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The effect of cultural differences on franchising business model and the determinant factors of
successful franchise business in Russia

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Abstract

Der Unterschied zwischen den kulturellen Eigenheiten kann Einfluss auf das Modell der internationalen Franchising-Expansion haben. Der Zweck und die Hauptforschungsfrage dieser Master Arbeit ist ein tieferes Verständnis des Konzeptes des Franchisings zu erhalten, sowie die Untersuchung der kulturellen Barrieren bei der Gründung eines internationalen Franchisings in Russland durchzuführen. Die Forschung wurde in Rahmen der explorativen Forschung durchgeführt. Interviews wurden auf der Grundlage des Modells von Hofstede entworfen und wurden mit den Managern zweier Unternehmen der Gastronomiebranche (Paul Backery und Vapiano) durchgeführt.

Die für die Forschung ausgewählten Fälle entsprechen der folgenden Kriterien:

(1) eine ausländische Firma, welche zur Gastronomiebranche gehört und mindestens einen Franchisenehmer in Russland hat oder in den Prozess das Franchising involviert ist und

(2) Ein Unternehmen, das auf dem globalen Markt erfolgreich ist.

Für die Analyse der Daten, die während der Interviews gesammelt wurden, wurde die Grounded-Theory verwendet. Die drei verschiedenen Codierungsebenen werden genutzt, um die Daten auszuwerten und die wichtigsten kulturellen Barrieren mit Franchising-Unternehmen in Russland herauszufinden.

Das Ziel der Thesis war die Wichtigkeit von Franchising aufzuzeigen und einen Überblick über das russische Franchising, zu geben sowie die kulturelle Situation in Russland aufzuzeigen. Ebenfalls sollten mögliche Lösungen für Probleme kreiert werden, mit welchen Firmen in der Einführungsphase konfrontiert sind.

1. Introduction

Predicting the nature of a firm, company or a corporation including its behaviour and relationship to the market are based on several economic theories developed by researchers in the twentieth century. In an article by Coase (1937), the author believed economic organization to follow two different forms – markets and firms. Markets exist to exploit mutually benefitting gains from trade but in events of positive transaction costs, firms partially supplant markets (Alon, 2006). Economic organization exists of many types for example, according to theoretical and historical identification; the commonly recognized modes of production were subsistence, slavery, feudalism, capitalism and socialism. In another example, economic organization can be classified as sole proprietorship, partnership, joint-stock company, cooperative organizations and state undertakings. However, there are hybrid organizations that mix elements, values and actions of private, public and voluntary sectors of organization. According to Williamson (1991), this hybrid form exists in transaction cost economics. A hybrid group of organizations coordinate among themselves based on a combination of price and other coordination mechanisms simultaneously. Besides the primary hybrid types such as share cropping and joint ventures, there exists a third type, pioneered by Rubin (1978:224) and Matthewson and Winter (1985:505-507) known as franchising. The purpose of this thesis is to investigate environmental factors like cultural differences and their role in franchising business. The study will understand the business strategies that companies use establish successful franchising ventures in international markets. This paper will investigate the franchising challenges specifically in the Russian markets due to evident alienation and lack of cultural homogeneity of Russia with the rest of Europe. It is crucial to the study as Russian markets have recently started to explore franchising as a serious form

of business strategy. Franchising contracts are a hybrid form of economic organization where the dominance of franchise arrangements can be identified by examining the literature on franchising or theories of the firms (Levitt, 1993; Forte & Carvalho, 2013:384).

1.1. Background

Globalization is a trend towards a single, interdependent economy influenced by the fluctuations in international capital flows, travel, exchange of information and ideas across borders, and trading through goods and services (Karen, 2015: 53). Globalization is a unique opportunity for franchisors to think about the world as a single market and examine the needs across societies. In this new and emerging global landscape, industry structure, organizational factors, strategic factors, environmental and nationalistic differences may play a major role in defining businesses on a globally. Internationalization is becoming more and more profitable due to cost differentials, better connectivity and a developing global consumer market.

Globalization is a force that affects global consumption patterns in emerging economies through the intermixing of mass media, tourism, immigration and culture of developed nations (Karen, 2015:53). International franchising organizations are targeting this consumer group as they know that young generations are relatively more open to foreign franchising systems. According to Levitt (1993), global commonalities from the evolution of technology have led to standardization of goods and services. The debate on globalization and franchising transcends from the discussions of international business. Hoffman and Preble (2004:37) argue that franchising is one of the most suitable models for modern markets and it helps organizations successfully adjust to cultural differences and business stipulations. In a highly competitive and transformative business en-

vironment, organizations are conducting business operations strategically from an international point of view. Similarly, on-going development of integrating markets has created a new economically viable mechanism that works through the establishment of a franchise and is appealing at the same time for businesses adopting other foreign market entry models (Hoffman & Preble, 1993:38). Extending business operations across international borders made it necessary to comprehend the importance of culture and cultural differences by establishing business approach to attract loyal customers irrespective of cultural imbalance. Therefore, franchising turned into a successful vehicle for business expansion (Hoffman & Preble, 1993:37). According to Windsperger & Hendrikse (2004), franchising is one of the best models to adjust and adapt to cultural differences while expanding to a culturally different geography.

According to a case study of Parfois Company by Forte & Carvalho (2013:382), Parfois was willing to open stores in foreign i.e. European markets as it feels comfortable from preliminary research conducted and would allow franchisees to undertake the investment risk in other emerging geographies – especially in Middle East and Eastern Europe. Parfois case is relative to the thesis because it explores the potential of a small, retail brand based in a depressed European market zone to expand around the world. McIntyre & Huszagh (1995: 41) argues that franchise systems in their final stages of internationalization have broader international operations, generate a bigger percentage of sales through overseas operations, and possess diversified expansion plans. Through the study of internationalization of franchise systems, market expansion strategies can be improved and built to optimize international franchising.

1.2. Problem

Among the principal determinants of franchising, on an international scale, the entry mode choice is affected by cultural differences. This is a critical environmental variable among other factors such as political and economic risk, financial and competitive situations, and local regulations. According to published studies, cultural differences are considered as lesser elements of threat as compared to other environmental and organizational factors (Anderson & Gatignon, 1986: 4; Windsperger & Hendrikse, 2004). Davis, Desai & Francis (2000:241) argue that franchisor's national culture is of lesser importance which means that franchising reduces the effects of cultural differences to some extent. It is possible that franchisors do not pay attention to cultural differences before entering foreign markets. This could be a reason for many international franchise failures in distant markets (Hackett, 1976:66; Shane, 1996:74 ; Doherty, 2009:528).

Due to an evident lack in literature concerning the importance and influence of cultural differences for franchisors entering into distant markets, it creates the need of a thorough investigation. Researchers have observed that international franchising is merely an extension of the domestic franchising concept developed outside the franchisor's national boundaries. The most pertinent difference in this form of cooperation among two partners is their difference in cultural backgrounds. Many franchisors have adapted the turnkey model to answer the problems they face in a culturally different market but it does not address grassroots of the problem (Castrogiovanni & Justis, 1998:173; Bennett, Frazer, & Weaven, 2010:70). This paper will conduct a thorough study of the cultural differences in Russia that challenge international franchisors from entering the newly opened Russian markets. The study will also try to investigate the challenges present in

foreign culture and the factors that restrict franchisors from entering into a culturally disparate environment.

1.3. Significance

Performing this study is important from the researchers perspective because it aims to eliminate alternative approaches used traditionally by international companies to succeed in establishing franchises in Russia. This research analyses the various strategic factors that debilitate the performing potential of international franchisors within the Russian business environment as there is little focus on the importance culture plays in those factors. The core objective of the study will be to examine the critical strategic factors that dictate the success or failure of international franchises in the Russian market and set guidelines for future recommendations in the area of international franchising businesses in Russia.

The importance of understanding franchising as a viable business strategy for growth in international markets is driven from the knowledge and success of renowned brands in the past. Using the right business model is becoming more relevant in the face of growing competition. While McDonalds, a franchise pioneer, provides customers with a quick and inexpensive meal, KFC offers the same meal attributes with a different menu and maintaining their focus on chicken instead of hamburgers (Welsh, Alon, & Falbe, 2006:130; Michael, 2003:61). It is imperative to recognize that a business has its own culture and sub-culture. Although the origins of cultural identity are as old as the concept of culture itself, the expansion of franchising as a business model has resurfaced the importance of understanding cultural differences. Franchises add extra layers and dimensions to the issues of culture and subculture. New franchises entering the markets do

not possess the same structures as those possessed by corporate groups. According to Hoffman &
Preble (1993:37), the franchisee group is not vertically integrated and rather comprises of individual ownerships.

New franchisees assume the existence of their own culture as a primary reason for entering into
franchising contracts with international players. Culture is a function of compatibility and selection of franchisees requires addressing the concept of culture upfront. The biggest challenge exists for business operations to segregate the franchise company culture with franchisee culture
such as infrastructure, training, working hours, and communication. The study of cultural differences originating between franchisor and franchisee markets creates the need of studying this
subject. In a Russian context, the study will allow international businesses to assess cultural dimensions of this market and allow them to take strategic business decisions before embarking on
long-term contracts with businesses in the country.

1.4. Purpose

Conducting successful business in many countries requires a close understanding of their
culture and the cultural differences that exist between the franchisor's and franchisee. According
to Edwards & Shaw (2015), culture describes the norms, values and traditional behaviour of a
group or the way things are done around there. There are three major cultural types such as linear, multi-active and reactive (Edward & Shaw, 2015). Linear cultural type money-oriented and
task focused whereas multi-active culture is based on relationship building prior to doing business. However, reactive cultural type is based on relationship building and doing business yet
having silent disagreements along the way.

The study will help the targeted audience to understand the right cultural type that exists in Russia and what international franchisors need to look at when beginning to think about expansion in Russian culture. Cultural aspects are an integral part of the society and without showing a concern or respect for another's culture, it is hard to establish a long and fruitful business relationship (Doherty, 2009:529). Cultural awareness and cross-cultural communication have become and essential area of study and research before a successful new market entry. Cultural considerations play an integral role in international franchising strategy and tactical execution. Apart from other environmental and economic factors that restrict franchising companies in entering new markets, cultural differences must be given the due importance it deserves. This thesis will seek to develop an importance of studying cultural differences in the field of economic integration, globalization and franchising new market entry. The study will seek to engage academic audience in Russia and around the world to develop a common framework that will work for all franchising businesses to understand cultural components and how to modify strategy to suit a new market.

1.5. Thesis Outline

The structure of the study is clearly defined into distinct chapters. Each chapter has an important contribution to the study. There are five main chapters i.e. Introduction, literature review, methodology, findings and conclusion. Introduction chapter presents the background and problems of franchising barriers faced by international franchisors in high and low context countries and the significance of the problem. Chapter two reviews literature from scholarly sources with importance on recent developments in the field. This chapter introduces theoretical models and its limitations while keeping franchising options and cultural barriers in the limelight. The

third chapter is methodology which deals with the structure of research study. It is the framework on which the present study has been built and viewed as a phenomenological enquiry. The fourth chapter deals with the results obtained from the undergoing research and representation of information through meaningful codes which are further regrouped for comparison with the models discussed in literature review. The last chapter is conclusion which sums up the study and presents its limitations and directions for further study.

2. Internationalisation of Business

Internationalization is the geographic expansion of an organization in search of new opportunities to promote competence in wide range. The business activities like flow of goods, financial assets and investment around the globe are increasing extending the global village concept to global marketplace (Lowe & Doole, 1997:165). Economic globalization is proceeding both at individual company level and macro-economic level. Therefore, big organizations are expanding their businesses to foreign markets with the aim to target the emerging markets Lowe & Doole, 1997:165).

The choice of the appropriate market entry mode in the internationalization process is the critical and key decision that is crucial for the success of a company in the foreign markets and getting competitive advantage to the company in future (Doherty, 2007:529). Transaction market penetration shows those geographic distances, cultural barriers and complexity of operations in foreign markets increases the complexity of markets that, in turn, increases the uncertainty and risk associated with this market much higher than usual. Companies are available with various options to enter in the new market that are broadly divided in equity and non-equity mode. The non-equity mode of market entry is export, license, franchise and distributors while equity mode includes merger, acquisition and 100 per cent green field property investment.

2.1. Benefits of Internationalisation

Internationalization is an important phenomenon for small and medium companies as they avail the benefits of increase in geographic markets, greater number of customers, greater sales, economies of scale and hence higher profitability (Forsgren, 2002:260). The company may

also get the opportunity to reach the cheaper resources available in foreign markets. Multinational Companies (MNCs) use internal capabilities and resources to exploit the market imperfection existing across the global markets (Lord & Ranft, 2000:580). Firms expand globally to use and increase the value of intangible assets and enhance revenues and profitability by spreading market risks, using market power and seeking less expensive and price-sensitive markets (Zhou, Wu & Luo, 2007: 675). International companies can easily diversify their risks by working in different macro environment conditions and have the ability to form strategic alliances around the globe to open doors for future opportunities (Chetty & Campbell-Hunt, 2004:61). These companies get the opportunities for growth and profitability even after slumping performance in local market because of supplier issues, worsening economy, environment and government regulations, same company can get healthy profitability in other international markets that have far different macro-economic conditions. The foreign country may have more business friendly environment like lower taxation, less labour cost, less government regulations, abundance availability of raw material less competitors and untapped customer segment. Thus, companies internationalize for various reasons like the ability to increase sales and profits, access lower-cost production factors, less labour cost, achieve greater opportunities, develop economies of scale, optimize resources, develop rewarding relationship with foreign partners, confront competitors more effectively and gain access to new ideas for creating and improving products and services.

Despite the challenges like cultural uncertainties, variable marketing strategies, supplier cost, logistics, transportation problems and variable customer preferences and psychograph, companies going global have significant advantages over the local competitors (Dimitratos, 2002:99). A global company enjoys larger network, diversified managerial skills, new knowledge, and novel

ways of seeing the world and vast exposure to customers by facing unusual challenges (Chen, 2006:325). The brand working globally is also preferred by the local customers as it is perceived to be of higher quality and provide better services than local brands. Their managers are typically more confident, effective communicator, cosmopolitan, and have positioned themselves for unique professional opportunities with their broad vision and approach (Batra et al., 2000:84).

2.2. Risks Involved in International Business

The decision for organization to go internationally is exposed to four different risks that are cross-cultural risk, country risk, currency risk and commercial risk (Almotairi, Alam, & Gaadar, 2013:135). Cultural risk arises from different life style, customs, attitudes, languages and religion where miscommunication jeopardizes a culturally valued behaviour and mind set. Country or political risk is generally defined as the risk arise from political instability or political change, government intervention, protectionism and govt. policies to promote barriers to trade and investment. For example Argentina has been facing high inflation rate, Venezuela's government has interfered much in foreign firms operations, high tariff on imports of sugar and agricultural products in USA and bribe given to Russian official while doing business are some of the political risks. The currency risk is the third risk, that is, general risk of unfavourable exchange rate fluctuations as it directly affects the company value by changing the company assets and liabilities position. Commercial risk involves the possibility of non-payment caused by buyer-related problems as bankruptcy or insolvency. These risks are always present, but are manageable. Managers need to understand, anticipate and take proactive actions to reduce their effects.

2.3. Different Ways to Expand Business in Foreign Markets

There are several ways to enter in a foreign market; these methods are exporting, licensing, franchising, merger, acquisition, joint venture and wholly owned subsidiary. Exporting is defined as the marketing and direct sale of domestically manufactured goods to the foreign markets. Exporting is a common and well established foreign entry mode that requires less initial investment, reach the target market quickly, complete control over production and have benefits of learning for future expansion (Salomon & Shaver, 2005:432). The companies favour this mode of international business when there are low trade barriers, customization is not crucial and home location has cost advantage over foreign markets. The high trade and tariff, transportation cost, tariffs and quotas and difficulty to respond to the customer needs are key barriers in this mode of international business (Alon, 2006).

Licensing is another method by which a manufacturer permits its intangible property like patents, trademarks, copy rights, brand name and production techniques to a manufacturer in a foreign market for fee. Licensing mode of international business has the advantage to get access to the local knowledge, easier to respond to the customer's needs, avoid trade barriers, and require low initial investment. The critics on this mode of internationalization are reducing the market opportunities, costly and tedious litigation, leakage of trade secrets of licensor, lack of control over operations and potential for creating competitors (Hill, 2008).

Franchising is also available as option to enter in a foreign market where one company gives the right use its trade name, trademark, processes and business systems to produce goods and services of certain specification (Alon, 2006). Franchising is a form of licensing, but franchisor can

exercise more control over the franchisee than the licensor. Franchisee has to adhere to the requirements of franchisor and pay a fixed amount of fee and royalty based on the sales. In some arrangements the franchisor gives the right to a master franchisor in a foreign market, who is responsible for further expansion and franchising activities in that market. This mode of entry in foreign market is considered better as contains low financial risk, low cost to assess market potential, less resources required to invest, avoid tariffs and restrictions on foreign investment and maintain a more control than franchising. The weaknesses of this mode are limited market opportunities, dependency on franchisee, potential conflicts with franchisee, leakage of trade secrets and possibility of creating future competitors (Hill, 2008).

A joint venture is the joining together of two or more business partners from separate jurisdictions to share risk, exchange resources and divide rewards from a joint enterprise (Datta, 1988:78). The advantages of joint venture are access to partner's local knowledge, sharing of technology and resources, significant control over operations, both parties have some performance incentives, favourable monetary conversion rates, lower manufacturing cost, lower taxes and reduce market risk. Researchers found several risks associated with the ventures that are antitrust problems, loss of autonomy, sovereignty conflicts and strategic inflexibility (Hill, 2008).

Wholly owned subsidiary is another option for businesses to enter in a foreign market. This mode is more risky and requires huge investment and potential in the market. This method further comprises two methods, Greenfield investment and acquisition. Green field investment is a form of foreign direct investment where the company starts new venture in a foreign country by constructing new operational facilities. This is the most risky method to invest heavily in new

country (Harzing, 2002:211). The disadvantages of this mode of entry are slower start up, high risk and high commitment, high cost, require knowledge of foreign markets and requires years for entry process. The advantages of acquisition are offering fastest international expansion, access to target local knowledge, control over own technology and control over foreign operations. The weaknesses of this mode are difficulty in integration, uncertainty about target value and difficulty in absorbing acquired assets.

2.4. Factors Affecting the Selection of Mode of Entry

There are various factors that influence the selection decision to choose better entry mode. Researches proved market size and growth potential of the target market as important locational variables for the selection decision. Root (1982) stated that small foreign markets favours mode with low breakeven (for example exporting either direct exporting or indirect exporting through distributors, agents and licensing). The high growth potential markets favour the modes with greater resource commitments, potential to achieve economies of scale and high break-even volumes, therefore these companies choose direct exporting through subsidiary or own branches or use investment entry mode for such markets. Exporting and licensing are the best option for the countries with high risk. Geographic distance also could be termed as psychic distance or refer to this as location unfamiliarity. The more the psychic distance is, the better it is to use less risky mode like exporting or just licensing. Familiarity to the foreign markets in terms of language, culture, consumer taste and behaviours and distribution structures favours investment entry modes. Host government policies, tax and tariff and business friendly environment may influence over the firms choice of entry mode. Kim & Hwang (1992:30) suggest that intense competitive conditions in the foreign markets discourage the investment mode. The physical

products may be preferred to export in the foreign market, but for the firms dealing in services like retailing, construction and management consultancy they need to establish branches, sales offices, franchises, subsidiaries or joint ventures with local companies may be an initial step to ensure entry in foreign market.

Kumar & Subramaniam (1997:53) give a contingency framework for the mode of entry decision that describes risk, return and control associated with each mode. The following table explains this.

Table 1: Modes of Entry in Distant Markets

	Mode of Entry				
	Exporting	**Contractual Agreement**	**Joint Venture**	**Acquisition**	**Green Field Investment**
Risk	Low	Low	Moderate	High	High
Return	Low	Low	Moderate	High	High
Control	Moderate	Low	Moderate	High	High
Integration	Negligible	Negligible	Low	Moderate	High

3. Franchising as a Market Entry Form

Franchising is one of the company development forms that started more than hundred years ago. This form of business is based on contractual relation between different companies especially in services sector (Blair & Francine Lafontaine, 2005:27). Franchising is a high potential and growing sector of business that plays a critical role in strengthening of economy. The intensive globalization process has made the franchising process more popular (Richardson, 2005:111). USA is the biggest market following the franchising business model. In USA, the sector contributed around 4.5 % to GDP of USA economy in 2014 and it will continue at a higher growth rate in future, this growth rate will be higher than the economy wise growth of industries where franchises are concentrated (Yu, 2017). The statistics show that there are 3000 different franchising companies working in 300 industries with franchise units exceeding 900,000 in USA today. Franchising business accounts for roughly 10 % of new jobs in USA and added nearly 200,000 new jobs in the year 2014. The industry that is dominated in franchises is the food industry where McDonald is leading with largest number of franchises (Fakos & Merino, 2017).

According to 2009 statistics, annual income of USA from franchising business is 1.3 billion Euros with 7.88 million employees. Australia with 7 million employees and turnover of 130 billion Euros, South Korea with 1.2 million employees and revenue of 95 billion Euros, Japan with 2.4 million employees, and China with 3.5 million employees show the importance of this business sector in country's economies (Parker, 2016:459). Due to the globalization, the USA markets development has great influence on the European markets. In Europe, the countries with

largest franchising businesses are Germany, France and UK with 0.45, 0.69 and 0.45 Million employees respectively. The highest sale in European market is generated by Germany in 2009 with total sales of 48 billion Euros. There are around twenty eight thousands franchising brands exist all over the world of which Asia counts for 45% and Europe 35% of total franchise business (Buzza, 2016).

The International Franchise Association (IFA) defined franchise as "*the license or agreement between two legally independent parties which allows a person or group of persons the right to market a product or service using the trade name or trade mark of another business, the franchisee the right to market a product or service using franchisor operating method and the franchisee will pay the franchisor for use of these rights*" (Pradhan, 2009:188)

Franchising is also defined as the commercial relationship between two entities in which one of the entity franchisor grants the right to use its intellectual and commercial assets for the fix period of time in return of fees and royalties. The fee is paid in advance and royalty is often taken as the percentage of gross revenue. A franchise law of the governed country defines the relationship between the two entities (McIntyre & Huszagh, 1995:41). Franchising occurs when a firm sells its right to use its name, product specifications and operating systems to another firm. A franchisee then opens one or more than one outlets using the franchisor's name and logo to offer the franchisors products or services.

Franchising is a hybrid business where a franchisee follows the franchisor's operation rules to continue his franchising contract. A franchisee position is somewhere in between an entrepreneur and employee (whose actions are monitored and controlled). His engagement as taking risk, op-

erating business and solving problems make him as an entrepreneur. He is often an owner operator who has significant investment, both in time and money. The extent of franchisee's role as an entrepreneur depends on the size of the franchisor, legal relationship and operational autonomy (Alon, 2010: 39).

A franchise allows a certain level of independence to the franchisee in operating a franchise. Franchisee is given a product or a service that has already a good name and brand recognition in the market, so he is available with pre-sold customer base. All of this increases the success chances of business in the market. Franchisor also offers pre-opening support like site selection, construction, design, training, financing and grand opening program (Alon, 2006). The on-going support of franchisor includes assistance in penetration work, increased spending power, access to bulk purchasing, national and regional training programs and advertising operating procedures. The advantages of franchise business to the franchisor are expansion of business, abundance of resources, reduce agency cost and avoid employee related problems as it is now responsibility of franchisee (Webber, 2012).

The different types of franchise are categorized as product distribution, business format franchise, single unit franchise, multi-unit franchising including master franchise and area development franchise. In product distribution franchising, a franchisor licenses his logo and trademark to franchisee, but typically does not provide the rights to entire running and operating the business. This model of franchising resembles the supplier-dealer relationship. The industries dealing in such franchising are automobile, soft drinks, gasoline etc. In a business format franchising model, a franchisee not only uses franchisor's logo, trademark, but also a complete operating

tools such as operational manuals, marketing plans etc. The industries dealing in this franchising model are retail, fast food, automotive, service, business services and restaurants (Barkoff & Selden, 2008).

The franchise business model is further segregated to single unit franchise and multi-unit franchising on the basis of available franchise arrangements to the owners. In a single unit franchising model a franchisee is given the rights, operation and control of only one franchise. In multi-franchise unit agreement franchisor gives the right to franchisee to operate more than one franchise. When a franchisor gives the right to open more than one franchise in a single territory to dominate its presence in the market, it is called area development franchise. Master franchise agreement is also a multi-unit franchise model where the franchisee has not only the right to open and operate more than one franchises, but also he has the right to sell the franchises within the territory to expand and develop business. Companies often use mater franchising for an international expansion where master franchisor sold the further franchises to the franchisees. Master franchisor is responsible for managing the business in that country, he has to support, train and sell the franchisee and act as supervisor (Alon, 2006). Distribution and licencing are the alternative business modes to the franchising model, in distribution system the distributor has just to sell the company products to retailers to facilitate the sales and ensure conveyance of products in different territories. The licensee pays royalty to licensor and is given the right to use the company trade mark. Licencing resembles the franchising business model, but here the licensor does not monitor and control over the licensees operations. It just has to supervise the licence use rather than influencing the operating activities (Barkoff & Selden, 2008).

Research shows that franchisor faces higher reputational risk and lack of control on the franchises. One another research proved that franchisor enjoys slower growth through franchising compared to the merger and acquisition. The franchisee also has few disadvantages in franchising business like higher entry cost, lack of flexibility in trading, royalty payment and following strict product and services rules (Webber, 2012). According to Hawkey (2002) franchisor trust heavily on the honesty and business ability of franchisee that sometimes proved wrong. Cases are also there when after getting reputation franchisee discontinue and started independently his own business, so from exit planning view point, it is a high risk venture compared to trade sale (Hawkey, 2002). Webber (2012) also pointed out that the action of one franchisee affects the business of other franchises and is considered as the weakness of this business model

3.1. Agency Theory

The resource scarcity theory views the franchising as to fulfil the resources needs, but there are also other reasons to adopt this type of distribution channels by the companies. Agency theory explains that the interest of management is different form the owner interest that may cause extra expenses and cost to the organization. An agency relationship exist whenever one party hires another or organization to provide a service and delegate the decision-making authority to agent (Lafontaine, 1992:264).

The franchising business with respect to the agency theories suggests that franchising system will decrease the agency cost, lower the prices of products by covering cost (Alon, 2006). Agency problem arises with the separation of professional managers from ownership and the interest of both of the parties is different. The researchers consider the motivation of the franchisee

as the more important aspect than the financial resources. The idea is that franchisees are risking their own money in the franchised business, and they will work hard to make the business profitable. The motivation of franchisee is higher than the motivation of the organization managers, even the managers are working on variable salaries based on their performance (Hsu & Jang, 2009:205).

Brickley & Dark (1987:402) studied franchising system is an excellent response to the principle-agent conflict that is discussed in the agency theory. The principal or owner has to incur extra cost for monitoring the manager's behaviours through audit whether they have put all their efforts for the organization interest or they follow their own interest. The only way to reduce this cost and increase the efficiency of franchisee is to give them the ownership rights (Brickley & Dark, 1987). In such contracts the franchisee and franchiser have the common goals and they put their efforts and energies to strategize and implement in most effective way (Brickley & Dark, 1987). Rubin (1978:229) found that the simplest way to motivate the employees is to give them the share of profit of the franchise, thus they will work hard to be most efficient and effective to give their maximum from this business (Rubin, 1978:229). The franchise system is effective when the marginal costs of monitoring company units are higher than the cost associated with the franchise contract (Huang, Huang & Chen, 2004: 486). The risk of ownership in franchise distribution system transfers towards the franchisee as franchisee take risk by contributing capital and paying royalty and franchise fees. Firm franchise system is an attempt to reduce the agency issue that exists between the owner and managerial staff so the franchisor will be more risk averse. The other motivations are to save the cost of training, motivation and monitoring of different outlets owned by franchisee (Khan, 2014).

3.2. Resource Scarcity Theory

Resource scarcity theory states that firms offer franchise in their early years as they lack resources, capital and managerial skills needed to grow. Oxenfeldt and Kelly (1969:70) assert that firm franchise in order to meet the scarce resources and expand rapidly. When firm is in early it is difficult for the firm to raise funds from public offering or through operational efficiencies (Oxenfeldt & Kelly, 1969:71). Likewise it is difficult for the firm to develop the requisite managerial talent (Shane, 1966). The firm starting business with one outlet will not be able to open 10 new outlets or develop the necessary talented management to manage this expanding business, secondly the firm will not be able to achieve economies of scales and make the effective advertisement against the established business (Shane, 1996:74).

Rubin (1978:224) found that franchisor may find more optimal sources of financing the company than the franchisee. Although Lafontaine and Kaufmann (1994:105) stressed in their paper that the choice to finance the company through shares may raise the funds, but make it difficult to have a strategic control over the company as the shareholders or investors influence the strategic decisions, direction and goals. Alternatively, the franchisees are individual partners of the company to finance and assist the growth, but do not influence the strategic control of company (Lafontaine, 1992:268).

Oxenfeldt & Kelly (1969:70) predicted in their thesis that the franchising is a temporary form of organization structure, if the organization finds the funds and resources for growth, it may choose company owned configuration and will rebuy the franchised stores. The ownership redirection theory predict that the in the long-run most franchising chains would convert to 100 per

cent company owned chains but modern empirical research proved that it is not the case and organization maintains the structure after obtaining enough resources. There are even organizations that are giving financial support to their businesses, and get the owned managerial talent (Oxenfeldt & Kelly, 1969:72).

3.3. Transaction Cost

Transaction cost includes all type of cost besides production cost. This cost includes opportunity cost, contract cost, monitoring cost, performance cost and execution cost (Hennart, 2010:258). Williamson (1991:272) stated that transaction cost are important part of total cost and it comprises the cost of searching and information, cost of safeguarding agreements, drafting and negotiating agreements, measuring the output, evaluating the input and monitoring and enforcement (Williamson, 2007:62). Transaction cost is significant for the companies, so they are trying to reduce the transaction cost. Williamson described franchising as the federated model in which large and small companies take the advantage of economies of scale from production and marketing processes, this also help in saving coordination costs (Williamson, 2007: 65). Mass marketing and mass production decreases per unit cost of product or service. Franchise also save procurement cost, transportation cost, storage cost, management cost and advertisement cost as dealing in mass production and mass marketing. Hence transaction cost theory claims that transaction cost can be minimized through unified, centralized and professional management.

Franchising is one of the best option to reduce the operational and transaction cost, most of the responsibilities and liabilities are shifted towards the franchisee like site selection, training, leasing and local administration. Franchisee commits for this business by sharing in capital, re-

sources and contractual liabilities and often takes over all the risk (Macher & Richman, 2008:12). Franchising system saves motivation cost, as employees need motivation and guidance to align their interest from owner interest, but in franchising mode of business, the franchisee himself has the financial stake and hence no need to incur motivation cost for effective performance (Pla-Barber, Sanchez-Peinado & Madhok, 2002: 737). Further, most of franchisees themselves manage their business; their equity investment ensures a commitment to the success and save costs of incentives to employees and monitoring cost. Saving cost of getting information is another advantage in franchising mode of international business. Franchisor gets free access to the valued information of market through the independently-owned units. Thus cost saving and infusion of outside capital allow for expansion of a company over a geographically dispersed markets.

3.4. International Franchising

The researchers found that 80% of the total population lives in the emerging markets region. The estimate of the US department of commerce claim that in next two decades 75% of total trade will come from developing countries particularly from big emerging markets (Welsh, Alon & Falbe, 2006:130). Franchising has become an integral part of economy in past few decades by creating job opportunities and making business growth.

International franchising is a strategic tool to reduce dependency on local demand and expand the business internationally to earn profit. This tool of expansion involves low risk, low investment and offer huge potential to build a strong brand. International franchising occurs in two settings; first it is best where there is diversity in the income, culture and political system. Second,

this setup is adopted by organizations where the per capita income is high and exist developed retail markets.

Resource scarcity theory and agency problem perspective can better explain and examine the international franchising. For example the firm can fulfil its resource needs by franchising as the firm allows the entrepreneur to bear some risk. The franchisor is also interested in this mode because of cost efficient way of monitoring the foreign managers as explained in agency theory based perspective (Castrogiovanni, Combs & Justis, 2006: 28).

3.4.1. Motivation for International Franchising

Researchers take franchising as the economically beneficial mode of business in early stages. Now it is taken as the easier way to enter in a large business by overcoming capital and experimental barrier. An individual evaluate the motivation for franchising by comparing it with salaried employment or an independent small enterprise (Lafontaine & Kaufmann, 1994:103). In a research by Welch & Memeli (2014), it was found that direct stimuli, background factors and decision maker characteristics were the main motivating factors for international franchising. The five different theories agency theory, resource scarcity theory, transaction cost analysis, signalling theory and property right theory are best used to explain the motivation for franchising.

3.4.2. Challenges for International Franchising

Franchisors decide by assessing key market factors such as kind of demand exists for products and services, initial cost of entry, supplier sources and their issues and whether it is profitable to open business and franchise in this region. The investor also evaluates general population statistics, overall health of people and GDP per capita (Dant & Grunhagen, 2014:125).

The franchisor faces several challenges to operate in the international markets. International franchise face several legal and market difficulties and beyond these complexities an international franchisor faces challenges like business adaptability, different customs, local competition, new markets, different construction costs, change economic climate, product sourcing and availability, labour force and rates, taxation and tariff and intellectual property protection. All these issues add to the franchisor market entry in the international market.

4. The Effect of Culture on Franchising

4.1. Introduction

The idea of a culture influencing a business environment is similar to Hofstede's theory on cultural dimensions. As every business has its own organizational culture, it develops a collective identity of the people in that organization (Falbe & Welsh, 1998:152). The existence of culture within a franchise company is different from the culture of its operating environment (Davis, Desai & Francis, 2000:239). A franchise can have its own identity and subculture or exhibit the powerful personality and culture of its founder. Growing franchise systems often have a difficulty in developing its own internal culture while coping with the cultural factors encountered in the market (Edward & Shaw, 2015). This chapter is a critical review of the research conducted by scholars on cultural barriers in franchising. The study will describe and evaluate franchising theories published in relation to culture and cultural barriers. The study will conclude with the importance of understanding culture and cultural barriers for businesses that want to enter foreign markets.

4.2. Literature Overview

Over the course of history, prevailing assumptions on the universal applicability of management theories and techniques have overshadowed growth of this subject area. It was not until researchers such as Hofstede & Minkow (1986) and Adler & Gundersen (2007) started questioning this assumption and found that the universality followed by business organizations was incorrect. Since the evolution of the understanding that management systems and theories cannot be applied universally, it has led to an explosive growth in comparative management studies and

helped build theories in non-franchise and franchise enterprises (Preble, 1995:80). Through the growth of research in franchise marketing, a realization has developed that cultures exhibit a certain group of similarities and significant differences which are unique from one culture to another. Apart from the cultural differences experienced across nations, country characteristics also play a vital role in influencing foreign entities by dictating host culture over foreign franchise cultures. According to Best (2013), understanding the unique cultures of countries is necessary for serving new customers successfully. In order to expand internationally, the adaptation model has become increasingly significant. Franchisers are moving from a one-size-fits-all to a flexible market approach.

Despite the extensive literature indicating the importance of flexibility within organizations to suit new markets, adapting to fit a new market, country or culture is inconsistent with theoretical beliefs of franchising models. Customers entering into a new international franchise expect the exact same experience from entering the franchise to their departure. Customers seek similar experience and quality from international franchises (Zeithaml, Parasuraman & Berry, 1990). To meet exceptional standards in quality and experience, franchisors must work hard to avoid any compromise in quality and service. According to Best (2013), adaptation of business models to cater to the needs of distinct cultures requirements is imperative beyond the United States.

Although some markets are similar to the operational design and philosophy present in the United States, most foreign markets are burdened with different challenges. Even universal norms such as smiling when customers enter the premises can be perceived as odd and suspicious. According to a study by Best (2013), when Boston's restaurants expanded its operations

through franchising in Mexico, they presented a strong case wherein Mexican families considered dining out as a family retreat. The company invested in play areas for children in its franchises around Mexico which was unlike their strategy in the United States. The company found the strategy to work successfully and have been in strong business in Mexico (Falbe & Welsh, 1998:159).

4.3. Hofstede's Cultural Model

Cultural differences have emerged when franchisors tried to enter new markets using traditional models of franchising. According to Hofstede (1984), there are four cultural dimensions that affect an organization – power distance, individualism, masculinity and uncertainty avoidance. Alon (2010) have suggested the use of Hofstede's model on cultural dimensions to understand the impact of cultural differences experienced by franchisors. Power Distance Index (PDI) is a measure of thoughts among people from middle class and lesser institutions and whether they feel that power is distributed equally or unequally. It is a suggestion by the public on the levels of inequality by the leaders of the country. It is similar to the understanding that there is lesser inequality among the people and the societies are closer to equality – as perceived by the common people of that country. Individualism (IDV) is another cultural dimension as postulated by Hofstede and seeks to measure the extent of people working towards self-interests rather than common interests. It is the opposite of a collectivist approach where people are oriented to work harder in order to collect securities and are individualistic in nature.

The understanding of cultures and the differences that exist among them are complex to measure. The third dimension according to Hofstede (1984) is Masculinity (MAS) which is a reference to

the distribution of roles among genders. Being a fundamental issue of society, men's values differentiate higher than women's values. While men can range from being assertive and competitive to caring and cooperating, women values remain from being modest to caring – similar across all cultures. The gap between men's values as being assertive from women's values is considered as the masculinity index. The fourth dimension presented by Hofstede is the Uncertainty Avoidance Index (UAI). This is a measure of tolerance among people of a culture towards uncertainty. The ease or comfort of people towards unstructured situations or problems with complex solutions is measured using the uncertainty avoidance index. Cultures that try to avoid uncertainty tend to practice strict laws and regulations, safety measures and strong philosophical and religious beliefs to lead people towards the absolute truth. Cultures that accept uncertainty are tolerant of disparate views and contrasting opinions. Uncertainty accepting cultures allow different views to have the same acceptance and create a balanced and open environment for the populace.

4.4. Hofstede's Theory of Cultural Dimensions

Each country is measured on a cultural dimensions score according to the Hofstede's model. Russia scored 93 on the Power Distance Index whereas the United States scored 40 and the United Kingdom has a PDI score of 35. While the scores of the United States and the UK are similar, it is easier for international companies to open franchises as they are culturally similar on views relating to the acceptance of power. Russia scored higher on the PDI which means the people believe that there is huge gap between the common people and the people with power (Matusitz & Musambira, 2013:44). However, a huge difference between two cultures does not mean it is difficult to work on business partnerships. The high power distance index means that

most of the profits and foreign investments go to Moscow which is the centre of culture, economy and finance. Due to challenges with the bureaucracy, patronage is still a powerful factor in Russia (Michailova & Hutchings, 2006:384).

The score on individualism is 39 as compared to the United States (91) and the UK (89). This observation on the Hofstede's model can be connected to the communist economy and collectivism. Critics argue that the philosophy of individualism is being appreciated as people are able to work in small teams and develop successful start-ups (Elenkov, 1998:134). Despite an extremely important focus among Russians on family values and supporting the necessities of family, the young generations is taking an individualistic view to life and prioritize self over family requirements. The third score for Russia is masculinity in which Russia scored 36 whereas the United States had a score of 62 and the UK at 66. This low score of Russia in comparison with the latter countries hints that the Russian society has a lesser preference for heroism, achievement and material rewards for success which is more in UK and the US. Similarly, Russian culture focuses on caring for others and quality of life which is viewed as a sign of success. The fourth score on the Hofstede's model is the uncertainty avoidance index on which Russia scored 95 as compared to the US (46) and the UK (35). A high index value can be attributed to the frequent change of political leaders and wars which has created insecurity within the community. This index value is likely to reduce as the political and economic landscape of Russia is Stabilizing as compared to the experiences of older generation as they saw a periodic rise and collapse of communism (Matusitz & Musambira, 2013: 48). It is possible to argue that Russia and western countries such as the United States and the United Kingdom are very different in terms of the

culture they practice but a recent shift in values, norms and attitudes of people towards work and life is bringing these cultures closer on the Hofstede's scale of culture closeness.

4.5. Edward Hall Cultural Model

One of the most promising discoveries in the explanation of differences among cultures and the behaviour's, beliefs, values and thought patterns among people was made by Edward Hall (Wurtz, 2005:277). The use of time as a currency for spending on work versus leisure activities varies across cultures. Individuals from westerns nations in the North and South American countries and from Western Europe live or practice a low-context culture whereas people from Asian and East European nations have lived in high-context cultures (Manrai & Manrai, 1995:116). The context can be broken down into the number of hours spent on leisure activities and work. Countries that practice a high-context culture spend more number of working hours as compared to countries with low-context culture which put more number of hours in leisure activities. Hall (1976:67) presented the understanding of culture through the analogy of an iceberg. The major differences between conscious and unconscious cultures were based on the internal and external factors (Hall, 1976:70). The internal factors were learned implicitly, subjective and difficult to change. These factors resided under the tip of the iceberg whereas external factors were objective, easy to change and learned explicitly (Hall & Hall, 1987). Hall's findings have suggested that learning the internal cultures of a population was possible only through active participation in that culture. When a person or an entity enters a new culture, only the most overt cultural characteristics and behaviours are visible or apparent. As the person or entity spend more time with the new culture, they can see the underlying beliefs, thought patters and values inherent to that specific culture (Hall, 1976; Hall, 1989). The model is successful in explaining that a

society cannot be judged right after entering its culture but it is a gradual process where thoughts, beliefs and learning of people are gradually uncovered. It is only after a healthy participation with the culture from the inside that it is possible to uncover the values and beliefs of the culture that underlie in the society.

4.6. Trompenaars and Hampden Cultural Model

To create a better knowledge repository in understanding cultures and cultural factors for doing business, Fons Trompenaars and Charles Hampden-Turner proposed seven dimensions in understanding a culture (Trompenaars & Hampden-Turner, 1997). The authors have argued that major cultural differences between countries are the primary reason which affects business practices and management of international enterprises. In a cultural context, *"cultural diversity is the way in which a set of people join hands to solve problems and reconcile dilemmas"* (Trompenars & Hampden-Turner, 1997:6). The researchers have argued to substantial depth on the lack of a single successful management practice for application in foreign subsidiaries. The empirically validated results of the authors indicate the importance of understanding foreign culture and its relationship with organizational success. Trompenaars & Hampden-Turner (2004) defined culture as a matrix of presuppositions, concepts, categories and values which are useful in solving business and cultural problems. The researchers placed common problems in three categories – first which arises from relationships with other people, second are the problems that arise with time and third set of problems are those which are related to the environment (Trompenaars & Hampden-Turner, 1997).

The concepts laid out by Trompenaars & Hampden-Turner (1997) have built on the foundations created by Hofstede's cultural dimensions. The seven dimensions that help to understand a culture and remove misconceptions that arise when foreign entities try to understand the values and beliefs of host culture are presented below:

4.6.1. Universalism vs. Particularism

Universalism is a focus of societies considering general rules and obligations as the moral compass (Lindberg, Prozorov & Ojakangas, 2014). This leads to a high focus on following rules in all situations and seeking a single solution for tackling all cases. Particularism is a situation where circumstances are given greater emphasis over rules laid out by society (Dickson et al., 2012:485). A universalist culture implies equality and believes that all citizens fall under the common rule and should be treated the same. In particularistic cultures such as Russia, China and Latin America, the focus is on the circumstances and their exceptional nature which creates difficulties in implementing a credible and justifiable set of rules and regulations (DeBlasio, Scalise & Sestito, 2014: 212).

4.6.2. Individualism vs. Communitarians

This is a dimension that reflects on the conflict between the individualistic desires and the interests of the group to which the person belongs (Avineri & De-Shalit, 1992). Individualism promotes belief in personal freedom and achievement whereas communitarians believe that the needs of the group have a higher priority over the needs of the individual. Individualism praises and rewards individual performance whereas communitarian cultures reward group performance.

In individualistic environments, people are driven to become creative and take risks while communitarian cultures avoid showing favouritism and individuals publically (Buchanan, 1989:853).

4.6.3. Specific vs. Diffuse

The dimension relates to people and how they view life in particular as well as their relationships (Hofstede, 1996). The specifically-oriented people concentrate on hard facts and engage other in specific areas of life when it comes to relationships. People who practice specificity tend to separate work with personal lives and don't feel any impact of work on relationships and their work objectives. People with specific culture characteristics provide clear instructions and allow people to keep their work and personal activities separate (Balan & Vreja, 2013:7). Diffuse is the opposite of specific and focuses on building good relationships before focusing on business objectives. People from diffuse cultures are willing to work on business objectives during social gatherings and therefore avoid turning down invitations received to attend social functions. Diffusely-oriented people overlap work with personal lives and believe that good relationships play a vital role in conducting successful business. People tend to spend time outside work hours with business colleagues in diffused cultures. In a Russian cultural context, people are highly diffused and share diffused cultural characteristics similar to Spain, India and China among other nations.

4.6.4. Neutral vs. Emotional

The fourth dimension was developed by Trompenaars & Hampden-Turner (1997) as they found people expressing similar emotions in characteristically similar cultures. Neutral people try to manage their emotions effectively and focus on body language as well as sticking to the core objectives and avoiding any extra conversations. Neutrally driven people are influenced by

reason rather than feelings. Emotional people are keen to express their emotions and their spontaneity at work and leisure (MacGregor, Hsieh & Kruchten, 2005:2). In emotional cultures, it is acceptable when people express their emotional feelings openly. The emotional attribute is used among cultures as a tool build trust and rapport. It also helps in managing conflict and use body language effectively. Emotional cultures tend to create a positive attitude and a friendly environment.

4.6.5. Achievement vs. Ascription

The fifth dimension is a view of society and how it places people on the social ladder based on their achievements (Jacobson & Kendrick, 1973:440). Achievement driven societies and cultures position people based on their net worth and emphasize only on performance instead of power. Achieving cultures reward and recognize strong performance and promote opportunities to be a role model. Ascription cultures value people based on their position and title with little or no regard to their performance or role in the culture. Ascription cultures use titles and show respect to people in authority especially when it comes to challenging the decisions of an authoritarian (Gould, Zalcaria & Yusof, 2000: 165).

4.6.6. Sequential vs. Synchronous

Sequential adaptive cultures place a high value on performing activities in order and respecting time schedules (Xueli & Lin, 2011). In such cultures, "time is money" and people are wired to see time as a planned series of passing events (Balan & Vreja, 2013:7). The common strategies practiced by sequential cultures are to focus on a single activity at a time and set clear deadlines. The synchronous time abiding cultures are flexible in their approach but give a high

importance on punctuality and deadlines. The objective is to complete the project while remaining flexible with the intermediate tasks (Overgaard, 2010). Russian culture is synchronous in nature where the end goal is important but the intermediate steps can be modified and adapted to situations. Synchronous adaptive culture is found in countries such as Mexico, Japan and Argentina.

4.6.7. Internal Direction vs. Outer Direction

The last dimension postulated by Trompenaars & Hampden-Turner (1997) concerns with the value society puts towards its environment (Balan & Vreja, 2013:7). People with a mechanistic view regarding their environment are driven to take the right action (Jones & Moawad, 2015:3). Internal direction cultures have a firm belief on the control nature of their environment and to achieve goals. These cultures are open to conflict and disagreement while allowing people to engage in constructive conflict. Outer direction cultures have an external locus of control and working with the environment is necessary to achieve goals. Outer directed cultures tend to avoid conflict and require constant reassurance and feedback. The key to this culture is to manage conflict quickly and quietly.

4.7. Current State of Franchising in Russia

Among the first surveys conducted in context with the Russian market was experimented by Welsh in the nineties when McDonald opened its stores in Moscow (Welsh, Alon & Falbe, 2006). After a promising start of the international franchise in Moscow, the company has grown dramatically despite financial crisis from 1997 to 1999 in the emerging Russian economy (Alon & Banai, 2000:105). The government has become aware of the benefits that franchising has to

offer as it helps to improve the business environment of the nation. The improvements in Russian markets can be credited to the advancements in legislation indicating a positive attitude for regulating franchise laws, creating support organizations, and associations for trade and educational programs (Poplavsky, 2010). Foreign investments are moving into Russian economy at an unprecedented pace to encourage economic development from retail franchising for example the USAID program for the former Russian republics (Welsh, Alon & Banai., 2006). The franchising environment in Russia is divided into political-legal environment, economic, social and financial environment.

4.7.1. Key Market Players

The current franchising scope is Russia is a blend of domestic franchisors like Togliatte, Russkaya, Trapeza and Alcor in food processing, and international franchisors such as Alfagraphics, Microage and McDonalds with a stable and refined franchising model (Alon & Banai, 2000:104). The financial crisis in Russian markets over the last decade has created major hurdles and setback for franchisors such as KFC, Pizza Hut and Dunkin Donuts in the restaurant business. Due to doubts over the economic conditions and lack of potential franchisees in Russia, restaurants have decided to scale down their operations. It is evident from literature that some franchisors are pulling out while other are investing financial capital rather than seeking divestment of their ventures.

4.8. Favourable versus Unfavourable Market Conditions

The political-legal environment constitutes high risk for international franchisors which is complemented with government instability and rise in nationalism. According to Alon & Banai

(2000), the mistrust in the government constitute to an unfavourable market environment from a political standpoint but Welsh, Alon & Falbe (2006) and Black & Farukshina (2009) found a mix of favourable and unfavourable conditions in laws that restrict franchise practices such as the re-enactment of the Russian civil code. According to Black, Kraakman & Tarassova (2000:1736), the market potential of Russia is approximately 150 million consumers and a large pool of educated and skilled labour which is a highly favourable factor. The monetary instability and under-developed market infrastructure are among the prime causes of unfavourable market conditions (Black et al., 2000; Blair & Lafontaine, 2006). As the concentration of Russian population is restricted to cities due to harsh climatic conditions, untapped market conditions in Russia make it a favourable marketplace for franchisors to enter. The demand for western products is favourable but the crime rates and corruption create unfavourable market conditions (Ledeneva, 2009:258). A limited amount of capital, especially foreign investments also creates unfavourable market conditions. From a cultural standpoint, people are moving to an openness and acceptance of western products and services due to growth in economy and improvement in family spending.

4.9. Framework of Market Entry

A normative framework of foreign market entry such as in Russia is divided into five components – price, method of promotion, location, product or service and mode of entry (Alon & Banai, 2000). Among the most important aspects of foreign market entry as suggested by Anderson & Gatignon (1986:4) are the final price demanded by consumers and cost of franchise. According to Batra (1999), western goods and services have often demanded a higher price than similar goods in Russia. The perceived quality associated with western goods creates a high priced environment for sale of products which is multiple times over the cost of government

stores. Researchers have indicated the use of limited assortment and taking help of local knowledge to lower prices of goods (Anderson & Gatignon, 1986:4; Doherty, 2009:530). Franchises can earn more from royalties than franchises fee to grow at a faster scale. Franchises can benefit from high franchise fee when hedging against risk or bonds at the time of deciding the contract.

The franchisors can strategically use a combination of direct and indirect marketing methods depending on which mode is more successful in penetrating the market. For new franchises, it is pointed out by Batra (1999) and Elenkov (1998:134) to use informative methods of advertising rather than comparative advertising strategy. The location for market entry which is suitable for new franchises is the capital of Russia i.e. Moscow. Ralston et al. (1997:178) argues that entering the market through Moscow has several benefits such as leveraging the distribution networks and consumer demands due to an established infrastructure. As Batra (1999) pointed out that distribution networks are divided according to geographic specialization, it is crucial for franchises to use multiple networks depending on the location. According to Benett, Frazer & Weaven (2010:71), new franchisors must build distribution systems that are firm-specific in areas where no possible distribution system is available.

For a strong market entry, the product should be limited by selection and claim to provide consistent service at a reasonable price. The use of locally sourced products can reduce the final price of the goods in order to remain competitive. The right mode of entry depends on the selection of the right partner and building a supportive infrastructure. Setting up model stores in Moscow can create product awareness among the consumer group while local market can be developed through franchising.

4.10.Cultural barriers in Russia

Russia is an emerging market for franchisors but differs in cultural practices which affect business relationships with western countries. An emerging middle class is responsible for the growing consumerism which is leading to growth in food & non-food franchise sectors. According to Black & Farukshina (2009), business relationships in Russia thrive on a combination of formality and personal touch. Russian businesses are particular about writing and written contracts with agreements and deals to be signed to be in effect. However, Benett, Frazer & Weaven (2010:70) argued that Russian businessmen and consumers preferred to get down to a personal level and become more familiar with the business, product or service before moving forward. The Russian markets are too large to remain untapped. However, it does not come without problems. While some businesses may see the culture and other characteristics as a threat while other may see it as an opportunity. Due to high level of political and legal risk, it deters direct competition. The loyalty of a Russian consumer despite all cultural barriers can be earned if a franchise system can meet consistent demands of the consumer at a reasonable price. According to Alon (2006), the Russian markets will tend to remain volatile over the next decade which can turn into a great payoff for the franchisors who can endure the risk that burdens the economic, political and social economies of scale in a hybridized emerging market.

4.11.Using Hofstede's Theory for Understanding Cultural Difference

The cultural dimensions theory developed by Hofstede's is a framework for businesses to understand the ways of communicating across cultures. The knowledge obtained from learning about a culture and how it creates value for its members and relate to their behaviour after factor analysis will help to prove the hypothesis proposed in this study. It is crucial to accept that cul-

ture plays an important role when customers make choices in day-to-day life. Developing a cross-cultural communication strategy in a franchise environment can be understood better in terms of power index and power-distance cultures instead of high and low context cultures as proposed by Edward Hall (Hall, 1976; Hofstede, 1984). As high-context cultures place the meaning of the message in the context of the setting, it does not explain the cultural barriers adequately from a franchising perspective. While it is easy to define Russia as a high context culture due to its directness in communication as proposed by Hall but there is difficulty in correlating the theory with franchising and how it can effect franchising and business relationships.

Similarly, comparison of dimensions reveals that Trompenaars communitarianism and individualism is similar to Hofstede's collectivism and individualism. As these two dimensions are similar between the two theorists, Hofstede's power to distance index is related closely to the acceptance of power distance within a society – something which is not discussed by Trompenaars and Hampden-Turner. Apart from Hofstede's discoveries, Edward Hall, Trompenaars and Hampden-Turner seem to focus on the resultant effects of the dimensions and its underlying values. The dimension of universalism describes a preference of rules instead of the trust in relationships. The diffuse dimension proposed by Trompenaars and Hampden-Turner is identical to the mono-chronic and poly-chronic time concept proposed by Hall. A closer inspection on the dimensions of all the researchers reveals that Trompenaars and Hampden-Turner have rated more countries more individualistic for example Spain, Mexico and Greece than Hofstede and Hall's dimensions on cultural individualism. Trompenaars and Hampden-Turner have indicated in their findings that communist countries such as Russia and Hungary are individualistic which can be a contra-

diction. It is found that Hofstede's theory on cultural differences in a better match for this study

and will be used in further sections to explain the results and findings of the study.

5. Methodology

The objective of this chapter is to describe the methods used for understanding cultural barriers that restrict franchising models to flourish in emerging markets like Russia. Using proven research methods, this study will explore consumer inhibitions created by cultural factors that comprise of religious, social, economic inhibitions in practice within a society, country or a nation. According to (Yin, 2013) the three distinctions of scholarly research methodology exists as exploratory, descriptive and explanatory. The chosen research method of this research study is a combination of descriptive and exploratory investigation techniques. This mix allows the study to investigate the causes of cultural barriers in context with the Russian culture. The study intends to explain the properties and inner relationships between franchising models in practice and cultural barriers that may have oppositely favoured the growth of franchises in Russia. Descriptive research is suitable in this context as variables and conditions already exist in the market environment. The objective of descriptive research is to present an accurate report of the situation and to determine the differences, needs, and features of subgroups and characteristics. Descriptive and exploratory research methods are suitable for qualitative data analysis which is the method of investigation during this study. The research is partially descriptive as the collected data was used to describe the current franchising situation in Russia and explore opportunities for franchising models to grow in new markets.

5.1. Research Approach

According to Yin (2013), the two most recognizable types of research approaches are qualitative and quantitative. However, in recent years mix methodologies and other hybrid forms of methodologies have been developed and used. Discussing each methodology, its benefits and

drawbacks is outside the scope of this paper but the research will highlight the two main approaches used for conducting research in social sciences. The best method to use is based on the type of study undertaken in this research.

According to Newman (2016), qualitative research is a "detailed description of events, situations, people and interactions". Qualitative research seeks to improve understanding of objects studied. Qualitative method of research is supposed to investigate and understand the problem phenomenon by the means of an insider perspective (Taylor, Bogden & De Vault, 2015). This research methodology is characteristic of studies where researcher's own emotions, reactions and descriptions come into play (Krippendorff, 201). Quantitative research methodology has a higher degree of structure and formalization. Quantitative studies are conducted in cases where the researcher is seeking to explain a phenomenon using numbers and results which form the basis of conclusion as a quantifiable set of data. This type of investigation is suited for a research problem with multiple components as cited by (Charnes et al., 2013).

5.2. Research Strategy

The character of the research question is suited to be investigated using case study and historical analysis. This strategy is suitable as the type of research question seeks to investigate cultural barriers in Russian markets in context of franchising models for international businesses. The extent of control is limited over actual events and the focus on contemporary issues is higher than compared with historical events. Using case study as the chosen type of research strategy, the thesis will gain a critical understanding of the event, experience, processes and its supporting relationships (Yin, 2013). Studying multiple cases creates clarity on why certain phenomenon

has a specific behaviour. Studying different cases through investigative approach adds to the validity, precision and stability of the findings presented by the study. To improve understanding of cultural barriers that restrict entry of franchisors in Russian markets results, the study will explore two well-positioned companies in Russian that entered the markets using one of the franchising models. The companies are chosen from a list of fast-style casual restaurants operating in Russian markets. Studying multiple cases is a useful strategy to specify the cultural barriers, its types and factors that restrict franchisees to improve business in emerging markets such as Russia.

5.3. Sample Selection

Selection of the appropriate sample size is a challenge for the study as there are many parameters to consider such as organizational size, maturity levels in foreign markets, and franchising strategy. This study will use multiple cases sampling to add confidence to the findings and improve its reliability. It is important to consider that franchising is not a popular mode of business and a limited number of international franchisees and franchisors are operational in Russia. Interviewing two different franchising companies – one that is relatively new to the Russian market and the other well-positioned in the market can improve the findings related to cultural barriers as one has overcome cultural barriers while the other is still improving its strategy to position itself.

For the two cases used in this study, the following criterions must be met. First, the parent company is foreign and has at least one franchisee in Russia and second that the company is strongly positioned in the global market so that its operations does not affect the investment and strategies

while entering new markets. It is also imperative that the franchisor must be looking to get bigger in the Russian market and must have experienced cultural barriers.

5.4. Data Collection

According to Yin (2013), there are several methods of data collection used by researchers such as interviews, archives, observations and participant observations as well as physical artefacts. The strength and weaknesses of each method of data collection determines the necessity of the method in answering the research problem. This study uses a combination of interviews and physical artefacts to collect data. The use of physical artefacts in this study provides valuable insights into cultural features and technical operations of franchises, however the lack of selectivity and availability of the physical data creates a problem for the study. Using interviews as a primary medium tool for collecting data creates a targeted approach for the thesis. The study will benefit from directly focused topics relating to the problem scope and lead to insightful inferences. It is imperative for the study to reduce bias as much as possible by improving the relevance, importance, validity and scope of the questions used in the interviews. The study will document every piece of information and evidence collected from franchising companies. The interviewer will seek to reduce reflexivity which is "giving what the interviewer wants to hear" (Taylor, Bogden & De Vault, 2015).

5.5. Data Analysis

Being the most important part of the study apart from collecting all data and filtering it into meaningful subsets, the study will aim to utilize grounded theory as the primary tool for leading to measurable results. Grounded theory and triangulation are useful tools for analyzing

data gathered during interviews. The grounded theory is based on three coding parameters. The first coding is performed one a sentence level where each sentence is color coded. The second level of coding is axial where commonly repeating keywords or short sentences are connected using relationships. Creating connections between categories helps to create well-defined categories and sub-categories. Individual categories can be easily identified and expressed in terms of casual conditions which may be organizational, environmental, social, cultural, economic or political in nature. This approach helps to meet the needs of the investigation. The elimination process used in this method is one of the limiting factors as the study can overlook a pertinent cause or cultural factor due to non-repeating keyword density or importance.

5.6. Validity and Reliability

These are two important measures of defining quality of the research. Validity is divided into construct validity, internal and external validity. To gain validity, this study uses a combination of documentation, theoretical knowledge and interviews. The main objective of the study is to identify and examine the cultural issues that have influenced the adoption of franchising in Russian markets. The interview is designed using the cultural barriers identified by Hofstede model. The questionnaire is designed with care and to avoid any vague questions. To improve the reliability of the study, previous theories and models on franchising were evaluated along with relevant literature and case studies obtain through data collection methods.

6. Data Gathering

The collection of data pertaining franchising options and Russian market overview was performed. This chapter deals with the presentation of data collected through interviews with managers of two companies, Paul's and Vapiano. The chapter begins with a brief overview of the two companies. It is followed by analysis of collected data during the interviews. The primary aim of the study is to identify cultural elements and barriers that an international company experience during business activities through franchising in Russia. Using the procedural methods highlighted under grounded theory, this study will identify the cultural barriers to franchising in Russia and compare results with Hofstede's model.

6.1. The case of Paul Bakery

6.1.1. Background of the company

Paul is a family company started in 1889 by Charlemagne Mayot. The first bakery was opened in Rue De La Mackkellerie in Croix, Nord. The bakery served freshly made French products like breads, cakes, pastries and soups. Paul opened its first franchise store in Barcelona, Spain which is closed now. In 2017, Paul's opened up franchises in Belarus, Tunisia, Panama, and South Africa. In over a century old tradition of fresh bakery products, the business has diversified into product categories such as wine, beer, mineral water, soft-drinks and coffee derivatives. Paul is recognized for creating over 140 different types of ready-to-eat breads. The concept of Bakery-Cafes has also picked up in the United States. As of 2014, Paul is present in over 33 nations. The company is proud to share the love of *work well done.* It promises to offer the very

best of quality products in a setting that is mesmerizing and unique to Paul's customer service quality.

6.1.2. Why franchising

Companies with a long-term strategic vision such as Paul's knew very well that to capture the imagination of quality food products among consumers, the company will have to expand outside of France. This led to exploration of distant markets such as Spain, United Kingdom, Turkey, Russia and many others. The economies that were deemed favourable were studied further to explore necessary methods of market entry. Paul observed that entering foreign markets has its advantages and disadvantages. The most pertinent benefits of international franchising includes risk aversion, profitability, lesser constraints, saturation of existing markets, low labour and capital costs and exploiting economies of scale. When exploring franchising options, Paul has carefully weighed its options preferring neighbouring geographies and cultures for strategic expansion as opposed to distant markets and innominate cultures.

6.1.3. Reasons for choosing Russia

Upon progressive business success in European countries such as Poland, United Kingdom and Spain and in the Asian subcontinent such as Lebanon, Saudi Arabia, Thailand and Philippines among others promulgated the decision to expand in Russia which is the largest nation by land mass and seventh largest by population. The company commits to providing fresh bread baked using time-tested methods and its social responsibility campaign to a healthier environment proved to be a welcome choice for Russian population seeking alternative to low quality breads and bakery products. Large open market with rapidly growing population, availability of

native investors, increasing awareness of quality baked products at affordable prices and saturation in existing markets were some of the key drivers for expansion of Paul Bakery in Russia. Existence of small bakeries in Russia selling products at above premium prices and still retaining its consumer base was also a prime motivator.

6.1.4. Cultural Issues

They described Russia as *"an open market with many new opportunities"*. The key issues highlighted by the management were:

a) Presence of competitors that are culturally aligned to Russian consumer and enjoying a strong market position.

b) Market positioning strategy should be focused on the female consumers as they are most likely to visit bakeries.

c) Products should have cultural characteristics while presenting a distinct international brand recognition.

d) Marketers must respect the local traditions and customs while seeking alternatives to meet consumer requirements.

6.2. The case of Vapiano

6.2.1. Background of the company

Vapiano is a German restaurant company with its headquarters in Bonn. The restaurant offers Italian food under the fast-casual principle. In 2017, Vapiano extends its presence in 180 locations and 31 countries. Approximately, one-third of all Vapiano outlets are directly-owned whereas the rest are run as franchises or joint ventures. The first franchise restaurant was estab-

lished in 2002 in Hamburg. Vapiano is focused on providing a wonderful dining experience. The Chefs are located at the centre of the sitting area where they prepare dishes in front of the guests. The pizza dough, sauses and dressings are prepared in-house and guaranteed of finest ingredients. The guests can enjoy after-dinner coffee and drinks as per their tastes. Vapiano restaurants are attractive for the young generation that need an affordable dining environment for professional and family meetings. It is a place to experience with friends and family. The restaurant is described as a cross between pasta restaurant, pizzeria, lounge and an Italian styled bar restaurant. The restaurant prepares all products in-house except breads and rolls.

6.2.2. Why franchising

According to the Vapiano franchise manager in Russia, the emergence of working middle class with very limited time is the epicentre of this fast-casual dining principle. As Russia is considered an emerging market since the Russian revolution, there is plethora of opportunities for international brands to move beyond Moscow. Besides the low risk of entering a culturally distant market marred with hostile climate, franchising emerges as the sought approach to balance the risks and explore Russian landscape. The European markets have been saturated since the 90's and exploring far-flung Asian and South American economies present multiple challenges besides logistical bottlenecks. In countries that have close proximity and a clear operational environment is suited to franchising. As the franchisor performs most of the duties in the foreign market, they are better suited to evolve the brand as per cultural tastes and ensure the original identity of the brand does not corrode over time. The knowledge of the franchisor in the foreign market is one of the critical aspects of choosing franchising as the mode of entry.

6.2.3. Reasons for choosing Russia

The main factor that Vapiano mentioned for choosing Russia is its location and population. The fact that Russian markets have recently opened to the world and therefore presents multiple possibilities is enticing. The market research indicated a rise in working population. This is equivalent to increased spending power and thus greater opportunities. As the 7th largest country by population, it holds significant potential for international brands to meet the demands of the middle-aged population. The lowering income disparity and gender inequality is crucial while considering expansion through franchising in Russia.

6.2.4. Cultural Issues

The aim of the business was to experiment with Italian cuisine in Russian culture. The business claimed to create a positive affinity among the Russian consumers. The exact sense of achievement and intermingling of Vapiano's culture with Russian food habits is yet to be accurately gauged. According to Vapiano franchise manager, "The Russian culture is friendly and open to new styles". It is not clear how Vapiano will strike the chord with Russian sub-cultures and consumers located in Russian hinterland.

7. Data Analysis

The use of grounded theory in analysis of data is well documented by Strauss & Corbin (1998) stipulating the three methods of coding i.e. open, axial and selective. The first method of analysis performed on data scrutinizes the test sentence by sentence. This form of open coding helps to categorize common areas of interest in the interview response. Interview notes are analysed using key words and relationships based on these keywords are derived. Axial coding does not conform to strict rules but helps place items into categories and subcategories. Repetitive analysis of the interview highlighted keywords and phrases that held significant interest and validity to the research problem.

7.1. Open Coding

The data obtained from the interviews with Paul and Vapiano was analysed using grounded theory. Organising qualitative data into keywords, categories and subcategories was important to develop distinguishing views of the respondents in both cases. The key areas and keywords by open coding in the case study of Paul is given in Table 1. Key points are listed as P_1, P_2, P_3…. for Paul and V_1, V_2, V_3… for Vapiano. Table 2 enlists the key points observed during the interview with Vapiano. The coloum ID shows the key point of each company and the "key point" column has the exact phrase that was mentioned by the respondent. The third column "Code" highlights the problem mentioned by the respondent as observed by the interviewer.

Table 2: Open Coding of the interview response with Paul Bakery's

ID	Key point	Code
P_1	Politically and Economically Unstable	Political and Legal issues
P_2	Stiff National Competition	Economic issues
P_3	Some legal hurdles for international companies.	Legal issues
P_4	Russians do not possess same habits as Europeans	Cultural differences
P_5	Women shopping in higher numbers	Gender differences
P_6	High custom duties on food and beverages	Import issues
P_7	Import ban on many food items	Political issues
P_8	Sluggish economy	Economic issues
P_9	Rising costs of ingredients, labour and purchasing power.	Market forces
P_{10}	Rising operating costs	Market forces
P_{11}	Lack of time and busy work schedules	Uncertainty
P_{12}	High costs of setting up	Market Forces
P_{13}	Bureaucratic hurdles	Political Issues

Table 3: Open Coding of the interview response with Vapiano

ID	Key point	Code
V_1	Vast unexplored landscape	Uncertainty
V_2	Growing feeling of socio-political tensions	Social and Political issues
V_3	Corruption issues	Political and Legal
V_4	Political regulations and norms increased competition	Political
V_5	Serious logistical challenges	Market forces
V_6	Eating Habits	Eating habits
V_7	Different form of communication and body language.	Language and communication barriers
V_8	Low income group	Income
V_9	People migrating to urban cities	Economic issues
V_{10}	Uncertainty about Vapiano success	Uncertainty
V_{11}	Import products that attracted high rates	Import issues, Legal issue
V_{12}	Different shades of political and cultural barriers	Political and Cultural issues
V_{13}	Difficulty in finding loyal employees	Employee Attitude
V_{14}	Ban on major food items	Political issues
V_{15}	Weakening currency	Economic issues
V_{16}	Real estate rent become very high	Real Estate
V_{17}	Long time to get approval from government	Political issue

7.2. Axial Coding

The next step in ground theory analysis is axial coding technique. This technique uses a set of procedures that combine existing data into useful and meaningful techniques by making connection between categories. The use of memos to develop a holistic picture of what the data entails is the core aspect of this type of analysis. Grouping data into more relevant keywords and placing them under the same coding group transforms information into a clear set of require-ments. Each code is categorized as C1, C2, and C3 and so on. The individual keywords that were identified in open coding will serve as input to the axial coding mechanism. The table 3 below presents the information stored into separate codes for each uniquely identifiable issue.

Table 4: Axial Coding of Barriers to Entry

C1	Legal issues	P1,P3, V3, V10
C2	Political issues	P1, P7, P13,V2, V3, V4, V12, V14, V17
C3	Economic issues	P2, P8, V9, V15
C4	Market Forces	P9, P10, P12, V5,
C5	Uncertainty	P11, V1, V10,
C6	Social and cultural	P4, P5, V12
C7	Employee issues	V13
C8	Real Estate	V16
C9	Import issues	P6, V11,
C10	Eating and lifestyle	V6
C11	Language and Communication	V7
C12	Income	V8

7.3. Selective Coding

The third step in data analysis using grounded theory is selective coding. This style of coding aggregates the highlighted categories and subcategories that fall into similar nature and may be grouped for further analysis. The codes developed using open coding and regrouped under axial coding are combined into cultural barriers and factors associated with legal barriers are overlooked. Regrouping elements form axial coding gives us four uniquely identifiable groups. These are mentioned in the table below.

Table 5: Regrouping of Cultural Barriers into 4 Social Dimensions

1.	Social Inequality	C3, C12
2.	Beliefs and values	C6, C10, C11
3.	Individual and organizational behaviour	C4, C7
4.	Uncertainty	C5

Social inequality is a key player in shaping consumer choices. Income disparity among the target population can affect organisational strategy.

Shared beliefs and values comprise of social and cultural inhibitions associated with religion, taste of a nation, legal barriers and personal habits. This category helps in building the culture of a target region.

Individual and organizational behaviour is associated with how a business reacts to internal and external forces. It also looks at the behaviour of the manager towards its employees, workforce attitudes etc.

Uncertainty is a phenomenon where the behaviour of the entity is derived from past experience. For example, the brands popularity overseas will factor in consumers mind before trying out first hand. Similarly, a new dish or product may be viewed as culturally inacceptable and thus generate negative reactions from the community.

7.4. Comparing results with Hofstede's model

Russia is a vast country with largely unexplored market potential. The key issues highlighted by (Alon & Banai, 2000:108), (Forte & Carvalho, 2013:382) and (Ledeneva, 2009:281)

are political instability, environmental and cultural differences. Power distance, one of the six dimensions of Geert Hofstede's cultural dimensions measures the extent by which less powerful members of the society view and accept the power that is distributed across the society (Hofstede, 1984). The view of the business class in Russia conforms to the view that there is political monarchy in the country that inhibits them from doing business. According to Hofstede's model, Russia continues to rank high on the Power Distance Index which is clearly visible in the results from the interviews of Paul and Vapiano. Paul has cited political hurdles such as policy making on import of food items and restrictions on common food products. Vapiano management mentioned socio-political tensions, corruption and playing with import and export norms as a major business debilitation.

Cultures with high uncertainty avoidance indexes tend to minimize the possibility of such situations arising by punitive measures and strict protocols and often placing them into philosophical and religious discourse. People in countries with high uncertainty avoidance index are emotional and erratic due to lack of strength and confidence to deal with unfamiliar situations. Russia is ranked high on the Uncertainty avoidance scale which turns to unpredictable scenario in the event of political decisions concerning market deregulations. Indigenous enterprises will feel threatened by ambiguous situations. Russian businesses will seek government support to maintain status quo in the Russian markets which can be a threat for international franchises. Rising operating costs and changing political scenario could hamper Paul and Vapiano's future franchising projects in Russia.

According to Hofstede's model, individualism addresses the degree of interdependence maintained by a society by its members. Russians tend to align with collectivist attitudes where the

family, relatives and community as a whole plays a major role in meeting daily challenges (Hofstede, 1984). The relationships are a crucial part of business activities and holds great significance for international franchises. Language and communication plays a vital role in creating business relationships and ensuring smooth functioning of the franchises.

As discussed in earlier chapters, a low context culture such as the United Kingdom, information is explicitly written as it is meant or verbally expressed in the same way as it means. In a high context culture, information is contained in the physical context during communication or in the values of the communicators. It means words, cannot be taken at face value. Russia is a high context culture which emphasizes all the three dimensions of attitudes, behaviours and cognition. Conducting business activities in a high context culture can be complex than compared with a country having low context cultures. Cultural barriers present an important avenue of learning prior to entering foreign markets with high context cultures. Companies with similar ratings on the Hofstede's cultural dimensions index will have lesser problems in doing business with each other. For example, if the franchisor and franchisee's religion is the same or they have the same political characteristics, then it would be easier for businesses to flourish in their nations.

8. Findings and Conclusion

8.1. Conclusion

Social systems, beliefs and values observed by a society are conditions that must be taken seriously by international companies before foraying into an economy. From the recent successes and failures of international franchises in the wake of globalization, it is clear that businesses that respect the local cultures and traditions while cultivating new ideas in their operations are successful in host nations. Franchising and culture play a hand-in-hand role as evident from Hofstede's results and the findings of this study. The research extends the claim of earlier studies published by Hofstede & Minkow (1986) and Adler & Gundersen (2007) on the universal applicability of management theories and techniques. As franchisors adopt a flexible market approach in line with cultural demarcation, striking the right balance between indigenous menu and products with flavours of host country is perceptible. It is yet to be seen whether this diversely followed customizations of business techniques has any theoretical underpinnings. Franchising is a recognized and respectable way of creating business opportunities for like-minded professionals, employment for the people and revenue for the government.

In the context of Russian culture and its socio-cultural environment, it is imperative to understand the role of cultural differences. Thus, the following categories present the knowledge gained through the research in the host country.

1. Traditional beliefs of people, language of communication and its subcategories have great impetus on the success of business franchise.

2. Uncertainty from bracing political, legal and economic challenges for example change in import and export policies, copyright violations, and currency erosion.

3. Prevailing gender income differences, social stratification and demographic profiles like cost of land and availability are key areas of concern.

4. Franchisors relationship with franchisee, employer's relationship with employee, brand loyalty and organizational bottlenecks constitute barriers to business success.

These fours barriers were explored systematically using Hofstede's research on cultural dimensions and the results were presented. Some similarities are evident in Hofstede's view and the research undertaken.

A closer review of cultural dimensions of a country is essential for international franchisors. In ideal circumstances, expansion of business should be preferred in countries with similar cultural context. Countries with significant differences in context are likely to attract losses and failure of franchising objectives. By using the metrics from Hofstede's cultural dimensions, businesses could identify similar rated countries.

8.2. Managerial Implication

How can a company deal with cultural barriers while seeking foreign market entry? The company can try to deal with cultural barriers in the following steps. First identify the cultural barriers that exist in the host country using internal and external methods of review. Additionally, methods such as SWOT analysis of competitors, PESTEL analysis and Porter's 5 forces can help management take informed decisions. Cultural barriers to entry are critical to study in a business relationship because they remain largely unaffected by external factors. Besides knowing what barriers exist, it is important to ascertain the workarounds to the problems encountered by the franchisor. For example, opening franchises in regions that are favourable to do business. Deciding on the type of employee trainings, knowledge and culture sharing of international franchise

with workers and individual or group programs should be taken into account. Goal-setting is another important aspect as managers and employees should be aware of the changes and understand how it affects them. According to Hall (1983), learning of internal cultures is possible only through an active participation in that culture. Thus, using Hofstede's cultural dimensions as a benchmark for market entry and Hall's cultural model to adapt business goals with cultural differences will create a healthy mix.

Since the expansion of globalization in the early nineties in Russia, business practices have come a long way. There is saturation of products in the Russian markets. Innovations now need substantial financial support to make it consumer oriented in order to be marketable. Studying key competitors is as important as studying cultural barriers. In conclusion, franchisors must keep a close eye on market forces and cultural barriers while innovating and bringing new and unique ideas in the market to be profitable.

8.3. Theoretical Implication

To conduct this study on cultural barriers on franchising in Russia, a round of interviews were conducted with the senior managers at Paul Bakery's – a century old bakery brand in Russia and Vapiano – a new and upcoming chain of restaurants under the fast-casual principle. The interviews were conducted in a semi-structured format with the focus on capturing the key details of the business franchise. The study, however limited to the size of the interview questions cannot adequately cover all areas of cultural factors and therefore could be performed on a larger quantitative scale. The present study utilizes grounded theory for data analysis wherein each response in interviews is read line-by-line and coded for special keywords, phrases and sentences. Coding as a technique presents a different set of biases that may restrict the author to their own

views superimposed on the reactions of the respondents. The codes were further categorized into categories and later into dimensions resembling Hofstede's cultural dimensions. The four categories were presented to its readers with the omission of political, legal and economic barriers as they do not fall under the purview of the topic.

8.4. Limitations of the Study

In addition to the aforementioned implications and limitations, some important limiting factors are presented below.

- Limited number of franchising companies in Russia.

- Linguistic barriers in communication and interviews.

- Lack of experience and expertise of the management not taken into consideration.

- Problems encountered in trying to enable managers to speak neutrally about the organization.

- Lack of willingness to speak truthfully in an interview.

8.5. Suggestions for future studies

The knowledge of culture of the franchising country and its implications were viewed from the subjective views of managers operating the franchise. Therefore, it represents a partial view of cultural identities and barriers as seen by the management. Postmodern methods including in-depth analysis of consumer segments combined with the current study can lend a holistic view of cultural barriers of entry in the emerging market. Similarly, cultural issues do not cover the entire spectrum of challenges faced by the international company. There are pervasive legal, political, economic, environmental and technological issues that need the same critical view of

the stakeholders. Through careful dialogue with the government, competitors, consumers and remaining stakeholders can the international company take decisions on the path to market entry that would bring them most likelihood for their success and profitability. Franchising barriers to each country are unique and dynamically reshaped according to the views of its populace. Theoretical frameworks discussed in this study present a comprehensive picture of the nation which can be thoroughly reviewed by future researchers and improve existing models of knowledge.

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Appendix 1: Paul Interview Question and Response

1. Why do you think Russia was considered an interesting country for Paul's international expansion?

Russia is a developing and growing market with new opportunities as many international chains are expanding through franchise here. Paul has been eying to expand further into Russian hinterland since its first establishment. Paul was brought to Russia to increase its earning potential since its products were increasing in popularity in Europe, Middle East and Asia.

Paul already has more than 300 bakeries and cafés throughout Europe, the Middle East and Asia. Gourmet food products from French artisans are placed in niche market in Russia. Quality food and bakery products are opening up in the Russian marketplace inspired by French revolution in premium bakery segment. This is to instil, in the Russian culture, a love for high quality bakery products inspired by French and consumed by people around the world in the Russian culture and a way of live.

2. Why franchising was selected as a business strategy?

Franchising was selected as a business strategy by Paul as it leads to fast financial growth for the franchisor and the franchisee as there is an existing market already. Secondly, franchising is a common mode of expansion in the restaurant industry. For the company, this mode of expansion has been a success in other markets such as the Middle East and that is why it was selected as a business strategy in Russia. Paul's employed the same design and applies the similar prices all over the world. Franchising is an ideal mode for fast financial growth. It is common in restaurant industry and Paul is offering its services through this mode.

3. What was important to consider opening an international franchise in Russia?

Primary research was conducted. Paul bakers employed a research team who took all the first-hand information regarding the market of Russia. Ginza which is an international holding company managing and operating hundreds of restaurants globally selected few experts who went to France and saw how the restaurant operated, spoke with the heads and the employees too. They also spoke with few employees from management team and some customers while observing their trends and preferences. Ginza specialises in managing restaurants globally and they are experienced in deciding whether a certain market is good for a certain company and that is why many restaurants prefer to operate under this holding. Ginza also assists restaurants in making informed decisions regarding their expansion moves and other important aspects of the restaurants.

4. How would you describe Russian market and which characteristics it possesses?

Russian market is changing dynamically and it has a high projected market growth. At the same time the market is also tough and has unique aspects. The Russian market also has few barriers to entry and is considered currently to be politically and economically unstable. There is also the presence of stiff national competitors and some legal hurdles for international companies.

5. What is your target?

Our goal is to establish strong brand recognition of Paul in the Russian markets and to create a loyal customer base. Another goal is to change customer's attitude to bakery, bread and pastries consumption and to set its values in consumers mind. Most Russians do not possess same habits

as Europeans, for example, where it is normal to breakfast outside home and to buy bakery products on a daily basis. Paul values are passion, quality, tradition and a "Maison de familie".

6. What is the brand perception among Russian people for your brand mainly?

The brand has been received well by the Russians as Moscow has always been the capital of fine dining, offering a high concentration of expensive, up-market restaurants. Since Paul opened its business in Russian in 2012, the brand has received impressive ratings from consumers as a "go-to" bakery and "next-door neighbourhood bakery" among others. Russian people love the concept of easy to use daily food products that are healthy and relatively easy to procure.

7. What steps (if any) were taken by your company to be recognised in the Russian markets?

Paul bakeries are placed on the busy streets where there are famous stores also the company used the social media platforms to gain online customers. Paul bakery also makes exceptional food which attracts a wide variety of customers both the locals and the tourists. We emphasise on staff clothing line in conformity with cultural traditions. We even hosted an annual dressing competition among staff and awarded prizes. We embraced Russian culture in our food products and we still use locally procured ingredients in many of our products. We have reduced many of globally successful products that our company is famous for and experimented with a great degree of success on local foods and beverages.

8. Is there any brand positioning strategy that is different from the strategy performed in the home market?

Yes, we are currently undergoing a transformation internally and recognising the importance of building relationships among women customer base. We realised that women are shopping in higher number for our food and beverages. Surprisingly, the empowerment of women has allowed many women to come out of traditional roles and they contribute to expanding our patronage. We have positioned our brand as a daily shopping outlet with a focus on increase engagement with female consumers.

9. Is there any brand positioning strategy that is different from your competitors? (How have you positioned or distinguished yourself)

I cannot comment exactly on the brand positioning strategy followed by our competitors but in my experience I have seen them using the celebrity positioning strategy. This is maybe because Russians associate status with power, influence, richness and control over other but this is also changing and many brands are using a mix of strategies to appeal to the newer consumer base. Online presence is another key area. If your business is not online, it is equivalent to not being in existence. I personally feel that online budgets should be increased by Paul's advertisers to engage with female customers on their website and in local forum groups to understand the general view of the public towards Paul's and to address grievances in particular.

10. Did you face any barriers to market entry? What kind of barriers?

There was stiff competition from local vendors and other international restaurants that were also setting up in Russia. High custom duties were imposed in the food and beverage sector to restaurants especially those under franchise when Paul was moving in during 2011 - 12. The products had to be tested by the Russian authorities before they were launched and this takes a lot a lot time and process, it is also expensive. There were also some news about lobbying efforts by the company to enter Russian markets but it was later rejected. An import ban on many food items was also issued by the Russian authority produced in the EU, Norway, Canada, Australia and the USA, in response to the economic sanctions imposed over the Ukrainian crisis.

In the past 12 months, Russian food and beverage industry has witnessed a downward trend. Due to sluggish economy, many restaurants have closed and it has become a struggle for survival. The rising cost of ingredients, labour and purchasing power of consumers affects business profits. The Russian government announced ban on several consumable items leading to significant problems in business operations. We are yet to see how these policy changes will affect franchise business in Russia. I think our operating costs are going to rise further leading to reduced revenue. We hope that the Russian government takes note of the problems faced by restaurants and does something about it.

11. Do you think your chain is compatible with Russian culture and society?

At first Russians were not familiar with Paul and not used to buying high quality pastries on daily basis. Normally they buy bread and other pastries in standard grocery shops. With time this

changed and they got inspired and loved the quality of the food making the restaurant famous. Our biggest challenge has been to integrate Paul's line of goods and services with Russian culture.

12. Have you face any limitations in getting accepted by Russian consumers due to their unique culture?

Not much. Russians don't have much opportunity to travel abroad but love try new things and appreciate good quality. Bread made with the French recipe and other pastries were taken with a great pleasure.

13. Have you noticed any specific trends in consumer behaviour and buying patterns since entering the Russian markets?

Middle income consumers prefer purchasing from stores near their residential areas so as to save their time and money. An average consumer purchases products three times week. Most of the middle income consumers prefer to purchase bread from the grocery shops nearby. The lack of time from busy work schedules have led to numerous suggestions on free home delivery, online ordering, and customisation of products to suit individual tastes. Most of the middle income consumers prefer to purchase bread from the grocery shop but many consumers, especially working women and men prefer us over the local markets maybe due to our products quality. The use of good quality eatery products is not yet ingrained in the Russian culture but there are indications of the same. The biggest challenge for us is to provide low-cost and affordable products to our consumers as we want to increase our consumer base while we are operating at minimal profit

margins which leave very little scope to reduce prices. Though we are trying to change that and bring European standards in the mind-set of a middle man. To Russians it's a bit foreign to enjoy life and live in the moment.

14. What is the primary line of customers/consumers that you deal with?

Both middle and high income earners.

15. Have you tried to establish or change cultural factors or brought a new cultural concept in the market?

Yes, Paul bakery introduced some French dishes and the response from the Russian is excellent. Also Paul bakery has introduced some European standards in the mind-set of the Russian consumers which are a bit expensive but the response so far is great. We want to bring a colourful palette of dishes that take its origins from cultures across Europe while giving special emphasis on Russian cuisine, tastes and locally grown produce.

16. Has the dynamically changing cultural dimensions such as uncertainty avoidance and power-distance ratio been an advantage or a disadvantage while entering or expanding in Russian markets?

It has been an advantage as many Russians are willing to try out and explore new things unlike in the past where they only relied on their local items. In the past years, uncertainty avoidance index has improved for Russia and people are starting to try items from around the world. We are working on bringing a multicultural element in the market when the time is ready. The influx of

open-governance and improving conditions among the governing bodies and those governed has led to lower power-distance ratios. I am hoping to see a positive change in society and better trade policies by the Russian government so that Paul is able to expand itself in the Russian hinterland.

17. Did you encounter any issues with the government or society while entering Russian markets?

High costs of setting up. We heard there were efforts for many years by Paul's to enter Russian markets but the lack of friendly political relationships between the French and Russian government led to high trade barriers and associated costs. Once we received the approval for entry, there were many bureaucratic hurdles, paperwork and red-tapism before we could setup a franchise. The poorly developed constitutional framework meant more ambiguity among the bureaucrats on the action steps to be taken in terms of costs, legal ramifications and food quality standards to be adhered. In my experience, only 5% of all franchises are registered according to all rules. Also high costs and bureaucracy is rampant in the Russian administrative framework.

18. What is your future goal with respect to Russian market?

Opening more restaurants through franchising in different parts of Russia so as to reach a large group of customers and establish strong brand recognition, loyalty and popularity. Producing a wide range of products suitable for the diversified Russian population is also on our agenda.

Appendix 2: Vapiano Interview Question and Response

1. Why do you think Russia was considered an interesting country for Vapiano's international expansion?

Vapiano is a global restaurant chain with presence in over 31 countries. We are present in developed countries like Australia, China and the United States. Russia has always been a vast unexplored landscape for many international businesses. It is mainly due to the opening of the economy due to change in political environment that helped Vapiano to enter. Besides profitability, which is a major area of interest for the Vapiano management, our aim is to bring the diverse Italian culture under the fast-casual principle. Vapiano has expanded throughout Asian subcontinent till South-East Asia under the "available for franchise" business model.

2. Why franchising was selected as a business strategy?

Currently, our business expands under three branches. The first branch is "not available for franchising". These are areas that have already witnessed expansion of Vapiano under its own business investment model. The second style of expansion is "partial franchising" where we operate in dual business model. The third branch is "available for franchise" where we are looking to expand and create partnerships vigorously with local businesses under franchising business model. We want to build a strong brand presence in Russia which is the largest country in the world and 9th on the world population index. Since, we are working in a resource constricted environment we want to leverage the staff from the company Vapiano acquires. The experience gained from training staff to operate profitably in franchised countries like Argentina, India and Kazakhstan which is similar to certain dimensions to Russian culture helps meet business costs to a greater

extent. Franchising is also an ideal mode to achieve a fast financial growth without investing too many resources in a turbulent economy. This method has been used successfully by many restaurant companies in the past.

3. What was important to consider opening an international franchise in Russia?

Our market research team performed a thorough study from Germany possibly including different indexes such as ease of doing business, human development index, social development index and Hofstede's cultural dimensions review. The teams from Finland and Kazakhstan were sent to survey the restaurant environment. We worked with a few experts from a third-party service provider to conduct an external market environment review. The team were tasked with collecting the information from customers and business leaders in Russia in order to decide which parts of the country are most beneficial for Vapiano to expand. Due to confidentiality agreement, we cannot provide details on the external review agency.

4. How would you describe Russian market and which characteristics it possess?

There is a growing feeling of socio-political tensions due to lack of facilities for the average Russians. Despite that fact that most of the power comes from Moscow, there is a sizeable population emerging in southern and western Russia that believes in decentralisation of power and more openness to businesses to operate freely. We too want the same but there are corruption issues that inhibit us to perform of business without obstruction from the bureaucracy. The high potential and projected market growth would be great for Vapiano in the long-term. Russian environment is cold and filled with many unique challenges. Plus different set of regulation and norms

stiffens the competition. We discovered serious logistics challenge while trying to explore the Russian countryside. Lack of transparency in our application process meant we were taking a blind shot at the target. But overall response since Vapiano emerged in the Russian markets has been favourable.

5. What is your target?

Vapiano realises that fast moving industry leaves very little time for the employed. This is where we want to target individuals who want to eat at a reasonable price in a setting that suits informal business meetings and discussion. Our brand also appeals to youth to adjust with the international-al cuisine and meet their daily challenges. A number of people are migrating from rural parts of the country to fill the gap in industrialisation around emerging cities. Therefore, businesses such as ours have a strong potential to grow and target middle income earners. I am positive that Vapiano will have a strong loyal customer base in a few years.

6. What is the brand perception among Russian people for your brand mainly?

Being a fast-casual styled restaurant, it is highly appreciated among Russian millennial and the new concept is opening up avenues of experiment with cultural tastes and locally procured items. Being a middle-order derivative of fast food and casual dining, the style is suited to families and working middle class as an all-inclusive environment to meet friends and relatives. The use of local products in the daily menu is an added advantage.

7. What steps (if any) were taken by your company to be recognised in the Russian markets?

We entered the Russian markets with a strongly advertised campaign. This increased the knowledge of the Russian consumers. The brand is strongly positioned with our competitors and we are focusing on social media as a major contributor to our success. We want to expand in areas that are concentrated with offices and serves as an ideal location to target the Russian working class segment. We also offer business lunches and special meals to people who are time constrained.

8. Is there any brand positioning strategy that is different from the strategy performed in the home market?

We are positioned as an upcoming restaurant business in Russia as we look to engage with working professionals who want semi-formal environment that meets their budget and offers a distraction-free environment. Apart from our market differentiation strategy, we want to remain affordable for our consumers. There are several high-end Russian restaurants catering to elite businessmen but they fail to attract the growing urban working population. Thus, we believe that we are strongly positioned to increase our levels of engagement with the target consumer group. In international markets, we have been successful by focusing on Italian cuisine itself but in Russian, we want to have a different strategy that provides equal partnership to businesses and a scope of altering the menu based on consumer preferences.

9. Is there any brand positioning strategy that is different from your competitors? (How have you positioned or distinguished urself)

Yes, it is. We are a new concept in a market already crowded with fast –food joints and expensive dining restaurants. We want people to get better quality of food and service than a diner or a fast food chain. The brand will evolve as we get more inputs from consumers and we want to focus on the feedback. As per my experience, there is no restaurant operating with a similar brand positioning strategy.

10. Did you face any barriers to market entry? What kind of barriers?

I think there were barriers related to political and legal issues as our restaurant concept was new and agencies in Russia were confused what approach to take in our case. However, it worked out in our favour. There was uncertainty about Vapiano's success and appreciation in the Russian markets. We wanted to bring this unique concept in Russian kitchens but anything could happen. There was limited labor that could be trained according to our organisational philosophy. We had to import durum wheat semolina for pasta which attracted high taxes. People initially were hesitant to embrace the fast-casual style of dining. In total, different shades of political and cultural barriers were witnessed in our journey of setting up franchises across Russia.

In the previous year, there were many restriction put on Russian food markets. The weakening currency and rising cost of importing foodstuffs has led to increase in our menu prices creating consumer disaffection. The recent ban on many food items to Russia is another major hurdle. We cannot procure goods from the European Union countries, Norway, Canada, Australia or the US.

There is a lack of suppliers in the market and it is affecting our business. The real-estate rent is also the maximum in busy hubs which brings added cost. The economic recession has affected consumer spending power and makes it highly competitive to survive in the business.

11. Do you think your chain is compatible with Russian culture and society?

Yes, we have a unique strategy and a style of service that has received good appreciation from emerging economies. We have placed culture, food and professional space in the mix and hope that it is appreciated by our customers. We comprise low and middle income consumers who can spend a little more than usual to receive unmatched quality and service at an affordable cost. The rising technological tools make it easier for us to reach a larger audience base. There are many expansion plans in progress and we are hopeful of their success. We are in the process of under-standing the Russian culture and society.

12. Have you face any limitations in getting accepted by Russian consumers due to their unique culture?

Not really, I think Russians are very friendly and open to trying out new cuisines. They love to meet and socialise with people which work in our favour. The past decade has opened Russia to the world and we are experiencing the same first-hand through our franchise.

13. Have you noticed any specific trends in consumer behaviour and buying patterns since entering the Russian markets?

Middle income earners have increased spending power. This is due to economic liberalisation in Russia in the 21st century. Russians prefer to spend time indoors due to cold climate and thus require solutions that suits their way of life. There is a great demand for hot beverages and meat dishes. As these can be sourced locally, we try to get consumer inputs to customise their meals. Russians have expressed their concerns of food quality in general which makes us work even harder. Most middle income earners are willing to eat out or get food home delivered. Working men and women prefer to eat here than at a fast-food joint. We are trying to create a standardised environment and set benchmarks that help us and the Russian government assess quality and serviceability of international franchisees.

14. What is the primary line of customers/consumers that you deal with?

Like I have mentioned earlier, we want to engage working middle and emerging class of Russians – men and women who have limited time and resources to provide a fast-casual style of dining.

15. Have you tried to establish or change cultural factors or brought a new cultural concept in the market?

Yes, we have experimented with non-vegetarian varieties of Pasta and steamed fish recipes. These were quite popular in traditional Russian subcultures so we have picked up few of them and we are trying to review these using global culinary methods. The new cultural concept is the

same as our business concept of keeping services somewhere in between fast and casual style of dining.

16. Has the dynamically changing cultural dimensions such as uncertainty avoidance and power-distance ratio been an advantage or a disadvantage while entering or expanding in Russian markets?

I am not sure how to associate the uncertainty avoidance with our business but we can definitely see a different nature in the Russian bureaucracy that during the time we were planning to enter the market. Russians have been very supportive and there is lesser costs of administration due to lower taxonomy. Having said that, you should know that doing business in Russia is not easy as there is lobbying at many levels which our management does approve. We want to operate in nations that are reciprocal of our mission and goals.

17. Did you encounter any issues with the government or society while entering Russian markets?

We had to wait for a long time before getting an approval from the Russian government. By the time we got the approval, our market research has become invalid and it was a risk that our senior management agreed to take despite the slowdown in the global economy. We believe that food transcends cultures and speaks a common language. The government has favoured our approach and our guiding philosophy. They are willing to open markets for businesses that targets their lower and emerging working class population. But how that works our remains to be seen, Russian authorities still have the power to force immediate and indefinite shutdown of any business.

Therefore, we can lose business and revenue if Russian lose jobs or their stronghold in the world economy.

18. What is your future goal with respect to Russian market?

We foresee better opportunities for global businesses and a better integrated economy. Our expansion strategy will be focused on new and emerging cities in Russia and such decisions will be taken by the management. We want to create a strong position of our company in the Russian market.