td>
<td></td>
</tr>
<tr>
<td>- Business plan, finance plan, development plan</td>
<td></td>
</tr>
<tr>
<td>- Fleet policy</td>
<td></td>
</tr>
<tr>
<td>- Cost management</td>
<td></td>
</tr>
<tr>
<td>Transferable system-specific assets and know-how</td>
<td></td>
</tr>
<tr>
<td>- Franchise package</td>
<td></td>
</tr>
<tr>
<td>- Brand name capital, corporate identity</td>
<td></td>
</tr>
<tr>
<td>- IT and communication systems</td>
<td></td>
</tr>
<tr>
<td>- Partnerships and cooperation</td>
<td></td>
</tr>
<tr>
<td>- Global franchise network</td>
<td></td>
</tr>
<tr>
<td>- Global customer base</td>
<td></td>
</tr>
<tr>
<td>- Products</td>
<td></td>
</tr>
<tr>
<td>- Operational and strategic ‘car rental’ know-how</td>
<td></td>
</tr>
<tr>
<td>Page 48 of 63</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td></td>
</tr>
<tr>
<td><strong>International Marketing Review</strong></td>
<td></td>
</tr>
<tr>
<td><strong>H4</strong></td>
<td><strong>RBT &amp; OCT</strong></td>
</tr>
<tr>
<td><strong>Local market assets and resources</strong></td>
<td><strong>Local human resources</strong></td>
</tr>
<tr>
<td><strong>Local infrastructure, outlet locations</strong></td>
<td><strong>Local infrastructure, outlet locations</strong></td>
</tr>
<tr>
<td><strong>Market-specific know-how and capabilities</strong></td>
<td><strong>Local operational and strategic “car rental” know-how and capabilities</strong></td>
</tr>
<tr>
<td><strong>Financial assets</strong></td>
<td><strong>Economic affinity, e.g. on demand, competition, market structure and mechanisms</strong></td>
</tr>
<tr>
<td><strong>Environmental uncertainty</strong></td>
<td><strong>Local innovation and adaptation</strong></td>
</tr>
<tr>
<td><strong>Local market assets and know-how exploration</strong></td>
<td><strong>Operational innovations or adaptations</strong></td>
</tr>
<tr>
<td><strong>Capital-intensive investments of local network expansion</strong></td>
<td><strong>Capital-intensive tangible investments</strong></td>
</tr>
<tr>
<td><strong>Capital-intensive intangible investments</strong></td>
<td><strong>Human resources development</strong></td>
</tr>
<tr>
<td><strong>Transaction costs due to environmental uncertainty</strong></td>
<td><strong>Advertising</strong></td>
</tr>
<tr>
<td><strong>Cultural uncertainty</strong></td>
<td><strong>General economic conditions and business infrastructure</strong></td>
</tr>
<tr>
<td><strong>Business practices and work ethics</strong></td>
<td><strong>Industry-specific competition</strong></td>
</tr>
<tr>
<td><strong>Language barriers</strong></td>
<td><strong>Insurance market regulations</strong></td>
</tr>
<tr>
<td><strong>Economic uncertainty</strong></td>
<td><strong>Taxation</strong></td>
</tr>
<tr>
<td><strong>General economic conditions and business infrastructure</strong></td>
<td><strong>Labor laws</strong></td>
</tr>
<tr>
<td><strong>Franchise regulations</strong></td>
<td><strong>Legal safeguards, trademark protection</strong></td>
</tr>
<tr>
<td><strong>Heterogeneity of host markets in terms of culture, economic conditions and institutional regulations</strong></td>
<td><strong>System manuals, franchise brochures, support materials</strong></td>
</tr>
<tr>
<td><strong>Transaction costs of operations in heterogeneous countries</strong></td>
<td><strong>Conceptionalization of the franchise business format</strong></td>
</tr>
<tr>
<td><strong>Firm size and age as indicators for tangible resource base of the firm</strong></td>
<td><strong>Initial training</strong></td>
</tr>
<tr>
<td><strong>Capital-intensive factors of the local franchise business, such as fleet, outlets, infrastructure, human resources, public relations and advertising</strong></td>
<td><strong>Implementation into global reservation system, internal communication systems, local website</strong></td>
</tr>
<tr>
<td><strong>Host economy development, such as competition and business fragmentation</strong></td>
<td><strong>Corporate identity, outlet design and site evaluation</strong></td>
</tr>
<tr>
<td><strong>Brand name asset specificity and intangible assets such as a global reservations systems as well as high initial start-up costs and outlet-specific investments support screening and reduce adverse selection (Contractor and Kundu, 1998a, 1998b; Quinn and Doherty, 2000; Erramilli et al., 2002; Frazer, 2003)</strong></td>
<td><strong>Tangible transaction-specific assets of the local partner</strong></td>
</tr>
<tr>
<td><strong>Transaction-specific investments of the franchisor</strong></td>
<td><strong>Intangible transaction-specific assets of the local partner</strong></td>
</tr>
<tr>
<td><strong>Proof of liquidity</strong></td>
<td><strong>Switching costs</strong></td>
</tr>
<tr>
<td><strong>Local reputation checking and partner investigation</strong></td>
<td><strong>Property rights dissemination risk</strong></td>
</tr>
<tr>
<td><strong>System manuals, franchise brochures, support materials</strong></td>
<td><strong>Loss of customer base</strong></td>
</tr>
<tr>
<td><strong>Initial training</strong></td>
<td><strong>Sunk costs of the local franchisor</strong></td>
</tr>
<tr>
<td><strong>Implementation into global reservation system, internal communication systems, local website</strong></td>
<td><strong>Stand-alone store (e.g., sign, logo, infrastructure)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Training materials for employees and sub-franchisees</strong></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 2: Operationalization of constructs (theoretical patterns) and empirical pattern codes

<table>
<thead>
<tr>
<th>Construct</th>
<th>Theoretical Pattern</th>
<th>Empirical Pattern</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistic administrative effort</td>
<td>Monitoring effort, Agency costs</td>
<td>Geographic and cultural distance</td>
</tr>
<tr>
<td>Absorptive capacity of human resources</td>
<td>Opportunistic behavior</td>
<td>Free-riding behavior</td>
</tr>
<tr>
<td>Service and product standard maintenance</td>
<td>Service and product standard maintenance</td>
<td></td>
</tr>
<tr>
<td>Market development</td>
<td>Under-investment</td>
<td></td>
</tr>
<tr>
<td>Cheating, withholding of information</td>
<td>Moral hazard</td>
<td></td>
</tr>
<tr>
<td>Adverse selection</td>
<td>Non-coercive control</td>
<td></td>
</tr>
<tr>
<td>Residual claimancy on outlet profit</td>
<td>Coercive control</td>
<td></td>
</tr>
<tr>
<td>Financial risk</td>
<td>Monitoring effort, Agency costs</td>
<td></td>
</tr>
<tr>
<td>Benchmarks and standards</td>
<td>Standardized franchise contract terms and conditions</td>
<td></td>
</tr>
<tr>
<td>Standardized monitoring tools</td>
<td>Franchise manuals containing standardized operational and strategic procedures, business plan, finance plan, development plan</td>
<td></td>
</tr>
<tr>
<td>Financial risk</td>
<td>Franchise manuals containing standardized operational and strategic procedures, business plan, finance plan, development plan</td>
<td></td>
</tr>
<tr>
<td>Benchmarking and standards</td>
<td>Franchise manuals containing standardized operational and strategic procedures, business plan, finance plan, development plan</td>
<td></td>
</tr>
<tr>
<td>Fee structure i.e. initial fee and territory fee, royalties, advertising fee</td>
<td>Franchise manuals containing standardized operational and strategic procedures, business plan, finance plan, development plan</td>
<td></td>
</tr>
<tr>
<td>Contract period, length</td>
<td>Franchise manuals containing standardized operational and strategic procedures, business plan, finance plan, development plan</td>
<td></td>
</tr>
<tr>
<td>Exclusive territory</td>
<td>Franchise manuals containing standardized operational and strategic procedures, business plan, finance plan, development plan</td>
<td></td>
</tr>
<tr>
<td>Termination clauses, such as lack of financial capital, compensation payments and non-compulsion clauses</td>
<td>Franchise manuals containing standardized operational and strategic procedures, business plan, finance plan, development plan</td>
<td></td>
</tr>
<tr>
<td>Franchise manual containing standardized operational and strategic procedures, business plan, finance plan, development plan</td>
<td>Franchise manuals containing standardized operational and strategic procedures, business plan, finance plan, development plan</td>
<td></td>
</tr>
</tbody>
</table>

Table 3: Case study candidate franchise systems of the global car rental industry

<table>
<thead>
<tr>
<th>Automotive rental franchise systems</th>
<th>Headquarters location</th>
<th>Year of founding</th>
<th>Year franchise internationalization began</th>
<th>Relational ties</th>
<th>Stations worldwide (company-owned &amp; franchise)*</th>
<th>Countries*</th>
<th>Fleet (exclusive of licensees’ fleet)*</th>
<th>Consolidated rental revenue*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avis Budget Group, Inc.</td>
<td>New Jersey, USA</td>
<td>1946</td>
<td>1953</td>
<td></td>
<td>2200</td>
<td>6500</td>
<td>70</td>
<td>350320</td>
</tr>
<tr>
<td>Budget Rent A Car System, Inc.</td>
<td>New Jersey, USA</td>
<td>1958</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avis Europe Plc</td>
<td>Great Britain</td>
<td>1965</td>
<td></td>
<td></td>
<td>2900</td>
<td>3900</td>
<td>165</td>
<td>100000</td>
</tr>
<tr>
<td>Hertz Global Holdings, Inc.</td>
<td>Illinois, USA</td>
<td>1918</td>
<td>1950</td>
<td></td>
<td>8100</td>
<td>145</td>
<td>444100</td>
<td>8 billion</td>
</tr>
<tr>
<td>Enterprise Holdings, Inc.</td>
<td>Missouri, USA</td>
<td>1967</td>
<td>1993</td>
<td></td>
<td>7600</td>
<td>11000</td>
<td>150</td>
<td>1.1 million</td>
</tr>
<tr>
<td>National Car Rental and Alamo Rent A Car</td>
<td>Missouri, USA</td>
<td>1947/1974</td>
<td>2009</td>
<td>63000</td>
<td>150</td>
<td>191000</td>
<td>1.85 billion</td>
<td></td>
</tr>
<tr>
<td>Europcar Groupe</td>
<td>France</td>
<td>1949</td>
<td>1969</td>
<td></td>
<td>6300</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sixt Aktiengesellschaft</td>
<td>Germany</td>
<td>1912</td>
<td>1991</td>
<td></td>
<td>1923</td>
<td>100</td>
<td>67700</td>
<td>0.96 billion</td>
</tr>
</tbody>
</table>

* in 2009
THEORETICAL PATTERNS | Hypotheses * | EMPIRICAL PATTERNS
--- | --- | ---
**Theory** | **Theoretical Construct** | **Hypotheses** | **Observed conditions with the Establishment of a Wholly-owned Subsidiary**
IST | International strategy | H1a Standardization strategy is positively related to the franchisor’s tendency to use higher control modes. | - Gaining a competitive market position in strategic (outbound) markets, which generate business and private customers demand inside and outside the country.
| IST | IST International strategy | H1b Adaptation strategy is positively related to the franchisor’s tendency to use lower control modes. | - Implementation of a highly standardized franchise business format with state-of-the-art features in homogeneous host countries.
| RBT & OCT | Value creation through System-specific Assets | H2 The more important the franchisor’s system-specific assets for value creation, the higher the franchisor’s tendency to use higher control modes. | - Investments in human resources training and career development, R&D and innovation of highly standardized procedures, routines, assets, products and services in homogeneous (test) markets.
| Value creation through Local Market Assets | H3 The more important the franchise partners’ local market assets for the value creation of the network, the higher the franchisor’s tendency to use lower control modes. | - Maintenance of high levels of systemwide standardization and reduced importance of local market assets.
| Value creation through Financial Assets | H4 The more important the franchise partners’ local market assets for the value creation of the network, the higher the franchisor’s tendency to use lower control modes. | - Minor adaptations of highly standardized franchise business format by the franchisor in homogeneous host countries.
| TCT & AT | Transaction costs due to Environmental Uncertainty | H5a The higher the transaction costs due to cultural uncertainty, the higher the franchisor’s tendency to use lower control modes. | - Local learning of location-specific conditions by the franchisor, resulting in positive systemwide spill-over effects in homogeneous host countries.
| Transaction-specific Investments of the Franchisor and/or Franchise Partners | H5b The higher the transaction costs due to economic uncertainty, the higher the franchisor’s tendency to use lower control modes. | - High investments needed to capture big market shares and outful consumers, i.e. advertising, public relations and strategic partnerships, R&D, systemwide standardization, vehicle brands.
| Monitoring costs due to Behavioral Uncertainty | H6a The higher the transaction costs due to institutional uncertainty, the higher the franchisor’s tendency to use lower control modes. | - Compensated by favorable finance conditions at the external capital market due to the franchisor’s strategic assets, i.e. partnerships, scale activities, brand name value and reputation.
| H6b The higher the franchise partners’ transaction-specific investments relative to the franchisor, the higher the franchisor’s tendency to use lower control modes. | - Reduced investment risk and transaction costs in countries with cultural similarities, economic development and political and institutional stability.
| H7 The higher the monitoring costs due to behavioral uncertainty, the higher the franchisor’s tendency to use lower control modes. | - Economies of scale with the provision of highly standardized franchise products and services.
| Scale advantages in monitoring due to: | - Favorable supplier conditions, e.g. repurchase and sales conditions.
| | | - Efficient adaptation to changed environmental conditions.

*Hypotheses in BOLD LETTERS are confirmed

TCT (Transaction cost theory), AT (Agency theory), RBT (Resource-based theory), OCT (Organizational capabilities theory), PRT (Property rights theory), IST (International strategy theory)

Table 4: Pattern matching results of wholly-owned subsidiary
<table>
<thead>
<tr>
<th>Competitive edge characteristics of global car rental brands</th>
<th>Definition</th>
<th>SYSTEM-SPECIFIC ASSETS* of Sixt and Europcar franchise business formats</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>Price in relation to the brand and service value.</td>
<td>Partnerships and cooperation</td>
<td>Fleet is a substantial and one of the main cost factors of car rental companies. Preferential vehicle sales, repurchase and insurance conditions determine fix costs and in turn affect cost management and pricing policy. Furthermore, strategic partnerships in the travel industry offer competitive ’car rental’ rates with cooperative products.</td>
</tr>
<tr>
<td>Brand name / Global customer base</td>
<td></td>
<td>Partnerships and cooperation</td>
<td>The franchise system’s global brand awareness and customer base reflect in demand and business potential for the whole network which positively impact on a lower price level. Franchise systems with big market shares have the potential to dump prices and outtrial competitors.</td>
</tr>
<tr>
<td>Strategic ’car rental’ know-how</td>
<td></td>
<td>Partnerships and cooperation</td>
<td>The franchisor has strategic knowhow on the complex pricing system which considers different customer segments, booking channels, seasonalities or week days.</td>
</tr>
<tr>
<td>Vehicle availability &amp; Service quality</td>
<td>Fast and uncomplicated rental process. The goal is to maintain high customer satisfaction and brand loyalty by ensuring vehicle availability to all customers holding a reservation.</td>
<td>IT and communication systems</td>
<td>The franchise system’s highly sophisticated IT-systems contribute to the key factors of successful car rental operations to maximise profit by balancing supply and demand of car rental services. Among others, it provides fast and easy booking channels, and monitoring and forecasting of fleet availability.</td>
</tr>
<tr>
<td>Product innovations</td>
<td>Selection among different vehicle types and product categories.</td>
<td>Partnerships and cooperation</td>
<td>Franchise systems hold preferential agreements with car manufacturers and dealers to provide different vehicle types. Strategic partnerships constantly innovate different product offerings.</td>
</tr>
<tr>
<td>Products / Human capital</td>
<td></td>
<td>Partnerships and cooperation</td>
<td>Constant innovations by company expert teams offer new products tailored to different customer segments (i.e. business, private, holiday customers).</td>
</tr>
<tr>
<td>Distribution locations</td>
<td>Especially business customers request rental offices in key locations and global coverage.</td>
<td>Global franchise network</td>
<td>The franchise networks are constantly expanded to provide global coverage in scale and scope.</td>
</tr>
<tr>
<td>Strategic ’car rental’ know-how</td>
<td></td>
<td>Partnerships and cooperation</td>
<td>The country-specific development plan covers key locations such as all major airports and city centers for each country.</td>
</tr>
</tbody>
</table>

* Observed empirical pattern codes regarding system-specific assets and capabilities (H2)

Table 5: Competitive advantage of the car rental franchise business format
<table>
<thead>
<tr>
<th>Theory</th>
<th>Theoretical Construct</th>
<th>Theoretical Hypotheses *</th>
<th>Observed conditions with Master Development Franchising</th>
</tr>
</thead>
<tbody>
<tr>
<td>IST</td>
<td>International strategy</td>
<td>H1a Standardization strategy is positively related to the franchisor’s tendency to use of higher control modes.</td>
<td>- Provision of first mover advantages with the local partners’ quick adaptation of the standardized franchise business format to heterogeneous conditions. - Global network coverage (inbound and outbound markets) with strategic car rental locations as in all major city centres, airports, highly trafficked areas, to win the contracts with big corporations and tourism and mobility industry.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>H1b Adaptation strategy is positively related to the franchisor’s tendency to use of lower control modes.</td>
<td>- Standardization of system-specific, rent-generating assets and transfer of a competitive franchise package to local partners. - Market failure risk with high systemwide standardization due to increased need for local adaptation. - Rent-generating ‘transfer’ capabilities of the franchisor by expanding the global franchise network, such as international contract and distance management, global advertising, marketing, networking and lobbying, standardization and adaptation.</td>
</tr>
<tr>
<td>RBT &amp; OCT</td>
<td>Value creation through System-specific Assets</td>
<td>H2 The more important the franchisor’s system-specific assets for value creation, the higher the franchisor’s tendency to use higher control modes.</td>
<td>- High importance of the partners’ local market assets for value creation of local franchise network, i.e. strategic location assets, partnerships, supplier network, fleet, industry-specific know-how, customer base. - Adaptation of standardized franchise business format to heterogeneous conditions, i.e. local pricing, fleet, rental process, marketing and advertising, conditions for sub-franchisees. - Time- and cost-intensive exploration and evaluation of heterogeneous market conditions by the local partner, i.e. demand, tastes, competition, insurance conditions. - Provision of local business plan by the local partner.</td>
</tr>
<tr>
<td></td>
<td>Value creation through Local Market Assets</td>
<td>H3 The more important the franchise partners’ local market assets for the value creation of the network, the higher the franchisor's tendency to use lower control modes.</td>
<td>- Overcoming of the franchisor's financial constraints by benefiting from the local partner's financial assets and conditions.</td>
</tr>
<tr>
<td></td>
<td>Value creation through Financial Assets</td>
<td>H4 The higher the financial resources required for implementation of the franchise concept in the foreign market, the higher the franchisor’s tendency to use lower control modes.</td>
<td></td>
</tr>
<tr>
<td>TCT &amp; AT</td>
<td>Transaction costs due to Environmental Uncertainty</td>
<td>H5a The higher the transaction costs due to cultural uncertainty, the higher the franchisor’s tendency to use lower control modes.</td>
<td>- High transaction costs, such as information processing and adaptation costs, and business failure risk in heterogeneous countries in terms of cultural and economic distance.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>H5b The higher the transaction costs due to economic uncertainty, the higher the franchisor’s tendency to use lower control modes.</td>
<td>- Scale economies due to moderate and standardized transaction-specific investments of the franchisor, i.e. system manuals, recruitment, set-up, monitoring and training. - High transaction-specific investments of the local partner to create local brand awareness, such as outlet design, advertising, corporate identity, staff training. - Reduced switching costs of the franchisor due to moderate transaction-specific investments. - Reduced hold-up and re-negotiation potential of the franchise partners due to high transaction-specific investments (loss of quasi-rent).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>H5c The higher the transaction costs due to institutional uncertainty, the higher the franchisor’s tendency to use higher control modes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transaction-specific Investments of the Franchisor and/or Franchise Partners</td>
<td>H6a The higher the franchisor’s transaction-specific investments relative to the franchise partners, the higher the franchisor’s tendency to use higher control modes.</td>
<td>- High franchisor monitoring costs in geographically and culturally distant and dispersed host countries. - Self-enforcing goal alignment with the local partner being an independent entrepreneur of multi-unit chain in an exclusive territory, bearing the costs of shirking and adverse selection. - Reduced opportunistic behavior due to the application of standardized franchise terms, benchmarks, development plan, business plan and finance plan. - Local franchise partners are affine with local business practices, labor laws and cultures to manage local staff and operate a successful business.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>H6b The higher the franchise partners’ transaction-specific investments relative to the franchisor, the higher the franchisor’s tendency to use lower control modes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Monitoring costs due to Behavioral Uncertainty</td>
<td>H7 The higher the monitoring costs due to behavioural uncertainty, the higher the franchisor’s tendency to use lower control modes.</td>
<td></td>
</tr>
</tbody>
</table>

* Hypotheses in BOLD LETTERS are confirmed

TCT (Transaction cost theory), AT (Agency theory), RBT (Resource-based theory), OCT (Organizational capabilities theory), PRT (Property rights theory), IST (International strategy theory)

**Table 6: Pattern matching results of master development franchising**
**Theoretical Patterns**

<table>
<thead>
<tr>
<th>Theory</th>
<th>Theoretical Construct</th>
<th>Hypotheses *</th>
<th>Observed conditions with Joint Venture Franchising</th>
</tr>
</thead>
<tbody>
<tr>
<td>IST</td>
<td>International strategy</td>
<td>H1a Standardization strategy is positively related to the franchisor’s tendency to use higher control modes.</td>
<td>- Gaining a competitive market position among competitors and customers and winning strategic partnerships with the provision of a highly standardized franchise business format coupled with the local adaptation to heterogeneous conditions.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>H1b Adaptation strategy is positively related to the franchisor’s tendency to use lower control modes.</td>
<td></td>
</tr>
<tr>
<td>RBT</td>
<td>Value creation through System-specific Assets</td>
<td>H2 The more important the franchisor’s system-specific assets for value creation, the higher the franchisor’s tendency to use higher control modes.</td>
<td>- Implementation of a highly standardized franchise business format with state-of-the-art features in heterogeneous host countries characterized by a dynamic, accelerating market growth potential, but still under-developed business sector.</td>
</tr>
<tr>
<td>OCT</td>
<td>Value creation through Local Market Assets</td>
<td>H3 The more important the franchise partners’ local market assets for the value creation of the network, the higher the franchisor’s tendency to use lower control modes.</td>
<td>- Increased transfer capabilities of the franchisor, needed for the implementation of a highly standardized franchise business format in a heterogeneous environment.</td>
</tr>
<tr>
<td></td>
<td>Value creation through Financial Assets</td>
<td>H4 The higher the financial resources required for implementation of the franchise concept in the foreign market, the higher the franchisor’s tendency to use lower control modes.</td>
<td></td>
</tr>
<tr>
<td>TCT</td>
<td>Transaction costs due to Environmental Uncertainty</td>
<td>H5a The higher the transaction costs due to cultural uncertainty, the higher the franchisor’s tendency to use lower control modes.</td>
<td>- High importance of local market assets for value creation of local franchise network, i.e. strategic location assets, partnerships, supplier network, fleet, industry-specific know-how, customer base.</td>
</tr>
<tr>
<td>AT</td>
<td>Transaction-specific Investments of the Franchisor and/or Franchise Partners</td>
<td>H6a The higher the franchisor’s transaction-specific investments relative to the franchise partners, the higher the franchisor’s tendency to use higher control modes.</td>
<td>- Adaptation of standardized franchise business format to heterogeneous conditions, i.e. local pricing, fleet, rental process, marketing and advertising, conditions for sub-franchisees.</td>
</tr>
<tr>
<td></td>
<td>Monitoring costs due to Behavioral Uncertainty</td>
<td>H7 The higher the monitoring costs due to behavioural uncertainty, the higher the franchisor’s tendency to use lower control modes.</td>
<td>- Time- and cost-intensive exploration and evaluation of heterogeneous market conditions by the local partner, i.e. demand, tastes, competition, insurance conditions.</td>
</tr>
</tbody>
</table>

* Hypotheses in BOLD LETTERS are confirmed

**Table 7: Pattern matching results of joint venture franchising**

TCT (Transaction cost theory), AT (Agency theory), RBT (Resource-based theory), OCT (Organizational capabilities theory), PRT (Property rights theory), IST (International strategy theory)
<table>
<thead>
<tr>
<th>Theory</th>
<th>Hypothesis</th>
<th>Variable</th>
<th>WOS</th>
<th>JVF</th>
<th>MDF</th>
</tr>
</thead>
<tbody>
<tr>
<td>IST</td>
<td>H1a</td>
<td>Standardization strategy</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>H1b</td>
<td>Adaptation strategy</td>
<td></td>
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</tr>
<tr>
<td>RBT &amp; OCT</td>
<td>H2</td>
<td>System-specific assets</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>H3</td>
<td>Local market assets</td>
<td></td>
<td>x</td>
<td></td>
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<tr>
<td></td>
<td>H4</td>
<td>Financial assets</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TCT &amp; AT</td>
<td>H5a</td>
<td>Cultural uncertainty</td>
<td></td>
<td>x</td>
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<tr>
<td></td>
<td>H5b</td>
<td>Economic uncertainty</td>
<td></td>
<td></td>
<td>x</td>
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<tr>
<td></td>
<td>H5c</td>
<td>Institutional uncertainty</td>
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<tr>
<td></td>
<td>H6a</td>
<td>High transaction-specific investments of the franchisor</td>
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<td></td>
<td>H6b</td>
<td>High transaction-specific investments of the franchise partner</td>
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<tr>
<td></td>
<td>H7</td>
<td>Behavioral uncertainty</td>
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</tbody>
</table>

IST (International strategy theory), RBT (Resource-based theory), OCT (Organizational capabilities theory), TCT (Transaction cost theory), AT (Agency theory), WOS (Wholly-owned subsidiary), JVF (Joint venture franchising), MDF (Master development franchising)

Table 8: Confirmed hypotheses of the governance model of international franchise firms
APPENDIX 1: Interview guide

<table>
<thead>
<tr>
<th>Theoretical construct</th>
<th>No.</th>
<th>Questions representing operationalized indicators (including explanation and examples)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of control/governance structure</td>
<td>1</td>
<td>Which governance modes does the franchise firm use with the operation of the network in the foreign countries?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Wholly-owned subsidiary, joint venture franchising, single-unit franchising, multi-unit franchising, area development franchising, master franchising, sub-franchising</td>
</tr>
<tr>
<td>International strategy</td>
<td>2</td>
<td>Which strategy does the franchisor pursue?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Standardization strategy versus adaptation strategy</td>
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<tr>
<td></td>
<td></td>
<td>- Market conditions, e.g. global versus multi-domestic demand, intensity of competition, market potential, market homogeneity versus heterogeneity</td>
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<tr>
<td></td>
<td></td>
<td>- Systemwide application of local learning advantages</td>
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<tr>
<td></td>
<td></td>
<td>- Scale advantages versus first-mover advantages</td>
</tr>
<tr>
<td>System-specific assets</td>
<td>3</td>
<td>Which rent-generating assets, knowhow and capabilities does the franchisor possess regarding the internationalization of the franchise business format?</td>
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<tr>
<td></td>
<td></td>
<td>- System-specific assets and knowhow, such as</td>
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<tr>
<td></td>
<td></td>
<td>- Franchise product &amp; service with a strong brand name</td>
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<tr>
<td></td>
<td></td>
<td>- R&amp;D, innovations of product portfolio</td>
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<td></td>
<td></td>
<td>- Marketing, sales, advertising</td>
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<tr>
<td></td>
<td></td>
<td>- Networking capabilities</td>
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<td></td>
<td></td>
<td>- Cultural adaptability, distance management, internationalization competences</td>
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<tr>
<td></td>
<td></td>
<td>- Quality competence, standardization and adaptation/modification of product/services</td>
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<tr>
<td>Local market assets</td>
<td>4</td>
<td>How are innovations/new product features implemented in the franchise system?</td>
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<td></td>
<td></td>
<td>- Transferability challenge of rent-generating system-specific assets</td>
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<td></td>
<td></td>
<td>- Innovation through system-specific knowledge and assets exploitation</td>
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<td>5</td>
<td>How complex is the car rental business/service?</td>
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<td></td>
<td></td>
<td>- Transferability/non-transferability of system-specific assets</td>
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<td>6</td>
<td>Which topics does the initial training cover? What makes part of the regular training?</td>
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<td></td>
<td></td>
<td>- Transferability/non-transferability of system-specific assets</td>
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<td></td>
<td>7</td>
<td>What does the franchise package/business format contain?</td>
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<td></td>
<td></td>
<td>- Standardization of the franchise business format (transferable system-specific assets and knowhow)</td>
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<td>8</td>
<td>Which market-specific assets, resources, knowhow and capabilities do the franchise partners possess/contribute to the local franchise network?</td>
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<td></td>
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<td>For example,</td>
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<td></td>
<td>- Operational techniques, such as monitoring, training, sales and marketing, advertising and promotion</td>
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<td></td>
<td>- Site specificity, access to prime real-estate sites, local infrastructure, human resources, supplier network, existing customer base</td>
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<td></td>
<td>- Market analysis regarding demand, competition, customer preferences</td>
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<td></td>
<td></td>
<td>- Industry-specific business knowhow</td>
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<tr>
<td></td>
<td></td>
<td>- Access to finance and investment capital</td>
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<tr>
<td></td>
<td></td>
<td>- Institutional affinity</td>
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<td></td>
<td>9</td>
<td>Which features of the franchise business format are adapted to the peculiarities of host countries?</td>
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<tr>
<td></td>
<td></td>
<td>- Product/service adaptation, such as product offerings</td>
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<td></td>
<td></td>
<td>- Operational procedures, such as monitoring and training, internal communication, accounting, reporting, procurement</td>
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<tr>
<td></td>
<td></td>
<td>- Strategic procedures, such as pricing, marketing and sales, advertising, promotion</td>
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<td>10</td>
<td>Which selection criteria for franchise partners does the franchisor apply?</td>
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<td></td>
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<td>For example,</td>
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<td></td>
<td></td>
<td>- Prior franchising experience, management knowhow, entrepreneurial affinity</td>
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<tr>
<td></td>
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<td>- Prior industry-related experience</td>
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<td></td>
<td></td>
<td>- Financial assets</td>
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<tr>
<td>Financial assets</td>
<td>11</td>
<td>What are the capital-intensive factors of implementing and operating the franchise network in the host country?</td>
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<td>For example, financing of physical assets, such as fleet, real estate and store layout, as well as human capital assets</td>
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<td>12</td>
<td>Does the franchisor participate in some form of equity investment or provide finance to the franchise partners?</td>
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<td>For example, support with the financing of site location/real-estate, fleet, buy-back of depreciated/old fleet, cheap loans, favorable fleet purchase conditions, insurance conditions</td>
</tr>
</tbody>
</table>
13 Which financial challenges does the franchisor face with the franchise network expansion in general and to risky countries in particular?
- Indicator for the importance of the franchise partner's financial resources with the implementation of the foreign franchise network

14 Which cultural, economic and institutional differences exist with the expansion into host countries?
- Cultural differences of ethics, tastes, habits, preferences, income, media habits, values, languages, business attitudes
- Economic differences, such as level of demand and competition, business infrastructure
- Institutional differences and hazards, such as regulations, legal system, politics, corruption, property rights protection

15 How time- and resource-consuming is the knowledge exploration and adaptation process?
- Transaction costs due to environment uncertainty

16 Which location-specific adaptations has the franchisor performed in corporate countries?
- Transaction costs due to environment uncertainty

17 Are the processes of the franchise business format well-documented?
- Standardization of the franchise business format, such as franchise manual, operations manual, marketing manual

18 What makes part of the network set-up services?
- Indicator for standardization of the initial set-up support
- For example, training, corporate identity design

19 How does the franchisor search for and screen new partners? How much effort does he dedicate into it?
- Indicator for standardization of the recruitment process

20 Which other support functions does the franchisor provide to the local partners?
- Standardized support services of the franchisor, such as meetings, trainings, consultations, centralized franchise department

21 Which scale advantages can be achieved through the standardization of the franchise business format?
For example, scale advantages in recruitment, set-up, monitoring, quality control, purchasing, marketing, advertising

22 Which costs do arise for the franchisor if he terminates the franchise agreement with the local partner?
- Indicator for the franchisor's hold-up risk
- Switching costs, such as disappearance of local franchise network, property rights dissemination risk

23 Which are the franchise partners' investments with the implementation and operation of the local network?
- Tangible and intangible transaction-specific investments of the franchise partner

24 Can the franchise partner use these investments after contract termination?
- Indicator for hold-up risk of the franchise partner

25 Which costs do franchise partners incur in case of contract termination?
- Indicator for hold-up risk of the franchise partner
- Loss of quasi-rent, such as initial fee, brand awareness creation

26 How do geographic distance and dispersion of franchise outlets affect the franchise product and service quality standard in host countries?
- Opportunistic behavior such as free-riding, under investment, adverse selection

27 How do cultural and geographic distance of franchise outlets affect the franchisor's monitoring effort?
- For example, travelling intensity, frequency of site visits
- Indicator for autonomy versus hierarchical governance

28 Which monitoring devices does the franchisor apply?
- Indicator for coercive versus non-coercive control mechanisms
- For example, random vs. frequent site visits, audit system and reporting, customer complaint management

29 Which terms and duties does the franchise contract cover?
- Coercive control, such as performance schedule, territories, fees, market research, reporting, local advertising, service quality, non-competition clause, termination clauses, contract length

30 How does the fee structure of franchise agreements look like?
- Fee structure, such as initial fee, territory fee, royalties and advertising fee, as well as price bonding

31 What are the reasons for contract termination?
- For example, bankruptcy of franchise partner, breach of contract, such as under-investment

32 Which terms and conditions apply to sub-franchising?
- For example, fee structure and profit distribution, control and monitoring.
Appendix 2: Selected quotations (empirical pattern codes) regarding the franchise governance modes and their determinants

'I INTERNATIONAL FRANCHISE GOVERNANCE MODES' (dependent variable)

<table>
<thead>
<tr>
<th>MAIN CODES</th>
<th>WOS</th>
<th>JVF</th>
<th>MDF</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIXT</td>
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</tbody>
</table>
| Basically, we started with a corporate expansion in Europe, which means expanding outside Germany by establishing our own foreign subsidiaries. Besides Germany, we own rental offices in the core European countries like Belgium, France, Luxembourg, UK, the Netherlands, Austria, Switzerland and Spain.

EUROP CAR
- We have a European network of almost exclusively corporate countries. We call them corporate countries [these are countries where wholly-owned subsidiaries are established]. These are our own countries, where our own national companies operate. This takes place in the major markets in Western Europe, that is Germany, France, UK, Spain, Italy etc. the seven major countries in total ... Last year we acquired the master franchise in Australia and New Zealand.

SIXT
- Due to the distance of the markets in Asia, we have established a joint venture with a local partner in Singapore. Only for the reasons to reduce the costs and risks caused by such an expansion. The joint venture in Singapore is not an operational unit. This is a development unit, which is responsible for searching new franchisees throughout Asia, training and supervising them.

EUROP CAR
- Usually we do not enter into joint ventures. There is one exception and that is China where joint venture franchising makes sense. Market access is very difficult, the legislation, foreign investment issues, etc.

SIXT
- We have grown incredibly in the last 10 years. In addition to strengthening business in our European core markets, our strategy is to expand presence in the other regions of the world by partnering with highly efficient franchise partners...Generally we have one master developer per country. We never have two partners in one country.

EUROP CAR
- Since 10 years, our strategic goal is to build our network around the world. We do this usually with individual franchising, meaning we go to the respective country and look for a partner, and if we succeed, the partner will be given the franchise license for the whole country. Most franchise companies operate their own outlets and stations.

SIXT
- We have an incredibly strong presence, to provide a 100% brand performance, as in markets which are not yet developed or less mature.

EUROP CAR
- Our objective is to build our network all around the world. We want to really become a global player. A single global provider. This is happening since 10 years. To ensure this, we developed a strategy of establishing almost exclusively a European network of corporate countries.

EUROP CAR
- We have been a global player for some time. To maintain this status, we need to continuously develop our network in Europe.

EUROP CAR
- The master developer basically has the option to also acquire sub-franchises, but in the contract, of course, we secure that master developers operate the most important territories by themselves. That depends on the territory. Some territories are so small that sub-franchising is not yet developed.

SIXT
- In the United States of America, we have formed a global Alliance with Vanguard that is National / Alamo, which were then bought by Enterprise. We now have a global alliance with Enterprise / National / Alamo. So we have practically covered the North-American market through such a partnership, global alliance. They send us their business for Europe, we send them our business for USA. That is a partnership. And that was important to us. Because many of our customers also want a service in this market [USA], and vice versa, if they [Enterprise] have customers that are travelling to Europe and the Middle East, then we are the right network for them.

EUROP CAR
- Sub-franchising is the exception and the partners need to get approval from us. In Russia, we have already approved one or two of these sub-franchises.

SIXT
- The two criteria for subsidiaries are market potential in Europe and proximity to the German headquarters. The larger the geographic distance between our headquarters and the foreign country is, the less control we have. That is very clear.

EUROP CAR
- We establish corporate operations in the markets in which we have an incredibly strong presence. To provide a 100% brand performance.

EUROP CAR
- Do the products that I offer in Germany also make sense in India or in China? In this respect, I may offer other products, adopt a different approach and a different organizational structure, simply spoken, because also the qualification of the staff in India or China are very different.

EUROP CAR
- If you want to enter into a market and establish your brand there, the franchise model has been proved to be the quickest way to achieve a reasonably relevant market position.

EUROP CAR
- To grow fast and efficiently without investing own resources in the countries outside of corporate Europe, we are looking for partners and providing them exclusive franchise licenses for the whole country territory.

' STAND ALONE AND ADAPTATION STRATEGY'

<table>
<thead>
<tr>
<th>MAIN CODES</th>
<th>Synergistic scale advantages</th>
<th>First mover advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIXT</td>
<td>Do the products that I offer in Germany also make sense in India or in China? In this respect, I may offer other products, adopt a different approach and a different organizational structure, simply spoken, because also the qualification of the staff in India or China are very different.</td>
<td></td>
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<tr>
<td>EUROP CAR</td>
<td>If you want to enter into a market and establish your brand there, the franchise model has been proved to be the quickest way to achieve a reasonably relevant market position.</td>
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<tr>
<td>EUROP CAR</td>
<td>To grow fast and efficiently without investing own resources in the countries outside of corporate Europe, we are looking for partners and providing them exclusive franchise licenses for the whole country territory.</td>
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</tr>
</tbody>
</table>
## SYSTEM-SPECIFIC ASSETS

<table>
<thead>
<tr>
<th>Brand name</th>
<th>IT</th>
<th>Partnerships</th>
<th>Global network</th>
<th>Global customers</th>
<th>Products</th>
<th>Human capital</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SIXT</strong></td>
<td></td>
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<tr>
<td>The “Sixt” brand name in particular is a significant asset.</td>
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<td>SIXT</td>
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<td>SIXT</td>
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<tr>
<td>SIXT has created the most elaborate software of the car rental industry, including internet booking solutions, central billing and yield management systems.</td>
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<td>SIXT</td>
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<td>SIXT Flexible agreements with vehicle manufacturers enable the company to a certain extent to stagger vehicle orders over a period of time to meet concrete demand.</td>
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<td>SIXT</td>
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<tr>
<td>SIXT In Germany, Sixt has a market share of over 30%, making it the market leader.</td>
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<td>SIXT</td>
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<tr>
<td>SIXT Covers over 70% of the European rental market.</td>
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<tr>
<td>SIXT</td>
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<tr>
<td>EUROPCAR If you want to be global player, you need to have a solution for the United States. This is the largest vehicle rental market. Therefore, we entered into a strategic alliance with Vanguard. We now operate in the EMEA market, which is Europe, Middle East and Africa, while the US market is covered by our alliance partner.</td>
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<tr>
<td>EUROPCAR</td>
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<tr>
<td>EUROPCAR We constantly establish strategic partnerships that reinforce our position in our markets worldwide. Our most important strategic partners are easyJet, Europe’s leading low-cost airline, Accor, the European leader and world’s third largest hotel services group, TUI, the world’s largest tour operator, and SWISS International Air Lines. In addition, we have strong relationships with the automotive industry, as a purchaser of fleet covered by buy-back commitment from the manufacturers.</td>
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<tr>
<td>EUROPCAR</td>
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<tr>
<td>EUROPCAR We acquired a large number of new customers, including some high-profile international corporations and middle-market companies.</td>
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<td>EUROPCAR</td>
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<tr>
<td>EUROPCAR In addition, we continuously intensify our business with private customers and holidaymakers.</td>
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<td>EUROPCAR</td>
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<tr>
<td>EUROPCAR This strategy has allowed Europcar to further expand its presence by gaining access to a broader base of customers. Europcar and easyJet together have served nearly 2 million customers.</td>
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<tr>
<td>EUROPCAR</td>
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<tr>
<td>EUROPCAR We just launched a new product for urban customers and small and medium-sized businesses, the EuropcarClub. This subscription-based system offers a real alternative to car ownership, with the possibility of occasional car rentals that allow customers to save money and reduce CO2 emissions.</td>
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<tr>
<td>EUROPCAR</td>
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<tr>
<td>EUROPCAR The personal skills and know-how of our employees constitute an important success factor and guarantee service quality. If, for instance, there is a higher turnover and therefore a loss of know-how, this could affect the quality of service in the car rental business. We guard against these risks through increased involvement in training and professional development, as part of our corporate culture and through the use of incentive systems.</td>
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### MAIN CODES

- **SIXT**
- **EUROPCAR**
- **IT**
- **Partnerships**
- **Global network**
- **Global customers**
- **Products**
- **Human capital**

**SIXT**
- The “Sixt” brand name in particular is a significant asset.
- SIXT has created the most elaborate software of the car rental industry, including internet booking solutions, central billing and yield management systems.
- Flexible agreements with vehicle manufacturers enable the company to a certain extent to stagger vehicle orders over a period of time to meet concrete demand.
- In Germany, Sixt has a market share of over 30%, making it the market leader.
- Covers over 70% of the European rental market.
- Our sales department takes care of multi-national key accounts.
- We acquired a large number of new customers, including some high-profile international corporations and middle-market companies.
- In addition, we continuously intensify our business with private customers and holidaymakers.
- This strategy has allowed Europcar to further expand its presence by gaining access to a broader base of customers. Europcar and easyJet together have served nearly 2 million customers.
- We just launched a new product for urban customers and small and medium-sized businesses, the EuropcarClub. This subscription-based system offers a real alternative to car ownership, with the possibility of occasional car rentals that allow customers to save money and reduce CO2 emissions.
- The personal skills and know-how of our employees constitute an important success factor and guarantee service quality.

**EUROPCAR**
- We received numerous awards, including the World Travel Award for “World’s Leading Car Rental Company” for the 10th consecutive year.
- We were also named “Leading Car Rental Company” in Europe, the Middle East, Africa and Central America, reflecting the high quality of its services around the world.
- Through our IT platform we manage the business of all our subsidiaries and the reservations for our franchise network around the world, including sales, marketing, billing and insurance, as well as fleet management and maintenance.
- We constantly strive to anticipate our customers’ needs by innovating to provide new services.

**IT**
- A complex, high-performance IT system is essential for processing rental transactions. System malfunctions and failures can cause considerable problems in operating processes and, in serious cases, even bring them to a standstill. In order to counter these risks, we have our own IT department.
- We use a variety of IT systems. The car rental business deals with huge investment volumes. To make car rental business profitable, one must primarily know the costs and key performance indicators. First and foremost, this is a matter related to IT. An IT system is a prerequisite for the management of the whole story and one of the main success factors of car rental business.
- Through our IT platform we manage the business of all our subsidiaries and the reservations for our franchise network around the world, including sales, marketing, billing and insurance, as well as fleet management and maintenance.
- Depending on market requirements, we offer customer-segmented mobility services, such as “Sixt Limousine Service & Chauffeur Drive”, “SIXT holiday”, etc.
- We just launched a new product for urban customers and small and medium-sized businesses, the EuropcarClub. This subscription-based system offers a real alternative to car ownership, with the possibility of occasional car rentals that allow customers to save money and reduce CO2 emissions.
- The basic principle of our business policy remains to develop sophisticated IT systems and to invest in new technologies. Accordingly, every year, we think of what to customize and how to become better. These innovations are important features that distinguish us from our competitors.
### 'SYSTEM-SPECIFIC KNOW-HOW AND CAPABILITIES' AND THE 'FRANCHISE PACKAGE'

<table>
<thead>
<tr>
<th>Operational know-how</th>
<th>Strategic know-how</th>
<th>Transfer capabilities</th>
<th>Franchise package</th>
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<tbody>
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<td>Six were one of the first providers in the market to analyze the costs of the entire rental process, including selection of manufacturer, booking channels, vehicle check-out and return, accident management, etc.</td>
<td>We have experience and know-how in the car rental industry since 1912.</td>
<td>The better you become, the more you learn, the better you handle the countries, the more you think about expansion.</td>
<td>Our franchisees benefit from our worldwide network, e.g. having access to existing international key accounts such as EADS, Siemens, McDonald’s, Danone, KMPG, UPS as well as integration in our global call center system generating millions of reservations per month.</td>
</tr>
<tr>
<td>We reduce bureaucratic administration and focus on sales and marketing to support our franchise partners' operation.</td>
<td>We have pursued a very cautious fleet policy. The reduction in the fleet size, combined with strict cost management and successive price increases, subsequently led to an improvement in earnings.</td>
<td>Of course, I make sure that I find people who have an academic background and have a certain intercultural experience.</td>
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<td>It is of course our expertise to perform car rental business efficiently...It is important that you are familiar with certain procedures, for example claim management and the expenditures. If a car is damaged during the rental process, then it has to be managed very efficiently in order to avoid high sunk costs otherwise. There are special procedures to detect and report damage, immediately repair the car and bring it back into our IT system.</td>
<td>We accelerated the implementation of programs designed to integrate recent acquisitions, as well as numerous initiatives to improve network and fleet productivity.</td>
<td>We are a German company and a lot of our communication is in German. This might create the impression that we operate internationally in the same way as in Germany. But that’s not the case. Our operations are adapted to the specific markets. For example, software, webpage, corporate identity features, etc. all are adapted to the country and the local business plan.</td>
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**MAIN CODES**

**SIXT**
- Our activities involve entering into a large number of different agreements. This is generally only possible by using standardized agreements. This means that even minor inaccuracies in the wording or changes to the legal framework could have a material effect on business activities. We counteract this risk via contract management with the help of legal experts.
- Marketing has been a core competence of Sixt. Driven by innovation, a major portion of our growth can be attributed to fabulous advertising and multi-awarded marketing strategy.

**EUROPCAR**
- In Europe, the Middle East and Africa, we have established our network fully. In Latin America, there are still a few countries left. We negotiate for Chile, Brazil and Colombia. Bolivia and Paraguay are not interesting as there is no market for car rental business. We conducted a market analysis in both countries and the whole rental process is made up by 1000 cars. That does not make so much sense. Of course, at some point we will deal with Paraguay and Bolivia, but at the moment we are dealing with Brazil and Chile, Korea, perhaps also Taiwan...
- One has to be flexible enough to implement the criteria according to local requirements. For example, we could suggest making the contract "offshore".
- We have a highly experienced franchise team at headquarters. One colleague has been a former fleet director while the other one was operational director in France. Further colleagues are from Holland and UK. So we are a multicultural team. We still have one colleague in Florida who is in charge for Latin America, and the one in Bangkok is responsible for Asia.
- We transfer business planning tools, fleet cost calculation schemes and customer margin analysis models to help our franchisees secure their investments and build a profitable business.

**SIXT**
- We extend our European and pan-European framework agreements with Daimler, Volkswagen, etc. to our franchise partners as well.

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**EUROPCAR**
- Our network structure and procedures, business plan, the whole knowledge to run a reasonable car rental business are transferred as part of the franchise package to our partners. Of course, they must accept our corporate identity, and will receive training on that. Our marketing package is a virtual marketing agency where all of our advertising campaigns and tools can be downloaded, such as poster templates. We teach our partners to produce their own flyers and posters.
- I can tell you from experience that someone who acts as part of the Europcar group, will receive better financial conditions. Being part of the franchise system opens profitable funding opportunities.

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**SIXT**
- Our franchisees benefit from our longstanding relationships with leading car manufacturers, such as Mercedes-Benz, BMW, Audi, Ford. Nevertheless, the franchise agreement does not guarantee preferential purchasing conditions.
- We transfer business planning tools, fleet cost calculation schemes and customer margin analysis models to help our franchisees secure their investments and build a profitable business.

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**EUROPCAR**
- Our online reservation platform will be tailor-made to local country needs by offering the same Sixt-corporate identity.

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Local market assets and resources

**SIXT**
...which is positive because he [the franchise partner] knows the market, he probably already celebrated success stories there, he is adding an existent business volume to the local franchise operations, and we will naturally more quickly achieve a certain market position.

**EUROPACAR**

These [our partners] are either automobile dealers, importers, someone from the travel industry or who has his own workshop or a bit of infrastructure.

If he now has a counter at the airport, then this is usually his asset. And our partner in India is Jet Air, the second largest airline company. They have a structure anywhere in India, they have good contacts to the airports and now fly to Europe.

Getting market access to the USA, you need to be located at the airports. This is a very big hurdle to enter the market because contract negotiations are very tedious and there are no spare capacities at the airports.

This depends a bit on the situation in that particular country. The manufacturers do not always offer the same conditions for all countries. Therefore, due to the country-specific situation, to each country apply different vehicle purchase conditions in Europe.

Local operational & strategic 'car rental' know-how

**SIXT**
...if he ensures that added-value comes into play, such as insurance, fleet purchasing, etc. then this will be his business model in the country...

We had the opportunity to open a development office with a partner in Asia. This partner is naturally interested that we work relatively efficient there. The partner has also a management function and we now try via this joint venture office to acquire franchise partners throughout Asia and supervise them on site.

Today we have a franchise partner in Switzerland, probably contributing one of the best results in our network. So you can see that local expertise and synergies make sense...

**EUROPACAR**

It is the partner's knowledge that will take us quickly into the market. It is all about speed.

We want to have people who can deal with cars and understand the business. This are people who own local car rental companies or who are in the automotive business. We believe there are a lot of synergies.

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Local market assets & know-how exploration

**SIXT**

It is essential for our partners to adapt their products and services to the changing economic and social environment and to the individual requirements of their customers.

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Capital-intensive tangible and intangible investments

**SIXT**

For example, in most countries in Eastern Europe, the population is moving between 2-10 million inhabitants. Hence, in most cases, there is a major city and many smaller cities, and the focus of development will be of course, to build a network in this major city, at its airport, and maybe 1 or 2 additional city offices.

Physical assets, fleet and staff are the largest costs, which the partner must finance.

In some contracts, we also include minimum capital requirements. Because in the first two years, they [our partners] will definitely not achieve a break-even point.

**EUROPACAR**

The partner must be able to establish a car rental business. This means having money or options to finance it. 100 cars simply cost money, and you need to cough up some millions.

We operate in a capital-intensive business. The investments are large. Therefore, we do not want to establish a company in each country. This is simply too costly.

We cooperate with solvent partners who will not, after a year or so, notice that they do not have enough financial resources.

The most important thing are the cars and the costs of financing. As a rule, fleet covers 50% of the total investment volume.
### 'TRANSACTION COSTS DUE TO ENVIRONMENTAL UNCERTAINTY'

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<th>Economic uncertainty</th>
<th>Institutional uncertainty</th>
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<td>Cultural and political stability are of course critical factors to consider with the expansion into foreign countries. We would definitely not invest in Russia in the next 5 years, simply because the legal uncertainty is so great, the language barrier is so large, and cultural differences are so great. So, this is certainly one reason to franchise.</td>
<td>Demand in the vehicle rental business is also dependent on numerous random factors, such as the weather and short-term changes in customers’ mobility requirements, and is therefore intrinsically difficult to forecast.</td>
<td>The vehicle rental industry continues to be dominated by intense predatory competition, in which price is also a factor.</td>
</tr>
<tr>
<td>Cultural factors are very great. Regarding franchising in Asia, it is quite clear that each Asian market has different conditions.</td>
<td>The expansion strategy involves various risks including market-specific, legal, fraud, financial and personnel risks. These include possible incorrect assessments of market conditions in the countries in question, changes to national legal frameworks, the costs associated with the establishment of an effective infrastructure and the need to find qualified management personnel and suitable employees.</td>
<td>Our business is influenced by a number of different legal systems. These include road traffic, environmental protection and public order regulations, tax and insurance laws, and capital market regulations.</td>
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<td>EUROPCAR Australians have a quite similar business understanding as ours, as compared with Japan or Indonesia for example. That’s why we decided to convert the Australian master franchise license into corporate operations.</td>
<td>The political stability of countries is very important. Who wants to invest in North Korea or Afghanistan where there is war? We rather cover risky countries, such as Syria, with our partners. This is our principle.</td>
<td>The question is whether the partner can continue car rental business without the former trademark.</td>
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### 'TRANSACTION-SPECIFIC INVESTMENTS OF THE FRANCHISE PARTNER'

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<td>Investments into the store, corporate design, all these are 100% system-specific, even staff training. To improve service quality in the vehicle rental area, we also took on staff who were previously employed by our partners.</td>
<td>Initial Fee, of course we do not pay back. Also the franchise store, which is held 100% in the Sixt design, the partner can no longer use, if the contract is over.</td>
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<tr>
<td>EUROPCAR We operate in a capital-intensive business. The investments are large. Our partner invests into the brand to gain a presence with the local network.</td>
<td>EUROPCAR If the contract is over, then the franchisee is on his own. Whatever he has invested in the brand, in the awareness of the Europcar business, he will lose. For instance, the partners must spend 3% of their turnover on local advertising.</td>
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For a year or so, we screened applicants based on financial information by credit institutions and business partner references. We like to ask for references. We just call people over the telephone. If our potential partner is a car dealer, then we would call the manufacturer.

**EUROPCAR**
Sometimes it is us who contact the potential partners, sometimes they approach us. We use all the elements to find an appropriate partner, also a local consultant. All information about potential local car rental companies, leasing companies, banks, which could be interesting for us to partner with. Partner selection is a systematic process.

For a year or so, our man in Bangkok established contact with potential applicants. Now we found one. This is a bank that is into the leasing business.

**EUROPCAR**
That's part of the whole package. We have developed an internet platform for our partners. This is like a virtual marketing agency, including all our advertising campaigns and the tools you need for it, such as any templates, posters.

**EUROPCAR**
The first week is called our introductory week. We show our partners how to conduct an efficient car rental business according to our standards, how to set up a station, and, of course, we will connect them to our reservation system.

**EUROPCAR**
We visit our partners once a year and carry out an audit, for instance, regarding the state of the fleet and the local network overall. And then we have the official audits of accounts, books, operations, etc. conducted by our internal audit department once every few years. We also implemented a complaint management system to find out where the causes of customer dissatisfaction lie.

In Hamburg, there is a large training center. Training is part of the franchise system. We teach our partners on what makes up the Europcar system. Of course they must accept our corporate identity.

We organize regional meetings once a year for each region. The supervision of our franchise partners is quite intense and we travel a lot. We have four regional directors at headquarters plus two persons on site in Asia and Latin America respectively, who take care of the countries.

**EUROPCAR**
We conduct on site audits based on demand potential as well as customer complaints over quality.

The Sixt marketing team supports the partners in implementing the system and quickly and efficiently growing the business through advertising assistance.

In order to enhance the communication and best practice exchange between the countries in terms of corporate sales, marketing and operations, we have structured the Sixt world in 6 geographical areas. Once a year, area summits will be held in every region. In each Sixt area, one area director is in charge of coordinating the region with a direct link to Sixt headquarters.

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When I get to exotic countries where people probably do not have so much experience with the car rental business yet, then knowhow transfer is not so easy. It is different if one talks with people from Poland as with people in Honduras.

We use franchising in the markets that are remote and where we can use less logistical synergies. The greater a country’s distance from system headquarters, the less control we have and the more likely franchising will be our chosen distribution strategy.

The qualifications of the staff in India, in China are very different. The cultural differences, the salary structure and the personnel situation are country-specific. 

EUROPCAR
Europe is not a big problem. But the further you get away from Europe, the more difficult monitoring of the franchisees will be.

We had to develop a strategy of how to expand to very distant countries, not only in terms of geographic distance, but also the culture and business attitude. So there is not much choice but to franchise.

We want to develop the Asia Pacific region. And our corporate unit in Australia gives a little stability in the structure. If we would only work with franchise partners there, then these would be quite far away.

There are always country-specific characteristics and differences. In Asia, they work differently than in Africa or in Europe.

We know that one cannot apply the same standard in Zimbabwe as in Germany.

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