Franchising and the Internationalization of businesses: the case of fast food chains

Fadil Alnassar1

Kingston University
River House, 53-57 High Street, London, United Kingdom
e-mail: fadilalnasser@gmail.com

Abstract:

The objective of this paper is to investigate the role of franchising in the process of internationalization of the fast food industry. The paper hypothesizes that franchising is an effective means of internationalization in the fast food industry that increases the revenues of the company. The hypothesis of the paper will be tested using the linear regression analysis. This analysis studies the relationship between revenues (dependent variable) and the number of outlets and the number of employees (independent variables). The sample includes 15 fast food chains from the list of 100 top franchises of 2017. The study of the annual reports of these 15 fast food chains revealed a correlation between the company’s decision to go global through franchising and the growth of its revenues. It is necessary to build a literature on the role of franchising in the internationalization of business. The originality of this paper lies in the way it seeks to illuminate future academic research on the impact of franchising as an internationalization process on business revenues.

Keywords: internationalization; franchising; fast food; revenues; factors

JEL codes: F26

1. INTRODUCTION

The internationalization of business operations is the most critical decision a company may take. Internationalization can be defined as the process whereby a company starts to operate across national borders (Malhotra & Hinings, 2009). Business operations can go global in different ways, including management contracts, concessions, franchising, mergers and acquisitions, and franchising (Williams & Shaw, 2011). These models are usually affected by a number of factors that have been labelled “push and pull” factors (Malhotra & Hinings, 2009). The internationalization of business in the fast food industry is mostly done through franchising. Academic research has, so far, focused on these “push and pull” factors and on the

1 Bachelor of Computer Science (Kingston University London, United Kingdom). Currently working towards a PhD by Publication (Kingston University London, United Kingdom) His research interests include franchising, IT, Web technology and franchising and business management.
internationalization models in retailing and services. The study of franchising as an internationalization process in the fast food industry is still a novelty.

This paper focuses on franchising as an internationalization process in the fast food industry. Franchising is an important business form in the fast food industry, given the fact that the biggest food chains in the world use it to expand their business operations locally and internationally. Fast food franchising accounted for 25% of all franchises in 2016 (Food Franchise Industry Report, 2016). In the US, alone, fast food franchises employ 4 million people and generates some $570 billion a year (Food Franchise Industry Report, 2016). However, research on the role of franchising as a tool of business expansion in the fast food industry is still in its infancy. Previous studies have focused on the role of franchising in other sectors, such as retailing, automobile and services. This paper seeks to investigate the role of franchising in the process of internationalization of the fast food industry. The paper hypothesizes that franchising is an effective means of internationalization in the fast food industry that increases the revenues of the company. Using the available statistical data, the hypothesis of the paper will be tested using the linear regression analysis.

The study seeks to contribute to the debate on franchising in relation to business internationalization. By focusing on fast food chains, the paper gives empirical evidence as to the role of franchising as an internationalization mode. The study has two sections. The first section surveys the literature available in the fields of business internationalization and franchising. The purpose of this section is to establish a theoretical background where the two fields can be brought together. The second section of the paper makes a practical approach to the topic. It uses a linear regression model to measure the correlation between business internationalization and franchising.

2. LITERATURE REVIEW

Over the last forty years, franchising has been regarded as strategy for growth (Dixon & Quinn, 2004). As a subject of academic research, franchising is usually divided into two styles: trade-name franchising and business-format franchising (Dixon & Quinn, 2004; Sadi & Henderson, 2011). In a brand-name franchise, the franchisee is allowed to either distribute the product/service or use the trade mark in return for some money he pays to the franchisor (Dixon & Quinn, 2004). In the business format franchising, the franchisee outsources the whole business method to the franchisor (Dixon & Quinn, 2004). Business-format franchising seems to be the norm in the fast food industry. It has a number of benefits for both the franchisor and the franchisee. The latter is attracted to it because it provides him with a proven business blueprint, professional training and technical support (Khan, 2016). US franchisors are attracted to the global market because they see in it three essential factors of business success: the existence of a middle-class consumer yearning for their product/service, a secure and favourable business environment, and a willing investor (Affes, 2016).
Table 1. Thematic Literature Review Table

<table>
<thead>
<tr>
<th>Study</th>
<th>Field</th>
<th>Outcome measure</th>
<th>Relevant findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malhotra, N., &amp; Hinings, C.J. (2009). An Organizational Model for Understanding Internationalization Process. <em>Journal of International Business Studies, 41</em>(2), 330-349. DOI: 10.1057/jibs.2009.75</td>
<td>Business &amp; Tourism</td>
<td>Establishing a theoretical framework for the study of internationalization process</td>
<td>The study offers an understanding of the process of internationalization that can be used in future research. It defines it as a process whereby a company decides to move beyond national borders.</td>
</tr>
<tr>
<td>Hynes, B. (2010). International Small Business Growth: A Process Perspective. <em>Irish Journal of Management, 29</em>(2), 87-106</td>
<td>Business &amp; Tourism</td>
<td>Establishing a link between Internalization and Innovation in the tourism industry</td>
<td>The process of internationalization is triggered by the company’s decisions to increase their profits and enhance their competitive advantage.</td>
</tr>
</tbody>
</table>

### Theme: Fast Food Franchising


There is a growing literature on the role of franchising as internationalization mode.

- Franchising offers a model whereby the business design is transported beyond national borders.
- Fast food franchising in Saudi Arabia offers a fertile ground for the study of business internationalization.
- Empirical data is still needed to prove the link between franchising and business internationalization.
3. UNDERSTANDING THE PROCESS OF INTERNATIONALIZATION IN RELATION TO FRANCHISING

A number of studies have sought to understand the process of internationalization in the franchising sector. These studies offered several ways to define the internationalization and franchising processes. Hynes (2010) believes that the internationalization process actually represents a route for business growth when companies seek to expand their business outside of their local markets. The study explores the process of internationalization in a sample of Irish small and medium enterprises (SME). It includes examinations of 80 SMEs. The gathered data show that the majority of respondents were forced to turn to exports mostly due to a lack of market opportunities in the domestic market. They were required to export to the UK market instead as their first location. This lead them to adopt a phased approach to internationalization. According to the study. Any kind of SME internationalization represents is a series of interrelated activities. These activities are all part of the overall growth strategy of the company. The paper also offers some suggestions for government policy to develop more SME-targeted financial supports used for development of the export capabilities. Similarly, Owusu and Habiyarake (2011) investigated how seven Finnish business-to-business companies have overcome risk and turbulence in their internationalization to South Africa. The study finds that the levels of perceived risk and turbulence were high in the market and the firms have used networks, alliances, gradual involvement, and a combination of entry modes to deal with the situation. Guercini and Runfola (2010) conducted a research project about different theoretical perspectives on the various business networks and their role in the process of internationalization. Their specific study is conducted on a vertically integrated company in the fashion supply chain, which has implemented branding and retailing strategies in international markets. The study aims at an in depth analysis of the extent to which business relationships represent a learning context involving opportunities/constraints in the internationalization process. They have also offered an explanation of the relationship between the specific business model, the international patterns followed, and business relationships.

The second trend in the literature available has been interested in identifying the scope of the internationalization process in relation to franchising. Several studies have been conducted to investigate and identify main reasons and motivation for companies and firms to go global. Zarei, Nasseri and Tajjedin (2011) argue that SMEs entry into international markets causes their growth but also influences national economic raise. Rask (2014) maintains that the internationalization process via business model innovation leads to a new or a renewed business. This is also very important point because little attention was given to the subject, assuming that internationalization is desirable per se. The study intends to build a conceptual model from the studies on business model innovation, internationalization of the firm, international entrepreneurship, and global marketing, and thus support the claim about the importance of the internationalization. Rask (2014) offers a model
to investigate internationalization through business model innovation. The model includes design dimensions, which are domestic or globalized in upstream production as well as in downstream markets. There is another reason why SMEs should go international, which was not previously examined enough. Knight & Daekwan (2009) find the internationalization of SMEs growing. This is very important because such companies typically have much less financial resources than large multinational companies. The implication is that international business is often more challenging for smaller organizations. The paper offers a thorough investigation of the widespread internationalization of SMEs, as well as specific factors which support their better performance outside the home country. The results they found suggest that international orientation, international marketing skills, international innovativeness, and international market orientation are all significant indicators of international business competence. The other finding imply that international business competence is instrumental in SME international performance.

There are two standpoints about whether internationalization and franchising do indeed help companies to profit and extend their business outside local markets. Several studies show that these processes are helpful. Doherty (2009) shows that there is too little research about companies’ decisions to choose franchise markets and partners, even though it is an obvious fact that there is a prevalence of franchising as a starting step for just about any international retailer. It usually amounts to a strategic partner selection process which includes factors related to finance, business, brand, and cooperation between the partners and the key factors influencing partner selection. On the other hand, however, there are cases of an opportunistic view to market and partner selection. In such cases partner selection directly influences market selection (Doherty, 2009).

There is another related question which is still understudied in the relevant literature. Why should we rely on internationalization processes? What if this process is actually not recommended but rather some sort of de-internationalization? Could it be that the latter might actually improve business? (Turcan, 2011). Despite the substantial progress made by scholars in the domain of international entry mode, there is still no adequate explanation of how companies operate in foreign markets. While the extant literature emphasizes the role of domestic and foreign country factors on the initial choice of foreign market entry mode, less is documented on the effect of changes in the external environment, or indeed internal changes within the firm on the continuance of internationalization beyond selection decisions. In response to the above questions, Turcan (2011) proposes a dynamic conversation about de-internationalization. The concept of de-internationalization is to be understood as part of the broader perspective of the overall cross-border strategy of a company. At the same time, however, the present research on de-internationalization is still scarce and needs to be developed.

Contemporary business both international and domestic cannot avoid issues related to the workplace. Such issues usually amount to interpersonal relations among employees at workplace. It is, therefore, important to study the exact influence of such items on internationalization processes. For example, as found in
Pathak (2011) it is an important question of management of mixed culture which serves as a role in the process of development of business. Even though diversity is a notable issue in many professional organizations, prominent firms do their best to manage this fact to their full advantage. Such organizations are managed in order to obtain a significant advantage in the global and in some cases local market place. Basically, the entire purpose of managing diversity is being advanced for the purpose of bringing out the best of employees’ attributes, such as talents, abilities, skills etc. These attributes are for the benefits of individual employees as well as the well-being of the corporation. The study shows that when workforce diversity is successfully managed, no employee in the company feels disadvantaged. Pathak finds it obvious and interesting that more and more contemporary companies are beginning to recognize and implement the power of workforce diversity. Further research is required on the process of embracing new structures and work practices which are completely different from the ones that were traditionally implemented and followed. More research is also required to investigate these reforms and current weaknesses in the traditional management system. Pathak also discusses different ways of need for employees to understand and accept the values of differences among them. Last but not the least, speaking of the justification of the internationalization and franchising processes, the questions of productivity and increased performance are inevitable. Brock & Alon (2009) conducted a research on internationalization issues and processes. It is required to explain the exact relationship between internationalization and performance, with special focus on dynamic context of professional service companies.

The pathways to internationalization need also to be investigated. A few attempts have been made to study the different forms internationalization can take. For instance, Arregle et al. (2012) studied the pathways to internationalization in relation to family-controlled companies. The study contributed to the discussion of the different agents that should be involved in the internationalization process. It investigated the role of the external parties in the governance, such as board of directors in their internationalization. Another way of going international is explained by Jonsson and Foss (2011) who claimed that business organizations may expand internationally by replicating part of their value chain. Using the example of IKEA, the research studied how a company can go global by replicating features at higher level (for example vision) in a uniform manner across its units worldwide.

There are several ways to implement internationalization and franchising processes. Malhotra and Hinings (2009) discuss one of them which implies an organizational model used primarily for the purpose of understanding the process of business internationalization. Any such process will differ in accordance with type of organization. Three organization processes are compared in this paper: the mass production organization; the disaggregated production organization; and the project-based organization. As already indicated, all of these types of organization respond in a different manner to features of the internationalization process, that is, the focus of entry, the degree of presence and physical presence requirements in the foreign market.
A study with similar results is offered by Williams and Shaw (2011) who have researched tourism. They attempt to explain that internationalization can be conceptualized in three different ways: (a) internationalization process as a form of innovation processes; (b) successful internationalization necessarily means innovation, and (c), internationalization implies that companies must possess superior knowledge. Alon, Ni and Wang (2012) proposed an agency-based organizational model of internationalization through franchising in on the case study of hotel sector. The analysis shows that a decision to internationalize through franchising is positively related to the percentage of franchises, the ratio of franchised units to the total number of units.

4. FAST FOOD FRANCHISING

A currently underdeveloped and promising research area is the global index of international franchise expansion. The index is very significant because it ranks countries according to their attractiveness to specific country-based franchise companies. Aliouche and Schlentrich (2011) use a quantitative model which combines insights from academic research and business practice that generate a ranking of 143 potential expansion target countries according to their risk/opportunity profiles. It is interesting to note that these rankings suggest that countries with large markets and solid political and legal systems are the most attractive for US-based companies, while the small, unstable African countries are the least attractive. For example, the study shows that China is quite attractive from a market opportunity perspective, but nevertheless not highly ranked because of their significant risks and large cultural and geographic distances.

The literature on the internationalization of fast food chains is another promising area. There has been a number of studies on the factors that help the expansion of fast food chains across the world. In an attempt to understand the financial drives behind fast food franchising, researchers have set to discover the appeal of certain fast food chains in some parts of the world. The issue has been studied from many theoretical and practical angles. For instance, a few studies have focused on the success of fast food chains in the Arabian Gulf, with a special emphasis on Saudi Arabia. The research conducted on the region testifies to the growing academic interest in fast food franchising within a global context. The results of the studies can be used to reflect the role of franchising as an internationalization model, given the fact that the Gulf region is one of the biggest markets of fast food (Randheer & Al-Aali, 2015).

Fast food outlets represent the biggest portion of the franchising market in Saudi Arabia. In 2014, there were 14,366 fast food outlets in the kingdom (Basahih, 2013). The success of the fast food franchising in Saudi Arabia can be ascribed to a number of factors, including brand consciousness, expatriate population and a large population of young people in Saudi Arabia (Randheer & Al-Aali, 2015). The young and the expatriate populations contribute to raise product consciousness, which has in turn fostered the growth of international franchising. The fast food sector is expected to grow despite the current economic slowdown, to reach a sales figures of SR259.4 billion in 2018 (Basahih, 2013).
Aaware of the demand of their products in Saudi Arabia and of the high competi-
tions in their homelands, international food chains franchise their business opera-
tion methods to local investors with the hope of bolstering global revenues.

Generally speaking, academic research on franchising in Saudi Arabia is still in
its infancy. The lack of a legal framework for franchising in the kingdom is the main
reason behind this. There is no franchising system as such in Saudi Arabia (Sadi &
Henderson, 2011). Franchise agreements are treated as commercial agreement and are
regulated by the “Agency Law”. The few studies that have been carried out on fast
food outlets in Saudi Arabia have focused either on the franchisor-franchisee rela-
tionship (Zhang, 2013; Sadi & Henderson, 2011; Jehanzeb, 2013) or on the lucrative op-
portunities presented to franchisor in the Saudi market (Ali, 2008) or still on the role
of the fast food outlets in Saudi Arabia in the growth of the mother company
(Randheer & Al-Aali, 2015). As a result, researchers who set to explore the subject of
fast food franchising focused more on explaining why it existed in the first place. They
were keen to account for the big number of food outlets in the country, relating that to
the demographic changes in the last two decades, the thriving economy, the existence
of brand conscious consumers and the expatriate population (Zhang, 2013; Sadi

In trying to account for the popularity of fast food franchising in Saudi Arabia,
researchers have focused on issues that relate to franchising in general, such as the
role of franchising in the growth and the internationalization of the mother company.
They weighed the franchising option against opening company-owned outlets around
the world (Dixon & Quinn 2004). Such studies yielded significant accounts not only
of why the fast food franchising was booming over the last two decades, but also of
the size and diversity of these outlets. For example, a study revealed that, despite the
emergence of some local fast food chains, such as Herfy, Maestro Pizza, and Kudu,
international food chains still represent (Jehanzeb, 2013). Another issue that was
highlighted in the literature on franchising was the franchisor-franchisee relationship.
This relationship has a special character in Saudi Arabia, given the fact that there is
no legal frame of franchising. Much of the research in this area has focused on how
franchisors seek to dominate and control franchisees (Harmon & Griffiths, 2008).
Other studies (Khan, 2016; Bishara & Schipani, 2014; Yang, 2013) highlight the im-
portance of trust building between the franchisor and the franchisee. In some of these
studies (Bishara & Schipani, 2014; Yang, 2013) trust has been studied in relation to
the conflict of interests between the two parties of the contract. However, these stud-
ies are concerned with the franchising system in general, and empirical data on the
connection between franchising and business internationalization is still scarce.

5. MATERIAL AND METHODS

This research sets to test one major hypothesis:

H: Franchising is an effective means of internationalization in the fast food
industry that increases the revenues of the company.
The hypothesis was tested using data from the Top 100 Global Franchises Report 2016 released by the Franchise Direct on their website (http://www.franchisedirect.com). The report provides statistical data about the top 100 global franchises for the year 2017 from different industries. This study analyses the data of 16 fast food chains out of 23 that appear on the top 100 global franchises. The report has links to a detailed analysis of each franchise’s cost and fees where the number of units and the annual revenues were given for every food chain. All the data related to business operations of the franchises in this paper was taken from this report. The data is presented in Table 1 in this paper.

The simple linear regression analysis was used to measure the growth of revenues for the 15 fast food chains. To get a clear idea of the impact of franchising on the financial growth of these companies, data on the business operations of the companies was retrieved from their annual reports of 2015 (Table 1). In the analysis of the business expansion of these chains, the researcher has used the volume of revenues per unit per $ million as the dependent variable that indicates the success of the company. A number of independent variables have been used in the analysis to measure the financial growth of the companies. These were the number of employees, the number of countries in which the company has outlets, the total number of the franchise units per chain and the revenue per franchise unit. The value of these variables is all determined according to the 2015 annual reports of the analyzed companies.

### Table 2. The Fast Food Companies’ Franchises

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of the company</th>
<th>Number of employees in 2015</th>
<th>Sales volume in billions of dollars in 2015</th>
<th>Number of countries in which the company operates</th>
<th>Number of franchise units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>McDonalds</td>
<td>420,000</td>
<td>25,413</td>
<td>119</td>
<td>36,525</td>
</tr>
<tr>
<td>2</td>
<td>KFC</td>
<td>455,000</td>
<td>23,33</td>
<td>125</td>
<td>19,955</td>
</tr>
<tr>
<td>3</td>
<td>Burger King</td>
<td>340,000</td>
<td>19,2</td>
<td>100</td>
<td>15,738</td>
</tr>
<tr>
<td>4</td>
<td>Subway</td>
<td>492,000</td>
<td>19,2</td>
<td>112</td>
<td>44,810</td>
</tr>
<tr>
<td>5</td>
<td>Pizza Hut</td>
<td>300,000</td>
<td>3,01</td>
<td>90</td>
<td>16,125</td>
</tr>
<tr>
<td>6</td>
<td>Domino’s Pizza</td>
<td>145,000</td>
<td>2,2</td>
<td>60</td>
<td>12,100</td>
</tr>
<tr>
<td>7</td>
<td>Taco Bell</td>
<td>175,00</td>
<td>1,988</td>
<td>17</td>
<td>6,321</td>
</tr>
<tr>
<td>8</td>
<td>Wendy’s</td>
<td>47,200</td>
<td>1.8703</td>
<td>30</td>
<td>6,515</td>
</tr>
<tr>
<td>9</td>
<td>Dairy Queen</td>
<td>68,936</td>
<td>2,024</td>
<td>27</td>
<td>6,670</td>
</tr>
<tr>
<td>10</td>
<td>Papa John’s</td>
<td>20,700</td>
<td>1,439</td>
<td>37</td>
<td>4,895</td>
</tr>
<tr>
<td>11</td>
<td>Hardee’s</td>
<td>21,200</td>
<td>1,288</td>
<td>10</td>
<td>2,145</td>
</tr>
<tr>
<td>12</td>
<td>Wingstop</td>
<td>8,838</td>
<td>0,0201</td>
<td>6</td>
<td>950</td>
</tr>
<tr>
<td>13</td>
<td>Little Caesar’s</td>
<td>78,250</td>
<td>3,4</td>
<td>20</td>
<td>4,100</td>
</tr>
<tr>
<td>14</td>
<td>Popeyes Louisiana Kitchen</td>
<td>2130</td>
<td>0,206</td>
<td>30</td>
<td>2600</td>
</tr>
<tr>
<td>15</td>
<td>Marco’s Pizza</td>
<td>20,000</td>
<td>0,337</td>
<td>4</td>
<td>780</td>
</tr>
<tr>
<td>16</td>
<td>Johnny Rockets</td>
<td>7,500</td>
<td>0,0478</td>
<td>26</td>
<td>360</td>
</tr>
</tbody>
</table>

Source: author’s processing based on 100 Global Franchises Report 2016 and the annual reports of these companies.
6. RESULTS AND DISCUSSION

The data on the operations of the companies was used to determine the correlation between the dependent variable and the four independent variables. (Table 2) represents the results of the analysis.

Table 3. Results of the correlation between the dependent and the independent variables

<table>
<thead>
<tr>
<th>Variable / Measure</th>
<th>Revenue per franchise unit</th>
<th>Number of units</th>
<th>Number of employees</th>
<th>Number of countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue per franchise unit</td>
<td>1</td>
<td>–</td>
<td>0,09</td>
<td>0,7939</td>
</tr>
<tr>
<td>Number of units</td>
<td>–</td>
<td>1</td>
<td>0,747</td>
<td>0,7472</td>
</tr>
<tr>
<td>Number of employees</td>
<td>0,09</td>
<td>0,7937</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>Number of countries in which it operates</td>
<td>0,747</td>
<td>0,7472</td>
<td>0,09</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: author’s calculations.

Table 2 shows the indicators in our regression model. The revenue per franchise unit and the number of countries have a high correlation rate in the analysis (0.793). This correlation suggests that the more countries the company reaches, the higher its revenues will be. An interesting correlation exists also between the number of franchise units and the number of employees in the company. The lowest correlation in the regression analysis is seen the total number of employees in the company and the revenue per franchise unit. This low correlation can be explained by the fact that these companies are different in size. To get a better idea of the correlation between these two variables, the revenue per employee must be calculated.

A linear regression model is needed to test the hypothesis of the paper. The regression model herein applied contains two variables: the sales revenues in $ million per franchise unit as the dependent variable and the number of countries in which the company operates as the independent variable. The 16 companies analyzed in this study internationalize their business operation through franchising. Through our regression model, we can see that an increase in the number of countries in which the company operates by 1 will bring an increase in the revenue per franchise unit by $ 0.06 million. Since these companies use franchising, it can be assumed that this model is effective in the internationalization of the business operations. The study of the correlation between the different variables have helped us process our regression model. Such a model contains factors of revenues per franchise unit in $ million. Given the fact that all the studied companies have franchises worldwide, the findings point to the validity of our initial hypothesis.

\[
y = 0,0627\alpha + 2214,1\beta
\]

where:
\[
\alpha - \text{the revenue per franchise unit in $ million;}
\beta - \text{the number of countries in which the company operates.}
\]

The internationalization mode followed by the fast food chains is franchising. Following this business model, fast food companies decide to expand their business activities abroad as a way of improving their competitiveness and to ensure their
business survival in global market. The choice of franchising as a method of internationalization was triggered by risk management concerns. As the franchisor focuses on improving the business model at home, the franchisee helps internationalize the business design and boost business revenues for the mother company. Franchising allows the franchisor to operate at a lower capital.

Table 4. Summary of Empirical findings

<table>
<thead>
<tr>
<th>Sample Description</th>
<th>General Information</th>
<th>Business Activity</th>
<th>International Fast food chains</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Food &amp; Beverage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of chains</td>
<td>16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean number of outlet per chain</td>
<td>22,585</td>
<td>To measure the extent to which franchising helps/hampers the process of internationalization.</td>
<td></td>
</tr>
<tr>
<td>Objective</td>
<td>Business Model</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reason for model selection</td>
<td>It helps business expansion abroad.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchising and Internationalization</td>
<td>Revenue per franchise unit in USD million</td>
<td>0.0627</td>
<td></td>
</tr>
</tbody>
</table>

Source: own study.

The internationalization mode followed by the fast food chains is franchising. Following this business model, fast food companies decide to expand their business activities abroad as a way of improving their competitiveness and to ensure their business survival in global market. The choice of franchising as a method of internationalization was triggered by risk management concerns. As the franchisor focuses on improving the business model at home, the franchisee helps internationalize the business design and boost business revenues for the mother company. Franchising allows the franchisor to operate at a lower capital.

7. IMPLICATIONS

From a franchisor’s perspective, the findings of this paper imply that franchising is a crucial factor of business internationalization. The business model of franchising seems to be the most suitable franchising strategy in the case of fast food chains. From the point view of the franchisee, business-format franchising provides him with a proven business blueprint, professional training and technical support. Fast food franchisors are attracted to the global market because they see in it three essential factors of business success: the existence of a middle-class consumer yearning for their product/service, a secure and favourable business environment, and a willing investor.

Moreover, fast food chains should be aware of the cultural assumptions in the target market with regard to international chains. These assumptions occur at different of business internationalization. A proper understanding of partner selection dynamics and careful consideration of criteria’s like culture, organizational values, pricing, experience, etc. would result in a more successful franchising experience and would help the company expand its business operations abroad.

This research has sought to study the correlation between franchising and the internationalization of business. It has used a linear progression model to measure this
correlation. The paper has focused on the fast food industry to test the major research hypothesis. However, there are a few limitations to the research. First, a broader focus on retailing would yield substantial results on the issue of franchising as a mode of internationalization. Second, the sample of the research is relatively medium in size, which might undermine the findings of the paper even if it represents the top companies that appeared in the Food Franchise Report of 2016. Third, due to its nature, a case study of the fast food industry, no generalizations can be made to the other industries.

Because this research has focused on the fast food industry, similar studies need to be done on other retailing sectors. Future research is needed to provide empirical data from similar contexts. There are also some methodological shortcomings of the paper. The use of other data collection methods such as interviews and questionnaires will help validate the hypothesis. More research needs to be carried out on the relationship between franchising and business internationalization to build a good body of literature for future researchers.

8. CONCLUSIONS

Fast food chains are a good example where the relationship between franchising, business internationalization and revenue growth can be studied. This study has tried to see the effectiveness of franchising as an internationalization process. The focus of the study was on the fast food industry due to its importance in the franchising sector. Within the context of the research, franchising has been studied as the process whereby the fast food chain decides to expand its business operations across the globe. As an expansion tool, franchising has a positive effect on the revenues of the company. The first part of the paper has reviewed the literature available in the field. This theoretical part focuses on the link between business internationalization and franchising in the literature review. The review of the literature has been useful in formulating the central hypothesis of the research. The hypothesis was tested using data from the Top 100 Global Franchises Report 2016 released by the Franchise Direct on their website. This study analyses the data of 16 fast food chains out of 23 that appear on the top 100 global franchises. A linear regression model was then used to study the correlation between the variables of the model. The results of the correlation point to the validity of the hypothesis. Based on the 16 examples studied in this paper, franchising seems to be a good internationalization model that increases the revenues of the company.

LITERATURA


