GLOBAL MINDSET IN INTERNATIONALIZATION OF
BRAZILIAN FRANCHISES

ESPM

Postgradudate Program in
International Management (PMDGI)

**GLOBAL MINDSET IN
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SUMMARY

PREFACE

Capillarity is the essence of franchising and one of the pillars of the Brazilian Franchising Association (ABF), as well as education. Based on this, ABF has developed a partnership with ESPM to complement the work already started by ABF´s *Business Intelligence* area and offer readers a truthful diagnosis of the internationalization process of Brazilian franchises.

This book (affectionately called the "Green Book") has beenrevised every two years since 2010 and it is now in its fourth edition. It contains part of ABF's mission as an entity that officially represents the franchise system in Brazil. By bringing qualified information about this process, the Association's purpose is to help franchise chains expand their capillarity on the international level.

The internationalization movement made by franchisors reflects the synergy of Brazilian chains with international markets, with their planning and their business strategies. In addition, there is a clear demand for genuinely Brazilian brands, products and services abroad, and good business opportunities may be available anywhere in the world at any time.

Allied to this, the work developed by ABF in partnership with the Brazilian Export and Investment Promotion Agency (Apex-Brazil), has led more chains to operate abroad each year. By 2015, ABF recorded 134 Brazilian brands operating internationally, as compared to 106 in 2014.

Operating beyond a country's borders is generally challenging. Barriers such as language, law, culture and local tax system often seem insurmountable to many Brazilian franchisors. However, the support from ABF and Apex-Brazil, through international missions involving participation in some of the major franchise fairs in the world, business roundtables to attract local investors, among other actions, has decisively contributed to make Brazilian franchising increasingly global.

In this sense, the academic contribution from ESPM is equally crucial and worthy of our full recognition. To all the professors and researchers in the Postgraduate Program in International Management (PMDGI) involved, congratulations on the good work.

We have a long and fruitful road ahead. This study shows at what stage we are, what the already internationalized or exporting Brazilian chains are doing, and the challenges faced. It serves as a reference to advance the Internationalization of Brazilian Franchises.

Regards,

Cristina Franco

Head of the Brazilian Franchising Association

INTRODUCTION

The Postgradudate Program in International Management (PMDGI) from ESPM, in partnership with the Brazilian Franchising Association (ABF), is proud to present the fourth volume of the series *Internationalization of Brazilian Franchises*. This topic has earned its place at ESPM since 2010, with the publication of the first volume of this study, also known as the "Green Book."

This study, conducted between April and October 2016, represents the continued partnership established in 2010 between ABF, represented by its Market Intelligence, Relationship and Sustainability director, Claudio Tieghi, and ESPM, represented by professors Dr. Thelma Valéria Rocha, Dr. Eduardo Eugenio Spers, Dr. Felipe Mendes Borini and Dr. Mário Henrique Ogasavara, all faculty members of PMDGI.

In November 2011, the Internationalization of Brazilian Franchises Study Group (IFB) was registered in the National Council for Scientific and Technological Development (CNPq). This Group comprises PhDs from various institutions: Pedro Lucas de Resende Melo, from PPGA-UNIP and PUC-SP, and the ESPM - PMDGI professors Thelma V. Rocha, Eduardo E. Spers, Felipe M. Borini, Mário Ogasavara and Daniela Motta Romeiro Khauaja, as well as a graduate student, Vanessa Bretas, and a doctoral student, Adriana Camargo. They all share an interest in this growth movement.

This study was developed by members of the IFB Study Group. Data collection took place in June, during the ABF Franchising Expo 2016, held at Expo Center Norte in São Paulo. Three professors and 12 students participated in the collection. From UNIP´s Master's degree program: Fabio R. Pimentel, Jeferson S. Fuza, Marcelo F. Almeida and professor Pedro Lucas de Resende Melo. And the Master's and Doctoral students from PMDGI - ESPM: Ana Carolinne B. Lima, Caio Giusti Bianchi, Dennys Eduardo Rossetto, Joanna C. Guarita Douat, Maria Lucia Righetti, Rachel Xenia Chang, Sofia Naranjo, Teresa C. A. Charotta and Victor Ragazzi Isaac, as well as professors Thelma Rocha and Daniela Khauaja.

The participants from ABF were its Market Intelligence, Relationship and Sustainability Director, Claudio Tieghi, the Market Intelligence

Coordinator, Vanessa Pilla Bretas, the Market Intelligence analyst, Bruno Cancian, and Market Intelligence intern, Jorge Ferreira.

This study is organized into six sections, starting with the introduction. In thesecond section aspects of the research are presented, such as its methodology and evolution from previous studies; the third sectiondevelops a more conceptual view of governance modes , motivations and barriers, as well as the global mindset of companies in the internationalization process; in the fourth section the results of the study are presented; next, some recommendations to managers, and finally, in the sixth section we bring our final considerations.

We wish you a good read!

The Authors

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1. THE RESEARCH

1.1 THE GREEN BOOK

Updated every two years since 2010, the series *Internationalization of Brazilian Franchises* ("Green Book") has been exploring various topics related to the internationalization of franchise chains, both Brazilian and foreign operating in Brazil. It provides information and data on this process and the challenges faced over time.

Purposes of the study

The main purpose of this study is to analyze the motivations and barriers experienced by Brazilian franchisors during their internationalization process. This year the study is focused on the companies' global mindset to operate abroad.

Previous editions

2014   2012   2010

Figure 1. Covers of the previous editions

Source: Authors (2016)

These studies are available on the website http://www2.espm.br/ publications-1, under the item 'FRANCHISE BOOKS.

In 2010, the theme was *The Internationalization of Brazilian Franchises*.

In 2012, *Marketing and Strategic Aspects of the Internationalization of Brazilian Franchises*.

In 2014, *Internationalization Stages of the Brazilian Franchises*.

1.2 METHODOLOGY

The companies analyzed represented a population of 134 Brazilian franchise chains with international presence in 2016, according to ATTACHMENT A (list provided by ABF). This database is divided into two groups: 110 internationalized Brazilian franchise chains with units abroad and 24 Brazilian franchise chains that primarily export.

The empirical, quantitative research was conducted as a survey using a questionnaire (APPENDIX A), based on constructs from the literature with seven-point Likert scales to measure agreement.

Throughout the research process, confidentiality was assured as to the identity of the franchise system and the interviewees. Therefore, the data are presented in an aggregated manner and the respondents are refered only as "interviewees" in this report.

Data collection consisted of two phases: one face-to-face and one on-line. Thequestionnaire was answered by managers of the franchise chains. During the ABF Franchising Expo, in June 2016, 69 question-naires were completed. After the event, through outbound telemarket-ing, 41additional questionnaires were filled out after a request to the manager, during July 2016. Of the 110 questionnaires filled out, three incomplete ones and three duplicates were eliminated, producing a base of 104 respondents.

The 104 respondent base is divided into: Brazilian franchisors (85) and foreign franchisors (19) From the Brazilian ones, 32 are interna-tionalized and 53 are domestic, operating only in Brazil, as shown in Graph 1.
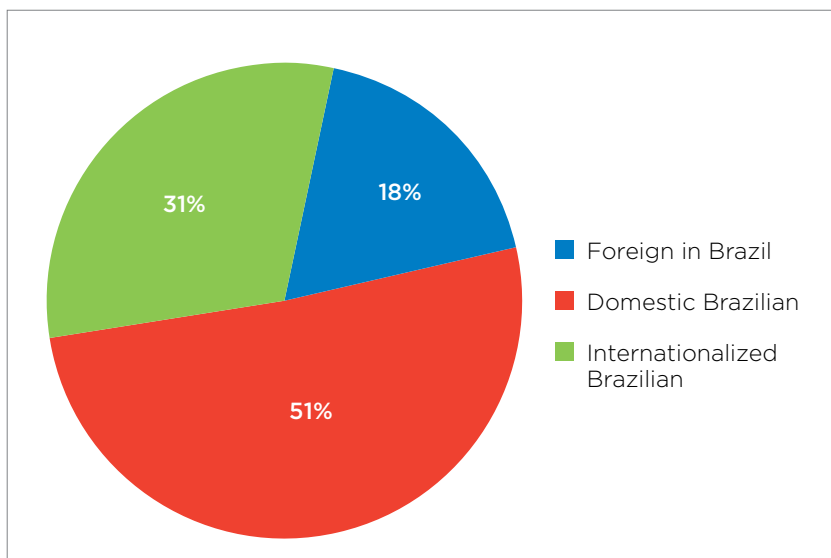
Graph 1. Composition of the sample, 2016

Source: Authors (2016)

Foreign companies in Brazil were included for the first time in this study. In previous editions, we analyzed only internationalized and domestic Brazilian franchisors.

2. INTERNATIONALIZED FRANCHISE CHAINS

The internationalization of franchise chains is a two-way process. On the one hand, Brazilian franchisors are more and more going abroad; on the other, there is an increase in the participation of foreign franchisors in Brazil.

2.1 CHARACTERIZATION OF THE FRANCHISE SEGMENT IN BRAZIL

Franchise chains' revenue in 2015 was of R$ 139.593 billion (ABF, 2016). The list of the largest franchise chains operating in Brazil and their respective brands is presented in Table 1.

Table 1. List of the top ten brands operating in Brazil

#	BRAND	SEGMENTS
1	O BOTICÁRIO	Sports, Health, Beauty and Leisure
2	SUBWAY	Food
3	CACAU SHOW	Food
4	COLCHÕES ORTOBOM	Home and Construction
5	AM PM MINIMARKET	Business, Services and Other Retail Outlets
6	MCDONALD´S	Food
7	JET OIL	Vehicles
8	KUMON	Education and Training
9	BR MANIA	Business, Services and Other Retail Outlets
10	WIZARD IDIOMAS	Education and Training

Source: ABF (2015)

Together, the top 20 franchisors represent more than twenty-three thousand units. The main sectors covered are: Food, Cosmetics/Perfumery and Language Schools.

In Brazil, the segment that experienced the highest growth rate in 2015 as compared to the previous year was Business, Services and Other Retail Outlets (12%), followed by Food (10.2%), Sports, Health, Beauty and Leisure (9%), as shown in Table 2.

Table 2. Sector revenue by segment (in R$ billion)

SEGMENT	2014		2015	
	RANK.	GROWTH	RANK	GROWTH
Business, Services and Other Retail Outlets	2	19	1	12
Food	8	6	2	10,2
Sports, Health, Beauty and Leisure	11	0,3	3	9
Clothing	7	7	4	8,9
Hospitality and Tourism	5	9	5	8,8
Personal Accessories and Footwear	4	12	6	8,7
Education and Training	9	5	7	8,1
Home and Construction	10	3	8	6,9
Vehicles	1	27	9	6,6
Communication, Computers and Electronics	6	8	10	3,8
Cleaning and Conservation	3	17	11	-2,3

Source: ABF (2015)

The Business, Services and Other Retail Outlets segment remains the most representative (21%), followed by Food (20%) and Sports, Health, Beauty and Leisure (18%), as shown in Figure 2.

Pie chart legend:
- Business, Services and Other Retail Outlets — 21%
- Food — 20%
- Sports, Health Beauty and Leisure — 18%
- Clothing — 7%
- Hospitality and Tourism — 7%
- Personal Accessories and Footwear — 7%
- Education and Training — 7%
- Home and Construction — 5%
- Vehicles — 4%
- Communication, Computers and Electronics — 3%
- Cleaning and Conservation — 1%
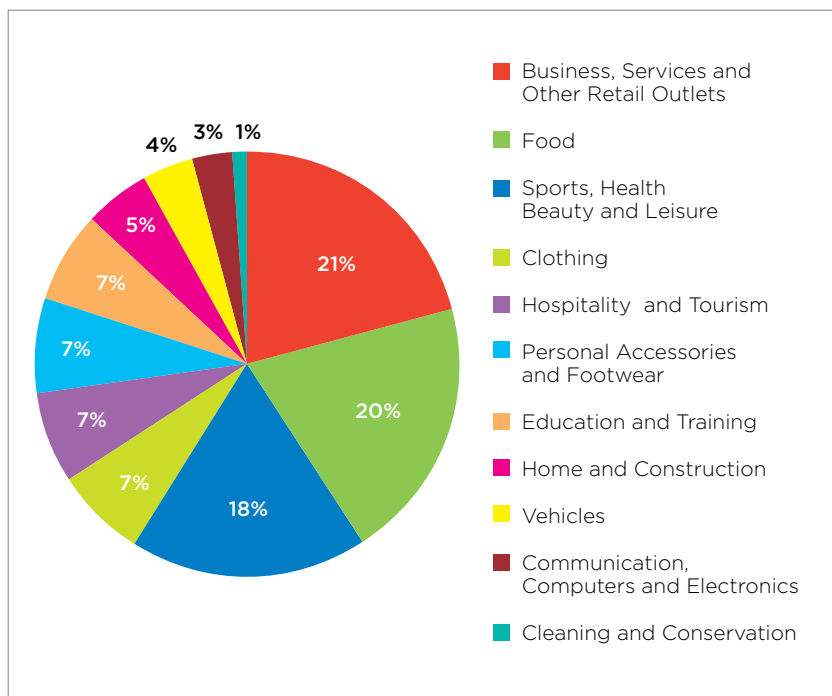
Figure 2. Distribution of revenues by business segments in 2015

Source: ABF (2015)

In the global context, Brazil ranks sixth in the franchising sector in number of franchisors, with 138,343 units. This represents a 10.1% increase as compared to 2014, when there were 125,641 units.

In number of brands, Brazil holds an even better position: it is fourth in the world with 3,073 brands. This amount is 4.5% higher than in 2014, when it also ranked fourth with 2,942 brands.

Over 20 Brazilian franchisors opened units abroad or started exporting products in 2015, reaching 134 chains of internationalized Brazilian franchises.

Brazilian franchisors are present in 60 countries (2015). The main foreign markets are the United States, Paraguay and Portugal, with 37, 25, and 21 Brazilian franchise chains, respectively.

A second group comprises Argentina, Mexico, Colombia and Bolivia, with 16, 13, 12 and 12 internationalized franchise chains, respectively. Figure 3 highlights the destinations of Brazilian franchises.
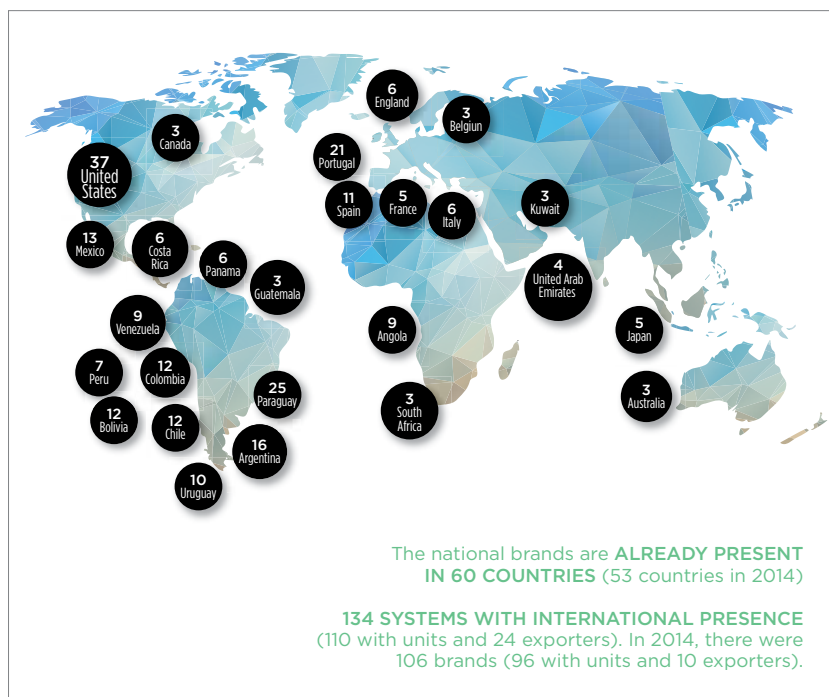
Figure 3. Main host countries for Brazilian franchise chains

Source: ABF (2016)
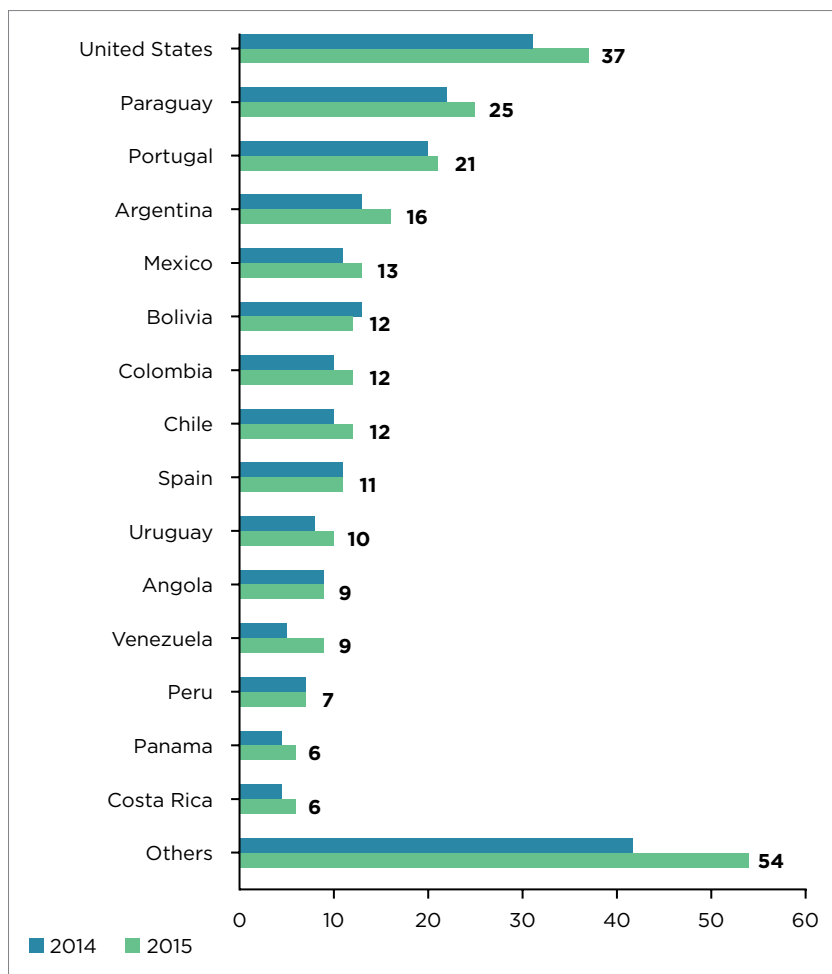
Figure 4. Evolution of the number of Brazilian franchisor brands by country of destination: 2014-2015

Source: ABF (2016)

Figure 4 shows the growth in the number of Brazilian franchise chain-sin almost all the countries in the last year,, especially in the United States (from 31 to 37 brands), Paraguay (22 to 25 brands), Argentina (from 13 to 16 units) and Portugal (from 20 to 21 brands).

The most prominent Brazilian franchise brands abroad are from the segments of: Food, with 18%; Sports, Health, Beauty and Leisure, with 17%; Personal Accessories and Footwear, with 15%; Education and Training, with 12%; and Business and Services, with 11%, as shown in Figure 5.

Figure 5. Brazilian franchise chains with units abroad
by segment in 2015 (participation)

SEGMENT	% PART
Food	18%
Sports, Health, Beauty and Leisure	17%
Personal Accessories and Footwear	15%
Education and Training	12%
Business, Services and Other Retail Outlets	11%
Clothing	7%
Home and Construction	6%
Communication, Computers and Electronics	5%
Cleaning and Conservation	4%
Hospitality and Tourism	2%
Vehicles	2%

Source: ABF (2016)

As for foreign presence through exporting, it is concentrated in the Clothing segment, with 42% of brands; followed by Sports, Health, Beauty and Leisure, with 25%; Accessories and Footwear, with 17%, as shown in Figure 6.

Figure 6. Exporting Brazilian franchisors
by segment in 2015 (participation)

SEGMENT	% PART
Clothing	42%
Sports, Health, Beauty and Leisure	25%
Personal Accessories and Footwear	17%
Home and Construction	4%
Communication, Computers and Electronics	4%
Education and Training	4%
Hospitality and Tourism	4%

Source: ABF (2016)

Separating the base of franchisors operating abroad primarily through exports highlights the importance of the Clothing segment. Actually, some companies in that industry have been exporting longer than acting as franchisors - since the 1990s - and their products are sold in multi-brand stores abroad.

2.2 DEVELOPMENTS IN COMPARISON TO PREVIOUS STUDIES

In the first volume of this study, Rocha, Borini and Spers (2010) showed that three important factors contribute to the internationalization of franchises: 1) the entrepreneur'S International experience; 2) A network of business contacts in foreign markets; 3) development of differentiated products that can be recognized as such in foreign markets.

The authors also pointed out that the Brazilian franchisors' operations abroad were recent (five years of international experience in average), and still small, but that they represented a good challenge for managers in terms of profitability and growth. It is noteworthy that the base of internationalized brands analyzed was comprised of 65 franchise chains.

In the second volume, Rocha *et al* (2012) analyzed a base with 92 companies and assessed the behavior of some franchisors who were entering

foreign markets experimentally or even on demand, with a low degree of professionalism in their partner selection criteria. Such practice was named in the study as "you walk by it, and you take it." Reasons were pointed out for the failure of this type of business, which often ended in two or three years.

The authors recommended: to create a focused strategic behavior to operate overseas; to create differentiated organizational structures; to review the business model to operate abroad; to define a single global brand identity and adapt the marketing mix; to invest in knowledge of the foreign market; to coordinate and measure the result of marketing activities; to view internationalization as more than sales.

In the third volume, Rocha *et al* (2014) analyzed a base of 106 franchise chains based on the theory of the four internationalization stages as proposed by McIntyre and Huszagh (1995): 1) Domestic Franchising; 2) Experimental Involvement; 3) Active Involvement;4) Commited Involvement, according to Figure 7.

Stage 1, called **Domestic Franchising** corresponds to the stage experienced by franchise chains withoutinternational operations.

According to ABF data, in December 2015 there were 3,073 franchise chains in Brazil, 159 of them foreign brands. Therefore, 2,914 were f Brazilian franchisors, but only 134 of them had foreign operations, i.e., 4.6% of the total. those Brazilian franchisors had operations in 60 countries in all the continents. And 2,780 franchise chains operate only on the domestic market, as shown in Figure 7.

To separate the base of internationalized franchises by stages, we considered the number of host countries as a proxy for their international operation stage. Thus, franchisors operating in one **country** were classified as **stage 2 - experimental involvement**. Chains operating in two to four countries are classified as **stage 3 with active involvement** and those present in five or more countries are classified as **stage 4 with commited involvement**.

Figure 8 shows the stages with data from 2016. Sixty-five franchisors (49% of the total) are in **stage 2**, which comprises franchise chains in **experimental** stages, i.e., firms that are experimenting with international operations in only one country, with low financial commitment and in a few target markets,
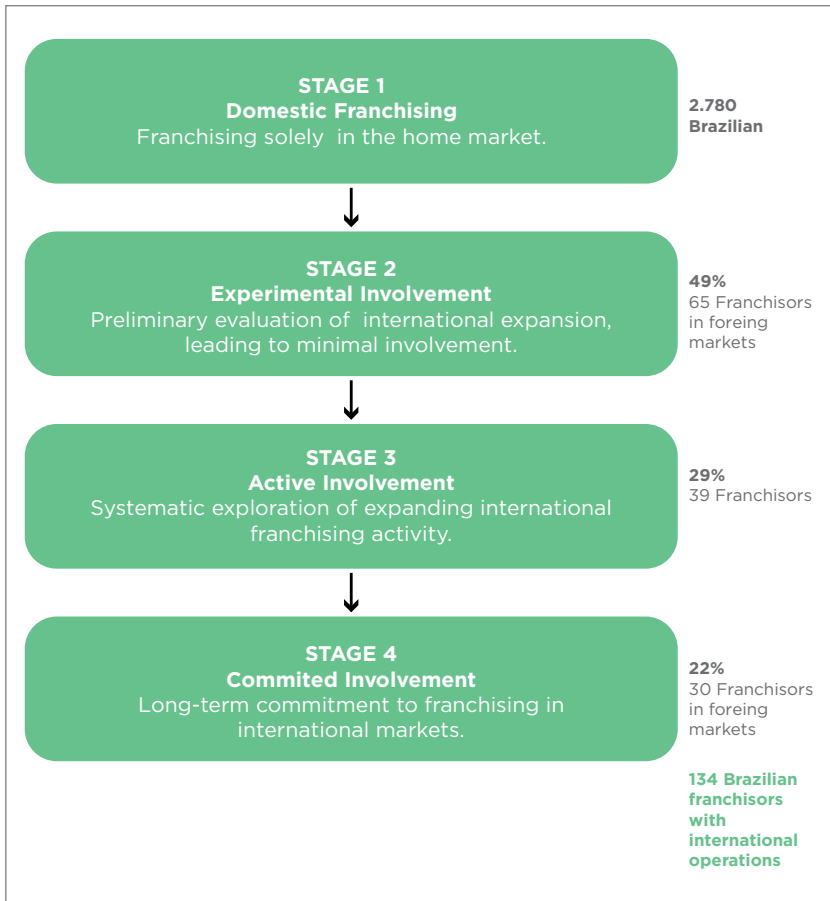
Figure 7. Stages in the internationalization of franchises

Source: Theory proposed by McIntyre and Huszagh (1995, p. 41), adapted from Cavusgil and Nevin (1980, p. 68-71) with data from the Brazilian market in 2016

The main objective for many franchise chains in this stage is to test the international market and the franchising mix. This initial test is useful for decision making regarding a future commitment to international operations. And the bottom line for this initial operation is often the main indicator whether the firm should keep their foreign operation or not.

STAGE 4
Commited
Involvement

Long-term commitment to franchising in international markets.

22%

STAGE 3
Active
Involvement

Systematic exploration of expanding international franchising activity.

29%

STAGE 2
Experimental
Involvement

Preliminary evaluation of international expansion, leading to minimal involvement.

49%

STAGE 1
Domestic
Franchising

Franchising solely in the home market.

Figure 8. Distribution of Brazilian franchise chains in stages 1, 2, 3 and 4

Source: Authors (2016)

In Brazil, in 2014, there were 51 companies in this stage, 50% of all internationalized companies. In 2016, 65 companies, 49% of the total, are taking the first step in the gradual internationalization process.

Note that in this stage, is typically a trial phase, in which new chains enter and other withdraw from foreign markets. For example, between 2012 and 2014, 16 new franchisors began international operations and 10 abandoned them.

Between 2014 and 2016, thirty-one new franchisors started international operations and 17 closed their operations. Those that quit had been present in Paraguay (7), the United States (4), Portugal (3), Angola, Peru

and Panama (1). Half of them, had one company-owned unit and the other half one franchised unit.

These comings and goings should be seen as a learning process, so that firms can try again in the future.

Table 3 shows an evolution of the stages along the past four studies.

Stage 3 encompasses the franchisors with an active involvement in foreign markets. Those chains have experienced continued international growth and have already gathered administrative and legal knowledge about the host countries. However, they tend to be limited

Table 3. Evolution of the participation of internationalized franchises: 2010 – 2016

INTERNATIONALIZA-TION STAGE	NUMBER OF COUNTRIES WHERE THEY OPERATE	2010 FRAN-CHISES	2012 FRAN-CHISES	2014 FRAN-CHISES	2016 FRAN-CHISES	% 2016
Stage 2 Experimental Involvement	Only 1 country	28	50	51	65	49%
Stage 3 Active Involvement	2 to 4 countries	21	27	32	39	29%
Stage 4 Commited Involvement	5 or more countries	16	15	22	30	22%
Total Internationalized Franchises		65	92	105	134	100%

Source: Authors (2016)

to foreign markets with low cultural and psychic distance, in order to reduce risks and increase the chances of success for the operations.

In 2016, 39 Brazilian companies, (29% of all the internationalized companies) operate in two to four foreign countries. This percentage is similar to the 30% found in 2014. It is worthy mentioning that, after entering a foreign market, the success of the international units becomes a catalyst for new initiatives. In this active stage, most franchises expand their operations in a **slow and steady pace**, in order to meet the legal and administrative requirements for each new market (MCINTYRE AND HUSZAGH, 1995).

Stage 4 comprises franchise chains with **commited involvement**. Those firms have fulfilled the previous steps and are internationally engaged. They are present in diverse countries with a concentration of units on each one, i.e., they not only operate in a greater number of countries, but with a higher level of development in each one (MCINTYRE AND HUSZAGH, 1995).

In the case of Brazil, in 2016 thirty companies, or 22% of all the internationalized companies, are operating in five countries or more. They are split into 18 operating primarily through franchising and 12 that only export (Tables 4 and 5).

These franchisors have been in foreing countries longer, and some began their international operations in the 1990's. Their concern is usually related to brand management in the international arena and coordination of activities in a more integrated manner in the various countries where they operate.

Considering the evolution of the studies since 2010, it is clear to see that the decision to internationalize has grown stronger in the past six years, with the base doubling from 65 in 2010, to 134 in 2016, as shown in Table 3.

2.3 THE MOST INTERNATIONALIZED BRAZILIAN FRANCHISE CHAINS

The 30 franchise chains operating in five or more countries are presented in two lists. The first (Table 4) includes the 18 chains that operate internationally using primarily the franchising model.

Table 4 shows that the Personal Accessories and Footwear segment stands out, followed by Language Schools. Note the permanence of several franchises that heve been operating in five or more countries since the first study in 2010, showing a long-term commitment to international operations.

Table 5 includes the 12 firms that operate abroad mostly via exporting.

It is noteworthy to mention that many of those companies started exporting and then moved on to the franchising model. Many are from the Clothing and Personal Accessories and Footwear industries.

Table 4. The 18 internationalized franchise chains in five or more countries

SEGMENT	BRAND	COUNTRIES 2016	COUNTRIES 2014	COUNTRIES IN 2016
Entertainment, Toys and Leisure	IGUI	39	23	Netherlands Antilles, Argentina, Aruba, Belgium, Colombia, Costa Rica, Egypt, Spain, USA, France, Greece, Guatemala, Honduras, Italy, Mexico, Nicaragua, Panama, Paraguay, Portugal, Trinidad ,Tobago and others.
Personal Accessories, Footwear and Sneakers	CARMEN STEFFENS	16	14	South Africa, Angola, Saudi Arabia, Argentina, Australia, Bolivia, Chile, Colombia, Spain, United States, France, Guadeloupe, Guatemala, Panama, Paraguay, Peru, Puerto Rico, Tunisia, Uruguay
Communication, Computers and Electronics	CDI - FRANCHISING	14	n.d.	Chile, Colombia, Scotland, Spain, United States, England, Ireland, Latvia, Mexico, Wales, Poland, Portugal, Romania, Venezuela
Food	SHOWCOLATE	13	18	Saudi Arabia, Canada, Chile, United Arab Emirates, United States, Guatemala, Lebanon, Mexico, Panama, Peru, Portugal, Qatar, Venezuela
Hospitality and Tourism	INFORMATION PLANET	12	n.d.	Australia, Belgium, Canada, Colombia, Slovakia, Spain, France, Holland, Mexico, Portugal, Czech Republic, Venezuela
Language Schools	CCAA	9	11	Chile, El Salvador, Spain, United States, England, Italy, Japan, Mexico, Portugal
Personal Accessories, Footwear and Sneakers	DUMOND	8	13	South Africa, Angola, Costa Rica, Egypt, United Arab Emirates, Kuwait, Lebanon, Qatar

Table 4. Continued

SEGMENT	BRAND	COUNTRIES 2016	COUNTRIES 2014	COUNTRIES IN 2016
Home and Construction	FLORENSE	8	n.d.	Chile, United States, Guatemala, Mexico, New Zealand, Panama, Paraguay, Uruguay
Automotive Services	LOCALIZA RENT A CAR	7	8	Argentina, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay
Business, Services and Convenience	CARTÓRIO POSTAL	6	1	Belgium, England, Japan, Lebanon, Portugal, Switzerland
Personal Accessories, Footwear and Sneakers	CHILLI BEANS	8	4	Colombia, México, Chile, United States, Kuwait, Peru, Portugal and Thailand
Drinks, Coffee, Sweets, Snacks and Ice Cream	FÁBRICA DI CHOCOLATE	6	10	Australia, Spain, Japan, Kuwait, Dominican Republic, Venezuela
Language Schools	FISK CENTRO DE ENSINO	6	6	Angola, Argentina, Bolivia, Chile, Japan, Paraguay
Furniture, Decoration and Gifts	CASA COR	5	n.d.	Bolivia, Chile, Panama, Peru, Uruguay
Communication, Computers and Electronics	LINKWELL	5	3	Canada, China, United States, Nigeria, Uganda
Home and Construction	POLIPLÁS	5	n.d.	Argentina, Chile, Paraguay, Uruguay, Venezuela
Clothing	PUKET	5	1	Bolivia, United Arab Emirates, Panama, Peru, Venezuela
Personal Accessories and Footwear	VIA UNO	5	18	5 countries

Source: ABF (2015)

Table 5. The 12 internationalized franchise chains in five or more countries via exporting

SEGMENT	BRAND	COUNTRIES 2015
Personal Accessories and Footwear	BIBI	59
Personal Accessories and Footwear	CLUBE MELISSA	45
Clothing	LIZ	22
Clothing	LILICA & TIGOR	17
Clothing	DZARM	14
Entertainment, Toys and Leisure	CVC BRASIL*	11
Clothing	COLCCI	11
Personal Accessories and Footwear	MÃOS DA TERRA	10
Furniture, Decoration and Gifts	UATT?	9
Beauty, Health and Natural Products	O BOTICÁRIO	8
Beauty, Health and Natural Products	TRUSS COSMETICS	6
Personal Accessories and Footwear	IT BEACH	5

*operation

Source: ABF (2015)

3. CONCEPTUAL ASPECTS

The conceptual aspects addressed in this study are: governance and entry modes, role of the decision maker, and selection of franchisees. They make up the conceptual model that will be tested empirically, as shown in Figure 9.
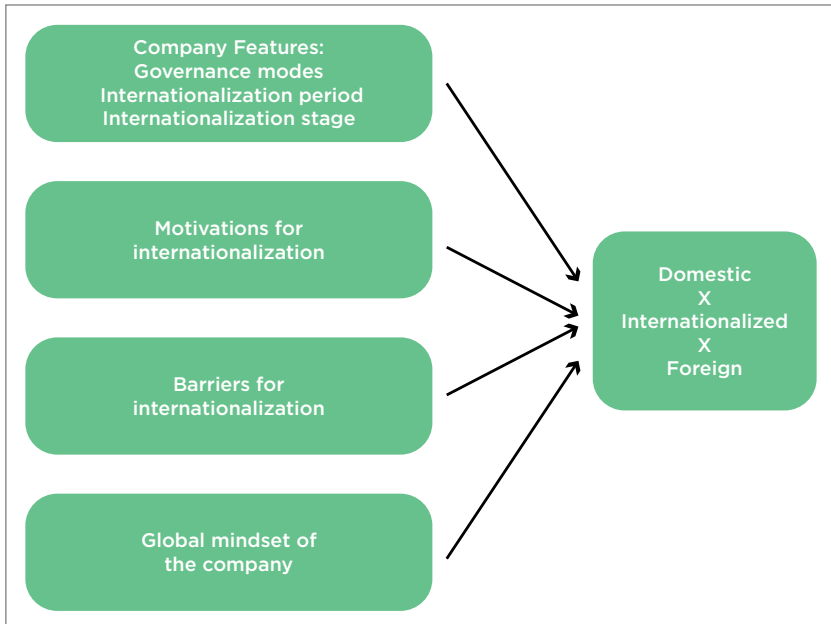
Figure 9. Conceptual model

Source: Authors (2016)

The characteristics of the companies under study involve the governance mode and the entry mode, the internationalization period and the internationalization stage, as shown in Figure 9. Besides, the motivations and barriers for internationalization and the global mindset of the company are analyzed.

These items will be presented below with their conceptual definitions. They will be analyzed in the empirical part regarding the three groups of franchisors: domestic, internationalized, and foreign.

3.1 GOVERNANCE AND ENTRY MODES

When a company uses franchising as the entry mode, it can choose different governance modes in foreign markets. This choice depends on the degree of property control and decision-making that the franchisor wishes to have, on the international partners, as well as the resources available for the operation. Figure 10 shows the entry modes abroad classified by the participation in the international business.
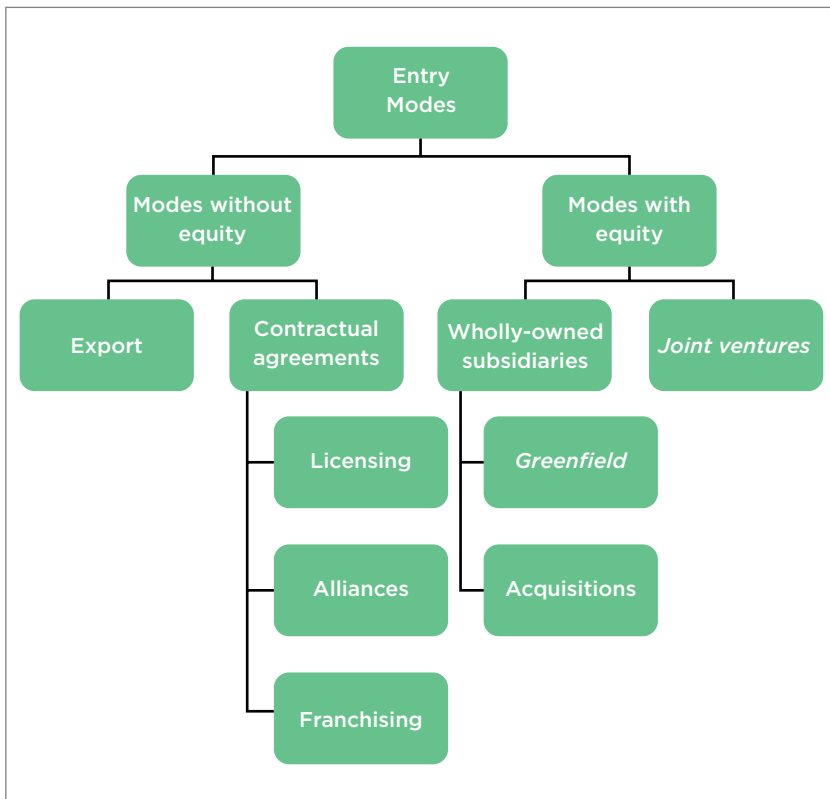
Figure 10. Entry modes in international markets

Source: Adapted from Pan and Tse (2000) and Baena (2013)

When a company chooses to export, it sells the product in another location, but does not necessarily participate in the international operation. Similarly, with contractual agreements the firm can participate in different ways with brand licensing, alliances and an international franchising business model.

As for the governance modes within international franchising, they may be of various types, such as: direct investment (with company-owned units); opening franchised units; joint ventures; the option for area developers; hiring a master franchisee for the international operation, as shown in Figure 11.
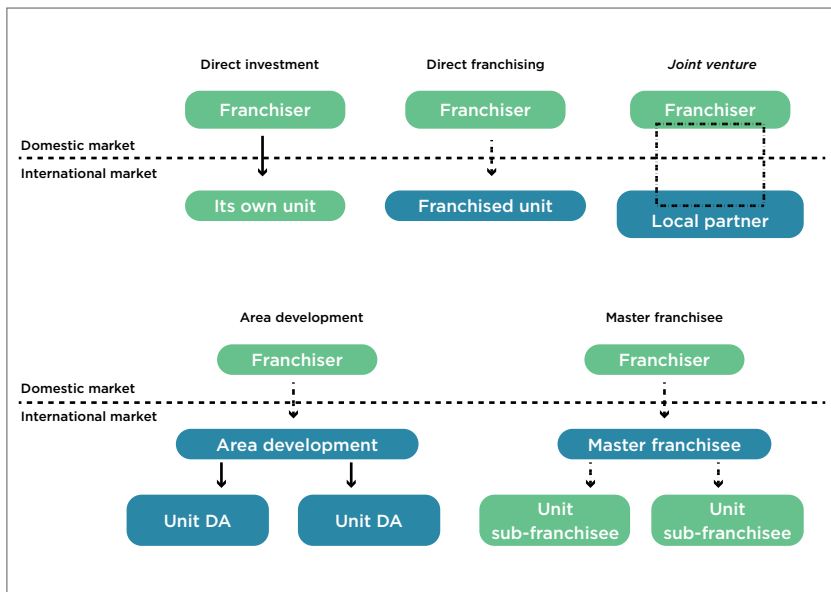
Figure 11. Governance modes in international franchising

Source: Authors (2016)

By establishing **wholly-owned units (direct investment)**, the franchisor invests their own equity and has full control of the operation. When the franchisor considers that a given market has great potential

and growth prospects, opening wholly-owned units may be an efficient form of governance.

In this way, the franchisor holds control of the know-how, brand, products, and services; however, more investments are needed.

In **direct franchising**, the franchisor in Brazil establishes a direct contract with the franchisee units abroad. The main aspects to be considered in this expansion format are: time spent with monitoring, product adaptation costs for compliance with local franchising regulations, and care with brand positioning in the foreign market. Some companies establish international divisions in their foreign markets, including sales and operations teams, to assist franchisee units with their local performance, to help them control their operations and understand the local culture. In this case, the adopted model includes direct investment in opening subsidiaries.

In the **franchising** joint venture model, the franchisor enters an equal relationship with a partner in a foreign country to form a joint venture company in the target market. To develop the franchising system in the country, the franchiser makes an area development or master franchisee agreement with the joint venture company. In this case, it is the joint venture company that holds a relationship with the sub-franchisees. The franchisor has more control than in direct contracts for area development or master franchisees. At the same time, they share costs and benefits with the the joint venture partner. However, they need to maintain a good relationship with the partner to keep the operation running in the long term.

In the **area development** model, the franchisor grants a single franchisee the right to exploit in a certain geographical area, by opening franchised units. This model does not allowsub-franchising, i.e., the area developer franchisee is responsible for managing all the units in the established region. This is a direct franchising contract, which offers franchisors cost reduction and less management responsibility;, however, the relationship with and trust in the area developer become critical.

In the **master franchising** model, the franchisor grants a master franchisee the right to establish and operate the franchising system in a given country through wholly-owned and/or franchised units.

The relationship between the franchiser and the sub-franchised units is indirect. But the relationship with and trust in the area developer is again a critical issue. Furthermore, there is a risk that the area developer does not have enough capital over the years to open all the units established in the contract.

Again, trust in the international partner is critical for the success of the operation.

3.2 MOTIVATIONS AND BARRIERS

The **motivations** that lead franchisors to seek international operations are diverse in nature, both reactive and proactive.

Reactive internationalization occurs due to limitations in the home market, when local growth opportunities are scarce. Proactive internationalization stems from the firm´s willingness to exploit international opportunities before the domestic market reaches saturation (QUINN, 1998).

The internationalization motivators are the consequences of pushing factors in the home market and pulling factors in the international market, as shown in Table 1.

Table 1. Factors for internationalization

HOME MARKET PUSH FACTORS	INTERNATIONAL MARKET PULL FACTORS
Unstable political structure	Stable political structure
Unstable economy	Stable economy
Market saturation	Underdeveloped market
Small domestic market	Large domestic market
Intensive regulation	Light-handed regulation
Unfavorable economic conditions	Favorable economic conditions
Unfavorable operating environment	Favorable operating environment
Negative social conditions	Positive social conditions
Consumer credit restrictions	Consumer credit availability

Source: Adapted from ALEXANDER (1995) and MARQUES (2006)

However, there are studies that address the existence of internal (organizational) factors as drivers for the internationalization process. Those are, not limited to the external (environmental) factors mentioned in the table above (WELCH, 1990; EROGLU, 1992; TORDJMAN, 1995).

A classic study made with US franchises in the 1970's conducted a survey on 10 drivers for the internationalization of franchise chains (HACKETT, 1976). In a comparative study, Marques (2006) sought to identify the motivators that lead f Brazilian franchisors to seek international markets. Table 2 compares the two studies.

Table 2. Motivators for internationalization

RANK	MOTIVATIONS FOR INTERNATIONALIZATION - US FRANCHISES	MOTIVATIONS FOR INTERNATIONALIZATION - BRAZILIAN FRANCHISES
1st	Exploiting markets with great potential	Strengthening the brand
2nd	Brand development in potential markets	Knowledge of the international market
3rd	Proposal by franchisees	Organizational expansion plan
4th	Personal interest of executives	favorable Political and legal conditions in the host country
5th	International recognition	Niche market opportunities in the host country
6th	Greater financial return	Optimistic economic conditions in the home country
7th	International expansion of competitors	Optimistic political and legal conditions in the home country
8th	Saturated domestic market	Proposal by franchisees
9th	Government agencies support	Personal interest of executives
10th	Tax cuts	Exploiting markets with great potential

Source: Adapted from HACKETT (1976) and MARQUES (2006)

Table 2 indicates that Brazilian franchise networks seek international markets for proactive reasons, i.e., the motivators are not saturation or limitations in the Brazilian market. Among the top three reasons are, firstly, strengthening the brand, creating brands with greater national support and international presence and, next, knowledge of the international market and the presence of an internationalization plan in the system's expansion strategy.

Regarding **barriers** for internationalization of franchises, empirical studies show that the following factors discourage the search for international markets: 1) the existence of relevant opportunities in the home market; 2) lack of financial resources; 3) lack of international know-how; 4) restrictions in managermobility; 5) lack of knowledge on legal procedures in other countries; 6) difficulty in finding reliable franchisees abroad (QUINN, 1998; ALON & MACKEE, 1999; KEDIA et al, 1995).

Concerning the Brazilian franchisors, the main barriers are: 1) legislation differences between host countries; 2) difficulty managing operations in a foreign country; 3) competition with internationally recognized brands; 4) lack of international familiarity with Brazilian brands; 5) excessive bureaucracy in exporting products to supply foreign units; 6) high costs getting copyrights for trademarks and products (BORINI; ROCHA & SPEARS, 2012; SILVA, 2004).

In his study Marques (2006) investigates, the barriers to franchising internationalization as perceived by franchisors with foreign operations and franchisors with only domestic operations. It is striking that the perception of barriers is weakers among franchisors who already have some international experience. According to international authors, foreign experience allows franchisors to relativize the level of difficulty in international operations (KEDIA et al, 1995).

3.3 COMPANY GLOBAL MINDSET

In a highly competitive, globally-connected scenario, managers must be able to deal with great strategic and inter-cultural complexity, that is, they must have the ability to "think globally, act locally."

This prerequisite is essential to deal with cultural, institutional, administrative, economic, industrial, linguistic, religious and educational differences.

This ability to "think globally,act locally" is defined as a 'global mindset'. It is one of the ingredients that make up the organizational intelligence needed to identify and exploit opportunities, even in regions that are distant and different from the country of origin (GUPTA; GOVINDARAJAN, 2002). It is the organization's capability to simultaneously ensure aspects like global-scale efficiency and competitiveness; national-level responsiveness and flexibility; and cross-market capacity to leverage learning on a worldwide basis. (BARTLETT; GHOSHAL, 1992).

In short, the global mindset are the lenses used by the company to interpret reality, to decode it and give it meaning.

In general, the global mindset has been explored from one of the following perspectives (LEVY et al, 2007):

- **Cultural:** it focuses on aspects of cultural diversity and cultural distance associated with worldwide operations and markets;
- **Strategic:** it focuses on aspects of environmental complexity and strategic variety stemming from globalization;
- **Multidimensional:** it integrates the cultural and strategic perspectives, also incorporating other dimensions such as knowledge, skills and psychological profile.

In this study, the analysis of franchise chains is based on the multidimensional perspective and is set in the organizational level.

The corporate global mindset consists of the following dimensions: global orientation, global knowledge and global skills, as shown in Table 3.

Table 3. Dimensions of the global mindset

DIMENSIONS	OPERATIONALIZATION
Global orientation	If the company is planning to create a network in foreign markets.
Global knowledge	If the company has knowledge of the social and market context to operate abroad.
Global skills	If the company has sufficient cultural sensitivity and is able to work effectively with people from other cultures; If the company has enough people who speak English and are prepared to work abroad; If the company has invested in modern technology and information chains to communicate with clients in other countries.

Source: REIS, BORINI and FLORIANI (2012)

These dimensions the company *global mindset* will be used in the empirical part of this study to measure the mindset of companies operating in Brazil as franchisors, both foreign and national.

4. RESULTS OF THE STUDY

This section presents the field research results.

4.1 GENERAL ASPECTS

Data collection occurred in two stages. First, information was collected face-to-face with managers of franchise chains during the Expo Franchising 2016 with support from ABF, on June 16, 2016 (Figure 12).

Figure 12. Researchers at ABF Franchising Expo 2016

Source: Authors (2016)

The second stage happened in July 2016. Forty-one additional questionnaires were filled out online with managers contacted via telemarketing.

A total of 110 questionnaires were analyzed. Incomplete data, referring to 3 companies, were excluded. The sample with 107 companies had three duplicates, which were eliminated, but the questionnaires of the respondents with the top positions were kept.

Thus, the final database is comprised of 104 companies, 85 Brazilian and 19 foreign franchises. Among the Brazilian ones, 32 are internationalized and 53 are only domestic. The 32 companies surveyed represent 24% of the base of 134 internationalized franchisors (ATTACHMENTS A and B).

The questions were separated as shown in the questionnaire in APPENDIX A. Cronbach's alpha was calculated to validate the responses; results werehigher than 0.7 as required in the literature, so the sub-constructs could be used in an aggregated manner.

Table 6. Reliability test

Motivations for international franchising	.756
Barriers for international franchising	.786
Global mindset	.874

Source: Authors (2016)

Cronbach's alpha indices in Table 6 show that the questions can be used in an aggregated manner to measure the constructs analyzed.

4.2 GOVERNANCE MODES

The **foreign franchises** have been operating in foreign countires for **24 years**, on average. 84% of the firms in the sample, have operations in five or more countries, i.e., they have long-term commitment, (Table 7).

Table 7. Internationalization stage of the sample of foreign companies in Brazil

INTERNATIONALIZATION STAGE OF FOREIGN COMPANIES	SAMPLE	%
Stage 3 - Active Involvement (2 to 4 countries)	3	16%
Stage 4 - Commited Involvement (5 or more countries)	16	84%
	19	100%

Source: Authors (2016)

These foreign companies use various modes of governance internationally, as can be seen in the multiple responses given to question 2 (APPENDIX A, as listed in Table 8.

Table 8. Governance modes of the sample of foreign firms

GOVERNANCE MODES CHOSEN BY FOREIGN COMPANIES	%
Franchised unit	68.4%
Master Franchise	57.9%
company-owned unit	52.6%
Exporting	11%
Joint venture	5%

Source: Authors (2016)

For the foreign franchisors in Brazil, master franchiseeis the second most used governance mode. These companies checked more than one choice, because they vary their governance modes mode. They do not perceive so many differences between countries as the internationalized Brazilian companies do.

The Internationalized Brazilian companies have been internationalized for, on average, **eight years**. The time in foreign markets showed a positive, significant correlation with the stages of internationalization, as shown in Table 9.

The results in Table 9 on the internationalization stage and time show that the longer the company operates abroad, the more developed is its internationalization stage. That is a characteristic of the stepwise model, in which learning takes place over time.

According to the sample, the Brazilian firms experimenting with internationalization have had an average of four years of international operations. The franchisors with active involvement have 6.7 years of international experience, and the chains with commited involvement have had an international presence for 12 years, on average.

Still, Table 9 indicates that the global mindset had a significant, positive correlation with the stage of internationalization dimension.

Table 9. Correlations between age, global mindset and internationalization stages

		GLOBAL MINDSET OF THE COMPANY	TIME ABROAD	INTERNATIO-NALIZATION STAGE
Global Mindset	Pearson Correlation	1	.149	.409**
	Sig. (2 tailed)		.313	.000
	N	95	48	95
Age	Pearson Correlation	.149	1	.574**
	Sig. (2 tailed)	.313		.000
	N	48	50	50
Stage of Internatio-nalization	Pearson Correlation	.409**	.574**	1
	Sig. (2 tailed)	.000	.000	
	N	95	50	104

** The correlation is significant at the 0.01 level (2-tailed)

Source: Authors (2016)

This means that the franchisors in later internationalization stages, with greater commitment and active involvement, have a more global mindset than those who are still experimenting with it. This is a further reason for companies to start their internationalization process in a structured, continuous way, in order to learn and to become more competitive, with an international mindset.

The Brazilian franchisors use various governance modes in foreign countries, as they checked multiple respondes in question 2 (APPENDIX A), as listed in Table 10.

Table 10. Governance modes for the sample of Brazilian firms

GOVERNANCE MODE CHOSEN BY THE SAMPLE OF BRAZILIAN COMPANIES	%
Franchised unit	40%
Master Franchise	22%
Company-owned unit	12%
Exporting	6%
Area developer	6%

Source: Authors (2016)

Table 10 clearly shows that franchised units is the most used entry mode, followed by master franchise and company-ownes units. As they have been operating abroad for a shorter period of time, and in fewer countries, they show less variation in governance modes.

4.3 MOTIVATIONS AND BARRIERS

This item brings an analysis of the motivations and barriers for the internationalization of Brazilian franchise chains. The f agreement scale was divided into three groups: responses 1 to 3 (classified as disagreement), 4 (neutral) and 5 to 7 (agreement).

4.3.1 Motivations

According to the respondents, "having adequate products and services to operate internationally" is a motivator for internationalization.

From the perspective of franchisors who already have international operations, there is a high level of agreement - 100% of respondents from the internationalized Brazilian chains and approximately 90% from the foreign franchises operating in Brazil. In turn, over 80% of the domestic Brazilian chains, even if they have not yet started international

operations, believe they have a product with the potential to be franchised internationally, as shown in Figure 13.
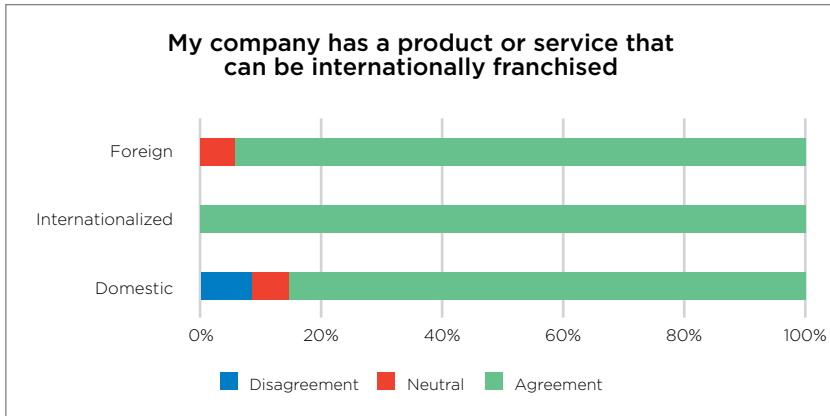
Figure 13. Products can be internationally franchised

The belief that international franchising contributes to the growth of franchise chains is high both among the internationalized Brazilian and foreign firms, with more than a 90% agreement. Particularly in relation to the domestic Brazilian franchise chains, only 15% of the respondents disagree on this contribution. This is an indication, that, for the other respondents, internationalization can enhance the brand image in Brazil, as shown in Figure 14.

More than 90% of the internationalized Brazilian franchisors agree that international operations may contribute to company profitability. For over 80% of the foreign franchisors there is no disagreement with this statement, although the remaining foreign firms showed neutrality.

Among the domestic Brazilian chains, even if they do not yet have international operations, optimism as to possible profits in international markets prevails, witha degree of skepticism for less than 20%, as shown in Figure 15.
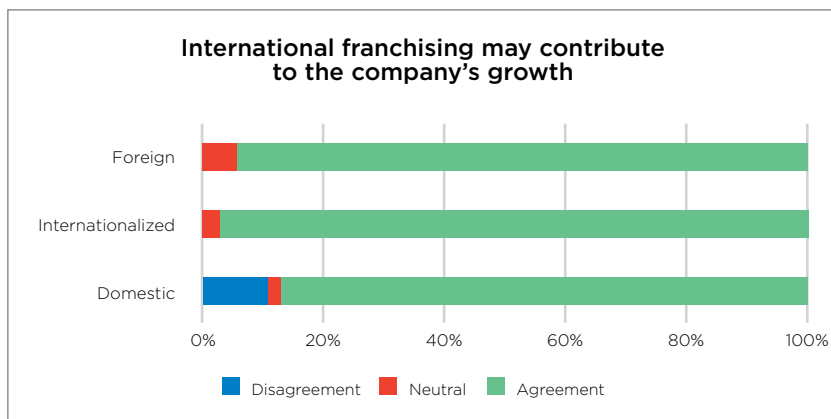
Figure 14. International franchising and growth

Source: Authors (2016)
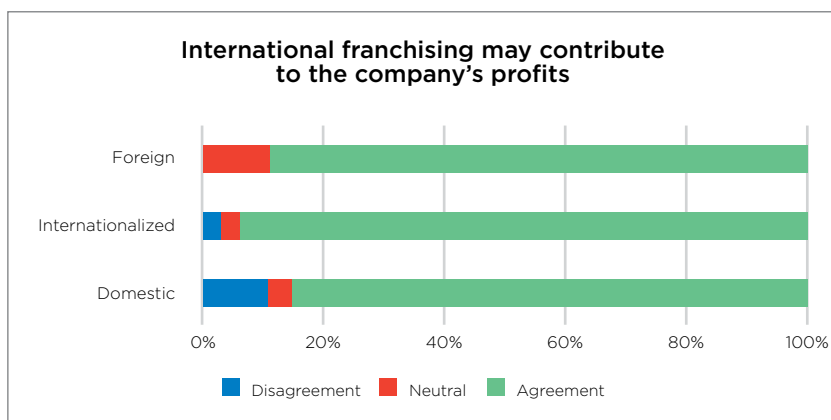
Figure 15. International franchising and profits

Source: Authors (2016)

The Brazilian franchise chains with international operations are unanimous in demonstrating that they remain engaged in opportunities for expansion in another country.

In turn, among the foreign chains to whom new foreing business prospecting prevails, only 15% are neutral.

Those opportunities are highly relevant to more than 70% of the Brazilian domestic franchisors. And only a small group of less than 20% of them, disagree with this statement, as shown in Figure 16.

My company is always alert to potential opportunities to internationalize franchising

| | Disagreement | Neutral | Agreement |
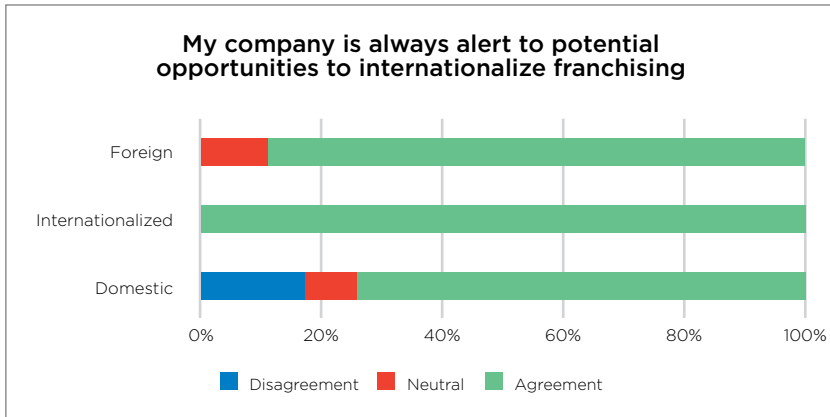
Figure 16. International franchising and opportunities

Source: Authors (2016)

More than 50% of the three groups of franchise chains agree that international operations are correlated to higher risks than operations in the domestic market.

However, this level of perceived risk tends to be lower among foreign companies operating in Brazil, whereas for the internationalized and domestic Brazilian chains the level of risk awareness is similar, as shown in Figure 17.

There as a commom level of agreement in all the three groups of franchise chains on the costs of keeping operations in the international market, as compared to the domestic market.

International franchising involves a greater risk than franchising in the domestic market
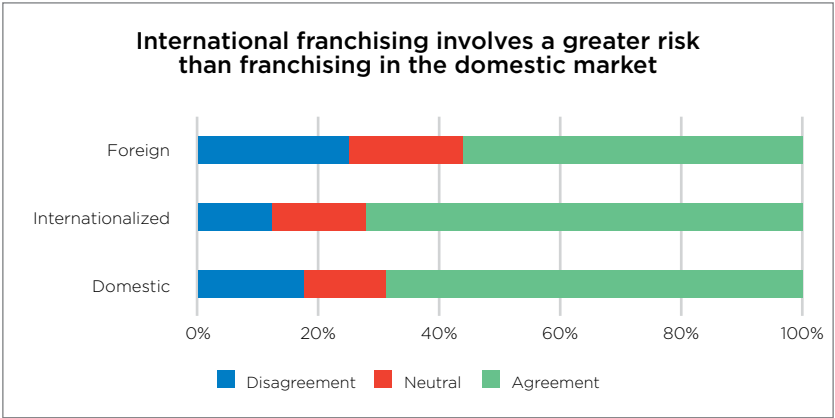
Figure 17. International franchising and risks

Fonte: Autores (2016)

The Foreign firms operating in Brazil relativize such costs and 40% of them are neutral, as shown in Figure 18. Wherear almost 80% of the internationalized Brazilian Franchisors confirm that the costs of their international operations are higher than in Brazil, as shown in Figure 18.

International franchising involves greater costs than franchising in the domestic market
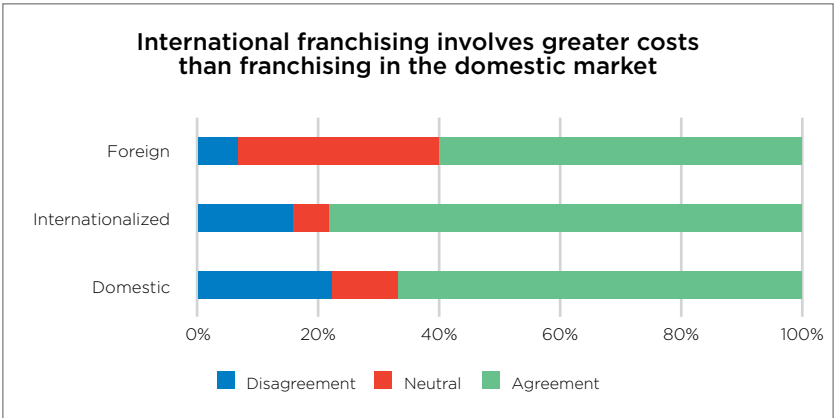
Figure 18. International franchising and costs

Source: Authors (2016)

When asked about the degree of complexity involved in international operations, there was a high level - between 50% and 65% - of disagreement in the three groups of franchisors. The prevailing view is that such expansion is worth the effort, as shown in Figure 19.
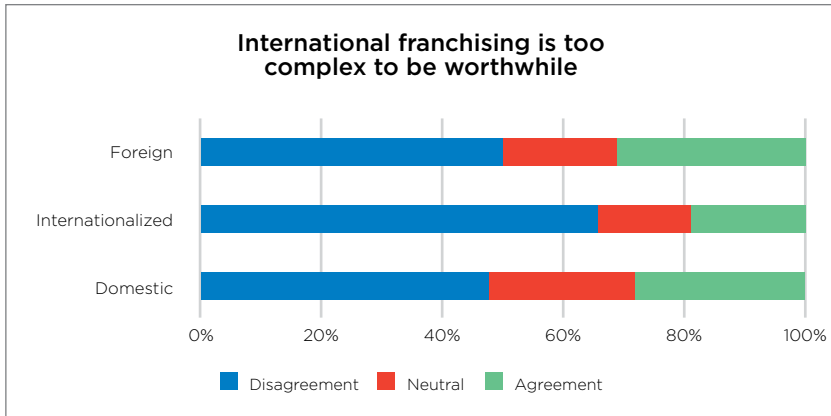
Figure 19. International franchising and complications

Source: Authors (2016)

This perception of complexity and the entry barriers are investigated next.

4.3.2 Barriers

Obtaining social and environmental certifications have little impact on franchise chains with international operations. This concern is low for all the analyzed franchise groups, with agreement levels between 22-30%, as shown in Figure 20.
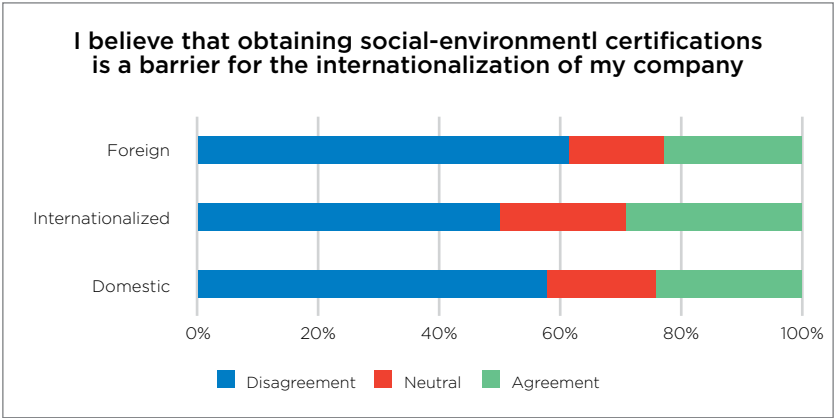
Figure 20. Barrier - Certifications

Source: Authors (2016)

Building the brand internationally is more challenging for the internationalized Brazilian franchises than to the foreign ones. In turn, the group of franchises with domestic operations considers this factor as a significant obstacle, with a 50% agreement, as shown in Figure 21.
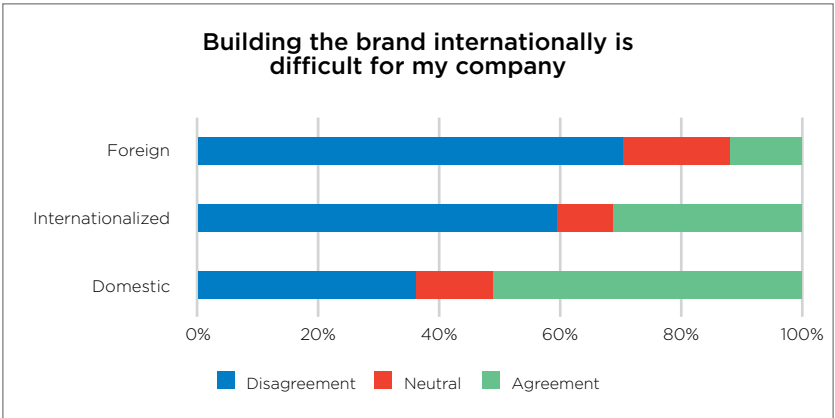
Figure 21. Barrier - brand building

Source: Authors (2016)

Among the Brazilian chains that are internationalized, concern for the brand is similar to f the foreign ones'. And it is a major challenge. for the domestic franchises,

enough financial resources to operate abroad is a more present barrier for the Brazilian franchise chains, either domestic or internationalized. For the domestic ones, this is a relevant obstacle with almost a 60% agreement.

For the foreign franchisors this is less representative barrier, with a 35% agreement, as shown in Figure 22.
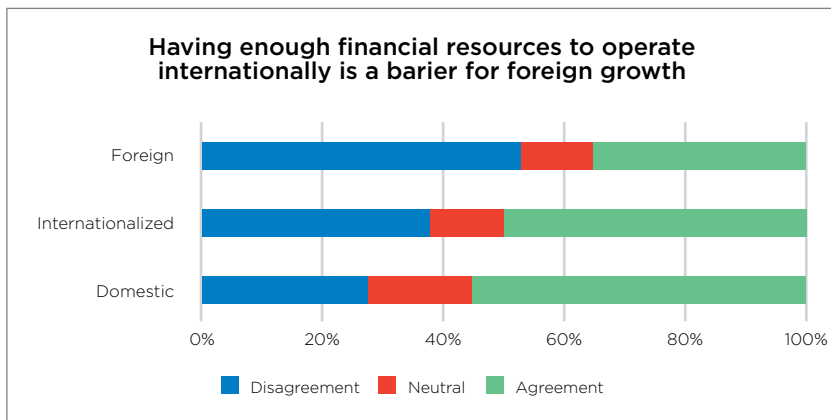
Figure 22. Barrier - Financial resources

Source: Authors (2016)

The organizational setup for the franchise system to operate overseas is a significant barrier, with an agreement level above 40% in all franchise groups.

The Brazilian franchise chains with domestic operations seem to consider this as a relevant hindrance to their international operations, as testified by almost 70% of the respondent, as shown in Figure 23.

Complying with different laws is recognizedly a barrier for the all the franchise chains. Both the foreign and the internationalized Brazilian
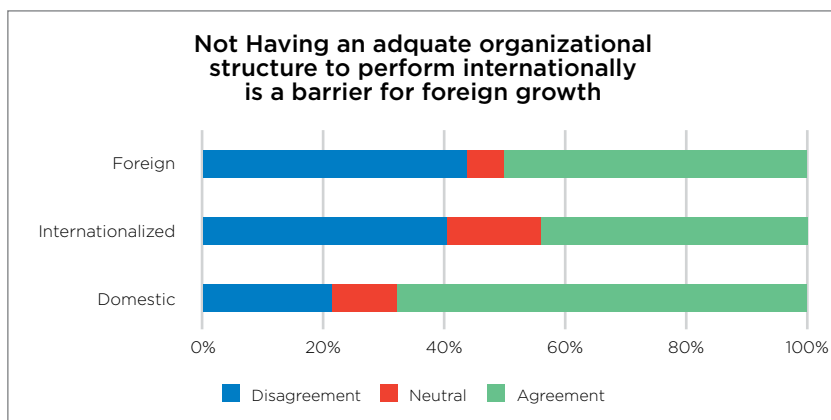
Figure 23. Barrier - Organizational structure

Source: Authors (2016)

franchisors consider this factor noteworthy and potentially restrictive to their international expansion.

This barrier is even more important for the group of domestic franchises - above 60%, as shown in Figure 24.
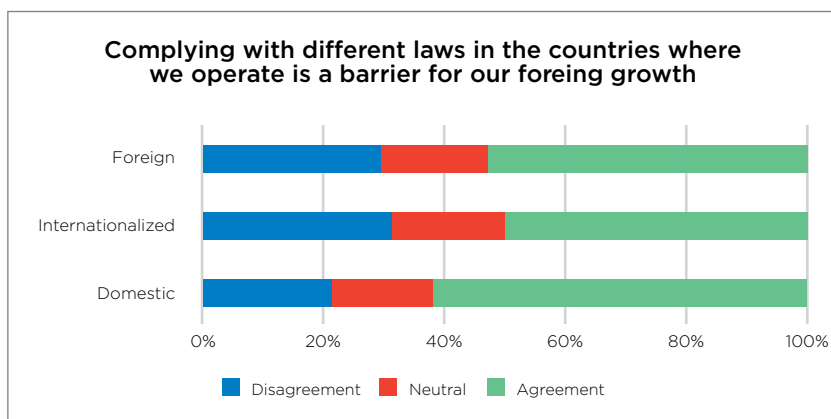
Figure 24. Barrier - Legislation

Source: Authors (2016)

The main internationalization opportunities are summarized below.

There is a strong belief that international franchising contributes to the growth of franchise chains is among both the internationalized Brazilian and foreign franchisors, a more than 90% level of agreement.

In terms of profits originated from international operations, 90% of the internationalized Brazilian chains agree That they are relevant, and even the domestic-only chains are optimistic as to a potential profitability in international operations.

The Brazilian franchise chains with operations abroad are unanimous in demonstrating that their continued engagement in expansion opportunities in other countries. All the three groups, agree with a level higher than 50% that international operations arerrelated to a higher risk than operations in the domestic market.

Agreement as to higher operation maintenance costs in international markets is common to all three groups.

The Foreign franchises relativize these costs - for 40% of the respondents, they are not much higher than their domestic operations.

When asked about the degree of complexity of and challenges for their international operations, the three groups of franchise chains strongly disagree about complexity.

The main **barriers** for internationalization are identified as follows.

Obtaining environmental and social certifications have little impact on franchises with international operations.

Building the brand in foreign markets is more challenging for the internationalized Brazilian chains than to the foreign franchises present in Brazil.

Having enough financial resources to operate abroad is a barrier felt more by the Brazilian franchisors, whether domestic or internationalized.

The organizational setup of the franchise system to operate internationally is a significant barrier for more than 40% of the franchisors in all three groups.

Complying with different chains is recognized as a barrier by both Brazilan and foreign franchise chains, it should be noted that this factor as demands attention and may restrict international expansion.

4.4 THE GLOBAL MINDSET OF FRANCHISE CHAINS

For the three groups of franchise CHAINSchains, the global mindset issue showed significant differences between the three samples. The items analyzed here make up item 8 of the questionnaire (APPENDIX A). When the three types of franchises were compared, the following average scores presented in Table 11 were obtained.

According to Table 11, the domestic franchising respondents had an average score of 4.7 for item 8 questions. The internationalized group had an average score of 5.5, i.e., they agreed morewith the statements, and the group of foreign franchisors present in Brazil had an average score of 6.3, showing greater agreement with the presence of a global mindset in their companies.

These averages have shown significant differences, as per the ANOVA variance test (a 1%significance level). Specifically, the test shows a difference between the domestic and international firms (a 5% significance level) and between the domestic and internationalized Brazilian ones (a 1% significance level).

Table 11. Question 8 – Global mindset for the three samples

BASE OF RESPONDENTS	SAMPLE	AVERAGE
Domestic	53	4.7
Internationalized	32	5.5
Foreign	19	6.3
	134	

Source: Authors (2016)

Just like item 4.2, the *global mindset* for the internationalization of Brazilian franchise chains was assessed with a Likert-type scale ranging from 1 to 7. The agreement scale comprises three groups, one including

responses 1 to 3 (classified as disagreement), 4 (neutral) and one with responses 5 to 7 (agreement).

The first aspect evaluated in the *global mindset* is **cultural awareness**, i.e., the firm's ability to work with people with other traditions, beliefs and values.

In this regard, both the foreign and internationalized companies had a 100% agreement.

As for the domestic franchises, their agreement level was also high (83.3%), but with 14.6% neutral, and 2.1% of disagreement, as shown in Figure 25.

Although perception is not 100% as in the previous question, as was expected, the foreign companies showd a higher level of agreement as to having more skilled personnel to work in foreign countries (79.1% with agreement between 5 and 7). At the same high-level of agreement, the percentage falls slightly (75%) for foreign companies and significantly for domestic companies (54.2%), as shown in Figure 26.

These results demonstrate that, for the three types of franchises, training investments are needed in order to increase teams' knowledge, including communication in foreign languages.

My company has sufficient cultural awareness and is able to work effectively with people from other cultures
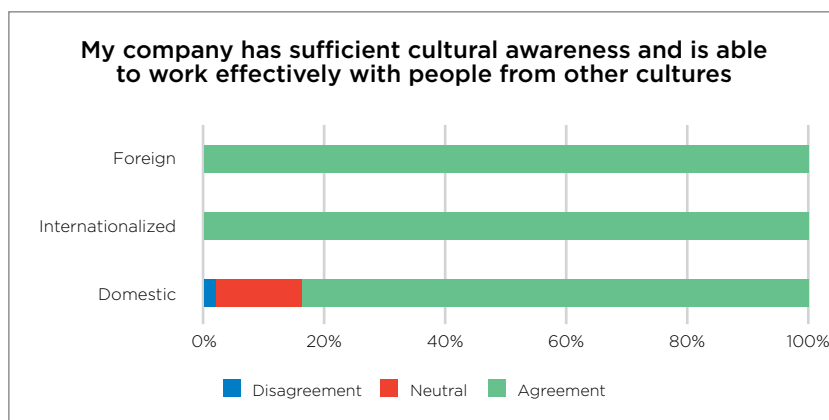
Figure 25. *Mindset* - Organizational cultural awareness

Source: Authors (2016)

Creating an international network means that the organizational *global mindset* of the franchise chains is long-term oriented, that is, the internationalization process is not believed to be a short-term situation, a consequence of market opportunities or of other seasonal factors.

Again the results show that the foreign and internationalized companies are very close. A high level of agreement (5 to 7) was found among 81.2% of the foreign and 78.1% of the international-ized companies. As for the domestic companies, the percentage drops to 47.9% (Figure 27).

My company has enough people who speak English and Spanish and are prepared to work abroad
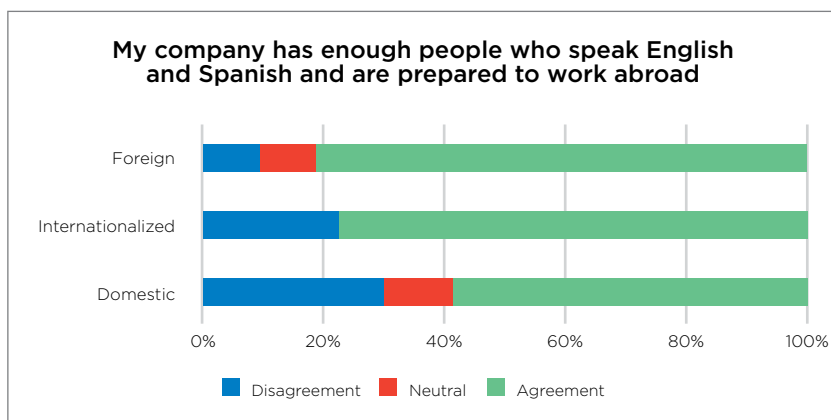
Figure 26. *Mindset* - Skilled people in the organization

Source: Authors (2016)

In an increasingly connected world, having a modern information exchange system has become necessary for internationalization pro-cesses, especially those related to foreign clients.

Although the rank of agreement levels is the same as in previous questions, the difference between foreign and internationalized com-panies was more significant (22.4%). For the foreign franchises, the level of agreement was 94.7%; for the internationalized ones, 75%; and for the domestic, 62.5% (Figure 28).

Knowledge about the social and market context to be faced is a key factor to succeed in the international market.
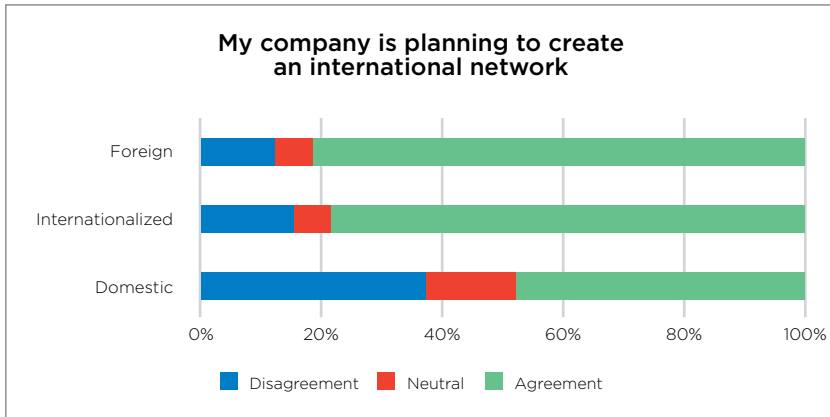
Figure 27. *Mindset* - International network

Source: Authors (2016)

The results with the highest degree of agreement (5-7) are not different from those obtained for the previous question, which is related to the technological and information infrastructure. However, unlike previously, there was a significant margin between the foreign (94.7%), internationalized (84.4%) and domestic (54.2%) franchises.

From the results, it is clear to see that there is a difference in the organizational *global mindset* between the foreign, internationalized and domestic franchises.
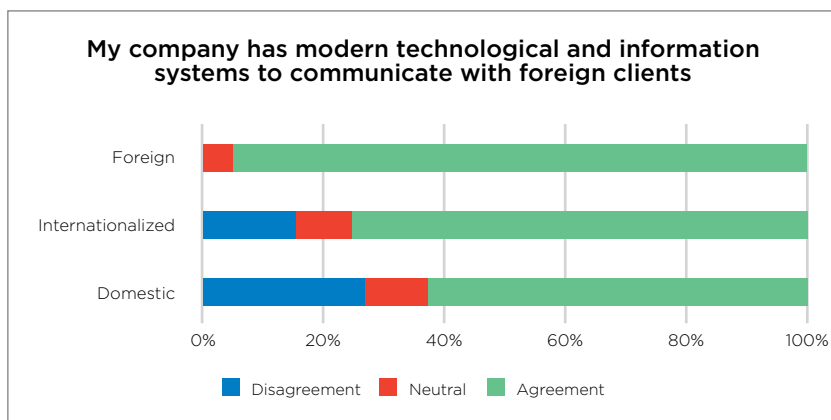
Figure 28. *Mindset* - Technological and information chains

Source: Authors (2016)
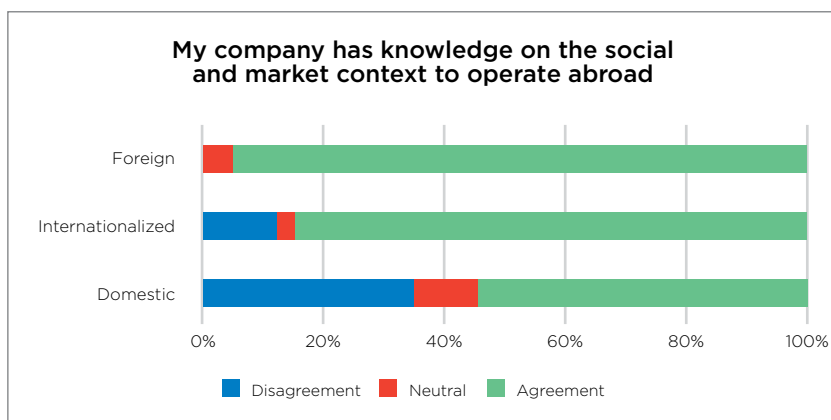
Figure 29. *Mindset* - Knowledge of the social and market context

Source: Authors (2016)

5. FINAL CONSIDERATIONS

In December 2015, there were 3,073 franchise chains in Brazil, being 159 of them foreign and 2,914 Brazilian. Among these, 134 held foreign operations, i.e., 4.6% of total Brazilian franchises held operations in 60 countries.

When this number is compare to the first, 2010 study, we can see a growth from 65 internationalized franchise chains to 134. In six years this number has almost doubled, but it still remained around 5% of the base over these years.

Some companies experiment with internationalization using the model called in the the 2012 study as "you ask for it, you got it". In other words, the franchisors simply allow a franchisee to open a store in a foreign country. We can clearly see that, between 2014 and 2016, 17 Brazilian brands that were experimenting, with only one unit abroad, quit their operations. Half of them had used the model "you walk by it, and you take it" in Paraguay, the United States or Portugal. This practice has been proven to not yield good results as that these companies, after a short period, gave up and decided to operate only in Brazil.

The 2014 study presented a categorization of the internationalized franchises in stages. This is still an interesting way to segment them, and the distribution of the base of 134 firms (in 2016) kept similar percentages: 49% in the experimental stage; 29% in the active stage; 22% in the long-term commitment stage.

This study innovates by crossing the stages with the period of internationalization and the global mindset of the companies. The correlation test has shown that time overseas has a significant correlation with the internationalization stage, i.e., the longer in international markets, the higher the committment to the operation.

On average, Brazilian chains have been in foreign countries for eight years. The most committed ones have been outside the country for an average of 12 years, whereas those in the active stage, on average 6.7 years. Companies in the experimental stage have been on average four years abroad.

The global mindset also showed a significant correlation with the stage of internationalization, highlighting that the more active the internationalization process, the more global the mindset.

Regarding the foreign franchisors present in Brazil, they have been operating internationally for longer periodos, on average **24 years**. 84% of the sample, have operations in five or more countries, i.e., they have a long-term, committedengagement with their international operation. Brazil is not their first destination, and when they arrive, they are better prepared to operate on a global basis.

This is reflected on the *global mindset* item. The foreign firms seem to have greater skills, knowledge of foreign markets and language proficiency than the internationalized Brazilian ones.

A comparison the two groups of Brazilian franchisors shows as perceived barriers structure, legal chains, and costs. For those who already work internationally, legal chains are the main one. And there is a statement that a group has abroad. One franchisor stated that they had already spent a lot on lawyer fees abroad.

For the foreign chains, the first barrier is the legal system; the second, structure; third, financial aspects; and the fourth, certifications.

For the internationalized Brazilian chains, the first barrier is the legal system; the second, financial aspects; third, structure; and the fourth, certifications.

It is important to think of internationalization as a way to learn and grow in the international context, because the innovations experienced there will help the company grow in the home market as well.

6. RECOMMENDATIONS

The recommendations presented in this study take into account the vigor of the franchise segment in Brazil, which has not ceased to grow, both in revenue and in units, despite the aggravated economic crisis in our country.

Besides, the number of internationalized franchise chains increases each year, expanding their presence in different countries. Considering the advantages that internationalization offers for these companies, for the consolidation of the Brazilian franchise sector, and for the very development of the country, our recommendations aim not only to encourage more companies to internationalize, but to accelerate the internationalization process of those already present in other countries.

As for the domestic enterprises the main barriers are structure, legislation and costs, is the recommended governance mode , is to find an area developer or master as potential local partners, they can partake the initial structure, share costs and mitigate risks relating to legislation.

For clothing and beauty products retailers, exporting via multi-brand stores has been an interesting way to start international operations.

Selecting an area developer or a master franchisee is also a better alternative than operating directly for those companies who worry about these barriers, but it demands a larger initial structure.

Despite the risks inherent to any society, a joint venture may be an opportunity to operate in foreign markets with greater security. Moreover, the contract may be established for a set period, deemed sufficient for know-howacquisition. After that, the company may decide to go solo.

In any event, it is important to plan the internationalization effort. We strongly recommend that companies do not allow their brand to be taken abroad without being prepared, because the chances of success are minimal.

For companies already internationalized, legislation is the main barrier. Thus, the recommendation is to invest in renowned law firms, which seems to be the best way to deal with different local legislations.

There are many international law firms with partners in different countries, which might make much sense, because the executives can keep in touch with headquarters.

, in any case, it is important to search for references and to meet with two to four firms in order to select the one that seems better prepared to meet current and future demands.

In addition to the legislation and structure, other sources of difficulty pointed out by both domestic and internationalized Brazilian companies are associated with building the brand in foreign markets and possessing enough financial resources to operate in another country.

Regarding brand building, our recommendation is that the company should review its brand management.

It is essential to have a clear brand purpose and identity, which should be global.

The next step is to define the brand positioning; this may need to be altered in another country, simply because the competitive scenario and potential customers are different.

Although many international companies have to make adjustments to their products, prices, distribution channels or communication, the purpose of such moves should always be to remain loyal to their identity and brand. When company managers have difficultiy doing this on their own, hiring a branding consultant is recommended, as the cost of making mistakes is usually higher.

Regarding the financial resources to operate overseas, we must refer to the choice of governance mode, i.e., choosing modes that favor cost sharing.

Moreover, it is possible to seek government financing via BNDES or other financial institutions, taking advantage of the fact that the franchise sector can be a strong driver for the international presence of Brazilian companies, which is one of the Government's objectives.

To reduce hurdles deriving from the organizational structure, the recommendation is to invest strongly in strategic planning and to hire human resources tanking into consideration the international demands.

A Strategic planning f set for at least five years will help to define goals and targets for the expansion of the organization.

Achieving these goals will naturally entail hiring skilled workers who master other languages and have a global perspective, as well as training present staff and perhaps replacing some.

In addition to conducting this process, a competent f human resources department can also help managing the change from a local to an international operation

In order to compete internationally, companies need to develop their global mindset., differences in the global mindset between foreign and Brazilian companies, even the internationalized ones became very clear. In the research.

Among the components of a global mindset are the development of a global network involving suppliers, distributors, partner companies and customers, global knowledge of industry and the ability to communicate with people from other countries, through market intelligence chains and telecommunication capabilities.

It is clear that establishing relationship inter-cultural skills and a global businesses orientation is very important for the internationalization of companies

In order to form "global managers", we recommend acquiring or developingnew competences. In other words, investing on structure. Possibly, this is still the biggest challenge for most companies.

Finally, the significant increase in the number of franchises that began to operate internationally is related to the work carried out by ABF in partnership with Apex-Brazil to promote the internationalization of Brazilian franchise chains.

The agreement between ABF and Apex-Brazil, called Project Franchising Brazil, started in 2004 and has promoted ever since over 100 international missions to more than 40 countries. Participating in the project's activities provides franchises with knowledge on how to start their international expansion and support for developingt operations in foreign markets.

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ATTACHMENT A – BRAZILIAN FRANCHISES ABROAD IN JUNE, 2016

SEGMENT	FRANCHISE NAME	N. OF COUNTRIES
Personal Accessories and Footwear	CARMEN STEFFENS	16
Personal Accessories and Footwear	DUMOND	8
Personal Accessories and Footwear	CHILLI BEANS	8
Personal Accessories and Footwear	VIA UNO	5
Personal Accessories and Footwear	AREZZO	4
Personal Accessories and Footwear	FABRIZIO GIANNONE	4
Personal Accessories and Footwear	MAZ BRASIL	4
Personal Accessories and Footwear	CAPODARTE	3
Personal Accessories and Footwear	DEMOCRATA	3
Personal Accessories and Footwear	EMPÓRIO DO AÇO	2
Personal Accessories and Footwear	HAVAIANAS	2
Personal Accessories and Footwear	MORANA	2
Personal Accessories and Footwear	SOBRAL DESIGN	2
Personal Accessories and Footwear	DATELLI	1
Personal Accessories and Footwear	JORGE BISCHOFF	1
Personal Accessories and Footwear	RAPHAELLA BOOZ	1
Personal Accessories and Footwear	VICTOR HUGO	1
Food	SHOWCOLATE	13
Food	FÁBRICA DI CHOCOLATE	6
Food	SPOLETO	3
Food	BIG ONION	2
Food	BOB´S	2
Food	AU AU LANCHES	1

ATTACHMENT A. Continued

SEGMENT	FRANCHISE NAME	N. OF COUNTRIES
Food	GIRAFFAS	1
Food	GRAND CRU	1
Food	JET CHICKEN	1
Food	L`ENTRECÔTE DE PARIS	1
Food	MADERO	1
Food	MISTER SHEIK	1
Food	MIX BURGÃO	1
Food	MIX POTATO	1
Food	ROASTED POTATO	1
Food	TEMAKERIA MAKIS PLACE	1
Food	VIVENDA DO CAMARÃO	1
Food	YOGOBERRY	1
Food	YOGOLATTE FROZEN YOGURT	1
Food	YOGULAND FRANQUIAS	1
Housing and Construction	FLORENSE	8
Home and Construction	CASA COR	5
Home and Construction	POLIPLÁS	5
Home and Construction	COLCHÕES ORTOBOM	3
Home and Construction	BONTEMPO	1
Home and Construction	FIRST CLASS	1
Home and Construction	FRANQUIA IMÓVEIS	1
Communication, Computers and Electronics	CDI - FRANCHISING	14
Communication, Computers and Electronics	LINKWELL	5

ATTACHMENT A. Continued

SEGMENT	FRANCHISE NAME	N. OF COUNTRIES
Communication, Computers and Electronics	GIGATRON	3
Communication, Computers and Electronics	LIGUE SITE	2
Communication, Computers and Electronics	BAGNEWS SUA MÍDIA ECOLÓGICA	1
Communication, Computers and Electronics	TOTVS	1
Education and Training	CCAA	9
Education and Training	FISK CENTRO DE ENSINO	6
Education and Training	WIZARD IDIOMAS	4
Education and Training	ESCOLA DE POSTURA	3
Education and Training	WISE-UP	3
Education and Training	US ANGLOSCHOOL & DATA	2
Education and Training	DSOP	1
Education and Training	INSTITUTO L´ORÉAL PROFESSIONNEL	1
Education and Training	MICROCAMP	1
Education and Training	NUMBER ONE IDIOMAS	1
Education and Training	SUCESSO EM VENDAS	1
Education and Training	SUPERA - GINÁSTICA PARA O CÉREBRO	1
Education and Training	TOP ENGLISH	1
Sports, Health, Beauty and Leisure	IGUI	39
Sports, Health, Beauty and Leisure	SMART FIT	3
Sports, Health, Beauty and Leisure	HOKEN	2
Sports, Health, Beauty and Leisure	SOBRANCELHAS DESIGN	2

ATTACHMENT A. Continued

SEGMENT	FRANCHISE NAME	N. OF COUNTRIES
Sports, Health, Beauty and Leisure	ARMAZÉM AMAZÔNICO STORE	1
Sports, Health, Beauty and Leisure	DEPYL ACTION	1
Sports, Health, Beauty and Leisure	DR. LASER	1
Sports, Health, Beauty and Leisure	EMAGRECENTRO	1
Sports, Health, Beauty and Leisure	ESTÚDIO DA SOBRANCELHA BY FABIANE PINHEIRO	1
Sports, Health, Beauty and Leisure	FIT4 - FITNESS STORE	1
Sports, Health, Beauty and Leisure	FUNCLICK	1
Sports, Health, Beauty and Leisure	INTERAGIRE	1
Sports, Health, Beauty and Leisure	ITC VERTEBRAL	1
Sports, Health, Beauty and Leisure	JACQUES JANINE	1
Sports, Health, Beauty and Leisure	MAGRASS	1
Sports, Health, Beauty and Leisure	MAIS DEPIL	1
Sports, Health, Beauty and Leisure	ODONTO EXCELLENCE	1
Sports, Health, Beauty and Leisure	PELO ZERO DEPILAÇÃO	1
Sports, Health, Beauty and Leisure	TRUSS COSMETICS	1
Hospitality and Tourism	INFORMATION PLANET	12
Hospitality and Tourism	TRAVELMATE INTERCÂMBIO E TURISMO	1
Cleaning and Conservation	COMBATE	2
Cleaning and Conservation	HOUSEMAID - PROFISSIONAIS DE LIMPEZAS DOMÉSTICAS	2
Cleainign and Conservation	ASTRAL	1
Cleaning and Conservation	SAPATARIA DO FUTURO	1
Business, Services and Other Retail Outlets	CARTÓRIO POSTAL	6

ATTACHMENT A. Continued

SEGMENT	FRANCHISE NAME	N. OF COUNTRIES
Business, Services and Other Retails	CARTÓRIO MAIS	4
Business, Services and Other Retails	LIVRARIA E PAPELARIA NOBEL	3
Business, Services and Other Retails	DOUTOR RESOLVE	2
Business, Services and Other Retails	LIVRARIA INTERNACIONAL SBS	2
Business, Services and Other Retails	NOBEL KIDS	2
Business, Services and Other Retails	CARTAXI	1
Business, Services and Other Retails	GELRE	1
Business, Services and Other Retails	INVIOLÁVEL	1
Business, Services and Other Retails	MULTIPLY CONSULTORIA	1
Business, Services and Other Retails	NTW CONTABILIDADE E GESTÃO EMPRESARIAL	1
Business, Services and Other Retails	PRIMEIRO MUNDO MARCAS E PATENTES	1
Automotive Services	LOCALIZA RENT A CAR	7
Automotive Services	DNA SECURITY	1
Clothing	HERING STORE	5
Clothing	PUKET	5
Clothing	BRASIL SUL	4
Clothing	LUPO	3
Clothing	MORMAII	3
Clothing	PRECOCE	3
Clothing	CONTAINER CONCEPT	2
Clothing	TRACK & FIELD	1

Source: ABF (2015)

ANATTACHMENT B – FRANCHISE NETWORKS ABROAD VIA EXPORT

SEGMENT	FRANCHISE NAME	N. OF COUNTRIES
Education and Training	ABC-AMERICAN BRAZILIAN CENTER	2
Sports, Health, Beauty and Leisure	ADCOS	1
Personal Accessories and Footwear	BIBI	59
Personal Accessories and Footwear	CLUBE MELISSA	45
Clothing	COLCCI	11
Hospitality and Tourism	CVC BRASIL	11
Clothing	DZARM	14
Clothing	ELLUS	1
Clothing	ESTIVANELLI	1
Clothing	HERING FOR YOU	5
Clothing	HERING KIDS	5
Clothing	HOPE LINGERIE	3
Personal Accessories and Footwear	IT BEACH	5
Clothing	LILICA & TIGOR	17
Clothing	LIZ	22
Personal Accessories and Footwear	MÃOS DA TERRA	10
Personal Accessories and Footwear	MISS PINK	1
Sports, Health, Beauty and Leisure	MUNDO VERDE	1
Sports, Health, Beauty and Leisure	O BOTICÁRIO	8
Clothing	PUC	1
Communication, Computers and Electronics	SOCIAL LOUNGE	1
Sports, Health, Beauty and Leisure	TEAM NOGUEIRA FRANQUIAS	1
Sports, Health, Beauty and Leisure	TRUSS COSMETICS	6
Housing and Construction	UATT?	9

Source: ABF (2015)

APPENDIX A – QUESTIONNAIRE

Dear franchisee, these questions were designed by ESPM in partnership with ABF for you to answer in a few minutes. They will help us to map out the *internationalization of Brazilian franchises*, and your answers will be used only in an aggregated manner.

Name of the franchise:...

Main brands:..

Respondent Name:...

Respondent Position: ....

Check whether the company is: ( ) Brazilian or ( ) Foreign

1. CHECK BELOW THE ITEM THAT REFLECTS THE INTERNATIONALIZATION STAGE OF YOUR COMAPNY IN 2016.

Franchising only in Brazil (domestic)   ( ) ➝ Skip to 2

Experimental Involvement, with only
a few units lin other countries   ( )

Active Involvement, with recent
international growth   ( )

Long Term Commited Involvement
with international Expansion   ( )

1.1 In what year did your international operations begin? ....

1.2 In what countries?...
....

1.3 Number of units in foreign countries?...

2. CHOOSE THE GOVERNANCE MODE YOUR FRANCHISE USED / WILL USE IN FOREIGN MARKETS. YOU MAY CHOOSE MORE THAN ONE OPTION, IF APPROPRIATE.

( ) Exports
( ) Company-owned unit
( ) Franchisee-owned unit
( ) Master franchise
( ) Area developer
( ) Joint venture

3. CHECK THE STATEMENTS BELOW ACCORDING TO YOUR DEGREE OF AGREEMENT.

In the relationship between your company and its franchisees

	1 - completely disagree				7 - completely agree		
a) My company is committed to preserving the relationship with franchisees	1	2	3	4	5	6	7
b) My company is very understanding to maintain a cooperative relationship with franchisees	1	2	3	4	5	6	7
c) My company considers our franchisees as partners in the industry	1	2	3	4	5	6	7
d) Flexibility is one of the characteristics of our relationship with franchisees	1	2	3	4	5	6	7
e) My company includes contractual terms to solve problems with franchisees	1	2	3	4	5	6	7
f) When unexpected situations happen, we try to make a deal with franchisees	1	2	3	4	5	6	7
g) Franchisees expect my company to have the ability to make adjustments when circumstances change	1	2	3	4	5	6	7
h) The benefits of my company are generally proportional to franchisees' efforts	1	2	3	4	5	6	7
i) My company usually receives appropriate royalties in the relationship with franchisees	1	2	3	4	5	6	7
j) My company can absorb franchisees' costs if necessary for the franchisees' business survival	1	2	3	4	5	6	7
k) Franchisees keep promises made to my company	1	2	3	4	5	6	7
l) Franchisees are always honest toward my company	1	2	3	4	5	6	7
m) Franchisees are concerned with the success of my company's business	1	2	3	4	5	6	7
n) My company considers it necessary to be cautious with franchisees	1	2	3	4	5	6	7
o) My company believes the information that franchisees provide	1	2	3	4	5	6	7
p) My company trusts franchisees	1	2	3	4	5	6	7

You've noticed opportunism in the relationship with franchisees

	1 - completely disagree						7 - completely agree
a) Your franchisees have made promises things and failed to fulfill them	1	2	3	4	5	6	7
b) Your franchisees seem to believe they can do anything for their own benefit	1	2	3	4	5	6	7
c) Your franchisees give a full, truthful picture of their businesses	1	2	3	4	5	6	7
d) Sometimes your franchisees alter the facts to get what they want	1	2	3	4	5	6	7

In the relationship with franchisees

	1 - completely disagree						7 - completely agree
a) My company's relationship with franchisees is always satisfactory	1	2	3	4	5	6	7
b) The time and effort spent to develop the relationship with franchisees are satisfactory	1	2	3	4	5	6	7
c) The relationship between my company and franchisees has always been productive	1	2	3	4	5	6	7
d) My company cares about maintaining a good relationship with franchisees	1	2	3	4	5	6	7
e) My company has franchisees that demonstrate ethical behavior since the first month	1	2	3	4	5	6	7
f) Franchisees are my best source of information	1	2	3	4	5	6	7
g) Franchisees always provide correct information	1	2	3	4	5	6	7
h) The conduct of my franchisees is similar in Brazil and overseas	1	2	3	4	5	6	7

i) It is different in the following countries: ....

Motivations for international franchising

	1 - completely disagree				7 - completely agree		
a) My company has a product or service that can be internationally franchised	1	2	3	4	5	6	7
b) international franchising can make a contribution to my company's growth	1	2	3	4	5	6	7
c) international franchising can make a contribution to my company´s profits	1	2	3	4	5	6	7
d) My company is always alert to opportunities that may arise to internationalize franchising	1	2	3	4	5	6	7
e) International franchising involves greater risk than franchising in the domestic market	1	2	3	4	5	6	7
f) International franchising involves greater costs than franchising in the domestic market	1	2	3	4	5	6	7
g) International franchising is too complicated to be worth the risk	1	2	3	4	5	6	7

Barriers for international franchising

	1 - completely disagree				7 - completely agree		
a) I believe that achieving environmental and social certifications is a barrier for my company´s internationalization	1	2	3	4	5	6	7
b) Building the brand in a foreign market is a difficulty for my company	1	2	3	4	5	6	7
c) Having sufficient financial resources to operate internationally is a barrier for growth in another country	1	2	3	4	5	6	7
d) Having an adequate organizational structure to operate internationallyis a barrier for my company to grow overseas	1	2	3	4	5	6	7
e) Complying with the different legal chains in the countries where I operate is a barrier to international growth	1	2	3	4	5	6	7

Global mindset

	1 - completely disagree				7 - completely agree		
a) My company has sufficient cultural awereness and is able to work effectively with people from other cultures	1	2	3	4	5	6	7
b) My company has enough workers who speak English / Spanish and are prepared to work in foreign environments	1	2	3	4	5	6	7
c) My company is planning to create an international network	1	2	3	4	5	6	7
d) My company has modern technological and information chains to communicate with clients in foreign countries	1	2	3	4	5	6	7
e) My company has knowledge of the social and market context to operate internationally	1	2	3	4	5	6	7
f) My company is very able to do global business	1	2	3	4	5	6	7
g) My company is planning to invest in foreign markets	1	2	3	4	5	6	7

Thank you! To receive the results
of this study, please provide your e-mail: ....

Additional observations: ....
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