

The Business School

The potential Impact of International Franchising in Promoting and Developing Tourism Business in the Kingdom of Saudi Arabia (KSA)

Submitted by:

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Abstract

This research paper aims to examine how international franchising can be a development tool for SMEs, an initiation tool for start-ups, and a strategic tool for the government and private sector in the tourism industry of the kingdom of Saudi Arabia (KSA).

The tourism industry is a relatively new phenomenon in KSA, recognized only after the inception of the Saudi Commission for Tourism and Antiquities (SCTA) in 2000. Since then, SCTA made great efforts and reforms to improve the economic, social, and cultural environment of the sector. However, the tourism in KSA still faces an array of obstacles, mainly related to the prevailing inadequacies of human capital and only a modest supply of services catering specifically for tourist, both in terms of quantity and quality. Therefore, the initiation of tourism industry in KSA necessitates learning from countries that have prior and intensive experience in tourism.

International franchising represents a possible means of eliminating a large number of barriers preventing or dissuading people from doing business in general and in the tourism industry in particular, especially through its ability to make up for the lack of business experience and knowledge on the side of 'newcomers' in this industry. More specifically, this study aims to research the possibility of adopting international franchising with its proven business models that meet the international standards by the tourism industry in KSA as a systematic solution to its most persisting weaknesses.

Three phases of sequential mixed methods were used to examine the potential impact of international franchising on developing tourism investment in KSA. Phase one involved qualitative research through preliminary interviews with officials and experts in the franchising and tourism sectors, to investigate the current situation of the research topic and identify the barriers and drivers of both sectors. Phase two involved quantitative research through follow up to the two questionnaires with owners/managers of franchises (n=104) and tourism businesses (n=475) to validate the initial exploration, and make an intersection between international franchising and tourism, through common questions between

the questionnaires. This led to further exploration in phase three, which examined the actual experience of international franchising in four case studies, mostly in tourism, who had converted from independent businesses to franchisees of international brands.

The findings indicate that international franchising can be a development tool for SMEs and an initiation tool for start-ups in the tourism industry. This study provides evidence that international franchising can have a great impact on enhancing the intellectual capital of local businesses, including human capital, relational capital and organizational capital, as well as financial performance. The traditional tourism activities (accommodation, restaurants, cafes and travel agencies) have high potential for successful franchising in KSA. Due to the unpopularity of franchising in some activities, uncertainty appears in non-traditional tourism activities such as entertainment, resorts, training institutes, tourism guidance and tour organisers, and motorway services. The diffusion of international franchising, along with its potential impact on development, is conditional on the issuance of an independent franchise law and the lifting of some barriers related to administration, financial support and marketing in the tourism sector.

*Dedicated with love
To the memories of my precious father,
Mohammed Mater Alharbi
Who passed away at the beginning of my PhD journey
May God rest his soul in peace*

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List of Acronyms

KSA	The Kingdom of Saudi Arabia
UEA	United Arab Emirates
GCC	Gulf Cooperation Council
EFF	European Franchise Federation
IFA	International Franchise Association
BFA	British Franchise Association
SCTA	Saudi Commission for Tourism and Antiquities
IC	Intellectual Capital
HC	Human Capital
RC	Relational Capital
OC	Organizational Capital
MCI	Ministry of Commerce and Industry
CDSI	Central Department for Statistics and Information
WTO	World Trade Organization
SAGIA	Saudi Arabian General Investment Authority
SAMA	Saudi Arabian Monetary Agency
WEF	World Economic Forum
UNWTO	United Nations World Tourism Organisation
SMEs	Small and Medium Enterprises
SMTES	Small and Medium Tourism Enterprises
ICT	Information and Communications Technology
CRS	Computer Reservations System
GDS	Global Distribution System
ADR	Average Daily Rate
TTCI	Travel and Tourism Competitiveness Index

Glossary

Business Format Franchise: This type of franchise includes not only a product, service and trademark, but also the complete method to conduct the business itself, such as the marketing plan and operations manuals.

Franchise agreement: The legal, written contract between the franchisor and franchisee, which tells each party what each is supposed to do.

Franchisors: The person or company that grants the franchisee the right to do business under their trademark or tradename.

Franchisees: The person or company that gets the right from the franchisor to do business under the franchisor's trademark or tradename.

Trademark: The marks, brand name and logo that identify a franchisor, which are licensed to the franchisee

A Single unit franchise agreement: an agreement where the franchisor grants a franchisee the rights to open and operate one franchise unit.

A Multi-unit franchise agreement: an agreement where the franchisor grants a franchisee the rights to open and operate more than one unit.

An Area development franchise agreement: a franchisee has the right to open more than one unit during a specific time, within a specified area.

A Master franchise agreement: This gives the franchisee the right and obligation to open and operate a certain number of units in a defined area, though the Master franchisee has the right to sell franchises to other people within the territory, known as sub-franchisees.

Royalty fees: The regular payment made by the franchisee to the franchisor, usually based on a percentage of the franchisee's gross sales.

Pilgrimage (Hajj): It is the fifth pillar of Islam, to be performed once in one's lifetime, through a visit to the Holy Lands (Makkah) to perform Hajj during the period 8th to 12th (or in some cases 13th) of Dhual-Hijjah, the last month of the Islamic calendar.

Umrah: An Arabic word which means a visit to Holy land to perform religious rituals similar to Hajj, but it can be performed throughout the year.

Chapter 1: Introduction

1.1 Background of the research

In many parts of the world, “franchising has been adopted by national governments as one of the strategies for faster economic development and is considered a major tool for providing faster job creation, new skill sets, and new incomes in the small and medium-sized enterprise sector (SME), where micro enterprises are the prevailing entities” (Sanghavi, 1998:35). More economically developed countries, such as the United States (U.S.), Canada, Australia, Japan, and the United Kingdom (UK) have seen a significant increase in franchising, covering many types of business activities that either require white or blue collar work.

The United States remains the uncontested leader of the franchising industry, under more than 2200 brands (European Franchise Federation EFF, 2010), with approximately 770,368 franchises operating nationwide, generating more than \$839 billion in economic output, and contributing approximately \$493 billion (3.5%) in 2014 to gross domestic product (GDP) (International Franchise Association IFA, 2014). In the U.S., franchise employment has seen significant growth, to more than 8 million people (IFA, 2014) and it accounts for 10 percent of all new jobs over the past few years (IFA, 2013). Similarly, in European countries, the 4.6 percent of franchise shares in the SME sector contributed 10 percent to the total employment rate and counted over 10 thousand brands, with an average growth rate of brands 8.1 percent (EFF, 2011). This impact of franchising on employment rates also extends to other major world markets, such as those of Australia, South Korea, Turkey, China, India, and Brazil, in which the number of franchise brands ranges between 1,000 and 2,500. In most of these countries, domestic franchising constitutes the larger portion, rather than international franchising (EFF, 2011).

Accordingly, the scholarly research into franchising has been increasingly recognized in developed countries, with a wide range of academic research being conducted into various aspects of franchising, the goal being to promote a franchising environment. A recent systematic review performed

on over 125 empirical studies on franchising revealed that these studies were concentrated in only 17 countries, 67 percent of which were from North America and the UK, 17 percent belonging to the rest of Europe, and only seven of the studies being from Asia (Nijmeijer, Fabbricotti, & Huijsman, 2013). For this reason, Dant (2008) has called scholars to investigate franchise systems in other countries and suggested that research should be based on the local environment, since previous franchising research is largely based on a single country's experience: that of the U.S.

The popularity of franchising has been gained through its tremendous advantages for existing businesses (franchisors), new entrepreneurs (franchisees), and society. It is an effective growth strategy for existing businesses to expand through owned units when they have financial, human, and informational resources constraints (Dant and Kaufmann, 2003). Additionally, it can minimise the cost of monitoring by installing a motivated entrepreneur to look after the business more than a manager would do (Shane, 1996 a).

Franchising enables individuals to become self-employed, particularly those who lack business experience. For instance, 52 percent of individuals are engaged in businesses as independents because franchising created an opportunity for them that they may not otherwise have had (Hunt, 1972). Franchising eliminates the failure rate by providing a tested and proven model business to new entrepreneurs, with a full package of training, management assistance, recognition and image, brand advertising, and quality supervision (Knight, 1984; Knight, 1986; Peterson and Dant, 1990).

The significance of franchising as expansion strategy from the franchisors' perspective has been explained by many scholars, through traditional theories of franchising, including the agency and resources scarcity theory (Brickley, Dark, & Weisbach, 1991; Carney & Gedajlovic, 1991; Shane, 1996a; Combs & Ketchen, 1999). However, these are confined to how franchisors benefit from this system through franchisees' resources. The main limitation of these theories is that they do not explain the impact of franchising on the franchisees' business development. Some researchers

have addressed this limitation by investigating the factors that motivate potential or current franchisees to initiate a business through franchising, compared to being employed or self-employed for an independent business (Kaufmann, 1999; Williams, 1999; Guilloux et al., 2004; Bennett, Frazer, & Weaven, 2009). However, Combs, Ketchen, Shook & Short (2011) believe that a theoretical perspective is needed to explain who will be attracted to franchising and why. While the studies generally focused on the perceived values prior to joining a franchise, Watson and Stanworth (2006) argue that the perceived values after buying a franchise, which motivate current franchisees to remain within the franchise system, have received less attention in fewer research projects. The intention of current franchisees to remain within the franchise system indicates their satisfaction with the performance and the positive impact of franchising on business development (Morrison, 1997).

Another issue with previous franchising research is that it fails to consider SMEs as prospective franchisees. Many studies have considered the owners of independent SMEs as franchisors and potential franchisors, but hardly any of these studies have treated SMEs owners as potential franchisees (convertors), although exceptions do exist (Hoffman & Preble, 2003; Hodge, Oppewal, & Terawatanavong, 2013). For this reason, the motivations of potential convertor franchisees remains widely unexplored.

Although franchising currently covers more than 65 industries in the world, including (but not limited to) fast food, education, retail, health care, and tourism (Mendelsohn, 2004), the saturation and concentration of franchising in particular economic sectors compared with other sectors has not yet been explained. Critics have argued that most franchising research is derived from a single sector: fast food (Cox, 2002; Nijmeijer et al., 2013). In addition, the correlation between franchising advantages and certain economic sectors' development has not received attention by franchising scholars; they have likewise not taken into consideration the ability of franchising to eliminate barriers facing entrepreneurs in initiating new businesses in some sectors, nor its capacity for overcoming shortages in the operation and quality of services provided in some sectors.

All the aforementioned issues will be addressed within the context of the Kingdom of Saudi Arabia (KSA). The goal of this study is to explore the capability of international franchising for tourism industry development, in view of the status of tourism investment and franchising in KSA, and by understanding the attitudes and experiences of current franchisees and tourism business owners (as prospective franchisees) towards tourism franchising.

1.2 Franchising in the KSA

Over the last two decades, the subject of franchising in emerging markets has attracted the interest of many scholars, influencing them to conduct studies on developing countries, such as Mexico, the South American nations, the Asian market (Singapore, Malaysia, Hong Kong, Indonesia), and other areas, such as Kuwait, India, and South Africa (Welsh, Alon and Falbe , 2006).

However, less is known about franchising in the context of the Middle Eastern and North African (MENA) countries, and even less so in the Gulf Cooperation Council (GCC) countries, Bahrain, Kuwait, Oman, Qatar, the United Arab Emirates (UEA), and the KSA, which have practiced franchising for more than 35 years. This may be attributed to the small number of franchises in these countries compared to those of developed countries. Moreover, these countries are still importing international franchises, and the franchise as a strategy is still not popularly adopted by the majority of their domestic SMEs for their local or global expansion. For instance, the total number of domestic franchise in the entire MENA market is less than 850 brands (Middle East and North Africa Franchise Association, 2013), a nominal figure compared to 2,900 domestic franchise brands in the U.S. alone (EFF, 2010). This crucial issue has previously been marginalized within the field of franchising, concomitant with the scarcity of franchising research in the MENA.

The research conducted in the U.S. and other countries cannot be generalised and applied directly to MENA nations due to differences in social, economic, cultural, legal, and political aspects. Such distinctions should be

considered when investigating the franchise experiences of Arab countries, to develop theories that cope with these aspects of the Middle Eastern economic experience. Welsh et al. (2006) suggested that more empirical research needs to be conducted on all aspects of franchising in emerging markets, taking into account the role played by governments in organizing franchise environments in these markets. Therefore, this study responds to these concerns by investigating the understudied field of the franchising environment (specifically business format franchising) in the KSA, as a potential market for both international and domestic franchisors.

Saudi Arabia possesses 60 percent of all Gulf State franchises (Alnassar, 2010), yet the field of franchising research in the KSA is still widely unexplored. Few franchising elements have been examined in the Saudi market, such as franchise problems (Tuncalp, 1991), market entry (Abughazala, 2007), domestic franchising among SMEs (Sadi & Al-Fuzai, 2010; Sadi & Henderson, 2011), and customer perspectives (Sadi et al., 2011). Sadi, Al-Fuzai, and Tuncalp claim that there is a lack of statistical data on franchising in the KSA (1991 & 2010). In response to these claims, this study will provide the first comprehensive, up-to-date overview of franchises in the KSA, through an analysis of both primary and secondary data.

The franchising sector is expanding in the KSA, yet statistics show that franchise brands are still at a nominal figure of 420 brands (Ministry of Commerce and Industry MCI, 2013) when compared with the total number of establishments. According to the most recent available data, the total number of commercial registrations in the KSA was 854,679 (MCI, 2011), and SMEs account for the immense majority of them — more than 85 percent, to be precise (Central Department for Statistics and Information CDSI, 2010b). Although the average contribution of the non-oil sector was 54 percent during the last five years (CDSI, 2013), SMEs' contribution to gross domestic product (GDP) was still at a critical 22 percent (Ministry of Labour, 2012).

Thus, the government has implemented a number of strategies and reforms in order to enhance the contribution of SMEs to GDP and diversify economic activities to minimize the dependency on oil. It has also promoted exploration of sectors such as the energy industry, tourism, and information technology. Unfortunately, many SMEs have failed to continue, with high failure rates over the last decade. The accumulated number of commercial registrations (CRs) was 639,098 in 1999, raised to 675,425 in 2000 at a 5.7 percent rate of growth. The cancelled CRs for the same period are 170,033 and 182,464, respectively, representing 21 percent of the total number of registered businesses. This trend continues worsen; the cancelled CRs in 2014 were 30,630, rising to 60,950 CRs in 2015, showing an increase of 99 percent from one year to the next (MCI, 2015). Much of the failure is attributed to a lack of business experience, lack of required human skills, lack of training, lack of production and quality planning concepts, and lack of marketing specialists (Almobaireek, 2009).

The above challenges can be addressed through a proven business formula, that is to say, franchising. Franchising can create new opportunities and eliminate barriers during the initiation of new businesses for new entrepreneurs (Hunt, 1972). Franchised businesses are more likely to succeed than independent businesses. This is due to the involvement of the franchisor through training, ongoing advice and assistance, and the established trademark. Furthermore, evidence indicates that although franchisees typically possess less entrepreneurial skills than independent operators, franchisees employ more people and have higher sales on average than non-franchised entrepreneurs (Chinyoka, 2008).

Another challenge confronting the Saudi government is the escalating unemployment among young Saudi nationals, which has led the government to implement a policy of 'Saudization', which called for replacing expatriates with local workers. However, this policy has been heavily criticised for its limited vision, in treating the symptom (unemployment) instead of focusing on cause (employability), and it has failed to meet the concerns of employers and sectors' needs (Fakeeh, 2009), especially in terms of new recruits who are unready and unskilled, and the absence of qualified training institutes

(Sadi & Henderson, 2005b). Statistics show that 335 franchises with 1,125 outlets employed more than 130,000 employees in KSA in 2010 (Human Resource Development Fund, 2010). In contrast with most other countries, KSA franchise shares make up only 0.05 percent of total employment in the private sector. Therefore, promoting franchising has the potential to make a significant contribution to employment through creating new opportunities associated with training provided by international franchisors. For instance, McDonald's restaurants alone have created jobs for 1,000 Saudis (Aljazirah, 2012).

The vast majority of franchises in the KSA are international, while the domestic franchises only represent two percent of the total number of franchises (MCI, 2011). This gives an indication that domestic SMEs face difficulties and lack the capabilities that would enable them to be franchisors (Sadi and Henderson, 2011). Conversely, most international franchisors who expand overseas possess large firms with employees of great capabilities, managerial skills, experience, and history with franchising (Aydin and Kacker, 1990; Huszagh, Huszagh and McIntyre, 1992). This is evidenced by existing international franchises in the KSA, especially fast food giants such as McDonald's, Burger King, Pizza Hut, KFC, and Subway, among others. For this reason, this study will focus mainly on introducing international franchising concepts to local entrepreneurs (franchisees) who strive to initiate or develop their own business in tourism. Despite the growing popularity of international franchising in the KSA, previous research has not yet examined the advantages of international franchises received by local franchisees.

The current state of the franchise sector in the KSA can be summarised by three main characteristics: (1) the market remains dominated by a few large companies who run multiple franchises (2) with mostly foreign brands, and (3) is mostly limited to two sectors: food/coffee shops and clothes/accessories (80%) (MCI, 2013). Consequently, this study aims to understand the barriers that Saudi SMEs and start-up entrepreneurs face when striving to become franchisors or franchisees. It also investigates the reasons behind the lack of popularity for using franchising as a mode of expansion by successful SMEs,

to become larger local and international franchisors, and the concentration of franchising within certain sectors.

1.3 Tourism in the KSA

Tourism has long been one of the fastest growing industries worldwide, and is considered to be a crucial element in national economic prosperity. The tourism industry is the major source of income, employment, tax revenue, and foreign exchange earnings for many countries (Howells, 2000). Tourism can enrich the business sector through promoting industrial and agricultural production to meet the increasing demand of the tourist market, as well as stimulating other supplementary services, such as transportation, telecommunications, banking, and travel agencies (Dritsakis, 2004).

According to the World Tourism Organization UNWTO (2015), in 2014, receipts from international tourism industries worldwide reached \$1,245 billion, from the expenditure of 1,133 million international tourists. The receipts from international arrivals were mainly spending on accommodation, food and drink, entertainment, shopping, and other services. The U.S was ranked as the first in international tourism receipts with \$177 billion, followed by Spain, China and France. The Middle Eastern and African countries were the lowest in the receipts with \$49 and \$36 billion respectively. However, after three years of decline, Middle Eastern tourist destinations have seen more positive results, with a five percent increase in total international arrivals and with a six percent increase in receipts.

The recent growth of tourism in the Middle East is mainly driven by the KSA, which has topped other Middle Eastern countries by a 13 percent increase in the number of international arrivals (15,098 million) and has achieved the largest share of the market, with 30 percent of the total international arrivals among Middle Eastern countries (UNWTO, 2015). This is also supported by the consistent growth of Umrah and pilgrimage performers every year, now reaching nine million annually. This sector is positively contributing to the creation of jobs. According to the last report of Saudi Arabian Monetary Agency (SAMA) in 2015, there were 795,000 in 2014 compared to 751,000

jobs in 2013. However, only 27.1 percent of these jobs were occupied by Saudis.

Despite this leading growth of the KSA, a recent report of the Travel and Tourism Competitiveness Index (TTCI) in 2015 indicated that the UEA ranks first as the uncontested leader regionally, while KSA places 5th regionally and 64th out of all countries in the TTCI. However, the KSA placed 23rd out of all countries for its enabling business environment (World Economic Forum WEF, 2015). The recent statistical report of the World Travel and Tourism Council (2015) states that Saudi Arabian travel and tourism capital investment is estimated at \$24 billion for 2014, which constituted 13.6 percent of total investments. By 2025, this should rise to \$39 billion (12.7 percent of total investment). The report demonstrates that tourism in the KSA still makes only a nominal contribution to GDP, at 2.4 percent in 2014.

Alghamdi (2007) attributed the small contribution of tourism to GDP to the increasing desire for outbound tourism among Saudi tourists. A survey conducted by the Visa Global Travel Intentions Study 2015 reported that Saudi tourists are the world's biggest spenders overseas (Brown, 2015). According to the SCTA (2012,2014), the expenditure of Saudi tourists on international tourism has increased from SR. 15,960 billion in 2004 to SR 62,877 in 2012 to SR. 80 billion in 2014, while the expenditure of domestic tourism has increased more modestly from 36,320 billion in 2004 to 52,644 billion in 2012, then decreased to 44 billion in 2014. The main factors that motivate Saudis travelling abroad are for natural resources, study, relaxation and socializing, and sport. Bogari's study (2002) indicated that there is a positive push toward domestic tourism in the KSA. However, the high competition with neighbouring countries (e.g. UEA and Bahrain) has attracted domestic tourists. Thus, in the last five-year plans (2010-2014), the government pointed out that this challenge can be addressed through improving tourism services, archaeological sites, infrastructure, and providing investment incentives to help diversify services, reduce costs of services, and raising their quality (Ministry of Economy and Planning, 2010).

If the tourism sector has failed to meet the minimum needs of domestic tourists, this problem will be exacerbated once the tourism sector becomes open for international tourists (for non-religious purposes). Previous studies have indicated that tourism in KSA suffers from many problems, including the fact that the majority of tourism services in the KSA face neglect, with the exception of hotels, restaurants, and travel agencies (Alghamdi, 2007). The absence of attractions, lack of tourist orientation, neglect of investment in tourism enterprises (Altayyar, 2001), deficiencies in the quality of tourist services, tourist dissatisfaction (Sadi and Henderson, 2005a; Albishry, 2007), the lack of educational programs and specialized training in the tourism industry, and weaknesses in human resources are all contributing factors (Alshammari, 2010).

1.4 Aim and objectives

The Saudi government has faced the challenge of diversifying the resources of national income rather than only depending on one major exhaustible resource, oil. Thus, government policy is to induce the private sector to contribute to the national income through the creation of a suitable economic environment, and by offering financial resources to fund promising opportunities. The challenge becomes more complex with the barriers that SMEs face, as do new entrepreneurs who lack business experience and essential skills. These force some of firms to quit from the market or to hesitate before engaging in a business.

Tourism is one of the sectors that can significantly contribute to national economic prosperity. Tourism in KSA had largely relied on one form of tourism that is religious tourism, until the inception of (SCTA) in 2000. Since then, SCTA strategy has promoted domestic tourism through developing the infrastructure, as well as improving services to prompt entrepreneurs to invest in different tourism activities. In the near future, tourism in the KSA will not be limited to domestic and religious tourism, but will expand further to different types of inbound tourists. Yet, the beginnings of the tourism industry in the KSA makes it challenging to meet the current needs of domestic tourists, and it has yet to attract many international tourists.

In confronting these issues, there is a necessity to learn from other countries that have prior and intensive experience in tourism. One effective way to transfer know-how of the tourism industry is to import international franchising. Franchise models will be a suitable solution, because they provide entrepreneurs with practical knowledge and training in conducting business successfully, along with the organizational culture of successful brands. Furthermore, it gives confidence to specialized funding institutions, as well as the commercial banks, to finance a tested business, which minimizes the risk of failure. Alon (2004) illustrates the impact of franchising on developing SMEs, stimulating local entrepreneurship, increasing productivity, and creating jobs by showing some positive indicators of franchising in developing countries. Pender (2000) provides evidence that tourism franchising does not differ from franchising in other economic sectors, since the definition of franchising and its operation can be applied equally to both the tourism industry and other economic sectors.

Therefore, the aim of this study is to examine the potential impact of international franchising on developing tourism investment in KSA. In order to accomplish this aim, four linked objectives are explored (Figure 1.1). The first and second objectives are to explore and understand the franchising and tourism fields in KSA, before linking them. The first objective is to explore the factors that affect the diffusion of franchising as a model for expansion and investment in KSA, thus the barriers (RQ1, Figure 1.1) that face entrepreneurs when they strive to become franchisees and franchisors will be examined. Also the drivers (RQ2, Figure 1.1) that promote franchising in KSA will be explored. The characteristics of franchises, along with their owner/managers in KSA, will be investigated (RQ3, Figure 1.1).

The second objective is to explore the current situation of tourism investment in KSA. This focuses on barriers (RQ4, Figure 1.1), drivers (RQ5, Figure 1.1) government strategy (RQ6, Figure 1.1) and the characteristics of current tourism businesses, along with their owner/managers (RQ7, Figure 1.1).

The third objective is to link international franchising benefits with tourism investment development, through exploring the potential for franchising in

developing tourism businesses, by studying the opinions of concerned groups in these two fields. Franchise groups can see the potential opportunities in tourism franchising through their current experience and practices in franchising in KSA, whereas the tourism group can see the potential opportunities through the current practices and needs of the tourism industry. These potentialities are assessed in terms of whether international franchising can add value to business in general, and tourism business in particular (RQ8, Figure 1.1), the types of tourism business that can be franchised (RQ9, Figure 1.1), and whether international franchising in tourism can be applied through conversion and start-ups (RQ10, Figure 1.1).

The fourth objective emerges from the findings (RQ10, Figure 1.1) of the third objective. A practical relationship between the benefits of international franchising and the development of businesses particularly in tourism will be examined through four local businesses that converted into franchisees, mostly in tourism. This examination will be accomplished by tracing the converted businesses through four stages: the experience of the business in the pre-conversion stage (RQ11, Figure 1.1), the decision making stage (RQ12, Figure 1.1), the implementation of the conversion (RQ13, Figure 1.1) and the experience of the business after conversion (RQ14, Figure 1.1).

Figure 1.1: Aim, objectives and research questions of the study

The aim: To examine the potential impact of international franchising in promoting and developing tourism business in KSA			
Objective 1: To understand the barriers that Saudi SMEs and start-ups face when striving to become franchisors or franchisees	Objective 2: To investigate the factors that Saudi SMEs and entrepreneurs face when striving to grow or as start up tourism businesses	Objective 3: To assess whether international franchising is capable of promoting and developing tourism businesses in KSA.	Objective 4: To examine the impact of international franchising on developing local business recently converted to franchising as franchisees
Research questions	Research questions	Research questions	Research questions
<p>Q1) What factors restrict investment through franchising?</p> <p>Q2) What factors promote the diffusion of franchising in KSA?</p> <p>Q3) What are the characteristics of franchise businesses/ owners/managers?</p>	<p>Q4) What factors restrict tourism investment?</p> <p>Q5) What factors contribute to the efficiency of the establishments' performance in the tourism sector?</p> <p>Q6) What are the governmental strategies for promoting investment in the tourism industry?</p> <p>Q7) What are the characteristics of tourism business/owners/managers?</p>	<p>Q8) To what extent can international franchising add values to the business in general and tourism business in particular?</p> <p>Q9) To what extent does the international franchise have the opportunity to succeed in developing different types of tourism activities?</p> <p>Q10) To what extent can international franchising in tourism be applied through conversion franchising and start-ups?</p>	<p>Q11) What was the pre-conversion experience of tourism businesses/non tourism businesses that have already been converted into franchisees?</p> <p>Q12) Why do independent businesses decide to become franchisees (decision-making)?</p> <p>Q13) How do independent businesses convert into franchisees (from searching process to conversion process)?</p> <p>Q14) What has been the after-conversion experience of tourism businesses/non tourism businesses that have already converted into franchisees?</p>

Source :Author

1.5 The structure of the thesis

This thesis is organised as follows:

- Chapter 1 presents the rationale for the aim and objectives of the research. It concentrates on statement of the problem, the significance of the study and the structure of the thesis.
- Chapter 2 presents a review of the literature on the theoretical concepts of franchising, including the historical development of the franchise concept along with its types, and defines the type of franchise that will be used in this study, which is the “franchise business format” and its components. There is also, a review of the rationale of franchising from both franchisor and franchisee perspectives. The review of potential of franchising in a specific industry is addressed.
- Chapter 3 presents a background of the KSA context, in terms of franchising and tourism. It starts with an overview of the evolution of franchising in KSA and analysing KSA as a target market for international franchisors – demographically, economically, culturally and legally .This chapter also presents an overview of tourism in KSA along with its economic indicators .Previous studies in KSA are addressed, into both franchising and tourism.
- Chapter 4 describes the research design and methodology. The philosophical assumptions of the research are presented and the use of the mixed method approach is explained. This is followed by a discussion of the implementation of three sequential phases (interviews, surveys and case studies) in terms of sampling, data collection, design and procedure, data analysis, and the validity and reliability considerations of the data collection.

- Chapter 5 presents quantitative analysis and results related to the barriers and drivers that influence the diffusion of franchising in KSA, along with the characteristics of franchises in KSA and the franchise community.
- Chapter 6 presents quantitative and qualitative results related to the barriers and drivers of tourism investment, along with the characteristics of tourism business in KSA and the tourism community.
- Chapter 7 presents the quantitative results of common questions shared by both communities (tourism and franchising) regarding the perceived values of franchising and particularly franchising in tourism.
- Chapter 8 presents the qualitative results from case studies of four local business that converted to franchisees, mostly in tourism.
- Chapter 9 presents a model that has been structured by assembling and linking the results presented in chapters 5–8, which illustrates the potential impact of international franchising in developing the tourism sector in KSA.
- Chapter 10 is based on the findings of the study. The theoretical and methodological implications are presented. In addition, implications and recommendations are addressed, for policy makers in government and the private sector, as well as international franchisors who aim to expand their business in the tourism sector in KSA.

Chapter 2: Literature Review: franchise concepts and theoretical perspective

2.1 Introduction

This chapter aims to provide an overview of theoretical perspectives of franchising's advantages and its related aspects, based on prominent franchising literature. It moves from the board conception of franchising to specific issues that this research is concerned with from the franchisees' perspective, and the suitability of franchising in specific sectors. Section 2.2 provides a brief introduction of the evolution of franchising. In order to determine the type of franchising (business format franchise) which is utilized in this study, Section 2.3 begins with a general definition of franchising, along with identifying two main types of franchising; it later shows how the two are distinguishable from each other and how they differ from other types of transaction methods. This section also provides an in-depth explanation of the fundamental components that should be included in every business format franchise.

Section 2.4 reviews the justification for franchising from the franchisor's perspective through an explanation of two key theories; scarcity of resources and agency. As this research focuses on importing international experience to the KSA through franchising, this section also highlights the international franchisor's perspective along with the characteristics of international firms that franchise overseas.

Since the core of this study is focused on the franchisees' perspectives – those who use franchising as a vehicle for entering business ownership – section 2.5 critically examines the previous research that has explored franchisees' motivations to join franchising. The critique highlights a variety of aspects, such as their theoretical framework, the characteristics of franchisees, samples, sectors, and country of research. As this research examines the occurrence of franchising in a specific sector (namely tourism), section 2.6 identifies the major factors that qualify a business to be franchisable and section 2.7 discusses the prospective international franchises in tourism industry. As this study focuses

primarily on the franchisees perspective, section 2.8 will discuss the main disadvantages of franchising for franchisees.

2.2 Franchise history

The root of the word “franchise” is Anglo-French, meaning “freedom” and “liberty”. Broadly, “franchise” as a technical term is a license between two businesses which grants another business (franchisee) a right to market a product or service utilizing the trademark or system of another tested business (franchisor) (Quarterman, 2011). It is believed that the idea of franchise was first recognised back in the Middle Ages, when it was a privilege utilized and granted by a sovereign power, such as the Catholic Church, the king, or the government, in order to execute activities such as collecting taxes, building roads, holding fairs, and organizing markets, in exchange for receiving a percentage of the revenue (Blair and Lafontaine, 2005; Olotu and Awoseila, 2011).

In the business world, franchising as a technique was not a creative invention; rather, it originates from solutions proposed by businessmen to overcome problems their business operations faced (Mendelsohn, 2004). The initiation of the franchising concept is attributed to American businessman Isaac Singer, when the Singer Sewing Machine Company built a dealer network. Isaac Singer planned to distribute his machines widely outside his geographical area, but was confronted with two problems: insufficient finances to enlarge the manufacturing in response to the demand and the need for instructing interested customers in how to use the machines. Consequently, Singer began charging license fees to entrepreneurs who wanted the right to sell his machines within an exclusive geographical area. The license fees were invested to increase manufacturing and, in the meantime, the licensees were responsible for training customers to use the machines properly, which increased the opportunities to market the machines widely (Grünhagen and Mittelstaedt, 2001; Tassiopoulos, 2011).

From the 1890s to the 1930s, automobile manufacturers, soft drinks companies, and the oil industry started using the franchising of trademarked names as an essential method of distribution and manufacturing (the first generation of franchising). Then, in the late 1940s, the evolution of franchising began at the end of World War II, when many US veterans returned home, willing to create their own businesses. In the 1950s, the concept of franchising was developed to not only include the licensing of the trademarked name, but also to extend the entire business concept, including marketing strategy, operating manuals, standards, quality control, and continuing support. This introduced the second generation and modern concept of franchising, “Business Format Franchising,” which birthed major fast-food chains such as McDonald’s, Burger King, and Dunkin Donuts. By the 1960s, these and other American chains started to venture into worldwide markets (Grünhagen and Mittelstaedt, 2001; Tassiopoulos, 2011).

2.3 Franchise definition

Franchise has had a wide range of definitions since its birth, which has resulted in confusion (Taylor, 2000). However, this confusion has diminished and been replaced by the differentiation of the many manifestations of franchising, such as business format and product trademark franchising (Stanworth and Curran, 1999). Many works on the topic have emphasized the importance of clarifying the definition of franchising; hence, the goal of this section is not to argue about the variety of definitions that came about during the past decades, but to provide a consistent and clear terminology of the type of franchising being used in this study, along with its related aspects.

2.3.1 Franchise system types

Two main types of franchising should be explained before providing a definition: trade name and business format franchise. A trade name franchise is defined as an “alliance in which the franchisee distributes the franchisor’s product under the franchisor’s trademark” (Hoffman and Preble, 1991. p.76). The franchisor is the principal manufacturer seeking for someone to be his regional producer,

seller, and distributor. This type of franchise is popular between manufacturers and wholesalers, as seen in the soft drink industry, where beverage companies (e.g. Coca Cola, Pepsi) sell the supplies (i.e. syrups, dispensers) to bottlers (franchisees) who are granted rights to produce, bottle, and distribute the soft drinks (Mendelsohn, 2004). Trademarks, logos, and national advertising campaigns with limited support are provided by the franchisors (Tassiopoulos, 2011). Sometimes, trade name the franchisor does not request ongoing fees.

This type of franchising often overlaps with other similar methods, such as agencies and distribution, but they do have differences. Agencies govern the relationship between foreign traders (principals) and agents in which principals have representatives (agents) working to sell the principal's products on a commission basis. Agents represent the foreign companies in local markets by selling the products and providing after-sales service. This means that the agent is not a seller or a buyer of the principal's products, but acts on behalf of his principal's company (Mendelsohn, 2004). Unlike the agent, the distributor is an independent business that owns and finances the wholesale operation under his own name. The distributors buy the products from the principal from their accounts and are responsible for whether or not the products will be resold at adequate profit. In addition, they have distribution agreements from various conflicting or competing lines (Mendelsohn, 2004). This form has created a misconception about whether the franchise format and agencies are treated the same, in the terms and conditions included in the agreement that governs the relationships between franchisees and franchisors. This confusion is particularly relevant to the context of this study, KAS, and will be discussed later in Chapter 3.

The second type of franchising is "business format franchise," which is the main topic of this study. It is primarily based on ongoing relationships between franchisees and franchisors in which franchisees not only produce and sell the franchisors' products and services, but do so through copying a unique retail position, replicating its precise formats in manifesting, layout, design, operating,

marketing, etc. (Kaufmann and Eroglu ,1999). Along these lines, franchisees are fundamentally buying the franchisors' expertise and methods to run the business. Business format franchising is popularly used in restaurants, cafes, hotels, real estates, flight centres, etc.

Before defining the format franchise and its related components, there is a need to clarify the difference between a business format franchise and other similar forms of transaction using practical knowledge and skill – this is called licensing. This type emerges from exploitation of a patent or trademark that grants rights to licensees to manufacture a product or piece of equipment against the payment of ongoing fees. The licensee operates the business according to their methods, under their name, and they do not act on behalf of the principal, who authorizes the license. The main difference between franchising and licensing is that the latter is not obligated to adopt the format imposed by the other (Mendelsohn, 2004).

In a comparison between trademark franchising and business format franchising, there is a similarity between these two, in so far as the franchisees, in both cases, produce and sell the franchisors' good and services. Both are legally independent, but economically dependent to varying degrees on an integrated business system of franchisors. The trade name franchisor enjoys comparatively less power (Litz and Stewart, 1998) and the governance structure is more flexible. This will be reflected in the contractual relationship between franchisees and franchisors. Through trademark franchising, the franchisor leases the trade name to the franchisee with a few conditions, while in business format franchising, franchisors are obligated to provide the “complete business package,” with more extensive support. This includes the franchisor's designs, quality accounting systems, operating procedures, advertising, and training, against fees paid by franchisees (initial and ongoing). Thus, the franchisee in format franchising normally must stick to strict format guidelines (Minkler, 1992).

Despite franchise being a frequently used term, to date, there has been no consensus on a uniform definition. One of the definitions that is broadly agreed upon and covers most modern aspects of franchising in both product trademark and format franchising is Stanworth and Curran (1999: 326):

A business form essentially consisting of an organization (the franchisor) with a market-tested business package centered on a product or service, entering into a continuing contractual relationship with franchisees, typically self-financed and independently owner-managed small firms, operating under the franchisor's trade name to produce and/or market goods or services according to a format specified by the franchisor.

As franchise has evolved over time, the same authors Stanworth and Curran (1999) later raised arguments pertaining to some points that should be considered in this definition. Firstly, franchisees do not always self-finance, and are usually bolstered by loans from banks or different sources, including franchisors. Secondly, multi-unit franchises are not generally owned by small firms (franchisees), as some franchisees may be bigger than their franchisors, measured by value of corporate assets. However, in most franchises, small-scale ownership still dominates. Thirdly, in spite of the fact that the relationship is characterized as a continuous one, the actual period covered in this relationship is determined in the contract. Usually, a franchise contract lasts about 10 years and is subject to renewal.

2.3.2 Business format franchising

In his introduction to format franchise, Mendelsohn (2004, p.5) provides a comprehensive explanation of format franchising as:

The business format franchise is the grant of a licence by one person (the franchisor) to another (the franchisee) which permits (and usually requires) the franchisee to carry on business (having made an investment in its establishment) under the trade mark /trade name (the brand) of the franchisor and in doing so to make use of an entire package (Know-how) comprising all elements necessary to establish a person previously inexperienced and untrained in the conduct of a business developed by the franchisor under the brand and after training to run it on a predetermined basis with continuing assistance from its franchisor , for all of which the franchisee pays fees to the franchisor.

Although this explanation covers core elements of format franchising, there is an issue that should be considered here, which is that prospective franchisees are not always novice start-ups who are previously inexperienced or untrained. For example, some of franchisees have either previously been self-employed or currently run an independent business. The latter are more likely to convert their existing business into franchising along the same operational lines as franchisees. The latter is called “conversion franchising.” In fact, Hoffman and Preble (1991) classified conversion as a third category of franchising (beside trademark and format franchise). Their classification may be due to their perception of the differences in intensity of focal links between franchisees and their franchisors, as they assumed the relationship in conversion franchises to be more loosely defined in terms of the streams of royalties, information, and administrative procedures (Hoffman and Preble, 1991). Nevertheless, practically, conversion provides the same advantages as traditional franchising. Thus, conversion can be operated under both trade name franchising (Litz and Stewart, 1998) and business format franchise (Hoffman and Preble, 2003).

Hoffman and Preble (2003, p.188) provided a definition of franchise conversion: “Conversion franchising occurs when a franchisor adds new franchisees to the system by recruiting independent business, chains, and/or franchisees from other franchise systems.” Although this definition classified the types of convertors, it does not specify the characteristics of these convertors, or whether they should be from the exact operational line, providing the same products or services, or whether they are just existing businesses which possess real estate and financial capability.

To sum up the definition of format franchising and to delve into further discussion of format franchise, Grant (1985.p4), cited in Quinn and Doherty’s study (2000), provided a definition that summarizes the main components of a format franchise as:

*the granting of a license for a predetermined **financial return** by a franchising company (franchisor) to its franchisees. The grant entitles them to make use of a **complete business package**, including training, support and the corporate name, which include all branding and logos. Through this enabling the franchisees to operate their own businesses to the **same standards** and format as the other outlets in the franchise chain.*

The next section will discuss the three elements of financial return, business package, and standardisation.

2.3.2.1 Financial return

In exchange for using the franchise's system, franchisees are involved in two main forms of payment to franchisors: (1) an up-front fee called the initial fee, and (2) ongoing fees called royalty fees. Initial fees are paid once during the franchise agreement before starting up a franchise, while ongoing fees are regular payments based on a percentage of the franchisee's gross sales and revenues. Franchisors in a Vázquez (2005) study justified the upfront fees by saying they were to recover their costs in preopening services, whereas the ongoing fees are to cover the costs of continuous services provided during the contract period.

Initial franchise fees are associated with the provision of services before opening a franchise, which is called the "turnkey operation". These include training, stocks, equipment, and operations manuals. Initial fees are influenced by the strength of the brand name and profit potential. Another important factor that should be considered is the investment size. A new franchise outlet is found to be one-half of the total franchisor-specific investment (Shane, 1996a).

According to a NatWest/BFA Survey conducted in 2011, the average of total investments of new franchises, including initial fees and sources of finance is £81,900 at the initiation of the franchise. The authors of the survey pointed out that the initial fees charged by the franchisor represent only just over half of the total sum required to set up a business.

Generally speaking, there is no fixed formula or calculation for justifying these fees, as they vary considerably due to several factors. For example, Vázquez

(2005) found that the initial fees requested by franchisors account for 68 percent of the total, to recoup franchisor costs in a turnkey operation. Moreover, these initial fees, along with the provided services, positively correlate to the type of franchise. For example, in editions of the annual survey of Natwest/BFA (2011, 2013), the findings indicated that franchises in hotels and restaurants received more elements of a turnkey operation, which contributes to the spike in their initial fees, leading to higher start-up costs when compared to other types of franchises (e.g. personal services).

Ongoing fees are fees paid on a regular basis. Usually they are annual, as stated in the agreement. The most common method excludes those fees from the proportion of gross revenue. Fees mostly cover management services, IT support, and advertising. Seventy-one percent of ongoing fees are accounted for by management services and the average ongoing fees spent on sales was 11 percent (NatWest/BFA, 2011).

Despite the fact that each form of payment (initial and ongoing fees) has its own function to recoup certain costs provided by franchisors, some studies found a positive relationship between these two forms (Baucus et al., 1993; Kaufmann and Dant, 2002). In addition, there are some external factors that affect the franchisors' structure of pricing for both initial and ongoing fees. According to scarcity of resources theory (discussed in section 2.4.1), Mendelsohn (2004) highlights that in the early life cycle of a franchisor system, the fees paid by franchisees are the major source of franchisors' revenues and for establishing and developing a network for new franchisees. This may result in charging higher fees. For example, Sen (1993) found that new franchisors imposed higher initial fees than more experienced ones because of severe capital constraints that franchisors face. Another reason may be attributed to their lack of experience in estimating reasonable fees. In contrast, Mathewson and Winter (1985) pointed out new franchisors are more likely to charge lower initial fees and lower royalties because of their less well-known brand.

2.3.2.2 Business package and franchise format components

After signing the franchise agreement, a confidential package comprising of a set of manuals will be provided by franchisors to their franchisees. These manuals may vary according to type of business, but it must contain comprehensive guidelines on operating a franchise as specified by the franchisor. The vast majority of empirical studies have referred to the "franchise package" as a broad phrase, mostly focusing on training (e.g. Justis and Chan, 1991; Vikhanski and Puffer, 1993; Eaglen, Lashley and Thomas, 2000; Choo and Bowley, 2007), which is only one of the package's components. However, there is no doubt that training combines the major aspects that are included in the manuals and has a significant impact on the performance of employees and the success of the franchise.

One of the rare books that provides comprehensive details about franchise packages to operate franchising is "Restaurant Franchising: Concepts, Regulations, and Practices" by Mahmood Khan (2015). Although this book focuses on restaurants, the mentioned manuals could be applicable in various sectors. These manuals consist of operation, training, marketing, advertising, and quality control guidelines.

An operational manual is the sole property of the franchisor and is confidential. It details how to operate a franchise business and how to accurately represent the franchise. It is the manual that franchisees should consult when they have any questions or confusion. The operational manual supplies information about the function of each department, running the business proficiently, and teaching the required skills and techniques. For example, the operational manual for restaurants generally explains the menu, equipment use, food purchases, sanitation, food preparation, and more in full detail.

Training manual: This typically covers three forms of training. Firstly, "hands on training" that is designed to provide efficient practices for day-to-day operation. Secondly, there is "formal training" that is a more comprehensive programme imposed by the majority of franchisors (compulsory), which is

conducted face-to-face at appropriate sites and facilities. For example, McDonald's University has well-equipped training facilities to train franchisees and their employees, while other smaller franchisors use their regional office or local colleges to provide training and related course work. Thirdly, there is "ongoing training," which is provided after franchisees have started their business and works on a continual basis to make sure that franchisees are operating the business according to franchisors' standards and updating them with recent developments.

Marketing manual: This contains the marketing philosophy of the franchisors and describes the procedures for marketing products and services such as pricing policy, targeting customer niches, providing customers with essential details about the products and services, image building, and new product development.

Advertising manual: This booklet provides full descriptions of advertising, promotions, signage, public relationship, promotional material, and media methods.

Quality control manual: This contains guidelines for quality control measures that are consequent with the mother franchise, such as maintaining standards, technical control, maintenance recourses, evaluation procedures, and forms that are used by staff to inspect the quality of provided services.

Franchise format components: The aforementioned manuals mirror the tangible resources that can be provided by franchisors. Kaufmann and Eroglu (1999) provide a specified model of the basic components and characteristics of business format franchising, mainly how franchisees can contribute in delivering the intangible values and uniformity of the franchise system. The business format is comprised of four principle components: product/service deliverables benefit communicators, system identifiers, and format facilitators.

Product/service deliverables are components that determine the distinctive competitive niche of the franchise format. They are a collection of unique practices and values that mirror the business concept. For example, quality of

products and services, a unique menu, quick customer service, all reap features from the aforementioned business format.

Benefit communicators guarantee the benefits received by customers. Those allude to the elements which relay the meaning of intangible benefits into tangible benefits. For example, protection of products, prestige, and cleanliness are all intangible, but can be communicated tangibly with plastic wrapping around a glass in a hotel room, a mint on a pillow, and clean uniforms respectively. However, benefit communicators are difficult for customers to observe or measure on matters such as quality, durability, and professionalism.

System identifiers are a collection of visual and auditory elements that connect a particular outlet with a system or chain. Those include trademark, logo, colour schemes, architectural features, characters, uniforms, and more.

Format facilitators are the policies, procedures, management, and operational infrastructure of the whole franchise system. Format facilitators cover store-level elements such as specification of equipment, layout, and design, as well as system-level elements like financial reporting requirements, royalty payment procedures, and data collection.

These four distinct components should be a part of every franchise system. Kaufmann and Eroglu (1999) pointed out that each element plays a distinct role and some hold a higher value than others. Accordingly, these elements are divided into two types: core and peripheral elements. The standardisation of core elements must be applied over all franchisees without exemptions since they are imperative for the system's survival. Conversely, peripheral elements force the franchisor to adjust the benefits of standardisation against the benefits of adaptation to the peculiarity of local demand. Sometimes, one element can be viewed as core for one format and peripheral for another.

2.3.2.3 Standardisation

The format franchise is described as a cloning business because of its image consistency in different countries, by which provided products and services,

along with their quality, are similar to other chains worldwide. For example, the expected quality of products and services in a McDonald's, Subway, or Holiday Inn in the US are equal to those in KSA or Europe. Therefore, the function of the franchise package provided by franchisors is to apply this standardisation and uniformity of their brand within the franchisee's outlet, which is the keystone of format franchise.

Kaufmann and Eroglu (1999) identified the main benefit of standardisation, which is saving cost through achieving economic efficiency in purchasing, marketing, and research development. For example, franchisees enjoy a huge discount from the suppliers who sell the products to multiple outlets of the chain that, in return, achieve a competitive advantage through providing customers products and/or services at low prices compared to non-franchised outlets. Furthermore, sharing the same message as a well-known brand is an efficient method of advertising. In addition, standardisation is essential for reducing monitoring cost through its ability to quantify subjective properties such as quality via an objective property that can be measured for quality control (i.e. the amount of cheese used to make a pizza, or how many minutes until you can serve it to a customer).

2.4 Franchising from franchisor perspective

There is no doubt that some firms prefer expansion domestically and globally through their own resources with full ownership. However, there are some circumstances that push firms to search for other means to expand which can meet their short and long term endeavours. These choices are embodied in different organizational forms; the most popular methods used by small and large firms are the centralized form through owned units and the decentralized form through franchised units. If firms are interested in expanding to international markets, the same entry modes are considered with additional joint ventures.

Each method has strengths and weaknesses. The choice depends on the firm's goals, resources, age, size, growth rate, and geographical distance. Owned

units and franchise outlets are not distinguishable from the customers' perspective, offering the same business identity and operating under the same trademark through which the entire business format incorporates domestic services and product. Thus, in order to maintain the trademark values, both forms ought to preserve uniformity and system-wide adaptability crosswise over units (Bradach, 1997).

There are various explanations for why firms prefer to franchise instead of having owned units. Shane (1996b:218) summarizes this under "entrepreneurial capacity problem" which were identified and grouped in relation to key two theories: resource scarcity and agency cost. The former is concerned with resource constraints to firm growth (Oxenfeldt and Kelly, 1968-1969; Ozanne and Hunt, 1971; Caves and Murphy, 1976), whereas the latter is concerned with issues of incentives and monitoring cost (Rubin, 1978).

2.4.1 Resource scarcity theory

Resource scarcity theory was initially developed by Oxenfeldt and Kelly (1969) who suggested that firms choose to franchise when they lack three capitals (financial capital, human capital, and local market knowledge). Selling equity or selling franchises are the two reasonable alternatives for securing external resources when firms aim for growth; selling equity is often not a reasonable option because firms are rarely able to provide collateral to be qualified at the level of the requested loans. Also, selling equity only secures access to financial capital, whereas franchising allows access to three capitals (Dant and Kaufmann, 2003).

In terms of financial capital constraints, the scarcity of resources is more associated with the life cycle of firms in which young and small firms face difficulties in raising capital from their own operations (e.g. cash flow) or credit markets (offering stocks, bank loans) in order to expand rapidly (Oxenfeldt and Kelly, 1969; Caves and Murphy, 1976). For example, Silvester et al. (1997) found that early franchise systems were not able to attract banking funds. Therefore, those who were unable to attract bank finance frequently utilized

franchisees as sources of finance and human capital. The contention that by confronting a capital limitation, the franchisor is capable of raising capital (embodied in initial fees and ongoing royalties paid by franchisees) at a lower expense than different circumstances would permit. Nevertheless, Lafontaine (1992) illustrated that financial constraint is not always a push factor towards franchising, perhaps due to the fact that franchisors can achieve the same through a rapid growth strategy.

Even for those with sufficient capital, rapid expansion necessitates human resources (Hunt, 1973). The difficulty in finding a suitable manager with managerial experience, skill, and motivation to operate the outlets is also a resource constraint. Previous research links the franchisee's attributes with entrepreneurial human capital. For example, Kaufmann and Dant (1999) provided evidence of how the definition of entrepreneurship with regards to personal traits, process, and activities perspectives is applicable not only to franchisors, but also to franchisees. The advantage of human capital embodied in franchisees is also related to the agency theory, which will be discussed later.

The importance of human capital embodied in franchisees not only incorporates experience and skill, but also their rich knowledge of domestic market conditions (Dant and Kaufmann, 2003; Watson et al., 2005). Minkler (1992) emphasised that explanations for rational franchising must emphasize the significance of the role of franchisees in possessing great knowledge about local markets in which they can hunt out more affordable inputs and business strategies to share with franchisors. This includes making important decisions on matters such as pricing, wages, location, labour, suppliers, and clients' needs (which is hard for international franchisors to orchestrate) (Michael, 1996). The empirical results illustrate that the franchisees' local market know-how has an influence on the increase in percentage of franchises compared to company-owned units (Windsperger, 2004). The flow of knowledge (explicit and tacit) in

franchise systems is not always from franchisors to franchisees - it also flows from franchisees to their franchisors. For instance, Lindblom and Tikkanen (2010) illustrated that the vast majority of information held by franchisees is tacit and informal; therefore, franchisors must concentrate on gaining tacit knowledge and transforming it into explicit knowledge to benefit the whole franchise system. It would appear that local knowledge held by franchisees is a great motivator for those franchisors who have a willingness to expand overseas. However, this type of capital will not be appreciated by domestic franchisors.

Resource scarcity theorists argue that the attractiveness of franchises over units of ownership appears in the early life cycle of firms; however, once the firms mature and limitations on resources decrease, ownership redirection occurs. Increases in size, age, and growth rate are positively related to unit ownership and negatively associated with franchising (Combs and Castrogiovanni, 1994; Bradach, 1995). Franchising appears to be the preference in small units, whereas franchisors keep bigger outlets for themselves (Caves and Murphy, 1976). By way of illustration, profitable operated units with larger sales by franchisees encourage franchisors to regain control from the franchised outlets (Oxenfeldt and Kelly, 1969; Lashley and Thomas, 2000) and re-own these units (Thomson, 1992; Windsperger and Dant, 2006).

Another reason that pushes franchisors towards re-owning franchise units is that with accumulated local knowledge over time, franchisors can become more confident and familiar with the local markets, stimulating them toward unit ownership by substituting franchisees with suppliers (Oxenfeldt and Kelly, 1969).

For these reasons, a large and growing body of literature has investigated ownership redirection in franchising (Dant, Kaufmann, and Paswan, 1992; Dant, Paswan, and Stanworth, 1996; Dant, Paswan and Kaufman, 1997). Recently, Baker, and Dant (2008) reviewed 40 years of research that focused on ownership redirection in franchising. They demonstrated that none of the

theoretical frameworks really cover pure ownership units or pure franchised units.

In the same context, critics have offered some reasons why resource scarcity theory ought not to be considered a good clarification for the choice to franchise over company-owned units (Combs and Ketchen, 2003). Firstly, the early life cycle connected to capital scarcity theory is not always applicable; for instance, Alon (2001) found that the proportion of franchising is positively correlated to the size of firms. In addition, there are several large chains who are capable of expanding through their own resources, yet still prefer expansion through franchising over owned units. In terms of financial capital, franchisors were found to be a prime source of financial assistance for potential franchisees (Hunt, 1973).

Secondly, many academics have contended that franchisees are costly rather than efficient capital, since their risks are concentrated on a limited number of outlets, which creates an expectation that franchisees will request more return for their capital (Rubin 1978). This, in comparison with more effective methods of acquisition, funds from passive investors (e.g. stakeholders). These can invest in a whole chain, diversifying risk among the investors, or can create a portfolio of shares and sell to their managers rather than to franchisees (Rubin, 1978). Thus, direct ownership would be more likely to decrease the level of risk inherent in a given activity, resulting in reduced the capital scarcity (Lashley and Thomas, 2000). However, Michael (1996) claims that if a portfolio is created, this removes most of the human capital and incentives of franchisees, since residual claims induce their efforts, exposing them to a business risk. This leads to the second theory: agency cost that provides an alternative rationality to the perceived weaknesses of the capital scarcity theory, as will be discussed next.

2.4.2 Agency theory

An agency relationship occurs in which one party (the principal) delegates authority to a second (the agent) (Eisenhardt, 1989). Agency theory is generally

concerned with two issues that can happen in organizational relationships. First, it is difficult and costly for the principal to check how and what the agent is performing and whether the agent is acting suitably. Secondly, principal and agent have diverse attitudes toward risk, in which their goals may clash. They may be inclined to different actions due to different preferences (Eisenhardt, 1989).

The agency theory explanation is mainly generated to overcome this conflict through franchising, taking into consideration the association between incentives and monitoring cost between franchisees and managers interests. Franchisors believe that there are no substitutes for the owner-manager of the business. Hunt (1973 : 4) called this belief “Franchising Ethics” and cited it as one of the reasons firms choose franchising: “Franchising ethics says that franchised units combine the best of both worlds, access to sophisticated business procedures of a large company (the franchisors), while retaining the drive and initiative of the independent owners and managers.”

According to an agency theory perspective, it is costly to discover skilled, non-shirking domestic managers when a firm wants to expand quickly (Shane, 1998). Managers (agents) in owned units do not have a strong incentive to perform efficiently due to the size of their compensation (e.g. fixed salary, small bonus) which is determined independently from unit performance. This form of compensation constitutes low-powered incentives, which encourages managers to shirk, delivering reduced efforts (Carney and Gedajlovic, 1991). One could argue that owners can maintain managers’ performance either through an adequate paid salary or by inspecting financial performance through observing accounting data. However, high incentives could even lower the unit profits (Hunt, 1973) as the owners cannot accurately know whether to attribute the performance to managerial efforts or other factors. Consequently, the unit manager must be monitored directly to ensure performance to agreed levels (Carney and Gedajlovic, 1991).

In comparison, franchisees were found to have greater concern and motivation for the business than managers in owned units (Bradach, 1997). Franchisors asserted that both sales and profits in franchised units outperformed owned units (Knight, 1984) and franchisees decreased the monitoring cost (Bradach, 1997). This relies on direct compensation incentives (revenue, profit) for their performance (Barthélemy, 2008), which contributes to their own capital to operate outlets . In addition, their performance is controlled strictly by a legal, contractual agreement to operate the business according to the imposed standards (Carney and Gedajlovic, 1991).

The scope of geographical dimension also contributes to the agency theory's support of franchising. There is a positive relationship between the distance of an owned unit from company headquarters and larger mentoring costs. Thus, franchising is found to be the preferable method when units are far from the headquarters (Alon, 2001). However, when units are near the headquarters that are effortlessly managed, owned units are more desirable (Bradach, 1997), since the business can achieve great economies of scale (Hunt, 1973), demonstrated in empirical research (Combs and Castrogiovanni, 1994; Alon, 2001). The consideration of geographical distance and agency cost is strongly associated with the case of international franchising, which will be touched on in the next section.

A key limitation of the agency theory is that it is applied to many franchises that are small and youthful systems and they lack the organizational capacity to develop a brand name and technique expertise to ensure the uniform quality of products and services. This means that managerial efforts and monitoring capabilities are greatly required to build these specific assets. Additionally, agency theory is focused on a limited view of managers, in terms of shirking and ignoring quality, without discussing different managerial functions, such as problem-solving tasks (Carney and Gedajlovic, 1991). Another issue is the

agency theory's assumption that the one-sided power of franchisors controlling the agents has changed due to the recent existence of franchise associations and councils. Moreover, the use of master franchisees who act as mini franchisors in a specific territory has decreased the franchisors' power over their agents (Alon, 2001).

2.4.3 International franchising

The above two theories also provide an explanation for why franchisors expand overseas. A greater geographical scope induces companies to go overseas even though resources scarcity in international expansion becomes greater than domestic markets, especially in terms of the lack of informational capital. Moreover, in the global market, the market of capital might be underdeveloped in some countries, which may prevent some firms from accessing external funds, so local franchisees in these countries become a source for obtaining this fund. Research indicates that the capabilities that qualify firms to franchise internationally are different from those required in domestic markets, in terms of monitoring management, cultural adaptability, and host country policy evaluation (Shane 1996a, Fladmoe-Lindquist, 1996). This section will discuss international franchising in terms of motivation to franchise overseas, characteristics of firms, patterns of expansion, sectorial dimensions, franchising packages, and strategy choice.

International franchising offers low financial resources associated with low political and economic risks compared to other forms, such as direct foreign investment (Aydin and Kacker, 1990). On the other hand, other forms, such as joint ventures, are more desirable than franchising when the international franchisees lack financial power (Hackett, 1976). El Akremi, Perrigot and Piot-Lepetit (2015) found the internationalization level have a positive impact on franchise chain performance. Therefore, the majority of franchise firms have a plan to expand internationally and this desire is not limited to large and mature franchise systems, but also to small firms in their early life cycle (Aydin and Kacker, 1990).

Each country has potential for franchising to be brought into their economy, specifically those that have a maturing economy, urbanization, population growth, a preference for westernised products and services, rising standards of living, higher income and the encouragement of government (Walker and Etzel, 1973). International franchisors not only base their market screening on these criteria but also partner selection is an integral part of the same process (e.g. financial ability, know how, local knowledge, chemistry between the partners) (Doherty,2009), because the speed, scale, and scope of international growth is mainly driven by the entrepreneurial relationship between the franchisor and international franchisees (Grewal, Iyer, Javalgi and Radulovich, 2011).

The development of technology and telecommunications is one of the factors that facilitate companies to internationalize and enhance a franchisor-franchisee relationship. Huszagh et al. (1992) proposed that the potential of technology would substitute scale advantages in monitoring international operations, performance, and control quality systems.

Two types of motivation for international franchising dominate franchising literature: reactive and proactive internationalization. Reactive internationalization happens when saturation in the domestic market is the key driver for a firm's choice to grow globally, while proactive internationalization originates from the franchisors willingness to venture worldwide before the domestic market achieves saturation (Quinn, 1998). In Hackett's survey (1976), the greater the potential in markets, the more that brand name spread and the proposal offered by franchisees were among the top reasons to franchise overseas. The decline in franchising growth in US markets, along with the maturity and saturation of franchising in particular sectors - such as fast food - by different franchises have pushed franchisors to look for new markets (Walker and Etzel, 1973).

Gaining first mover advantage is also a motivator for using franchising as an expansion strategy. Michael (2003a) tested a mechanism for first mover advantage in franchise chains and found that it leads to a rapid growth of franchise units, larger market share and higher profitability. Beside these advantages, first movers also select the best locations, establish a local reputation, and saturate the local market, as this will prohibit the flow of competitors' entrances. Makadok (1998) tested the first mover advantage in a fragmented emerging growth industry where entry is relatively easy and where new products and service innovations can be easily copied. He found that first mover commanded a larger market share and a higher price than later entrants. Similarly, in the franchising field, Hoffman and Preble (1991) proposed franchising as a growth strategy for those firms in fragmented markets, which were categorised as having large numbers of SMEs (e.g. clothes, real estate, printing), as those firms lacked economic scale and relational capital with their customers.

Another interesting motivation for international franchising is the "imitation" done by domestic firms in hosting countries to look like US franchises. For example, Welch (1989) stated that the entrance of US franchises into Australia has increased the number of imitators of international franchisors in terms of business operation and providing similar products and services in different types of sectors. Although the trade name is protected in franchising, the type of product or service and general operation can be imitated. This has pushed Australian domestic franchisors to look for foreign markets.

In contrast, Aydin and Kacker (1990) identified some factors that keep franchisors domestic. These include opportunities in the domestic business, absence of experience and expertise, financial barriers, and lack of international market knowledge.

In order to identify the characteristics of those who expand overseas compared to those who remain domestic, previous research has provided several indicators,

including having a history in franchising and experience, a firm's size, and coverage area, which all positively increase the potential for franchising overseas (Elango,2007; Mariz-Pérez and García-Álvarez, 2009). The vast majority of international firms first started franchising domestically; then, after a couple of years, they delved into international markets (Cheng, Lin, Tu, and Wu, 2007). For example, Huszagh et al. (1992) found that the life cycle is a determinant factor in which domestic franchising is for those who are in the "penetration stage" with five years' experience, whereas international franchising is for those who are in the "growth stage" of six years and more. Welch (1989) highlighted the risk of being an international franchisor at too early a stage of franchising, as firms should first initiate domestic franchises, which allow firms to test, develop the system, and steer their learning curve through the domestic expansion process. In the same context, Stanworth, Stanworth, Watson, Purdy, and Healeas (2004) found that the most successful franchisors were those who considered the issue of piloting seriously before spreading extensively through franchising and achieving a breakeven point with up to 10-20 outlets. Aydin and Kacker (1990) found that the percentage of franchisors planning to go international increased with increasing the size (number of the outlets) and the coverage of geographical areas (states), whereas this percentage decreases with increased sales volume. Huszagh et al. (1992) and Elango (2007) indicated that the number of franchise units overseas is associated positively with monitoring capabilities of international franchisors. Moreover, the more years in franchising, the better the firms develop their know-how and franchising packages, which increases the probability of firms franchising overseas.

Welch (1989) divided the spread of the franchising pattern into outward flow and inward flow. The outward flow is the early stage in which franchising was initiated, developed, and spread within the US. Then, the early and strong wave occurred in recipient countries, which were culturally similar (e.g. Canada, Australia, and the UK) with mature economies, which means they had higher per capital income and a highly developed retail services sector. Welch's (1989)

findings were supported by Hackett (1976) and Aydin and Kacker (1990). The second stage was the expansion to countries that had greater cultural distance and diversity of income and political system, such as Africa, the Far East, and the Middle East. Welsh et al. (2006) supports this view and he highlights the greater potential of US franchising in emerging markets.

The inward flow occurs in later stages through a weak wave when those countries in the second stage started exporting franchising, rather than only importing. Although this research was conducted more than two decades ago, this later stage has not spread yet to the majority of these countries, such as those in the Middle East, which are still importing franchising as their domestic markets have not yet been saturated by both international and domestic franchising. Moreover, there are some sectors in these countries that have not experienced international franchising with fast food, as this also increases the potential of these international franchisors to engage in unoccupied sectors.

There is no difference between the problems franchisors face domestically and internationally. Government regulations, high import duties, taxes in foreign environments, monetary uncertainties (Hackett, 1976), difficulty of recruiting enough qualified franchisees, and the lack of sufficient local financing (Walker and Etzel, 1973) were considered the major problems that international franchisors faced. With regard to the franchising in various sectors, Huszagh et al. (1992) found that there was no difference between the growth of franchising in different sectors domestically and internationally, whereas Walker and Etzel (1973) found that fast food dominated international franchising, which shows the prevalence of this specific franchise.

Although monitoring a franchise internationally is harder than monitoring a franchise domestically, which is more likely to drive international franchisors to charge higher initial fees (Shane 1996a), initial fees were in fact similar between international franchisors and domestic ones (Elango, 2007). Additionally, international franchisors request lower royalty rates compared to domestic ones

(Shane 1996a; Elango, 2007) since a negative relationship has been established between royalties and franchise chain performance (El Akremi et al., 2015). There are three reasons as to why international franchisors charge similar fees in both international and domestic markets. Firstly, utilizing a similar contract for both domestic and global markets will reduce administrative complexities and transaction costs among franchise networks. Second, a similar pricing structure would accommodate the transformation of monitoring and managerial skills to overseas franchisees. Likewise, this would expand the franchisee's trust and confidence that the franchisor is not acting opportunistically in worldwide markets (Elango, 2007).

In the case of franchising packages, some franchisors can access international markets without modifying their franchising packages in accordance with different cultures. However, when alterations are made, they fit the local taste (Hackett, 1976). As training contains cultural and language hindrances, franchisors reported that the training given to franchisees in international markets are different from domestic ones, as the majority of training in host countries concentrated on manual operation. Similarly, with recruitment methods, international franchisors indicate that they differ from domestic recruitment methods in which they use different media, although the majority of inquiries come from prospective franchisees, which reflect the awareness of domestic, prospective franchisees of international franchising (Walker and Etzel, 1973).

The strategic choice of international franchising can take several forms: direct franchising, area development franchising, or master franchising. Preble and Hoffman (2006) provide a theoretical framework that describes the best strategic choice for franchisors' expansion into international markets through competitive strategies (e.g. first-mover and conversion strategies) in the light of cultural difference with the host countries. They proposed that expansion in similar countries encountered franchisors who had developed their skills, and over time, competencies, that could be used in direct franchising or area

development franchising, since neither require sub-franchisees. However, in dissimilar countries with high levels of culture and political distance, experienced and inexperienced franchisors should utilize master franchising for several reasons. Firstly, master franchisees, who are usually entrepreneurs or a company, possess the financial capability to buy exclusive rights to sell a franchise to sub-franchisees in the local markets. Secondly, these master franchisees possess business experience, skills, and local market knowledge with which they can act as international franchisors in developing franchising businesses and supporting sub-franchisees. In terms of conversion, Preble and Hoffman (2006) suggest that conversion strategy is best used in similar countries through direct franchising or developing area franchising, while dissimilar countries may benefit from master franchising. Grewal et al., (2011) suggested that master franchisees accelerate international expansion and allow lower adaptation, monitoring, and management costs to franchisors in international markets.

In the same context, conversion franchising was recommended for use in international markets, with businesses that possess a strong competitive position in a slow growth market in hosting countries, as well as with businesses that possess a weak competitive position in a rapidly growing market; in both conditions, franchisors can exploit the resources of existing businesses (Hoffman and Preble,1991).

As explained earlier, in terms of the resources scarcity theory, franchisees are good sources of financial, human, and informational capital, and with conversion franchising, these resources become greater, adding to them the physical and relational capitals that are possessed by an existing business, before its conversion into franchises. This ensures for franchisors a gain of the full package of these capitals, in comparison to franchisees who do not own an existing business.

Presumably, conversion of existing business into franchises occurs within the same operational line, in which tangible resources for operating the business are available. For instance, franchisors can acquire locations in a tight real estate market by converting an independent business (as franchisee) that already possesses a strategic location (Hoffman and Preble, 2003). This could be very beneficial for international franchisors, who usually choose major cities saturated with similar businesses as the first platform for expansion. In terms of relational capital, existing business have a strong base of relationships with customers, local suppliers, and government organizations, as all these bases can be combined with franchisors' relational capital. The loyalty of customers is a major resource that franchisors can obtain from conversion businesses (Hoffman and Preble, 2003), especially when international franchisors have not had access to the market before. In terms of informational capital, existing businesses possess rich technical knowledge embodied in their practices in industry, such as understanding competitors, marketing methods, customers' preferences, and general practices in local markets. In addition, the experience and skills of business owners minimize the mentoring costs of franchisors and allows more organisational coordination (Hoffman and Preble, 2003).

2.5 Franchising from franchisees perspectives

As franchising is a relationship between two parties (franchisors and franchisees), the growth of franchising is accredited to the franchisees, since without their desire, the franchise would not exist. Franchisees have a critical role in developing and evolving the franchise system worldwide. This is exemplified in the work undertaken by Stanworth and Curran (1999, p.333), who proposed a franchising development model based on connecting organizational levels with the franchisor's perspective and individual levels to the franchisees' perspective. They stated that "the difference is that franchisor motivation may be usefully treated as a corporate orientation, while the franchisee is usually an easily identifiable individual." Thus, the decision for firms to franchise or not is not only influenced by the franchisors' purposes (as

explained in section 2.4), but also franchisees' motivation, especially when firms otherwise have sufficient resources to expand through ownership. For instance, Lillis, Narayana, and Gilman (1976) found that franchisors in various stages of the business life cycle were pushed by franchisees' motivation to franchise their business.

Entrepreneurs (franchisees) absolutely prefer to run their own business independently without sharing their revenue with other parties, but there are some factors that make franchising more attractive than an independent business. As Baron and Schmidt (1991: 19) quote of one of their respondents: "I don't want the franchisor to run the business for me, but I do expect 100 per cent backing if there is a problem." Individuals will decide to be franchisees over independents if the value of franchising surpasses the value from being an independent business in terms of profits (Williams, 1999).

A considerable amount of literature has been published on factors pushing franchisees to choose franchising as a mode of starting up, as displayed in Appendix 1. As this study mainly focuses on international franchising from franchisees' perspectives, this section will review those studies that have been conducted into the decision made by entrepreneurs to select the franchise form. In addition, this section will identify what is missing from the literature, through discussing the scope of results, theoretical framework, samples, franchisee characteristics, and countries of research.

2.5.1 The scope of the franchisees perspective research

Franchising research from the franchisees' perspective been treated under similar headings: "reasons," "motivations," "push-pull factors," "decision," "entrepreneurial characteristics," "behaviour of buying," and "attractions." The majority of the research provides similar outcomes: collectively, the virtual outcomes of these headings come under the "franchising package" discussed in previous sections, including trade name, franchisor's support (pre-opening, post-opening assistances, marketing, development), financial aspects

(accessibility to funds, reduction of costs, profitability), and security issues (proven system, risk reduction).

Franchisees' decision are frequently researched through a twofold comparison: (1) franchisees versus salaried employees (Kaufmann and Stanworth, 1995) and (2) franchisees versus independent operators (Knight, 1984; Kaufmann and Stanworth, 1995; Litz and Stewart, 1998; Kaufmann, 1999; Stanworth and Curran, 1999; Williams, 1999; Bennett et al., 2009). In contrast, Gauzente (2002) attributed his distinctive findings to not limiting his investigation into these classic dichotomies. One recent study employed a comparison between three forms of the business in the start-up phase: an independent business, purchasing an existing business and franchising (Welsh, Davis, Desplaces and Falbe, 2011). The comparison between forms is one of the best methods to make manifest and rationalise the choice criteria for becoming a franchisee.

Other studies also used the comparison in different forms, such as the opinions of franchisees versus the opinions of franchisors (Knight, 1986; Withane, 1991; Baron and Schmidt, 1991). Although these did not neglect the franchisees' opinions, franchisors' views on behalf of franchisees may tend to market their franchise package, rather than reflect franchisees' true opinions. This critique also extends to studies that were based only on franchisors' perspectives while exploring franchisees' motivations (e.g. Silvester et al., 1997; Hoffman and Preble, 2003).

In addition, some studies applied non-traditional comparisons of franchisees versus other franchisees; for example, single unit franchisees against multiple unit franchisees (Weaven and Frazer, 2006), prospective franchisees in the UK versus prospective franchisees in the USA (Kaufmann and Stanworth, 1996), and first time franchisees against second time franchisees (Rosson, 1977).

Some of this research stated their prior expectations regarding outcomes about the reasons for franchising; therefore, listing these by rank may specify the most important factors (e.g. Guilloux et al., 2004; Withane, 1991; Peterson and Dant, 1990). Table 2.1 compares the prevalence of the reasons for being a franchisee

in the previous research and shows that brand/trademark value, franchisor support (training, preopening) and proven business format were the most important reasons for pursuing the role of franchisee.

Table 2.1: Ranking of criteria to become franchisees: A Comparison of Research

Ranking	Weaven and Frazer (2006)	Guilloux et al. (2004)	Withane (1991)	Peterson & Dant (1990)	Knight (1986)	Knight (1984)
1	Brand value	Assistance before opening	Proven business format	Training	Trade name	Training
2	Initial training	Name	Less risky	Greater independence	Greater job satisfaction	Proven business formula
3	Easy method of self-employment	Possibility for development	Goodwill	Established name	Greater independence	Less risky
4	Proven business concept	Franchisor's support	Start-up support	Lower development cost	Quicker business development	Profitability
5	Expected financial returns	Profitability	Ongoing support	Better investment	Proven formula	
6	Transferability of business unit	Advertising	Quick start		Less risky	
7	Operational freedom and control of local marketing		Gain some experience		Profitability	

Source: Author, adopted and modified from Peterson and Dant (1990) and Guilloux et al. (2004)

Withane's (1991) reasons were derived from Knight's (1984) study, with similar objectives in the comparison of possible reasons for choosing franchising over an independent business. However, the ranking of possible reasons for joining franchising varied between the findings of the two studies, as shown in Table 2.1. Guilloux's et al. (2004) findings confirmed similar reasons for joining a franchise: training, establishing a name, and greater independence, however, some interesting findings were newly drawn, including the "possibility for development," which refers to franchisees' strategic vision for business sustainability. The research also saw a differentiation between "initial support" before opening and "ongoing support", of which the former was considered most important for potential franchisees at start-up. Weaven and Frazer (2006) compared the incentives for joining franchising among single units franchisees who were self-employed, franchisees who were salaried, and multi-unit franchisees. Each one of these three groups indicated a different ranking of different sets of reasons for franchising. However, there are common incentives

among single unit (employed and self-employed) and multiple units, namely, brand name, initial training, expected financial return, and franchisor expertise. Table 2.1 indicates an example of ranked factors for self-employed single unit franchisees.

It was argued that comparing these studies would prove futile due to the differentiation in data collection designs (Withane, 1991), in addition to the fact that some of these studies were lacking nominal data (Peterson and Dant, 1990). Another point is that these studies should have considered the fact that ranking cannot measure the most perceived value in isolation from other reasons; some of these reasons overlap with each other. For example, in a study conducted by Dnes (1988), franchisees considered trade name as being the main reason their financial loans were obtained and their sales were generated. Furthermore, franchisors' support is an important reason, but it cannot be isolated from the business' potential to be profitable. No one would join a franchise if the business would not be at least potentially profitable. Despite this fact, profitability was not one of the top ranking factors in these studies, as shown in Table 2.1.

Although both product trademark and format franchising deliver common advantages, the difference between the obligations and commitments in the agreements and the franchisors' control may present different factors. In this context, the motivation of trademark franchisees was also explored through a comparison that presented different motivations. For instance, Rosson (1977) carried out a number of investigations into three categories of franchisees' motives toward franchising, including first time franchisees and second time franchisees who run other franchises as supplement or as a replacement for one already held or terminated. The findings indicated only two differences between these groups: while first time franchisees were motivated by the lack of local competition, in which the franchisor had not yet entered the market, second time franchisees were motivated by the franchisors' international success. Moreover, two empirical studies have been conducted into competitive advantage and being franchisees, namely Litz and Stewart (1998) and Pilling

(1991). Litz and Stewart (1998) compared the competitive positions of the tradename franchise and the independent retailer, and found that tradename franchisees perform better than independents. This was attributed to the capability of franchising to create competitive advantage through the recognition of the tradename and gaining economies of scale. This view is supported by Pilling (1991), who examined the impact of the current competitive position of small firms and the likeliness of their joining a franchising tradename, through respondents' assessments of their current business in terms of factors of success, barriers to profitability, and current financial success. His findings indicated that the robustness of the current competitive position of businesses would be negatively correlated with the appeal of joining a franchise. Collectively, these studies outline a critical relationship between joining a franchise and gaining competitive advantage.

In the context of self-employment history and the choice of franchising, two empirical studies were undertaken by Kaufmann and Stanworth (1995) and (1996). They found that individuals with a history of self-employment will have a high likelihood to purchase a franchise, and these individuals are more likely to value franchisor support, while individuals without a history of self-employment are more likely to place greater emphasis on independence. In an investigation into self-employment-decision-making in general and franchising in particular, Kaufmann (1999) found that, one can gain personal benefits from being either an independent operator or franchisee, but when it comes to financial considerations, including the level of financial risk, amount of capital required to start and develop business, and available financing, the preference is for franchising over independent business.

Previous research findings about financial considerations and the choice of franchising have been both consistent and contradictory in various ways (Castrogiovanni, Justis, and Julian; 1993; Bates, 1995; Williams, 1999; Holmberg and Morgan, 2003). This may be ascribed to the different terms that were used under this board theme. For example, cost reduction, low development cost, cost-saving, better investment, less capital than independent

businesses, limited initial investment, return on investment, profitability, financial aids, good will, even less risk, and reduction of failure can be involved under this theme. Collectively, these were mentioned as reasons for being a franchisee (see Appendix 1). However, the perceived value of the financial advantage may be weakened when the initial and royalty fees are taken into consideration. For example, Peterson and Dant (1990) found that franchisees disagreed on the ability of franchising to reduce operating costs, although, in the same study, they agreed on the capability of franchising to lower development cost and the fact that it is a better investment with less risk. Besides the fees, the restrictions that are imposed by franchisors in dealing with certain suppliers may increase franchisees' operating costs. In 1984-1987, Bates (1995) analysed survival rates based on a large-scale database of 20,000 US citizens by comparing small franchising businesses and independent businesses. The findings indicated that a higher rate of failure and lower profitability were associated with young franchise start-ups than independent business start-ups. This means older franchisees achieve more profit and survival rates. Once the franchise passes the breakeven point, which is approximately four to five years, the rate of survival is higher. Castrogiovanni et al.(1993) support this view in which they found age to be negatively related to franchise failure rate. In a comparison between independent business and the franchise failure rate in the UK and USA, Stanworth, Purdy, Price, and Zafiris (1998) found there were more similarities than differences; however, franchises faced greater risk at an early point in their life cycle, before the breakeven point.

On the same topic, Williams (1999) examined franchising decisions by comparing franchise and independent businesses of certain measurements, such as size and profitability. He analysed data from 14,550 companies (franchised and non-franchised) of which 951 were franchises. Some interesting findings regarding financial considerations were made; first, an individual's decision to franchise is significantly associated with wealth maximization. Secondly, individuals are more likely to franchise when there is a greater risk associated with larger capital required at the start-ups. Thirdly, an individual who becomes a franchisee can earn an estimated \$18,075 annually,

but if franchising is not an option, the same individual could earn \$3,957 annually. Fourthly, independent businesses are more likely to receive assistance from the government, financially and managerially. Franchisees were two times as likely to receive managerial aid aside from loans from other businesses, presumably franchisors.

Gauzente (2002: 32) suggests that:

Change can be a desired outcome for certain franchisees who actually choose to become franchisees at one point in their life. But change can also be involuntary for others who were obliged to create their own employment through franchise. In both cases, franchise is perceived as an opportunity.

Some previous studies implicitly support Gauzente's argument. For example, "provision for family employment" and "lifestyle" were listed as supporting reasons (Weaven and Frazer, 2006).

2.5.2 The Theoretical framework of franchisees perspective research

Early studies have been critiqued for their lack of a theoretical framework that explains who and why people are attracted to franchising (Combs et al., 2011; Lafontaine, 2014). Peterson and Dant (1990) claim that no theoretical framework has been proposed for arranging the reasons for being a franchisee into a scientific and hierarchical categorization, as the reasons stem straightforwardly from the rational nature of the franchising format. Screening these reasons in earlier and recent studies with different methodologies still cannot stray far from the franchising package that is provided by franchisors.

To address this challenge, some research has started employing the Resource-Based View theory (RBV) to examine franchising strategy, in relation to a firm's resources and how they are employed. Wernerfelt (1984:172) stated, "A firm's resources at a given time could be defined as those (tangible and intangible) assets which are tied semi-permanently to the firm." Tangible resources can refer to physical assets, location, and trade name. The intangible resources are intellectual capital embodied as human capital and organizational capital. Collectively, these resources are the main sources of competitive advantage.

While franchisors should possess these capabilities (Stanworth et al., 2004) in order to supply these resources to franchisees, franchisees maintain and sustain the flow of these resources while improving the differentials through their ongoing payments and competencies. RBV considers both individual characteristics and organizational factors in order to examine the sources of competitive advantage (Welsh et al., 2011).

In an interesting study, Watson and Stanworth (2006) provided a more appropriate way for understanding franchisees' motivations by proposing a theoretical framework, which examines the value of franchising to franchisees by employing an intellectual capital perspective. Their theoretical framework was based on the fact that the nature of franchise systems is mainly concerned with intangible resources; thus, franchising offers value to franchisees in the form of intangible advantages. These intangibles are embodied in the franchising package, in the form of training, brand recognition, and the franchisor's support. These can be categorised into organizational capital, relational capital, and human capital. According to Watson and Stanworth (2006:341), Organizational capital (OC) alludes to the mechanisms, structures, and infrastructure assets of the firms, including "management philosophy, the corporate culture, the management processes, information systems, networking systems, and financial relations." These empower the organization to function and help bolster employees (or franchisees).

Relational capital (RC) alludes to the nature of relations and knowledge of the channels a business creates with its external environment, including clients, suppliers, and the government. Relational capital is liable to be rare at any start up business; however, a proven business embodied in the franchise system can give individuals access to well-developed relational capital through enjoining brand recognition among customers and suppliers who established good relationships with current franchisors.

Human capital (HC) can be seen as a blend of skills, experiences, attitudes, education, ideas, values and competences. This kind of capital relates to the "tacit knowledge" needed to perform roles in these organizations. People who

do not have the suitable human capital in any of these components for starting-up an independent business may view franchising as a method for fixing the lack through the training they get from franchisors. For some, franchising may be seen as an investment in human capital for future autonomy. The skills, learning, and confidence that franchisees gain over time can prepare them to start up alone, as there are numerous franchisees who have built their own business and accumulated innovative ideas (Watson and Stanworth, 2006). In a similar context, Welsh et al. (2011) adopted the Resource-Based View (RBV) according to the inputs of HC to examine the decision of 2530 businesses about starting up a business through an independent business, purchased an existing business or franchise, in terms of prior industry experience, prior ownership experience and hours working.

Analysing prospective franchisees' intellectual capital and evaluating the estimated input of intellectual capital from franchisors will be the main motivator for franchising. In this context, Gauzente (2002) advised that the choice of franchise and the choice of franchisors should be distinguishable, as ignoring this angle could be misleading when examining franchisees' motivations.

2.5.3 Current and prospective franchisees

By examining, several research studies that address franchisees' motivation to franchise, two groups of subjects dominate the literature: current and prospective franchisees. Current franchisees (existing) can be defined as those who already bought a franchise business and currently run the business under a franchisor's tradename. Studies of franchisees' perspectives draw heavily on current franchisees – see Appendix 1 (Rosson, 1977; Knight, 1984; Knight, 1986; Peterson and Dant, 1990; Withane, 1991; Hing, 1995; Litz and Stewart, 1998; , Nunn, Stanworth, Purdy, Thomas, and Hatcliffe, 1998 ; Stanworth and Curran, 1999; Williams, 1999; Tunnanen and Hysky, 2001; Gauzente, 2002; Weaven and Frazer, 2006; Bennett et al., 2009). Existing franchisees' opinions undoubtedly enrich the knowledge through their experience that began with motivations towards franchise and ended up with purchasing a franchise. This unique experience cannot be found somewhere else.

Moreover, these studies showed their efforts in approaching appropriate socio-demographic respondents of current franchisees and an adequate sample that could be representative of the total population in their quantitative research. For instance, Knight (1984), Withane (1991), and Tuunanen and Hyrsky (2001) used different ways to approach the current franchisees, such as franchisors' assistance, the Annual Franchise Yearbook, and the Franchise Association. The sample size ranged between 65 and 250 respondents (Knight, 1984; Peterson and Dant, 1990; Withane, 1991; Hing, 1995). These samples tend to be small compared to the total population of franchisees because of the small response rate, which was not more than 30 percent, with the exception of Hing (1995). This is due to the fact that some confined the sample to only owners who had signed the franchise contract (e.g. Tuunanen and Hyrsky, 2001) and some had a large number of questionnaires returned unopened because franchisees changed their addresses, and others were incomplete and unusable. Other research that used a qualitative approach also showed its distinctive way of targeting the current franchisees. For example, Weaven and Frazer (2006) classified the sample into single and multiple unit franchising, approaching them through the development franchise manager in the chain, who nominated those with rich experience.

One limitation of all the previously mentioned studies is that existing franchisees who participated in these studies had to reconstruct their decisions about franchising (Kaufmann, 1999). Moreover, over time, some cited reasons may not remain meaningful, or will be misremembered or conflated with new challenges, or may be unpleasant to recall. For instance, Nunn et al. (1998) found that some were pushed by factors such as job frustration, redundancy, spouse's circumstances changing, or by a divorce or relationship split.

The reasons for joining franchises mentioned by current franchisees could be susceptible to recall bias, because recalling these reasons will overlap with their current satisfaction with their franchisors. In other words, the reasons may be spontaneously excluded if they have not been met after joining franchising. One question that needs to be asked, however, is whether these reasons to join

franchising are the same reasons that motivate them to remain within franchising. This is an important issue since the majority of the reasons are associated with franchisors' support. Therefore, the questionnaires and interviews would have been more useful if they had asked franchisees about their reasons to remain within franchising and compared that with their reasons for joining. Watson and Stanworth (2006) argued that the values perceived by franchisees of remaining within the franchise system have received less attention and have been used implicitly in fewer researches.

In addition, some researchers argued that these studies rely too heavily on current franchisees, ignoring prospective franchisees who are in the process of choosing franchising, assuming that prospective franchisees may have different motivations. Peterson and Dant (1990) made another good point when they found that the perceived value of franchising is eroded with possessing greater experience over time, compared to those who are relatively new, since experience changes perceptions.

Peterson and Dant (1990) stated that there is a difficulty in finding potential franchisees; however, a number of authors have addressed this gap and targeted potential franchisees through franchising exhibitions (Pilling, 1991; Kaufmann and Stanworth, 1995; Kaufmann and Stanworth, 1996; Kaufmann, 1999; Guilloux et al., 2004; Bennett, Frazer, and Weaven, 2010). Exhibitions were suggested as the best method that could be bound the potential population and allow a large sample, as well as the entry fees to these exhibitions, and the distance travelled by visitors confirming their enthusiasm for franchising (Kaufmann and Stanworth, 1995). Another unique approach was used by Torikka (2004) to target prospective franchisees through training (educational) franchise programmes over a period of time. The training was organized by the Finnish government, which was looking for people interested in franchising and providing them with the essential skills and knowledge for starting up a business, whatever their final decision. The trainees had different demographic backgrounds and were either unemployed, a salaried employee, a small business owner, an existing franchisee, or a student.

Although franchising exhibitions and franchising training programmes were supposed to bind the population of potential franchisees, it proved more complex than that. Researchers acknowledged that prospective franchisees only provided evidence of intention, which may not have been converted into action. Kaufmann and Stanworth (1995) showed that 70 percent of franchising exhibition attendants were also considering starting up independent businesses. This conclusion is also supported by Guilloux et al. (2004), who found the mean probability of exhibition visitors joining franchising to be 56 percent. This shows relative uncertainty, as they appear to gather information from the exhibition while remaining undecided. In the same context, Torikka (2004) found that 20 percent of franchising program graduates intended to buy a franchise, 21 percent were not interested in franchising, and 59 percent were unsure about their future decisions. Overall, these highlight that franchising exhibitions, along with educational programmes, have a great role in educating and stimulating individuals for franchise opportunities, regardless of their background, while also promoting franchising and its advantages. Potential franchisees have an interest in franchising, evident in their attendance, but this does not necessarily mean their interest will spur them to make a concrete and swift decision.

This limitation was addressed in a follow up longitudinal study conducted by Kaufmann (1999), tracing the same sample's decisions three years after visiting the exhibition. While the longitudinal nature of this study permitted Kaufmann to follow-up his and Stanworth's previous findings (1995), the remaining sample limited the conclusions that could be drawn from the data. Together, these studies nonetheless provide important insight into prospective franchisees' motivations.

Prospective franchisees' reasons for joining franchising were not significantly different from those of current franchisees (see Appendix 1), with the exception of Pilling (1991). Since there was no difference between current and prospective franchisees, there must be some reasons that are more relevant than others for each group. Therefore, the research would have been more

relevant if a wider range of factors had been explored through comparisons between current and prospective franchisees.

One issue that should be considered is that prospective franchisees should not be treated as a single phenomenon, as they are more likely to have “loose” definitions and must not be limited to certain groups or one place, such as franchise exhibitions. For instance, Mendelsohn (2004) identified some means that could create prospective franchisees: a friend of a franchisee, business magazines and newspapers, advertisements in the media, franchise websites, and owning a similar business to franchisors.

In this context, Izreali (1972) also draws our attention to the distinctive categories of possible franchisees that often are observed in joining franchises in the US and the UK, by classifying prospective franchisees into three types: (1) the one looking to start up their own business, (2) existing business threatened by competition, and (3) the one who needs to be a part of an international company. According to Izreali’s (1972) explanation, the first type are those who have a desire to own a business, but they do not have the essential know-how to run a business efficiently. Thus, franchising provides this category of individuals a great chance for self-employment. This distinction is further exemplified in Nunn et al.’s (1998) survey, which indicated that 36 percent of franchisees would not be in business on their own if franchising was not available. Some franchisors prefer to recruit this type of individual, especially those who do not already own a business, to avoid any conflicts that may arise, especially regarding restrictions imposed in their agreement.

The second type emerged from increasing concentration in business enterprises (such as in the US and UK), in which the share of small business owners was decreased in the market and they were being pushed out of business by big companies. Therefore, the solution was to partner themselves with one of the big companies, through which they could enjoy a variety of support, such as central buying for lower cost and greater efficiency in supply. This resulted in their survival and strengthening of their competitive position. A good example of these types of businesses are members of a voluntary chain

or product trademark franchising. The effectiveness of franchising in achieving a position among competitors has been exemplified in a report by Pilling (1991), who targeted 209 small businesses of truck stop operators as potential franchisees. This introduced a new type of prospective franchisee embodied in an independent business, who may have an intention to convert to a franchise, to gain competitive advantage. A third type arises when potential franchisees are interested in operating a branch of an international franchising company. In this case, franchisees could get sole outlet without sub-outlets, or get master franchising, in which franchisees have the right to grant a franchise to sub-franchisees. Since international franchising is associated with several advantages of being internationally recognized, many franchisees prefer international franchising, even if it is costly. For example, those businesses that provide a wide range of services to tourists and travellers, mainly hotels, restaurants, rental cars, travel agencies, and other services. The universal reputation for these brands, and familiarity with the provided services, attract travellers who are in an unfamiliar country.

Looking at this classification, none of the previous studies attempts to give sufficient consideration to all these three categorizations, especially the second and the third types. However, the majority of these studies consider potential franchisees with existing businesses as ex-self-employed if they want to join franchising, but not as potential converters in the same operational line of their business. In this context, converters in a franchise business format do not generally have reasons behind their conversion and they have not been explored in terms of potential or current franchisees' perspectives yet.

Another point is that the majority of studies fail to distinguish between who is more or less likely to be a prospective franchisee. A comparison between individuals who are willing to be franchisees and who are not provide new insights. The research would thus have been more relevant if it had included prospective individuals who were against the idea (Kaufmann, 1999). A small piece of evidence provided by a survey conducted by Hatcliffe, Mills, Purdy, and Stanworth (1995) lists reasons behind the reluctance of individuals to become

franchisees, including factors such as too much control given to a franchisor, high risk, security of current employment status, and lack of bank support.

2.5.4 Franchisees background and the choice of franchising

The decision to become a franchisee is not only attributed to the appeal of advantages associated with a franchising package, but there are also personal traits and characteristics that have an influence in pushing franchisees towards franchising. As some studies disregarded a number of intriguing franchisee characteristics, Peterson and Dant (1990) and Kaufmann and Stanworth (1995) mentioned that franchisees' perceptions of franchising is based on an extensive number of characteristics and economic factors, suggesting that the economic and social background of the individuals has an impact on their becoming franchisees. Thus, specific individual attributes (e.g. individual history) should be taken into consideration. For instance, Williams (1999) found there are significant differences in the characteristics of those entrepreneurs that chose to franchise and those who established independent businesses. Some studies have examined these characteristics through franchisees' backgrounds (education, work experience, history of self-employment, family history employment) and franchisees' entrepreneurial characteristics. These also reflect the criteria requested by franchisors to ensure the sustainability and success of their franchise network.

In terms of education, numerous studies have attempted to shed light on franchisees' education as one component of franchisees' general (demographic) profiles. However, few researchers have begun exploring the influence of qualifications on the decision to become a franchisee. For example, Bennett et al. (2010) found that 90 percent of Australian prospective franchisees attained senior high school level or above, of which under half had a university degree. Guilloux et al. (2004) showed that half of French prospective franchisees were A-level holders and fewer were postgraduates. In the same vein, Williams (1999) found that current franchisees and independent operators were equally likely to hold a college degree, but that franchisees were less likely to have had a postgraduate education. In contrast, Bennett et al.

(2009) highlighted that franchisees are more likely to be highly qualified than owners of independent businesses. This view is supported by Nunn et al. (1998), whose survey results found that one-third of franchisees hold high qualifications. This picture of franchisees' education from different countries makes no attempt to assess the effectiveness of education on the decision to become franchisees, nor does it give sufficient consideration to the field of education and the selected franchise industry line.

A number of authors have considered the effects of prior work experience and salaried employment in the decision to franchise. However, the majority of these studies did not ascertain whether prior work experience or prior salaried employment was in the same area as the selected franchising sector, assuming that prior work experience in the same operational line would encourage prospective franchisees to select certain franchise activities. However, in his interesting analysis, Kaufmann (1999) found that prospective franchisees tend to buy a franchise outside their area of expertise when compared to independent business owners, while Welsh et al. (2011) found that entrepreneurs with prior industry experience were less likely to become franchisees. Stanworth and Curran (1999) argued that the franchisee needs no past experience since the franchisor offers comprehensive training in how to overcome hindrances to small businesses starting up. This view is also supported by Knight (1986), who found that franchisors and franchisees do not believe that previous experience in the same industry line is an important factor to the success of the franchise.

While screening the profile of current franchisees compared to independent operators, Williams (1999) found franchisees tend to have more prior work experience compared to the independent operators. This is supported by Peterson and Dant (1990), Guilloux et al. (2004), and Weaven and Frazer (2006), who indicated that the majority of current and prospective franchisees in their studies were either previously salaried employees, executives, or managers. Conversely, Bennett et al. (2009) reported that individuals who had

prior employment experience were more likely to be independent rather than franchisees.

Collectively, current and prospective franchisees believed that franchise places a great opportunity on obtaining more independence (Izreali, 1972; Peterson and Dant, 1990; Kaufmann and Stanworth, 1996; Knight, 1986) and greater job satisfaction (Tunnnen and Hysky, 2001; Knight, 1986) than they would in salaried employment.

The history of franchisees' self-employment has also received considerable attention. Kaufmann (1999) found that the personal advantages associated with being a franchisee are similar to those of owning an independent business, such as independence and personal achievement. Williams (1999) found that franchisees were more likely to have owned a business in the past. However, several empirical studies documented different perspectives based on comparisons between those who had previously been self-employed, salaried employees, or franchisees elsewhere (Peterson and Dant, 1990; Kaufmann and Stanworth, 1995; Williams, 1999; Kaufmann, 1999; Weaven and Frazer, 2006; Welsh et al., 2011).

Weaven and Frazer (2006) showed that there was a difference in the perceived importance of franchising among the single unit, salaried employed, and single self-employed motivations, with previously self-employed franchisees tending to prioritize the franchisors' support compared to previously salaried franchisees, who tended to prioritize residual claimancy incentives. Similarly, Kaufmann and Stanworth (1995) found that those with prior experience joined franchising for business support, whereas those without prior experience joined franchising for independence. This indicates that previously self-employed individuals are more aware of their weaknesses, according to their actual practices in business, whereas salaried employees who had no experience of being their own boss consider the risk of losing their fixed salary; thus, they give high importance to financial aspects. Stanworth and Curran (1999) highlighted that the risks faced by salaried employees are not confined to business, but also the shift from

employee status to business owner. In the same context, Peterson and Dant (1990) compared the perceived advantages of franchising for previous owners and non-owners, and found that those with no self-employment history had greater agreement about all advantages when compared to those previously self-employed, since the latter could assess the franchise advantages according to their actual experience, making them more critical in judging the proposed advantages. Conversely, those with no self-employment history would be worse at judging and more positive in rating the advantages.

Franchising grants an alternative entrepreneurial opportunity to individuals who otherwise would not readily to be self-employed (Hunt, 1972; Hing, 1995). Studies have attempted to shed light on entrepreneurial characteristics and franchising success (Knight, 1986; Withane, 1991). For instance, Knight (1986) asked both franchisees and franchisors about these characteristics and found that both believed that the willingness to work hard, desire to succeed, management ability, and financial backing are the most important characteristics in potential franchisees. Similarly, in Withane's (1991) study, franchisees rated risk-taking, initiative, self-reliance, competitiveness, and setting high goals as vital criteria for franchising success, although they showed lower self-manifestation regarding these criteria, with exception to risk-taking, which may be attributed to the standardisation and controls imposed by franchisors.

Further, Withane (1991:24) found that the vast majority of franchisees rated themselves as having a high or moderate degree of "entrepreneurial spirit¹." The critique by Gauzente (2002) argues, however, that "entrepreneurial spirit" does not provide a valid motivation to become a franchisee, for several reasons. First, there are more significant factors that have been found to push individuals towards franchising. For example, economic and employment circumstances. Secondly, the partnership between franchisees and franchisors reduces the

¹ Withane (1991) defined it as the commitment and enthusiasm of franchisees in managing and developing their businesses.

business risk, which does not make franchisees pure entrepreneurs. Thus, some authors have described franchisees as “imitative entrepreneurs” (Tuunanen, 2007:214) as they act in a zone between the manager’s employees and owners and are involved in the replication of business packages (Sanghavi, 1998).

2.5.5 Franchisees perspective research from developing countries

As shown in Appendix 1, the studies were conducted from the franchisees’ perspective, drawing data from developed countries (US, UK, Canada, and Australia), and few were conducted in less-developed franchise markets such as Finland and France. Gauzente (2002) claims that this is because the studies themselves emerged in English-speaking countries, and are therefore bound to repeat the results of other studies of the same markets. The differences in his findings, from studies of France and other alternative markets, may reflect cultural and economic differences.

There is no doubt that the franchising environment in each country has a special characteristic that can affect the diffusion of franchising among entrepreneurs. This difference can be economical, demographic, cultural, and legal. Moreover, franchises in developed countries are saturated with thousands of franchises in different sectors, in which competition is heavily involved. For instance, Bates (1995, p.26) stated, “Popular franchising niches in retailing appear to be saturated, leaving diminished prospects for newcomers.”

This may not be the case in some developing countries in which franchising may not yet be well-developed or widely-spread. Furthermore, entrepreneurs need more support to start a successful business, assuming that the entrepreneurship environment in developing countries is lower than those of more developed countries. Therefore, analysing franchisees’ perspectives through association with these dimensions will produce more meaningful results, while taking into consideration the status of a country’s business environment. However, none of these studies explored franchisees’

perspectives in developing countries, which might add different reasons to the existing lists.

Furthermore, the limitation of franchisees' perspectives exclusively to those in developed countries, such as the US and UK in which franchising was born, have reduced focus on the franchisee perspectives regarding domestic or international franchising. Each type has its own distinguishable characteristics that may present different reasons. Firstly, domestic franchising provides familiar services and products to customers in the country, whereas international franchising seems to be more of a challenge to introduce to the host country. Some of these challenging factors include new business concepts, and new products and services associated with Western culture. Secondly, domestic franchising is assumed to be more popular through owned branches and franchise outlets in their local country compared to international franchising, which may lack competition from the same brand or business counterparts. Thirdly, as previously explained, the majority of international franchising belongs to large chains that have brand recognition, developed systems (including IT systems), marketing and development research, and better advertising compared to those domestic franchises that may still be in their early stages. Fourthly, the relationship between domestic franchisors and domestic franchisees may differ from the relationship between international franchisors and domestic franchisees, in terms of control and the extension of the provided services. Thus, if prospective and current franchisees' motivations were explored in the light of this consideration, newly emerging reasons may provide more explanation.

2.6 Franchising in different sectors

As shown in Appendix 1, previous studies made an effort to screen current franchisees' perspectives towards franchising from various sectors (e.g. Baron and Schmidt, 1991; Tunnanen and Hysky, 2001; Gauzente, 2002), while some researchers concentrated on solo sectors, such as the service industry, restaurants, cars, truck stops, and the hardware industry (e.g. Rosson, 1977; Peterson and Dant, 1990; Pilling, 1991). However, the vast majority of these

studies referred to these sectors as part of a franchisee's profile, rather than attempting to understand the motivation of prospective and current franchisees in connection with one particular or multiple sectors. Only a rare few referred to this issue explicitly (Kaufmann and Stanworth, 1995; Gauzente, 2002; Guilloux et al., 2004). Gauzente (2002) identified some reasons linked with joining a type of franchise in general, including the sector's dynamism, affinity with the sector, and previous experience. The other two studies provide evidence for the sequence of the franchising decision and the choice of industry. They found that the type of business precedes deciding whether it will be a franchise or independent business. However, they did not make further investigations or explain whether or not the type of business was a reason for becoming a franchisee. A correlation between the sector and reasons for choosing franchising is still unexplored. There must be some reasons related to difficulties in initiation; for example, a new business in particular sectors where experience and knowledge is needed. With regard to the type of business, Bennett et al. (2010) shed light onto prospective franchisees' interest in various sectors, in which the food industry dominated their choices compared to other sectors. However, their study does not offer an adequate explanation as to whether or not their type of industry was a reason for choosing franchising over being an independent business. As mentioned in the previous section, these studies did not create a link with previous experience. Education of franchisees within a chosen franchising industry may overall explain franchisees' choices from a different dimension

This limitation is not only confined to franchising research from the franchisee's perspective but also extends to other areas of franchise research. For example, several studies have been carried out from different theoretical perspectives, such as strategic, agency cost, scarcity resources, marketing, and entrepreneurship in different industries, including: restaurants/food (e.g. Bradach, 1995; Bradach, 1997; Dant and Kaufmann, 2003; Srinivisan, 2006; Hsu and Jang, 2009), hotels (e.g. O'Neill and Mattila, 2004; O'Neill et al., 2006; Vroom and Gimeno, 2007), automobiles (e.g. Yavas and Habib, 1987), and

real estate (e.g. Frew and Jud, 1986; Benjamin, Chinloy and Winkler, 2007). However, the vast majority of studies examining these sectors focus on the sample rather than the sector characteristics.

Franchising is prevalently a retailing phenomenon (Kaufmann and Dant, 1999) and many have criticized the current franchise research as mostly derived from a single sector (fast food). For example, a recent systemic review of franchising research showed that one-third of empirical research utilized results from the restaurant/food industry, ignoring other sectors, and questioned whether the outcomes of such studies can be generalised to different industries with comparable frameworks (Nijmeijer et al., 2013). This narrow focus has made past research neglect the heterogeneity of franchise activities in their research design (Cox, 2002). This tendency has made little acknowledgment of the possible impact that sector differences that might have on the occurrence and suitability of franchising for business in diverse industries (Watson and Kirby, 2000).

The reliance on one single sector, or even the combination between various sectors, has also limited the focus of industry characteristics. For instance, Elango and Fried (1997) claimed that franchising research, for the most part, explored the franchising system without considering the impact of the industry and the environment within which franchising operates. Mostly, these studies utilize the sector as a demographic or geographical setting, neglecting the internal factors of the industry under study (Michael, 1996). In addition, the growth of franchising has not shown a uniform increase, with a few sectors displaying more growth than others (Watson and Kirby, 2000). This has stimulated few studies to explore and examine the potential of franchising within specific industries (Watson and Kirby, 2000; Watson, Kirby, and Egan, 2002).

By using standard government data sources, Michael (1996) provided a model that can be utilized by firms to test the capability of franchising ideas, especially with non-traditional industries in the US. His model is based on four assumptions: risk of the business, franchisees' human capital, labour intensity,

and customer mobility. Studies that followed adopted Michael's (1996) model, for example, Watson and Kirby (2000) examine why franchising is selected less frequently in the construction industry in the UK compared to other industries, by examining business risk and human capital. Similarly, Watson, Kirby, and Egan (2002) investigate why some sectors have greater potential in franchising than others through examining the retailing sector in the UK, based on four elements: franchisor's perspective, business risks, entrepreneurial skills of franchisees, and economies of scale.

Where business risk is concerned, Michael (1996) stated that although franchisees enjoy the economics of scale of marketing, purchasing, and product development, the profitability of the business relies on franchisees' performance (under their control) and the local economic situation (beyond their control), which means that their capital is at risk. As discussed in section 2.4.1, the riskier the local unit, the more costly franchising will be for franchisees. Through analysing the sales share and failure rate indicators of franchised and owned units in 18 industries during three years, Michael (1996) found that franchising would be chosen more frequently at the lower level of business risk in a given industry. By contrast, Watson and Kirby (2000) and Watson et al. (2002) found the opposite result, in which there is a positive relationship between industries that have high risk, and the representation of franchising. For example, retailers, hotels, and restaurants relatively had higher failure rates, but higher shares of franchises compared to the construction industry, which has a lower failure rate. These results are compatible with Williams' (1999) view, which indicated the greater the industry risk and the greater the financial capital available at start up, the more likely franchising will be chosen over independent business. Thompson (1992) found that when a business requires a high level of initial investment, franchising is preferred over company ownership.

Although the human capital of franchisees is one of the reasons that motivate franchisors toward franchising, Michael (1996) suggested that franchising does not exploit the human capital of franchisees, as they are only implementing

standardized models, without getting involved in the decision-making. Thus, those industries that benefit from standardisation and scale and require less involvement of human capital in decision-making are more likely to be franchised. Due to a lack of data on human capital of franchisees, Michael (1996) used paid average wage as an indicator. He found that industries with average wages exceeding \$20,000 do not have franchising. Similarly, Watson et al. (2002) found that retail sectors have lower average wages compared to other sectors, which increases the representation of franchising in this sector. This was also confirmed by Watson and Kirby (2000), who indicated that wages in the construction industry are higher in average weekly wages when compared to retailing, hotel, and restaurant sectors, which explains the relative unpopularity of franchising in this sector.

Watson and Kirby (2000) and Watson et al. (2002) also examined whether there is a correlation between economic scale measured by percentage of turnover by business size, and the representation of franchising. However, no significant relationship was found.

Franchising also was proposed by Michael (1996) to be effective in those industries that rely on labour in their production, which is more easily and effectively supervised by franchisees, who are more motivated with their residual claims than managers. Labour intensity was measured by the ratio of employees to sales, and number of employees per franchised unit. Also, Michael proposed that franchising is more valuable in those industries that attract mobile customers across markets. The best place to measure this variable is in the tourism industry, with businesses such as restaurants, hotels, motels, and car rental offices. However, labour intensity and customer mobility have no effect on franchising share.

These three studies were heavily based on standard data in their methodology, besides that of Watson and Kirby (2000) and Watson et al. (2002), which used the same set of data. Although Watson and Kirby (2000) used interviews with franchisors to explore more reasons to franchise, they admitted that the analysis might not have been representative of the sector. The interview results

pointed to an interesting piece of evidence from the franchisors' experience, that the unpopularity of franchising in the construction sector was not related to any operational barriers and managerial capabilities, but to whether capable franchisees could be found. The researchers might also have considered the franchisees' perspective in their choice of some sectors over others. These studies were limited to the UK and US context; thus, applying this model in different countries may provide different explanations.

Although these measurements are useful for determining the potential of franchising in some sectors, Mendelsohn (2004) has claimed that the best way of validating where franchising will work is to look at the experience of franchise units in the market that have been operated over time. He provided a list in his first book edition (1970) which remains valid. The list classifies 65 different categories operated by franchisees, and an additional 49 sub-classifications, covered by the British Franchisees Association membership over time. Looking through this list, it can be confirmed that all types of business are franchisable. Mendelsohn (2004: 29) pointed out that a "proposed franchise system should aim to fill the gap in the market by providing a service or product which is not readily available or available at all. "This means that franchising should offer an alternative solution for providing services and products that the markets lack.

2.7 Prospective international franchising in tourism sector

The association between franchising advantages and certain economic sectors' development has not received attention by franchising scholars; they also have not taken into consideration the ability of franchising to eliminate barriers facing entrepreneurs in initiating new businesses, along with its capability to overcome the shortages in operation and quality provided by services in some sectors. Combs et al. (2011:103) state that "franchising represents an opportunity to potential franchisees, one that they must evaluate relative to the opportunities offered by creating a startup or by working for an organization." Thus, future research should use insights from opportunity recognition to explain who will be drawn to franchising. Accordingly, this study recognizes the potential of international franchising in promoting the tourism industry specifically in

developing countries such as KSA, where the tourism industry is relatively new. Henriques and Nelson (1997) suggested that the infrastructure and services needed in the tourism industry could be created by franchising in developing countries.

Franchising has been used for knowledge transfer and innovation in tourism globalization (Hjalager, 2007). Generally, international tourism corporations bring to developing countries investment funds, effective worldwide connections, know-how and managerial expertise, security for international tourists and a positive image for the destination, and act as demonstration models for local entrepreneurs (Kusluvan & Karamustafa, 2001). Furthermore, the brand awareness and image associated with franchised outlets significantly affects the purchase intentions of international tourists in tourists' destinations (Lin, Lin, and Ryan, 2014).

The complementary benefits of joining a franchising network in the tourism industry are similar to any franchising package provided by franchisors in any sector. However, franchising in the tourism industry may have a greater impact compared to other industries because of the greater relational capital with tourists worldwide and the better connections with the fragmented supply in different services in tourism regionally and globally (accommodation, restaurants, transport, attractions, tour guidance etc.) and other supplementary services in different sectors, such as real estate, housekeeping services, food and beverage supply, financial services, etc.).

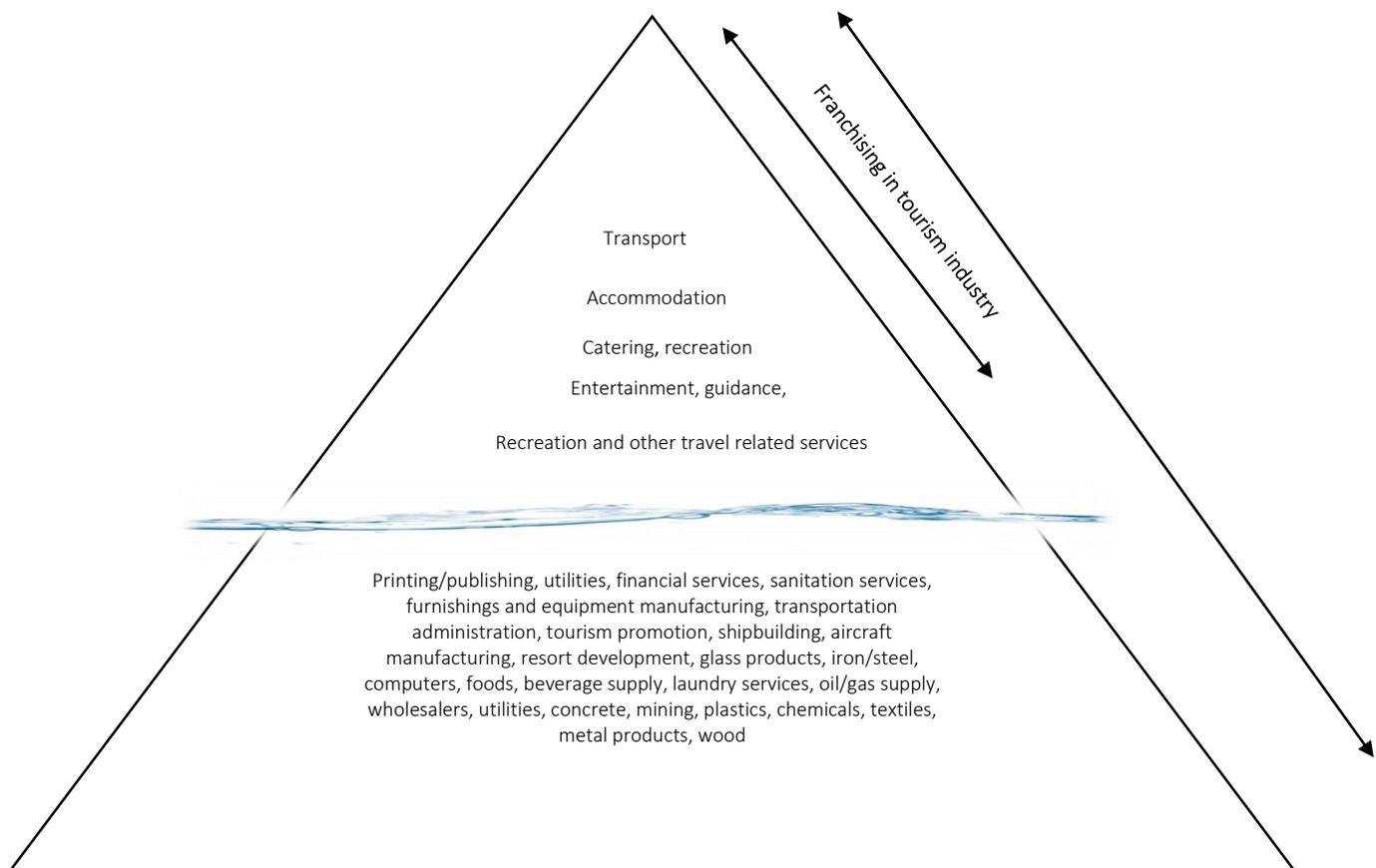
For instance, a rare study refers to the explicit impact of franchising in developing regional tourism industry, namely Czakon (2012). He states that tourism is a network industry where inter-organizational relationships can provide a global competitive advantage, and franchising is one network governance mode that can be employed to improve regional tourism industry performances, for four reasons. Firstly, franchising is popularly used by SMEs, which is compatible with the typical structure of the tourism industry, which

consists to a large extent of SMEs that cooperate with a few larger operators. Secondly, franchising is based on promoting brand image and reputation, which is useful for establishing a competitive advantage in the tourism industry. Thirdly, franchising mainly depends on replicating a set of routines in markets that foster knowledge transfer and routine adoption, as this creates a network advantage for collaborating businesses. Fourthly, the quality and quantity of the process and outcomes can be easily controlled through franchising because of hierarchical relationships that ensure the efficiency and stability of operations.

In answering whether all tourism business can be franchised, Tassiopoulos, (2011) argues that most tourism businesses concepts can be turned into franchisable entities over time, once they meet the criteria of credibility, profitability, aspect of uniqueness, demand pattern, highly developed skills, support infrastructure and affordable franchise opportunities. A recent empirical research illustrated these characteristics by franchisees involved in tourism services when they selected their franchisor partners (Altinay et al., 2013).

As tourism is not classified as sector in the International Standard Industrial Classifications of economic analysis, its definitional boundaries have been addressed by the system of Tourism Satellite Accounting (TSA), which distinguishes between the narrow tourism industry and the broader tourism economy (Rogerson, 2005). Tourism industry refers to a range of businesses engaged in the delivery and offering of tourism products, representing the tip of an economic iceberg (Figure 2.1) that consists of transport, accommodation, catering, entertainment and related activities (Rogerson, 2005). Accordingly, this study will focus on franchising in the tourism industry in KSA, classified into more than 15 activities (see Chapter 3). It is believed that related sectors in the tourism economy will also benefit from the growth of the tourism industry through franchising.

Figure 2.1 Tourism industry and tourism economy



Adopted from Rogerson (2005)

2.8 Disadvantages of franchising to franchisees

The advantages of adopting franchising as a mode of starting up a business over the establishment of an independent business are wide and numerous; however, franchising is not an investment guaranteed to be successful. Franchisors and franchisees may confront complex obstacles to overall business success. As this study focuses primarily on the franchisees perspective, this section will discuss the main disadvantages of franchising for franchisees.

Little empirical research devoted to the disadvantages of franchising has been conducted from the current franchisee's point of view, with the primary researchers consisting of (Hunt, 1977; Knight, 1984; Tuunanen & Hyrsky, 2001) while some of the research focusing on the experience of ex-franchisees exists in the work of

Frazer & Winzar, 2005; Frazer, Merrilees and Wright, 2007). The testimony of ex-franchisees may not always reveal the disadvantages of franchising; the research of Frazer (2004) indicates that some ex-franchisees leave the franchise system, not due to the ensuing problems confronting them but rather because they planned to utilize franchising as means of entering the industry and gaining sufficient experience, later leaving the franchising process to become an independent operator.

The drawbacks of franchising often stem from the relationship between franchisors and franchisees. Tuunanen and Hyrsky (2001) identified that the dominant drawbacks reported by franchisees included reduced autonomy and responsibility, high fees, difficulties in transferring or terminating franchise contracts, and a lack of franchisor collaboration. Franchisees perceive themselves as independent business owner, despite being dependent upon the franchisors support, control and restricted regulations. Thus, in most cases, a common franchisee complaint is that they cannot make independent decisions on how the business should be run or participate in the strategy formulation for the businesses (Withane, 1991). For this reason, some franchises viewed franchisees as “fake employees” restricted to daily operation, under the supervision of their franchisors in a hierarchical relationship (Perrigot, Hussain, and Windsperger, 2015), others describing franchising as a parent-child relationship (Frazer & Winzar, 2005). This can be difficult, especially for those with proficient entrepreneurial skill; these individuals are more likely to express frustration with their franchisors.

Similarly, franchisees and franchisors may have different motivations for wanting to enter the franchising process; the greater the gap between shared goals, the more difficult it will be to balance the relationship. For instance, the franchisor is usually motivated by sales and long-term income, whereas the franchisee is more likely to be motivated by profits. Phan, Butler, and Lee (1996) pointed out that often franchisors are expected to modify franchise contracts to encourage the franchisee to implement sales and gain strategies. As a result, franchisees must sacrifice

profit margins in order to increase market share, especially in fragmented and highly competitive markets.

Furthermore, franchising has been viewed by some as a business lacking in security. For example, some terms and conditions of franchising contracts permit the franchisors to terminate or fail to renew the franchise agreement with their franchisees (Hunt, 1977). In addition, franchisees do not have the legal right to sell the franchise without the permission of the franchisor. A recent survey conducted among 1,695 franchisors in the US between 2010 and 2013 revealed that while 135,289 new outlets opened, 58,104 franchisees went out of business, 40,113 terminated their franchise agreements, 11,997 did not renew and 8,431 were reacquired by the franchisor (Franchise Grade, 2014). It is important to note that the reasons behind a turnover are not always related to franchisor dissatisfaction at franchisee performance and operational style. However, franchisees themselves may leave their business for personal or economic reasons. Additionally, the promise of trademarking, while perhaps initially a selling point, can be a major disadvantage as it can be threatened by the mismanagement of the franchisors or co-franchisees of the brand, or failure of an outlet to provide adequate service, affecting the reputation of all franchise outlets.

Additionally, franchisees may not receive all promised benefits and franchisor assistances (Hunt, 1977). Ex-franchisees all had high expectations about what the franchisor would provide (Frazer, 2001), though Grünhagen and Dorsch (2003) found that franchisees changed this perception over time. This has been attributed to either the franchisee's inability to realistically estimate the benefits received from franchisors, or the franchisees expectations being realistic but unmet by the franchisors.

To sum up, prospective franchisees can avoid many of the disadvantages of franchising by educating themselves about the process of the franchising format along with how to interpret franchise agreements, particularly in relation to market

demand, the prospective franchisors' profile, the business' track record and their financial strength, seeking advice from consultants, lawyers and co-franchisees.

2.9 Research gap and usefulness of applications of the current research

Based on a review of the existing literature regarding franchising from the franchisees perspective, the framework designed for this study is comparable to that of previous studies. This literature, relating to the franchisees perspectives, largely tackles the motivation behind choosing a franchise over an independent business and the advantages of franchising, which was studied extensively over four decades specially during seventies to nineties (see Appendix 1). All of the studies reviewed so far, however, suffer from a lack of a theoretical framework; none of the previous studies tried linking between franchise advantages and certain economic sector development, such as tourism, ignoring motivations that would draw potential entrepreneurs to a certain sector through franchising. In contrast, this study recreates the outdated research topic in a way that utilises insights from opportunity recognition in order to construct an understanding of the rationale that would draw potential entrepreneurs (Combs et al., 2011) to a new and undeveloped sector, such as tourism in the KSA.

Whilst previous studies do not shed light on the motivations for choosing international franchising over domestic franchising, this study focuses on international franchising as a tool for knowledge transfer and transnational education from highly developed countries, such as the US and the UK, to less developed countries, here the KSA. In the same vein, this study examines the benefits of international franchising in countries that have not the focus of research before now, as the large majority of franchising data relied on North American examples (Dant, 2008; Lafontaine, 2014).

Prior studies have also failed to acknowledge the importance of differentiation in the type of franchisees, targeting either current franchisees (e.g. Gauzente, 2002; Weaven and Frazer, 2006; Bennett et al., 2009) or prospective franchisees (e.g.

Guilloux et al., 2004; Bennett, Frazer, and Weaven, 2010); these studies asked the same questions about their motivations regarding their choice to take part in franchising. In contrast to the existing research, this study sets to assess how the perceived value of franchising differs between these two groups. Current franchisees will be asked about the perceived values of franchising that motivate them to remain with their current franchisors, whereas prospective franchisees will be asked about the perceived values that might motivate them to join franchising. While the prospective franchisees in previous studies were mainly drawn from exhibition visitors, other pools of potential data were neglected, such as existing SME's. This is due to the fact that most studies have treated SME's as prospective franchisors who own a business and aim to expand through franchising, and not as franchisees. This study, then, examines the attitude of SME's towards franchising, treating them as prospective franchisees. This research will also take into account that the majority of Saudi SME's in tourism still lack the characteristics that could qualify them as potential franchisors (Sadi and Henderson, 2011). Thus, SMEs will here be treated as prospective franchisees, who may later convert their independent business to franchisees by joining an international chain.

Following a review of the literature, no data were found regarding the conversion to franchising from the franchisees perspectives, although it was found that 72% and 26% of domestic and international franchisees, respectively, have converted in the US (Hoffman and Preble, 2003). In response to this gap, this study aims to address this unexplored phenomena by targeting convertors and tracing the impact of international franchising on their businesses, focusing on IC components. This makes an important contribution to the breadth of literature on the relationship between becoming, or remaining, a franchisee and possession IC's, which have received little attention by scholars (Watson and Stanworth, 2006; Welsh, et al., 2011).

Table 2.2 summarises the main differences between the previous literature and current study, in relation to the primary aspects to be examined in this study. Steps

will be taken during the design stages of methodology in order to consider those aspects neglected in the methodological designs of previous studies (see Chapter 4).

Table 2.2: Comparison between current research and previous research on franchisees perspective

Components	Current research	Previous research on franchisees perspective
Type of targeted franchisees	Targeting both current and prospective franchisees and making a comparison between their opinions.	Targeting only current franchisees or prospective franchisees
Drawn sample	Prospective franchisees are drawn mainly from existing businesses as prospective franchise converts	Prospective franchisees were drawn from franchise exhibitions.
	Convertor franchisees	Convertors (franchisees) have not been targeted previously
Context of investigation	The reasons for joining franchising will be examined with prospective franchisees whereas reasons to remain within franchise system will be examined with current franchisees. The difference between the opinions of two groups will be tested,	Both current and prospective franchisees were both asked similar questions with regard to joining a franchise
	Investigating the impact of franchising by tracing the franchisees convertors through three stages (pre-franchise, conversion and post-franchise) based on IC components	This has not been explored
Country under-investigation	KSA	Mostly English-speaking countries
Sectors	Tourism	Not specified
Focus of Study	International franchising is imported from developed countries to domestic franchisees in developing countries (the KSA in particular) as a vehicle of business education and SME development	Not specified

Source: Author

2.10 Summary

This chapter provides the conceptual background of the study through an overview of the body of knowledge that reflects the nature of the business format franchise from three aspects: definitions of franchising, and the

perspectives of franchisors and franchisees. This chapter also indicates critical insights into the major findings and methodological issues related to gaps in the research that addresses who become franchisees in particular sectors, and why.

The differentiation between franchise and other transaction forms is very important for understanding the nature of the relationship between franchisees and franchisors that is imposed in the franchise contract. The franchisee is not an agent, licensee, or distributor. The franchisee is an independent business owner who finances, operates, and manages their franchise outlet and trades the business under the tradename of the franchisor. They apply the procedure of the products before resale and give a scope of integral products and services within the business format (Mendelsohn, 2004). There are three aspects that define business format franchise: the financial aspect (initial and ongoing fees), receiving business package (e.g. tradename, operations, training, advertising, marketing, quality control), and applying the concept of standardisation, which is constructed emphatically on the image consistency of the mother firm.

Although this research is confined to franchisees' perspectives, it was necessary to understand the franchisor's perspective. It is expected that this will explain some phenomena in the chapters that follow that cannot be understood in terms of franchisees alone. Resource scarcity and agency cost are the main theories that explain why firms choose to franchise. According to the resource scarcity theory, firms adopt franchising as a means of expansion, in which the selling of franchising is a method to obtain three capitals; financial, human and informational capital. According to the agency cost theory, franchisees invest their own capital into the franchise, and they are residual claimants who will be more motivated to work the business than the employed manager. This will result in a reduction of the cost of monitoring the business and shirking managers.

These two theories also explain some franchisors' motivation to expand overseas. In addition, saturation, competition in domestic markets, and willingness to take on the adventure of new markets as first mover are also reasons firms expand globally, beginning with culturally similar countries, then on to more culturally different countries. Greater time in franchising, experience and larger firm size all positively correlate with franchising overseas. Generally, studies show that there are no significant differences between domestic franchisors and international franchisors in terms of business packages and fees.

The review of the extant literature on perspectives of franchisees provides insight into the factors that push franchisees towards franchising. The tradename and franchise support that are included in the franchise package, along with the independence of being self-employed were the most cited reasons. The main limitation is that the majority of these studies were lacking a theoretical framework to explain an entrepreneur's decision to become a franchisee, and their heavy dependence on quantitative methodologies has led to criticism of the origin of these reasons, as they are frequently used in several studies without further explanation of how they were arrived at. Nevertheless, a resource-based view (RBV) has been recently employed to provide a new insight into why entrepreneurs become franchisees, in terms of analysing three intellectual capitals (HC, RC and OC).

Previous studies provided a picture of franchisees' common characteristics. Franchisees are more likely to have had higher education and previous experience; some of them were even self-employed. However, these studies did not ascertain whether prior work experience and education was among the reasons for selecting the franchising sector or not, assuming that prior work experience in the same operational line would induce prospective franchisees to select certain franchise activities.

These studies either targeted only current or prospective franchisees to explore their decision to franchise. While current franchisees enrich the knowledge

through their actual experience, they had to reconstruct their decisions towards franchising. To address this limitation, prospective franchisees were targeted, among visitors to franchise exhibitions. Other potential franchisees were neglected by researchers, such as converters who have existing businesses and would like to convert to a franchise.

Although there are more than 65 categories of business which have dabbled in franchising (Mendelsohn, 2004), the previous studies did not explain whether the type of business was a reason for becoming a franchisee. Generally, the growth of franchising has not shown a uniform development, and a few sectors see more growth than others. The majority of franchise studies in different topics concentrated on the fast food and retail sectors. A few studies (Martin, 1988; Watson and Kirby, 2000; Watson et al. 2002) examined the potential of franchising in a specific industry by using indicators such as business risk, human capital, labour intensity, and customer mobility, using measurements such as average wage, sales share, and failure rate.

This study will not continue in the same tradition used by previous studies conducted into why entrepreneurs become franchisees. It will employ franchising in the tourism industry as an opportunity recognition to explain who, when, and why people become franchisees, and what the potential impact of franchising is on creating opportunities for new start-ups and developing existing business in the tourism industry, taking into consideration the resource-based view (RBV) when it is applicable. Thus, the importance of this chapter is not only in coming to understand and interpret the findings in the results chapters but also to construct a new theoretical framework, through addressing the gap in the existing literature. Chapter 4 will show how the mentioned gaps have been employed into methods in the light of research questions. The next chapter sets the context of the study, the kingdom of Saudi Arabia (KSA), analysing the franchising environment and providing an overview of the of tourism industry in KSA.

Chapter 3 : Franchising and tourism in KSA

3.1 Introduction

This chapter aims to set out the context of the study with regard to tourism and franchising in KSA. The first part of this chapter provides some background about the KSA as a developing country (section 3.2) and its tourism industry development (section 3.3) including tourism activities, indicators of the economic impact of tourism, and labour force (section 3.4). Additionally, the literature relevant to tourism in KSA will be discussed (section 3.5). The second part of this chapter begins with an overview of franchising's evolution in KSA (section 3.6). This is followed by analysing the franchise market in relation to the following four environmental elements: demography, economy, culture and regulation (section 3.7). In addition, a review of franchising literature in KSA that differs from the current study will be highlighted (section 3.8).

3.2 KSA as a developing country

This study is primarily concerned with the development tourism in the KSA as a developing country. According to a United Nations report (2013), there is no one definition of a "developing country", as the term has a wide range of interpretation and no a unified criterion for the designation of "developed" and "developing" countries. Telfer and Sharpley (2008:4) define developed countries as "those that are technologically and economically advanced, enjoy a relatively high standard of living and have modern social and political structures and institutions".

Economically, the classification of countries as either developing or developed countries is highly reliant on GDP (Gross Domestic Product), GNP (Gross National Product) per capita and the level of industrialization (United Nations, 2014). The countries considered to have met the criteria of a developed nation include Japan, Canada, the US, Australia, New Zealand, the UK and the majority of Western Europe. If one considers only the criteria of GDP and GNP per capita, the conclusion drawn may be somewhat misleading, inaccurately classifying a number of developing countries as developed countries; a focus on GDP may class Turkey,

Indonesia, India, and others as developed countries while their citizens experience low standards of living. Similarly, paying attention only to high GNP per capita may create the illusion that the GCC countries are superior to the United States, United Kingdom, Germany and France in terms of development. Therefore, the inclusion of industrialization level into the criteria can be a break-point that determines the economic classification of a country; the more the industrialization of a nation contributes to the GDP, the more likely the country is to be classified as a developed country.

In the case of the KSA, although the World Bank classification of countries (2013) demonstrated that the KSA has an adequate output of GDP (approximately \$746,249 million) and falls into the high-income range (with an average GNP per capita of \$26,340), the KSA is often described as a developing country (United Nations, 2014). The KSA exhibits some characteristics of developing nations in that its economy is dominated by the exporting of raw products, such as oil, on which it is heavily reliant, as well as having relatively low levels of industrialization. Moreover, the KSA often emulates western practices with regard to business management when structuring and improving its own organizations, including education, manufacturing, human resources, health, investment and tourism.

Observing the tourism industry through the lens of development classification may provide an indication that, on the whole, developed countries used to dominate both international arrivals and receipts, due to their well-developed infrastructure and tourist services (Telfer and Sharpley, 2008). However, growth in the tourism sector may not always associate positively with the classification of the country, though tourism can contribute significantly to GDP. According to a United Nations report (2014), developing countries become the destination for over one third of all international tourists. Furthermore, the growth of international tourism in emerging markets and developing countries has been highly significant over the last three decades, with countries with a history of very low development levels achieving faster growth than other countries (e.g. Botswana, Cabo Verde and the Maldives). The report also highlights the crucial role of tourism, which not only reduces

poverty and sustains development, but also allows developing countries to compete in the global economy, possibly upgrading their classification.

It is reasonable to conclude that, although the tourism industry in the KSA is still under-developed and is not reflected in the prosperity of its economy, the development of this industry can create a sector with newly found importance, after oil exporting, providing a significant force for economic growth and sustainability.

3.3 Background of the tourism industry in KSA

The Kingdom of Saudi Arabia is the largest country in the Arabian Peninsula , covering an area of about 2,240,000 square kilometres. KSA is considered to be the origin of many ancient civilizations, and their important religious figures, not least the prophets Ibrahim and Mohammed. Since 1436 years, some Islamic rituals have been performed only in the Holy Land of Makkah, to which around nine million Muslims pilgrims and visitors come to perform pilgrimage and Umrah, besides visiting the Prophet's Mosque in Madinah, annually. Therefore, tourism in KSA was based on only one form of tourism, "religious tourism", and was governed by the Ministry of Hajj for more than 50 years.

Thus, tourism activities were totally absent in the five-year plans of economic development from 1970 to 2005 conducted by the Ministry of Planning and Economy (Albishry, 2007). The official recognition of tourism as an industry and an income generator began only after the inception of SCTA in 2000. The main aim of SCTA is to build up an attractive atmosphere to develop new forms of tourism in KSA. As a result, several patterns of tourism in KSA have been developed, in tourism markets including religious tourism, eco-tourism, recreation parks, festivals, marine tourism, desert tourism, shopping and healthcare tourism, culture and heritage, conference tourism.

The Kingdom is graced with geographic and climatic diversity, with rich natural attractions and culture. There is plentiful potential to create great opportunities for a variety of tourism investments in different regions. SCTA conducted a number of field surveys to identify the potential resources of tourism in KSA that are subject to integral development as potential tourism areas (SCTA, 2002). These include:

- More than 12,000 natural, historical and cultural sites.
- 903 of these sites are available for private sector projects and subject to be developed as tourists attracting areas.
- Presence of 144 museums in the big cities.
- Existence of 25 national parks and 14 reserved areas.
- A number of permanent trade exhibitions and cultural festivals and arts, in different areas conducted during different times and seasons.

Accordingly, SCTA made great efforts to boost the economic, social, and cultural environment to attract investors to the sector and introduce new products and services into the tourism sector, other than the traditional ones. The last five-year plan (2010-2014) paid great attention to tourism activities as economic resources. The majority of its objectives were set to develop tourism activities and investment, as follows:

- Developing a competitive tourism industry based on rich tourist facilities and services.
- Increasing the contribution of tourism to GDP, by finding new sources of income and providing job opportunities for competent national manpower.
- Developing and conserving touristic and archaeological sites and facilities.
- Increasing public and private investment to cover all regions of the country, so as to provide job opportunities.
- Developing and upgrading employment in tourism.
- Strengthening the role of tourism in supporting opportunities for mutual understanding with other nations, through exchange of tourist visits and delegations, designed for promoting proper familiarization with the culture and heritage of the Kingdom.

Recently, extensive development projects have been launched by the government and SCTA, which took place in the two holy mosques cities and other tourist destinations. Table 3.1 illustrates some of these new projects, which introduce several tourism activities that are expected to be completed

over the next few years. These projects will create opportunities for SMEs and employment, and attract popular brands in the global hospitality industry (Alsharq Al-Awsat, 2014), either as partnerships or franchising.

Table 3.1: Some examples of current tourism projects in different cities

Tourism projects	Location (City)	Area (km ²)	Description
AlAqeer beach ²	AlAhsa	100.000	It will be implemented over 30 years in three stages. The first stage includes establishment of theme and water parks, hotels with 2900 rooms, furnished apartments with 2600 rooms. This stage will create 1500 investment opportunities for SMEs with 60.000 jobs.
AlTaif Mountain ³	AlTaif	390	It will create a tourist city cloned from Megève city in France. It will be implemented over 25 years.
Kabah's Mountain ⁴ project	Makkah	1,380	It will include residential villas, apartments, hotels, commercial facilities, and areas with retail, schools, and hospitals. It will provide 8,500 hotel rooms over the next few years.
Umar 's mountain ⁵ project	Makkah	2,200	37 tower hotels with 13.5000 rooms with a capacity for 45.000 guests.
King Abdul Aziz ⁶ road	Makkah	-	It will include hotels, furnished apartments with 28.000 rooms, entertainment centres, commercial shops, residents 197.000.
Darb Alkhalil project ⁷	Makkah	0.0577	It will include 40% hospitality sector , 30% residents
Albeit tower project ⁸	Makkah	35	It will contain 7 towers, a commercial mall, 22.000 hotels room, 4000 cars parking spaces, a medical centre, 7000 residential units. It has capacity for 65.000 people.

Source: Author

3.4 The main indicators of tourism in KSA

This section provides statistical information on types of tourism activities (see Table 3.2), as well as the main indicators of inbound and outbound tourism, and workforce (see Appendix 2). The renaissance in the sector has stimulated the growth of several tourism activities related to the services and products needed provided for tourists and visitors.

² SCTA website : <http://www.scta.gov.sa/Programs-Activities/uqair/Pressfile/Pages/NewsArchive1023.aspx>

³ Report of SCTA published in Alsharq Alawsat Newspaper [online], 2nd January 2010. Retrieved from : <http://archive.aawsat.com/details.asp?section=43&article=551071&issueno=11358#.Vf7Xr2eFMdV>.

⁴ Report of Colliers International organization published in Alsharq Alawsat Newspaper [online], 15 June. Retrieved from: <http://www.aawsat.com/home/article/117826>.

⁵ ibid

⁶ ibid

⁷ ibid

⁸ ibid

As shown in Table 3.2, there are various tourism activities in KSA classified into more than twenty activities, seven activities have been newly added to be under SCTA regulation, including; diving companies, rest houses, marinas, benzene filling stations, tour organizers, navigation agencies and railways. There has been consistent growth in the majority of tourism services from 2007 to 2011, with the exception to restaurants, which faced a drop in number in 2011. Entertainment centers, with a small number of 20 centers, have not witnessed an increase during this period. Johnson (2010) states that leisure tourism is a new market area of tourism in KSA that needs further development. Unquestionably, the largest subsector among tourism services is restaurants, with a total number of 24,738 restaurants providing various cuisines to meet the needs of more than 180 nationalities. The number of travel and tourism agencies had grown from 1,268 in 2007 to 1,669 in 2011, serving more than 100 airlines.

The accommodation sector also witnessed growth, including hotels, furnished apartments. The first classification system in KSA for hotels and furnished apartments was formalized in 2010 by SCTA, followed by the issuance of pricing policies for accommodation charges, according to the new classification (SCTA, 2010a). The number of hotels of various grades has increased from 1,165 in 2007 to 1,360 in 2011, with total capacity for 121,468 rooms. Some hotels are owned by large new Saudi companies (e.g. Jobail, Ojeeh and Altawheed) and some others are owned by international companies as lease agreements. The number of furnished apartments has gradually increased from 2,806 units in 2007 to 4,777 units in 2011. The numbers of classified hotels and furnished apartments according to the new classification codes in 2011 were about 951 hotels and 1,977 units. Accommodation occupancy rates of rooms in hotels increased from 50.6% in 2004 to 64% in 2012, while occupancy rates of furnished apartments increased from 45.6% in 2005 to 58% in 2012 (see Appendix 2).

The vast majority of tourism firms are domestic, except some franchise businesses such as car rental (e.g. Budget, Hertz), some restaurants (McDonalds, Burger king) and coffee shops (e.g. Costa, Starbucks). This indicates the potential opportunities of other tourism businesses that have not experienced international franchising,

such as lower classified hotels (3-1 star), entrainment centres and outdoor activities.

Table 3.2: The main tourism activities in KSA

Particulars	2007	2008	2009	2010	2011
Number of Hotels	1,165	1,063	1,140	1,186	1,360
Number of Furnished Apartment Units	2,806	4,342	4,423	4,600	4,777
Resorts	161	161	161	161	161
Travel Agencies	1,268	1,268	1,740	1, 669	1,669
Restaurants	23,563	23,563	25,159	26,166	24,738
Coffee Shops	2,021	2,021	2,158	2,244	5,355
Private transportation (Taxis)	-	-	-	689	706
Car Rental Companies	480	480	1,391	1,391	3,363
Transport Companies	321	321	321	321	321
Airways Companies	1	1	2	2	2
Hajj and Umrah Agents	52	52	52	52	52
Entertainment Centers	20	20	20	20	20
Electronic games' Centers	429	429	429	429	734
Sport Clubs	533	533	533	533	533
⁹ Diving Companies	5	15	15	15	15
Rest Houses (Daily Rent)	5,731	5,731	5,731	5,731	5,731
Marinas	1	10	10	10	10
Benzene Filling Stations	300	300	300	300	300
Tour Organizers	- - -	- - -	- - -	71	256
Navigation Agencies	64	64	64	64	64
Railway	1	1	1	1	1

Source: SCTA, (2007, 2008, 2009, 2010b, 2011a).

⁹ *The last seven facilities listed are newly added to SCTA

Due to the significant development of the tourism sector, the contribution of tourism has achieved a steady growth in GDP, reaching 2.4% in 2014 and expected to reach 2.7% in 2015, and to rise to 2.9% in 2020 (World Travel and Tourism Council, 2015). However, it is still a nominal contribution to GDP compared to other sectors. The main reason for this small contribution is due to the limitation of the tourism market in KSA, that only focuses on local residents including expatriates, followed by international Muslims who come for religious purposes. However, according to visa regulations, international Muslims are confined to visiting the two holy mosques cities and are not allowed to visit other remote regions. Non-Muslims international tourists are in no better a situation because the visa restrictions around trips should be monitored and organized by operators. Nevertheless, the number of tourists (inbound tourism) increased from 8.57 million in 2004 to 10.89 million in 2010, to be 15.80 and 18.30 million during 2013 and 2014 respectively. The inbound tourism expenditure has increased from SR. 24.3 billion in 2004, to SR. 25.6 billion in 2010, to be double that at SR 58.0 and SR 59.0 billion during 2013 and 2014 respectively (see Appendix 2).

While pilgrims/Umrah performers come from various nations around the world, the existed statistics demonstrate that the larger part is drawn from Muslim communities located in developing and least developed countries. While sufficient data on profiles of the KSA's tourists is not available, the diversity of Muslim visitors including demographic characteristics, behaviour and patterns of spending should be considered in order to provide the necessary services. For instance, while some pilgrims come from communities which are still suffering from poverty and some pilgrims are old and disabled, other pilgrims come from advance countries who have awareness of the distinctive services, comfort and dignified facilities that can be provided by tourist destinations (Ministry of Hajj, 2010).

Given the above discussion, there are several reasons that demonstrate the applicability of franchise businesses in providing adequate services for different types of tourists in KSA. International franchises (e.g. restaurants, transportation and accommodation) might be a sensible choice for some pilgrims/Umrah performers who find themselves in a foreign country, having no knowledge of local

language, culture and food (Burusnukul, Binkley and Sukalakamala ,2011) . As the international pilgrimage/Umrah trips to KSA should be organised and operated by pilgrimage travel agents (Hajj and Umrah travel agents) , the uncertainty of service quality offered by unknown local businesses to international visitors is likely to be high . Thus, the inclusion of services provided by known brands in some agents' packages will give concerned pilgrims some indication on quality of the received service and justify its price. Critics may question the suitability of franchising businesses prices for those dominant international tourists in KSA who come from developing /least developed countries. Although the examination of franchising phenomenon from customers perspective is still widely unexplored (Dant, Grünhagen and Windsperger, 2011), few studies showed that tourists have positive perceptions toward international franchises, though having different demographics (Burusnukul et al., 2011) as some customers consider franchising to be beneficial for both life style and society's well being (Sadi ,Syed, Iftikhar and Al-Ghamdi ,2011). Therefore, the existence of international franchising will not replace local businesses but rather gives more options to pilgrims and tourists allowing them to choose what suites their budget and enriches their lives.

Another reason for the small contribution of tourism to GDP can be attributed to the increasing desire for outbound tourism among Saudi tourists (Alghamdi, 2007). For example, the number of tourists (outbound tourism) increased from 3.81 million in 2004 to 6.03 million in 2009, to be more than double that at 19.20 and 19.80 million during 2013 and 2014 respectively. The total expenditure of outbound tourism increased from SR. 15.9 in 2004 billion, to SR. 28.3 billion in 2009 , to be more than double that at SR 74.5 and SR 80.8 billion during 2013 and 2014 respectively (see Appendix 2).

In contrast, domestic tourism witnessed a decline in terms of domestic tourist numbers during the period from 2004 to 2012, with a slow increase in total expenditure. For instance, the number of domestic visitors decreased from 35. 28 million in 2004, to 22.78 and 19.03 million during 2010 and 2012 respectively. The expenditure of domestic tourism during the period from 2004 to 2011 was steady, ranging between SR 31 to SR 37 billion. Although the expenditure of domestic

tourism had increased to SR 52.6 billion in 2012, it sharply dropped to SR 23.4 billion in 2013. The dramatically increased number of outbound tourists compared to the decrease in domestic tourists is due to the weaknesses of tourism services and activities in KSA, which make many Saudi travel to neighbouring countries (e.g. UEA, Bahrain) that are not different from KSA in terms of geography and climate features. The government recognized the challenge in the ninth development plan (2010-2014) and stated that:

Tourism within the country (inward and domestic) faces strong regional and international competition. Regionally, several neighbouring countries possess an abundance of attractive tourist resources and potential. Hence, there is a need for continuing to develop and support domestic tourism; improve its services, archaeological sites and infrastructure; provide investment incentives to help diversify services, increase market competition, reduce costs of services, and raise their quality. (Ministry of Planning and Economy, 2010:260).

With respect to employment, the Ministry of labor has made a significant contribution to promote national labor force in different economic activities through several initiatives such as Saudization policy, Nitaqat program and wages protection systems (Ministry of Labor, 2014). Saudization policy is defined as the replacement of the expatriate work force in KSA by Saudi nationals (Fakeeh, 2009), which aims to reduce the unemployment rate in KSA. Nitaqat program is issued to support this policy, which categorizes all companies to four classifications (platinum, green, yellow, and red), according to how many Saudis they employ based on type of activity and size of employees. For example, if a firm is classified as a red category, it will not get other government support services and it will get visa restrictions on its foreigners' employees. With regard to the wages protection system, it determines the minimum wages of Saudi employees in the private sector, which is SR 3000 per month, as well as it establishes an updated database on wages payment for private sector employees to protect their rights (Ministry of Labor, 2014).

These initiatives have led to incentivize nationals to work in the private sector and tourism is not an exception. For instance, the total workers in all tourism activities

represent about 8% of the total labour force in the private sector in KSA (SAMA, 2015). The direct employment in tourism increased from 333,521 employees in 2004, to be more than double that at 629,310 and 795,000 employees during 2010 and 2014 respectively. The percentage of Saudi employees in tourism sector increased from 20% in 2004 to 27.1% in 2014 (see Appendix 2). The highest employment rate in tourism sector is in hospitality sector including restaurants and coffee shops, and accommodation employing 382,705 and 106,791 workers respectively, which representing 61% of the total labor force in the sector (SAMA, 2015). The average monthly salary of the Saudi employee in tourism is SR. 5,502, which is more than double the foreigner's average monthly wage, who is drawing SR. 2,164.

The above information shows that the tourism sector is witnessing a real renaissance and it is a promising sector with many investment opportunities, which will attract local and foreign investors and will create many chances for franchise businesses to flourish other than in traditional activities.

3.5 Tourism literature in KSA

A recent study conducted by Mufeed and Gulzar (2014) has identified the inadequate and insufficient studies and secondary data about tourism in the context of KSA as the main hindrance to research. Johnson (2010) has called on scholars to develop the limited knowledge of the tourism industry in KSA. The previous tourism studies in KSA have exclusively concentrated on religious tourism (e.g. Din, 1989; AlThagafy, 1991; Rinschede, 1992; Bokhari, 2008; Zamani-Farahani and Henderson, 2010). There is no doubt about the significant economic impact of religious tourism. For example, Bokhari (2008) found that international pilgrims contribute 0.31% to GDP and created about 50,000 jobs in the tourism sector and other economic activities. However, these studies makes no attempt to assess the effectiveness of services and the quality of the facilities provided to pilgrims, such as accommodation, transport and so although pilgrims and Umrah performers represent the largest percentage of total tourists in the KSA.

Other studies have dealt with leisure, recreational and behavioural motivation (Al-Hijji, 1989; Hammadi, 1993; Abdullah, 1998; Bogary, 2002; Seddon and Khoja, 2003; Alghamdi, 2007). Those studies that were conducted before the inception of SCTA in 2000 showed that recreational and leisure tourism were not preferred by domestic tourists, due to the conservative culture and religious values in Saudi society (e.g. lack of privacy for families and co-tourist (Al-Hijji ,1989; Hammadi ,1993; Al-Abdullah ,1998). However, this situation has changed during the last decade after the licensing of family restaurants, chalets and family theme parks, which provide privacy and safety for families. For example, Bogary (2002) found that most of the domestic tourists accept the public recreational facilities, considering them as pulling factors. Further, the increase in outbound tourism among Saudi tourists has made co-tourism more acceptable. For instance, Alghamdi (2007) found that implicit and explicit motivations for Saudis to travel abroad are: outdoor facilities, natural and historical sites, weather and environment, fun, and to some extent the freedom of sexual life and a desire for alcohol.

A few studies attempted to shed the light on the development of tourism services (Sadi and Henderson, 2005a; Albishry, 2007). Albishry (2007) investigated tourist satisfaction with the provided services in two tourism destinations, Jeddah and Abha. The findings of the study highlighted numerous areas of tourist dissatisfaction with the provided services, such as quality, comfort, cleanliness, convenience, prices, lack of public transportation, insufficient information about where to go and where to live, lack of tourist guides and tour organizers. Sadi and Henderson (2005a) utilized Delphi panels to forecast the future of tourism in KSA on the basis of the existing infrastructure. Their study indicates that there is a lack of new products and services in tourism and there is a need to improve tourism services, which can be done through education and training:

While tourism traffic and revenue have grown substantially, the quality of service provided by hotels, restaurants, stores and travel agencies often remains disappointing. It is therefore imperative that initiatives be

launched to raise standards and this is linked to the provision of education and training (Sadi and Henderson, 2005a: 108).

However, there is a lack of educational programs and specialized training institutes in tourism in KSA. In the same vein, two studies were conducted to investigate human resources in tourism in KSA (Sadi & Henderson, 2005b; Alshammari, 2010). These studies identified several barriers, including local labour being poorly qualified in tourism, a lack of sufficient experience, low productivity, and the small number of colleges and institutes specialized in tourism and hotel training. This may underline the domination of expatriates in tourism jobs in KSA. However, Alshammari (2010) revealed the Saudi jobseekers' perspective, and found some factors that also account for a reluctance among Saudi citizens to work in tourism, including inappropriate salaries and incentives, long hours of work, instability and uncertainty of tourism jobs, and the undervaluing of some types of tourism jobs by society.

The meta analysis table (see Appendix 3) showed that all previously mentioned studies have not explored the significance of investment and entrepreneurship in tourism development, which can work as an attractive factor for domestic and international tourists in KSA.

3.6 Background of franchising evolution in KSA

The discovery of the oil in 1933, along with the boom in oil prices in the 1970s after KSA became a key member of Petroleum Exporting Countries (OPEC) involved in the oil embargo, has resulted in dramatically positive changes in transforming an economy that was based on agriculture into a service economy (AlDossry, 2012) with a vast development in health, education and living standards. Consequently, the Saudi government has executed many infrastructure projects that necessitated the recruitment of millions of foreigners. One of these remarkable projects was the establishment of ARAMCO (Arabian American Oil Company) in 1988¹⁰ in Dhahran, that operates and develops all energy resources based in KSA. The American presence in KSA began increasing with establishment of this company.

¹⁰ <http://www.aramcoservices.com/Who-We-Are/Our-History.aspx>

Since then, the number of foreigners has increased from 791,105 in 1974 to 4.64 million in 1990, nearly six times as many (CDSI, 1974 -1991). This rapid increase has changed the demographic structure and consumer attitudes, which has contributed to the demand for foreign brands and created new opportunities for business; one of which has been franchising.

The franchising business format started in KSA in the mid-1970s (Tuncalp, 1991) when a KFC restaurant was established in Riyadh. However, the information gathered for this study shows that the first registered franchise agreement, through agency law, was “Alshamsan Optics” in mid-1980 (MCI, 2012).

During the eighties and early nineties, some trends promoted the spread of international franchising in the large cities. For example, many Saudi citizens started travelling abroad (Doumato, 1999) and attending international universities, which positively influenced their attitudes towards accepting international brands. Furthermore, it is believed that the international franchises were boosted after the Gulf War in 1991 (Badkook, 2008), which may be attributed to the large number of foreign soldiers who resided in Riyadh and on the East coast of KSA. The diffusion of international franchises in the nineties was very slow, not exceeding 45 agreements (Tuncalp, 1991), mainly in restaurants and clothing. The limited number of franchises in these sectors was ascribed to Western dress and fashion that was not accepted by the society, nor were eating habits and diet.

During the nineties, the word franchise was first time mentioned in Saudi law when the Minister of Commerce formalized resolution No. 1012, dated 1992, which stated that franchise agreements should be subject to agency law and registered with the Ministry of Commerce (Mikwar and Akkad, 2011). Since then, international franchises increased to 200 registered companies by 2005 (The First Office for Economic Consultation (FOEC), 2005). About 80% of these franchises were still restaurants, clothing and cosmetics (MCI, 2013). This acceleration of international franchising growth in KSA was also attributed to other factors at this period. First, as explained in Chapter 2, the maturity and saturation of franchising in developed countries has pushed franchisors to look for new

markets (Walker and Etzel, 1973). Second, outbound tourism, mass media (television and internet), the spread of shopping centers, advertising and urbanization, were all elements stimulating the emulation of Western consumerist lifestyles in KSA (Assad, 2008). Third, the preferences of Saudi consumers for Western brands (Bhuiyan,1997) over their own national brands, due to the perception that Western brands are of top quality (FOEC, 2005) besides the adoption of a Western style being seen as modern (Assad, 2008) .

The Saudi government has started to adopt franchising as a tool for promoting entrepreneurship in KSA. For example, the Human Resources Development Fund, with the collaboration of the Saudi Credit Saving Bank and local franchisors, conducted a project to fund and train Saudi youths to commence their own businesses through franchising (Zalea, 2011). Moreover, the Riyadh Chamber of Commerce initiated several acculturation programs to spread knowledge of franchising's benefits in society (Riyadh Chamber of Commerce and Industry, 2009) which stimulated franchise growth from 200 firms in 2005 to 381 firms in 2011(i.e. by 90.5%), and to 420 firms in 2013 in various economic sectors (MCI, 2011, 2013) as shown in Table 3.3 below.

Table 3.3: Distribution of franchise firms according to their types of business during 2011 - 2013

No	Type of Franchise Business	2011	2013
1	Restaurants, Fast-Food and Food Suppliers	98	106
2	Coffee Shops, Beverages and Pastries	55	60
3	Readymade Clothes and Textiles	108	120
4	Shoes and Leathers	25	28
5	Perfumes, Cosmetics and Accessories	23	26
6	Building Materials, Industrial Equipment and Home & Medical Appliances	19	21
7	Consulting Services, Education and Training	17	19
8	Others (Transportation, Communication, Accommodation, Goldsmiths, Jewellery and Trade)	36	40
	Total	381	420

Source: This table was prepared by the researcher with information gathered from the Ministry of Commerce and Industry database (2011-2013)

Table 3.4 below shows that more than three quarters of these international franchises (76.7%) are from USA and European countries, in which the franchising concept was mainly developed.

Table3.4: The distribution of franchises according to country (2011)

Country's name	Number of Franchises	%
USA	97	23.6
UK	44	11.5
France	43	11.3
Italy	35	9.2
Lebanon	21	5.5
Spain	19	5
Canada	10	2.6
UAE	10	2.6
Malaysia	9	2.4
Holland	8	2.1
Germany	7	1.8
Switzerland	6	1.6
Belgium	6	1.6
Egypt	6	1.6
Other countries including domestic franchising	60	15.2
Total	381	100

Source: This table was prepared by the researcher with information gathered from the Ministry of Commerce and Industry database (2012).

The acculturation campaigns have resulted in stimulating some domestic trademarks, such as Kudu, AlTazaj, AlOthaim, Durrah Cup and AlBeik to franchise their businesses domestically. The total number of domestic franchises is 13 agreements, representing 2% of the total number of franchises in KSA; and the majority of these businesses are restaurants (MCI, 2011).

Based on researcher's observation, in 2010, two franchise development firms were established to develop and market franchising in KSA that were considered the only providers of franchising services in KSA. In the near future, the flourishing of franchising will attract concerned group such as local business, researchers, lawyers, and brokers to engage in developing this field and It will encourage some colleges and universities to create more franchise programs as part of their curriculums.

3.7 Environmental analysis of franchising in KSA

Alon and Mckee (1999) introduced a macro environmental model that examines the influential factors on international franchising in hosting country. This model is divided into four dimensions: economic, demographic, cultural distance and political environment, which was utilized by previous studies in order to analyze international franchising environments. For example, Anttonen, Tuunanen and Alon (2005) examined the opportunities and threats of international franchising in Russia, with an added dimension to the model, which is legislation. Alon, Alpeza and Erceg (2007) analyzed the economic and institutional environment of franchising in Croatia, with reference to the barriers facing franchising. Michael (2003b) demonstrated that the "economic", "strategic" and "cultural" factors drive the demand for international franchising in different nations. This study employed some of these factors in order to analyze the environment of franchising in KSA, for both international and national franchising.

3.7.1 Demographic environment analysis of franchising in KSA

Four demographic factors about a host country are considered as the most attractive from franchisors' point of view: population size, women in the workforce, middle class size (Alon and Mckee, 1999) and urbanisation (Anttonen et al. 2005). KSA has one of the highest population growths in the world at 3.2% per year with a total population of 27.13 million. Of this number, 19.1 million are Saudis citizens (69%) who all share the Arabic language and Islamic religion. The remaining 8.03 million (31%) are worker expatriates from 180 countries with different cultures, religions and languages. The total population is expected to peak around 2050 at about 50 million, almost double that of 2010 (CDSI, 2010a); which will maximize the consumption expenditures and creates a high demand for new products and services. The huge number of expatriates contributes significantly to the spread of franchising through their familiarity with products and services that they already know from their home countries, and anything pioneering in the market would spontaneously attract them, either out of "curiosity or nostalgia" (Tuncalp, 1991:30) . There is no statistical data showing the proportion of the middle class and its characteristics in KSA.

In terms of urbanization, more than 82% of the population is concentrated in the big cities (Riyadh, Dammam, Makkah, Jeddah and Madinah) which offer an appropriate atmosphere and infrastructure for all required services, such as education, health care, social development and investment opportunities. Therefore, most foreign and local companies are established in these cities. This explains the distribution percentages of current franchises in KSA where 99% of franchises exist in the big regions, and only 1% of franchises is distributed among the remaining nine regions (CDSI, 2010a, MCI, 2012) as shown in Table 3.5:

Table 3.5: Distribution of franchises according to regions, compared to population size (2010-2011)

Region		2010				2011	
		Population Size (millions)		Franchise Business		Franchise Business	
		Number	%	Number	%	Number	%
1	Riyadh Region	6.84	25.	222	66.5	231	60.6
2	Makkah Region	6.9	25.	70	21	101	26.5
3	Eastern Region	4.1	15.	37	11	40	10.5
4	Madinah Region	1.77	6.5	2	0.5	5	1.3
5	The rest of the regions (nine regions)	7.52	27.6	4	1.1	4	1.1
Total		27.13	100	335	100	381	100

Source: Information gathered from Ministry of Commerce and Industry, CDSI database

Table 3.5 indicates that there is an unequal geographical distribution of franchises between regions, compared to their population distribution. The Riyadh region has the largest share of franchises, about 60.6%, while only hosting 25.1% of the population; while Makkah has 26.5 % of the total franchises with 25.6% of the total population. The rest of the nine regions are lacking franchise businesses compared to their population size, which requires more attention from investors.

Saudi women represent 49% of the total Saudi population, and make up 16.4% of the total labour force (CDSI, 2010a). Among this number, 65% are employed and 78% of unemployed women are university graduates (Almasah capita ltd, 2010). Yavas, Babakus and Delener (1994) demonstrate a positive relationship between

Saudi females' employment and educational status, and their power in purchasing decisions, which also contributes positively in escalating consumption expenditures in various products and services. In 2011, the newspaper Al-Riyadh¹¹, reported that Saudi women spends more than 4 billion (SR) annually on cosmetics, fragrances and clothes. These businesses comprise more than one third of the franchise market in KSA.

3.7.2 The economic environment of franchising

For a long period, economic development in KSA was mainly based on the significant role played by the oil sector in increasing GDP and financing government projects to build infrastructure and providing public services. Therefore, nine successive economic development plans since 1970 have focused on diversification of economic sources, through promoting the private sector's role (Ministry of Economic and Planning, 2014).

The licensed establishments up to the end of 2011 numbered 854,679, including various economic sectors (MCI, 2011). Franchises are still a nominal figure (420 brands) when compared to the total number of companies in KSA. According to the last report of SAMA in 2015, the highest contributions to GDP came from industrial activities (e.g. mining and manufacturing), giving an average 50%, while the wholesale and retail trading and services contribution to GDP was about 9.4 of the total. The activity related to franchising is the wholesale and retail trading and services; with most franchising activities belonging to this sector .

The last decade witnessed several impactful reforms to facilitate, regulate and protect investments, making KSA a more competitive and attractive investment destination globally. One of these reforms is the issuance of a new foreign investment law in 2000, along with the establishment of the Saudi Arabian General Investment Authority (SAGIA) to be in charge of foreign direct investments. Since then, the number of foreign and partnership companies has increased from 820 in 2000 to 6478 companies in 2010, with inwards FDI flows averaging SR 105 billion (SAGIA, 2011). As a result of the above improvements, Saudi Arabia's FDI inflow

¹¹ <http://www.alriyadh.com/685447>

was ranked as the 33rd largest in the world and the 3rd largest in the MENA regions in 2013 (SAGIA, 2013).

The economic reforms in the investment climate qualified KSA for access to the World Trade Organization in 2005. In accordance with WTO rules, some laws and regulations have been added and some others were amended; such as trademark and intellectual property laws, competition law, anti-trust protection and consumer protection (Ramady, 2010).

One of the main strengths of the business environment in KSA is the simple tax structure. Generally, Saudi investors are not subject to income tax. However, they are subject a religious tax, known as “Zakat”, which is equal to 2.5% of taxable capital. Non-Saudi investors are required to pay income tax based on their income and earnings, not exceeding 20% (Department of Zakat and Income Tax, 2010).

3.7.3 The regulatory environment of franchising

Franchising legislation comes under commercial agencies law, which governs the relation between the Saudi agent and the foreign principal. There is no independent law for franchises. Yet, KSA is not the only country that has no appropriate legal regulation for franchises. All Middle East countries (Taqi, 2007) and countries in the old socialist block, such as Russia (Anttonen et al. 2005), Croatia (Alon et al., 2007) and Romania (Bunea-Bontas and Petre, 2009) are lacking.

Article number (1) of the commercial agency law stipulates that “The commercial agencies law covers anyone who signed an agreement with the producer or his attorney in his home country to perform the business on his behalf whether he is agent or distributor, or any form of agency or distribution against a profit or commission or any other facilities regardless of its nature.” The Ministry of Commerce issued resolution number 1012 regarding franchise agreements in 1992, which stipulated the following:

Article number (1): The principals of the commercial agency law and its bylaw govern the agreements of the franchise agreements.

Article number (2): The owner of the franchise business (franchisor and franchisees) should register their agreements in the commercial agency register within six months. In addition, the Ministry prepared the format of franchise agreement to be adopted by the franchise owners (Mikwar and Akkad, 2011).

This shows that there is a legal reference for the franchise agreements. However, as explained in Chapter 2, the franchisee is an independent entity not acting on behalf of his principal like an agent. Because of the call by franchise specialists for an independent law to govern all aspects of the franchise terms and conditions, the Riyadh Chamber of Commerce drafted a franchise law in 2007 in which six articles were added to commercial agency law to cover the gaps due to the special nature of franchise agreements, and to determine the most substantive provisions (Mikwar and Akkad, 2011) as follows:

- Article (54): (Repeated) Definition of the franchise agreement.
- Article (54): (Repeated) The franchise agreement identified the reward for the owner of the franchise, if not it should be identified.
- Article (55): The most important obligation of the franchisor to be granted to the franchisee.
- Article (56): The franchisor must guarantee the quality of the product and ensure that they satisfy Saudi standards.
- Article (57): The franchisee should provide the location for the business and the required operational staff to start the franchise business.
- The right of franchisees to get compensation if the franchise agreement is terminated without prejudice to the duties set out in the agreement and business was successfully operating, and similarly in the case of not renewing the agreement.

Despite the applicability of these new articles on regulating and organizing the franchise agreements, these few legislative acts are insufficient to regulate franchising in KSA. The main shortcoming is its lack of several important acts that are usually stipulated in an international franchise agreement. Thus, there is a desperate need to issue a more detailed agreement with an internal statute that revises confusions and explains all the rights and obligations between franchisors and franchisees. In practice, this law is not used very often since the international franchise agreement is allowed to be used in KSA (Mikwar and Akkad, 2011). Both the brand and the franchise agreement need to be registered with the Ministry of Commerce. In addition, the brand registration takes 120 days to go into effect from the day of depositing the application with the commercial registration office, until official publication in the Government Gazette (Franchise seek International, 2011).

3.7.4 Cultural distance and franchising

Cultural distance refers to the degree to which the culture and language of the home and target country are different (Eroglu, 1992). As highlighted in Chapter 2, the proliferation of international franchising is heading towards the countries with dissimilar cultures (Welch, 1989) after the saturation of markets with low cultural distance (Hackett, 1976; Aydin and Kacker, 1990). Previous studies have argued that firms are more likely to adopt franchising when the culture is highly different (Fladmoe-Lindquist and Jacque, 1995; Alon, 2006). Furthermore, the uncertainty of the behaviour of foreign agent in a hosting country makes franchising more favorable. However, the differences in business practices, ethics, communication and performances between franchisors and hosting countries may raise managerial and operational problems (Eroglu, 1992).

Alon and Makee (1999) proposed that cultural distance for franchising can be measured by Hofstede's model, which is divided into four dimensions: (1) individualism/collectivism¹² (2) power distance¹³ (3) uncertainty avoidance¹⁴ (4)

¹² Individualism/collectivism is the degree to which people in a society are integrated into groups.

¹³ Power Distance is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally.

masculinity¹⁵. High levels of individualism and masculinity are preferable for franchising in a host country (Alon, Toncar and Mckee, 2000, cited in Anttonen et al., 2005). According to Hofstede's culture index, as shown in Table 3.6, KSA has a relatively high score (80) of power distance compared to the USA. This trend might be ascribed to Arab traditions that recognize status hierarchy (Bjerke and Al-Meer, 1993). The high score of uncertainty avoidance (68) reflects the strong and restrictive code of Muslim behaviour, which is determined by Islamic teachings, which prohibits deviation from the rules. In addition, Arabic culture imposes restrictions on society members that creates an obedient personality. This may positively contribute to franchising success in which franchise agreements impose terms and instructions on the franchisee. The average score in Masculinity is (52), due to the domination of males in all affairs, including business, in Saudi society.

On the other hand, the Saudi score is considerably lower in terms of Individualism (38); this is a result of Islamic teachings that require Muslims to be co-operative (Bjerke and Al-Meer, 1993). The Saudi trader is not working alone and for his own interest. He is responsible for his family members as well as his extended family, up to the tribal level. The formation of family companies and establishments is a normal practice in the Saudi business market; and one may find father-and-sons companies, and brothers companies. This type of formation does not discourage franchising, because the family company works like one-man ownership. In practice, statistics show that most of the franchise businesses in KSA are owned by family companies. Chirico et al. (2011) introduced the family firm as an organizational form with the potentiality to create value in the franchising context, through providing practical examples of successful family franchises. All these measures (masculinity, uncertainty avoidance and collectivism) can work compatibly to create an attractive environment and cultural atmosphere for the

¹⁴ Uncertainty Avoidance deals with a society's tolerance for ambiguity. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations

¹⁵ Masculinity versus its opposite, refers to the distribution of values between the genders. (Hofstede, 2011)

acceptance of new situations and brands, and this qualifies KSA as a host country for franchising.

Table 3.6: Comparison between KSA and US in Hofstede's culture index

Country	Power Distance	Individualism	Masculinity	Uncertainty
KSA 'Arab world' ¹⁶	80	38	52	68
United States	40	91	62	46

Source: Hofstede's website: http://www.geert-hofstede.com/hofstede_dimensions.php .

In addition, culture distance can be identified according to the differences in language (Alon and McKee 1999). This would affect the transferability of franchise formats and operations of franchise businesses to foreign and hosting countries (Fladmoe-Lindquist, 1996), which has made many US franchisors start their international expansion in English-speaking countries. However, American franchises dominate the Saudi market (e.g. McDonald's, KFC, Pizza Hut, Hertz, Avis, DHL) which indicates that the language is not a barrier. More positively, English is widely spreading in KSA and many universities are switching to teaching in English for most of their courses. Also it has been argued that the translation of tradenames of franchises should be taken into account (Anttonen et al., 2005). Per government rule in KSA, the international franchise name should be used on the sign along with an Arabic name (which belongs to local franchisees). However, the logo of the brand would maintain the identity of the franchise business .

Some other cultural values should be taking into consideration relating to the type of products, promotion, design and location of the franchise in KSA (Tuncalp, 1991). Generally, all kinds of businesses can be franchised in KSA, except some products that are forbidden according to Islamic law. For example, pork and alcohol cannot be franchised. In terms of promotion, some advertising photographs might need to be edited to conform with Saudi conservative culture. Moreover, the design of a franchise should be adapted to Saudi traditions. For

¹⁶ Hofstede's model used the 'Arab world' to refer to Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia, and the United Arab Emirates

example, some franchise restaurants and coffee shops will have two entrances, a family section and a single section for single men.

Alon (2004) proposed that franchising internationally is more likely to be used when the knowledge of franchising in a hosting country is well-known. Previous studies have indicated that franchising is not a well-known strategy of doing business in KSA (Tuncalp, 1991; FOEC, 2005). There is a lack of awareness among investors and the public, along with insufficient information about opportunities through the franchise system. From 2008-2010, annual franchise exhibitions were conducted to promote franchising. However, there is a need to conduct frequent exhibitions to promote successful franchises, which come from all around the world.

3.8 Franchising literature in KSA

The body of knowledge regarding franchising in KSA is limited. There were a few studies that examined some aspects of franchising, including franchise problems (Tuncalp, 1991), market entry (Abughazala, 2007), and franchising among SMEs (Sadi & Al-Fuzai, 2010; Sadi & Henderson, 2011) and from a customer perspective (Sadi et al., 2011). Obviously, the majority of these studies were recently published, after 2005, due to economic reforms in KSA and after KSA's accession to the WTO in 2005. Tuncalp (1991) investigated the problems for business format franchising from the perspective of international franchisors in KSA. The main findings were a lack of a specific franchise law and some issues according to Saudi social beliefs and traditions. Abughazala (2007) explored the preferred mode of market entry in KSA and found that fast food was considered to have great potential for franchise market entry. However, some legal and operational barriers were identified, such as Saudization, limited franchise regulations, access to reliable suppliers, and access to quality supplies.

Three studies were published recently that examined franchising among SMEs in KSA, which mostly used quantitative approaches confined to just one region (Eastern region), representing just 10.5% of the franchise market (MCI, 2012). Sadi and Al-Fuzai (2010) examined the effectiveness of franchising as a tool for

domestic SME success through an evaluation of the factors that govern such success. The results indicated that there was a strong relationship between the perceived benefits of franchising and the success of SMEs. Sadi and Henderson (2011) examined the significance of franchising among domestic SMEs and found that franchising is deemed to be a suitable business format for SMEs in KSA, proposing some measurements to guide Saudi SMEs to potential franchises in their business areas. Sadi et al. (2011) examined the role of franchising in various sectors in the success of SMEs from a customer perspective, based on a conceptual model that hypothesized the relationships between businesses, the cultural benefits of franchising, and the success of SMEs. The results indicated that franchising is beneficial to the development of Saudi SMEs and the Saudi lifestyle in general.

The current study differs from previous studies in that it provides a comprehensive up-to-date overview of the franchise system in KSA, including data and trends, by analysing secondary data. Furthermore, it discusses in detail many of the factors that hinder the popularity of franchising among SMEs and start-ups by using a mixed method approach targeting different categories of respondents who are interested in franchising, thereby covering many aspects that influence franchise development at a national level. Moreover, this study will examine international franchising in the context of the perceived advantages to the local franchisees.

3.9 Summary

This chapter highlighted the key aspects related to the context of this study. The background of the tourism sector in KSA indicates that tourism is a new economic industry, which still needs more development of its facilities, institutions, education and firms to provide essential services to tourists. This makes it challenging to meet the current needs of domestic tourists and KSA has yet to attract many international tourists. However, the main tourism indicators showed that the tourism sector is witnessing a real growth and it is a promising sector for many investment opportunities, which will create many chances for franchise businesses to flourish. This chapter also showed a gradual evolution of franchising over three decades. The environmental analysis presents KSA as an attractive investment

market for international franchise. This fact makes the foreign franchisors eager to look to the Saudi market as promising for prospective franchisees.

This chapter also reviews previous studies conducted into franchising and tourism in the context of KSA. This has revealed limited knowledge about the unpopularity of franchising among SMEs and start-ups, as well as little or no previous knowledge about tourism investment in KSA, although some literature illustrates the range of weaknesses in the provided services in the tourism sector. This scarcity of knowledge necessitates a qualitative investigation of the current state of franchising (Chapter 5) and tourism (Chapter 6) in KSA, before examining the potential impact of international franchising in developing tourism businesses (Chapters 7 and 8).

Chapter 4: Methodology

4.1 Introduction

This study explores the associated advantages of the utilization of international franchising in developing and promoting the tourism sector. The context of the study is the tourism and franchise businesses of KSA. Conducting high-quality research in the field of enterprise is particularly difficult, leading Kirby (2007) to suggest a stepwise approach, which moves from pre-understanding towards understanding in three phases: a qualitative approach in the first phase to investigate the issues, then a quantitative approach to identify the substantive context, and then a qualitative approach to provide in-depth knowledge. Similarly, this study will adopt three phases of mixed methods to enhancing understanding of how international franchising can be a development tool for SMEs, an initiation tool for start-ups, and a strategic tool for the government and private sector. The intersection between franchising and tourism will be preceded by understanding the status of each field individually. Therefore, the exploration begins qualitatively, to investigate the current barriers and drivers of both sectors, is then developed and expanded through large scale surveys to validate the initial exploration, and makes an intersection between international franchising benefits and tourism. This leads to further exploration to examine the actual experience of those businesses, mostly in tourism, that have converted from independents to franchisees.

Accordingly, this chapter discusses the methodological design of how these stages are designed and applied (section 4.2). The mixed methods design is then discussed and summarised (section 4.3). The chapter then proceeds to a discussion of the sequential three phases of the approach: interviews (section 4.4), questionnaires (section 4.5), and case studies (section 4.6), in terms of methods of collecting data, sampling, method designs, procedures, data analysis, and data quality assurance.

4.2 Research design

The research design provides an organized structure for objectives and research questions that will guide the research, the methods used to approach the answers, the sample that will be targeted, and the way that data will be analysed and interpreted. The research design should be justified by the paradigm under which the research operates. Paradigms conceive research philosophically, starting with claims about what knowledge is (ontology), how we know it (epistemology), what values go into it (axiology), how we write about it (rhetoric), and the processes for studying it (methodology) (Creswell, 2003). The paradigms that dominate the literature from ontology onwards can be divided into three schools of thought: positivism, interpretivism (Bryman and Bell, 2007), and pragmatism (Creswell, 2003; Morgan, 2007).

Positivism is based on the assumption that “the social world can be studied in the same way as the natural world, that there is a method for studying the social world that is value free and that explanation of a causal nature can be provided” (Mertens, 2005:8). Therefore, the main methodology of positivists is to verify a theory or experiment by observing, measuring, and anticipating the surrounded factors (O’Leary, 2004). The second paradigm is interpretivism, which focuses on the specific contexts in which people live and work in order to understand the historical and cultural setting of the participants. Interpretivism generates and inductively develops a theory, or pattern of meanings, rather than starting with a theory, as is done in positivism (Bryman and Bell, 2007). The third paradigm is pragmatism, which occurs when the researcher focuses on the problem rather than on the methods, by using multiple data sources as are deemed best to answer the research questions (Evans et.al, 2011). Pragmatists examine a problem from different angles using “what and how” questions, and utilise many methods to collect and analyse data, rather than relying on one philosophy (Patton, 1990). Thus, the aim of their research is to overcome the problems of a certain period or condition, rather than relying on testing or developing a theory.

With regard to the methodological assumptions relating to research procedures, positivism is considered a foundation for quantitative research, as interpretivism is for qualitative research, while pragmatism provides a combination of these two research approaches. The distinction between quantitative and qualitative research is based upon analytical objectives, and data collection methods and procedures. Quantitative research strategies emphasises quantification in the process of analysing and collecting data, producing findings through statistical measurements (Bryman and Bell, 2007). This approach examines data using a deductive process (Easterby-Smith et al., 2002) which measures the extent, prevalence and strength of observed characteristics, differences and relationships (Davies, 2003). In order to facilitate the collection of data from a large representative sample, which can be defined within specific bounds or precision, quantitative research utilizes structured and standardized tools; these, for the most part, incorporate categories, such as questionnaire surveys. In contrast, qualitative research strategies tend to emphasise words and language studying experience, behaviours, emotions and feelings (Bryman and Bell, 2007). These strategies examine data through an inductive process to generate meaning and understand concepts in sufficient depth (Creswell, 2003). Qualitative research employs flexible tools with a less rigid, freer structure (e.g. interviews, observations, etc.), which suit the way in which the research undergoes development.

While both quantitative and qualitative research have equal merit and determining the most adequate method depends upon the research problem and questions, the majority of franchising research has been criticised for being heavily reliant on the quantitative approach (Elango and Fried, 1997; Gauzente, 2002; Nijmeijer et al., 2013). For example, a recent systematic review which assessed over 125 empirical studies on franchising revealed that 101 of these studies implemented a predominantly quantitative design (Nijmeijer et al., 2013). From the perspective of the franchisee, similar studies primarily utilized “coarse-grained research”, with preferences for questionnaires based on American inventories collating potential reasons for joining franchising; the implication of these inventories remains

ambiguous (Gauzente, 2002). Those who utilized a quantitative approach listed a number of reasons for their choice to take part in the franchising process, which were ranked by respondents without providing the details behind these reasons, as some of the following studies built their lists according to the previous examples (e.g. Izreali, 1972; Peterson and Dant, 1990; Withane, 1991).

The predominance of quantitative research may be due to the fact that some researchers used to view franchising as a programmed form of entry rather than an entrepreneurial activity (Price, 2000), which results in the existing accounts failing to correspond with the genuine experience of franchisees or franchisers (Gauzente, 2002). Therefore, critics have argued that not only do surveys provide an insufficient explanation of numerous aspects of franchising, but that they also result in a failure to capture the subtlety of actual business practice, limiting the practical relevance of the data obtained (Elango and Fried, 1997). Hence, the extent to which the academic literature surrounding franchising has been utilizing inappropriate methodologies to assess the expected and experienced benefits of franchising becomes clearer (Price, 2000).

There is no doubt that quantitative research validates constructed theories and generalises research findings, as it is highly replicable across social and regional demographics (Johnson and Onwuegbuzie, 2004). This advantage of quantitative research has its benefits with regard to franchising research in countries that are culturally similar, such as the UK, Australia and those in North America, where franchise systems originated and began to develop. It is important to note, however, that when considering the replication of international franchising in other hosting countries with dissimilar cultures, the knowledge produced by quantitative research may be too abstract to be directly applied to specific local situations (Johnson and Onwuegbuzie, 2004). In this context, Dant and Grünhagen (2014) called for the testing of common concepts of franchising with samples from outside the U.S, in order to substantiate the generalisability of prior findings.

Despite the general criticism levelled at qualitative research relating to its lower credibility and the way in which it can be easily influenced by the researcher's personal biases (Miller & Brewer, 2003), many franchising scholars have called for the use of new qualitative approaches for gathering data (Dant, Grünhagen and Windsperger, 2011) and for thinking phenomenologically without being tethered by existing theories (Dant, 2008). Nijmeijer et al. (2013) state that qualitative research and mixed-method designs can be especially useful in franchising research, as they can capture details about a variety of aspects and address franchising research challenges; as such, these designs will help to further develop theories regarding successful franchising ventures.

Given the above discussion, this aim of this research is not based in any one paradigm or philosophy, but rather aims to utilize several different methods guided by purpose and knowledge by which the research problem can be understood and its objectives achieved (Goldkuhl, 2012). The researcher, as a Saudi citizen, is primarily concerned with the problems holding back the development of the tourism industry in the KSA; these include the reluctance of entrepreneurs to engage with the tourism sector, the absence of a wide range of tourist services in the KSA, the low quality of existing tourist related businesses, and inexperience in the human resource departments of this field. The researcher's aim is to change the current practices of tourism in the KSA by introducing international franchising, which has been enhancing tourism worldwide, using the practices of countries with a wealth of experience and prior knowledge in tourism as a model to follow.

Thus, in order to examine the potential impact of international franchising on a developing tourism industry, the research must construct knowledge in the following ways: (1) by understanding the current situation of both tourism and franchising, what barriers prevent tourism businesses from developing, identifying barriers that prevent entrepreneurs from engaging in tourism and franchising, and understanding how international franchising can be applied under these circumstances; (2) exploring the opinions of current Saudi franchisees, as well as

how they perceive the value of international franchising. Furthermore, the required change cannot only be evaluated theoretically, but should also be examined through practices and actions. This will be achieved through a close examination of the actual experiences of local tourism businesses that have converted into franchises. Therefore, the attainment of constructive knowledge cannot be accomplished without the researcher engaging herself in the study, and using statistical measurements to assess the collected data. Therefore, the analytical process will rely on a version of 'abduction' that moves back and forth between the induction and deduction processes; this will be completed by converting observations into theories, then evaluating these theories through actions (Morgan, 2007). In sum, this research will be framed within a pragmatic paradigm, and will implement a mixed methods design to collect and analyse the data. The next section will discuss in greater depth the reasons why mixed methods have been adopted.

4.3 Mixed methods research

Mixed methods research occurs when the researcher combines qualitative and quantitative research methodologies, techniques, approaches, concepts, or language into a single study (Johnson, Onwuegbuzie and Turner, 2007). The fundamental principle of mixed methods research is to gain a deeper understanding of the research topic (Punch, 2009); in this way, the combination of approaches should result in complementary strengths without creating overlapping weaknesses (Johnson and Onwuegbuzie, 2004). Greene, Caracelli and Graham (1989) identified five purposes of mixed-method designs: initiation, triangulation, complementarity, expansion, and development. The following section will discuss these five designs and how they are applicable to the current study.

Initiation seeks to unravel the paradoxes and contradictions that exist in the study. The discovery of a paradox can enhance the depth of the inquiry's findings and interpretations when using different methods (Greene et al., 1989). The researcher expected a dilemma to be present in the competing interests of

the public and private sectors. Whether the barrier that faces tourism entrepreneurs is a lack of government support or a lack of entrepreneurial experience, whether international franchising can be successfully applied to tourism as a mode of investment by SMEs and start-ups or not. To unravel any paradoxes within the barriers that face the two fields, the researcher applied different methods, some of which were in order by time, as will be discussed further in the interviews section (4.2).

Triangulation is the utilising of more than one method to collect and analyse data from the same phenomenon, in which the results can be converged and collaborated. Triangulation increases the validity and credibility of the results, and reduces bias due to homogeneity of data (Greene et al., 1989). There are five common types of triangulation discussed within the literature including: (1) data source triangulation composed of time, space, and persons; (2) analysis triangulation that utilizes more than two methods of analysing the same set of data for validation purposes; (3) investigator triangulation, which uses multiple observers; (4) theory triangulation that uses more than one theoretical perspective to examine the studied phenomenon; and (5) methodological triangulation, whether within-methods or between-methods, that involves using two or more research methods in one study, at the level of data collection or design (Denzin, 1970). “Within-methods” occurs when the researcher use different techniques of the same method for internal validity, whereas “between-method” triangulation occurs when the researcher uses contrasting research methods, such as interviews and questionnaires, to investigate a single phenomenon (Denzin, 1970).

As shown in Table (4.1), ‘between methods’ triangulation is involved in this study through the use of sequential multiple methods, including interviews, questionnaires and case study to examine the same dimension of the research. Furthermore, this study uses other types of triangulation due to the presence of two different sectors (franchise and tourism), with each sector being explored individually, then collectively. At the sectorial level, each sector is investigated

qualitatively and then quantitatively through using multiple sources of data from different organizations (e.g. Chamber of Commerce, SCTA, enterprises) and persons (executives, administrators, developers, owners/managers) and different economic activities (e.g. restaurants, hotels, coffee shops, clothes). The data will be collected from different regions (e.g. Riyadh, Eastern, and Western) regions and a combination of data analysis techniques will be used (thematic analysis then univariate and bivariate analysis) in each sector. At the collective level, triangulation occurs through the comparison in which some common questions in quantitative approach are shared between the two surveys, answered by two groups (owners/managers of tourism businesses and franchisees) and collected from different economic activities and regions.

Table 4.1: Triangulations examples from the current study

Sector	Franchise sector Qualitative approach	Tourism sector Qualitative approach	Franchise sector Quantitative approach	Tourism sector Quantitative approach
Methods triangulation	Interviews	Interviews	Franchise survey	Tourism survey
	Case studies			
Data sources triangulation from different organizations	Chamber of Commerce	Chamber of Commerce, SCTA	Franchised business	Local tourism business
Data sources triangulation from different persons/activities	Administrators, franchise committee members, domestic franchises , developers	Administrators, tourism committee members, SCTA officials	Owners/managers of different franchise economic activities	Owners/managers of different tourism economic activities
Data collection triangulation from different places	Riyadh region	Makkah, Riyadh, Asir, Dammam and Madinah cities	Riyadh, Eastern, Western regions	Riyadh, Eastern, Western regions
Data analysis triangulation	Thematic analysis	Thematic analysis	Univariate analysis	Univariate analysis

Source: Author

Complementarity occurs when different methods are used to study different aspects in a way that elaborates, illustrates, and clarifies the results (Greene et

al., 1989). In this study, the methods were implemented simultaneously and interactively. For instance, the case studies enable the researcher to examine the propositions that emerged from the surveys, and clarify the issues raised by interviews during the earlier phase.

Expansion seeks to extend the breadth and range of inquiry by utilising different methods for various inquiries (Greene et al., 1989). Throughout expansion, the second phase of mixed methods is applied in a logical way, in which investigation by one method is inappropriate until another method has constructed a better understanding of the issue (Punch, 2009). In this study, the first phase will commence with exploratory interviews, and then the answers will be expanded via large-scale questionnaires to assess and validate the outcomes. In addition, the questionnaire results will be expanded via a case study in a way that builds a stronger foundation of understanding.

In the development stage, the methods implemented in the first phase will be used in developing, building, and refining the second phase (Punch, 2009). This increases the reliability of the results and strengthens the explanations provided by both methods. This study employs a three phase methodology: interviews, questionnaires, and case studies. The data gathered during each phase will be instrumental in the development of the subsequent phase.

According to Johnson and Onwuegbuzie (2004), there are nine possible designs, which combine quantitative and qualitative data, as shown in Figure 4.1. The establishment of an appropriate design is determined by two main dimensions; timing (concurrent/sequential) and the weight of quantitative and qualitative data (equal/dominant status). Concurrent timing occurs when quantitative and qualitative are collected, analysed and interpreted at approximately the same time (e.g. QUAL + QUANT) in a mutually reinforcing manner to confirm, contrast or corroborate findings. Sequential timing occurs when one method is conducted separately from the other, either the qualitative

method or the quantitative method first, as each method is collected and analysed to inform the subsequent method (e.g. QUAL → QUANT). The timing of mixed methods not only describes the order in which the researcher collects the data, but also relates to when the data is analysed and interpreted (Creswell and Clark, 2007).

Figure 4.1: Priority decision of mixed method designs

		Concurrent	Sequential
		QUAL + QUANT	QUAL → QUANT QUANT → QUAL
Status Decision	Equal Status		
	Dominant Status	QUAL + Quant Quant + QUAL	QUAL → Quant Qual → QUANT Quant → QUAL QUANT → Qual

Source: Johnson and Onwuegbuzie (2004)

With regard to weighting, this refers to the decision to either operate research within one dominant paradigm (e.g. QUAL + quant), or give equal status to collected data (e.g. QUAL+ QUANT). For instance, quantitative priority is given when using a positivist paradigm, qualitative priority is more suited to interpretivism, while either equal or unequal priority can be given to pragmatism (Creswell and Clark, 2007).

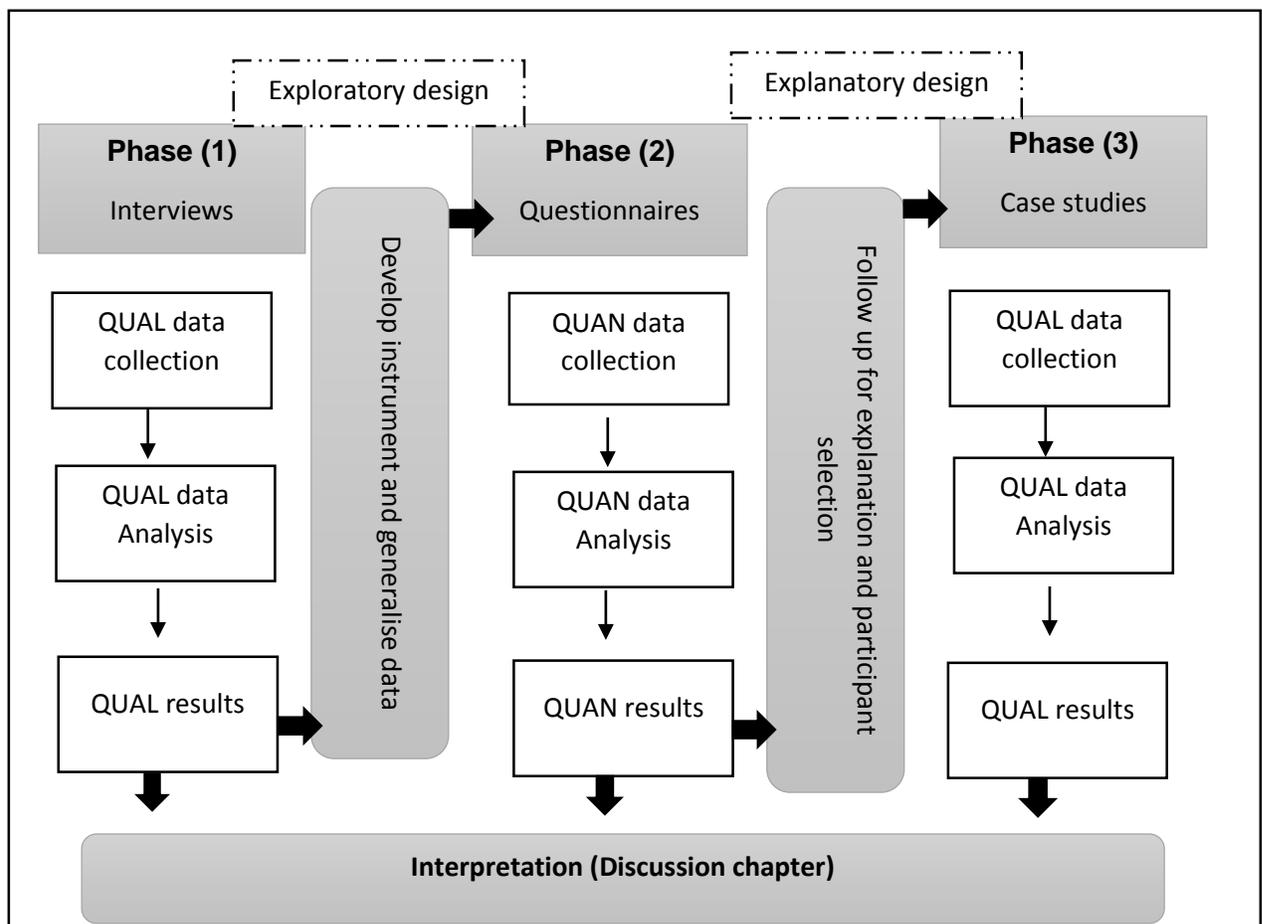
Similarly, Creswell and Clark (2007) suggest that sequential timing can adopt two designs in total, including exploratory and explanatory. When a sequential timing of two phases is adopted, beginning with a qualitative method in a way that can help develop or inform the second phase of quantitative method, the framework will be exploratory in design, with a high priority given to qualitative

data. The exploratory design is useful in developing an instrument and in cases when the data needs to be generalised quantitatively. In contrast, when a sequential timing of two phases starts with a quantitative method first, qualitative data will then be used to explain or build upon the initial quantitative data; the design will be framed as explanatory design, with high priority given to quantitative data. An explanatory design is particularly useful when identifying results that need further explanation and when selecting participants precisely for a follow up qualitative study. Johnson and Onwuegbuzie (2004) noted that mixed methods are not limited to these designs, as it is possible to use more complex ones; however, the most important aspect of a mixed methods design is that it should be created in a way that effectively answers the research questions.

Within this study, sequential timing is employed in combination with a more complex design, consisting of three sequent phases: The first is qualitative, specifically interviews, the second quantitative, specifically questionnaires, and the final phase is, again, qualitative, consisting of case studies. As Figure 4.2 and Figure 4.3 highlight, the complex design of these three phases will adopt two designs. The first will be an exploratory design (QUAL → Quant), which aims to explore the unknown variables affecting the development of the two fields (Research Questions [RQs] 1,2,4,5,6); the qualitative results will aid the researcher in designing the questionnaire, attempting to validate and generalise the data obtained from the interviews (RQs 1,2,4,5) and identify the context of the study (RQs 3,7,8,9,10). The explanatory design (QUANT → Qual) will then make the results of the questionnaire more cohesive (RQ10), and provide further explanation and examination of the theoretical propositions addressed by the case studies; these will be selected purposefully from the questionnaires for follow-up in depth analysis (RQs 11,12,13,14).

The data of the three phases will then be collected and analysed separately in the results chapters (Chapters 5, 6, 7 and 8); following this, the three sets of results will be merged together during the interpretation phase, outlined in the discussion chapter (Chapter 9). As demonstrated by Figure 4.3, the research questions will be addressed equally using quantitative and qualitative data, and equal priority will be given to data collected from interviews, questionnaires, and case studies. Therefore, the design of the study will match this design: QUAL→QUANT→QUAL.

Figure 4.2: The mixed methods design of the current research



Source: Author

In the first phase, preliminary interviews in two sectors, franchise and tourism, were conducted, mainly with government organizations that are responsible for

development of the two sectors, in order to explore the topic, and to identify the main issues that the study must address. In the second phase, a large-scale follow-up questionnaire was distributed among businesses working in two fields, in order to validate the data obtained from the first phase, and to explore other issues related to the research questions. Although two different surveys were conducted, one for franchise businesses (franchisees), and one for tourism businesses, the two surveys have some questions in common, with regard to international franchising. Finally, a follow-up case study was conducted in the third phase to test the propositions that built on previous phases, and to provide an in-depth understanding of the actual experience of tourism and non-tourism businesses that had recently converted into franchises. These phases will be discussed in the following sections.

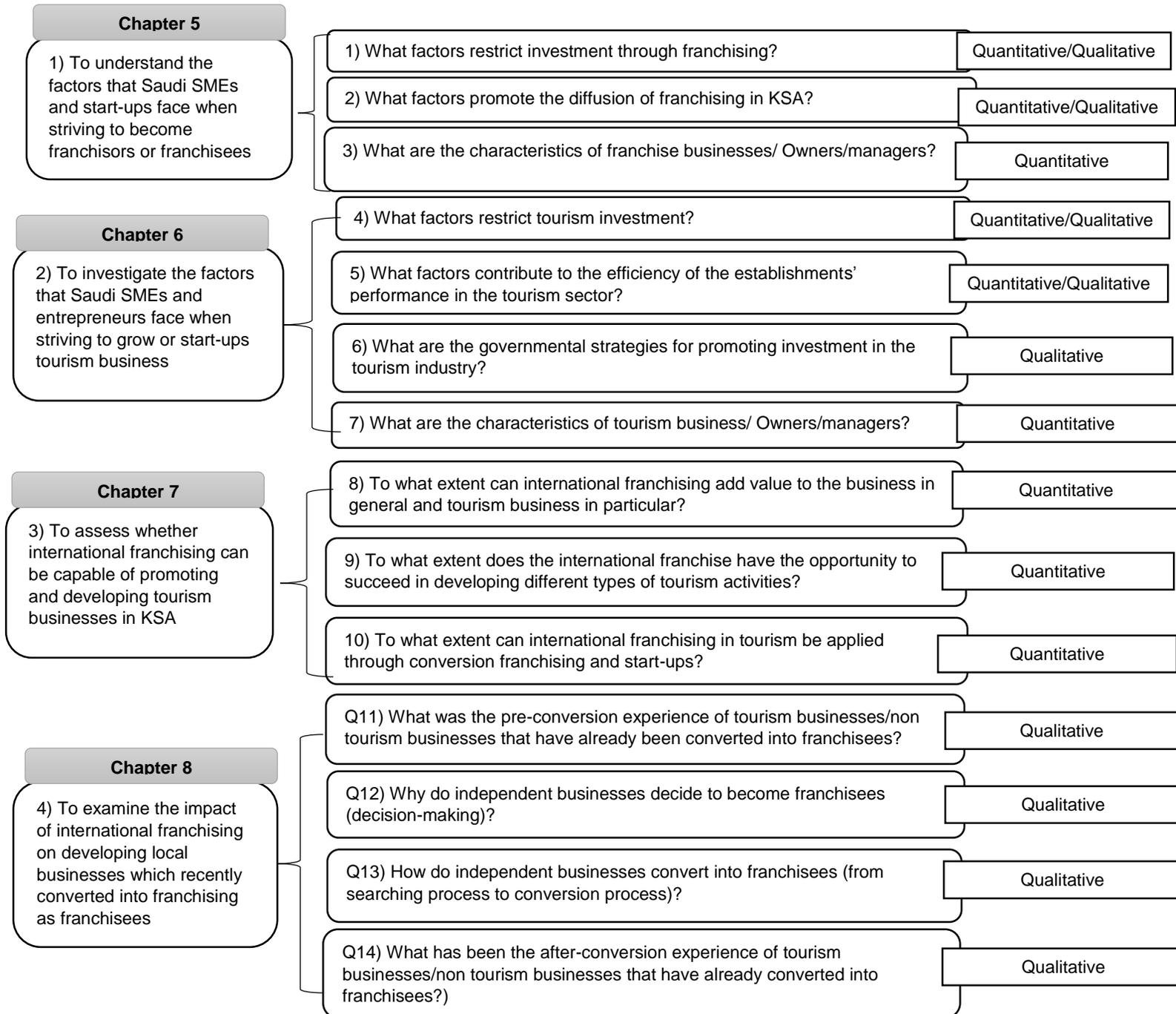


Figure 4.3. Research objectives and approaches

4.4 The first phase: Interviews

This section will discuss the procedures of conducting the first phase of qualitative research, conducting interviews in the two sectors individually.

4.4.1 Justification of starting with qualitative research (interviews)

The nature of the first phase is exploratory, in that the research needs to identify the most severely affected factors that inhibit the development of both sectors. Thus, the researcher will conduct interviews, which elucidate the issues explored, which would be difficult to discover through quantitative research. There are five reasons for starting with preliminary interviews: first, as highlighted in Chapter 3, little is known about the investment in franchising and tourism in KSA, thus an initial exploration is required to understand the current situation of each sector, and assess whether it represents a barrier or promoting factor for attracting international franchising into the tourism sector. Second, the review of existing literature in Chapter 2 indicates that the role of franchising in developing certain sectors, such as tourism, has not yet been widely explored. Thus, the type of franchising in tourism businesses that have potential in the context of KSA must be identified through the lens of experts who have extensive experience in tourism. Third, the best source that can summarise the major factors affecting the two sectors are people in charge of developing the sectors, i.e., government and private officials. Thus, the nature of participants requires full liberty to provide details about the raised issues, without restricted guidance, and these are therefore mostly high officials within their organizations. Fourth, interviews are the best method to reveal the relationship between the private sector, as represented by the Chamber of Commerce, and the public sector, as represented by SCTA in respect to tourism. The procedures for collecting data from different organizational levels are an interactive and sequential arrangement, which allows the researcher to link groups' opinions, and seek justification from higher hierarchical groups. Thus, the interviews help to clarify the main concerns of each group, or reveal any contradictions of the points of views due to conflict between their interests (Johnson et al., 2007). Fifth, interview is the main tool for developing and constructing surveys in the second phase.

According to Ritchie (2005), certain criteria should be considered when conducting interviews, including: the type of interview; whether it is a structured, semi-structured, or unstructured interview; the number and nature of participants, whether focus groups or individual interviews; the purpose of the interviews; and the interest of the interviewees in the topic. These criteria will be discussed in the following sections.

4.4.2 Interviews' sampling

There are two categories of sampling techniques: first, probability samples, in which each element has an equal chance of selection. This type of sampling includes a simple random, stratified random and cluster sampling. Second, non-probability samples are used if probabilities of selection are not known. This type of sampling includes convenience, purposive and quota samples (Bryman and Bell, 2007).

The interviews sample in this study is a non-probability sample drawn from two sectors: franchise and tourism, targeted at private and public sector representatives within the Chamber of Commerce (administrators, committee members) and SCTA. Because of their sensitive positions and for reasons of confidentiality, it is not possible to provide personal details about these participants. Purposive sampling was used to select interviewees from both sectors, because they are the only officials/experts who are responsible for managing/developing the franchise/tourism sector, and are particularly knowledgeable about the issues explored (Chambliss and Schutt, 2009). The interviews' sampling will be discussed for each sector as follows:

Franchise interviews sampling

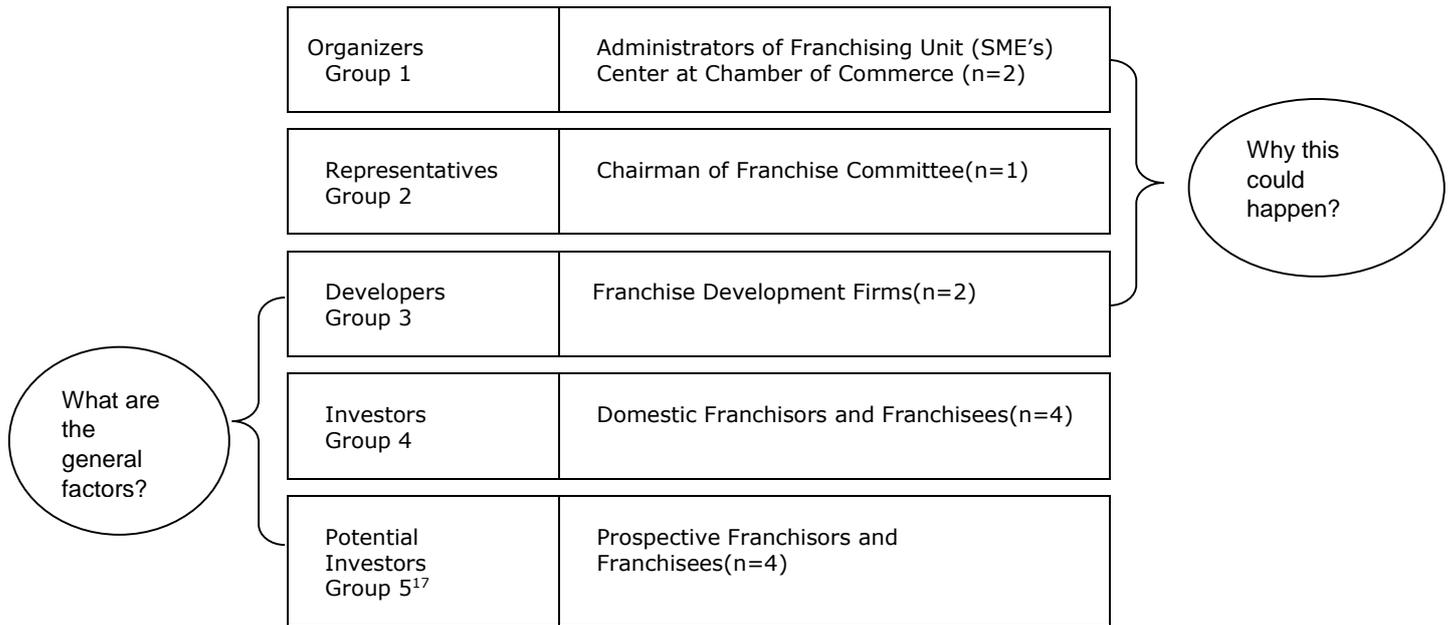
As shown in Figure 4.4, five groups were targeted for the franchising interviews, divided into organizers, representatives, developers, current franchises, and potential franchises. Organizers are those administrators responsible for developing and promoting the franchise sector, offering investment opportunities, and creating databases for Saudi franchises.

These organizers are embedded in the franchise unit of the Chamber of Commerce. This franchise unit is a small section attached to the SMEs department. In total, there are only three franchise units in KSA, in Riyadh, Jeddah, and Dammam. The latter two were not yet formed at the time of the interviews. Thus, two administrators (group 1) from the franchise unit of the Riyadh Chamber of Commerce were selected to be interviewed. At the Riyadh Chamber of Commerce there is a franchise committee that is composed of representatives of franchisees, or domestic franchisors who are engaged in various activities.

The chairman of the franchise committee was purposely selected for the interview as a representative of group 2. This is because of his direct experience with all relevant matters regarding franchising in KSA, his current experience as a domestic franchisor, his participation at regular meetings to discuss issues that affect the diffusion of franchises, as well as his external representation of the sector to other organizations, such as the Ministry of Commerce. The snowball technique was used by the franchise committee's chairman, who identified four participants for group 4, and four participants for group 5. These include current domestic franchisees, franchisors who are members of the franchise's committee, and prospective franchisees/franchisors who already owned businesses in related activities (hotels, restaurants, entertainment centres, guided tours), but may intend to develop or expand their current businesses through franchising.

The developers (group 3) are those who provide services to build and develop franchise systems within domestic firms, as well as marketing franchise opportunities locally and internationally. To date, there are only two developer firms in KSA. One is an international firm established 15 years ago in London, whose owner is originally from one of GCC countries. Due to the potential growth of franchising in KSA, he transferred his main head office from London to KSA in 2010. The second is a new national firm, recently established that boasts little experience. These two firms were selected to reflect their points of view as developers. Collectively, the interviews were conducted with 13 participants drawn from five categories, as shown in Figure 4.4.

Figure 4.4 Interviews sample of franchise sector



Source: Author

Tourism interviews sampling:

As shown in Figure 4.5, three groups were targeted for tourism investigation in a particular sequence: representatives (group 6), organizers (group 7), and regulators (group 8). The preliminary investigation was conducted with representatives and organizers in no particular sequence, since they both belong to the Chamber of Commerce. Tourism Committee members (representatives) were selected because they advocate on behalf of tourism businesses, and provide further explanation on these issues from their experiences in the daily operation of their businesses. In total, there are a large number of tourism committees extant in the 28 Chambers of Commerce around KSA. Only five tourism committees were selected from five cities for the interviews (Makkah, Riyadh, Asir, Dammam, and Madinah) because (1) these regions represent 80% of the population of KSA, (2) most tourist sites, including the two holy mosques, are in these regions, and (3) more than 90% of tourists, outbound and inbound, visit these sites. Moreover, these representatives were intentionally selected from different sub-sectors, including accommodation, entertainment, restaurants, and

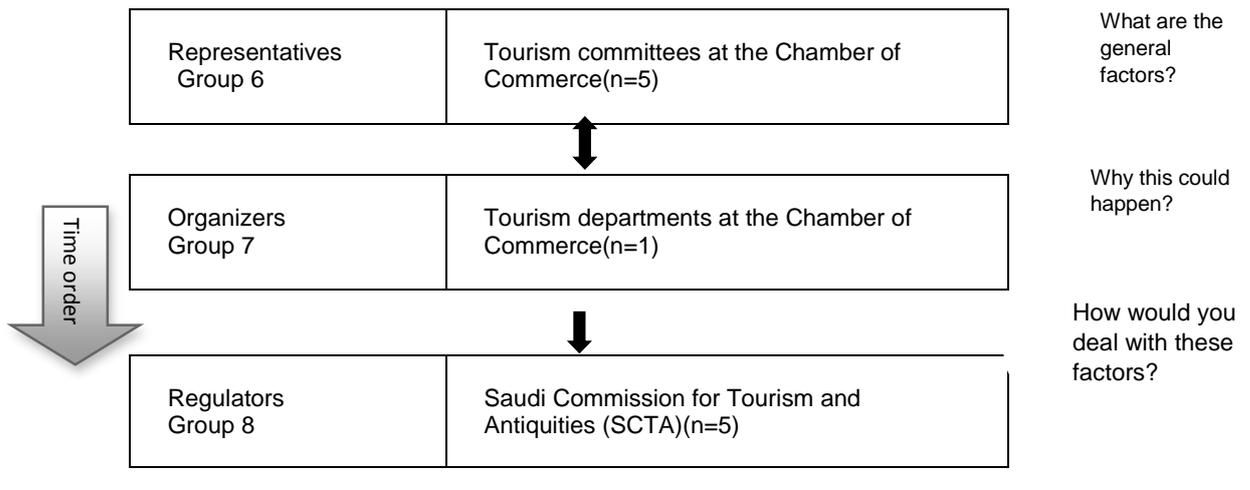
¹⁷ Prospective franchisees and franchisors were selected from tourism committees in the Chamber of Commerce. The same members were also selected for tourism interviews sampling (Representative group, see Figure 4.5)

tourism guidance. The diversity of interviewees was designed to help the researcher to obtain diverse views of various activities.

Tourism organizers at Chamber of Commerce represent a tourism management department, and are also known as administrators. The tourism management department organizes the development of the tourism sector, and confronts challenges to growth in KSA, while supporting the investors' sphere in the industry. They are also responsible for conducting tourism conferences and workshops. Administrators can identify general issues that affect the development of the tourism industry, and problems that they then forward to relevant authorities to find solutions. Although there are 28 Chambers of Commerce, there is only one tourism management department in KSA, based in Riyadh, which was selected for the interview.

After the main issues that affect the development of tourism industry have been mentioned by the above groups, they are then discussed by the regulators (group 8). The Saudi Commission for Tourism and Antiquities (SCTA) is the first government agency responsible for the tourism sector in KSA. Established in 2000, it is composed of 15 departments and 16 subdivisions. The manager of the public relations department identified participants who have experience regarding the research purpose. Five high-level executives were selected, three men and two women, representing three departments: investment, human resources, and marketing. In this phase, the initial results of interviews were presented as broad themes to high-level SCTA officials to provide them with a comprehensive view of the main challenges facing investors in the tourism industry. Officials interpreted the findings and attempted solutions, and decided what must be done to address these issues in future.

Figure 4.5: interview's sample of tourism sector



Source: Author

4.4.3 The design of interviews

The interviews were designed to meet the objectives of the study, particularly the first objective (franchise sector), which is concerned with exploring the factors that Saudi SMEs and start-ups face when striving to become franchisors or franchisees, and the second objective (tourism sector), investigating the factors that Saudi SMEs and entrepreneurs face when striving to grow in the tourism business.

Semi-structured interviews were conducted, due to the nature of the participants and required information. For example, unstructured interviews would not be suitable for officials in both sectors whose time is very valuable. Although the researcher needs to explore specific issues related to franchising and tourism businesses, structured interviews cannot capture the depth of insight required for exploratory study (Curran and O' Garman 2014). Thus, semi-structured interviews give participants greater freedom to articulate themselves than structured interviews (Kvale and Brinkman, 2009), and allow the interviewer to investigate, and induce interviewees to discuss important issues (Bryman and Bell, 2007). Prepared questions can be altered during the conversation. There is flexibility in rewording the question or giving further explanation, which gives the interviewees freedom to answer questions in their own words.

A list of questions acts as a guideline for the interviews. The guidelines were divided into general themes that could cover the major aspects of franchising and the tourism environment of KSA, including legal environment, investment, marketing/ funding, cooperation with other sectors, and barriers (see Appendix 4 and Appendix 5). Some questions were drawn from literature that discussed franchising and tourism in KSA (see Chapter 3) which assist the researcher in focusing on the most important aspects. These questions were asked, or not, depending on what information had been given by the interviewees in previous responses, and whether they could answer said questions, despite the fact that the majority of questions were applicable to different groups. A few questions were more likely to be attached to the roles of participants. The regulators, organisers, and representatives were more likely to explain “why this could happen,” while the remaining groups were more likely to identify “what are the general issues?” With regard to regulators in the tourism sampling, their questions emerged from interview results conducted with representatives and organisers from the sample (as will be shown in Chapter 6).

4.4.4 Interviews’ data collection procedure

The participants were interviewed through two techniques: face-to-face and telephone, both individually and in groups. Opdenakker (2006) points out that all interview techniques share common principles by which they can be utilized equally, yet the nature of the requested information, time, budget and standardisation of the interviews can determine which is most suitable.

In this study, the majority of the interviews were conducted face-to-face in the Middle, Eastern, and Western regions of KSA. However, some conditions forced the researcher to conduct telephone interviews as well. Although the researcher made arrangements with interviewees before travelling to their locations, some interviewees were unable to meet the researcher upon her arrival, either for personal reasons or simply because they were too busy. Therefore, she arranged telephone interviews instead. Another reason is that the researcher wished her guardian to accompany her when travelling overnight, but due to her guardian being unavailable, and there being limited

return flights from the Southern region, the researcher conducted telephone interviews instead.

Individual interviews were conducted with the majority of interviewees, with the exception of SCTA. It was proposed in the fieldwork plan to have a focus group discussion with the executives of SCTA, to revisit the results obtained from interviews with other categories, but conditions forced the researcher to conduct group interviews instead. Firstly, there were uncontrollable circumstances related to SCTA officers, such as separation of gender on the SCTA premises. There are two separate sections in the building, one for male employees, and another for female employees. Work meetings are usually done via closed circuit television, through which women can communicate and discuss with male employees. The researcher therefore could not conduct a face-to-face focus group with all interviewees at the same time. Accordingly, the researcher had to conduct the interviews through technical facilities. The researcher found it difficult to manage focus group discussions with two separate groups in two places (two females sitting with the researcher, and three men watching through the TV). It would have been possible to get two separate focus groups, one with each gender, or to limit focus groups to one gender, such as females, which would be easier. However, the available number of participants for the focus group would have been quite small. Besides, male executives have greater responsibilities and experience in tourism, and their profile is far deeper than female employees, who had only recently engaged in this field.

Secondly, before the fieldwork took place, the participants were contacted by the researcher to explain the broad themes of discussion, to ensure that they could engage in the group discussion effectively. Since the design of interview questions was not under the researcher's control, because they emerged from the previous interviews, it was made known from the participants that they could only answer questions that related to their responsibilities, because they are specialists in their own departments, and their experiences are not equivalent. Accordingly, these factors made focus groups an inappropriate method. Alternatively, individual interviews could

have been another option, but it was difficult to arrange appointments to interview each person individually, as SCTA executives preferred to have group interviews.

Accordingly, group interviews were selected, in which each participant would answer questions related to his/her department, with no restrictions on whether participants wished to articulate their opinions on other issues. Bryman (2001) makes a distinction between focus groups and group interviews, in terms of number of topics, purpose of interview, and kinds of opinions. Firstly, group interviews can cover a wide range of topics, whereas focus groups concentrate extensively on one topic. Different topics, such as legal issues, human resources, tourism investment, hotels classification, and franchising, were discussed during the group interviews, and everybody participated in the topic related to his/her field. Secondly, the purpose of group interviews is to collect data from more than one person at once, to save time. This was very considerate to SCTA's situation. Thirdly, a focus group's opinions are treated as the members' discussion, but a group interview's opinions are viewed as individuals. The researcher asked the questions, and the interviewees answered them according to their field. This condition may not fully apply to all group interviews, but the researcher does not distinguish between individuals' opinions, and instead treats them as SCTA representatives, regardless of which departments they belong to.

In order to strengthen the validity of the interviews' answers, the first step adopted in this research was to build confidence between the researcher and participants, especially participants who belong to institutional organizations. Another issue was that the researcher is female, which made gaining access to these organizations a complex task. Initial access was gained through the researcher's networks and connections. The researcher used to work as part-time researcher in the female section of one of the most well-known research companies in KSA, which has conducted dozens of projects with the government. The general manager therefore supported the researcher with his recommendation, which facilitated access to the Riyadh Chamber of Commerce. Subsequently, the researcher started building

confidence with participants by divulging her background, and initial discussion of the purpose of her research. Moreover, a letter provided by the Saudi Cultural Bureau in London confirmed the status of the researcher, and facilitated her mission. These initial connections were asked for referrals to other potential participants in other Chambers of Commerce, and so on. Consent forms were sent to all participants, and the researcher made an initial call to each participant to introduce herself, describe the purpose of the research, and make further arrangements.

The interviews lasted between 20 and 60 minutes, depending on the information given. The researcher funnelled interviews; they began with open, general questions, but gradually, as rapport developed, focused on more specific points (Curran and O' Garman, 2014). All of the interviews were recorded, and after completion in each region, they were transcribed. Since all of the participants are Arabic speakers, the transcript was also in Arabic. The Arabic transcripts were translated into English, and then sent to a licensed and certified translation office, with the English translation reviewed for accuracy.

4.4.5 Interviews' data analysis

Thematic analysis was chosen as the best analytical method to code and identify the main issues raised by participants. It is defined as "a descriptive presentation of qualitative data" (Anderson, 1997). Thematic analysis has been codified manually, after reviewing all of the transcriptions by using the researcher's own classification, according to related aspects on the described factors. Miles and Huberman (1994) identified several techniques to ensure the basic quality of the data. These techniques were designed to achieve two things: (1) reduce the bulk of information, and (2) seek patterns within it. Two techniques were used to generate meaning from thematic analysis in this study: noting pattern themes, and factoring. Pattern finding can be productive when the number of cases or the amount of data is large (Miles and Huberman, 1994). It constructs from repetition, which means the circulated ideas can be seen clearly in texts, and can be linked together. So

the more the concept is repeated, the more likely it is to be considered a pattern (Ryan and Bernard, 2003). In a way, the researcher seeks for supportive evidence of similar patterns, but remains open to disconfirming evidence should it appear (Miles and Huberman, 1994). The function of factoring is to tighten up data by finding a smaller number of patterns within the larger number of patterns.

In this study, data was transcribed from 20 participants from different groups in both sectors, which resulted in the generation of more than 50 different codes. Codes irrelevant to the research objectives were excluded, and the researcher only focused on the most important issues that contribute to understanding the ideas and opinions given by participants. Ryan and Bernard (2003) state that the importance of themes is not usually equal, but the most important to consider are repetition, similarities, differences, transitions, and connectors that occur frequently in qualitative data, which are more likely to produce themes. Thus, patterns were reduced, synthesized and factored into 11 major themes (in Chapter 5), and seven major themes (in Chapter 6).

Thematic analysis is also essential to display data. One of the display formats that suit this data are matrices, with defined rows and columns (Miles and Huberman, 1994), which aim to make the reader understand the contents of the tables that show the data (see Chapters 5 and 6).

4.4.6 Trustworthiness of qualitative data

The evaluation of qualitative data can be categorised by trustworthiness into four criteria: credibility, transferability, dependability, and conformability (Guba and Lincoln, 1994). Credibility testing is concerned with establishing true values from the data (Guba and Lincoln, 1994). There are two techniques that can be used to reflect credibility: “respondents validation” (Bryman and Bell, 2011), in which the researcher provides the correlation between his findings and the perspectives of his participants; and “triangulation,” in which the researcher uses more than one method for data collection (Miles and Huberman, 1994; Bryman and Bell, 2011). The different

categories of participants interviewed were assured that their responses would be credible, in terms of their experience and relation to their fields. The researcher found validated respondents through three methods: first, the majority of interview results are validated by the large scale of the test pool through follow-up surveys (as will be discussed in the second phase); second, as discussed earlier, the results obtained from the tourism sample interviews were discussed with SCTA to agree, disagree, or explain these results. Section 4.3, Table 4.1 describes the triangulation used in qualitative methods, the interviews collected from different public and private organizations, multiple regions, different people's positions, and various economic activities. Additionally, triangulation increases conformability by decreasing the effects of researcher bias (Shenton, 2004).

To achieve conformability that allows the reader to trace how the data was constructed (Shenton, 2004), a step-by-step implementation was described. The researcher used a database in an accessible manner, which recorded all research processes, including audio records, transcription, translation, and coding in a way that enhanced the reliability of the research (Bryman and Bell, 2011). Moreover, the description of background data, and the processes for conducting interviews, such as selecting participants and interview guidelines, were reported in a way that enables future researchers to develop, repeat, extend, and design further studies, which increases the dependability and transferability of the qualitative data (Shenton, 2004). With regard to transferability, that is to say, whether the findings of this study can apply in other situations, the results of interviews can be applied to other cities and regions of KSA in which the participating organizations are responsible for developing the two sectors.

4.5 The Second phase: Questionnaires

Two surveys were designed; one for franchise businesses and another for tourism businesses. This quantitative phase is based on four functions: (1) validation of the main results of interviews, (2) investigation of the franchise and tourism business characteristics in KSA along with their owners/managers, (3) identification of any association between barriers/drivers and socio-economic

characteristics, (4) comparison between the two surveys' results in some common questions regarding the attitudes towards franchising in tourism.

4.5.1 Questionnaire sampling

A probability sample utilizing stratified random sampling is employed in the second phase. Stratified random sampling is used when there is a difference in population characteristics (Burns and Grove, 2005) dividing the population into two or more relevant strata based on one or a number of attributes (Saunders et al., 2007). Sample size depends on several factors such as time, cost, non-response, heterogeneity of population, and type of analysis (Bryman and Bell, 2007). The sampling frame for any probability sample can be determined by a complete list of all the cases in the population from which the sample will be drawn (Saunders, Lewis and Thornhill, 2007). The sample frame in this phase was divided into the fields of franchise and tourism, and then each field was divided separately into numbers of subsets according to sub-economic sectors. These sectors were selected based also on geographical dimensions.

The available population determines the sample size, based on the statistical data provided by the MCI for franchise establishments and the data provided by SCTA and MCI for tourism establishments. The list of franchise establishments was accessible through the researcher's personal contact with MCI's information centre. The franchise establishments total 381, while the estimated total number of tourism establishments in 2011 is 44,128 and divided into different activities as classified by SCTA (see Chapter 3). These establishments were selected from three geographical regions (Riyadh, Eastern, and Western Regions) because of the high concentration of both population, and tourism and franchise businesses (about 80%) in these regions. This stratified random sampling will enhance the representativeness of the sample and allows for a reasonable conclusion of opinions from various sub- sectors.

Franchise questionnaire sampling

During the data collection in September 2012- April 2013, the questionnaires were distributed among 200 franchise businesses. Table 4.2 below shows the total number (n) and percentage (%) of the collected sample according to the type of business and compared to the total population. In total, 104 valid questionnaires were collected, with a response rate of 52% of distributed

questionnaires and 27.3% of the total population. This is similar to the sample size of previous studies (Knight, 1984; Peterson and Dant, 1990; Withane, 1991; Hing, 1995), however, the sample in this study tends to be larger compared to the total population of franchisees, with a higher response rate. 69.2% of the respondents were from the Middle region (Riyadh), 13.5% from the Western region and 17.3% from the Eastern region. This skews towards the Middle region, where the capital city is located. This mirrors the same tendency of the dataset, in which 66% of the franchises are based in Riyadh (MCI, 2012), because it is considered a major city for marketing, finance, transportation, and manufacturing businesses. It is also one of the most populated and fastest growing areas in KSA.

Table 4.2: Distribution of franchise questionnaires according to type of establishment compared to total population

No	Type of Franchise Business	Sample (n)	% of total sample	Total Population (n)	Sample % of total Population
1	Restaurants, Fast-Food and Food Suppliers	20	19	98	20
2	Coffee Shops, Beverages and Pastries	6	6	55	11
3	Readymade Clothes and Textiles	25	24	108	23
4	Shoes and Leathers	6	6	25	24
5	Perfumes, Cosmetics and Accessories	5	5	23	22
6	Building Materials, Industrial Equipment and Home & Medical Appliances	12	11	19	63
7	Consulting Services, Education and Training	6	6	17	35
8	Others (Transportation, Communication, Accommodation, Gold Smith, Jewelry and Trade etc)	24	23	36	67
	Total	104	100	381	100

Source: This table was prepared by the researcher with information gathered from the Ministry of Commerce and Industry database (2011).

Tourism questionnaires sampling:

During the data collection in September/August 2012/2013, the tourism questionnaires were distributed among 1000 firms, representing 2.2% of the total population. Four hundred questionnaires were distributed in each region of Riyadh and the Western region, whereas 200 questionnaires were distributed in the Eastern region. Surveyors were asked to distribute 40 questionnaires at least, for each activity, in each region, as listed in Table

4.3, with the exception of those activities that have small numbers. In total, 475 valid questionnaires were collected from 11 different activities. These activities varied in their sample percentages. This variation is attributed to their total population and response rate. Table 4.3 shows that the largest sample size was taken from seven activities (hotels, furnished apartments, restaurants and cafes, rental cars, recreation places, transportation, and travel agencies), while the remaining four activities have small sample percentages. The following tables show the total numbers and percentages of the sample compared to the entire population.

Table 4.3: Distribution of tourism questionnaires according to type of establishment compared to total population

No	Type of tourism activity	Sample (n)	(%) of total sample	Total Population in KSA (2011)	Sample (%) of total population
1	Hotels	65	13.7	1,360	4.7
2	Furnished Apartment Units	42	8.8	4,777	0.8
3	Hostels	4	0.8	N/A	N/A
4	Travel Agencies	50	10.5	1,669	2.9
5	Restaurants and Cafes	102	21.5	24,738	0.4
6	Rent-a-Car Companies	41	8.6	3,363	1.2
7	Recreation Places (Resorts, Entertainment, rest houses, sports clubs, Marinas, diving companies etc.)	75	15.8	7,204	1.0
8	Transportation Companies (buses/limousines)	51	10.7	706	7.2
9	Tour organisers agents/ Hajj and Umrah agents	29	6.1	308	9.4
10	¹⁸ Motorway services	10	2.1	N/A	N/A
11	¹⁹ Tourism programs at training institutes	6	1.3	N/A	
	Total	475	100	44,128	-

Source : SCTA, 2011a.

¹⁸ This activity was transferred to Tourism Activities in April 2013 to be governed by SCTA (Al Jazirah Newspaper, Tuesday 2-4-2013 G. Issue 14796). Although the questionnaires were collected from September 2012 to June 2013, they were later were distributed again amongst motorway services at (Roads) and collected in June -August 2013.

¹⁹ Training institutes are non-profit activities (governmental) and part of Technical and Vocational Training Corporation.

Figure 4.6 and Table 4.4 below presents more detailed information about the types of businesses (classification of hotels and furnished apartments, transportation (buses/coach/taxi) etc. along with their locations). It demonstrates that 44% of the respondents were from the Riyadh region, 40% from the Western region including Jeddah, Makkah, Madinah, and 15% from the Eastern region including Dammam, Khobar, and Al Ahsa .

Figure 4.6: Distribution of tourism questionnaires according to location



Source: http://saudi-directory.net/saudi_arabia_map.htm

Table 4.4: Numerical percentage distribution of tourism business according to location and type of business

No.	Type of Business	Location						Total	
		Riyadh Region		Western Region		Eastern Region			
		Freq.	%	Freq.	%	Freq.	%	Freq.	%
1	Five Stars Hotels	6	37.5	6	37.5	4	25.0	16	100
2	Other Classifications of Hotels (4, 3, and 2 Stars)	10	43.5	8	34.8	5	21.7	23	100
3	Unclassified Hotels	10	38.5	12	46.1	4	15.4	26	100
4	Classified Furnished Units and Apartments	15	51.8	7	24.1	7	24.1	29	100
5	Unclassified Furnished Units and Apartments	0	0	11	84.6	2	15.4	13	100
6	Travel Agents	29	58.0	17	34.0	4	8.0	50	100
7	Restaurants	40	57.1	20	28.6	10	14.3	70	100
8	Coffee Shops	14	43.7	14	43.7	4	12.5	32	100
9	Rent-a-Car Companies	20	48.8	17	41.5	4	9.7	41	100
10	Entertainments	20	51.3	17	43.6	2	5.1	39	100
11	Resorts	6	16.7	21	58.3	9	25.0	36	100
12	Transportation Companies (Buses)	15	36.6	19	46.3	7	17.1	41	100
13	Private Transportation (Limousines)	5	50.0	2	20.0	3	30.0	10	100
14	Tourism Educational Training Institutes & Colleges	2	33.3	4	66.7	0	0	6	100
15	Tourism Guidance , Tour Organizers and Hajj and Umrah agents	11	37.9	14	48.3	4	13.8	29	100
16	Motorway services	5	50.0	3	30.0	2	20.0	10	100
17	Hostels	3	75	1	25	0	0	4	100
	Total	211	44.4	193	40.6	71	15	475	100

Source: Author

These regions are considered provincial and international hubs for tourism in KSA for their religious significance, geographical nature, and business. The last survey done by SCTA in 2011 shows that these three regions and cities are the destinations for the highest number of domestic and inbound trips. Makkah and Madinah are often visited for religious purposes, Jeddah and the Eastern regions for leisure and Riyadh for conferences and shopping (SCTA, 2011b). These features are the primary influence for establishing certain tourism enterprises in these regions. Thus, the collected questionnaires reflected the most dominant establishments in these regions. For instance, the largest percentage of questionnaires for hotels and furnished apartments (36.6%) and transport companies for buses and coaches (46.3%) were collected from the Western region where millions of Muslims visit annually from all over the world. In a comparison between tourists and pilgrims, particularly in behaviour and expenditure patterns, Fleischer (2000) found that pilgrims use hotels and holiday villages intensively more than other type of tourists.

The larger proportion of resorts was collected from Jeddah (58%) and Dammam (25%) near the coasts. At a provincial level, Riyadh is the centre of most business, ministries and governmental departments, and central hospitals. More than 10 universities are located in this region. For this reason, the largest population of restaurants (57%) and rent-a-car companies (48.4%), the second largest proportion of hotels and furnished apartments, and hostels (34%) are found in Riyadh. Therefore, the tourism questionnaires were representative in terms of reflecting the different reasons for visiting these regions, which undoubtedly has an influence on the type, attitudes, and strategies of tourism businesses established in these areas.

4.5.2 The design of the questionnaires

Two separate questionnaires were designed, one for franchises and one for tourism businesses, with both following a similar format (See Appendices 6 and 7). The questionnaires directly addressed the research questions related to the first, second and third objectives. The contents were mainly

constructed on the results of the interviews. In addition, some items were added after piloting the survey (see section 4.5.4). The contents of the two questionnaires were as follows:

Introduction:

Each questionnaire contained a brief introduction about the purpose of the survey and the researcher's background with contact details. All participants were assured of the strict confidentiality of the information given, which was limited to the purposes of this research. Only owners and managers could complete the questionnaire, in order to get accurate information.

Section 1: Facilitation

Before introducing the main core of the study (franchising in tourism) to respondents, there was a need for introductory questions related to their sector, which could stimulate and facilitate their answers in the next sections of the survey, related to the potential of franchising in tourism. For example, it would not be appropriate to start by asking questions about franchising aspects of a tourism group because they may not be interested in franchising as a topic. Similarly, a franchise group may not be interested in franchising in tourism since they are specialized in their own trade lines. Thus, this section starts with issues containing two sub-sections: barriers (Q1) and drivers (Q2) that relate to the franchise sector (in the franchise questionnaire) and the tourism sector (in the tourism questionnaire). These were generated mainly from interviews and the pilot survey. The main aim of this section was to address the 1st and 2nd questions of the first objective in the franchise questionnaire and 4th and 5th questions of the second objective in the tourism questionnaire, in order to collect information about the effect of the legal, financial, human resource, and marketing aspects limiting the development of both the franchise and tourism industries. A Five Likert Scale was used to measure the influence of these factors from "very influential" to "not at all influential".

In order to stimulate the respondents' answers for the next section, which was not directly related to their sectors, two items were added by the researcher to the "drivers" section in both questionnaires. For example,

“Rehabilitation and preparation of tourism sites to accommodate tourism activities” and “Large number of tourist sites in KSA” (Q2: items 11 and 12) were added to the franchise questionnaire as factors that can promote the diffusion of franchising. “Recruitment of foreign experts” and “Attracting international franchising” (Q2 items 1 and 2) were added to the tourism questionnaire as factors that can stimulate tourism investment.

Section 2: Common questions

This section contains three common questions (Q3, Q4, and Q5) that were asked identically in both questionnaires. The aim of this section is to address the 8th and 9th questions of the third objective, based on the comparison between the answers of the two questionnaires to determine whether current franchisees have different answers than prospective franchisees (tourism businesses). The question (Q3) focuses on the perceived values of franchising. In a response to Gauzente (2002) who suggested that qualitative research should be utilized when considering franchisees’ motivation to improve and renew the current standard reasons, the listed values were generated from interviews. Although this question listed the same items in both questionnaires, the formula of asking this question was different depending on the nature of the respondents. Current franchisees were asked to what extent these values motivate them to remain with their current franchise system, while tourism businesses (as prospective franchisees) were asked to what extent these values would motivate them to join the franchise.

The aim of question (Q4) is investigate to what extent the franchise systems have the opportunity to succeed in developing tourism activities. Different types of tourism were listed in this question, as classified by SCTA. In addition, some activities (e.g. accommodation) were detailed in subsections (e.g. classified and unclassified; hotels or furnished apartments), and some activities were combined with others totalling sixteen items. A Five Likert Scale was used in Q3 and Q4 to enable the respondents to state the degree of their agreement. The aim of question (Q5) was to explore the most used source of information in buying a franchise (for current franchisees), or to learn about a franchise (for tourism businesses). The items were derived

from previous studies (Walker and Etzel, 1973; Bennett et al., 2010). This question uses a nominal scale.

Section 3: prediction

This section (Q6) addresses the 10th question of the third objective, exploring respondents' intentions regarding buying a franchise in tourism. The franchise questionnaire investigates the franchise group's opinions towards buying a new franchise in the tourism sector besides their current franchise in different operational lines, while the tourism questionnaire investigates the tourism group's willingness to convert their current independent business into a franchise through an international brand. This question uses a nominal scale (yes / no) and the respondents were asked to provide a justification for their answers. The reasons behind the absence of tourism franchises, along with willingness and unwillingness to invest in franchising tourism, will be explored in this section. In addition, the importance of this section is to address the fourth objective through exploring when a tourism business converts.

Section 4: General information about businesses and owners/managers:

Each questionnaire contains general characteristics about the business and owners/managers that address the 3rd question of the first objective and 7th question of the second objective. The questions cover the legal business structure, the type and age of the business, the number of branches, and personal information about the owners/managers, including age, qualifications, and experience. The franchise questionnaire divides this section into two sub-sections: one for franchisees and one for franchisors. This section was put at the end of the questionnaire to avoid any biases that might emerge from asking sensitive questions.

4.5.3 Questionnaire data collection procedure

Being a female researcher, I was not allowed to mingle with males or visit their companies, according to Saudi traditions. Since the majority of firms are owned and managed by men, this compelled the researcher to hire experienced surveyors in the three regions to distribute and collect data from

the selected sample. The surveyors were provided with a list of large number of firms and their addresses obtained from MCI. However, this list did not cover the entire population as well as the majority of contact details were not valid and accessible. Therefore, surveyors were asked by the researcher to approach random firms that are accessible to them in the market and target variety of some tourism business. For example (classified and unclassified hotels).

Two types of questionnaire collection were employed in this study, including self-administrated and interviewer-administrated questionnaires. Self-administrated questionnaires are completed by respondents, while interviewer- administrated questionnaires are filled out by the interviewer on the basis of each respondent's answers (Saunders et al., 2007). Self-administrated questionnaires were used through delivery and collection, depending on the respondent's preference. Otherwise, interviewer-administrated questionnaires were applied through structured interviews where surveyors meet respondents and ask the questions face to face. The latter was an effective method to minimize the cost and time consumption of the hired surveyors and has the advantage of ensuring that fewer questions were left blank. In order to ensure that all questionnaires were answered by targeted businesses, the surveyors were asked to attach the business card of each respondent to the questionnaire before handing it to the researcher.

4.5.4 Pilot testing and assessing validity

In order to assess content validity, the researcher's PhD supervisors were asked to give their opinions regarding the clarity and suitability of the designed questions. The two supervisors approved the questionnaires after incorporation of their comments. Since the two questionnaires were translated into Arabic, two academics at a Saudi University also checked them, and amendments were made accordingly to make the articulation clear for the respondents.

The pilot study took place prior to the conducting of the field surveys. The purpose of a pilot study is to test the reliability and creditability of the

questions, and to review them to ensure that no respondent will have trouble answering the questions (Saunders et al., 2007). A pilot survey test needs at least 10 respondents drawn from the final population in the sample (Fink 2003). Accordingly, 10 respondents from the franchise sector participated, which represents 10% of the total sample and 20 respondents participated from the tourism sector, which represents (0.05%). The pilot survey revealed that 43% of the respondents took 20 minutes to fill the questionnaire, and 19% spent 15, 25 or 30 minutes, showing that the time spent was reasonable overall.

In order to assess internal reliability, Cronbach's alpha coefficient was employed in the pilot survey, to measure how closely related a set of items are as a group. Cronbach's alpha value ranges from 0 to 1 and values at or above 0.7 are desirable (Gliem and Gliem, 2003). Section one (Q1 and Q2) and section two (Q3, Q4, and Q5) in each questionnaire were subject to testing through Cronbach's alpha on standardized items, to ensure the integrity and reliability of variables in each question (See Appendices 8 and 9). The reliability coefficient alpha obtained for the franchise questions ranged from .732 to .911, while the tourism questions ranged from .833 to .866. The overall scale for the franchise questionnaire items is .813 while the overall scale for the tourism questionnaire is .907.

The pilot survey resulted in a number of changes in the questionnaire with respect to contents, wording and sequence. Respondents added some factors to Q1 and Q2 in both questionnaires (See Appendices 8 and 9). Accordingly, the questionnaires were rebuilt in a more concise form and concentrated on the matters that affect the development of the two sectors.

4.5.5 Questionnaires' data analysis

The data was analysed using SPSS statistical software (version 21.0 for Windows), which provides a range of statistical tests. Both univariate and bivariate analysis was employed in this study. Univariate analysis refers to a description of single variables, while bivariate analysis refers to the empirical relationship between two variables (Rubin and Babbie, 2009). Univariate

analysis was used through frequency tables in all questions included in the two questionnaires. Mean and standard deviation was also used in barriers (Q1), drivers (Q2), perceived values of franchising (Q3), and type of tourism business that can be franchised (Q4). The results from these tests are displayed in tables in Chapters 5, 6 and 7.

The normality test reveals that the data is not normally distributed. Thus, non-parametric tests were found to be the most appropriate test. Non-parametric tests are useful when the data is measured on nominal (categorical) and ordinal (ranked) scales, and when the sample is small and the data does not meet the stringent assumptions of parametric techniques (Pallant, 2007). This was particularly useful for the analysis, as all variables were either categorical or ordinal and the sample size of the franchise survey was small. Chi-square and Mann-Whitney were also employed in this study.

A chi-square test for independence is used to determine whether two categorical variables are related when each of these variables has two or more categories. This is determined by comparing the frequency of cases that occur in each of the categories with values that would be expected if there were no associations between the two variables, being measured (Pallant, 2007, p.214). If the assumptions for using the chi-square test are not met (i.e. small expected numbers in one or more cells), then an alternative test to use is Fishers exact (Gad, 2007). Chi-square was used to identify whether a relationship existed between dependent variables (barriers/drivers) and other independent variables (socio-economic characteristics) based on cross tabulation .When the small-expected number in one cell was less than 5, the Fisher exact test was used.

The Mann–Whitney test is an alternative to the T test, and used to test for differences between two independent groups. It compares the medians of two groups and converts the variables to evaluate whether the ranks for the two groups differ significantly (Pallant, 2007). In order to use the Mann-Whitney test, three assumptions should be met. The dependent variable should be measured at the ordinal or continuous level and the independent variable should consist of two categories (Field, 2005; Laerd Statistics,

2013) and should have independence of observations, which means there must be different participants in each group with no participant being in more than one group (Laerd Statistics, 2013). Accordingly, Mann –Whitney was employed in Q3 and Q4 in both questionnaires between the ordinal dependent variables (Likert scale) and independent variables of two different categories (franchise and tourism) groups. Table 4.5 below summarises the contents and analysis of the two questionnaires.

Table 4.5: summary of the contents, data and analysis of the two questionnaires

Section	Type of Data	Franchise questionnaire	Tourism questionnaire	Questions between Franchise and Tourism questionnaire	Analysis	Research Questions
Introduction						
General information (characteristics)	Nominal	Franchisees franchisors/managers	Owners / managers	Different	Frequency	Q3, Q7
Opinions about their sectors	Ordinal	Barriers and drivers of franchise	Barriers and drivers of tourism	Different	Descriptive (means, SD, frequency)	Q1, Q2, Q4, Q5
Find an association	Ordinal + nominal	Barriers / drivers+ characteristics	barriers / drivers+ characteristics	Different	Chi-Square/ Fisher exact test	
Perceived advantage of franchising (same components)	Ordinal	To remain within franchise system as current franchisees	To join franchising as prospective franchisees	Common	Descriptive (means, SD frequency) and Mann Whitney	Q8
Type of tourism franchise (same components)	Ordinal	---	----	Common	Descriptive (means, SD, frequency) and Mann Whitney	Q9
Franchise marketing channel (same components)	Ordinal	To buy a franchise	To know about franchise	Common	frequency, Chi-Square for differences	
Prediction of buying a franchise in tourism sector	Nominal	Prediction of franchise group to buy a new franchise in tourism sector	Prediction of tourism group's for converting their independent tourism business into franchising	Different	Descriptive (means, SD, frequency)	Q10

Source: Author

4.6 Third Phase: Qualitative research: Case Studies

In the initial design of the research, converted franchisees were not included, although they can relate substantive experiences of the impact of franchising on developing a business, by comparing the status of the business before and after franchising. The issue was that there was no way to identify converted businesses, particularly those in tourism. Even the statistical records of the Saudi Ministry of Commerce do not show if local businesses have converted to franchises. This is not confined to the records; even by observation, no one can recognize conversion, since the converted business appears to be a new firm with a new identity. This may explain why converted franchisees have not been found in previous research, although franchise conversion in North America comprises 72% of the domestic market and 26% internationally (Hoffman and Preble, 2003).

Johnson and Onwuegbuzie (2004) pointed out that sometimes a method design emerges during a study, depending on the data collected. Similarly, the design of the third phase emerged when an attempt was made to investigate the attitude of local tourism businesses toward conversion, as shown in the questionnaire design (Q6, section 4.5.2). As respondents were asked to justify their answers, three tourism firms indicated that they converted into franchises (tourism survey), and one firm into a real estate agency (franchise survey). The descriptive analysis in phase two provided a substantive context for when independent businesses are more likely to convert into franchises, yet it did not provide a deeper understanding of whether conversion meets the aims of would-be franchisees, or makes a difference to the firms afterwards. Thus, in order to increase knowledge in this area, the third phase, or case study, focuses on examining the impact of franchising on these businesses after conversion, by tracing these businesses through three stages: pre-conversion, conversion, and post-conversion. The following section will discuss the design of the case study, preparation of data collection, procedures and analysis in greater detail.

4.6.1 Case study design

Yin (2003, p.13) defines a case study as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.” Accordingly, the case studies here reflect a contemporary event that recently occurred. Because the decision to convert and its impact on business development cannot be understood without considering the context in which it occurred, it is necessary to understand the status of the business before conversion, the conversion process, and the performance of the business after conversion.

Yin (2003, p.5) differentiates a case study strategy from experiments, surveys, histories, and archival analysis. Its choice is dependent on three conditions: (a) the type of research questions posed, (b) the extent of control an investigator has over behavioural events, and (c) the degree of focus on contemporary events, as opposed to historical events. According to Yin (2003), case studies are favourable in combination with more explanatory questions that deal with operational links that need to be traced over time, such as how and why questions, rather than with measurements of frequency. Accordingly, the case study here will provide an explanation for research questions regarding *why* local independent business, mostly in tourism, convert into franchisees. It will also examine *how* international franchising has an impact on developing local tourism businesses.

Regarding the second condition, the researcher must focus on how much s/he can control behavioural events related to the study. Case studies are preferable when the researcher has little or no control through using multiple sources. This study utilises interviews as the main sources of evidence, and the researcher has no control over the impact of international franchising on converted franchisees. Yin (2003) identified that case studies are favoured for examining contemporary events, as compared to historical events. This study examines a living example of conversion strategy, with four case studies that converted to franchises less than six years ago.

After one has confirmed that a case study is the best strategy for this research, five components should be included in order to design a case study (Yin, 2003).

- (1) A study's questions
- (2) Propositions
- (3) Unit of analysis
- (4) The logic linking the data to propositions
- (5) The criteria for interpreting the findings

The first three components will be discussed in the following sections, whereas the fourth and fifth components will be discussed within data analysis.

4.6.2 Case study's questions

As explained earlier, "how" and "why" questions are used to conduct a case study. It should be mentioned that the case study's objective and questions were developed after the four converted franchises had appeared from the second phase, as shown in Table 4.6.

Table 4.6: Developing research objective of case study

Objective (4) : To examine the impact of international franchising on developing local business which recently converted into franchising as franchisees	
Case study Example	The research questions
The decision to convert to franchising	Why has an independent business converted to franchisee? What was the experience of franchising before conversion?
The conversion process	How did the independent business converted to franchisee? (from searching process to conversion process)
The performance of the business after conversion	What is the experience of the business after conversion the stage?

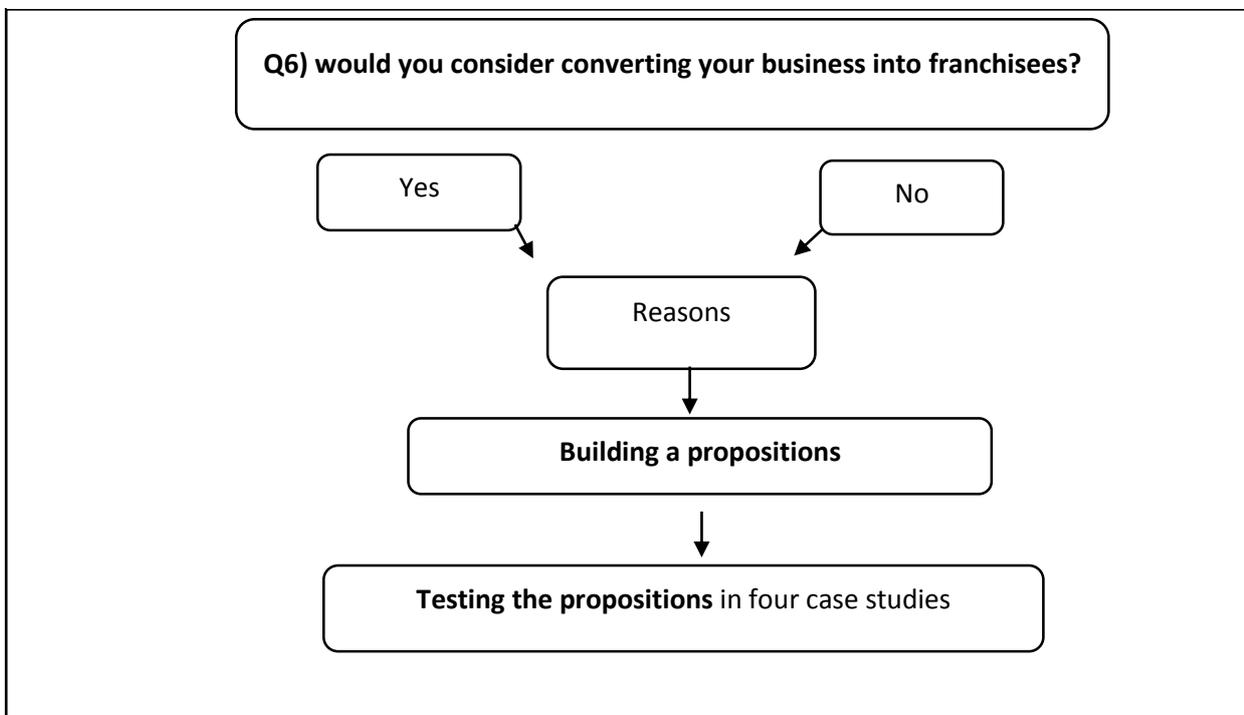
Source: Author

4.6.3 Propositions

Similar to hypotheses in quantitative research that make a supposition regarding the possible results of a research study, a proposition reflects a theoretical issue, constructed from literature, personal/professional experience, theory, and generalisations based on empirical data (Baxter and Jack, 2008). Propositions

guide the researcher to focus on what should be examined in the scope of the study, where to look for relevant evidence, how to identify relevant units (cases) of analysis, and guide data collection, which increases the reliability of the study (Yin, 2003). The essence of propositions is not only evident in case study design and structuring the data collection stage, but extends to later stages in which it guides the discussion of findings, and drawing of conclusions (Rowley, 2002). Baxter and Jack (2008) recommended that a researcher should avoid incorporating too many propositions that may be misled when the data is analysed, and findings discussed. Since Yin (2003) argues that the theoretical propositions should be constructed before data collection, this study's statement of propositions was drawn from the generalisation of empirical data collected from the tourism survey (Q6), before the data collection stage. These propositions were developed based on the reasons given for converting or not converting by the respondents who run tourism businesses, as shown in Figure 4.7.

Figure 4.7: Building the Propositions



Source: Author

4.6.4 Unit of analysis

A unit (case) of analysis can be an individual, group, organization, event, or country. Selecting case study as a format should be done within the research aim, questions, propositions, and theoretical context (Rowley, 2002). In response to this, case studies here offer the possibility of examining the impact of international franchising on developing a business.

Yin (2003) pointed out that the sequence of selecting a case study begins by specifying the research questions and propositions that lead to defining and selecting appropriate units of analysis. However, this study did not follow the same sequence. The four case studies were not selected, but instead emerged from the two surveys. They were defined before designing the objective of the case study, and emerged at the same time as constructing the propositions.

This is not a limitation, since these units of analysis are well-defined, and meet the board aim of the research. In this context, Kirby (2007) demonstrates that purposively selecting cases from the second phase (surveys), to be applied in the third qualitative phase, addresses the concerns over of how representative the cases are, and where the cases are drawn from. Stake (1995) highlights that the criterion for selecting a case study is to maximize what we can learn, and which cases are liable to lead us to understandings, to assertions, and even further generalisation. Baxter and Jack (2008) stated that cases studies should be bounded (e.g. by time, place, activity, and definition) to ensure that the study remains within the original scope.

Accordingly, the case studies in this research have been through screening procedures (Yin, 2003), and evaluated by the researcher to ensure that they meet the criteria to be involved. These criteria are: (1) an independent business prior to conversion; (2) preferably recently converted; (3) part of an international brand; and (4) working in the tourism sector (activity). Using Hoffman and Preble's (2003. p.188) general definition can qualify these businesses as convertors, in that they are independent, local businesses that converted into franchisees in the same operational line. They were converted within the last 6 years; this is very

important, since the franchisees need to recall their experience before conversion, the process of making the decision, and applying conversion. These convertors were contacted²⁰ by the researcher to make sure they meet the criteria above, and that they would like to participate in the research before taking further steps. These businesses agreed to engage in the research, and confirmed what is mentioned above.

A critical point is that three of the converted business are in tourism (hotels and car rental), but one converted business belongs to a different sector (real estate). The researcher decided to include it for these reasons: (1) although business format is a heterogeneous activity, it was felt that the package provided by franchisors would provide homogenous outcomes for different types of businesses. Stake (1995) states that certain issues are repeatedly raised which is somewhat of a generalisation. (2) Adding more case studies from fields other than tourism may overcome the risk of poor generalisations (Stake, 1995; Yin, 2003). A real estate agency will provide more certainty and generalisability to the propositions. As Yin (2003) states, a case study is not generalisable to the larger population, but rather to the theoretical propositions.

An important factor that should be considered is the type of case study – whether it is single or multiple, and whether it is holistic or embedded (Yin, 2003). A single unit is preferable for use in five circumstances: when the case represents a rare condition, a testable theory, is typical among other cases, was previously inaccessible to scientific investigation (revelatory), and is a longitudinal case, i.e. same case monitored over time. By comparison, multiple case studies are chosen when more than one case study will enhance understanding of the phenomenon (Baxter and Jack, 2008), and provide more robustness and reliability (Yin, 2003).

According to Yin (2003), the purpose of using multiple cases is to create a replication in which it is possible to develop a rich theoretical framework by

²⁰ It was easy to approach the four converted businesses and contact them since the hired surveyors were asked to bring and attach a business card /tag for every questionnaire answered by respondents.

indicating whether the results of these studies are similar (literal replication), or contrasting (theoretical replication). Literal replication indicates whether the outcomes of two or more cases are in a relationship. These cases required prior knowledge regarding how these outcomes occurred and how these outcomes might be replicated from case to case. By contrast, theoretical replication represents a “two tail” of cases, in which two cases are extremely opposite (e.g. bad and good outcomes). Moreover, theoretical replication tends to have at least two subgroups, as each group is assumed to cover different types of conditions, and each subgroup is complemented by literal replication.

Single and multiple units can be either holistic or embedded. In holistic units, the researcher investigates the unit(s) as a whole, while in embedded units the researcher divides the unit(s) into subunits (Yin, 2003). Embedded units are more suitable for study in a large case (Baxter and Jack, 2008). Since this study requests data related to strategic decision making and general firm performance, multiple case studies will be examined holistically from one representative from each firm, in the light of research questions. Moreover, these case studies are small, as some of them do not have sub-departments from which other sources can be obtained. Thus, these case studies reflect literal replication, in that they have experienced the same condition in different types of business sectors and situations.

4.6.5 Preparation for data collection

After designing the first three components of the case study (research question, propositions, and unit of analysis), there is one more step before collecting data, which is preparing case study protocol. Case study protocol enhances reliability, specifically for those applying multiple case studies (Yin, 2003). It includes procedures for contacting cases, fieldwork arrangements, confidentiality, and detailed questions (Yin, 2010). This study follows Yin's (2003) guidance in designing a protocol that includes an overview of the case study, data collection procedures, expected preparations prior to site visits, and case study questions. The detailed case study protocol is attached (see Appendix10).

4.6.6 Case study analysis

The analysis of a case study is the most challenging part of conducting case studies. Yin (2003) suggested three general analytical strategies to address this challenge: theoretical proposition, rival explanation, and developing a case description. These three strategies specify five analytical techniques that can be used, including pattern matching, explanation building, time-series analysis, logic models, and cross cases synthesis. As the case studies in this research are based on propositions, the general strategy chosen is 'relying on theoretical propositions'. Yin (2003) indicates that this is preferable, since most case studies are designed according to propositions that reflect the research questions. Thus, relying on theoretical propositions guides the case study analysis, and assists the researcher in focusing on certain data related to the research questions, and in ignoring irrelevant data. It organizes the entire case study, and defines alternative explanations for examination (Yin, 2003). The most desirable technique with this strategy is pattern matching, which is when one "compares an empirically based pattern with a predicted one" Yin (2003, p.116). The pattern matching procedure was utilized by comparing the propositions derived from the second phase with the case study results.

4.6.7 Collecting data

Various sources of data collection can be utilised in case studies, including documentation, archival records, interviews, physical artefacts, direct observations, and participant observations (Stake, 1995; Yin, 2003). In order to maximize the benefits of using this source of evidence, Yin (2003) identified three principles that can assist the researcher to construct a valid and reliable case study. These three principals were applied in this study as set out below.

(1) Use multiple sources of evidence:

The case study will be more persuasive if it is based on multiple sources. The convergence of the results adds strength to the findings, and enhances understanding of the case (Baxter and Jack, 2008). On the other hand, the case study can rely on singular sources, such as interviews, if it is convincing (Yin,

2003). This study relies on two sources; heavily on interviews, and slightly on online documentation.

Yin (2003) highlights that there are three type of case study interviews: open-ended, focused, and structured interviews. The interviewees in open-ended interviews are considered to be informants rather than respondents, in that they express their opinions regarding an issue, and suggest other sources to delve into it. Focused interviews still utilise open-ended questions, but within a structured set of questions. Structured interviews are designed to be formal surveys, to produce quantitative data as part of a case study. This study uses focused interviews, in that the researcher utilises a set of questions within protocol, but allows new ideas to be brought up that diverge from the protocol in light of the research questions.

The interviewees in hotels and car rentals are top managers, whereas the interviewee from the real estate agency is a franchise department manager. All of these interviewees have been working in their firms before conversion for at least five years, with the exception of one hotel that was established six months prior to data collection. Thus, they have witnessed many changes over time, before and after conversion.

Yin (2003) argues that a common source of confusion can occur with data collection sources, when the researcher interviews individuals, whereas the unit of analysis is the organization to which these individual belongs. To avoid this confusion, Yin (2003) recommends that the case study's conclusion should not heavily depend on the information provided by interviewees, and the researcher should collect other data sources. In this study, the interviewees are the only sources who can explain the strategy behind the decision to convert, which cannot be found in another source. An attempt was made to collect information from other sources, but the majority of cases were hesitant to provide details about their firms, such as franchise contracts, franchise fees, and financial indicators, which they considered to be confidential. For example, case study (Hotel 1) provided the researcher with indicators about the performance of the

hotel, and showed her some reports, while asking her to make notes but not retain the full details. Case (Hotel 2) and case (Rental car) provided information without showing any other sources, whereas case (Real estate agent) refused to provide any specific information. For this reason, the replication of the data may not be similarly presented in all cases.

The second source is the documentation from which the researcher gathered information about international franchisors. Since franchisees belong to their networks, it was profitable to investigate their mother firm's characteristics.

(2) Create a case study database:

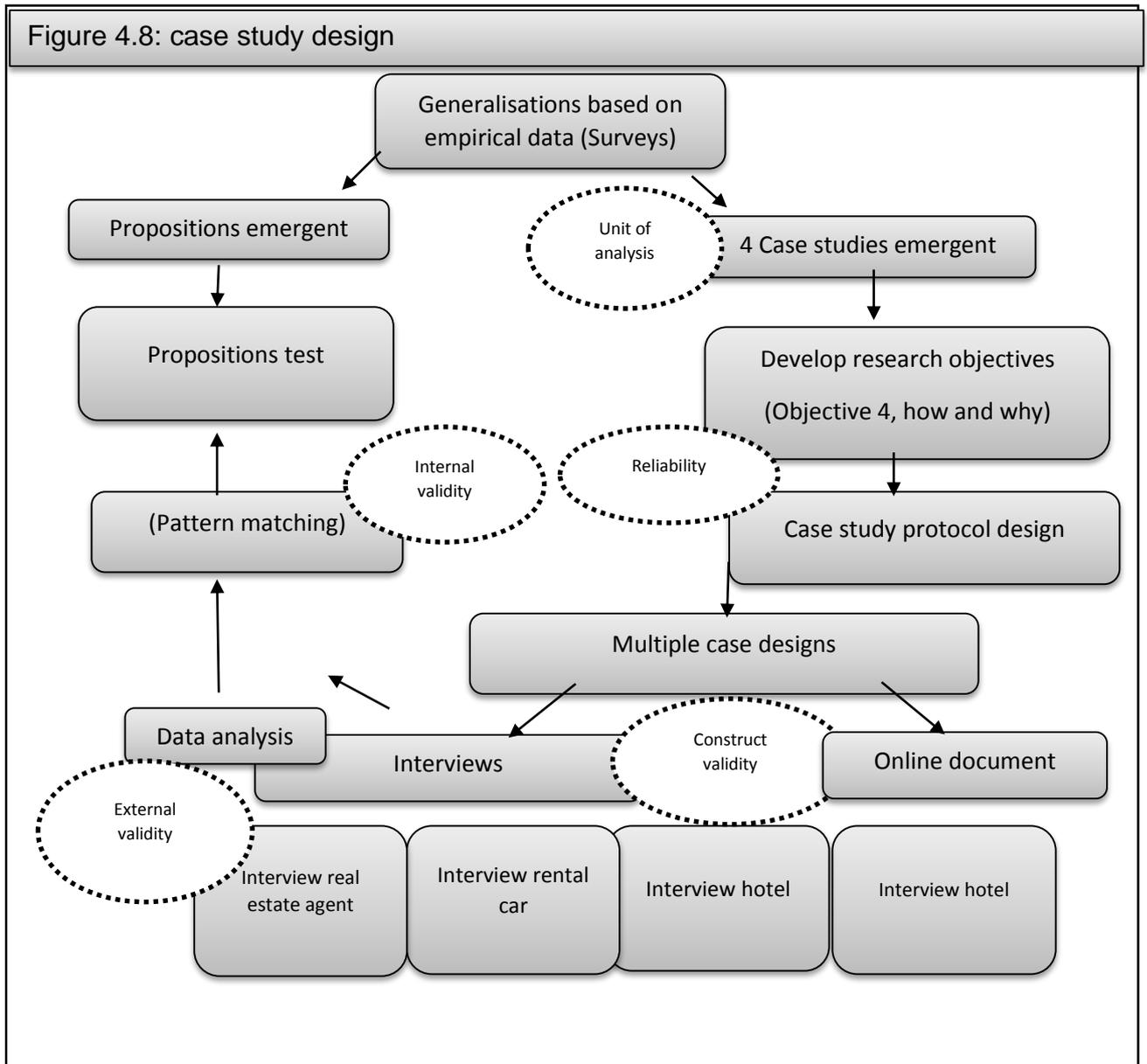
The benefit of utilizing a database is the capacity for documenting and organizing raw data, making it accessible for analysis, and improving reliability by enabling the researcher to track, organize, record, restore, recall, and search for different data sources (Stake, 1995; Yin, 2003; Baxter and Jack, 2008). In this study, a database was created using audio recordings, transcriptions, and written notes.

Some case studies refused to record their interviews. It would have been difficult to focus on conducting an interview and taking notes, as this could result in poor notation, and prevent the researcher from following up on dialogue with interviewees. For those who rejected recording devices, the researcher was assisted by a note taker who was present during interviews to write down a complete transcript. The form of conducting the interviews varied among these case studies, which is reflected in the quantity of information obtained. For example, Hotel managers were interviewed face-to-face by the researcher, and the interview lasted for 40-120 minutes, whereas other cases were interviewed by telephone, as they could not meet a female researcher, and the researcher respected their wishes. Their interviews, therefore, lasted for less than an hour.

(3): Establishing a chain of evidence:

The researcher has to maintain a chain of evidence that links the whole process of conducting case studies research questions, propositions, protocol, sources of evidence, analysis, and writing a report on a circulation chain. The report should

clarify that the sections are drawn from databases, by citing a suitable reference from documents and interviews (Rowley, 2002; Yin, 2003). Figure 4.8 below illustrates the steps of case study design based on the chain of evidence.



Source: Author

4.6.8 The quality of case study design

The quality of a case study can be judged by the same four tests used for quantitative data: constructed validity, internal validity, external validity, and reliability. As shown in Figure 4.8 above, the case study achieved constructed

validity by developing its construct's use of multiple sources of evidence, and establishing a chain of evidence (Christie, Rowe, Perry and Chamard, 2000; Yin, 2003). Subjectivity was reduced by the reasonable choices of the case study interviewees, procedure, recording, transcribing, and interpreting the data (Christie et al., 2000). Reliability was presented in a case study protocol, which kept the investigator focused on the subject matter. External validity was achieved through comparing evidence of multiple case studies, as these case studies belong to different activities within one sector (tourism) and one case study belonged to different sector (real estate agency). Internal validity was met by utilising the pattern matching technique. Yin (1993) illustrated that if the patterns coincide, the results will strengthen the internal validity of a case study.

4.7 Summary

The impact of franchising on the development of tourism has not yet been widely explored. This study argues that an examination of the impact of international franchising in developing tourism industry should be carried out in order to better understand the relevance of franchising to stimulating entrepreneurs, to developing local businesses through conversion, and enhancing government strategy for encouraging the private sector. This chapter has illustrated the methodology employed in this study to answer the research questions. Based on the literature review, a mixed method with triangulation was deemed to be an appropriate method for developing, expanding, and complementing exploration through three sequential phases.

The first phase concerns pre-understanding, when a qualitative method was applied through semi-structured interviews designed to explore the issues related to investment in the tourism and franchise fields. In this phase, 19 interviews were conducted, mostly within the Chambers of Commerce in different regions, and SCTA. The latter was applied in a sequential order, in which regulators (SCTA) commented on previously raised issues related to tourism development. Thematic analysis technique was used to analyse the data. The results were used to develop the instruments for the second, quantitative, phase (surveys).

The second phase was designed to identify the substantive context, and a quantitative method was applied through two separate but similarly formatted questionnaires, one for franchises and one for tourism businesses. Each questionnaire included seven closed questions regarding socio-economic characteristics of owners/managers, barriers and drivers influencing the development of the relevant sector, perceived values of international franchising, types of tourism business that can be franchised, sources of information, and most importantly here, the predictions of willingness of the two groups to engage as franchisees in tourism. In total, 579 questionnaires were collected from both sectors from three large regions in KSA (Western, Riyadh and Eastern region). Univariate and bivariate analyses were used to describe the socio-economic characteristics and find association between them and the barriers/drivers. The Mann Whitney test was also utilized to compare the differences between tourism and franchise groups' opinions towards franchising in tourism.

The third phase is an understanding stage, where qualitative methods were employed through an in-depth follow-up case study, designed to elaborate upon the surveys and further explore the use of international franchising as a tool for developing existing businesses via conversion. Four case studies emerged from the surveys. Three were tourism businesses, such as hotels and car rental, and one was a real estate agency. The latter was included to enhance the external validity of the data. The design of the case study is based on Yin's (2003) design. Case study questions were developed after case studies emerged that were designed to explore why businesses converted into franchises, and examine how international franchising has had an impact on their firms, by comparing their status before and after conversion. This was done alongside an investigation as to how conversion processes are followed. Multiple sources were used to collect data, such as online documentation and focused interviews with owners/managers of the firms, within the boundaries of case study protocol. The analysis of case studies relied on theoretical propositions that were constructed and developed from the survey, in which a pattern matching technique was used to compare the findings of case studies with the proposed ones.

The analytic results of the study will be discussed in the following four empirical chapters (Figure 4.3). In particular, Chapter 5 and Chapter 6 present quantitative and qualitative results that are related to the franchise and tourism sectors respectively, along with an overview of the socio-economic characteristics of franchises/tourism businesses of KSA, which reflects the first and second objectives respectively. Chapter 7 presents the results of common questions between the franchise and tourism groups regarding franchising in tourism, which reflects the third objective. Case study results will be discussed in Chapter 8, which reflects the fourth objective. These results will be all combined and integrated to present a discussion of findings in Chapter 9.

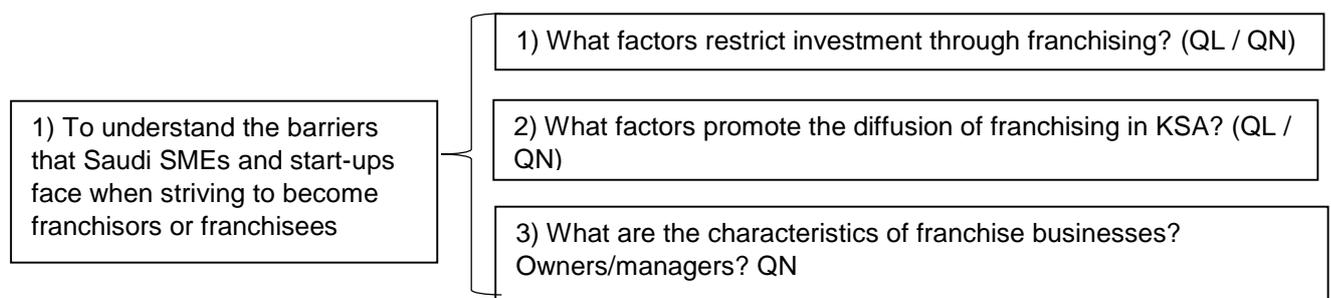
Chapter 5: Overview of the franchising environment in KSA (characteristics, barriers and incentives of franchises in large cities)

5.1. Introduction

In order to achieve the aims of this research, which are to investigate the potential impact of international franchising on developing tourism industry in KSA, the franchising environment in KSA should firstly be understood. Chapter 2 highlights that little is known about the franchise sector in KSA, along with the demographics and socio-economic characteristics of franchisees/franchisors and their businesses. Dant (2008) has called for scholars to base franchising research on the local environment, since existing franchising literature is heavily based on experiences in the United States.

Franchising has grown rapidly in KSA since 2005, yet a small number of the large companies dominate the market with mostly foreign brands. Therefore, the aim of this chapter is to present the qualitative (QL) and quantitative (QN) results related to franchising, in accordance with the first research objective, which is to understand the barriers that Saudi SMEs and start-ups face when striving to become franchisors or franchisees (Fig. 5.1). This empirical chapter focuses on mixed methods results, interviews with franchising experts and questionnaires completed by more than 100 franchise chains in various sectors located in the KSA territory. Thus, this chapter is the key to building a logically constructed framework to investigate how international franchising as a mode of investment and expansion can be a tool to develop tourism businesses.

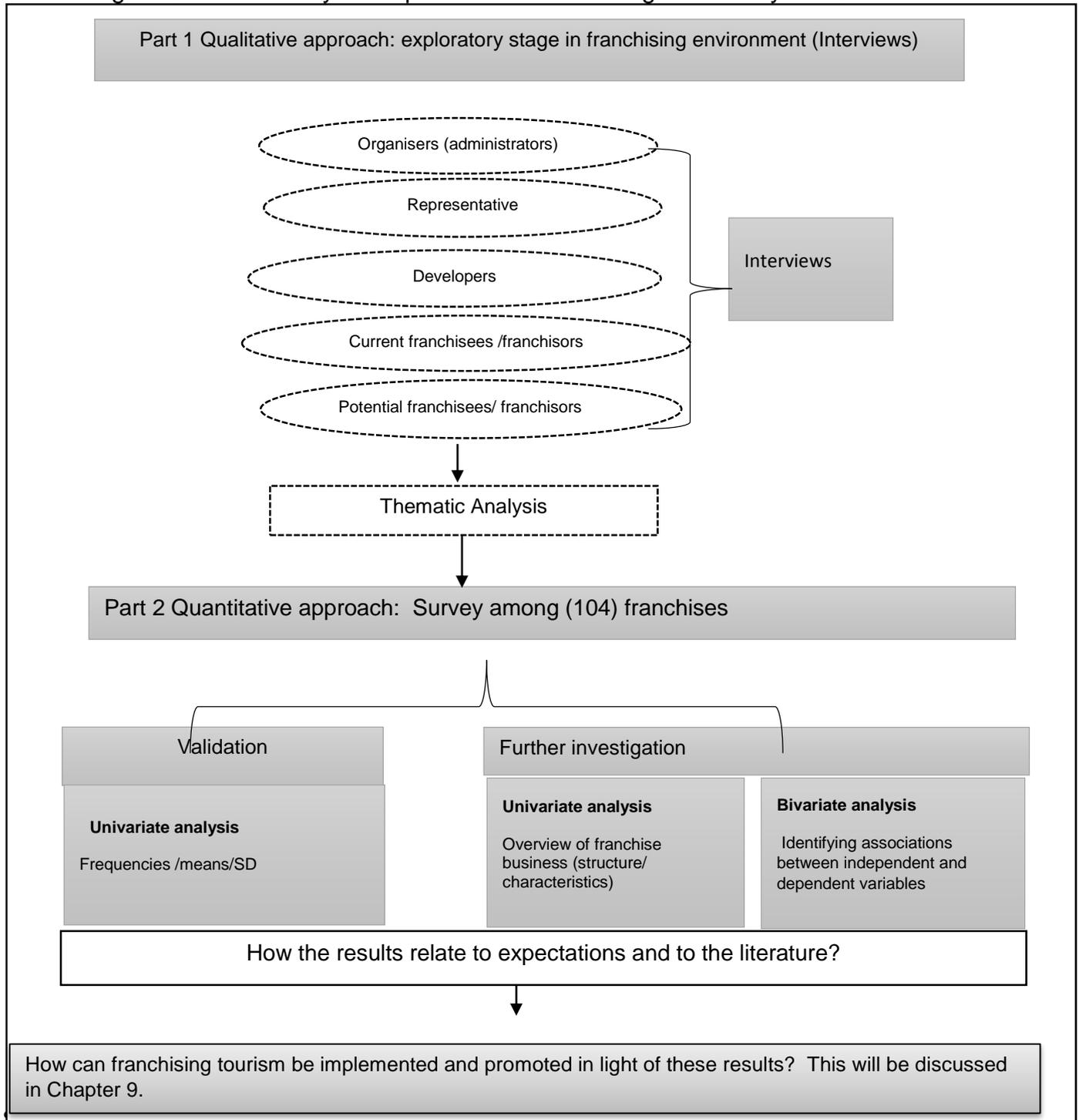
Figure 5.1 Research objective one



Source: Author

The quantitative stage is based on three functions, including validation of interview results, investigation of the franchise structure in KSA, and identification of the association between affected factors and independent variables. Therefore, the structure of this chapter will reflect the data collection steps from the franchise sector shown in Figure 5.2. The results of interviews with the franchise group are analysed (section 5.2). This section is followed by a brief discussion of interview results (section 5.3). The overview of the structure of franchise businesses in three large regions of KSA (Riyadh, Western, Eastern), with regard to the demographic and socio-economic characteristics of franchises and the owners/managers, is described (section 5.4). This section is followed by a validation of current barriers that constrain the spread of the franchise systems (section 5.5). The powerful drivers that alleviate those barriers and stimulate the potential franchisees are also determined (section 5.6). In sections, 5.5 and 5.6, bivariate analyses were used to capture further insight into whether there is an association between barriers, drivers and demographic/socio-economic characteristics. The main results are presented and linked to the previous studies, where appropriate, in these sections.

Figure 5.2. Data analysis steps from the franchising community in KSA



5.2. Exploratory stage in franchising environment (qualitative approach)

The limited literature on franchising in KSA necessitates a qualitative exploration of the current situation of the franchising environment (research questions 1, 2 (QL), Fig. 5.1). As highlighted in Chapter 4, five groups were selected for this

exploration, in no particular order. As shown in Figure 5.2 these categories include (1) a franchise unit of SMES department (administrators) and (2) the franchise committee at Riyadh's Chamber of Commerce (representatives), (3) franchise development firms (developers), (4) current franchisees/franchisors (5) prospective franchisees/franchisors.

During the interviews (e.g. See Appendix 11), businesspersons and administrators talked in detail about the relationship between affecting factors and the deceleration of franchise spread as a means of investment (for start-ups) and expansion (for current investors) . Causal relationships are identified through the codification of the data obtained from interview participants. Six themes were generated during analysis: "Legislation environment", "financial environment", "institutional environment", "marketing and educational environment", "factors related to franchisors/franchisees", and "domestic franchises". Exploring causality is displayed in Table 5.1. These factors are discussed in below.

5.2.1. Legislative environment

There are some instances in which the legal franchise environment has shortcomings that affect the development and spread of franchising. Participants put a lot of emphasis on developing the legal environment of the franchise, particularly the issuance of a specific franchise law to replace commercial agency law. All participants pointed out that the nature of the relationship between franchisors and franchisees is different from agents and principals in some obligations and duties (as explained in Chapter 2). Furthermore, participants highlighted the legal implications and complications of using commercial agency law, such as different interpretation of rules and regulations of franchise agreements among government departments, including the Ministry of Commerce, the Shoura Council (Parliament), Ministry of Labour, and other financial institutions. Representative stated that the majority of these government departments do not differentiate between franchisee and franchisor, as they deal with the franchisee as a branch of the main company even though it is an independent unit. Another problem that might confront the franchisee/franchisor

is that some claims will be dismissed by courts because a franchise agreement is not well defined in commercial agency law. Administrators of the franchise unit do not consider the absence of a special franchise law as a barrier, but having an independent and special franchise law will help locate a clear mechanism of franchise operation and will provide the basis on which the contracts and agreements of a franchise can be prepared. Administrators of a franchise unit admitted that once a franchise law is issued, they will not hesitate to promote franchise opportunities. In 2008, a draft franchise law was submitted to the Ministry of Commerce, yet it still has not been formalized to date, with no reason provided for the substantial delay.

5.2.2. Financial support environment

The majority of participants shed light on the lack of financial assistance provided by financial institutions in KSA to prospective franchisees. Many participants expressed the desperate need for a specific franchise fund to be adopted by financial institutions, due to the low risk associated with franchise systems compared to an independent business, as found in the majority of developed countries such as the USA. Despite positive circumstances such as the existence of more than sixteen funded institutions, the franchise fund has not been adopted by the majority of their programmes. Franchise committee gave reasons for the absence of the franchise funds in these institutions, including the fact that a franchise is a previously unheard-of concept in some financial institutions and does not fall into the same category as the SME fund. In the absence of franchise financing in KSA, local franchisors suggested that financing could be done through franchisors who can later refund their loans from the franchisees' revenue, because franchisors believe that these franchisees are an extension of their business success.

5.2.3. The absence of institutional environment for franchising

The majority of participants stated that the establishment of a franchise association would be an internal generating power when considering the

influence it would have on the market, particularly in terms of regulations and rules. One representative believes that the absence of a franchise national association is due to the limited number of firms working in franchising, as well as the low awareness of the benefits associated with a franchise as a mode of investment and expansion. Participants mentioned that the formation of a franchise unit in 2008 and a committee in 2010 in the Riyadh Chamber of Commerce played the most significant role in promoting the franchise market, especially in the absence of a national franchise association. However, participants refer to regionalization and the limited role of Chambers of Commerce, since the franchise unit and committee were only formed at the Riyadh region and recently at those in Jeddah and Dammam, but do not exist in the other ten regions. Administrators of the SME centre emphasised that each chamber of commerce only provides services to its regions and the franchise unit is commissioned only to increase acculturation and raise awareness about franchise advantages among the business community. Moreover, the administrators stated that they do not have a special budget or team to promote a franchise environment since the franchise unit is a small part of the SME centre.

5.2.4. The absence of marketing and educational environment

Participants noted a number of factors that are associated with franchise developers, franchise marketing, and franchise education, as follows:

Franchise development services firms

Participants emphasised that the absence of franchise service providers, including advisors, brokers, and developers, prevents the franchising system from spreading. Developers gave two reasons for the absence of franchise specialist firms. Firstly, the 'low awareness' of investment and expansion through the franchise system among entrepreneurs and current investors has created 'low demand' for franchises. Therefore, they suggested that social acculturation about franchise systems will help in creating an attractive environment that may accept the formation of franchise marketing companies. A second reason, mentioned by an international company recently involved in franchise development services in

KSA, was that the nature of the Saudi market is different compared with that of other countries in terms of culture, norms, and customers' preferences in the different regions; the market needs to be understood in terms of what is 'suitable' and what will be in 'high demand'.

Lack of franchise education/training institutes

Some participants made a direct link between the weak awareness of the franchise system with the absence of educational or training programmes, which are not taught at universities, colleges, or institutes.

Conferences and exhibitions

All participants remarked that only four franchise exhibitions have been held in the last few decades. In addition, they criticised these exhibitions by saying that the main function of conducting them was to proliferate the franchise culture and its advantages among entrepreneurs, rather than to exhibit local and international firms willing to market their brands through franchisees.

5.2.5. Factors related to franchisors and franchisees

Some participants talked briefly about the ways in which the franchisees are chosen by their franchisors. It was observed that franchises are granted by international franchisors to well-known businessmen who are the owners of large companies. One of the current franchisees expressed the opinion that international companies go for known businessmen because of their financial capabilities, therefore utilising their accumulated experience in the local market, minimising the risk, and strengthening the chance of success. Current franchisors mentioned that international franchisors do not want to grant franchises to start-ups, even if they can get loans from banks, because international franchisors aim to exploit the financial capabilities of local large companies to open several outlets in different regions within KSA. Administrators raised a point related to the negative practices of some franchisors and franchisees. For example, some of these international franchisors force their franchisees to maximise their horizontal expansions regardless of the market demand. Moreover, some franchisees utilise a business franchise format

but they only use the trademark of the international franchisors without commitment to the other standardisations, and the parent firms do not mind this practice since they get their royalty fees.

5.2.6 Domestic franchises

Some participants highlighted the importance of concentrating on expanding and exporting national firms through domestic and international franchise systems. In most cases, the Saudi market imports franchise businesses and the majority of franchises are international brands managed by domestic franchisees. Based on a survey conducted by the Riyadh Chamber of Commerce, administrators mentioned that there are more than 200 national firms that are capable of being franchisable but there are a number of barriers that prevent them from realising this potential, including a lack of the following: criteria for building effective franchise systems in their firms (absence of a strong franchise system), trained teams to follow up, quality control systems, support, and continuous training. Developers indicated that the elements that make the US franchise system successful in most parts of the world do not exist in Saudi firms and Saudi businessmen are not yet well prepared to become franchisors. Participants suggested that Saudi firms should develop their performance in products and services to qualify them to be franchisable businesses at both domestic and international levels. Evidence was given by developers on the failure of Saudi companies that had expanded at international level through franchising (Table 5.1). However, one representative raised an interesting point, that regardless of nationality, the mutual benefits for society and the business community are not distinguishable in exporting (domestic) and importing (international) franchises.

Table 5.1: Diagnosis of factors that affect franchise environment development

Factors	Implications	Participants' Statement
Lack of specific franchise law	Hesitation to promote franchising by Chambers of Commerce	<i>Now we cannot go to the mass media and talk about the Franchise, because the first question from anybody will be about the law that governs the business activity... [administrators]</i>
Using Commercial Agency Law	Different interpretation of rules and regulations of franchise agreements among government departments	<i>When the franchisee goes to the Labour Office to recruit labour, the office will inform him or her that the franchisor has availed their Visas. The franchisee will try to tell the labour office that he or she is an independent firm from the parent company, but still they will reject the</i>

		<i>request ... [representative]</i>
	Claims dismissed by courts	<i>The Court of Justice may completely destroy the franchise because the concept itself is not well defined in the existing commercial rules, and all the legislative and executive government authorities have no clear rules or regulations which govern the Franchise [developers]</i>
Lack of Financial Support	The franchise has not been adopted by the majority of financial institutions	<i>In our country, the financing of SME's is still weak [and] despite the presence of 16 lending institutions, this type of business is not known to them [...] and they prefer traditional activities that they know ... [representative]</i>
The absence of franchise association	Limited number of franchises	<i>Because the number of [franchises] is no more than 381 [...] in other countries they have one million members or hundreds of thousands [...] How can they be compared with our three hundred establishments ... [representative]</i>
Regionalisation of Chamber of Commerce role	Geographically based rather than industrially	<i>There is no cooperation between the Chambers of Commerce in respect of franchise [...] each Chamber of Commerce is serving the businessmen and its subscribers in the region [administrators]</i>
Limited role of Chamber of Commerce	Lack of information about franchise opportunities	<i>We do not have a franchise directory or magazine, but we have database containing the names and addresses of those who want to franchise their trademarks [which] was made three years ago.. Also, it is difficult to survey the market to find out franchise opportunities because this requires a specialised team, which is not available at this moment ... [administrators]</i>
Franchise development services companies	Low demand: The market needs to be understood	<i>In our area everything is different, the business environment, the people, the culture, etc. We are looking for factors like religion, people, culture, tradition, and norms. For example, food in Riyadh is different from food in Jeddah or Asir. Furthermore, the way of life and methods of speech are different, so if you want to spread a local franchise you have to look at all these factors and not only to business models [developers]</i>
Lack of conferences and exhibitions	Four exhibitions have been held in the last few decades	<i>All these conferences and exhibitions were not concentrating on the marketing of franchise systems or the introduction of franchise products or services to be franchised but they were concentrated to spread the franchise culture [potential franchisees/franchisors]</i>
Lack of franchise education/training institutes:	Lack of awareness	<i>...up until now franchising has not been taught in Saudi universities, colleges, or the training centres of the Chamber of Commerce [...] No training courses are conducted on franchise systems and nobody knows about the importance of franchises in the modern economy ... [current franchisees/franchisors]</i>
Domestic franchising	Domestic companies lack the criteria for building effective franchise systems	<i>X restaurant is a Saudi company that has worked in K.S.A. for 25 years. It has 200 branches and has trained marketing staff. When they franchised in the Gulf Area in Kuwait, Dubai, and some other places, they found that they could not compete with existing businesses and most of them closed. [developers]</i>
Factors related to franchisors and franchisees	Franchises are dominated by a small number of players	<i>I have a unique and famous trademark, the reputation of which I spent a lot of money and time on. In the absence of a Franchise Law, how do you expect me to take the risk and grant the franchise to a small investor who wants to enter the market? [current franchisees/franchisors]</i>

Source: Author

5.3 Discussion of interview results

Interviews results show that the franchising environment in KSA is premature and still undeveloped, similar to previously investigated cases in the Arab countries literature (Abughazala, 2007; Elsaman, 2012; Chanut, Gharbi, and Fernandez, 2013; Briggs and Araghi, 2009) including the lack of legal, financial, and promotional environments. Some factors were not highlighted by participants, including political, economic, and logistic environments, which were found to be the factors that most affected the implementation of franchising in KSA (Sadi and Al-Fuzai, 2010). The barriers raised by participants make franchises less popular among SMEs and discourage start-ups to become franchisees. Since international firms mostly grant franchises to large Saudi companies, these barriers do not have a negative impact on the rapid growth of franchising. A good illustration of this is that the franchise market has shown a rapid increase in the last six years (MCI, 2013). Moreover, high demand for Western products and services has made international franchises successful despite the shortcomings in the legislative environment.

The interviews illustrated some obvious consequences of using commercial agency law, which does not differentiate between agency, distribution contracts, and franchising agreements. These implications are no different from those previously investigated in the UEA (Briggs and Araghi, 2009) and this misconception was highlighted earlier by (Mendelsohn, 2004), as mentioned in Chapter 2. The current reliance on commercial agency law thus has exacerbated some problems, particularly when it cannot be used as a reference for dispute issues. KSA is not the only country that requires amendments to their legislative franchising framework. In response to this, some articles have been added to the agency law to cover the gaps due to the special nature of the franchise system (Mikwar and Akkad, 2011), as mentioned in Chapter 3.

Franchised and non-franchised SMEs face restrictions in financing and capital accessibility, which are often cited as constraints on entrepreneurship (Sadi and Henderson, 2011; Evans and Leighton, 1989). With regard to the lack of financial support in KSA, participants indicated that one of the main incentives to become

a franchisee is the support of funding institutions, since these recognise the relatively lower risk of investment for start-up franchise businesses compared with independent start-up entrepreneurs. This finding mirrors prior studies in this respect, for example Weaven, Isaac ,and Herington (2007) who found that all the franchisees in their study perceived capital accessibility as the most vital factor when joining a franchise system. The current relationship between banks and franchisors' equity also encourages banks to finance their franchisees, yet 98% of franchisors in KSA are international and therefore have no direct relationship with the local institutions. Participants implied that domestic franchisors can ease the financial constraints of franchisees by lending them the start-up costs, to be paid back along with royalty fees through revenue over a specific period of time, as this type of collaboration contributes to the overall success of both franchisor and franchisee (Clarkin and Rosa, 2005). Although this suggestion is somewhat different from the resources scarcity theory highlighted in (Chapter 2), this suggestion may be applicable to those franchisors who are capable financially, including domestic franchisors and international large chains.

The significant global growth of franchising has stimulated the concern of different groups in the economy such as entrepreneurial businesses, large corporations, trade associations, publishers, legislators, federal agencies, academics, stock market investors, and franchisees (Ozanne and Hunt, 1971). Despite the increased number of franchises in KSA, trade associations that promote best practice and regulate franchise markets are still absent. This may be due to the fact that the majority of franchises are granted by international franchisors rather than national ones, in addition to the small number of franchisees that did not exceed 381 until 2012. Trade associations will exist when the industry matures (Ozanne and Hunt, 1971) and when members believe that the advantages obtained from membership are greater than its cost (Boleat, 1996). Further, despite the fact that franchise systems started 35 years ago, there were only four exhibitions, conducted in 2008, 2009, and 2010 in Riyadh and one in the Asir city in 2012. This can be interpreted as reflecting the distribution of franchise businesses in KSA, with 66% of franchise businesses existing in Riyadh.

Building a sustainable franchise model cannot be achieved without the existence of franchise developers, consultants, and franchise specialist firms that assist companies and entrepreneurs in various aspects of the franchise system to achieve their investment ambition to own or grant a business format franchise. Franchise developers can develop the internal and external business' systems to deliver the tangible and intangible values and uniformity of the franchise system to other franchisees. Graduates of educational franchise programmes and franchise development providers are seen as inextricably linked. Thus, these factors should be considered in promoting franchising in KSA.

Domestic franchising is not yet ready to engage in Saudi markets since the local SMEs lack fundamental franchise management skills, such as franchise operation standards and manuals, legal frameworks, and structuring franchise relationships. This is quite a radical challenge for SMEs that do not have full franchising packages, which is a hidden risk to the whole business chain when they become franchisable. If the challenge is not met, then this means more than just the failure of the individual franchisees, but also undermines the business chain as a whole by destroying its brand. Therefore, local businesses need to think about their brand management orientation at an early stage when they are building a strategy for local and global expansion. This is also suggested by Sadi and Henderson (2011), who state that local SMEs in KSA should have certain standards to measure their franchising potential, such as high quality services and products, effective employees, IT capabilities, and high ethical standards. Franchise developers will help these businesses to build an effective franchise package, to be able to grant both local and international franchises.

5.4 Entrance into the franchises in KSA (quantitative approach)

The previous exploratory stage (qualitative approach) was beginning to cohere, and expand the existing knowledge of franchising in KSA. As the main issues affecting the diffusion of franchising as a mode of investment and expansion, were highlighted (see section 5.2), this led to further analysis of the franchise business in KSA, through a large- scale quantitative method investigating other aspects. Therefore, this part presents the first part of the franchise questionnaire

results that were collected from 104 franchises in various sectors, as follows: Firstly, an overview of the socio-demographic and economic characteristics of franchise businesses, along with their owners and managers is described. Secondly, univariate analysis (frequencies, means, standard deviation) is used to ensure the reliability and validity of barriers/incentives obtained earlier from interviews. Thirdly, bivariate analysis (Fisher exact test) is used to determine how strongly these barriers/incentives are associated with the establishments' characteristics (age, location, outlets, etc.) and the characteristics of the owners/managers (age, education, experience). Exploring these associations can provide some indicators of how franchising tourism can be implemented and promoted in KSA (Chapter 9).

5.4.1 Structure of the franchise businesses in large regions in KSA:

In order to present a comprehensive overview of the structure of franchises in KSA in the regions of Riyadh, Western and Eastern (research question 3 (QN), Fig. 5.1), this section provides detailed information about demographic and socio-economic characteristics of the participating owners/managers and their businesses characteristics. The distribution of franchises in comparison with the total population in each economic sector was described previously, in Chapter 4.

Socio-demographic characteristics of the owners/managers

104 valid questionnaires were collected, where 96 were franchisees and 8 were domestic franchisors. Table 5.2 demonstrated that almost half of the respondents (47.11%) were between 40 to 49 years old, whereas 36.5% were between 30 and 39 years old, and only 6.7% were between 20 and 29. It is obvious that young Saudis are less likely to be involved in franchising as entrepreneurs and managers. Similarly, the survey of Natwest/BFA (2013) stated that the majority of franchisees are men with an average age of 45-49 years old. This may be attributed to franchisors' preferences, in which older franchisees are found to be less opportunistic toward franchisors than younger franchisees (Jamulingam and Nevin, 1999).

As illustrated by participants earlier (section 5.2.6), respondents' profiles show that more than 94% of all respondents (franchisees/franchisors) have prior

experience of running and managing franchises. Almost all franchisors (99%) have had prior experience for more than ten years within the same field of the current franchised business. Regarding franchisees, more than 46% have between 6 and 12 years of prior experience, whereas 29.5% had 1 to 6 years and 21.9% had more than 12 years. By contrast, only 6.7% of franchisees had no prior experience in business.

This is relatively similar to the experience profiles in other studies on franchisees. For example, in their study on the decision by the self-employed to become franchisees, Kaufmann and Stanworth (1995) found that people who were self-employed in the past were most likely to be self-employed in the future as a franchisee, which is consistent with the experience profiles of most prior research (Peterson and Dant, 1990; Hatcliffe et al., 1995; Williams, 1999; Guilloux et al., 2004; Weaven and Frazer, 2006). In a related point, Edens, Self, and Grider (1976) found that franchisees who have had prior experience are in high demand from franchisors.

Regarding the respondents' education, more than half of the franchisees (66%) possessed a university degree, 24% had secondary qualifications (intermediate and secondary school) and only 8% were postgraduates. These results are close to previous studies findings (Nunn et al., 1998; Williams, 1999; Guilloux et al., 2004; Bennett et al., 2010) who found that franchisees tend to hold a higher education qualification. This may be attributed to criteria requested by franchisors; for example, Edens et al. (1976) found that a college qualification is favoured by franchisors when selecting prospective franchisees. With respect to franchisors, all possessed a university or postgraduate degree (75% and 25% respectively). The Fisher exact test revealed that there is an association between business type and qualifications. For example, 40% of postgraduate degrees were held by respondents who run professional services such as training, consultation and communication franchises. While the respondents who were less qualified, attending only secondary and intermediate school, were running businesses that do not require higher qualifications, such as restaurants, coffee shops, and petrol services ($\chi^2 = 13.026$, $p = .019$).

Table 5.2: Socio-demographic characteristics of franchisees:

Characteristics of respondents		Number of respondents	Percentage %
Age	20-29	7	6.7
	30-39	38	36.5
	40-49	49	47.11
	50-59	10	10.4
	Total	104	100
Qualification	Postgraduate	10	9.61
	University	70	67.3
	Secondary School	22	21.16
	Intermediate or Less	2	1.92
	Total	104	100
Previous Experience	Yes	97	94.17
	No	6	5.8
	Total	103²¹	100

Source: Author

Socio-economic characteristics of the franchisees:

The characteristics of franchisees' businesses, including business type, contract type, number of outlets and age of the establishments are shown in Table 5.3. A total of 96 franchisees participated in this survey. More than half of business owners (54.16%) operated a single unit franchise contract, and 45.84% of franchisees operated either sequential multi-unit franchising or area development. This fairly represents different types of organizational arrangements. The vast majority have been engaged in business for a period of 6 – 10 years, 27% are 1–5 years and 19% 11–15 years. These results showed that 75% of the franchisees/franchisors have been engaged in franchising for 1–10 years. The study indicates that there is a significant association between years of being franchisees (age of franchised unit) and the number of units owned by franchisees ($\chi^2 = 10.033, p=003$).

²¹ Missing data

Table 5.3: Characteristics of franchisees' businesses

Franchisees' business characteristics		Number of respondents	Percentage %
Type of franchise contract:	Single unit franchise	52	54.16
	Multi-unit franchise	15	15.62
	Area development franchise	29	30.2
	Total	96	100
Number of units:	1 – 10	67	71.27
	11 – 20	14	14.89
	21 – 30	6	6.38
	31 – 40	3	3.19
	41 and above	4	4.25
	Total	94²²	100
Franchise establishment age	1 – 5 Years	26	27.1
	6 – 10 Years	46	47.9
	11 – 15 Years	18	18.8
	16 and above	6	6.3
	Total	96	100

Source: Author

Characteristics of franchisors' businesses

Although this study targets international franchising granted to local franchisees', it was necessary to include some domestic franchisors' characteristics, especially those that work as master franchises for international franchisors. They can be considered "mini franchisors"²³ that act on behalf of international franchisors in specific territories in terms of recruiting, training and providing ongoing support to local franchisees.

Table 5.4 below shows that eight franchisors participated in this survey; 62% are domestic franchisors and owners of national companies and 38% are master franchising (mini franchisors). The majority (87%) run/own between one and six outlets and 13% have seven to twelve outlets. This is quite a small number compared to outlets run by franchisees in the previous section. This may be ascribed to the relatively newness of using franchising as a mode of expansion

²² Missing data

²³ A master franchise entails "having the right and obligation to open and operate a certain number of units in a defined area. In addition, the master franchisee has the right to sell franchises to other people within the territory, known as sub-franchises. Therefore, the master franchisee takes over many of the tasks, duties and benefits of the franchisor, such as providing support and training, as well as receiving fees and royalties". (International Franchising Association IFA).

by local investors, especially for those who own national companies. A good illustration of this is that 80% of domestic franchisors who own the national mother companies started granting franchising to local franchisees between 1 and 5 years ago, whereas 66% of master franchisees who are ‘mini franchisors’ for international brands started granting franchises 6 to 12 years ago . Furthermore, 71% of franchisors are master franchisees (mini franchisors) who own/run other businesses besides their current franchise. This may indicate the robust financial and managerial abilities of these franchisors.

Table 5.4: Characteristics of Franchisors’ Businesses

Characteristics		Number of respondents	Percentage %
Type of franchisor	Owner of the Mother Company	5	62.5
	Master Franchise	3	37.5
	Total	8	100
Number of outlets	1-6 outlets	6	75
	7-12 outlets	2	25
	Total	8	100
Period of granting franchise	1 – 5 Years	5	62.5
	6 – 10 Years	3	37.5
	Total	8	100
Other business owned by franchisors	Yes	5	71.4
	No	2	28.6
	Total	7²⁴	100

Source: Author

Criteria for choosing franchisees from the franchisor’s perspective:

Franchisors in KSA were asked about the importance of certain criteria that may influence their decision in selecting their potential franchisees. The results are displayed in the table below (5.5), which presents the number of franchisors that answered each criterion (n), the mean score and the standard deviation of each criterion. The highest score in terms of importance was 4.57, while the lowest score was 3.71. The criteria that were highly desired by franchisors were ‘financial capability of franchisees’ and ‘administrative experience of franchisees,’ with mean scores of 4.57 and 4.29 respectively. Other criteria such as ‘personal relationship with franchisees, recruiting current independent businesses and

²⁴ Missing data

geographic location of franchisees' were not on the top of the franchisors' priorities. Generally, criteria including financial history and position, motivation, educational level, managerial skills and experience (Swart, 2002; Clarkin and Swavely, 2006) are used to evaluate prospective franchisees by franchisors. However, domestic franchisors in this study may have different priorities compared to international franchisors. For example, international franchisors consider that franchisees will bring not only financial resources, but also knowledge of local markets in the hosting country (Dant and Kaufmann, 2003).

Table 5.5: Criteria for choosing franchisees from the franchisors' perspective:

Criteria	Number(n) of respondents	Mean	S.D
1 Financial capability of franchisee	8	4.57	0.78
2 Administrative experience of franchisee	7 ²⁵	4.29	0.95
3 Personal relation with franchisee	7 ²⁶	3.71	1.25
4 Recruiting current independent business as franchisees	8	3.71	1.25
5 Geographical location of the franchise business	7 ²⁷	3.71	1.11

Source: Author

As mentioned in the methodology chapter (4), this research targets only Saudi owners/managers involved in franchising. It does not aim to differentiate between franchisees and franchisors because most franchises in KSA are owned by local franchisees via international franchisors, since domestic franchisors in KSA did not exceed 13 companies, as of 2012. Thus, both franchisors and franchisees were asked the same questions in the following sections.

5.4.2 Influences of factors restricting successful franchise diffusion as a mode of investment and expansion in KSA:

In order to address the first research objective of this study (research question 1, (QN) Fig. 5.1), the questionnaire was used to ensure the reliability and validity of the barriers that were derived from the interviews (Section 5.2) while also

²⁵ Missing data

²⁶ Ibid

²⁷ Ibid

showing the degree of influence these factors have on preventing entrepreneurs and SMEs from adopting the franchise system. Table 5.6 illustrates the distribution of the responses for each barrier (n), the percentage (%), and the mean of the Likert score for each factor, along with the standard deviation (SD). Based on the mean Likert scores, scores under 2.60 indicate non-influential barriers in views, those around 2.60 to 3.40 indicate a neutral trend, and those over 3.40 indicate the most influential barriers in the franchising environment.

The level of adverse impact of these barriers on franchising diffusion is relatively high. The highest score in terms of frequency is 4.63, and the lowest score is 3.43. Therefore, none of the respondents deemed these barriers as 'not at all influential', and only less than 4% of the respondents indicated that some of these barriers were 'not influential', which signifies that all barriers are either very influential or influential in restricting franchising development.

Table 5.6: The degree of respondents' agreements about the influential factors restricting franchising diffusion as a mode of investment and expansion in KSA

Barriers		Distribution of Responses										Mean s	S.D
		1		2		3		4		5			
		Not At All Influential	Not Influential	Influential to Some extent	Influential	Very Influential							
		n	%	n	%	n	%	n	%	n	%		
1	Lack of specific laws that govern the franchise agreements	0	0	0	0	1	1.0	37	35.6	66	63.5	4.63	0.50
2	Lack of laws related to dispute settlement and litigation	0	0	0	0	3	2.9	46	44.2	55	52.9	4.50	0.55
3	Slow execution of judicial resolutions	0	0	1	1.0	3	2.9	51	49.0	49	47.1	4.42	0.60
4	Lack of application of competition rules and regulations	0	0	0	0	2	1.9	61	59.2	40	38.8	4.37	0.52
5	High cost of franchise fees	0	0	3	2.9	16	15.4	44	42.3	41	39.4	4.18	0.79
6	Lack of information about investment through the franchise system	0	0	1	1.0	19	18.3	65	62.5	19	18.3	3.98	0.63
7	Lack of acculturation programs that propagate the franchise business	0	0	1	1.0	22	21.4	60	58.3	20	19.4	3.96	0.67
8	Lack of specialized consultants to study the franchise agreements and provide franchise services	0	0	1	1.0	31	29.8	46	44.2	26	25.0	3.93	0.76
9	Lack of training courses in the educational and training institutes about franchising	0	0	1	1.0	27	26.0	60	57.7	16	15.4	3.88	0.66

10	Lack of a franchise association to organize the relation between the companies dealing in franchise businesses	0	0	2	1.9	31	29.8	52	50.0	19	18.3	3.85	0.73
11	Lack of specialized administration unit at the franchisor's company to look after the franchisees and follow up with the franchisor	0	0	4	3.8	27	26.0	55	52.9	18	17.3	3.84	0.75
12	General thinking that franchise businesses are limited to fast food restaurants and coffee shops	0	0	3	2.9	32	30.8	48	46.2	21	20.2	3.84	0.77
13	Lack of establishment of special funding institutions to support franchise businesses	1	1.0	16	15.4	34	32.7	43	41.3	10	9.6	3.43	0.90

Source: Author

Table 5.6 shows that there are small cells (with less than five respondents) in the categories of 'not influential' and 'not at all influential', which prevents the p-value of the chi-squared from identifying a relationship between variables. In order to address this problem, groups' categories were collapsed into the following three groups: (1) 'very influential', (2) 'influential' and 3) 'influential to some extent, not influential or not at all influential'. After collapsing, however, there were some cells with expected values of <5. Therefore, the Fisher exact test was a more appropriate test to give accurate estimates of significance compared to Chi-square test. Appendix 12 presents a Fisher exact test for associations, which may provide further understanding of the relationship between independent variables and the level of influence.

The barriers can be clustered into three groups according to their high degree of influence, including weakness of regulations, franchising cost and lack of franchising development and marketing strategy. The first group is related to the weakness of regulations, in which the most influential barriers have mean scores between 4.63 and 4.37, including the four items (1, 2, 3, 4) for which more than 96% agreed that these barriers are 'influential' or 'very influential'.

The Fisher exact test revealed that franchises that were established ten years ago or earlier are more likely to consider the 'lack of specific laws that govern the franchise agreements' (item 1) as a very influential factor than franchises established more than 10 years ago ($\chi^2(1) = 4.644, p=.035$). This may explain the relatively positive impact of the accession of KSA into the WTO in 2005, which

has stimulated domestic economic reforms to make KSA a more attractive market for foreign direct investment (Ramady and Mansour, 2006) and increased investors' awareness regarding franchising law, which is different from the current commercial agency law that governs franchising in KSA.

Restaurants, food and beverage franchises are more likely to consider 'lack of laws related to dispute settlement and litigation' (item 2) as a very influential factor, compared to other types of business ($\chi^2(2) = 7.651, p = .014$). This can be compared with the Franchising Australia Survey (2008), which reported that franchisors and franchisees that have been involved in a 'substantial dispute' with their counterparts for over a year are mostly located in the food services and accommodation sectors (Frazer, Weaven and Wright, 2008).

Retailing (clothes, shoes and accessories) franchises are more likely to consider 'slow execution of judicial resolutions' (item 3) and 'lack of application of competition rules and regulations' (item 4) as very influential factors compared to others: $\chi^2(3) = 18.612, p = .002$, $\chi^2(4) = 12.839, p = .007$, respectively. The potential level of harmful repercussions of a 'lack of application of competition rules and regulations' is likely to be higher for franchisees/franchisors who have in excess of 11 (up to 50) outlets: $\chi^2(4) = 4.657, p = .025$

There is a strong relationship evident between the absence of specific franchise law (item 1) and the lack of other legal factors (items 2, 3, 4). Even with the availability of specific franchise law, shortcomings have been identified in franchise agreements. For example, Hadfield (1990) claimed that the franchise contract can guide courts to resolving disputes, but it is usually highly incomplete and can fail to address the franchise parties and franchisee's problems in particular.

The above group is followed by one barrier related to franchise fees (item 5), 'high cost of franchise fees' (with a mean score of 4.18), where almost 82%

agreed about its negative influence. There was limited evidence of how much the fees (initial and royalty fees aside from investment costs) for franchising businesses are in KSA due to the absence of franchising databases, such as the Sourcebook of Franchise Opportunities (Bond and Bond, 1994), which could have provided definitive franchising information, such as detailed profiles/fees. Service franchises in this survey (automotive, accommodation, real-estate agents, dry cleaning etc.) are more likely to consider the high cost of franchising as very influential, compared to other types of franchises : $\chi^2(5) = 4.153$, $p = .027$. This result is consistent with Rao and Srinivasan (1995), who stated that royalty fees are significantly higher in businesses that are primarily service-oriented. Assuming that new entrepreneurs would begin with a single unit franchising contract, franchises with single units are more likely to rate the high cost of franchising as a very influential barrier compared to multi-units and area development franchise contracts: $\chi^2(5) = 2.865$, $p = .048$.

Franchises located in the Western (Makkah) region are more likely to rate this factor as very influential, compared to other provinces: $\chi^2(5) = 6.350$, $p = .012$. This result is apparently related to the high cost of starting up a business generally in the Western region, specifically in Makkah and Madinah. The religious features of these two cities make them two of the most expensive cities. For example, the price of a square meter in the commercial area around the Holy City (Makkah) costs up to 375 thousand riyals (\$100,000) (Sfeir, 2011). Therefore, the high cost of investment, with additional fees for franchising, can prevent entrepreneurs from doing business there. The high real estate cost was also identified as a barrier for franchising businesses in Japan and Europe (Hackett, 1976). Moreover, owners/managers who had experience of more than 10 years in business before owning/managing franchises are more likely to consider this factor as very influential: $\chi^2(5) = 9.073$, $p = .027$.

The third group is related to the lack of franchise development marketing strategies (items 6-12), which includes four main sub-themes: marketing, acculturation, education/training and consultation. These barriers contain

responses ranging in influence, with mean scores between 3.98 and 3.84, where almost 66% agreed about their influence (items 6-12).

Lack of experience in business can be considered as the basis of the need for a franchising advisory body. For instance, less experienced owners/managers ($\chi^2(8)$ 9.337 $p = .001$; $\chi^2(10)$ 12.798, $p = .006$; $\chi^2(11)$ 9.439, $p = .025$) and owners/managers with single contract franchises ($\chi^2(8)$ 9.439, $p = .005$; $\chi^2(10)$ 5.078, $p = .009$) are more likely to rate the 'lack of specialized consultants' (item 8), 'lack of a franchise association that organizes the relation between the companies dealing in franchise businesses' (item 10) and 'Lack of specialized administration unit at the franchisor's company to look after the franchisees and follow up with the franchisor' (item 11) as very influential barriers.

In terms of marketing and acculturation, service-oriented franchises are more likely to consider 'lack of information about the investment through the franchise system' $\chi^2(6)$ 2.053, $p = .05$ and 'lack of acculturation programs that propagate the franchise business' $\chi^2(7)$ 1.916, $p = .047$ and 'lack of training courses in the educational and training institutes about franchising' $\chi^2(9)$ 3.815, $p = .032$ as very influential factors, compared to other businesses. This may be due to the fact that little is known about franchising in services since the growth of franchising was most conspicuously in fast food restaurants and clothing retail in KSA. A good illustration of this is that 66% of respondents agreed on the 'general thinking that franchises is limited to fast food restaurants and coffee shops (item 12). Tracking franchising history in the United States shows that franchising in the 1960s was mostly in restaurants or fast food, whereas in the 1980s, franchising began to grow in services sectors such as 'maid services, day-care facilities and lawn-maintenance businesses' (Lafontaine, 1992). Due to the recent history of franchising in KSA that began in 1980, it is expected that franchising in KSA will move from the food industry to more service oriented sectors.

The last group contains one barrier related to financial support (item 13), 'lack of establishment of special funding institutions to reinforce franchise businesses' (with a mean score of 3.4, and 51% agreed on its negative influence). Younger

age groups are more likely to find this factor influential, compared to the oldest group $\chi^2 (13) = 9.524, p = .038$. The British Franchise Association (BFA, n.d.) stated that there is an interest among young people to be involved in the franchise sector, but only 5% of franchisees are under 30 years old. However, the lack of capital and guarantee to fulfil the investment requirements are the main constraints on young people when striving to become franchisees. Nunn et al., (1998) illustrated that 57% of franchisees financed their start-up franchises through personal savings, which cannot be afforded by young people, and (48%) got funds from banks.

5.4.3 Influences of factors contributing to a successful franchise environment in KSA

The essential factors that promote the franchise environment in KSA were derived from the interviews and the pilot survey with the business community that specialises in developing franchises. In the survey, franchise business owners were asked about the influence of the factors that positively contribute to franchise development in KSA (research question 2, (QN) Fig. 4.1). The results are displayed in Table 5.7.

The influence of these drivers on franchising development is high. The highest score in terms of frequency is 4.03, and the lowest score is 3.32. It can be seen that the vast majority of these factors are either very influential or influential. However, the existence of banks and other lending institutions to finance franchise businesses (with a mean score of 3.32) had a neutral responses and scored the lowest in terms of importance. This may relate to the absence of named 'franchise funds' in the majority of Saudi banks, as illustrated in the interviews.

Table 5.7: The degree of respondents' agreement about the influential factors that contribute to a successful franchise environment in KSA:

Incentives		Distribution of Responses										Mean s	S.D
		1		2		3		4		5			
		Not At All Influential		Not Influential		To Some Extent Influential		Influential		Very Influential			
		n	%	n	%	n	%	n	%	n	%		
1	Obligation of the franchisor to his duties towards the franchisee	0	0	11	10.6	24	23.1	20	19.2	49	47.1	4.03	1.06
2	Low franchise fees	1	1.0	15	14.4	21	20.2	17	16.3	50	48.1	3.96	1.16
3	Flexible terms of franchise business	1	1.0	8	7.7	25	24.0	34	32.7	36	34.6	3.92	0.99
4	Existence of intellectual property law	0	0	6	5.8	19	18.3	57	54.8	22	21.2	3.91	0.79
5	Large population in Saudi Arabia	0	0	4	3.8	24	23.1	55	52.9	21	20.2	3.89	0.76
6	Customers preference for foreign products and trademarks	0	0	5	4.8	26	25.0	56	53.8	17	16.3	3.82	0.76
7	A growing number of expatriates	2	1.9	4	3.8	27	26.0	50	48.1	21	20.2	3.81	0.87
8	Differentiation between franchise business and commercial agencies	0	0	6	5.8	29	27.9	59	56.7	10	9.6	3.70	0.72
9	Rehabilitation and preparation of tourism sites to accommodate tourism activities	1	1.0	12	11.5	27	26.0	47	45.2	17	16.3	3.64	0.92
10	Large number of tourist sites in Saudi Arabia	1	1.0	13	12.5	28	26.9	51	49.0	11	10.6	3.56	0.87
11	Accession to World Trade Organization (WTO) in 2005	2	1.9	14	13.5	21	20.2	60	57.7	7	6.7	3.54	0.88
12	Existence of banks and other lending institutions to financing franchise businesses	0	0	17	16.3	46	44.2	32	30.8	9	8.7	3.32	0.85

Source: Author

The incentives can be clustered into seven groups according to their degree of influence; the first group includes responses for the most influential incentive, which was 'obligation of the franchisor to his duties towards the franchisee' with a mean score of 4.03. This corresponds with previous studies that deemed it one of the most cited success factor suggested by franchisees in Nunn et al. (1998) as positively affecting franchisees' survival (Michael and Combs, 2008). The Fisher exact test (see Appendix 13) revealed that there is an association between this

item (1) and the type of business. Service franchises are more likely to consider this factor as very influential: $\chi^2 (1) = 14.589$, $p = .000$.

The second group includes responses in the range of the most influential incentives, with a mean of 3.9, which includes 'low franchise fees' (item 2), 'flexible terms of franchise agreement' (item 3) and 'existence of intellectual property' (IP law) (item 4). An association between 'low franchise fees' (item 2) and the age group is found. Younger owners/managers are more likely to consider this factor as very influential: $\chi^2 (2) = 9.975$, $p = .024$. Moreover, franchises located near coasts (Western and Eastern regions) are more likely to consider this factor as a very influential factor in promoting franchising: $\chi^2 (2) = 5.804$, $p = .000$. Moreover, service franchises are more likely to consider this factor as very influential, compared to other types of businesses: $\chi^2 (2) = 13.619$, $p = .011$. These last two results are compatible with previous results in section 5.4.3, which showed that the high cost of franchises was considered a very influential barrier by the same groups (service franchises and franchises located in the Western region).

Also, there is an association between 'flexible terms of franchise agreement' and the younger group and business located in the Western & Eastern regions, and services: $\chi^2 (3) = 10.845$, $p = .030$; $\chi^2 (3) = 24.608$, $p = .000$; $\chi^2 (3) = 15.152$, $p = .001$ respectively.

Moreover, there is an association between the 'existence of intellectual property (IP) law' (item 4) and the number of franchise outlets. Although small scale franchise outlets incur lower controlling costs to protect the franchise, including its intellectual property, owners/managers who have fewer outlets are more likely to consider this factor to be very influential ($\chi^2 (4) = 6.508$, $p = .005$) than larger franchises. Medical appliances, building materials and industrial equipment franchises are more likely to consider this factor as very influential, compared to services and food/restaurants: $\chi^2 (4) = 7.848$, $p = .038$. Similarly, Bollen, Vergauwen and Schnieders (2005) found an association between IP and business performance in the pharmaceutical industry. Yet, IP is a part of intellectual capital (IC), including human capital, structural capital and relational capital, which is not limited to the medical industry, but can be more obvious with

service-oriented franchises that have relatively few tangibles (Watson et al., 2005)

The third group includes responses with mean scores of 3.8. This group included 'large population in KSA (item 5), 'customers' preference for foreign products/services and trademarks' (item 6) and 'a growing number of expatriates' (item 7). There is an association between these factors (items 5,6,7) and the type of business.

The 'large population in KSA is more likely to be very influential with medical appliances, building materials and industrial equipment franchises: $\chi^2(5) = 9.473$, $p = .032$. The growth of the KSA population will be associated with increasing demand that will not be limited to only medical products and construction materials, but will extended widely to medical and construction services. It is expected that the KSA population will reach approximately 50 million in 2050. The number of Saudis aged 65 and older will start increasing afterwards and will reach 18.4 % (CDSI, 2010a). Therefore, there will be more need for medical services than ever before, and the increasing demand for adequate health care, including medical products and services, will be a challenge for the medical industry. Therefore, the franchising model will be suitable for this market segment. With respect to the construction sector, the growing Saudi infrastructure and government focus on addressing the housing shortage will increase the demand for construction services. Under the government restrictions on foreign investment in this sector (Husein, 2013), the franchise model can thus be a perfect model for providing construction and real estate services.

'Customers' preference for foreign products/service brands' (item7) is slightly likely to be very influential on restaurants, food and beverage franchises: $\chi^2(6) = 8.567$, $p = .042$. This is different from AlDossry's (2012) study which found that the consumption behaviour of Saudis was highly positive towards global visible goods that support their social status such as cars, clothes and accessories. Rotelli (2013) mentioned several reasons behind why people prefer franchised restaurants, i.e. unified menus, nutrition information, availability of dietary facts, offering special deals and prices and being a safe and easy choice for locals

and travelers, especially those who have little knowledge of the local culture or who desire flavors from their home countries.

This study finds that 'a growing number of expatriates' (item7) is likely to be very influential on restaurant, food and beverage franchises: $\chi^2 (7) = 13.927, p = .045$. This is consistent with Alon, Toncar and Le (2002), who suggested that the expatriate population is a very attractive market for franchise restaurants.

The above group is followed by one incentive related to franchise law (item 8), 'differentiation between franchise business and commercial agencies' (with a mean score of 3.7). There is an association between this factor (item 8) and medical appliances, building materials and industrial equipment franchises, which are more likely to consider this factor as influential to promoting the franchise environment: $\chi^2 (8) = 6.923, p = .034$.

The above group is followed by one incentive related to tourism sites (item 9), 'rehabilitation and preparation of tourism sites to accommodate tourism activities' (with a mean score of 3.6). There is an association between this factor (item 9) and franchises located in the Western region $\chi^2 (9) = 20.872, p = .000$. The recent extensive development processes and tourist projects (see Chapter 3) that have taken place around the Grand Mosque and the Prophet's Mosque, along with the growing numbers of Muslim visitors, have started to attract a number of international investors, mostly popular brands in the global hospitality industry. Other support businesses are also needed for the coming years to provide adequate services for Muslims and tourists, which increase great opportunities for international franchising. This is illustrated also by the sixth group, 'large number of tourist sites in KSA' (items 10), with a mean score of 3.5, in which there is an association between (item 10) and franchises in service and medical appliances, building materials and industrial equipment $\chi^2 (10) = 11.121, p = .014$.

The last group had a natural response related to financial support (item 11), 'existence of banks and other lending institutions for financing franchise businesses' (with a mean score of 3.3, and 40% agreed on its positive influence).

The younger age groups are more likely to find this factor to be influential, compared to oldest group: $\chi^2 (11) = 4.872, p = .05$.

5.5 Summary

The aim of this chapter is to explore the status of franchising in KSA based on the actual experience of domestic franchisees and franchisors. In order to investigate the current barriers and incentives surrounding franchise development, a qualitative method (interviews) was used with a purposive sample of administrators, developers and current and prospective franchisees/franchisors. Six themes were generated during interviews: 'legal environment', 'financial environment', 'institutional environment', 'marketing and educational environment', 'factors related to franchisors/franchisees', and 'domestic franchises' (Section 5.2).

This investigation stage (Part 1) led to the analysis of the franchise business through a quantitative method (Part 2) by using questionnaires collected from than 104 chains in various sectors located in three regions (Eastern, Riyadh, Western). The local differences in these distinctive regions determined the key variables that affect entrepreneurs' and SMEs' decision to franchise. The quantitative stage was based on three functions, including investigation of the franchise structure in KSA, validation of interview results and identification of the association between factors and independent variables.

The first function was to explore the franchise structure and characteristics, as outlined in Section 5.4.1. This showed that the franchise sector generally is concentrated in the Riyadh region and is run and managed by older owners/managers who possess university degrees and have had previous experience in business before owning and managing the current franchises. Domestic franchisors greatly prefer franchisees who have 'financial capability' and 'administrative experience'.

The second function was validating the initial results from interviews. Univariate analyses highlighted that the level of agreement on the impact of these barriers and drivers on franchising diffusion as a mode of expansion and investment is relatively high (Sections 5.4.2 and 5.4.3 respectively). This indicates that these

factors are either very influential or influential in restricting/promoting the spread of franchising. However, there was only one incentive that had neutral responses and scored the lowest grade: 'existence of banks and other lending institutions to finance franchise businesses'. This may be ascribed to the absence of a 'franchise fund' in the majority of Saudi banks.

The third function was identifying associations through bivariate analysis between current barriers/incentives and the characteristics of franchises along with their owners/managers. The Fisher exact test reveals that there are some association between these factors and franchisees' age and experience, business type and location. Identifying these associations can provide some understanding of how franchising in tourism can be implemented and promoted in light of these barriers and drivers. This will be discussed in Chapter 9.

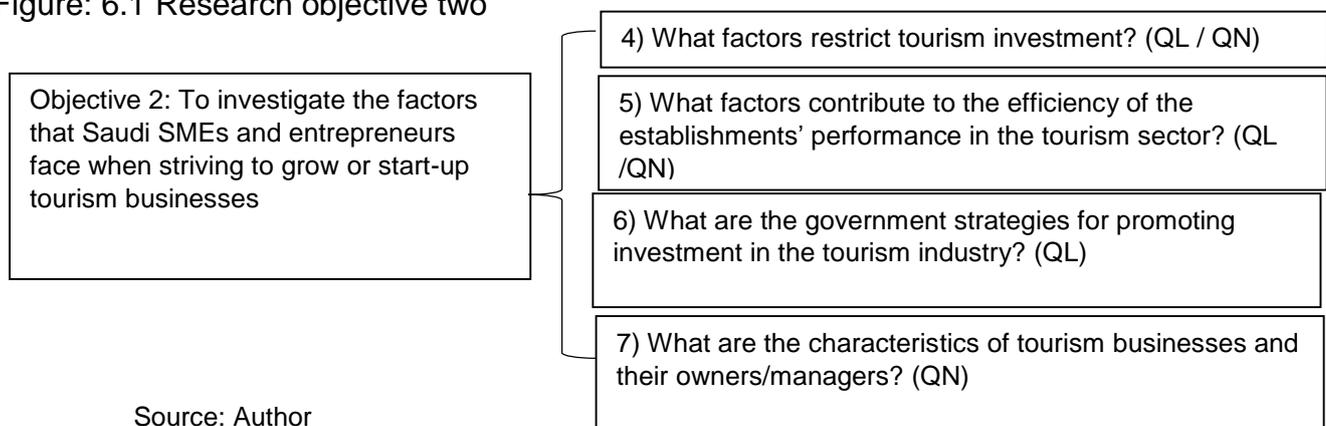
Chapter 6: Overview of the tourism business environment in KSA (characteristics, barriers and incentives for tourism businesses in large cities)

6.1 Introduction

As the main aim of this research is to link the potential benefits of adopting international franchising for tourism industry development in KSA, the current situation of tourism in KSA should be understood. Chapter 3 highlighted the extremely limited literature on tourism in KSA in general, and tourism investment in particular. Little is known about the tourism businesses' structures, characteristics, current practices, and obstacles they face in KSA. Additionally, little is known about the efforts made by SCTA to promote tourism, since its inception in 2000.

This chapter reviews the background of this study, which links the impact of franchising and tourism development through a logically constructed framework, to interpret how the franchising model can be a tool for developing tourism businesses in light of current practices. This cannot be done without first comprehending tourism investment. Therefore, the aim of this chapter is to present the qualitative and quantitative results related to tourism in accordance with the second objective, which is to investigate the current situation of tourism investment in KSA. In this context, four research questions (4, 5, 6, and 7 in Figure 6.1) will be posed.

Figure: 6.1 Research objective two

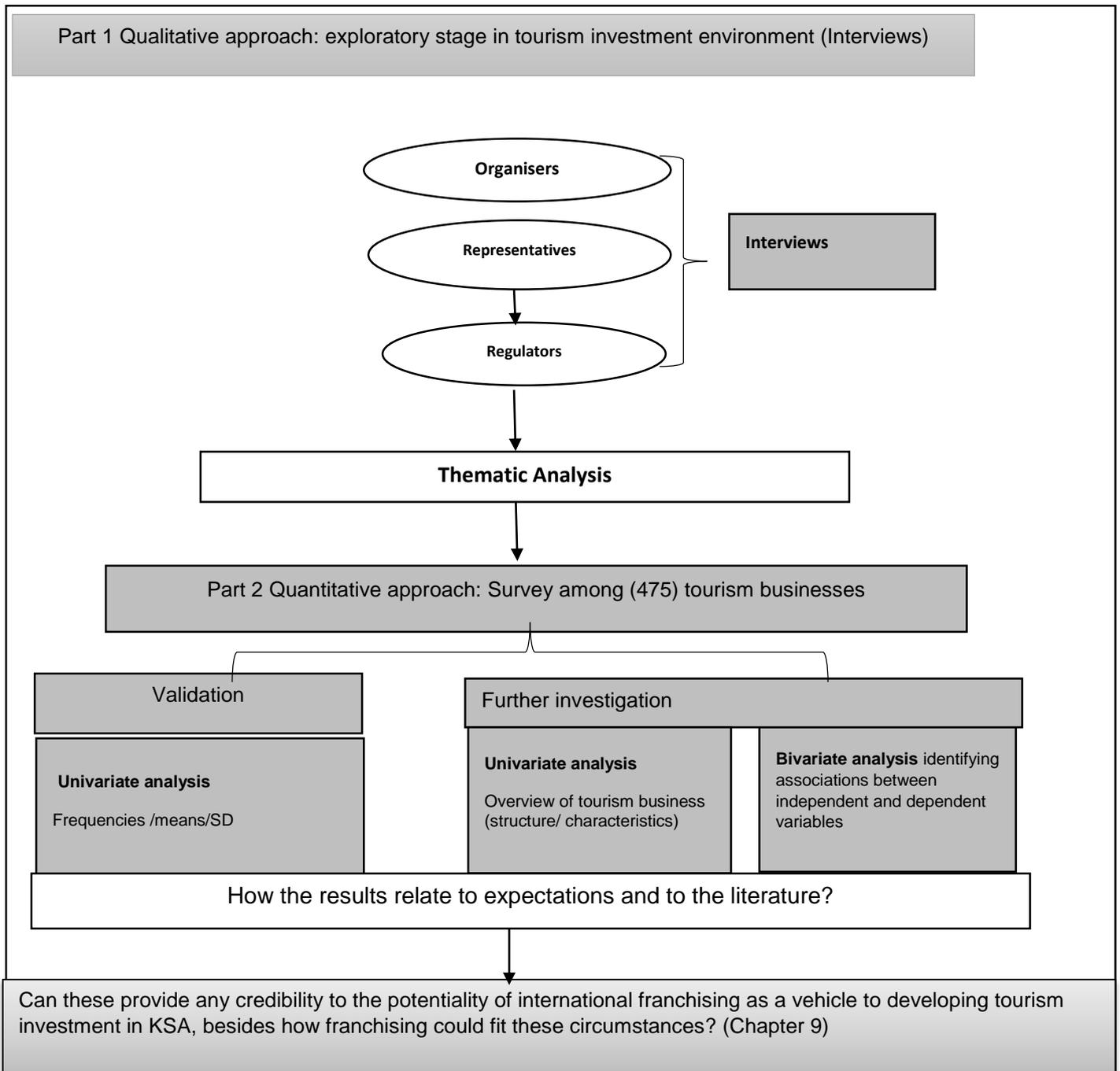


Source: Author

The structure of this chapter will be based on a three-stage logically constructed framework: (1) Exploration (interview analysis), (2) validation of interview results (questionnaire, univariate analysis), and (3) further investigation (questionnaire, bivariate analysis), as shown in Figure 6.2. In order to explore the general factors that affect tourism development, along with causalities, firstly interviews with tourism organisers, representatives of the Chamber of Commerce, and SCTA officials are analysed (Section 6.2). Secondly, the overview of the structure of tourism businesses in three large regions of KSA (Riyadh, Western, Eastern) with regard to the demographic and socio economic characteristics of tourism businesses and the owners/managers, are described (Section 6.4.1). These regional and local differences, explored via key demographic and socioeconomic indicators, will make possible the analysis necessary in later stages of how these differences affect decisions to adopt a franchising system by tourism entrepreneurs. This section is followed by a validation of the influence of the current factors restricting or promoting investment in tourism, explored in Sections 6.4.2 and 6.4.3.

In these sub-sections, bivariate analysis was used to capture further insight into the effects of the barriers that restrict the tourism business, as well as the suggested solutions in accordance with business characteristics. The main results are presented and linked to the previous studies, where appropriate, for each subsection in this chapter.

Figure 6.2: Data analysis steps from Tourism community in KSA



Source: Author

6.2 Exploratory stage in tourism investment environment

The scarcity of literature relating to tourism in KSA necessitates a qualitative investigation of the current state of the tourism industry (Q4 and Q5 Figure 6.1). As mentioned in Chapter 4, three groups were selected for this investigation, in particular sequence as shown in Figure 6.2. The two groups (representatives and regulator) mutually agreed upon the issues raised, and therefore thematic analysis treated them as one group (see Table 6.1 and Appendix 14). The initial results of interviews from the above groups were analysed, then were presented as broader themes to a third group, high officials in the SCTA, to provide them with a comprehensive picture of the main barriers and challenges facing investors in the tourism industry. Officials interpreted the results and decided what needed to be done in response to these issues.

The SCTA were aware of the considerable effect of the barriers that restrict the growth of tourism businesses and explained their efforts to minimise the issues raised to promote investment in tourism, reflected in (Q6, Figure 6.1). Moreover, the SCTA presented an illuminating discussion of forthcoming strategies planned for tourism development, and their focus on creating a contemporary legal environment for the tourism industry (see last column in Table 6.1 and Appendix 14). The relationships between tourism industry development and the institutional environment, financial support, human resources, marketing, culture, and other challenges were explored. These relationships are identified through the codification of the data obtained from interview participants. Exploring causality is displayed in two matrices: Table 6.1 displays the current attitudes and trends that affect the development of the tourism industry generally, whereas Appendix 14 displays the particular evaluation of diverse types of tourism enterprises.

Table 6.1: Analysis of overview of the tourism environment. Chamber of Commerce /SCTA

Factors	Implications	Participant statements example	SCTA's efforts:
Licence issuance			
Different departments govern tourism business	- Contradictions between these departments - Too much bureaucracy - Long procedure for issuing licences and making decisions.	“Suffering”, “astonished”, “lose hope and will”, “make it impossible”, “get frustrated”, “get lost”, “wait for unlimited time”, “things are kept lingering for days and months” [representatives]	- Transfer all tourism activities to be under SCTA control with the cooperation of partners - Clear specification of the role and responsibilities of any government department
SCTA’s centralisation of making decisions and finalizing cases limits the role played by the 13 branches in 13 regions	- Bureaucracy - Roles limited to administration tasks and collecting papers -Weak if not negative response	- “Waiting for a long time to receive an answer and overcome the problem from the head office”[representatives] - “small problems should be sent to the head office in Riyadh” [organisers]	- All experienced staff are in the Head Office, since branch staff lack experience - Decentralisation of SCTA branches - full power delegated to branches
Investor Support			
Lack of government financial support	- Discouraging entrepreneurs from starting or developing businesses	“Young people have no savings or any other financial sources so how will they start their own business?” [organisers]	- Investors are looking for direct financial support from the Commission and this does not exist. - Cooperation agreements with five or six funding initiations
Limitation of subsidised loans by private sector lending institutions	- Financing institutions are not ready to subsidize young individuals because they are new to the field and thus are presumed to be high risk.	“Infeasibility of tourism business success” [organisers]	- Cooperation agreements have been signed with financial institutions to support SMEs
Lack of exemption tariff	Prevents existing businesses from prospering	“Exemptions in tourism should equal those of other sectors”[representatives]	N/A
High land lease and short contract periods	Poor quality of provided services to reduce the costs	“If I have good quality services, should I look at the length of the contract extension?”[representatives]	N/A
Absence of agencies that pursue business growth	Poor quality because providing high quality requires additional investments and involves risks.	“Investors are unwilling to spend more in developing the existing tourism because there is no guarantee that investors will be compensated if the project is stopped, and no agency is there to provide support if the investor faces operational difficulties”. [representatives]	The SCTA is not a guarantor but can provide technical support such as feasibility studies and issuing recommendation letters to supporting and lending funds
Human resources			
Hesitation of entrepreneurs to start up a tourism business	Young business people “lack ideas”, “lack experience/ skills”, are “afraid of failure”, and have a “vague vision of business success”	“Besides this they are afraid of losing their capital and of taking risks”. [representatives] “small experience of Saudis as the sector is new” [organisers]	The SCTA are preparing Ten Opportunities, attempting to overcome the lending maximum of SR. 4 million.
Policy of Saudization of the workforce	- Enforcement of implementing this policy while Saudis face insurmountable hurdles - Saudis demand high salaries	“lack of qualified Saudis”, “unwillingness of Saudis to work in low-paid tourism jobs”, “high turnover of Saudi employees” [organisers]	- Nothing to address because Saudization is a compulsory policy by the Ministry of Labour.
Turnover of Saudi employees	- Owners spend money and time training youths, many of whom subsequently leave their jobs - There is no mechanism that regulates the work relation between a Saudi worker and their employers.	- Saudis are unwilling to work in tourism because of: “low income”, “seasonality”, “instability”, and “low jobs”, - Saudis treat tourism jobs as “transitory”, “temporary”, “inferior”, and a “bridge to reach jobs in the public sector”. [representatives]	- Awareness campaigns about working in tourism sectors - Enforced contracts to protect employers are not applicable and against KSA Labour Law - When Saudis receive good salaries and other benefits, they are keen to retain their jobs.

			- The current privilege gaps between public and private sectors include long shifts, holidays and pension benefits, and result in Saudi reluctance to work in tourism.
Domination of expatriates in tourism jobs	- Saudis prefer working in white rather than blue collar jobs		Limited experience of Saudis as the sector is new and it is a service sector, so most of the jobs involve labour
Lack of specialised tourism training institutes	- Poor quality tourism services and employee skills - There are no designed concise courses of tourism activities such as a Customer Service Course, Receptionist Course, Room Service Course, etc.	- "Businessmen are hesitating to recruit and employ Saudis because their certificates are not acquired from recognised institutes""[representatives] - the majority of five star hotels were established 40 years ago and up to now Saudis cannot occupy general manager positions ."[representatives]	- There are 36 training institutes to provide essential skills to anybody who wants to work in the tourism sectors. - Due to the lack of efficiency of these training institutes, the SCTA recruited globally recognised institutes. - The concept is somewhat new in KSA society
Weakness of internal training programmes	- Old practices stagnated businesses, preventing development and resulting in low quality - Companies are not concentrating on training because they are afraid of losing money and employees	- "Old employees train the new" - "They ignored the need for retraining old employees in order to develop their business". - Incapability of the business to standardise training [representatives]	- The SCTA initiated a programme called Investment in Human Recourse Development. - Implementation of several training programmes that are associated with employment resulting in 2,279 candidates (male and female) being trained and subsequently employed during the period 2005-2011. It is anticipated that more than 56,000 direct employment opportunities will be provided by 2014. -We provided labour offices with more than 3,000 employment opportunities in the hospitality sector.
Weakness of tourism colleges/university output	- Colleges and institutions are not meeting the requirements and the market needs	- "Tourism graduates are not knowledgeable and they are not helpful and this is an indicator that they are not trained. Even basic services such as welcoming people and answering telephones are performed in an inadequate manner." [organisers]	
Marketing			
Lack of marketing strategies for tourism business	Lack of experience in marketing	- "Lack of marketing companies that can promote tourism" [representatives]	N/A
Culture			
Effects of traditions and cultural norms	- Traditions and cultural norms are more influential than religious aspects - Absence of awareness of the concept of tourism - Gender separation	"I spent millions on an entertainment project and afterwards they told me about the terms and conditions of the operation, and that I should make a special day for the women and one for the men"[representatives]	- An agreement will be signed between religious organisations and the SCTA.
Strict roles of religious organisations	- Limited number of women working in tourism - Difficulties establishing co-entertainment facilities	"The complaint is about interference of religious organisations with other issues that are not under their authorisation"[organisers]	
Other challenges			
Seasonality	- Some tourism events will only take place for one month during the summer vacation. This will affect the demand for services in all tourist destinations. - Seasonality affects the prosperity of businesses in some regions.	There is no solution other than the creation of other tourism sources and shifting to other places in the same region, such as coastal areas. There are some beautiful coasts that can accommodate resorts and beaches and provide the necessary tourism facilities and activities like education and training services.[representatives]	An agreement with the Ministry of Education has been signed to distribute the vacation times throughout the year and not just in the summer. Tours and organisers will also coordinate with Saudi Airlines and hotels to establish packages which will be cheap and attractive for tourists in all regions.

Source: Author

6.2.1 Legislation and administrative environment

Throughout participants' actual experiences, excessively complicated legislation-administrative procedures around setting up and operating a tourism business have discouraged inflows of investors. A new tourism licence and approval can take up to three years, which disproportionately "delays" implementation and puts a strain on investors. This leads to uncertainty and unforeseen costs for entrepreneurs, who may abandon, switch sectors, or become reluctant to invest. Participants assert that when entrepreneurs strive to start-up a tourism business and apply for a licence, they are soon involved in a variety of hurdles, including "excessive licensing requirements and confused regulations, different government organisations that govern tourism activities, contradiction between these departments and bureaucracy". These constraints spiral as a result of each other because of the lack of one body that regulates tourism activities under one umbrella. The inception of the SCTA was supposed to alleviate these restrictive procedures since it is the sole official body that regulates tourism sectors, however different government organisations intervene.

Furthermore, participants also criticised the superficial roles authorised to the SCTA's thirteen branches distributed around KSA, despite the fact that these branches were established to manage the work in a decentralised manner. Each of these thirteen branches has full authority to finalise cases. However, their roles are limited to administration tasks and collecting applications. The SCTA are fully aware of these regulations' implications for tourism investment development. They point to the reforms being implemented since 2000 to develop the legislation and administrative environment of the tourism industry in KSA, as shown in Exhibit 6.1.

Exhibit 6.1: The SCTA's interview response to administrative-legislation environment

- 1) Working on **transferring** all tourism activities along with their rules and laws to SCTA regulation
- 2) **Developing** some current **laws** of tourism activities since they were not concentrating on the tourism concept. Law development was concentrated on two aspects: specification of licence's requirements and the minimum standards of quality to be applied in tourism enterprises. This is to deliver the best image of tourism in KSA. This vision was not adopted previously by different departments that used to govern tourism activities.
- 3) **Collaborating and coordinating** with different departments that regulate tourism as "partners" through clearly specifying the roles and responsibilities of any government department to avoid any overlapping or contradiction. Although the majority of tourism activities are under SCTA supervision, other departments still have the power and authority to regulate these activities in terms of measurements. In the future, investors will submit their application to one window service system. All SCTA application's forms will be available online and will be uploaded to other concerned departments.
- 4) **Decentralisation of the SCTA's** branches is forthcoming. In the past, such branches around KSA were not qualified as head offices, but soon the training will be conducted as full power will be delegated.

Source: SCTA

6.2.2 Lack of financial and logistic support

The lack of financial and logistic support from the government and the private sector discourages entrepreneurs from starting businesses and prevents existing businesses from prospering. There were some instances in which participants reported that external barriers relate to the government's support and rules. Firstly, the "lack of government financial support including exemption tariff" (i.e. electricity and water) relates to the claim that the tourism industry should be equally eligible for tariff exemptions as other sectors. Secondly, "high land leases with short contract periods" and an "absence of agencies that protect businesses from failure" underlie the poor quality of services provided in some tourism activities. The high value of land lease and short-term lease contract set by municipalities forces investors to provide low-quality services to reduce costs. Another factor was that high quality requires additional investment, which involves some risks due to the current absence of an agency to protect investors' interests.

With regard to the "limitation of finance by private sector lending institutions", participants attributed this to high risk and uncertainty of business success in the new phenomenon of tourism investment. The SCTA indicated that they recently

signed a cooperation with several financial institutions and they provide a range of supportive services, as shown in Exhibit 6.2:

Exhibit 6.2: The SCTA's interview response to lack of financial and logistic support

1) Investors seek direct financial support from SCTA in order to avoid directly lending from institutions that will ask for guarantees and guarantors. However, there is no funding provided by the SCTA, which make them to change their intended tourism business. Now we are dedicating our efforts to provide facilities such as online loan applications directly linked with banks.

2) There are six **cooperation** agreements to support SMEs. These agreements were signed two years ago with Centennial Fund and the Saudi Credit and Saving Bank (maximum loan SR. 4 million), the Kafalah Programme (maximum SR. 2 million), the Saudi Human Resources Development Fund, and the Agricultural Development Fund. The loans are subject to evaluation and there are diverse mechanisms in terms of discussion with these funding institutions.

3) The SCTA is not a guarantor but provides **technical support** such as conducting feasibility studies and assessing a project's success. It also issues **recommendation** letters to supporting and lending funds.

4) The first experience of **offering opportunities** occurred in 2010. Ten opportunities were prepared not exceeding the maximum ceiling of lending funds (SR. 4 million). Most of were children parks, but in the future more attention will be paid to small projects such as handicrafts.

Source: SCTA

6.2.3 Human resource barriers

All participants spoke about the ways human resources influence the development of the sector and how this may affect their business performance. As shown in Table 6.1, six subthemes were grouped as some of them are relevant to and resulting from each other. For instance, "Saudization" is the Saudi government's policy for localization of jobs in different sectors, and tourism in particular, where expatriates represent more than 84% of total employees.

The majority of participants complained about this policy's requirement of a certain percentage of Saudization in their firms. In reality, their complaint is not that they are averse to the nationalisation concept but against its enforced implementation in a climate that lacks qualified Saudis, has a high turnover of Saudi employees, witnesses Saudi unwillingness to work in low-paid jobs, lacks specialised training institutes, and has a weak output of tourism colleges/universities. The lack of training institutes was emphasised by participants since the majority of investors do not devote time and money to

training their employees when the turnover of Saudi employees is very high. Seemingly, there is a gap between tourism college programmes and the managerial practice required in the markets. Moreover, participants speculated about the shortage of new tourism business training such as tour guidance courses, criticising the short period (four days) provided by the SCTA as the sole qualification in tour guidance. With regard to entrepreneurs, lack of feasible ideas, experience, and essential business skills, along with uncertainty of business success, explain the “hesitation of entrepreneurs to start up their business in tourism”. SCTA responses to these matters as shown in Exhibit 6.3

Exhibit 6.3: The SCTA’s interview response to human resource barriers

1) High turnover of Saudi employees is strongly related to cultural perceptions. Therefore, we conducted some **awareness campaigns** such as “awareness of working in tourism activities program” aiming to create a positive image about tourism and induce citizens to join the profession.

2) We cannot force people to work in tourism for certain periods if they do not want to. This would be **against labour** law, which allows Saudis to work wherever they want.

3) The private sector will have a great potential in recruiting Saudis to work in tourism sectors especially in the presence of the **competition between the private and the public sector in the recruitment of Saudis** and their attempt to give more incentives and benefits to attract them such as social and health security.

4) Due to the shortage of efficiency of 36 training institutes, **we recruited some international institutes** that are globally recognised. For example, we brought some consultants from Australia and they prepared training courses and qualified some local institutes to conduct these courses. Also, we recruited an Australian company to train the youth in a programme lasting one year and four months.

5) Besides these 36 training institutes, **we implemented several training programmes** associated with employment, resulting in 2,279 candidates (women and men) trained and employed during the period 2005-2011. The majority of them are working now in the travel sector representing about 25% of the total employees in the tourism sector. These programmes were :General English, Professional English, IT Skills, General Skills, Professional Skills, and on job training.

6) We **cooperate with some government institutes** such as labour offices and the Human Resource Development Fund (HDF), with 3000 employment opportunities provided to labour office without training. All those jobs do not stipulate professional training. It is expected that we will provide more than 56,000 direct employment opportunities by 2014.

7) Owners do not need to spend money in training their employees because they can recruit their employees from (HRDF) Program which train people to work in tourism and it is governmental institute. It is free training.

8) Regarding Tourism guidance training,, cultural and social factors still have negative impact on engagement Saudis in this field. **We have “Comprehensive Test for the International License of Tourism Guidance”**, as this “certificate is required by the National Centre of Quality and Standards , Up till now only three or four persons trained and qualified from the National Project of Creditability and Standard Program to work as to train other people as new tourist guide.

6.2.4 Marketing barriers

Participants talked about the lack of professional firms that use specialised methods to market tourism products and services based on brand orientation. This includes improvement of the performance of “visitor economies” with regard to all components that attract visitors and make the destination successful, such as hotels, resorts, and entertainment venues. The SCTA is the only organisation that markets tourism services in KSA.

6.2.5 Cultural barriers

Some participants gave only a rough description of the negative influence of some cultural aspects of tourism development, such as the rigid function of religiously organised police (ROP) ("hay'ah), traditions and norms, and gender bias regarding employment. These issues resulted from a lack of awareness of tourism's economic impact. For example, the negative influence of ROP on the developing tourism industry was related by some participants. They were not against the role played by ROP, which should be limited to religious issues, but complained about the interference of ROP with other issues not under their authorisation. For instance, one of the investors stopped their investment in one entertainment project because of the interference of ROP regarding gender segregation. Thus, the latter may prevent the establishment of co-entertainment facilities and limit the opportunities for women to work in tourism industry.

The SCTA made a wise step forward by getting the ROP to work with them rather than to oppose tourism development. For example, Prince Sultan bin Salman (Chairman of SCTA) recently signed a cooperation agreement with the ROP to coordinate and integrate responsibilities with the SCTA's development projects, including training ROP members in communication skills with tourists.

6.2.6 Other challenges

Seasonality was referred to by participants as an external factor that affects tourism's ability to prosper, especially in destinations such as “south region”. Participants mentioned that seasonality not only affects the profitability of SMTEs

but also have a negative impact on employees since the majority of festivals and events only occur during the summer vacation.

6.2.7 Analysis of the current situation of various tourism businesses

The purpose of the interviews was to learn how participants perceive barriers as preventing their businesses from developing and how they evaluate the current situation of various tourism sectors. During the interviews, participants emphasised the desperate need to improve some tourism businesses in particular, including hotels, furnished apartments, motorway services, entertainment, events and exhibitions, transportation, and tour guidance. All these activities were grouped under seven themes, as shown in Appendix 14. The following section summarises the evaluation of these activities from the participants' perspective.

With respect to accommodation, the main challenge was to transform owners' perceptions of the traditional concept of hotels and furnished apartments, from residences only based on tangible resources to a major element of the hospitality industry, primarily based on intangible resources. Hotels and furnished apartments were poorly organised over 20 years ago due to the lack of a specialised body to govern this sector. However, hotels and furnished apartments have been managed by the SCTA since 2010. Thus, the majority of hotels and furnished apartments failed to meet the minimum criteria of classification in 2011. Such failure was underlined by all participants as a major barrier that should take into consideration.

Some participants speculated upon a link between the poor quality of services and owner traits, as the majority of the owners of furnished apartments are real estate traders who are either ex-employees (now pensioners) or old men who have limited education and business vision. Additionally, the majority employ low-paid foreigners to manage the business without any supervision from owners, with the latter being only concerned with monthly profits.

Besides poor quality, some participants justified the failure to meet the minimum classification standards in respect of premises specification, the failure to meet the requirements of the labour force and safety criteria, as stipulated by the Ministry of Labour and Civil Defence. The new classification system for those who established businesses prior to 2009 has provoked old accommodation owners. Participants agreed that new investors won't face any problems in terms of classification because they will establish their business according to all currently required classification measurements.

Moreover, participants indicated that the classification is now connected with the prices of the services provided, which will lower the investors' income and may force some of them to leave the market. On the other hand, participants claimed that the minimum basic services were absent in the majority of accommodations, including telephone booking, online booking, and credit card payments, which should be included in the classification standards.

Regarding entertainment, virtually all participants reported the absence of family entertainment centres such as theme parks, amusement centres, zoological parks, water parks, museums, themed resorts, and natural attractions. Additionally, other entertainment activities were mentioned such as theatres, cinemas, music concerts, and outdoor/sporting activities. Because of the lack of entertainment activities, especially in tourist destinations, some participants had been compelled by their family to travel to neighbouring Arab countries. For instance, the UAE was mentioned a couple of times as a successful tourism model that possesses similar geographical, cultural, and economic characteristics.

Participants also mentioned that the limited available entertainment centres were established 20-30 years ago and are dominated by only two or three companies. In addition, one participant discussed the total absence of tourism attractions for children in terms of entertainment. An important point was that behind the unwillingness to invest in entertainment centres is the lack of innovative ideas, lack of experience in management operations, and the high cost. Another issue is gender segregation, since it is prohibited to have unisex games or places.

Therefore, the investor must make special arrangements to set a day for women only and another for men only.

In terms of motorway services, all participants were primarily concerned with poor quality, especially between religious cities. Participants emphasised the desperate need for good quality services between the main cities, such as motels, restaurants, coffee shops, and clean toilets. The number of comments on the poor quality of road services is alarming. Negative expressions were exposed, describing the current situation of road services such as motels: “below standard”, “rooms are dirty”, toilets are “disasters”, and restaurants provide “bad food”. Participants highlighted the lack of adequate services between holy cities, bearing in mind the daily heavy traffic of pilgrims who travel between these cities, totalling nine million annually. Other roads between cities also lack these services. This issue has been discussed for 20 years and the situation remains the same. Complex circumstances led to hesitancy about investment in road services, including the fact that Saudi Automotive Service Co. (SASCO) has a government-granted monopoly on some road services. The principle cause of the failure of SASCO to provide good quality services is that it started to service cars before providing road services. SASCO built immense workshops for repairs and spare parts that cost millions and limited their ability to provide appropriate road services, in addition to a lack of clear vision about what they should conform to. Another issue mentioned by participants is that the bureaucracy of licence issuance, governed by different departments, makes investors reluctant to engage in this type of business.

As KSA suffers from insufficient transport, some participants underlined the importance of tourist transportation in developing tourist destinations. Participants emphasised the absence of services such as “tourist buses”, “public transportation”, “taxi services”, and “coaches”. Unfortunately, public transportation is severely limited. Similarly, to motorway services, public transportation is dominated by one company, SAPTCO, which serves the country’s major cities and has a government-granted monopoly. Lack of public transportation between cities is not the sole problem but also public transportation within cities

themselves is unavailable. Participants foresee potential demand for public transportation in the near future because of traffic problems. Taxi services were another problem raised by some participants, describing them as “unauthorized”, “unregulated”, and “unmetered”. Unfortunately, tourist buses are still beyond the scope of investor interest and railway transportation is under construction.

With regard to conferences, exhibitions, and events, besides legislative and bureaucratic barriers, there are some shortages in this field such as a lack of professional companies managing exhibitions/events, lack of experts working in this field, lack of qualified sites and locations, and poor quality products and services provided by the majority of the festivals and exhibitions.

6.3 SCTA response to the current situation in tourism sectors:

In terms of accommodation, the SCTA realistically described the enacted strategies aimed at reinforcing the hospitality sector. In order to regulate hotels and furnished units, the SCTA applied classification standards to evaluate the level of services provided by hospitality establishments. There is no doubt that this step would change the concept of hospitality from just residential places to a true tourism industry. The SCTA spoke about this strategy as the most significant implementation that has arisen during its history, as a result of improved legislation in 2010. The SCTA reported that issuing classification standards was not randomly contemplated but rather was implemented in several phases, based on international standards. In terms of improved furnished units, the SCTA reported that six foreign companies would be recruited to operate the sector, and believe that improved quality will appear in the near future because these companies have their own standards of service.

The SCTA emphasises the importance of developing the operation management systems of furnished apartments because some investors are suffering from seasonality. The SCTA illustrated that seasonality only affects poor quality accommodation, as local companies such as “PODEI” are in demand all year in KSA due to their high quality. As mentioned by participants, the classification is

connected with the prices of the provided services, which will lower the investors' income and force some to leave the market. Controversially, the SCTA justified this by claiming that it is a deliberate strategy to expel the old practice of providing low quality, as this will compel investors to look for higher quality units, to be classified as one or two stars at least.

The SCTA agreed with the participants regarding the poor quality of motorway services, especially those on roads that connect religious cities. The SCTA gave a rationale for the delay in developing these services, in that they are outside the boundaries of urban planning which complicates the case, since each government department claims that this is under its jurisdiction. Some authorities remain under the control of government departments, including when issuing licences, creating conflicts between the Ministry of Transportation and the Ministry of Municipalities and Rural Affairs. Hence, conflicts between several governmental departments that govern road services create a barrier facing SCTA in order to reform road services.

Regarding this issue, officials reported that there were several meetings during the last four years in which the quality of the provided services was discussed. As a result, a recently adopted strategy for motorway services is to sign a franchise trademark agreement with an international company, in addition to the local company.

6.4 Entrance to tourism business in KSA (quantitative approach)

In order to ensure the reliability and validity of results obtained earlier from interviews (tourism group) and investigate how much these factors affect the development of tourism, this section presents the first part of the tourism questionnaire results that were collected from 475 tourism businesses in various sectors, as follows: firstly, an overview of the socio-demographic and economic characteristics of tourism businesses, along with their owners and managers is described. Secondly, univariate analysis (frequencies, means, and standard deviation) is used for the validation of explored factors. Thirdly, bivariate analysis (chi-square test) is used to investigate the extent to which these factors (dependent variables) restrict and contribute to successful tourism investment development, associated with some characteristics (independent variables). Investigation of these associations could lend credibility to the potential of international franchising as a vehicle to develop tourism investment in KSA, as well as indicating how franchising could fit these circumstances, as will be discussed in Chapter 9.

6.4.1 Structure of the tourism businesses in three regions in KSA

In order to present an overview of the structure of tourism businesses in KSA (research question 7, Figure 6.1), this section briefly presents the socio-demographic characteristics of owners/managers and their businesses. The distribution of tourism businesses compared with the total business population in each sector, and the distribution of tourism businesses according to the three regions for each sector, was described in Chapter 4.

Socio-demographic characteristics of the owners/managers

Table 6.2 describes the socio-demographic characteristics of the owners/managers, including age, education level, and previous experience. The vast majority of owners/managers were aged between 40 and 59 years old (66.2%), whereas 33.8% were between 30 to 39 years old and only 1.1% were aged between 20 and 29. This age profile corresponds to the profile of franchisees and franchisors (see Chapter 5). Moreover, the older age group of

tourism owners corresponds with the age profiles in other research on tourism businesses in different countries, such as Australia, Denmark, and the UK (Glancey and Pettigrew, 1997; Getz and Carlsen, 2000; Szivas, 2001; Innides and Peterson, 2003; Zschienger, 2011).

Although the questionnaires were distributed and collected from different regions and from a variety of tourism businesses as well as different ownership structures, the young owners/managers are not represented in this study due to their low prevalence (only 1%). It is clear that young Saudis have difficulties engaging in tourism sectors as entrepreneurs and employees, as mentioned by participants (section 6.1).

The majority of respondents (92.2%) have prior experience of running and managing tourism enterprises, with an average experience of 11.84 years. Only 7.8% of the respondents had no prior experience in business at all before owning/managing their tourism businesses. This is similar to the franchisees/franchisors' profile (Chapter 5), where more than 94% have previous experience. The experience profile is consistent with the findings of Glancey and Pettigrew (1997) and Avcikurt (2003). However, it does not correspond with what was identified in some previous studies, where the majority of owners/operators in various types of tourism businesses had no prior experience (Innides and Peterson, 2003; Zschienger, 2011).

Regarding respondents' education, more than two thirds (68.7%) possessed a university degree, 28.1% had secondary qualifications (intermediate, secondary, and high school), and only 3.2% of them were postgraduates. This matches the franchisees/ franchisors' profile outlined in Chapter 5, as well as other tourism studies (Glancey and Pettigrew, 1997; Szivas, 2001).

Although there is no evidence whether respondents have formal qualifications in tourism, there is a significant association between the type of tourism business and the qualifications of the respondents ($X^2=343.317$ and $P=.000$). For instance, 99% of respondents in tourism training institutes have postgraduate degrees as

they are training in governmental organisations. Of the owners/managers of classified hotels, 78% have a university degree and 22% a postgraduate degree, whereas 69% of the owners/managers of unclassified accommodations have a university degree. This result is in accordance with a study conducted in China, which showed that 65% of hotel managers had a university or college degree (Tsang and Qu, 2000).

Moreover, 99% of the participants from travel agencies, resorts, and tourism guidance / tour organisers have a university degree. Most tourist guides in this study have no formal business or prior experience (McKercher & Robbins, 1998), working as part-time guides during the holidays because they are government staff. As mentioned in Section 6.2, tourism in KSA struggles with the low perception of the importance of tourist guidance, in addition to the shortage of full-time qualified guides who can work at any time during the year.

Similarly, to the franchisee survey (Chapter 5), gender was not included in the survey because it can be assumed that the majority of respondents are males, as illustrated in the tourism database. As indicated by participants, female employees are still neglected and underrepresented in the tourism sector (Sadi & Henderson, 2005a). There are three reasons behind this: (1) their lack of experience and skills in tourism, (2) the prejudice against their involvement within the culture (Jaafar, Abdul-Aziz, Maideen & Mohd, 2011), and (3) their social status and exploiting the power of religion in fallacy. Indeed, the low participation of Saudi women is not limited to franchising and tourism but also to independent businesses in general; the total number of firms owned by women at the end of 2011 was 17,494, representing only 1.9% of total firms in KSA (MCI, 2011). However, limited female participation in tourism seems to be a global issue, stated by several studies (Sinclair, 1997; Avcikurt, 2003; Morrison, Breen and Ali, 2003).

Table 6.2 Socio-demographic characteristics of the owners/managers

Characteristics of respondents		Number of respondents	Percentage
			%
Age	20-29	5	1.1
	30-39	155	33.8
	40-49	198	41.9
	50-59	115	24.3
	Total	473	100
Qualification	Postgraduate	15	3.2
	University	325	68.7
	Secondary School	126	26.6
	Intermediate or below	7	1.5
	Total	473	100
Previous Experience	Yes	435	92.2
	No	37	7.8
	Total	472	100

Source: Author

Socioeconomic characteristics of tourism businesses:

In total, 475 businesses participated in this study. Table 6.3 shows that more than half of the ownership structures (68.6%) are sole proprietorships, while 17.9% of these businesses are companies. Franchise businesses totalled 7.4%. As Chapter 3 highlighted the absence of some tourism activities through franchising, in this survey, 15 hotels chains with diverse classifications were found accidentally. These hotels were established more than 10 years ago, however, they were not listed in the franchising database obtained from (MCI, 2012), which was used as a guideline to distribute the surveys.

Some respondents (6.1%) denoted their businesses as “other” because they are not actual businesses. For example, some indicated that they are tourist guides and thus do not possess a business, as tourism is a hobby, while others indicated that they work for colleges and universities owned by the government, and 13% indicated that they work for non-profit youth hostels. This represents the diversity of the business structure, which can contribute positively to outcomes.

The majority of these tourism establishments were established more than 10 years ago (69.2%), whereas 25.8% were established between 6 and 10 years

ago and only 5.1% were established between 1 and 5 years ago. This diversity allows this study to indicate such businesses' situations both before and after the inception of SCTA, along with its reforms.

Respondents were not asked about any financial indicators because of the sensitivity of these questions in general (Tourangeau, 2007) and for Saudis in particular. The private and reserved nature of Saudis may prevent them from participating in research (Tuncalp, 1988), especially when surveys include such questions. Alternatively, to acquire a superior understanding of a respondent's background and the financial ability of their business, respondents were asked whether they have other branches or own other businesses. Such questions may not provide a robust picture of their financial situation but can give some indicators.

Nearly three quarters of respondents did not have additional branches (72.3%). This is relatively similar to the results of Shaw and Williams (1987), who found that 88% of Cornish businesses in the UK did not belong to multi-branch companies. The average number of branches is eight. Sole establishments with 65 branches dominated the tourism businesses (49.24%), whereas 31.81% are of companies and 18.93% of franchised tourism businesses and others. Despite the fact that sole proprietors seem to be characterised as small businesses, in this study half of these establishments seem to be medium and large businesses, according to their number of branches. Furthermore, respondents were asked if they owned other businesses, with 94.7% indicating that they do not. Of the remaining 5.3%, the average number of additional companies owned was 2.26.

Table 6.3: Socioeconomic characteristics of tourism business

Characteristics		Number of respondents	Percentage %
Ownership structure	Sole Proprietorship	326	68.6
	Company	85	17.9
	Franchise	35	7.4
	Others	29	6.1
	Total	475	100
Business Age	1 – 5 Years	24	5.1
	6 – 10 Years	122	25.8
	11 – 15 Years	163	34.5
	16 and above	164	34.7
	Total	473	100
Additional Branches	Yes	133	27.7
	No	342	72.3
	Total	473	100
Number of branches	1 – 10	109	82.5
	11 –20	16	12.1
	21 –30	4	3.0
	31 –40	3	2.2
	Total	132	100
Owning other companies in addition to the tourism business	Yes	25	5.3
	No	447	94.7
	Total	475	100

Source: Author

6.4.2 Factors restricting successful tourism investment development in KSA

In order to address the second research objective of this study (Q4, Figure 6.1) this section focuses on the influence of current barriers that constrain investment in tourism. The barriers in this section were generated from the interviewees (Section 6.2) and divided into categories: Legislation-administrative, financial, human resources, marketing, and others barriers, as illustrated in Table 6.4.

Table 6.4 depicts the distribution of the responses for each barrier (n), the percentage (%), the mean Likert score for each factor and the standard deviation (S.D) to illustrate the results. Likert scores under 2.60 indicate non-influential barriers in views, those around 2.50 to 3.40 indicate a neutral trend, and those over 3.40 indicate the most influential barriers to tourism investment.

The level of the detrimental impact of these factors on tourism investment is relatively high. The highest score in terms of frequency is 4.52 and the lowest score is 3.47. However, there is only one barrier with a neutral trend (with a mean score of 3.19, see factor 24, Table 6.4), which signifies that all barriers are either very influential or influential in restricting tourism investment. As these barriers were categorised into five themes, they were ranked in Table 6.4 based on the average mean scores for each theme, and in each theme, the sequence of each item is based on the mean score.

Table 6.4: The degree of respondents' agreements about the influential factors restricting tourism investment

Barriers		Distribution of Responses										Mean s	S.D
		1		2		3		4		5			
		Not At All Influential		Not Influential		Some Extent Influential		Influential		Very Influential			
		n	%	n	%	n	%	n	%	n	%		
Legislation-administrative factors		Average mean score:										4.34	
1	High criteria for hotel and furnished apartment classification	0	0	8	1.7	37	7.8	177	37.4	251	53.1	4.42	0.709
2	More requirements to obtain license to start a tourism business	0	0	2	4	27	5.7	235	49.5	211	44.4	4.38	0.612
3	Long administrative procedure to establish tourism projects	0	0	1	2	26	5.5	272	57.3	176	37.1	4.31	0.581
4	Issuance of licenses from more than one government department	0	0	1	2.0	22	4.6	310	65.3	142	29.9	4.25	0.541
Other factors:		Average mean score:										4.28	
5	Seasonality of tourism activities	0	0	5	1.1	27	5.7	157	33.1	285	60.1	4.52	0.654
6	Hesitation of businessmen about investing in relatively new sub-sectors	0	0	6	1.3	22	4.6	208	43.9	238	50.2	4.43	0.644
7	Lack of services at tourist attractions such as beaches, national parks	0	0	3	6	25	5.3	213	44.9	233	49.2	4.43	0.624
8	Lack of tourist focus at events and festivals	1	2	4	8	39	8.2	209	46.6	221	44.1	4.36	0.687
9	Imitation of tourism business ideas in one geographical area	0	0	11	2.3	86	18.1	268	56.4	110	23.2	4.00	0.713
10	Difficulty in obtaining information about investment opportunities in tourism sector	0	0	12	2.5	88	18.6	269	56.9	104	22.0	3.98	0.713
Financial factors:		Average mean score:										4.09	
11	lack of sufficient capital for start-up tourism businesses	0	0	11	2.3	60	12.7	194	41.0	208	44.0	4.27	0.768

12	limitation of finance by the specialised government lending institutions	0	0	18	3.8	81	17.1	215	45.3	161	33.9	4.09	0.809
13	Non-enjoyment of tourism businesses for customs concessions like other sectors	0	0	20	4.2	42	8.8	288	60.6	125	26.3	4.09	0.716
14	High cost of establishing and operating a tourism business compared to other projects'	0	0	8	1.7	94	19.8	255	53.7	118	24.8	4.02	0.717
15	Unwillingness of banks to finance small and medium enterprises	2	4	11	2.3	82	17.3	273	57.6	106	22.4	3.99	0.727
Marketing factors:		Average mean score:										3.95	
16	Poor marketing of tourism products and services by tourism businesses	1	2	9	1.9	67	14.1	309	65.2	88	18.6	4.00	0.650
17	Non-availability of specialized marketing offices to promote domestic tourism	0	0	9	1.9	76	16.0	300	63.3	89	18.8	3.99	0.652
18	Dependency on official efforts in advertisement (the activities of SCTA and the municipalities)	1	2	15	3.2	117	24.6	252	53.1	90	18.9	3.87	0.753
Human resources		Average mean score:										3.69	
19	Inexperience of the employees working in the tourism sector	1	2	7	1.5	121	25.5	256	53.9	90	18.9	3.90	0.716
20	Inexperience of establishments of tourism institutes	3	6	6	1.3	98	20.7	296	62.4	71	15.0	3.90	0.674
21	Weakness of graduates from the educational and training tourism institutes	5	1.1	6	1.3	99	20.8	305	64.2	60	12.6	3.86	0.679
22	Small number of tourism colleges and institutes	4	8	9	1.9	107	22.5	284	59.8	71	14.9	3.86	0.713
23	High turnover of Saudi employees in the tourism sector	18	3.8	55	11.6	116	24.4	257	54.1	29	6.1	3.47	0.912
24	Domination of tourism jobs by expatriates	14	3.0	94	19.8	181	38.2	156	32.9	29	6.1	3.19	0.924

Source: Author

Table 6.4 showed that there are small cells (with less than five respondents) in two categories (not influential and not at all influential) which prevent the p-value of the chi-squared test from finding a relationship between variables. Therefore, the logical way to address this problem was to collapse some group categories together. For this reason, the five Likert scales were collapsed into three groups as follows: (1) "Very influential", (2) "influential", and (3) "influential to some extent, not influential, and not at all influential". The collapsed groups will be used to find an association between the owners/managers and other independent

variables. Chi-square test is an appropriate test for assessing whether two categorical variables are associated. Appendix (15), presents a chi-square test for association that was conducted between variables to provide further insight between independent variables and level of influence.

Legislation-administrative factors:

Legislation-administrative barriers loaded the most influential items (four in total) with an average mean score of 4.34. There was strong agreement for all four items (virtually 91% agreed that these barriers are influential or very influential). Sharma and Upneja (2000) identified similar institutional barriers that discourage businesspersons from engaging in the tourism sector.

The chi-square test revealed that all these barriers have a statistically significant association with the location of the business. 'High criteria for hotel and furnished apartments classification' (item 1) was very influential for tourism businesses located in the Western region ($\chi^2(1) = 45.526, p = .000$). This barrier affects highly rated hotels and apartments located in Makkah and Al-Madinah, despite substantial efforts by the SCTA to specify special classification schemes (SCTA, 2010a) for the two holy mosque regions compared with other cities, taking into consideration the geographic structure and the specificity of premises in these areas .

While item 1 does not specify which rating schemes respondents might find an obstacle in obtaining the required classification, participants (see Section 6.2) criticised the classification standards requirements regarding building construction. This was especially an issue for those who established their hotels prior to the issuance of classification rules, which mandated the addition of car parks and emergency exits, since many of the hotels built in crowded areas had no space to add these requirements. This stands in close relation to a study focusing on tourism policy implementation in China from an enterprise perspective, which found that one of the barriers tourism enterprises face is the rigid regulations on star standards and star rating, since some of these regulations were not applicable according to their real circumstances (Zhang,

Chong, and Jenkin, 2002). The classification system generally has been debated and criticised because of its variability of assessing points for each facility and service (Vine ,1981).

Three other legislation-administrative barriers (items 2, 3, 4) seem to be very influential on tourism businesses located in the Eastern region compared with the Riyadh and Western provinces ($\chi^2(2) = 16.207$, $\chi^2(3) = 15.765$, $p=003$ respectively and $\chi^2(4) = 60.985$, $p=000$). Thus, the results are compatible with research by the Eastern Chamber of Commerce (2011) that found that one radical solution to reform tourism investment would be to reduce current bureaucracy by unifying the requirements and permits procedures for tourism projects, at present split between the civil defence, municipalities, and the SCTA.

It was anticipated that the inception of the SCTA in 2000 would contribute to overcoming all the major barriers that prevent successful tourism enterprises, especially those established after its inception. Surprisingly, all administrative barriers are equally likely to influence recent tourism businesses established after the SCTA's inception compared with older businesses established 11 to 16 and over 16 years ago ($\chi^2(1) = 27.942$, $P=000$, $\chi^2(2) 17.206$, $P=.002$, $\chi^2(3) = 21.788$, $P=.000$, $\chi^2(4) 17.570$, $P = .001$). A possible explanation for this is that owners/managers of recent tourism businesses still recall the difficulties they faced when starting their business, compared with owners/managers who established their business over a decade ago.

Other Factors:

'Other factors' also had a high agreement level, with average mean scores of 4.28. 'Seasonality of tourism' (item 5) was the most influential factor among the listed barriers in Table 6.4, with a mean score of 4.52. Tourism business in the Eastern region is most likely influenced by 'seasonality of the tourism activities' (item 5), 'lack of services at tourist attractions such as beaches and national parks' (item 7), and 'imitation of tourism business ideas in one geographical area' (item 9) ($\chi^2(5) = 44.395$, $\chi^2(7) 27.096$, $\chi^2(9) = 34.370$, $P=.000$, respectively). Although diverse regions in KSA suffer from seasonality, such Albaha (Som and

Al-Shqiara, 2013) and other cities, the tourism sector in the Eastern region suffers from prolonged seasonality throughout the year compared with the Western and Riyadh regions, which adversely affects the productivity and profitability of the tourism enterprises. There are two reasons for this, firstly because the Eastern region is dependent only on domestic tourism and its seasonal peaks in the school holidays (July and August), when the majority of tourists visit. Secondly, although the Eastern region has spectacular scenery (coasts) and other tourist attractions, it does not have a distinctive tourist identity or brand that could be integrated and interdependent with other tourist attraction elements (Eastern Chamber of Commerce, 2011). Moreover, some tourism businesses (entertainment, resorts, tourist guidance, and motorway services) are more likely to be influenced by the “seasonality of tourism activities” and “lack of tourist focus at events and festivals” ($\chi^2(5) = 35.885, p=.007$, $\chi^2(8) = 35.901, p=.007$), respectively.

Tourism in the Western region seems to be influenced strongly by “hesitation of businessmen to invest in relatively new tourism sub-sectors” (item 6) and “lack of tourist focus at events and festivals” (item 8) ($\chi^2(6) = 20.526, p=.000$, $\chi^2(8)=22.681, p=.006$), especially in comparison with the Riyadh and Eastern provinces. This may be due to the fact that tourism investment in the Western region is mainly focused on hospitality to serve the large number of pilgrims. “Difficulty in obtaining information about investment opportunities in the tourism sector” (item 10) was more likely to be very influential to tourism businesses in the Riyadh province ($\chi^2(10)= 29.867, p=.000$). In comparison with other provinces, the Riyadh province lacks not only natural scenery but also services and facilities that meet the needs of tourists who visit this province for shopping, business, festivals and conference purposes . It seems that investors lack ideas, and this province is crowded with shopping and commercial malls as the main tourist attractions, ignoring other attractions.

In respect to the age groups, there is a significant relationship with ‘lack of tourist focus at events and festivals’. The younger group are more likely to find it very influential compared with the oldest group (50-59) ($\chi^2(8)= 14.941, p=.005$).

Financing factors

Overall, the influence of the financial barriers also had a high agreement level, with average mean scores 4.09. Over 85% of respondents depicted the 'lack of sufficient capital for start-up tourism businesses' (item 11) as an influential barrier that investors confront in tourism. Moreover, over 78% of respondents agreed upon the profound influence of financial barriers on discouraging investment in tourism, including 'limitation of finance by the specialised government lending institutions' (item 12), 'non-enjoyment of tourism investors for custom concessions in other tourism sectors' (item 13), 'high cost of operating tourism compared with other projects' (item 14), and 'unwillingness of banks to finance SMEs' (item 15). In the previous decade, Altayyar (2001) identified these barriers, stating that tourism projects are depicted as long-term investments which need financial flexibility with enduring loan repayment. However, the limitation of Saudi banks' experience in financing tourism projects affects SMEs and entrepreneurs in KSA, as well as larger companies that cannot cover the capital cost due to the lack of subscription in their capital. This is similar to what Saayman and Slabbert (2001) found, with tourism funding not only insufficient but the financing mechanism also not "coordinated", which makes the financing institutions unwilling to fund tourism. According to the SCTA, Resolution No (209) was issued in 2010 to fund the tourism sector and provide the necessary financial resources for tourism in KSA, by specifying financing programmes to ensure a balance in the equation of supply and demand in tourism services. Nevertheless, up to now this resolution has not been activated and implemented.

The recent report on global competitiveness (WEF, 2013) indicated that KSA was ranked in the low position of 131st out of 140 countries regarding its governmental support of tourism. Accordingly, young start-up entrepreneurs and SMEs are more likely to face heavy pressure without financial support, and will inevitable be subject to failure and debt. A good illustration of this is that a significant relationship was found between some financial barriers and age groups. 'The lack of sufficient capital for start-up businesses' (item 11) ($\chi^2(11) = 32.692$, $p=.000$), 'financial limitation by the specialised government lending institutions' ($\chi^2(12)=25.735$, $p=.007$), 'High cost of operation compared to other

projects' ($\chi^2(14) = 13.659, p = .008$) and 'unwillingness of banks to finance SMEs' ($\chi^2(15) = 17.014, p = .002$) are more likely to be very influential on younger respondents. This corroborates the findings of other studies, which assert that the lack of adequate start-up finance is the greatest impediment to youth when starting their own business (Robertson, Collins, Medeira, & Slater, 2003; Schoof, 2006). With this lack of funds, it is assumed that the main sources used to finance the current tourism establishments were personal and family savings, as found by Shaw and Williams (1987) and Szivas (2001), with banks playing a limited role. This may explain the absence of young respondents, with 66% of owners/managers aged between 40 and 59 years old.

Marketing Factors

On barriers related to marketing, respondents strongly agreed (with average mean score 3.95). More than 71% agreed that these marketing barriers were either influential or very influential. This result corresponds with other studies (Formica and McCleary, 2000; Avcikurt, 2003; Lu and Chiang, 2003). A survey conducted by Alramdan (2011) indicated that the majority of local tourists in KSA believe that the SCTA has contributed significantly to enhancing the level of domestic tourism and cultural campaigns, whereas tourism activities lack media comprehensiveness in the promotion of domestic tourism, as well as the absence of specialised marketing offices focus on promoting outbound tourism.

The Chi-square test revealed that all these marketing barriers have a statistically significant association with previous experience. Respondents with no previous experience are more likely to consider the following factors as very influential: 'poor marketing of tourism products and services by tourism businesses' ($\chi^2(16) = 14.873, p = .001$); 'non-availability of specialised marketing offices to promote domestic tourism' ($\chi^2(17) = 22.340, p = .000$), and 'dependency on official efforts in advertisement' (the activities of SCTA and the municipalities) ($\chi^2(18) = 6.669, p = .036$).

Human resources

With respect to barriers related to human resources, respondents strongly agreed, with average mean score 3.69. More than 71% (items 19, 20, 21, and 22) and almost 60% (item 23) agreed that these barriers are influential and very influential. Generally, the shortage of skilled human resources was defined as the major reason for business failure (Reynolds et al., 2000). Shortage of skills in different sub-sectors of tourism is not limited to KSA but also other countries that have prior and intensive experience in tourism for longer periods than KSA, such as Australia (McKercher and Robbins, 1998), Turkey (Avcikurt, 2003), Italy (Formica and McCleary, 2000), China (Zhang and Wu, 2004; Qiu & Lam, 2004), Portugal (Costa, 2004), India (Jithendran and Baum, 2000), and Tanzania (Sharma & Upneja, 2005).

Respondents who lacked experience in tourism prior to owning/managing their current business rated the following barriers as very influential: 'inexperience of the employees working in the tourism sector' ($\chi^2(19)= 28.315$, $p=.000$), 'inexperience of tourism training institutes' ($\chi^2(20)= 29.382$, $p=.000$), 'weakness of graduates from educational and training institutes' ($\chi^2(21)= 31.895$, $p=.000$), 'small number of tourism colleges and institutes' ($\chi^2(22)= 21.983$, $p=.000$), and 'high turnover of Saudi employees in the tourism sector' ($\chi^2(23)= 53.490$, $p=.000$). Moreover, both the oldest and most recent tourism establishments were more affected by the lack of experienced employees compared with middle-aged establishments ($\chi^2(19)= 12.681$, $p =0.13$).

Despite the fact that the vast majority of tourism jobs are dominated by expatriates (85-90%), 'domination of potential tourism jobs by expatriates' had a neutral trend with a mean score of 3.18. Only 38% of respondents agreed up on this factor as influential or very influential.

Broadly, in GCC markets, expatriates dominate the vast majority of the private sector workforce whereas nationals dominate government jobs (Forstenlechner, 2008). Respondents in this study seem to prefer expatriates over Saudi workers, which may be due to the low cost of migrant labour, especially those who come

from Asia, despite the fact that localization of jobs is more beneficial for setting up and encouraging more SMEs (Sadi and Henderson, 2005b). Baum (2007) stated that there are contradictions in tourism human resource practices even in developed countries; for instance, although there is gentrification in human resources skills, many tourism businesses access a low-cost migrant workforce legally and illegally, ignoring the enhancement of the workplace, development, and productivity.

Another reason for not considering this factor as an influential barrier is that since the number of tourism business has increased, this shift has augmented the demand for specialised manpower in tourism for the operation and management of these businesses, which cannot be found in the existence of barriers (items 19, 20, 21, and 22). This result is consistent with those of Alshammari (2010) and Sadi and Henderson (2005b), who found that items 19, 20, 21, and 22 underlined the preference for expatriates to work in tourism jobs in KSA, from the owners/managers' perspectives.

6.4.3 Factors contributing to successful tourism investment in KSA

During the interviews (section 6.2) and pilot survey, several suggestions were generated from participants for the enhancement and activation of the efficiency of tourism enterprises. Table 6.5 shows these positive factors. The level of agreement regarding implementation of these incentives is very high. The highest score in terms of frequency is 4.57 and the lowest is 4.02, which signifies that all respondents strongly agree/ agree upon these factors. All factors were ranked according to their mean score. In addition, Appendix 16 presents a chi-square test for the association between variables to provide further insights and suggestions between variables and the level of agreement (strongly agree and agree).

Table 6.5: The degree of respondents' agreement upon the influential factors that contribute to successful tourism investment in KSA:

Incentives		Distribution of Responses*										Means	S.D
		1 Strongly Disagree		2 Disagree		3 To some extent Agree		4 Agree		5 Strongly Agree			
		n	%	n	%	n	%	n	%	n	%		
1	Enhancement of government support for investment in tourism activities	0	0	2	.4	12	2.5	173	36.5	287	60.5	4.57	0.567
2	Establishment of a special fund institution to support the tourism Industry	1	.2	1	.2	33	7.0	182	38.4	257	54.2	4.46	0.653
3	Gradual application of official Hotels and furnished apartments classification Standards	0	0	4	.8	48	10.1	181	38.2	241	50.8	4.39	0.702
4	Decrease in hotels and furnished apartments classification standards	1	.2	6	1.3	44	9.3	187	39.5	236	49.8	4.37	0.722
5	Conducting conferences and exhibitions for promoting investment in the tourism industry	0	0	1	.2	31	6.5	284	59.9	158	33.3	4.26	0.582
6	Establishment of business incubators for financing training and support for tourism activities	2	.4	0	0	26	5.5	334	70.5	112	23.6	4.24	0.627
7	Establishment of a joint stock company with big financial resources specialized in tourism investment	1	.2	7	1.5	42	8.9	192	40.5	232	48.9	4.24	0.627
8	Attracting international franchising in tourism	0	0	2	.4	30	6.3	314	66.2	128	27.0	4.20	0.558
9	Initiation of new ideas and activities during festivals to attract tourists	0	0	0	0	31	6.6	328	69.3	114	24.1	4.18	0.526
10	Balanced distribution of festivals and events throughout the year	2	.4	0	0	26	5.5	334	70.5	112	23.6	4.17	0.549
11	Development of training programmes at the tourism training institutes	0	0	1	.2	33	7.0	356	75.1	84	17.7	4.01	0.495
12	Increase in internal and external training for employees in the tourism sector	0	0	3	.6	32	6.8	370	78.2	68	14.4	4.06	0.483
13	Recruitment of foreign experts	7	1.5	29	6.1	39	8.2	273	57.6	126	26.6	4.02	0.853

Source: Author

It can be seen clearly that there was a strong agreement upon 'enhancement of government support to invest in tourism activities', with a mean score of 4.57, and the 'establishment of special funding institutions to underpin the tourism industry', with a mean score of 4.46 (see factors 1 & 2, Table 6.5); almost 97% and 93%,

respectively, agreed. These factors can be attributed to the relative importance of the role that should be played by the government to reinforce investment in tourism logistically and financially. Lerner and Haber (2001) found that those tourism enterprises that were supported financially by the government had higher revenue growth compared with those that were unsupported.

The younger group was more likely to strongly agree with these statements ($\chi^2(1) = 29.949$, $\chi^2(2) = 54.914$, respectively, $p = .000$). This results draws attention to the presence of young entrepreneurs in financial support programmes designed by the government and funding institutions. For example, a survey was conducted among 902 micro-credit organisations in 96 countries, which found that only 21 target youths in their titles (Schoof, 2006). Owners/managers who had extensive experience in tourism (more than 16 years) before managing their current tourism business were more likely to agree strongly with these two factors compared with the other group (less than 16 years experience) ($\chi^2(1) = 32.677$, $\chi^2(2) = 46.034$, $p = .000$).

'Gradual application of official hotels and furnished apartments classification standards' and 'decrease of hotels and furnished apartments classification standards' (factors 3,4, Table 6.5) were ranked second, with strong agreement. Interestingly, although these two factors are slightly opposed, they have almost equal percentages of agreement, with around 50% strongly agreeing, with a mean score of 4.3.

Since one of the classification objectives is to promote the facilities and services of hotels and apartments, three-, five-, and ten-year plans of suggested new classification criteria should be discussed and formulated with the industry, so that new hotels can be established with these criteria in mind (Vine, 1981). However, the period between the proposed plan for the classification system and the actual implementation of the system in KSA did not exceed one year (SCTA, 2010a).

Although the vast majority of hotels/apartments were established before the issuance of classification standards, tourism businesses established between 11 and 15 years ago are more likely to strongly agree with the two statements (3, 4) compared with tourism businesses that were established 1 to 10 years ago, or more than 16 years ago ($\chi^2(3) = 15.996$, $p = .003$, $\chi^2(4) 14.361$, $p = .006$, respectively).

In contrast to the establishments' age, younger respondents (less than 39 years old) are more likely to agree strongly with statements 3 and 4 ($\chi^2(3) = 24.137$, $\chi^2(4) 31.021$, $p = .000$, respectively). Respondents who had extensive experience in tourism (more than 16 years) prior to owning/ managing their current tourism business, are more likely to agree strongly with statements 3 and 4 ($\chi^2(3) = 47.546$, $p = .000$, $\chi^2(4) = 48.851$, $p=000$). However, respondents who have lower qualifications are more likely to agree strongly with the decrease of hotels/ furnished apartments' classification criteria ($\chi^2(4) =14.839$, $p=005$). The recent issuance of a classification system will have enduring opposition that will frequently resonate for long durations in KSA's hospitality sector.

Although the third group (mean score of 4.2) have around 90% agreement/ strong agreement, the former is more pronounced than the latter (statements 5, 6, 7, and 8). Almost 33% strongly agree with encouraging "conducting conferences and exhibitions to attract investment in the tourism industry". Abdullah (2011) states some key constraints relevant to holding conferences in KSA, however, the conference market would create a viable economic resource to stimulate foreign investment and business contact, since KSA has the infrastructural capacity and organisational capability to enable it to host international conferences. Almost 24% strongly agree with the "establishment of business incubators for financing training and support for tourism activities'. Incubators are one of the tools to promote entrepreneurship in various economic sectors (Aernoudt, 2004) and can be used to reinforce small businesses with full provision of guidance, training, business operations, marketing and financing during their growth (Reichel and Uriely, 2002).

Almost 49% strongly agree with the 'establishment of a joint stock company with substantial financial resources specialised in tourism investment'. Although joint stock companies can raise significant capital to fund growth in certain sectors and draw on much wider markets for investment (Warnken, Guilding, & Cassidy, 2008), the stakeholder theory has been applied to a small number of tourism projects, including planning, destination management, and regional tourism (Cassidy & Chris, 2010).

These above factors (5, 6, and 7) are strongly associated with age. Younger respondents are more likely to agree on these factors, $\chi^2(5) = 13.594$, $p = .009$, $\chi^2(6) = 16.314$, $p = .003$, $\chi^2(7) = 46.160$, $p = .000$. Moreover, these are also strongly associated with extensive experience of respondents, $\chi^2(5) = 11.370$, $p = .023$, $\chi^2(6) = 23.209$, $p = .000$, $\chi^2(7) = 60.857$, $p = .000$, respectively .

With respect to franchising, tourism owners/managers manifested their approval of 'attracting international franchising in tourism" (almost 66% agreeing and 27% strongly agreeing with it). Respondents who had previous tourism experience prior to owning/managing their current business are more likely to agree strongly compared with the non-experienced group, in regard to this factor (item 8) ($\chi^2(8) = 12.453$, $p = .002$). This factor is strongly associated with the extent of experience of respondents, $\chi^2(8) = 11.693$, $p = .020$. Also, the Chi-square test revealed that "attracting international franchising in tourism" is strongly associated with younger owners/managers (39 years and less) who were more likely to agree strongly with this compared with the other age groups ($\chi^2(8) = 11.318$, $p = .023$). This result indicates the substantial advantage of attracting young people to tourism investment through designing special campaigns via both financial institutions and international franchisors.

The fourth group contains factors related to the development of festivals and events (factors 9, 10) (with mean score of 4.1). Almost 93 % agreed or strongly agreed with it. Owners/managers who had intensive experience are more likely to agree strongly with these statements (9, 10) than less experienced groups ($\chi^2(9) = 10.115$, $\chi^2(10) = 17.660$, $p = .000$).

The high agreement on the need for a variety of events and festivals corresponds with a survey by SCTA (2011c) conducted among Saudi youths, which found that 60% believe that events and festival are too limited in KSA and predominantly conducted in large cities (Jeddah, Riyadh, and the Eastern regions). Festivals and cultural events are one of the most popular strategies suggested to reduce the negative consequences of seasonality (Baum and Hagen, 1999).

In response to statements in the last group of factors (with a mean score of 4.1), almost 93% indicated that they had a positive perception of developing human resources through 'development of training programmes at the tourism training institutes' (almost 17% strongly agreeing). Almost 14% strongly agreed with an 'increase in internal and external training for employees in the tourism sector' and 26% strongly agreed with 'recruitment of foreign experts'. It seems that statements related to enhancing training are strongly associated with non-experienced groups (see statements 11 and 12). The owners/managers with no previous experience in tourism are also more likely to agree strongly with an 'increase in internal and external training for employees in the tourism sector' (12) ($\chi^2(12) = 15.236, p = .000$).

Despite having a neutral opinion towards the 'domination of expatriates in tourism sectors' as a barrier, respondents were positive regarding 'recruitment of foreign experts' (with almost 83% agreeing and strongly agreeing). The possible reason for this is that expatriates present an opportunity to provide expertise otherwise unavailable, rather than occupying jobs that could be filled by indigenous national skills. Recruiting international experts to work in KSA's tourism sector may be debatable, especially under the implementation of the Saudization policy. Tourism businesses established between 11 and 15, and more than 16 years ago are more likely to agree strongly with the 'recruitment of foreign experts' statement (13) compared with newer business ($\chi^2(13) = 14.715, p = .005$). In contrary to the establishments' age, younger owners/managers and those between 40 and 49

years old are more likely to agree strongly with statement 13 compared with the oldest group ($\chi^2(13) = 18.509, p = .001$).

6.5 Summary

The aim of this chapter was to provide an overview of the tourism industry and a background of tourism business structures in KSA. The current barriers and drivers surrounding the tourism industry's development were explored. Six themes were explored including institutional environment, financial support, human resources, marketing, culture, and other challenges. Moreover, the paucity of new tourism investment, poor quality of existing tourism business, and lack of basic elements of tourist attractions are a large part of the problem (section 6.2). These issues were discussed with the main regulator of tourism, the SCTA, to explore their efforts to address these issues. The results demonstrate that the SCTA has adopted the strategy of learning from international experiments to overcome shortages and weakness in some tourism fields, including training, classification, operations management agreements, and motorway services.

The exploration stage paved the way to tourism businesses through quantitative research (Section 6.4) based on three functions. The first function was investigating business structures and characteristics. This section highlighted the fact that the tourism sector was dominated by small businesses established more than 10 years ago. These are largely owned/managed by elderly owners/managers who hold university degrees and have previous extensive experience in tourism.

The second function was the validation of the initial results from interviews. Univariate analyses (frequencies, means, standard deviation) illustrated that the level of the agreement on the influence of explored barriers, along with suggested factors to overcome these barriers, were relatively high (Sections 5.4.2 and 5.4.3, respectively), which signifies that these factors are either very influential or influential in restricting/promoting the tourism industry.

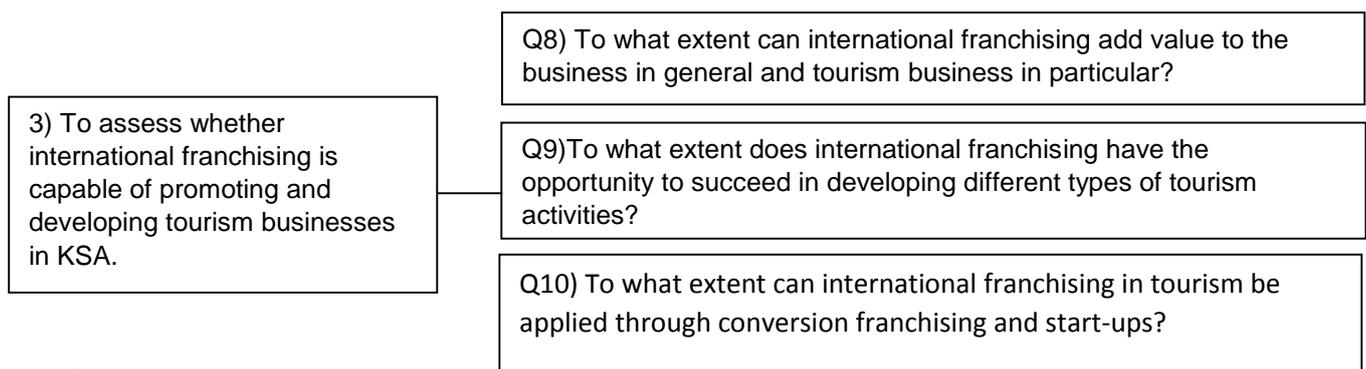
With respect to the third function, bivariate analyses were used to analyse the effect of current factors on the tourism industry and their characteristics. Investigation of these associations can provide credibility for the potential of international franchising as a vehicle for developing tourism, which will be discussed in Chapter 8. The chi-square test revealed that there is some association between barriers/contributors and the characteristics of tourism business owners/managers.

Chapter 7: The capability of international franchising in promoting and developing tourism business in KSA

7.1 Introduction

The aim of this chapter is to present the qualitative and quantitative results related to the capability of international franchising for promoting the tourism sector, in accordance with the third objective. In this context, three research questions (8, 9, 10 Figure 7.1) will be posed. Q8 and Q9 are common questions asked to both groups (franchise and tourism) either in the interviews or in the surveys. The answers to these two questions by interviewees at the first phase will be used to create a list of items in the surveys²⁸ to be examined by the large sample.

Figure 7.1: Research objective three



Source: Author

In order to examine the eighth question (Q8, Figure 7.1), this chapter looks first at the capability of international franchises to reinforce business development. This capability is examined from two points of views: first, as perceived values that incentivize current franchisees to remain with the international franchisors (franchise survey), second, as perceived values that motivate the tourism business owners to join franchising generally as start-ups or convertors (tourism survey), as shown in section 7.2. In this section, a Mann-Whitney test was used to investigate how the importance of these perceived advantages differ between the two groups when considering their current business experience.

²⁸ These common questions present the third part of the surveys (tourism and franchising surveys). The tourism survey was answered by independent tourism owners/managers (tourism group), and the franchise survey was answered by current franchisees (owners/managers) (franchise group).

Understanding the difference in priorities in these perceived values towards franchising between current franchisees (to remain) and potential franchisees (to join) gives evidence of the potential for franchise success within the tourism industry's development, in light of the barriers that were identified earlier (Chapters 5, 6). In addition, the dual experience of both franchisees in franchising and independent businesses in tourism was used to investigate the second question (Q9, Figure 7.1) in order to predict whether franchises had the opportunity to succeed in developing different types of tourism activities (section 7.3). In this section, a Mann-Whitney test was also used to find any differences between the opinions of the two groups.

After indicating what type of tourism business can be franchised successfully, the most effective sources of information for seeking out franchising opportunities were explored by a franchise and a tourism group (section 7.4). In this section, the Chi-square test was also used to find any differences between the two groups in using and receiving these information sources, which will demonstrate the need for better franchising marketing strategies. In order to understand the absence of franchising in tourism and the attitudes towards conversion to franchising, section 7.5 reflects the third question (Q10, Figure 7.1) by presenting respondents' opinions regarding whether they would consider investing in tourism through franchising (new franchise business or conversion), with justifications for their answers.

7.2 Perceived values of the international franchising from the perspectives of franchisees and tourism business owners/managers

During the interviews, both groups were asked about the eighth research question (Q8, Figure 7.1). The two groups' interviews generated the main elements of the values that international franchising can add to a business. This was examined through the two surveys (see values listed in Table 7.1). The vast majority of participants believe that international franchising will add value to tourism investment in KSA and lead to big developments in tourism activities, particularly the quality of services. Generally, they believe that international

franchising will act as a model to learn from and follow for local SMEs; one participant stated that :

It is better to import experienced companies from abroad, which will help first in creating the market and prepare it for the small projects. Then the investments will enter the market in a very organized manner... and firms will try to imitate this and fulfil the requirements, which will lead to high quality of products and services, and everybody will try to compete with these imported foreign companies. (Tourism Administrator, Chamber of Commerce)

Moreover, the majority of tourism representatives of tourism committees stated that international franchising will change the current negative practices of some owners/managers (mentioned in Chapter 6) especially those who are running hotels and furnished apartments. However, only one participant, who runs a four star hotel, was against the idea of international franchising, calling for domestic franchising instead:

There is no need to import franchise from abroad. We do not need them.. What we want is our own brands which have our own culture. This will be better to develop our own style... What the international companies know about our culture, we can adopt to our own franchise system. (Representative, tourism committee)

Seeking for a quantitative answer to the eighth question of “to what extent can international franchising add value to business in general and tourism business in particular” (Q8, Figure 7.1), Appendices 17 and 18 show the opinions of respondents towards the ability of franchising to achieve the advantages perceived by both franchisees and tourism owners/managers, respectively.

Both groups were asked about the same motivations. Appendix 17 illustrates the current franchisees’ assessment of perceived values from franchising that motivate them to remain within the franchise system after having run their business for a period of time, whereas Appendix 18 shows the perception of tourism business owners/managers of franchising motivations before deciding to buy a franchise. The Mann-Whitney test was also used to evaluate the

significance of any differences between the two groups. A dependent ordinal variable (in this case, capability of franchising) and one independent variable (in this case, types of establishments) were characterised by two categories (franchise and tourism) as illustrated in Table 7.1.

Table 7.1: Perceived values of the franchise system – Statistical differences between the franchise and tourism group

Items		Franchise		Tourism		Statistics	
		Median	Mean Rank	Median	Mean Rank	z	p
CFT1	Capability of the franchise to reduce the business start-up expenses	4	388.92	4	264.55	-7.624	.000
CFT2	Capability of the franchise to reduce the chances of failure	4	348.22	4	272.17	-4.810	.000
CFT3	Capability of the franchise to achieve high profits	4	295.60	4	282.85	-.761	.446
CFT4	Capability of the franchise to increase competitive value	4	272.07	4	287.59	-.929	.353
CFT5	Capability of the franchise to make use of accumulative experience	4	227.62	4	296.50	-3.993	.000
CFT6	Capability of the franchise to advertise	4	257.67	4	290.55	-1.966	.049
CFT7	Capability of the franchise to access training from the franchisor	4	238.32	4	295.06	-3.297	.001
CFT8	Capability of the franchise to access credit facilities	3	221.32	4	297.92	-4.797	.000
CFT9	Capability of the franchise to provide high quality services	4	296.55	4	283.26	-.779	.436
CFT10	Capability of the franchise to develop competitive products and services continually	4	318.31	4	278.86	-2.341	.019
CFT11	Capability of the franchise to attract foreign tourists	4.50	350.26	4	271.13	-4.845	.000

Source: Author

Overall, the level of agreement regarding perceived values of franchising is positive and very high for both groups. The highest score in terms of frequency is 4.38 and the lowest score is 3.38 for the franchise group (Appendix 17), whereas the highest score in terms of frequency is 4.23 and the lowest score is 3.75 for the tourism group (Appendix 18). ‘Capability of the franchise to develop competitive products and services continually’ (CF10, Appendix 17) had the highest frequency in the franchise group (almost 92% in agreement) and ‘Capability of the franchise to make use of accumulative experience’ (CT5,

Appendix 18) had the highest frequency in the tourism group (almost 81% in agreement).

There was a statistically significant difference in mean scores between the two groups for these two items (CFT10 and CFT5, Table 7.1) ($z = -2.341$, $p = 0.019$, $z = -3.993$, $p = 0.000$), respectively. With respect to 'Capability of the franchise to develop competitive products and services continually', franchisees had a greater desire to remain within the system (CFT10, Table 7.1). This result was expected because franchisees are supposed to develop cumulative experience from their franchisor's support over the years in various business aspects, bearing in mind that they were lacking this experience at the beginning of their initiation into the business. Therefore, the only thing that can induce franchisees to remain with the franchise more than profitability is the continuous development in products and services, which cannot be easily accomplished without the franchisors' structural capital (infrastructure).

A good illustration of these propositions is that the 'Capability of the franchise to make use of accumulative experience' (CFT5, Table 7.1) had a higher ranking by the tourism group compared with the franchisees, although the majority (92.2%) of those who responded to this item have business experience prior to running and managing their current tourism businesses (Chapter 6). As explained earlier, the perceived value of human capital (in this case experience) is negatively related to franchise age; since the majority (71%) of the franchisees in this study were relatively old, their answers differed from the potential franchisees and they are more likely to have greater experience, confidence, and personal power after running their franchise for a couple of years. Consequently, some of the franchise advantages may become less crucial to current franchisees (Dant & Peterson, 1990), compared with the tourism group who had not experienced franchising. This may stimulate the tourism group to rank this item higher than the franchisees, considering that franchising is a tool for transferring accumulated

experience from global tourism, especially given the local weaknesses of human resources, skills and education, as illustrated in Chapter 6.

Interestingly, the 'Capability of the franchise to access credit facilities' (CF8, Appendix 17) was the only statement that had a neutral mean score of 3.38, compared with the high scores for the perceived values of remaining a franchisee. The single most striking observation from this comparison between the two groups was this item also had the lowest score of agreement (but was not neutral) by the tourism group (CT8, Appendix 18) compared with other perceived values (a mean score of 3.75, with almost 70% in agreement). Therefore, a statistically significant difference exists in the mean score (CFT8, Table 7.1), ($z = -4.797$, $p=000$). This result is consistent with those presented in Chapter 5, where franchisees gave the lowest level of importance to 'access to bank credit facilities' and 'existence of banks and other lending institutions' to financing franchise businesses compared with other items. This consistency may be due to the absence of a franchise fund among financial institutions, reflected in franchisees' beliefs through their actual experience with financial institutions, compared with the tourism group who may have no idea whether there are banks involved in franchising as SMEs.

'Capability of the franchise to reduce the business start-up expenses' (CF1, Appendix 17) had a high mean score of 4.35 in the franchise group, with over 90% of respondents rating it as capable. In contrast, the tourism group had lower positive responses (CT1, Appendix 18), with a mean score of 3.78. Therefore, there was a statistically significant difference between the groups on this item (CFT1, Table 7.1), ($z = -7.624$, $p=000$). If attention is directed at the start-up cost for the two groups, then a number of significant issues can be associated with this difference. First, Kaufmann (1999) found that the more people were concerned about the financial issues pertaining to starting up a business, the more likely they were to buy a franchise. Secondly, the high level of agreement with CF1 in the franchisee group was consistent with the findings of Dant and Peterson (1990),

who state that 'lower development costs' were ranked as one of the top important reasons to become franchisees by 70% of their respondents, although the capital investment for a start-up franchise was found to be three times greater than a non-franchise business (Bates, 1995). The latter was compatible with this study, where 82% of franchisees (in Chapter 5) agreed that the 'High cost of starting up the franchised unit' prevents the franchise system from diffusion in the Saudi market. This rather contradictory result may be explained by assuming that the 'high cost of starting a franchise unit' in Chapter 5 was deemed to be a barrier to other prospective franchisees (start-ups), who do not have the same financial power as the current franchisees in KSA, who have owned other businesses besides their franchise. Thirdly, despite some studies emphasising that the entry cost to the tourism industry is relatively low, specifically for small businesses (Kozak & Rimmington, 1998; McKercher & Robbins 1998), most start-up tourism operators tend to be 'under-financed' (McKercher & Robbins, 1998). For this reason, the tourism group seemed to be cautious, having a lower ranking compared with the franchise group for this item (CFT1, Table 7.1). Fourthly, 78% of the tourism group emphasised in Chapter 6 the significant influence of the 'High cost of operating tourism businesses compared with other projects'. This barrier may be exacerbated by tourism's seasonality in some regions.

Therefore, the tourism group may believe that the extra costs of franchise fees in addition to investment capital would lower neither start-up nor operational costs. The latter also prompted disagreements amongst franchisees when they were asked if franchises lower the operational cost of the business (Dant & Peterson, 1990). This inconsistency with the 'capability of the franchise to reduce the business start-up expenses' may be attributed to investment size, location of the business, and type of business.

Similarly, as regards the 'capability of the franchise to reduce the chances of failure' (CF2, Appendix 17), the franchise group also had a high mean score of 4.23, with over 91% of respondents rating it as capable. This high agreement is

compatible with the studies of Baron and Schmidt (1991) and Withane (1991), who found that the ability of a franchise to reduce risks of failure made it more attractive to potential franchisees than independent businesses. In contrast, the tourism group had lower positive responses (CT2, Appendix 18) with a mean score of 3.90. Therefore, there was a statistically significant difference between the scores (CFT2, Table 7.1) ($z = -4.810$, $p = 0.000$). This may be attributed to the fact that franchisees have lower quality skills than independent entrepreneurs (tourism group), which may contribute to the increasing risk rate of failure (Williams, 1999).

The majority of respondents believed in the 'capability of the franchise to achieve high profits' (Appendices 17 and 18 (CF3, CT3). This corresponds with the findings of Withane (1991), Guilloux et al., (2004) and Bennett et al., (2010). There is no difference between the scores for the two groups. The current franchisees in this study tend to be profit makers according to their high agreement, which corresponds with the NatWest /BFA Survey (2013) which found that 92% of franchisees who run their business report long-term profitability, and 80% of new franchisees (with less than two years) are already turning a profit. However, this is inconsistent with the studies of Bates (1995) and Williams (1999), who found that despite the fact that higher sales were accomplished by franchise firms, they were less profitable than non-franchise firms.

There is no significant difference between scores for the groups' opinions regarding three factors: 'capability of the franchise to increase competitive value', 'capability of the franchise to advertise', and 'capability of the franchise to provide high quality services' (CFT4, CFT6, CFT9, Table 7.1 respectively). These three items were cited by franchisee studies as perceived values of competitive advantage (Baucus, Baucus, & Human, 1996; Watson & Stanworth, 2006), advertising (Guilloux et al., 2004), and quality (Dant & Peterson, 1990).

The majority of franchisees (73%) agreed with the 'capability of the franchise to access training from the franchisor' (CF7, Appendix 17), which corresponds with

several studies that cite the frequent provision of training in franchising as an attractive incentive for potential franchisees (Izreali, 1972; Dant & Peterson, 1990; Withane, 1991). However, the tourism group ranked this item higher, with a mean score of 4.14 (CT7, Appendix 18) compared with the franchisee group. Therefore, there was a statistically significant difference in the mean score between the two groups (CFT7, Table 7.1) ($z=-3.297$, $p=001$). If attention is directed at the franchising training for the two groups, then a number of important issues can be attributed to this difference. Firstly, as noted and discussed above, the value perceived by current franchisees related to human capital (in this case training) becomes less important over the years spent with franchisors.

A second possible explanation is that franchise training is a significant factor for those who have no prior experience in the business world and no industry knowledge, so it offers work in a wider range of sectors than those who had prior experience and are likely to start an independent business (Kaufmann, 1999). This assumption may not be applicable to the two groups because more than 90% of the respondents had prior experience in business, regardless of whether the experience was in the business field. Therefore, the need for training may be related negatively to the increased number of respondents' years of experience. In order to examine this assumption between the impact of years of experience and the level of the agreement, Chi-square revealed that tourism owners/managers who had prior experience of more than 16 years are more likely to strongly agree with this item ($\chi^2 = 35.175$, $p=001$), whereas no significant association was found in the franchise group and their experience. A possible explanation for this is that current franchisees have already benefitted from training since they joined the system years ago, whereas the recent development of policies and reforms to the tourism industry in KSA and the influence of globalization necessitates the desperate need to adopt modern practices, strategies, and international standards, compared with old traditional ones.

The 'Capability of the franchise to attract foreign tourists' had a high mean score of 4.35 (CF11, Appendix 17) in the franchise group, with 50% as marking it as

very capable. The tourism group also responded positively (CT11, Appendix 18) with a mean score of 4.01, with over 61% of respondents rating it as capable. This corresponds with the study by Lin et al. (2014), which indicates that well-known franchised outlets are preferred by international tourists when compared with local businesses in the visited country. A statistically significant difference between the scores of the franchisees and those of the tourism group was found for this item (CFT11, Table 7.1) ($z=-4.845$, $p=000$). Contrary to expectations, the tourism group had a lower ranking than the franchise group regarding the attraction of franchises for international tourists. There are two possible explanations for this result. Firstly, the tourism group may be a little bit hesitant regarding the term “international tourists” because at present there is a restriction on international tourists’ visas (non-Muslims) due to cultural and security issues. Secondly, the tourism group may not define international Islamic pilgrims/Umrah performers as tourists, since the government issues a special pilgrimage visa that permits the international Muslims to visit only the two holy mosques of Makkah and Madinah. With regard to franchise group, they may experience the attractiveness of international franchises to expatriates who work in KSA considering them as ‘internationals’. Tuncalp (1991) predicted 25 years ago that expatriates would be a positive contributor to franchising diffusion in KSA.

7.3 Type of tourism businesses that can be franchised

In order to examine the ninth question, “to what extent does the international franchise have the opportunity to succeed in developing different types of tourism activities” (Q9, Figure 7.1), respondents were asked about what type of tourism businesses can be franchised – as start-ups or converted franchisees through international brands. Appendices 19 and 20 present the opinions of the two groups. The Mann-Whitney U test (see Chapter 4) was also used (Table 7.2) to evaluate the significance of any differences between the two groups.

Table 7.2: Franchising in the tourism business – Statistical differences between the two groups

Items		Franchise business		Tourism business		Statistics	
		Median	Mean Rank	Median	Mean Rank	z	p
FTB 1	Five-star hotels (conversion/start-ups)	4	244.98	4	296.32	-2.982	.003
FTB 2	Other classified hotels (Four- and Three-star hotels etc.) conversion/start-ups)	4	257.96	4	291.05	-1.942	.052
FTB 3	Conversion of unclassified hotels	3	243.25	4	293.75	-3.024	.002
FTB 4	Classified furnished units and apartments	4	259.68	4	291.26	-1.876	.061
FTB 5	Unclassified furnished units and apartments (conversion)	4	251.40	4	293.11	-2.546	.011
FTB 6	Travel agents	4	323.41	4	275.15	-2.928	.003
FTB 7	Restaurants	4	313.93	4	277.90	-2.157	.031
FTB 8	Coffee shops	4	291.50	4	282.93	-.512	.609
FTB 9	Car rental companies	4	323.63	4	275.10	-2.935	.003
FTB 10	Entertainment (theme parks, amusement centres, zoological parks, water parks, museums, themed resorts, and natural attraction	4	230.95	4	295.33	-4.019	.000
FTB 11	Resorts (seaside resorts and mountain resorts)	4	223.17	4	297.66	-4.569	.000
FTB 12	Transportation companies (coaches and buses)	4	319.85	4	275.32	-2.732	.006
FTB 13	Private transportation (limousines)	4	316.17	4	275.07	-2.513	.012
FTB 14	Tourism training institutes and colleges	3	238.54	3	292.91	-3.477	.001
FTB 15	Tourism guidance and tour organisers	3	229.40	3	294.81	-4.071	.000
FTB 16	Motorway services (motels, cafes, restaurants, shops, toilets, etc.)	4	227.44	3	289.60	-3.875	.000

Source: Author

The level of agreement regarding potential tourism franchises is neutral in more than half of the items (9 of 16) for the franchisee group (Appendix 19). The highest score in terms of frequency is 4.26 and the lowest score is 2.71. In

contrast, the tourism group indicated a slightly positive trend, with only seven neutral items out of 16. For this group, the highest score in terms of frequency is 4.09 and the lowest score is 3.19, as shown in Appendix 20. Both the franchise and the tourism group perceived restaurants as the best potential franchises, (FB7= 4.26 and TB7= 4.09, Appendix 19 and 20 respectively). This result was anticipated since the vast majority of franchisees in KSA are in the food and beverage industry. Despite the consistency between the two groups on this item, a statistical difference in the scores did exist (FTB 7, Table 7.2) ($z=-2.157$, $p=0.031$). The second type of business that both groups perceived as suitable for franchising was coffee shops, with a mean score of 4.09 for franchisees and 4.06 for the tourism group (FB8, Appendix, 19, and TB8, Appendix 20 respectively). Statistically, this item did not differ significantly between groups ($z=-.512$, $p=.609$).

With regard to hospitality, the franchise group responded neutrally to all types of accommodation (FB1, FB3, FB4, FB5, Appendix 19), with the exception of the lower classified hotels (four- to one-star hotels) (FB2, Appendix 19) which had a positive response, with almost 54% of the respondents rating it as possible. Similarly, the tourism group had the same total percentage of responses (55%) for this item as possible/very possible (TB2, Appendix 20). Therefore, the mean score did not significantly differ statistically between the two groups for this item (FTB2, Table 7.2). It is interesting to note that both groups agree on the potential opportunity of franchising in hotels with (one-four) stars. This agreement may explain the relatively low standards of the domestic lodging industry and the lack of economically classified hotels in KSA.

The franchise group perceived franchising of lower classified hotels as very possible, whereas they were neutral regarding franchising five-star hotels. A possible explanation for this is that franchisees, through their experiences in KSA, tend to believe that franchising is usually low capital intensive (Cazkon, 2012), since most current franchises are small enterprises (Bennett et al., 2009). In contrast, five-star hotels are relatively capital intensive, which makes owners look

for other non-equity forms such as leasing and management contracts. A good illustration for this is that the majority of international brands of five-star hotels are operating under leasing and management contracts in KSA. For instance, some qualified investment business people or companies who are dealing in real estate used to build and rent out hotels (configurative building). They usually have long-term lease agreements and management contracts with international brands who want to enter the Saudi market. The operating company does not own the building, but instead rents and operates it in accordance with their brand practices. This explanation corresponds with the findings of Dev, Erramilli, and Agarwal (2002), which indicate the likelihood of choosing a management contract over franchising for a host market entry is high when there is the availability of trustworthy and qualified investment partners.

On the other hand, the use of franchise agreements appears to be the dominant form for the majority of US-based transactional corporate hotels (Endo, 2006). Favouring this method, the tourism group viewed franchising in five-star hotels positively as well as all the classified and unclassified hotels/ apartments (Appendix 20). Clearly, statistically significant differences in the scores for both groups are indicated for the three latter items (FTB1 $z=-3.024$, $p=.002$; FTB3 $z=-3.024$, $p=.002$; FTB5 $z=-2.546$, $p=.011$; Table 7.2).

These results show that franchising of unclassified hotels/apartments through conversion is not viewed favourably by the franchise group in comparison with the tourism group. This discrepancy could be attributed to the latter's actual experience with classification issues and low standards, making them more alert to current problems associated with the failure of a large number of hotels/apartments to meet the minimum requirements of classification standards in KSA. On the other hand, conversion is not widely used in KSA, which may explain the neutral opinion of the franchisees.

In general, travel agents were favourably viewed by both groups, with the franchisees having a mean score of 3.94 (FB6, Appendix 19) and the tourism group a mean score of 3.57 (TB6, Appendix 20). However, the franchisees group

had a greater positive response compared with the tourism group, with almost 70% of the former rating travel agencies as having potential. Statistically significant differences in the scores were found for this item ($z=-2.928$, $p=003$, Table 7.2) . The higher ranking by the franchisees for this activity may be attributed to their actual experience in franchising, and its provision of packages of special support for franchisees, with access to global technology and distribution systems. For example, Bonanza Travel Agent stated that despite the relatively low investment in franchises, franchisors assist the business with speed of market entry, fast track learning curves, connection through a distribution system, and negotiation power regarding commission rates, prices, and customer services used by the franchisors on behalf of the franchisees (Pender, 2000).

Possible transportation franchises, including rental cars, coaches and buses, and limousines (with mean scores of 3.80 (FB9), 3.54 (FB12), and 3.56 (FB13) respectively, Appendix 19) are perceived as more enticing opportunities to the franchisee group. However, the tourism group was neutral towards these activities (mean scores 3.3, TB12, TB13, Appendix 20) with the exception of car rentals (TB9, mean score of 3.53). The positive responses by both groups towards car rental companies may be due to the popularity of auto-hire franchising compared with other types of transportation.

However, statistically significant differences in scores were found for all these activities (FTB9 $z=-2.935$, $p=003$, FTB12 $z=-2.732$, $p=006$, FTB13 $z=-2.513$, $p=012$, Table 7.2). Whereas transportation is the main bridge to tourist destinations, the insufficient transportation industry in KSA did not encourage the tourism group to consider franchising as a solution. This may be due to the current practices of using public transportation such as buses and coaches in KSA, which are not aimed towards tourism. Firstly, since domestic tourism is predominant, private cars are the most common method of transportation between cities in KSA (Alghamdi, 2007; Albishry, 2007). Secondly, there is little use of public transport such as buses and coaches due to a lack of sophisticated services (Alghamdi, 2007). Thirdly, a limited number of companies provide public

transportation such as buses and coaches. For example, there is only one joint stock company (SAPTCO), which has gained an exclusive right (competitively tendered franchise) with the Ministry of Transportation for a fixed period of 25 years (until 2016) to serve all routes inside the cities and between cities in KSA. However, it has failed to provide services inside cities so now it only concentrates on services between 10 major cities, with other cities and tourist sites being completely neglected. Accordingly, there are some small bus operators allowed to provide local services and international ones for the purpose of visiting the two holy mosques.

Generally speaking, adopting competitive tender franchises in transportation has been used as a remarkable initiative in countries such as Pakistan (Anjum & Hameed, 2007) and Hong Kong (Cullinane, 2002), indicating the positive impact of these franchise contracts in terms of upgrading the quality of the services, although the competitive tender franchises in these examples were not limited to only one company, as in KSA. For example, there are 20 franchise companies (local and international) in Pakistan that obtained exclusive rights for bus services for more than 57 operative routes in five large cities. However, these types of contracts, known as franchise tenders, differ from the franchise format concept surveyed here, which is about the full package of well-known trademarks that can be gained from international franchisors by locals.

With respect to limousines and taxis, considered to be the predominant form of transportation for foreigners and some domestic tourists arriving at a destination by plane or bus, the tourism group had a lower ranking than the franchise group. This may be due to the common practices of unofficial taxis, who provide taxi services without authorization at a cheaper price (Albishry, 2007).

For the above mentioned reasons, with the exception of car rental, the tourism group were pessimistic regarding franchising in transportation not used for tourism purposes. Another reason could be the unpopularity of franchising in transportation, and this is compatible with Pender (2000, p.221), who argues that

franchising in transportation organisations such as buses still “have less involvement in tourism as they exist mainly to service communities”.

Despite the lack of attractions and entertainment industry in KSA, perceptions of the potential for franchises in entertainment and resorts are rather disappointing. The franchise group were neutral, with mean scores of 2.91 and 2.82, respectively (FB10, FB 11, Appendix 19). Similarly, the tourism group were also neutral, with mean scores of 3.27 and 3.19, respectively (TB 10 and TB11, Appendix 20). The exact same mean score (3.27) of the tourism group was found in a study by Milman (2001), where tourism managers were asked if the “amusement industry will become more franchise oriented”. Milman (2001:145) gave some reasons for this low agreement, including that the high cost of internal development of these businesses, including “product design and development, production, and service delivery” through “unique technology, distinctive managerial practices, facility maintenance, crowd control, and security”, render entrainment companies unwilling to be franchised to avoid “cannibalization of existing market share”. Statistically significant differences in the scores for the franchisees and tourism groups (Table 7.2) were found for the two activities (FTB10, $z=-4.019$, $p=000$, FTB11, $z=-4.569$, $p=000$).

With regard to the possibility of franchising tourism training institutes and colleges, both groups were neutral, with a mean score of 2.85 (FB14, Appendix 19) and 3.10 (TB14, Appendix 20), respectively. These responses may be explained by the fact that transactional education and training is a new phenomenon and franchising is not an exception (Hussain, 2007; Alam, Alam, Chowdhury, & Steiner, 2013). Statistically significant differences in the two groups' scores were found for this activity (FTB14, Table 7.2) ($z=-3.477$, $p=001$).

In comparison with the positive agreements of franchised travel agencies, opinions by both groups towards tourism guidance and tour organisers were neutral. The possible explanation for this negative response could be that since the tour organisers operate their businesses based on their rich knowledge in certain local areas and attractions, and their responsibilities do not extend beyond

scheduling tours for people with local guides, importing international franchising may not have a significant impact on this type of business compared with travel agents who organise the entire holiday package, including tour organisers. Statistically significant differences in scores for both groups were found for this activity (FTB15, Table 7.2) ($z=-4.071$, $p=000$).

Despite the bad practices associated with independent and small retailers of motorway services, along with low quality and limited services (see Chapter 6), franchising in motorway services, including motels, cafes, restaurants, shops, and toilets, had the lowest mean score for both groups (FB16 = 3.04 and TB16= 2.71, Appendices 19 and 20 respectively). A number of important issues may explain this low agreement. First, the presence of franchise retail opportunities in motorway services is a new phenomenon in KSA and had not existed before. For example, 99% of franchises are present in the large cities, mostly on high streets and in shopping malls, which are considered to be the best locations to have an outlet of a franchised brand. Therefore, the isolation of motorway service areas, positioned a long distance away from cities, makes the potential of franchising uncertain, specifically regarding franchise cost. Moreover, the poor physical presence of current independent motorway services discourages franchisees from renting floor space within these motorway service areas. Contradictorily, the improvement of British motorway services, such as Moto, Welcome Break, and Road Chef, has attracted successful franchise retailers and reduced their presence on the high street (Bawden, 2013). Statistically significant differences between the groups were found for this activity (FTB16, Table 7.2) ($z=-3.875$, $p=000$).

7.4 Source of information to search about franchise opportunities

In this section, the main focus is to explore the most effective marketing channels used by the franchise group when searching for franchising opportunities. The franchise group was asked about the ways in which they research and meet potential franchisors and franchisees. Non-franchisees (the tourism group), who were asked about which marketing tools were significant for their awareness of

franchising. Chi-square tests were used to find differences between the two groups. Table 7.3 shows the responses to this question by both groups.

The results present a mixed picture between the two groups. The results for the franchise group show that the majority of respondents used most of the listed ways to search for franchise opportunities, with local exhibitions (94%) and Chambers of Commerce (91%) being the top channels used. This is close to the results of Macmillan (1996), who found that franchise exhibitions were frequently used by franchisors to generate potential franchisees. Franchise associations and websites (43.7% and 39.7%, respectively) were less important in providing information compared with other channels.

On the another hand, the majority of channels listed for promoting franchise opportunities did not reach the majority of the tourism group, with the exception of websites, which was the highest tool (80%) that increased their awareness towards franchising. Chi-square indicated that there are significant associations between the two groups, as shown in Table 7.3. The differences between the two groups in this question are due to the intent to purchase a franchise. Franchisees had prior intent and interest in buying a franchise so they maximised their search in gathering information through all possible channels. However, the tourism group had no prior intention, and therefore these channels were not as important to them as they were to the franchise group. This is in line with Chapman (1997), who found that the majority of prospective franchisees visit the exhibitions to narrow down their possible franchise options. In contrast, Guilloux et al. (2004) stated that while visitors to franchise exhibitions gather information about opportunities, they tend to be relatively uncertain about opening a franchise.

Table 7.3: Respondents' views on the methods of researching franchise opportunities as a mode of investment and expansion

Statements	Franchise				Tourism				Chi-square	Sig(2-sided)
	Yes		No		Yes		No			
	n	%	n	%	n	%	n	%		
Local Fairs	98	94.2	6	5.8	127	27.0	343	73.0	.000	161.397
International Fairs	86	82.7	18	17.3	111	23.7	358	76.3	.000	131.455
Newspapers and Magazines	21	82.7	83	17.3	192	40.9	277	59.1	.000	15.687
Commercial Agent	62	59.6	42	40.4	35	7.5	434	92.5	.000	164.640
Franchise Association	45	43.7	58	56.3	34	7.2	435	92.8	.000	94.207
Chamber of Commerce	95	91.3	9	8.7	169	36.0	300	64.0	.000	104.818
Direct Contact	81	78.6	22	21.4	176	37.6	292	62.4	.000	57.431
Websites (company website, other advertisements)	40	39.6	61	60.4	383	80.6	86	18.1	.000	76.813

Source: Author

7.5 Prediction of both groups for investing in tourism through franchising

In order to examine the tenth question, "To what extent can international franchising in tourism be applied through conversion franchising and start-ups?" (Q10, Figure 7.1), this section investigates the franchise group's opinions towards buying a new franchise in the tourism sector alongside their current franchise. It also investigates the tourism group's willingness to convert their current independent business into a franchise through an international.

Opinions about investing in tourism franchising by the franchise group as prospective franchisees:

As explained earlier, in order to understand the absence of franchised tourism activities in KSA, this subsection investigates the franchise group's intentions towards buying a new franchise in the tourism sector alongside their current

franchise, while providing a justification for their answers. This information from people who have already experienced franchise success can generate a comprehensive understanding of the absence of tourism franchises, and the untapped potential for their success. The results show that 38.46% of the respondents stated their desire to buy a franchise business in tourism, 37.5% answered “No”, and 24% did not know. However, caution must be applied to these answers, as the results might not be transferable to reality. For example, franchisees who answered “yes” are not necessarily going to buy a tourism franchise, especially as they already have their own different franchise business. Nevertheless, the combination of their initial intentions with justifications provides insight for the conceptual premise of why franchising tourism is or is not preferable, and why it has not been chosen before.

For those who said yes, respondents were asked to select a tourism franchise. As expected, restaurant franchises were the primary activity. This is similar to Bennett et al. (2010) who found that food was the dominant sector chosen by potential franchisees. Following this, cafes, hotels, and tourism training institutes were the second most frequently chosen sectors by respondents. All other franchised tourism activities were chosen by less than three respondents (travel agency, tour organiser, entertainment, motels, furnished apartments, road services, and transportation).

A considerable number of those who replied “No” stated several reasons for this decision. These reasons can be divided into those pertaining to the following: their current businesses, the tourism sector, and the franchising sector. Reasons related to the current business included “the stability of the current business and good revenue”, “specialization in the field of business”, “concentration on one activity and expansion in that one”. In addition, one franchisee stated that his business converted into franchising (real estate agency)²⁹. With regard to the

²⁹ This franchisees was selected as a case study (See Chapter 8)

reasons related to the tourism and franchising sectors, these barriers match those observed earlier in the interviews (Chapter 5 and 6).

The tourism group's predictions for converting their independent tourism business into franchises:

Tourism owners/managers were asked whether they intend to convert their current tourism business into an international franchise. The result indicates that the number of tourism owners/managers who had such an intention is relatively small (33%); a significant majority of respondents (60%) had no intention to change their business into a franchise in the future. The remaining 7% stated that they were already franchised or had converted.³⁰ This trend must be interpreted with caution because this decision cannot be made easily through answering yes or no, especially with the existence of current businesses as independents. These answers with their justifications regarding franchising conversion will doubtless be closely scrutinised, but there are some immediately and dependable conclusions for when conversion can be made, which is an important issue that remains unexplored by previous studies.

Respondents were asked about the reasons preventing them from converting their own business into franchising. Although not all respondents justified their answers, some did give reasons, which are presented in Table 7.4. Nineteen reasons are organised in the Table according to themes that oppose each other in the two groups. However, some reasons were not listed because they were previously mentioned in barriers related to the two sectors (Chapters 5 and 6).

Analysing these reasons provides a set of significant clusters of market value. These are significant in making conversion decisions in two respects. When the

³⁰ Three tourism business stated that they recently converted to franchisees. Those were selected as case studies (See Chapter 8).

firms lack these values, it is likely that the conversion will be made. In contrast, when the firms possess these values, they are unlikely to convert.

The majority of these values are intangibles and only two reasons were mentioned as financial value (item 17) and problems (items 18 and 19). The rest of the values are intangibles. Regardless of the concept of franchising, these intangible values match those that were identified by Bontis (1998) and Guthrie and Petty (2000) as components of intellectual capital (IC). These IC components were divided into three categories: firstly, relational capital (RC) that refers to relationships and market channels (items from 1 to 8); secondly human capital (HC) that relates to human resources (items 9, 10, 11) and thirdly, organizational capital (OC) that relates to the mechanisms, structures, and infrastructure assets of the firms (items 12 to 16). Firms are willing to convert to franchising when they lack these IC elements. This result is in accordance with research conducted by Watson and Stanworth (2006), who predicted that the decision to become a franchisee is related to the possession of IC; the less businesses have, the more likely they are to become franchises. With regard to conversion, the same proposition can be applied: When an independent tourism business lacks IC, it is more likely to convert to franchising.

Table 7.4 :Comparison between reasons mentioned for converting and not converting to franchising					Analysis
No	Reasons for converting to franchising	Frequencies	Reasons for not converting to franchising	Frequencies	
1	Acquisition of international brand	66	We are a registered trademark	30	Relational Capital (RC)
2	Marketing /advertisement	17	We have a good reputation	25	
3	Expansion globally and locally	13	We have branches everywhere	9	
4	Protection from competitors	5	Our company has no equivalent in the Saudi market	1	
5	To compete/competiveness	5	Our company is capable of competing	5	
6	Attracting international customers	8	We are targeting local and GCC customers only	1	
7	Attract more customers	1	We want to retain our customers	5	
8	Customers prefer international brands	5	Our customers are very loyal	2	
9	Acquisition of advanced	39	We have accumulated	50	

	experience and learning from international experiment		experience over the years		Human Capital (HC)
10	Acquisition of skills if there are no skilled staff in our firm	8	We have skilled staff	15	
11	Because of our weakness in this field	5	-	-	Organizational Capital (OC)
12	Knowledge transfer	11	We have know-how that qualifies us to grant franchises instead of importing them	4	
13	Acquisition of technology	10	We have a strong infrastructure and facilities	9	
14	Services and product development	25	We have spent a long time developing our services	1	
15	Gaining quality	9	We have got the same quality of services that a franchisor could offer	1	
16	Acquisition of advanced methods in management and operation	2	-	-	
17	Increasing profits	18	We are making a high profit	20	Financial value
18	We are losing our business	5	-	-	Problems
19	Seasonality	2	-	-	

Source: Author

7.6 Summary

The aim of this chapter was to assess whether international franchising can be effective in promoting and developing tourism business in KSA. It was divided into four main sections, each of which presents the results relating to one of the research questions (Objective 3, Figure 7.1).

Section 7.2 presents the capability of international franchising to add value to businesses in general and tourism businesses in particular. This was examined through a combination of two types of business opinions: (1) The perceived values of franchising experienced by current franchisees which motivated them to remain with a franchise, and (2) the values of franchising perceived by tourism business owners/managers (as potential) which could motivate them to join an international franchise.

The Mann-Whitney test was used to investigate how the capability of these perceived advantages for remaining in or joining international franchising can be different between the two groups. The main results derived from this section can be summarised as follows. Firstly, there was a positive (high) agreement on all

listed values by the two groups. However, only the 'Capability of the franchise to access credit facilities' had neutral opinions by the franchisee group, due to the lack of a franchise fund for the majority of financial institutes. Secondly, despite agreeing upon these perceived values, significant differences were present between the two groups in some perceived values, with the exception of advertising, quality, competitive advantage, and profitability. Human capital, including experience and training, was more important to motivate potential tourism franchisees to join franchising, whereas organizational capital, including the continuous development of products and services, and some tangible values including reducing cost and the risk of failure, were more important to motivate current franchisees to remain with the franchise system. This indicates that franchising can solve the weaknesses of human capital when needed and at the beginning of the business' initiation for current franchisees. The perceived value of human capital received from franchisors becomes less important over the years as franchisees gain business experience. However, organizational capital (franchisors' infrastructure) and financial indicators become the most perceived values in the system. With regard to tourists, franchisees seem to believe more in the future of the attractiveness of franchising to international tourists.

Section 7.3 demonstrated the potential for international franchise success in developing different types of tourism activities. This was examined through the opinions of the two groups and the use of a Mann-Whitney test to demonstrate any differences. Franchisees can see the potential of tourism franchising through the lens of their current experience and practices in franchising in KSA, whereas the tourism group can see the potential through the lens of their current needs and practices in the tourism industry. Contrary to expectations, this study did not prove that international franchising is suitable for the majority of tourism businesses. Uncertainty appears in the neutral opinions of the two groups towards franchising in entertainment, resorts, training institutes and colleges, tourism guidance and tour organisers, and motorway services. This uncertainty may be due to the global unpopularity of franchising in these types of businesses. A mixed picture emerges between the opinions of the two groups towards franchising in hospitality and transportation. The tourism group was in favour of all

different types of hotels/apartments franchises while the franchise group was in favour only of the lower classified hotels (four–one star). With respect to franchising transportation, the franchise group was in favour of all types of transportation whereas the tourism group was only in favour of rental car services. Travel agents, cafes, and restaurants were the top three businesses for both groups.

Section 7.4 indicated that ineffectiveness of sources of information used to reach current and prospective franchisees. The current franchisees used most of the listed methods to search for franchise opportunities while prospective franchisees (tourism group) used online sources to know more about franchise opportunities.

Section 7.5 investigated the attitudes by both groups towards international franchising in tourism through conversion and start-ups. This section implicitly explored the absence of tourism franchising in KSA through franchisees' opinions of why they did not want to invest in franchising tourism, as well as why the tourism group favoured independent businesses over franchising. The most interesting result in this section was the attitude of the tourism group regarding converting their business into a franchise. Regardless of the percentage of their agreement, when an independent tourism business lacks IC, it is more likely to convert to franchising. As four converted businesses were discovered via question Q10 (section 7.5), the next chapter (8) will examine the proposition about the relation between IC and conversion through the actual experiences of these converted businesses.

Chapter 8: Conversion franchising (results from the case studies)

8.1 Introduction

As seen in Chapter 2, the process of conversion of independent businesses into franchises has not yet been comprehensively examined. This is despite the widely accepted notion that the transformation of an independent business into a franchise by one of the franchised chains constitutes a viable strategy for entering international markets (Preble and Hoffman, 2006), facilitating growth in competitive markets (Hoffman and Preble, 1991) whilst also representing a significant source of financial, and informational capital (Hoffman and Preble, 2003) that can be provided by franchisees to their franchisors. Therefore, this chapter provides valuable insights pertaining to the process of conversion of local independent businesses into franchisees, together with the consequences. Accordingly, this chapter presents the qualitative results (from a case study) with respect to the 4th objective of the thesis, which revolves around examining the impact of international franchising on developing local businesses which recently converted into franchising as franchisees. Through the discussion of these results, the following three research questions will be answered:

(Q11) What was the pre-conversion experience of tourism businesses/non-tourism businesses that have already been converted into franchisees?

(Q12) Why do independent businesses decide to become franchisees (decision-making)?

(Q13) How do independent businesses convert into franchisees (from searching process to conversion process)?

(Q14) What has been the after-conversion experience of tourism businesses/non-tourism businesses that have already converted into franchisees?

In order to obtain in-depth qualitative data, interviews were conducted with four independent local businesses that have converted recently into franchisees (e.g. See Appendix 21). Three of these businesses operate in tourism (two hotels and a rental car service) with the final business operating in the real estate sector. As discussed earlier, the parameters of the conducted case studies were informed by

the survey's results during phase 2 whilst the emerged propositions were also constructed upon the survey's findings, as shown in Chapters 4 and 7. Therefore, the research objective is to be achieved by testing these propositions by analysing the key aspects of the selected local businesses and their development through four stages: (1) pre-franchising (Question 11); (2) decision-making (Question 12); (3) conversion into franchising (Question 13) and (4) after-franchising (Question 14).

Furthermore, this chapter contains a comprehensive description and analysis of each case study's experience, supported by specific statements made during the interviews with the franchisees. Structurally, the results presented in this chapter are divided into six sections starting with the reformulation of the case study propositions (section 8.2), followed by an overview of the profiles of each case (section 8.3). In addition, the next four sections deal separately with each stage of the conversion: pre-franchising (section 8.4), decision-making (section 8.5), conversion into franchising (section 8.6) and after-franchising (section 8.7). This chapter will be used as a platform for discussing the study's findings in Chapter 9. The empirical results gained through this study provide a new understanding of franchising conversion and its impact on developing existing businesses. This is particularly relevant since, as has been noted earlier, there is a considerable absence of studies examining this very issue in depth. By comparing the local businesses before and after conversion, including various scenarios that the companies operated with between these two stages, this study adopts a new form of analysis that has not been done in franchising research before.

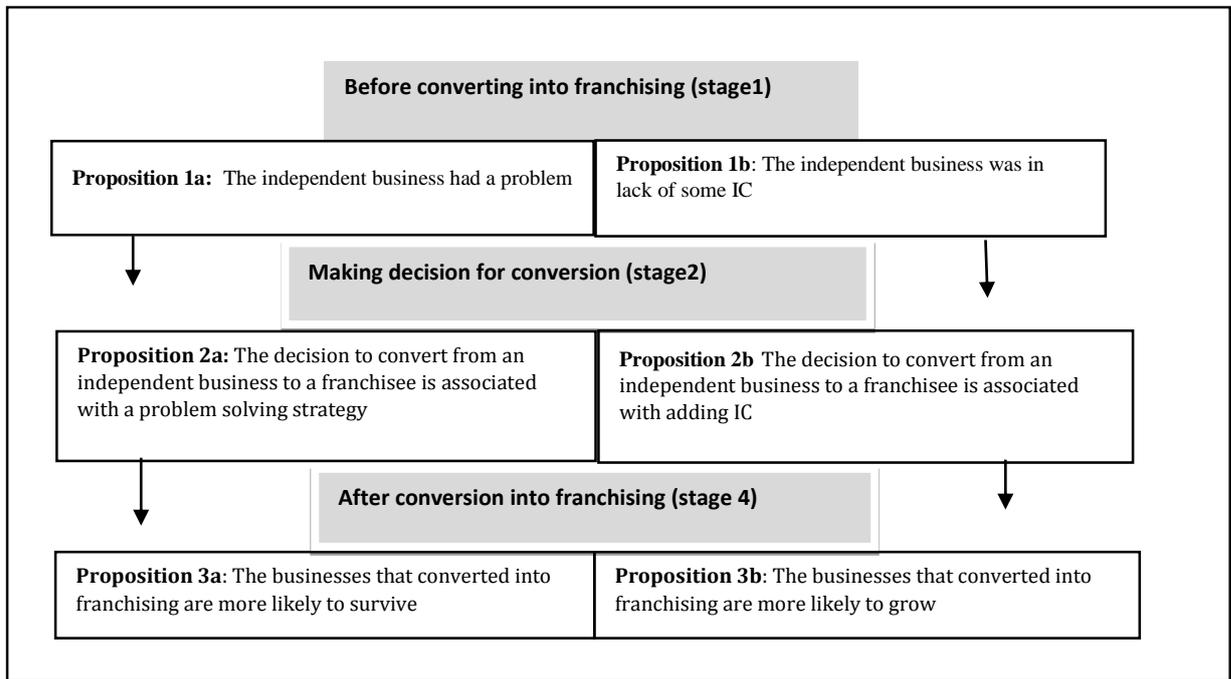
8.2 Reformulation of the propositions

The results of the previous chapter (see Table 7.4, Chapter 7) assisted in formulating the proposition that independent businesses are more likely to undergo the process of transformation into franchisees either because of a lack of IC or due to some problems. A pattern matching technique will be used to analyse the given case studies (Yin, 2003); meaning this proposition needs to be developed in more details in order to be examined properly.

First, this proposition should be divided into two sub-propositions. The first sub-proposition states that independent businesses are more likely to begin transformation into franchises when they have a specific problem, whereas the second sub-proposition focuses on the notion that independent businesses are more likely to join a franchised chain when they lack some form of IC. Having a problem represents a possible threat for the business. Moreover, many problems businesses face are related to the lack of ICs. In this case, when the business is considering joining a franchised chain, it is essentially seeking a means of survival or recovery. However, it does not always follow that the business that lacks some IC is associated with a situation threatening its existence. For example, although the current performance of the business can be at a satisfactory level without any apparent problems, its lack of any competitive advantage that would strengthen its position among its rivals in the long term can be problematic. Moreover, the business may possess some IC components but lack others. For example, the business may have access to efficient human capital, yet the organizational capital may be at an insufficient level. In the case of the second sub-proposition, it can be suggested that when businesses are considering joining a franchised chain, the goal is to secure their growth and sustainability over time.

Second, the proposition should be specifically tailored to match the existing research questions (a, b and d). Therefore, the above mentioned two propositions were transformed into statements according to the nature of each stage, as shown in Figure 8.1. For example, the businesses that encountered a problem in the pre-conversion stage (stage 1) based their decision to join a franchised chain on their intention to find a solution for this problem (stage 2). Subsequently, their transformation into franchisees led to their survival as business entities (stage 4).

Figure 8.1: The Statement of propositions



Source: Author

One of the main challenges facing the researcher when conducting research on franchising can be the difficulty of measuring and assessing the intellectual capital (IC) (Watson and Stanworth, 2006). To address this challenge, Watson and Stanworth (2006) pointed out that measuring the human capital of franchisees (e.g. entrepreneurial personal traits) can be easily performed by employing measurements utilized by Hing (1996). However, these measurements may not be suitable in the context of the present study, as the interviews are conducted with general managers in franchises where the owners are rather passive, as they have multiple businesses. Thus, the exploration of the human capital in the pertinent case studies will not be confined to the franchisees, but extended to the employees as a whole.

Similarly, the identification of ICs also represents a considerable challenge, albeit to a lesser degree than the issue of human capital. This is particularly because the process of identifying ICs can require noting the 63 items of the three ICs, plus performance, that were developed by Bontis (1998, p.75). More specifically, the selected businesses will not be asked directly about these items, but rather

the analysis of these businesses will reveal whether there is a match with these items to determine, when it is applicable, whether a given business can be said to demonstrate IC. In this regard, Watson and Stanworth (2006, p 347) argue that “although a number of measures of structural and relational capital are emerging (Bontis, 1998), their applicability within the franchise concept may be limited”. Because of the difficulties with measuring and evaluating the IC precisely, given the exploratory character of the research, the ICs will not be measured or evaluated directly. Instead, they will be identified through a comparison between the state of a given business at two stages (pre-conversion and post-conversion).

8.3 Case studies' profile

Table 8.1 briefly shows profiles of the four case studies where businesses converted to franchises. Three of these businesses are part of the tourism sector (hotels and rental cars), and the fourth is in the real estate sector. The length of time between the year of the business' establishment and the year they began converting into franchising varies between six months and eleven years. Furthermore, these businesses have been converted for between one and six years. Businesses have both single and master franchise agreements and they own between one and four outlets around the country. As regards the parent company (franchisors), all these franchisees belong to leading international brands in their sectors that were established between four and seven decades ago, and operate between 647 and 6000 owned or franchised units overseas. The wide spread of distinct characteristics between participants offers an opportunity to gain diverse and rich information from the cases. These cases will be coded according to their sectors' initials. H1 and H2 refer to the Hotels, R1 to Rent-A- Car, and R2 to Real Estate Agency.

Table 8.1: Case Study Profiles

Case Study	Industry sector	Established year	Period before conversion to franchise	Length of time with current franchisors	Type of franchise agreement	Number of outlets in KSA	Establishment year of the international franchisor	Owned /franchise units worldwide
Case H1	Hotels	1999	11 years (2010)	(3) years	Single Unit	1	1939	6000
Case H2	Hotels	2009	6 months (2009)	(4) years	Single Unit	1	1946	4000
Case R1	Rent- A- Car	2000	12 years (2012)	(1) years	Master Franchise	4	1965	647
Case R2	Real Estate Agent	2002	5 years (2007)	(6) years	Master Franchise	3	1971	7000

Source: Author

Case H1:

Case H1 is a three-star hotel established in 1999 as local sole proprietorship in Riyadh city, and is one of multiple businesses run by the owner. This hotel contains 29 rooms. Before its conversion into a franchise, the hotel degraded from three stars to two stars. After eleven years of operating the hotel as a local independent business, the owner of H1 decided to convert it into a franchise by joining a well-known international franchisor based in America. A single franchise contract was signed in 2010. The international franchisor was classified as one of the top five hospitality brands worldwide in 2013 (MKG Group, 2013). Since its establishment over 76 years ago, it has operated more than 6000 units of hotels and owned eight different hotel brands ranked between two and five stars over 30 countries.

Case H2:

H2 is a three-star hotel established in 2009 as a local sole proprietorship in Riyadh City and its owner runs multiple businesses. This hotel is composed of 86 unit rooms and suites. After six months of running the hotel, the owner of H2 decided to convert to a franchise by joining a leading American franchisor. A single unit franchise contract was signed in 2009. Similarly to H1, the international franchisor was classified as one of the top five brands in hospitality worldwide in 2013 (MKG Group, 2013) operating more than 4000 hotels over 100 countries

since its founding 69 years ago. The international franchisor took the first step toward global expansion after twenty years in North America, in 1964. Case H2 is the first franchisee for this international franchisor in KSA.

Case R1:

R1 is a local rental car company established in 2000, owned by a multiple businesses owner. It started with a small number of cars in Riyadh and then expanded gradually into major KSA cities like Jeddah, Dammam and Makkah, as well as having branches in the main airports. The owner of Case R1 did not plan to convert to a franchise; however, an American international franchisor made a convincing proposal. The offer was accepted by case R1 and the master franchise agreement was signed in 2012. This international franchisor was founded 50 years ago and it has more than 647 locations worldwide, in 61 countries.

Case R2:

Case R2 is a real estate agency founded in 2002 as a local sole proprietorship owned by a multiple businesses owner. It performs its activities in Riyadh city and it deals with real estate brokerage involving selling, buying and renting real estates. It has been granted a franchise from a well-known American franchisor and the master franchise contract signed in 2007 allowed it to be an exclusive franchisee for the international franchisor in KSA. The international franchisor was established 44 years ago and is one of the world's largest residential real estate sales organizations. It consists of more than 7000 owned/franchised units in 74 countries, with over 100,000 sales professionals.

The case studies' profiles shows that franchise conversation can be applied in different sectors, and has increasingly been utilized in the services sector such as automotive, business services, retail, restaurants and hospitality (Preble, Reichel & Hoffman, 2000; Hoffman & Preble ,2003). This is not limited to conversion, but extends to all forms of franchising. This is because of the rapid growth of the services sector (Preble & Hoffman, 1998). Although franchise conversion began in North America in 1930 and expanded globally in 1990 (Hoffman& Preble,1991;

Hoffman & Preble, 2003), the case studies indicate that the practice began as recently as 2007 in KSA.

The profiles show that the business experience of independent business prior to franchising varied between six months and twelve years. This finding may confirm that a primary concern of international franchisors is recruiting local entrepreneurs who have existing businesses in the same operational line, regardless of their particular experience. The experience is only considered with regard to which type of agreement they are recommended to enter into. For example, Case R1 had twelve years' experience and R2 had five years before conversion to a master franchise agreement. H2 had only six months' experience before franchising a single unit. Case H1 had eleven years' experience before its single unit contract, which may be due to the caution of the international franchisor; H1 did not have a stellar performance prior to conversion, as will be explained in the following section. This agrees partly with the suggestion of Preble and Hoffman (2006) that master franchises are used as a favourable structure for a market entry into countries with differing cultures and economies.

The pattern of international franchisors proliferating shows that they are still in the second stage of an outward flow that Welch (1989) described as a framework where expansion occurs in the countries that have greatest cultural distance only after expansion in countries with similar conditions. The characteristics of international franchisors in this study are consistent with what was previously described as a positive relation with the life cycle of businesses, their history in franchising, the firm's size and coverage area, as explained in Chapter 2 (Aydin and Kacker, 1990; Huszagh et al, 1992; Hoffman and Preble, 2003; Elango, 2007) compared to those who remain domestic. The large number of franchise units operated under these international franchisors may reflect that the saturation in North American markets has encouraged international franchisors to move to emerging markets such as the Middle East, which is consistent with previous studies (Walker and Etzel, 1973; Hackett, 1976; Quinn, 1998; Welsh et al., 2006). For example, 65% of hotels in the United States are franchises (Brown & Dev, 1997).

Another motivation could be the great potential seen in Saudi markets because of the recent growth and development of hospitality and real estate markets. For example, According to Saudi Gazette (2011), the Saudi government spend 30 percent of the annual GDP on public projects mainly to overcome the country's housing shortage, which will stimulate the real estate market. Moreover, the recent development of the tourism industry since the inception of the SCTA in 2000 has made the market attractive for tourism investment. Pine, Zhang & Qi (2000) believe that the fundamental infrastructure, enormous territory, extensive market travel and business culture contributed to the growth of franchised hotels in USA.

Case studies that are based in the capital city of Riyadh, which indicates that conversion is more likely to occur in large cities. This is supported by Hoffman and Preble (2003) and Connell (1997), who say that conversion is a tactic adopted by international franchisors to acquire a strategic location in a tight real estate market.

8.4 First stage: pre-conversion

This section describes the state of local businesses before conversion into franchises, which can provide understanding of why firms convert. There are two main functions of this stage. Firstly, two propositions will be examined; 1a: a local business which already had problems before its franchise conversion, and 1b, a local business which lacked IC before its conversion. Secondly, the description of the pre-franchise stage will be compared with post-franchise conditions. Participants were asked to describe the performance of business before conversion.

Case H1:

The general manager of H1 holds a postgraduate degree in management. He stated that although the hotel is located in a strategic location, it was faced with several other problems. This included administrative, operative, and strategic issues, such as a lack of management capability, unskilled staff, poor facilities

management, poor quality of service, an inefficient marketing strategy, and unsustainable long and short terms goals. This resulted in the following: a “bad reputation” because of the feedback of unsatisfied customers, a reclassification from three stars to two stars by SCTA, and the decline of both “profit and income” (see Exhibit 8.1). These barriers correspond with those mentioned earlier in the tourism interviews and survey results (Chapter 6). These are similar to the barriers, which restricted hotel development in previous studies (Pine et al., 2000; Pine and Qi, 2004).

Exhibit 8.1: Problems, Case (H1)

“The hotel was classified as a three star hotel, when I joined the Hotel as a manager. It started to lose its stars, the classification was reduced to two star.The building was deteriorating because it is old as well as deterioration of the services, as reported by the guests in their Feedback Reports.

“Funding the hotel was not operating properly so the profits and earnings were deteriorated, moreover the owner of the hotel is not spending to improve and develop the hotel”

“The old staffs that were not trained used to train their new colleagues, and I am one of them despite the fact that I am well educated, but I have no experience in hotel management”..

“The reputation of the hotel was bad because of the mouth word and feedback of the guest’s experience”

Before conversion, Case H1 stated that some alternative strategies had been implemented to tackle the problems that arose. For example, the owner tried to increase the number of guests through a contract with some travel agencies, as well as with some companies to send their guests to the hotel. These trials were unworkable due to the limited rooms and the undesirable conditions in the hotel. Although the advertising strategy had overcome problems associated with marketing services in different types of firms including hotels (Parasuraman, Zeithaml & Berry, 1985), it was not fruitful with H1. This may be due to the word of mouth of dissatisfied customers (Anderson, 1998) who also increasingly utilize social media and the internet in general to do so.

Since the hotel facilities were old and deteriorating, renovation was another strategy that could be implemented to boost the image of the hotel and enhance

operational efficiency. However, the owner insisted on not renovating the hotel because of the poor profit level and high cost of renovation. This corresponds with the findings of Hassanien and Losekoot (2002) that most general managers of hotels ranked “owners” and “lack of money” as the main barriers standing against hotels’ refurbishment.

The internal analysis of H1’s resources shows that these resources did not add value to the hotel. This includes physical aspects like the building, organizational capital (OC) like operational management, human capital (HC) like staff, and relational capital (RC), like reputation and financial resources. Although the hotel has a strategic location that can be a competitive advantage (Day and Wensley, 1988), this did not strengthen the hotel’s position, because of the shortcomings of the inefficient resources. The owner failed in solve the current problems, and the uncertainty of business sustainability can be seen clearly at this stage. As a pattern-matching technique was employed in the case study analysis (Yin, 2003), the results from franchisee H1 support proposition 1a, where the local business had problems before its conversion.

Case H2:

Case H2 is located in the middle of the city, where more than 10 hotels were built in the same area. The occupancy rate was between 40% and 42%. The manager has twenty years of experience with hotel management. Due to the short period between the establishment of H2 and its conversion not exceeding six months, the factors that could describe the hotel before conversion are unclear. This short period was not enough to trace the indicators of success, such as the break-even point, nor was it enough to discover the barriers that stood against the business growth. Moreover, this short period could not enable the business to develop the components of ICs. Since the hotel was new, however, it can be assumed that the hotel lacked some intellectual capitals (ICs). Therefore, the results from franchisee H2 support proposition 1b, where the local business lacked some ICs before its conversion.

Case R1:

Rent-A-Car (R1) was described as a leading provider of contract hire for both individuals and businesses; with more than 24 small workshop branches established in all regions throughout KSA. The head office has large fleet fully occupied by modern devices and equipment, including a central workshop for periodic maintenance of cars from all branches. The manager explained that the business has been working successfully since 2000 through cultivating traditional performance indicators such as high profit, high productivity, and increased sales, as well as non-traditional performance indicators such as quick services, quality, customer satisfaction, and an efficient operation network between the head office and branches. Essentially, the business flourishes thanks to organizational, relational, and human capital.

The functional features of R1 (See Exhibit 8.2) were similar to the competitive advantages described in the mobile franchise system by Hoffman and Preble (1998:68), including “focused strategy”, “fast cycle time”, “professional services”, “being close to the customers”, and “customers' responsiveness”. The niche of the R1 market was defined to offer multi and mobile support for cars on roads which required maintenance, to an extent not being addressed by mainstream companies in the KSA. R1 provides 3000 different categories of car brands and models, with wide range of prices to meet its customers' different needs. Its quick services were driven by well-trained technicians, and standardisation of tools, equipment and work procedures in all its workshops and branches. Due to being approachable for both current and new customers, including the branches in the main airports and all big cities, case R1 established a branch in the UEA near Dubai Airport. Although competition was high in the UEA market, R1 worked successfully because its niche market was defined to serve Saudis travelling between the two countries. Among 12 million Saudis who travelled abroad in 2012, 2 million travelled to UEA (Argaam News, 2012). Moreover, KSA was recently ranked third after India and the UK as the largest destination of trips from Dubai Airport, standing at 4.8 million travellers (Aleqtisadiah Newspaper, 2014). Thus, R1 paid attention to propagating the services, and maintaining customer loyalty. For example, they created a membership system to incentivize regular

customers. These strategic approaches achieved a rapid increase in profits that enhanced brand recognition.

The manager confirmed that there were no problems which threaten business performance because the team used to identify areas that need improvement, by taking customer feedback into consideration. This was in addition to the market survey used to investigate local market needs and their competitors' performance. It follows that R1 had strong foundation that can enhance its IC, and had no major problems to be overcome before conversion, contrary to expectations. The results from Case R1 supported neither proposition 1a that the local business had problems before its conversion nor 1b that the local business lacked IC before its conversion.

Exhibit 8.2: Performance, Case (R1)

Since the business was established, we have been working very well. We expanded our branches in different important locations. The main task of the branches is to facilitate the services, and give good access to each customer in his location. It will also help the company to be known to everybody and the cars will be distributed among these branches. Each branch has a small workshop for quick car services and we have a main workshop for periodic maintenance. The workshops are well equipped with tools and trained technicians to have the fleet of our cars ready at any moment to give good and quick service to everybody and satisfy the needs of customers.

Case R2:

Case R2 is a local limited company working in real estate in marketing lands, renting and selling houses against normal rates of charges or percentages. The owner of R2 used to manage buildings with a large number of apartments and compounds on behalf on their owners, on a commission basis. R2 has three branches in the large cities. The business was profitable due to the low cost of operation and reasonable income, based on the good relation maintained between the owner of R2 and the owners of real estates. However, they lacked developed ideas in the industry, such as some modern technology in running real estate and professional practises. Therefore, the results from Case R2 support proposition 1b, that the local business lacked some ICs before its conversion.

8.5 Second stage: conversion decision making

This section describes every step of the process of making the decision to convert. Each selected case provides an example of how the decision was made, beginning with the reasons behind conversion, the search process, evaluation and negotiation. This section examines deductively whether: (2a) the decision to convert is associated with problem solving, and whether (2b) the decision to convert is associated with gaining IC.

8.5.1 Reasons for converting into a franchise

This section investigates the reasons that motivated the decision-making towards conversion from the franchisees' perspective, which has not been previously investigated. These reasons are as follows:

(1) Maximizing the income and profit:

Only hotels mentioned "maximizing the profit"(H1) and "revenue" (H2) as the most important reason for converting. H1 stated that through franchising, it is not important to have high profits, but to have some good sustained profits. R1 and R2 did not refer to financial performance as a reason. It may be that R1 and R2 consider "profit and income" a consequence of conversion rather than a reason. Similarly, to the previous studies in Chapter 2, profitability was not cited frequently among prominent reasons to join a franchised chain (Peterson and Dant, 1990; Withane, 1991). Another possible explanation is that the current situation of hotels and the urgent need for survival (H1) and growth (H2) were reflected literally in the words "profit" and "revenue". For example, H1 highlighted "profit" because it was almost losing the business; the word "revenue" was highlighted by H2 because the recently established hotel needs to generate income in order to run the business, rather than look for profit during the early years. This is the standard procedure until the break-even point is reached, taking into consideration the low occupancy rate (42%) that was mentioned by case H2 in stage (1).

(2) Competition:

Strong competition was mentioned as a reason for converting by three cases, although in different ways; (1) relief from competition, (2) preparations for competition, (3) achieving a position among competitors. For example, H1 believed that new hotels, established recently in the same area, negatively affect the profitability of the older hotels through attracting their customers, as these new hotels reach higher marks in classification based on their services. This shows that the recently established hotels are more likely to achieve higher classification standards and better services than the old ones. This is mostly caused by the recent issuance of classifications requirements by SCTA and corresponds with the results in Chapter 6, which indicate that new hotels will be established according to these requirements whilst the old hotels will have difficulties modifying their already existing premises to meet these specifications. In contrast, H2, which was recently established according to new classification rules, believed that conversion is a precautionary step to protect the business from future competition. R2 stated that the current competition between real estate agencies is very high and therefore conversion was the fastest tactic to build and enhance their competitive position. However, R1 did not mention the competition, although there are many companies working in car rental in KSA, together with competition from private taxis.

(3) Widening the customer base through building International networks:

All cases believed that conversion was also a way to widen the target group of customers, either by (1) changing the current customers category, (2) exchanging customers, (3) targeting more new local customers, or (4) attracting foreign customers. H1 believed that conversion was chosen not only to attract both new local and international customers, but also to change the current category of the hotel's customers. For example, H1 indicated that based on the affordability of hotel prices, the customers were either locals (from other towns/villages), or students. Since the existing customers of H1 were unsatisfied, as was mentioned in stage (1),

franchising appears to be a tool to stop the business from spinning into customers' "Dissatisfaction Wheel of Pain", a term referring to the situation when a hotel maximizes costs through spending more money to attract new customers and, as a result, loses profit through losing customers, who often choose its competitors (Hunt, 2009). Therefore, conversion can be a way of creating a new image for the hotel and attracting new customers from different categories. H2 believed that conversion was chosen to attract more new local customers, particularly those locals who prefer the international brands, as the recent establishment of the hotel necessitates introducing the business to the local customers and building up customers' preferences.

Since R1 has already built an expanded network of satisfied local customers around KSA, it stated that attracting international customers who have experienced the international brand in their home countries was the motivating factor. These international customers are either expatriates working in KSA, or investors. R2 stated that exchanging customers between the local and global market becomes possible with conversion. For instance, R2 was working nationally for locals, but could not provide services for either those locals who wanted to do their business abroad, or those internationals who wanted to do business in KSA. This agrees with Hoffman and Preble (2003) who state that the existing customers are a major resource advantage provided by franchisees to their franchisors.

(4) Gaining Experience:

Only H2 highlighted that converting was one of the fastest paths for gaining international experience in operating and managing the business. Rather than looking for ordinary experience in managing, H2 sought international experience with high standards of managing the hotel efficiently from the beginning. Other cases did not mention gaining experience among their incentives for conversion. This may be due to their extensive experience before the conversion, compared to H2 that was less than six months old.

(5) IT acquisition:

Generally, the expansion and growth of advanced technology in real estate has accelerated worldwide, especially in franchised chains that can be connected through international markets. For this reason, R2 talked about IT acquisition, i.e. developing a means of selling and buying real estates, as one of the incentives to convert. Furthermore, H2 was aiming to access the international reservation system through conversion. This corroborates with Connell (1997) who found that becoming part of the international communication and technology (ICT) chain, particularly the global reservation system, was a driver that encouraged hotel owners to become franchisees.

(6) Raising standards:

H1 stated that the conversion was also supposed to raise the standards of the business, including staff performance, hotel management, services quality, facilities etc. Raising the standards of H1 appears to be a solution to tackle the problems that were mentioned in stage (1). This is similar to what Pine et al. (2000) found about the strong dependence on international hotel management in China, which helped to overcome the weaknesses of Chinese managers and staff in marketing, technology and financial management.

The above mentioned reasons indicate that the decision to convert was mostly to gain components of IC, including the RC (reasons 2, 3) and OC (reasons 4, 5, 6). Therefore, the conclusions based on (H2, R1, and R2) support the proposition (2b): the decision for converting is associated with adding IC. The findings from (H1) support the two propositions (1b, 2b) that the decision to convert is associated with solving a problem and adding an IC.

8.5.2 Opportunities selection and source of information

This section investigates the process of evaluating the opportunities provided by entering a franchised chain, as well as ensuring a good decision of franchise selection. All cases went through this systematic process. After discussing the reasons that had pushed the independent businesses to think positively towards

conversion, cases provided details about their search process, which started with observation/invitation, collection of information, followed by comparison between opportunities, negotiation and signing a franchise agreement.

Observation:

Cases (H2, R2) stated that the notion of conversion came from the observation of the increased number of international brands, particularly in the services that have accessed the local and neighbouring markets, such as the Gulf Cooperation Countries (GCC). For example, H2 had thought that franchising was limited to five stars hotels until observing some franchises of three stars hotels in UEA. Interestingly, the first expansion of the international franchisor of H2's brand in UEA was in 2008 and H2 signed the franchise agreement in 2009 in KSA. This indicates the quick imitation of business practices among the GCC markets. Similarly, R2's idea of conversion emerged after observing a successful agent working in real estate development in Kuwait that converted into a franchise. It appears that local businesses consider their counterparts' success in the GCC markets as a model that can be followed. Obviously, imitation of the GCC markets may help Saudi businesses to avoid mistakes and trials risks, since the GCC markets share the same circumstances in terms of customer attitudes, market conditions, opened boundaries, language, religion, culture etc. Therefore, to put it simply, what works in the GCC will work in KSA.

The manager of H1 stated that since the owner is a franchisee of multiple brands of retail stores (clothes), he thought about trying to find a franchise for the hotel as well. This shows the movement from franchising in products, such as clothes, to franchising in services, such as hospitality. Moreover, this reflects the characteristics of current franchisees in KSA - 92% of all franchisees own multi brands beside their existing businesses.

Invitation from international franchiser:

As illustrated earlier, R1 was the only case that had several competitive advantages and the notion of conversion did not come from the business itself. R1 stated that it came through an invitation from the international franchisor who

was seeking for a successful local business with fully-fledged infrastructure and good reputation in that particular operational line of business. This supports the findings of Hoffman and Preble (2003) who stated that franchisors recruit existing businesses because of their resources.

Sources of information:

Three different sources were used by cases to gather essential information about the franchising opportunities, including the franchisors' websites, information from existing franchisees, direct contacts and visits (See Exhibit 8.3). Cases mentioned that the collected information was based mainly on the franchise deal, as well as ongoing and initial fees. This agrees with Hodge et al. (2013) that the decision to convert depends on the franchise deal (in terms of comparison between benefits and costs, together with the strength of the international franchisor's brand) more than on any other factor.

Cases used random and purposive sampling of international brands in order to select between the potential franchisors. For example, H1 started randomly searching online through search engines and then customizing the search criteria by key words such as strong brand, three stars, lower initial and royalty fees etc. Once found, franchisors' websites were visited in order to obtain more details about the opportunity. Finally, direct contact was made with a selected franchisor to get further details besides those available online. H2 stated that direct contact was made with a purposive sample of five international franchisors found in the GCC markets. Similarly, R2 used a purposive selection of only one franchise observed in Kuwait, based on information and recommendations about the international franchisor. Although R1 received the initial offer from the international franchisor, he approached a random sample of well-known international brands working in car rental to see what they would offer compared to the proposal offered by the initiative franchisor. It seems R1 was not looking for franchising opportunities, but he was rather examining whether the proposal offered by a franchisor was ideal, and not opportunistic.

The results of the cases match the results in Chapter 7, in which online information was the prospective franchisees' most used tool to increase their awareness of franchising opportunities. Although all case studies used a strategic approach to select their franchisors underpinned by assessment (Doherty, 2009; Altinay et al., 2013), none of the cases referred to use of any sources of information suggested by Hall and Dixon (1989), such as franchise associations, brokers, legal advice and government resources. This is because these services are absent, as was discussed in Chapter 5.

Exhibit 8.3: Sources of information, Case (H1)

1. I read some things about them on the sites on the internet.
2. I started to visit the franchisors' websites that have the brand and evaluated their business.
3. Then I contacted them directly, we explained our present situation, then they visited our hotel and evaluated the position, and then provided us with an operation guide and all required guidance.

Comparison between opportunities:

After gathering details about the potential opportunities, cases H1, H2 and R1 stated that they made a comparison between these opportunities (See Exhibit 8.4). The criteria were based on the required fees, local business needs, offered proposal and future plans. However, R2 did not do any comparison, since he targeted only one franchisor.

Exhibit 8.4: Evaluation

Case (H2): We picked several franchisors while looking for a suitable one that satisfied our needs at reasonable franchise cost. We negotiated with them and we chose the best of them according to our needs and business performance.

Case (R1) We visited many companies and short listed them to five or six, we negotiated with them on business basis, that we had the market, good experience, big fleet, reasonable network of branches in the Kingdom, plans to expand regionally and we had one office in U.A.E., the interest and desire of the company to come to KSA. After long negotiations with these companies, we found that the current franchise is the best of them, and their proposal satisfied our demand and future plans.

Criteria requested by the international franchisers

Interestingly, all cases stated that there were no particular criteria requested by their franchisors apart from having an existing business in the same operational

line, and financial capability. This shows that the criteria of recruiting franchisees through conversion are simpler than criteria for non-conversion franchisees. The reasons for this is, as was discussed earlier in Chapter 2, that the resources possessed by converted franchisees are greater than those who did not own the same business before; these resources include physical, relational, financial, human, and informational capitals.

R2 stated that franchisors have difficulties with recruiting qualified franchisees; therefore, they are currently seeking for potential franchisees with well-established businesses. This agrees with Hodge et al. (2010) who suggested that conversion could be used to overcome the shortcomings associated with poor recruitment and a lack of expertise of potential franchisees. Another reason for loose criteria is that the franchisors do not seem worried about the possibility that the local business cannot be re-established and standardized according to their rules and instructions. For example, H1 stated that the franchisor did not ask anything, and simply stated his requirements regarding the renovation, along with his specifications.

Franchise Agreement Negotiation:

Cases H2, R1 and R2 mentioned that no negotiations were made with franchisors regarding the franchise agreement, even where the agreement imposed certain restrictions. For example, H1 believed that although the franchisor was being restrictive by setting terms and conditions, the agreement was straightforward and it should have been acceptable to franchisees even though it was not flexible. One explanation for this result is that the contract was less likely to be negotiable with the well-known international franchisors who have mature and large franchised chains. Since these franchisors have hundreds of franchise units overseas, they have already set up a fixed standardized agreement with basic rules and clauses (Pengilley, 1985) to minimise the administrative complexities and agency costs, and at the same time to build trust and confidence. This is mainly because if a franchisee discovered that another franchisee in the same chain made a more favourable agreement, he might be disappointed (Hall and Dixon, 1989; Elango, 2007). However, H1 stated that he successfully negotiated

a reduction of the franchise initial fees and the ongoing percentages, after getting legal advice from a lawyer. Seemingly, owners who have experienced a franchise before (such as H1) are more likely to negotiate the contract and seek a legal advisor (attorney) than those who had no such experience. This conclusion is similar to what Hoffman and Preble (2003) found - the franchisors made some special deals to attract the independent local businesses for conversion, such as reduction of initial and royalty fees. However, this might differ from Elango's (2007) findings that franchisors charged similar fees on both the international and the domestic markets.

8.6 Third stage: Conversion into franchising

As mentioned in Chapter 2, the nature of the package provided by the franchisor was not widely explored by past studies, nor how this package has been employed. Therefore, this section describes the process of converting from a local system to an international one, mostly based on franchise packages. This includes how the conversion was financed, how the standardisation was enforced, how franchisors supported their franchisees, and how the business identity was changed.

8.6.1 Sources of finance

Despite the fact that all cases had ready resources including physical buildings, staff, and operation systems, the cases revealed that they spent a significant amount of money to complete the conversion, even besides franchise fees. Presumably, the financial capability of converters is not the same as novice franchisees without an existing business. Converters are ideally supposed to have financial creditability and a relationship with local banks, which is an additional advantage to international franchisors in taking a favourable view of conversions. In this context, Cases H2, R1, and R2 claimed that they were financially capable of covering all expenses included in the conversion process because they had other properties, which were capable of paying for themselves, without approaching banks for financing. This result mirrors the characteristics of franchisees in KSA and reflects the preferences of international franchisors for recruiting capable franchisees.

H1 stated that its owner received a loan from the bank to complete renovation of the hotel. The owner of H1 has multiple other businesses with enough liquidity, but his idea was that “each business is independent and should support itself by itself without borrowing from a sister concern.” The total assets of H1 were evaluated at SR 6 million, which was used as a guarantee by the bank. It appears that the owner of H1 approached the banks to finance his current and past franchises, since financial institutions over the world prefer funding proven business such as franchises. Another important point is that before converting, the owner of H1 did not want to spend money on renovation of the hotel’s building, but after conversion, he received bank funds to develop the property. This result shows that franchisees believe that the risk of investment and uncertainty of the business future is typically lessened by a property's adoption into a franchise system, as compared to an independent business. This is in agreement with survey results, which state that out of 47% of the hotels renovated in 2013, 45% invested below the average figures because of business uncertainty and financial constraints (MKG Group, 2014).

8.6.2 Standardisation

The main feature of success in the franchise system is standardisation, which is only accomplished by providing the same standards of services, products, and procedures across global networks. All cases indicated that their franchisors imposed some measures of standardized instructions. However, the method by which these specifications were applied varied considerably between cases, based on the type of business and its condition. Several physical amendments were made in the hotels compared to car rental and real estate. Table 8.2 shows the core standards that were imposed in both hotels in order to fulfil the franchisors’ specifications. The standards implemented in H1 were more intensive than the ones in H2. For instance, renovation of the premise and changing the layout of the rooms from singles to doubles were the most difficult standards applied in H1. Evans, Campbell and Stonehouse (2003) state that adding capacity to physical resources is one of the significant difficulties that hotel managers face, even though H1 was able to change the layout of 29 single rooms

to doubles. Despite the majority of the standards being compulsory in the agreement, the franchisors adjust the benefits of standardisation against the benefits of adaptation to local demand (Kaufmann and Eroglu ,1999) and permit their franchisees to customize some services according to local customers' preferences (Alon and Alami, 2010). For example, H1 stated that the franchisor is allowed to choose between offering continental breakfast or English breakfast. This mirrors Kaufmann and Eroglu (1999) who note that standardisation elements can be core or peripheral elements, from one franchise to another.

R1 and R2 highlighted that they did not change their work procedures or their premises, but their franchisors called for the instatement of their best practices and management programmes, which were imparted through training. R2 added that the franchisor asked the owner to use the company logo in a specific fashion, including the colours and shape variations. The impetus is that the logo reflects the identity of the main company.

Table 8.2: The main standards and specifications applied for conversion in hotels

The Standards	Hotel (H1)	Hotel (H2)
Building renovation	<input checked="" type="checkbox"/>	
Change the layout of rooms	<input checked="" type="checkbox"/>	
Rooms configuration	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Rooms furniture	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Bathroom shower	<input checked="" type="checkbox"/>	
Length and width of beds	<input checked="" type="checkbox"/>	
Type of mattress	<input checked="" type="checkbox"/>	
Equipment in the rooms (fridge, high-definition TV, digital clock, iron and ironing board)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Adding services, free high-speed internet , telephone	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Restaurant, hall	<input checked="" type="checkbox"/>	
Kitchen	<input checked="" type="checkbox"/>	
Kitchenware	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Menu /type of breakfast	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Front desk operation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Administration, accounting, reservation, hotel operation programs	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Brand buy back, pens, writing pads, headed paper, front desk, stationery, Brand's name banner , brochures and letterhead and receipt books	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Full package of branding's menu such as work directories, guide book	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Outsourcing house-keeping	<input checked="" type="checkbox"/>	
Outsourcing suppliers	<input checked="" type="checkbox"/>	
Partnership with brands such as Starbucks		<input checked="" type="checkbox"/>

Source: Author

8.6.3 Training and technical Support

One key element in the process of franchise standardisation is training. Although all cases have essential skills and experience in operating and managing the business, they stated that they were trained on all business aspects before launching the franchising, as they were new to the particular business. Cases stated that the main function of given training was to make sure that those franchise units would operate by franchise standards. Training courses were conducted both at headquarters and onsite.

The managers of H1 and H2 stated that they were trained as general managers at their franchisors' head office – for a period of one month in case H1, and six months in case H2 – and they were trained to become instructors and trainers to their staff. International franchisors consider the businesses' previous experience when conducting training. For example, H2 was a recently established hotel, so the manager was not trained for the same period H1's manager, who had many years of experience. Training the franchisees to operate the business was not the only aspect that concerned the franchisors, but also training about understanding the concept of franchising. For example, R1's owner indicated that the franchisor requested him to attend annual training in the regional office in Turkey, which was conducted for all franchisees worldwide. He mentioned that in these meetings, franchisees exchanged their experiences and addressed the problems that faced them according to their country's circumstances.

Regarding onsite training, all cases indicated that onsite training sessions took place at their local locations for short periods. These sessions targeted all the staff to help them set a daily routine for operations and for applying operational, quality and marketing manuals. Cases R1 and R2 indicated that onsite training primarily focused on technical support and trained all the staff to operate new electronic systems and programs. Onsite training was specifically tailored to fulfil individual needs. H2 indicated that specific training programmes were divided into three aspects: reception, reservation and room services. H1 stated that the onsite training also focused on staff presentation, especially how to behave with customers.

Franchise's name:

Since the franchise concept relies on the franchisee's right to use the trademarked name, all cases still use both local and international names on their sign board. Cases mentioned that they are prohibited by commercial regulations in KSA from using only the foreign name of the franchisor in commercial registration or official documents, although the international brand is registered as a trademark with the Ministry of Commerce. Cases used two names not only on sign boards but also on their internal stationery and their visiting cards. R2 mentioned that it is not a problem because the Arabic name is used only for official correspondences but the international name will appear in all commercial contracts. For example, marketing via advertising signboard helps them to propagate the business and expand both vertically and horizontally. It appears that the franchisors were flexible in accepting and adapting to the local market regulations, despite the sensitive issue pertaining to protection of the trademark.

8.7 Fourth stage: Post Conversion

This section deductively explores the performance of cases after conversion, which can provide insight into how franchising changes business practices. Two propositions will be examined through comparison of the pre-conversion with the post-conversion stage. Proposition 3a states that the businesses converted into franchises are more likely to survive, and 3b states that the businesses converted into franchises are more likely to experience growth.

8.7.1 The Impact of conversion franchising on hotels H1, H2

Previous stages describe H1 and H2 as having been in different situations before conversion. In the pre-conversion stage, H1 had several problems that led to the failure of the business, while H2 was a new hotel and lacked IC. In the decision-making stage, H1 confirms that conversion was chosen to solve these problems, whereas H2 gained IC. Therefore, this stage explores whether or not H1 solved the problem and survived after conversion, and if gaining IC caused it to grow. The following description includes hotel classification, revenue indicators, and other performance factors.

Rating:

After conversion, since the international franchisor of H1 was classified as a 3-star business, H1 was expected to update its standards to achieve 3 stars. H1 adhered to this, and was upgraded from two stars to three stars. H1's owner believes that the rating is not directly related to the franchise, but instead to how well they met SCTA specification requirements. It seems that some standards requested by the international franchisor were similar to the ones used in classification, including building refurbishment, the length and width of the beds, the type of mattress, the design of the bathroom shower, configuration, adding new facilities and services like telephones, television, the Internet, and so forth (see Exhibit 8.5). This indicates that the franchising process overcame some problems associated with H1's degradation before conversion, along with increasing the hotel's value.

Exhibit 8.5: Rating, Case (H1)

To raise the standardisation is very difficult for many reasons, for example: when our hotel was degraded from three stars to two stars, for example: We renovated the hotel and we spent on that a lot of money to raise the grading once again to three stars, but this has nothing to do with franchising. In other words if you made the required renovation, and fulfilled the terms of star rating specification you will get the stars, for example: If you have three stars hotel like us and you entered a franchise system and you spent on that millions of Riyals you are not going to be upgraded to four or five stars, because the hotel composed of (29) Rooms. Certain specifications should be fulfilled to get the stars raised such as swimming pool or to change the building and add all required facilities and services as per standards terms the stars rating can be changed.

The rating of H2 remains at 3 stars after conversion. It is believed that the implementation of standardisation in the conversion stage of H2 (section 8.6.2) gave more weight to the hotel classification, even if it was still in the same range, since these features of standardisation underpinned the quality of the services provided by the hotel. This eventually enhances the hotel, creating competitive advantages.

Revenue indicators:

According to Mandelbaum (1997), the majority of hotels measure their sales performance via the number of total sold rooms and total revenue. Therefore, the most effective way to measure performance of the case studies H1 and H2 is to use revenue indicators like occupancy rate, charged price, and average daily rate (ADR). Table 8.3 shows these indicators before and after conversion. All these indicators increased after conversion because of joining chains, which were named in the top five hotel brands worldwide. This agrees with O’Neill and Mattila’s (2004) findings that there is a positive correlation between brand size and high occupancy rates. Moreover, the ongoing support and guidance from international franchisors has a positive influence on these indicators. Brown and Dev (1997) found that franchisees of hotels with a strong connection to their franchisors are likely to have higher ADR, occupancy rate and revenue, as well as higher quality assurance and customers satisfaction compared to other hotels.

Table 8.3: Comparison of Hotel Performance indicators before and after conversion

	Case (H1)		%	Case (H2)		%
	Before Conversion	After Conversion		Before conversion	After conversion	
Rooms (Number)	29 (singles/double)	29 (doubles/triple, queen)	0	88 (33 doubl,55 suit)	88 (33 Doubl,55 suits)	0
Price	SR 300 /360	SR 350/ 550	-	SR 225 double/ SR 400 suit	SR 355 double/550 suit	-
Average Daily Rate (ADR)	SR330	SR 450	36	SR 313	SR 450	44
Occupancy Rate	65%	75%	15	41%	80%	95
Average Daily Revenue	SR 6220	SR 9788	57	SR 11,293	SR 31,820	176

Source: Author

The number of rooms is one of the major independent variable that affects the total revenue. Table 8.3 shows that the number of rooms in both H1 and H2 was still the same after conversion, 29 and 88 rooms respectively. However, all the single rooms in H1 were changed to double and triple bedrooms. This means that the capacities of the rooms were increased, which resulted in an increased number of guests and a better occupancy rate. H1 indicated that before conversion, the average number of customers at any given time was 40 people, and now the average is 70 people.

Accordingly, after conversion the average prices charged per room were increased by 36 percent and 44 percent in H1 and H2 respectively, which reflects the increase of their ADR. The occupancy rate increased in both H1 and H2 by 15 percent and 95 percent respectively. Despite the small increase in occupancy rate in H1, the current revenue increased by 57 percent. This is due to the fact that before conversion, H1 used to be occupied but with low revenue because of the cheap price, but after conversion, the occupancy rate increased by 15 percent, yet the revenue went up because of the higher price.

The interpretation of the improvement of revenue indicators:

The improvement of the financial performance resulted from a number of different factors, including the attraction of new customers, customer satisfaction, tangible resources, quality assurance, human resources, responsiveness (ICT), advertising, and franchising network. This is similar to criteria identified by Parasuraman, Zeithaml and Berry (1994), which says every organization must gain the above to meet and surpass its customers' expectations.

Customer category:

One of the results of conversion into franchising is the attraction of new categories of customers, either alongside existing customers or without them. For example, before franchising, H1 customers were primarily students and locals from the countryside, but after franchising, H1 indicated that 40 percent of the guests were businesspeople attracted by a brand name they already knew and trusted. Similarly, H2 indicated that before franchising all the customers used to

be local but after franchising, many of the customers were either international individuals or international and local corporate visitors.

Apparently, there are two main causes for this change. The first is that branding caused price increases, as previously shown in Table 8.3, which consequently changed the guests' status in both hotels. Since the new customers typically know and appreciate international brands, they are amenable to paying more for their preferred brands (Aakar, 1996). Secondly, the international franchisors have global agreements with international and local companies. Looking back to the second decision-making stage (section 8.5) when both hotels mentioned that changing customers in category H1 and attracting more local customers in H2 were reasons behind conversion, this stage confirms that conversion into franchising has achieved more than what they aimed for in terms of attracting customers.

Customer satisfaction:

This stage provides evidence for the relatively good correlation between franchising performance and customer satisfaction. Based on their observations, H1 and H2 believe that the level of customers satisfaction after conversion rises. This corresponds with O'Neill et al. (2006) who found that franchising hotels with higher customer satisfaction have higher occupancy rates and ADR.

Tangible

As previously explained at the conversion stage (section 8.6), several improvements were made in both hotels. This includes physical attributes such as renovation, equipment, and facilities. The observed increase in revenue indicators could be partially attributed to these improvements, such as increasing the capacity of a room by changing the layout. Moreover, providing the rooms with good quality mattresses or equipment such as plasma televisions and Internet services added value to the quality image of the hotels, which enhances guest satisfaction. Overall, these changes added value to the building itself. As H1 stated, before franchising the building was valued at SR 6 Million and after

applying the franchisor's standards, the building was re-evaluated at SR 36 million.

Quality assurance:

H1 and H2 believe the improvement in revenue indicators can be attributed mainly to service quality, which is the core measure for customer satisfaction. Both hotels believed that raising the standards of the provided services, along with using franchise operational manuals, has increased the level of quality. Both hotels highlighted that controlling and mentoring system applied by franchisors is the main reason they maintained the quality, through using a "quality control manual as a guide to maintain the level of the quality, and regular inspection by franchisors." Both hotels stated that they are regularly subject to "Quality Assurance Inspection" every three to six months, which aims to ensure that hotels are working in accordance with franchisor specifications, as stipulated in the manuals. Manuals in hotels are no different to those mentioned by the restaurant sector (see Chapter 2) which means that the components of franchise packages are the same across various sectors (Khan, 2015).

Human resources:

Hotels believe that the improvement of quality and financial performance is also attributable to the improvement in human resources, including training and outsourcing services. Hotels stated that before conversion, the majority of staff members were not trained and had no experience in hotel management, whereby the more senior employees used to train their new colleagues. The manager of H1 is well educated, having earned a postgraduate degree, yet he admitted that he achieved the most effective management experience after conversion into franchising through training. He also mentioned that before franchising, the staff did not know even the basics of hospitality; however, after franchising all staff members had been trained in their practices and behaviour. H2 stated that franchising increased experience among all staff members, such as how to manage and operate the business efficiently, which reduced the cost and increased the profit. Hotels believed that the efficiency of production has improved because of the effective management experience that the staff gained

through training. Another important factor that maintains quality is the use of outsourced services after conversion, such as housekeepers, cleaning, suppliers and beverages. With regard to the number of the employees, H1 mentioned that number of full-time employees was reduced after franchise conversion.

Information and communications technology (ICT):

Before conversion, both hotels lacked ICT either for reserving rooms or for marketing. The reservation concept itself was invalid, because guests used to make their reservations at the same time as they stopped by the hotel. Often, some reservations were placed through telephoning the hotel. After conversion, both hotel cases began to use ICT to promote the business as follows:

Computer Reservations System (CRS) and Global Distribution System (GDS)

Because of the new elements in the booking system that facilitate change, hotels indicated that the number of bookings increased rapidly with regard to both international and local guests. These findings corroborate the ideas of Mihalic and Buhalis (2013), who found that using ICT generally has a positive influence on productivity, hotels' image, profitability, the attentiveness to customers, and reliability of the services, which results in increasing the market share and enhancing brand recognition. Mandelbaum (1997) also stated that affiliated hotels get more benefits from the CRS than sales offices, as 75% of hotel chains are connected to GDS. H1 stated that the major advantage of franchising is having GDS, comprised of links services, rates, and bookings across all tourism sectors. These categories include airline reservations, hotel reservations, car rentals, and activities. The franchisor has agreements with some associations, which incorporate the hotel into their list and make them more well-known to thousands of travel and tourism agencies. Alon and Alami (2010) similarly illustrate that 50 million customers annually book rooms in a franchise chain in Italy, Ireland, and Australia through the global reservation system. In 2000, 6.6 million rooms were sold per night and 4 billion dollars were generated from sales.

Advertising and worldwide marketing:

Both hotels stated that conversion has widened their marketing outlook. Moreover, the hotels have been listed in many tourism sites such as GTA, booking, and AGODA. Therefore, the franchise name is among one of the most internationally famous hotels.

Network and Partnership:

Both hotels stated that networks and partnerships have been built and strengthened thanks to conversion. International and local companies alike that have contracts with the international franchisor signed contracts with the converted hotels. H2's owner indicated that he signed a cooperative agreement with Starbucks coffee to supply beverages. H1 also indicated that conversion into a franchise provides the business with free advertising in a more efficient and professional way through membership of international associations. H1 states that the hotel was previously not a member of any association, but it became a member of two international associations post-conversion, which helped to promote the business. For example, one of the associations is based on the collection and propagation of customer points. These frequent customers often came to the hotel and collected points, which entitled them to some offers like earning a free room or various other perks.

According to the above descriptions of H1 and H2 after conversion (see Exhibit 8.6), these two hotels have gained several ICs which enhance their sustainability and growth. Therefore, H1 matches propositions 3a and 3b: The businesses that were converted into franchisees are more likely to survive. The results from H2 also support proposition 3b: The businesses converted into franchises are more likely to grow.

Exhibit 8.6: Franchising impact, Case H2:

I strongly believe that franchising is the best way to improve the business and develop the skills of staff, import the experience which we are lacking, and reduce our expenditures, as if you wanted to build up your own brand it would cost you time and money to reach the International Standards. Therefore, franchising saves time and money although the franchisor tends to request considerable amounts of money as royalty fees, but this will be compensated in three ways: through expansion of business by spreading one's name to all important websites, informing the customers of the brand and providing free advertisement in both the mass media and in the form of verbal advertisement through positive comments in the customer feedback which will appear every now and then on the international franchise sites.

8.7.2 The impact of conversion to franchising on Car Rental

At the first stage of pre-conversion (section 8.4), R1 was described as a successful business which possessed several ICs. At the second decision-making stage (section 8.5), R1's manager mentioned that the company did not seek out franchising until they received an invitation from an international franchisor. All these positive circumstances raised the question of how franchise conversion would add value to R1. After conversion, R1 stated that the performance indicators had increased positively; such as the averages for operation (70%-80%) and revenue per day, and the number of cars owned in the fleet had increased to the number it retains today, along with more diverse brands and a wider range of prices. R1 stated that the price of services went up not only because of franchising but also because of the market and growing competition from local companies entering the market.

Interestingly, when the manager of R1 described the impact of franchising on the business after conversion, he frequently used the phrase “upgrading process”. He mentioned that all essential organizational functions of operations management and strategies were more fully developed, as well as human resources and marketing.

In terms of operations management, the operations themselves were restructured in a way where local and international programmes could be used integrally for the benefit of the work, and to meet both international standards and local rules and regulations of a rental car business. Electronic systems were adopted to organize work as well as to follow up with customers. In terms of human resources, training was given to all staff regarding the operation of electronic systems and dealing with customers. Moreover, the franchisor restructured the higher executive jobs in terms of their responsibilities and roles, in order to manage more than two thousand staff members across all branches.

Regarding relational capital, R1 highlights that all types of advertising instruments are utilized, such as brochures, roadside boards, banners at airports, newspapers, SMS messages, and promotional materials in travel magazines. This also includes special creations like membership cards for customers, or sending congratulations to their mobiles during religious occasions. R1 indicated that these results not only increased the number of local customers but also international customers, because the franchisor's network extends to about 61 countries

R1 stated that positive performance within the franchise has prompted the company to expand horizontally by opening more branches, and vertically by buying more cars. After conversion, the company signed agreements with hotels and both foreign and local companies, hoping to give them better service and competitive prices. Since the franchise is an American brand, the franchisor encouraged R1 to open three more outlets in Khubar, Dammam, and Jubail, because of the many Western expatriates (especially Americans) who are working for petrol companies.

According to the above description, conversion has added more ICs to R1. Therefore, the results from R1 support proposition 3b: The businesses converted into franchises are more likely to grow.

8.7.3 The impact of conversion franchising on real estate agency

As mentioned in the pre-franchising stage (section 8.4), R2 largely performed well, but there were threats predicted that could affect performance in the long term. These predicted threats were based on the company lacking some ICs, which prevent the business from competing with newcomers in the rapidly growing real estate market. This stage investigates whether or not conversion determines whether R2 has gained ICs and grown.

After being converted into a franchise, R2's management believed that the power of the franchisor had improved the business performance, including such factors as higher revenue, higher sales, and business volume. R2 attributed this improvement to their adoption of IT, as well as training and marketing provided by the franchisor, which resulted in widening the customer base and increasing the overall quality of the business. R2 also indicated that the prime reason for sales increasing was the acquisition of an international network and the expansion of the business at both local and international levels, which enabled the business to exchange information and business benefits with others. For example, the franchise office in Italy transferred their customers who were particularly interested in investing in KSA over to R2. Moreover, Saudi customers who used to deal with international franchisors in America or UK now began sending their business to R2 in KSA. Therefore, the franchise system created a difference in the volume of business; before conversion the company was doing business at a small scale with limited activities, and after franchising the volume of work increased year after year. This has given R2 the opportunity to increase its number of customers across countries.

Additionally, R2 believed that the training and technical support provided by the international franchisor were essential factors to enhance the quality of the business. For example, the international franchisor assisted the staff not only to boost their skills but also to be qualified as real estate experts. Furthermore, advanced technology and programmes which were provided by the franchisor increased the efficiency of managing the business through guiding them through the rapid changes and modern techniques in the real estate industry. Because of this, R2's management was awarded an ISO 9001 Certificate for good administration.

R2 indicated that the higher revenue was also because they doubled the charges for services provided to their customers. The manager mentioned that despite this increase in charges, the flow of customers was not affected because they trusted

the brand. The above description is consistent with those of Benjamin, Chinloy, Jud & Winkler (2006), Jud, Rogers & Crellin (1994), and Frew & Jud (1986), who found that franchisees of real estate brokerage have higher revenue than non-franchise firms, because of the associated benefits of franchising, such as brand recognition, support in marketing, and training, which reduces uncertainty for customers. Therefore, the results from R2 support proposition 3b: The businesses converted into franchises are more likely to grow.

8.8 Summary

The aim of this chapter was to present the results of the qualitative research with regard to the fourth objective of thesis: “To examine the impact of international franchising on developing local business which have recently converted into franchisees”. This investigation was done through testing the propositions, which were constructed from survey findings. These propositions were examined by providing a deep understanding of the decision to convert into a franchise, tracing the local business through four stages: pre-franchising, decision-making, conversion, and post-franchising.

Results from case studies indicate that conversion into franchising is not only for independent local businesses which lack IC and have problems because of this, but also for successful local independent business which can be readily recruited by international franchisors to expand their business in local markets. Different types of business and their different situations provide a comprehensive picture of motivation that can support conversion. The adoption of conversion and selecting particular brands in the Saudi market can be attributed to the observation of these brands in the GCC market. Results show that conversions are mainly based on the implementation of two elements: standardisation and training. These standardisations varied between cases, even within the same type of business, taking into consideration the condition of the business before conversion. Different types of converted businesses show the positive impact of franchising on the development of the business, which extends to other fields. It is reasonable to conclude that tourism businesses and non-tourism businesses are

equally likely to grow and survive when converted into franchises. Table 8.4 below summarizes the case study results according to the propositions that were tested throughout the franchise conversion stages.

Table 8.4: Summary of case study findings

Propositions	Main findings
<p>Pre Conversion (stage1) :</p> <p>Proposition 1a: : The independent business had a problem</p> <p>Proposition 1b: The independent business was lacking some ICs</p>	<p>Cases H1, H2, R2 supported both propositions except Case (R1).</p> <p>The results reveal that conversion can be adopted by: (1) independent businesses that have complicated problems (businesses in danger of failure), (2) recently established businesses that have not created ICs, (3) independent businesses that have already built a few ICs (4), very successful businesses that have several ICs and have no business problems.</p>
<p>Decision Making for conversion (stage2)</p> <p>Proposition 2a: The decision to convert is associated with solving a problem</p> <p>Proposition 2b The decision to convert is associated with adding IC</p>	<p>All cases supported both propositions</p> <p>Some reasons for converting were improving the OC, such as raising the standards and acquisition of advanced technology. Some reasons for improving HC include gaining experience. Other reasons were for improving RC, such as attracting both global and local customers, and building global networks. When it comes to conversion, independent businesses are eager to get the maximum benefits of these processes, exceeding their current needs before conversion. Making the decision to convert means not only choosing it as a recovery strategy to solve problems, but also to build IC.</p>
<p>Post conversion: (stage 4)</p> <p>Proposition 3a: : The converted businesses are more likely to survive</p> <p>Proposition 3b: The converted businesses are more likely to grow</p>	<p>All cases supported both propositions</p> <p>Conversion has positive impacts on business performance, growth, and survival. Results indicate that the cases which had several problems before conversion not only survived after conversion but have also grown and gained some ICs. Hotels experience a significant growth in their performance after conversion through the increase in their revenue indicators, including ADR, occupancy rate, and revenue.</p> <p>The rental car case show that franchising has had a positive impact on performance indicators such as operation and revenue average.</p> <p>The real estate agent case has shown that franchising has improved its business practices and financial performance.</p>

Source: Author

Chapter 9: Discussion of the findings

9.1 Introduction

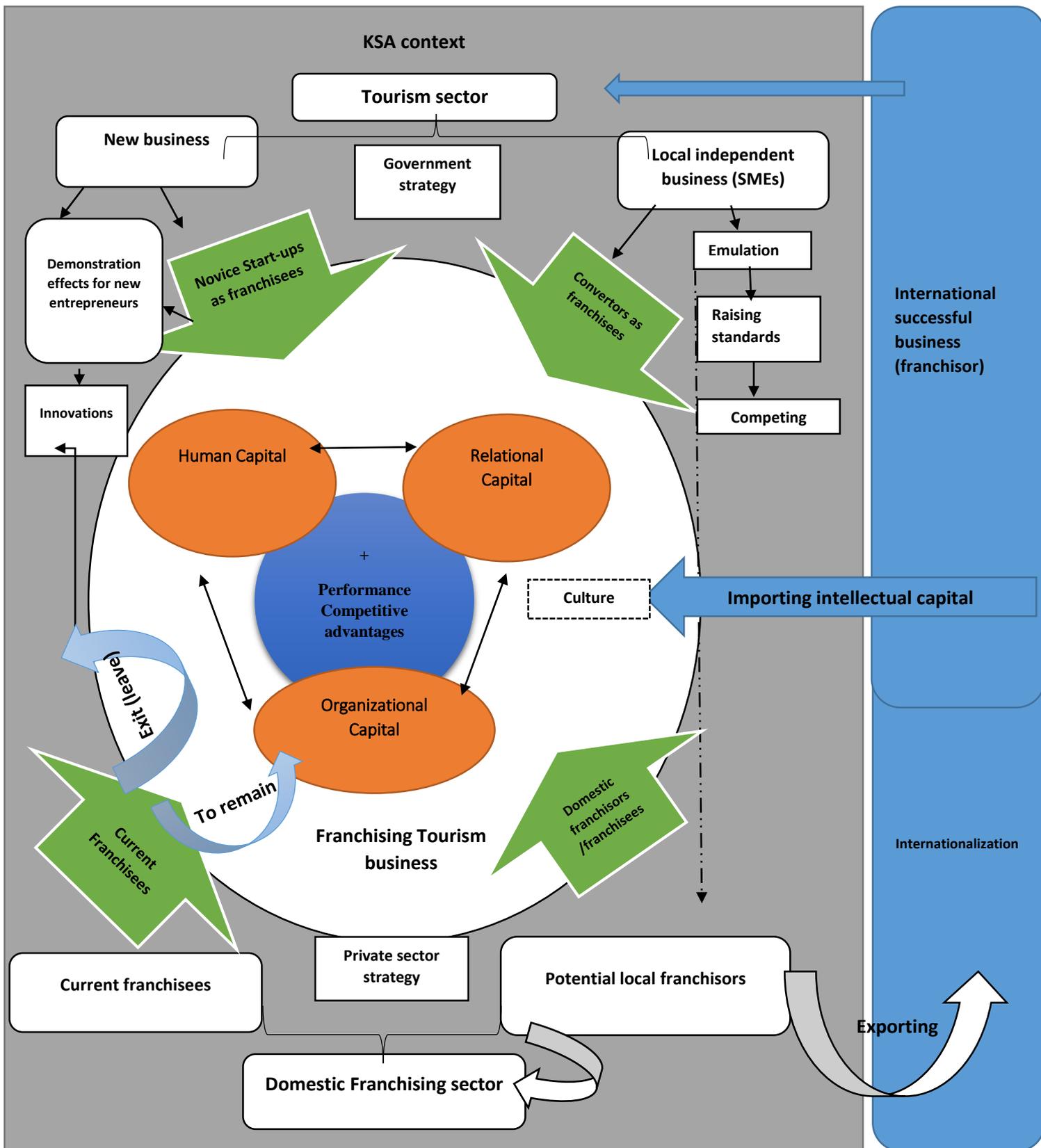
In Chapters 5–8, the investigation of the factors surrounding the franchising and tourism sectors in the context of KSA deepened our understanding of how to locate international franchising as a tool for tourism industry development, and overcome some of the barriers that hinder tourism investment. In Chapter 5, the factors affecting the spread of franchising, along with positive indicators, were understood from the perspective of the franchising community, whereas in Chapter 6, the tourism investment environment with its barriers and drivers was also revealed, via the tourism community. Chapter 7 combined these two communities' opinions on those aspects related to franchising in the tourism sector. Chapter 8 presented an actual experience of the impact of international franchising, in four cases studies of tourism businesses, which had recently converted to franchising. Although how the results in each chapter relate to prior expectations and to the literature has been explained, a comprehensive overview that assembles and links all the results on the impact of franchising as a tool for developing the tourism industry has not yet been drawn.

Therefore, the aim of this chapter is to present a model that has been structured by assembling and linking the results presented in Chapters 5–8. This model illustrates the impact of international franchising on the tourism industry in KSA by combining the main quantitative and qualitative findings, to develop a deeper discussion and reflection based on the four research objectives.

According to the proposed model, that is mainly based on the Saudi context, effective international franchising is based on three components of *intellectual capital* (IC; section 9.2) including: *human capital* (HC; section 9.2.1), *organisational capital* (OC; section 9.2.2) and *relational capital* (RC; section 9.2.3). The combination of these three components has a positive impact on franchisees' business *performance* and on *gaining competitive advantage* (section 9.2.4). These features can promote the initiation of several *tourism businesses through franchising* that have the potential to be successfully in KSA (section 9.3) by

importing successful *international franchisors* who have experience in tourism (section 9.4). Those international franchisors can access the Saudi market *through novice start-up franchisees*, whose motivation to join franchising is significantly associated with HC. In turn, the *demonstration effects* of their work will stimulate *new businesses* to engage in tourism entrepreneurship (section 9.5), or attract local independent businesses (section 9.6) to be *convertors* (section 9.6.1). Convertors will have an impact on their counterparts (*local independent businesses*) who will *emulate* these convertors, *raise their standards* and consequently boost each other as they *compete* (section 9.6.2). In addition, convertors will prompt other local successful tourism businesses to be *potential domestic franchisors* who will be seeking franchising as an *internationalization* strategy in the long term (section 9.6.3). In the long-term, *current franchisees* (section 9.7) may *remain* in the franchising system as long as they perceive values, specifically OC, from international franchisors or they may *leave* the franchise and start their independent business, probably in the same line as their previous sector and in an *innovative way*. Franchising can be adopted as strategy for promote tourism entrepreneurship by the *government and private sector* in KSA (section 9.8). However, there are some constraints and the *culture effect* should be considered (section 9.9). The elements that constructed this model will be discussed in the following sections.

Figure 9.1: Model illustrating how franchising is a tool to develop the tourism industry in KSA



Source: Author

9.2 IC and building successful tourism businesses through franchising

This empirical study examined the potential impact of international franchising on developing tourism businesses in KSA. The findings show that international franchising can be a source of three elements of IC (HC, OC and RC) to develop and promote tourism businesses in KSA. This evidence emerged with each movement forward in the sequential three-stage methodological approach.

The first piece of evidence emerged from the second research objective, which aimed to investigate the current situation of tourism investment in KSA. The lack among tourism businesses of IC elements was not precisely uncovered in the interview stage, especially as a mixture of external barriers was highlighted such as regulations, administration and a lack of government/private sector support. Nonetheless, external barriers remain important and affect the growth of tourism businesses and franchising diffusion in particular. However, the majority of these obstacles will be overcome by the recent reforms, as stated by SCTA (Chapter 6) and franchise administrators (Chapter 5).

The second piece of evidence became more visible from the outcome of the third research objective (Chapter 7), which aimed to assess whether international franchising is capable of promoting and developing the tourism industry in KSA. Both surveys' results (franchise and tourism) gave an indicator of IC through two research questions: (Q8) To what extent can international franchising add value to the business in general and tourism business in particular and (Q10) To what extent can international franchising in tourism be applied through conversion franchising and start-ups?

Although the listed perceived values do not reflect all the components of IC in Q8, the majority of them do. The comparison of the two groups' points of view (current and potential franchisees) on the perceived values of franchising provides little evidence of the clustering of these values under the three IC components. With respect to Q10, the relationship between the IC of tourism businesses and the decision to franchise was clearly framed, where tourism businesses were asked if they intended to convert into franchises. The majority of tourism businesses were

unwilling to convert to franchising. However, the reasons behind their answers were associated with the possession or lack of IC.

The third piece of evidence was provided by the fourth research objective, which aimed to verify the positive relationship between franchising and IC by examining the impact of international franchising on developing tourism businesses that had recently converted into franchises. Hence, Chapter 8 provided further evidence of the association between franchising and IC.

The next sections summarise the main findings on the mutual relationship between franchising and IC (HC, OC and RC) and discuss the potential beneficiaries of franchising in tourism.

9.2.1 Human Capital (HC)

Chapter 6 identified a shortage of HC in the tourism sector, including investors and employees. This included knowledge capital (a lack of Saudis qualified in tourism, weakness of tourism graduates, weakness of tourism education and training), competence capital (lack of skills and experience), attitude (negative traits, low motivation, high turnover, unwillingness to work in tourism). Chapter 6 showed that these barriers are not confined to KSA but also extend to other developed countries.

However, these HC barriers are exacerbated in the tourism sector in KSA for two major reasons. First, the weakness of HC is not limited to employees but also extends to investors/managers, who both lack skills, knowhow and accumulated experience in tourism. The intriguing question concerns how, when owners/managers lack knowledge and experience, tourism businesses are able to grow and survive. The findings indicate that this issue is not confined to new tourism businesses, as old businesses were more affected by a lack of experienced employees. Thus, a learning curve for management processes and outcomes probably does not exist in these old businesses, which are supposed to accumulate learning over time. This makes the problem more complicated since the learning curve is found to be slower in general in services, compared with

manufacturing businesses (Darr, Argote and Epple, 1995). This finding concludes that tourism businesses cannot move towards the advanced practices and standards implemented in international tourism markets.

Second, the HC shortage in KSA appears continuous due to the absence of tourism training institutes and the weakness of tourism education. The findings revealed that SCTA has noted this deficiency and attempted to address this matter by recruiting international tourism institutes for the short-term, and educating young people in general tourism skills. However, this initiative will not address employees' shortcomings in the long-term and "general skills" may not meet tourism businesses' needs in terms of specialisation (e.g. professional skills in hospitality management). This raises a crucial question regarding how international franchising can be an effective solution for enhancing HC in the tourism sector. The answer emerged from the findings accumulatively and will be discussed next.

The findings of Chapter 7 revealed that the perceived values of international franchising related to enhancing HC including the 'capability of the franchise to access training from the franchisor' and 'capability of the franchise to make use of accumulated experience' were highly positive, among both current and prospective franchisees (tourism businesses). This finding mirrors two important facts. First, HC enhancement by international franchisors has incentivized current franchisees to remain in the franchise system. Second, although the majority of owners/managers possess business experience (Chapter 6), they expressed a positive realisation of HC's associated advantages for joining franchising, which may reflect their needs for professional training and international experience.

Despite the positive agreement between franchisees who will remain in franchising and tourism businesses who would join franchising, the perceived advantages of franchising related to HC received a higher ranking in the tourism business group. This finding may explain the priority given to addressing the deficiency in human resources know-how. This explanation concurs with that of Bacon and Hoque (2005) that when SMEs join a franchise, it is likely to be to

compensate for the shortage of human resources and to acquire “sophisticated HRM practices”. Chapter 7 explained that most franchisees in this study have been with their current franchisors for a long period, which means that they have gained the essential skills and experience (HC) compared with the tourism group, which had not experienced franchising. This finding contributes to Watson and Stanworth’s (2006) hypothesis that the perceived advantages of the franchisor’s IC is negatively related to franchise age. This assumption could be detailed and specified according to the finding of this study that (1) the perceived advantage of the franchisor’s HC is positively related to prospective franchisees joining franchising and (2) that the perceived advantage of the franchisor’s HC becomes less important over time, with increasing franchise age.

When Independent tourism businesses were asked whether they intended to convert into franchises, the finding showed that regardless of the percentage of acceptance or rejection, the decision was based mostly on IC. In the HC context, independent tourism businesses that lack HC (experience, advanced experience, skilled staff) are more likely to intend to convert to franchising by affiliating with international brands. Although this finding has not previously been explored in the area of conversion, it supports Watson and Stanworth’s (2006) prediction that the decision to become a franchisee is related to the possession of IC.

The findings from four converted businesses (see Chapter 8) revealed that not all converted businesses lacked HC before conversion but that all converted businesses gained significant HC after conversion to franchising. The positive impact of conversion on their HC principally depends on training as an intangible element of the standardisation provided by international franchisors. The findings revealed that training was the principle tool for imparting explicit knowledge (operational manuals, policies, electronic systems) and that this was conducted for all converted business regardless of their previous experience and performance. This fact further supports the idea of Ioanna and Maria (2013) who found that international franchisors, regardless of their extensive experience, prioritise training franchisees as a route to success. Moreover, training took place at headquarters, onsite, at conferences and during visits. Windsperger and

Gorovaia (2011) illustrated that franchisors use such channels when the knowledge being transferred is very rich.

In addition, the training imparted to franchisees was comprehensive, specific and diverse, including general business aspects, daily operations, technical jobs, task specification and staff presentation and behaviour. This means that the previous experience of converted franchisees does not affect franchisors' training specifications. However, this finding may differ from Baron and Schmidt's (1991) finding that franchisor training concentrates on specific aspects related to their systems rather than providing training on business in general. A possible explanation for convertors is that the international franchisors in this study recognised that struggles may arise when they attempt to implement new practices. Thus, international franchisors not only aim to train businesses in manual operations but also to remove outdated practices. For this reason, some studies have suggested that franchisees with prior experience in the same operational line may face difficulties to discard old practices and accept new ones through franchising (Axelrad and Rudnick, 1987 cited in Jambulingam and Nevin, 1999; Stanworth et al., 2004).

The findings also revealed that the training imparted by franchisors was not confined to owners or top managers but extended to all employees in these firms. This gives each employee an equal opportunity for gaining essential experience, regardless of position or previous education or skills, to unify the quality of overall performance. This finding is in keeping with Eaglen et al. (2000), which described the significance of McDonald's training for all employees including part-time ones. However, some franchisors provide training only to their franchisees (owners) and are not responsible for training their employees (Baron and Schmidt, 1991).

All converted businesses showed the positive impact of franchise training on developing HC. Training built a strong team of staff who possess knowledge and essential skills. This result supports that of Jiang, Lepak, Hu, & Baer (2012) who found that "skill-enhancing practices were more positively related to human capital". The findings revealed that franchising training in standardised

management and operation has a direct impact on business OC (quality and reduction of running costs) and overall performance (raising revenues and profits). This result agrees with that of Larson (2003) that franchisors prioritise the quality of training provided to franchisees and their employees as a “frontline” that has a direct impact on “bottom line” results. Furthermore, it supports Darr et al. (1995) who found a relationship between the learning curve of franchise outlets and cost reduction. This agrees with Bontis, Chua Chong Keow and Richardson (2000) who found a significant relationship between HC and OC that affects performance outcomes in non-service businesses.

Barriers to HC in the tourism sector: Using international franchising

The findings discussed in section 9.2.1 confirm the positive relationship between the perceived advantages of franchising and developing business HC. This raises intriguing questions about the extent of this value in current tourism businesses in KSA, considering issues such as the Saudisation policy and high turnover of Saudi employees.

The high turnover of employees in tourism jobs is unavoidable worldwide. In the context of tourism in KSA, the findings in Chapter 6 showed that the turnover of Saudi employees might have different dimensions from those elsewhere, owing to cultural and social effects. However, this matter cannot be underestimated since the Saudisation policy is imposed on all private sector businesses.

Therefore, this section discusses how franchising could mitigate against such issues by learning lessons from international experiments in human resources. The majority of international franchises belong to large chains in developed and developing countries that have experienced several human resources issues. Accordingly, these chains have adopted and developed their strategies and philosophies over time to respond to human resources matters such as unskilled staff, high turnover, seasonality and transitory jobs. Sadi and Henderson (2005b) assert that Western work ethics and practices should be brought in the tourism industry, albeit modified to suit conditions in KSA. Therefore, international franchisors can bring their tested philosophies for developing and retaining

employees to local markets. Several studies show that the human resources philosophy adopted by franchises have a significant impact on developing human resources careers and reducing turnover in the tourism and hospitality sectors in particular (Bonn and Forbringer, 1992; Vikhanski and Puffers, 1993; Eaglen et al., 2000; Enz and Siguaw, 2000; Baum, 2007; Pollitt, 2007;Gould, 2010). The strategies adopted by these international franchises are based on employee recruitment, continuous training, paying adequate wages, and monetary and educational incentives.

Chapter 6 showed that Saudis are unwilling to work in the tourism sector, considering such jobs transitory. Chapter 8 showed that the number of full-time employees reduces after conversion to franchising. This finding indicates that international franchises may create temporary jobs that do not require high skills and long-term commitment. Hence, this study suggests that adopting new methods for the recruitment of “transitory jobs” can be a solution. For instance, Baum (2007) illustrated the example of McDonald’s strategy, which has been copied by the majority of tourism businesses in large cities, to provide opportunities for students. In this way, franchises design their recruitment strategies to respond to the local market’s workforce characteristics. For example, Royle (1999) and Gould (2010) illustrated that McDonald’s in the UK and Australia respectively are dominated by very young employees, whereas McDonald’s in Germany are occupied by experienced old or foreign employees. However, this McDonaldisation of jobs has received criticism for its exploitation of teenagers, encouraging students to quit their colleges and schools, and only paying low wages.

Furthermore, targeting different categories of jobseekers (minorities, elderly, disabled) was recommended by Bonn and Forbringer (1992) who borrowed examples from franchise programmes that targeted elderly and disabled people to reduce turnover in the hospitality industry. Therefore, the demographic characteristics in KSA should be exploited when designing recruitment campaigns. Unlike tourism in other countries that face the challenge of a decreasing young population in the workforce and an escalating high demand for

services (Bonn and Forbringer, 1992), half of the population of KSA is under 15 years old. Therefore, students can be a good source for employment in tourism jobs in general, and transitory jobs in particular.

Although Saudi owners are reluctant to train their employees, to avoid the cost of high turnover, this actually increases the employee turnover rate. Employees need to be motivated to learn and to be appreciated in their workplaces. Ongori (2007) suggested lessening employee turnover by improving training policies. Several studies show that training programmes in franchises result in low turnover along with higher satisfaction (Eaglen et al., 2000; Enz and Siguaw, 2000; Pollitt, 2007).

Further, even if owners are willing to train their employees, the weakness of training institutes remains a barrier. Accordingly, the franchising model can address the training issue in two ways. Firstly, training is included in a franchise's agreement, in terms of pre-opening intensive training and ongoing support on all aspects of running and developing a franchise. This means that international franchisors are responsible for training franchise employees, as shown in the case studies (Chapter 8). In service sectors such as tourism, human resources are one of the important tools to achieve standardisation. For example, Prata, Montagu and Jefferys (2005), found that franchising not only supports human resources in providing services but also standardises output from heterogeneous staff.

Secondly, franchising training is distinguishable from tourism training institutes regardless of their programmes. International franchising focuses on job training related to manual operations and task specification rather than general training. The findings of the case studies indicate that ongoing training provided by franchisors to a franchise's employees increase Saudi employees' confidence, skills and self-development in the tourism sector. This leads to overall job satisfaction and higher staff retention, as confirmed by Choo and Bowley (2007), who found that satisfied employees in franchised firms are generally satisfied with their training.

Moreover, the findings showed that “low income” and “lack of incentives” compared with the public sector make Saudis unwilling to work in tourism. SCTA believes that when Saudis receive good salaries and incentives such as social and health security in the tourism sector, they are keen to retain their jobs (Chapter 6). Vikhanski and Puffer (1993) found that local employees in Moscow who work for McDonald’s receive higher wages than the national average. However, other studies have criticised the low pay of McDonald’s (Gould, 2010). This is difficult to judge in KSA since this study did not investigate the wages of franchised and non-franchised employees. Nevertheless, a new policy has been adopted by the Ministry of Labour to determine the minimum wages of employees in the private sector (SR 3000 per month).

In the case of incentives, the findings of the case studies showed that some international franchises have introduced incentive programmes, such as educational incentive programmes to award certificates through “online universities”. This concurs with the findings of Bonn and Forbringer (1992), who suggested that retention programmes such those used by international franchises could reduce turnover in the hospitality industry. Moreover, successful franchisees interviewed by Franchise Update Media’s website ³¹ discussed how they retain employees by using incentives such as performance-based bonuses, health insurance, rewards, educational incentives and social events and parties. Despite these incentives, the internal promotion of employees tends to be limited to management positions only, especially in small franchises (Lloyd and Payne, 2012).

The findings showed that the unwillingness of Saudis to work in tourism firms and high staff turnover might also lead to low job satisfaction because of low organisational identification. Saudi employees may not be attached to their tourism firms and not feel proud to work in unsuccessful businesses. Tourism businesses in KSA (as described in Chapter 6) are not attractive to employees

³¹ http://www.franchising.com/howtofranchiseguide/employee_retention_tips_from_successful_franchisees.html

looking for self-development. This is not only limited to lower-end jobs but also extends to top managers (Chapter 8).

This study suggests that international franchising in tourism can address this matter by enhancing the social and personal identification of Saudi employees. Most companies that expand globally through franchising in KSA are recognised brands worldwide. Therefore, this study proposes that working with an international brand is associated positively with organisational identification. For example, Lipponen, Helkama, Olkkonen, & Juslin (2005) found that the prestige of the organisation has a significant effect on the identification of employees, and Kimpakorn and Tocquer_(2010) found that high brand equity has a stronger level of employee brand commitment compared with low brand equity in the hotels market. Moreover, Wallace, Lings, Cameron & Sheldon (2014) showed a strong relationship between an employer's brand in recruiting and keeping employees, and brand image. However, employees have different perceptions of an employer's brand, namely whether the current position matches their future career plans and education level. For instance, Gould (2010) implied that more educated employees are unlikely to want to work at McDonald's in five years' time.

Despite presenting possible solutions offered by international franchising in light of the current findings and previous research, there are some limitations. Firstly, previous studies have not dealt with high employee turnover in various franchises, as most were based on the experience of McDonald's. The success of international franchising in changing Saudi attitudes to working in the tourism sector is still conditional on various factors, such as the commitment of international franchisors towards training, franchisees' attitudes towards their employees, and cultural effects, which will not change the unwillingness of Saudis to work in inferior jobs such as cleaning and housekeeping.

9.2.2 Organizational Capital (OC)

Chapter 6 highlighted several weaknesses associated with OC in tourism firms in KSA, which severely undermine their long-term prosperity. OC is a mechanism mainly constructed when the business launches and it develops continually to

direct human resources towards the vision and objectives of the business. The lack of OC can relate to structural and business process capital (poor facilities and procedures, poor management, poor quality, low standards, failure to meet minimum classification standards), development capital (old practices), and marketing capital (vague vision and mission, bad reputation, poor marketing strategy). Seemingly, the absence of well-constructed OC is the principle cause of the weakness of HC (section 9.2.1) and overall performance of tourism businesses in KSA. This agrees with Bontis (1998), who showed that HC and RC are not accomplished in firms that possess poor procedures and mechanisms.

Chapter 7 showed that current and potential franchisees (tourism businesses) agree on the perceived advantages of franchising related to reinforcing OC, including the 'capability of the franchise to provide high quality services' and 'capability of the franchise to develop competitive products and services continually'. Similar to HC (section 9.2.1), this finding indicates that current franchisees are satisfied with the perceived values of franchisors' OC. In addition, it highlights the awareness of tourism businesses about franchise benefits linked to OC, which may incentivize them to join international franchising in the future.

Even though current and potential franchisees agreed about these two perceived values, current franchisees gave it a higher ranking. In comparison with previous findings on HC (section 9.2.1) in which franchisees have a lower ranking compared with potential tourism businesses, this difference might be because of the distinction between possessing and transferring the explicit and tacit knowledge of international franchisors. Hence, the findings of this study specify that explicit knowledge is associated significantly with HC, while tacit knowledge is associated with OC.

Explicit knowledge is based on the HC of franchisors, which is usually transferred to franchisees by the "franchise operations manual". This incorporates codified information and written guidelines (e.g. on promotional programmes, machinery, tools) (Altinay and Wang, 2006; Paswan and Wittmann, 2009) that are essential to run the business on a daily basis. This explicit knowledge is transferred

through the initial and ongoing training provided by franchisors to franchisees. Explicit knowledge is learnt and obtained by human resources as a component of HC. Hence, the perceived advantages of HC from franchisors over time will not be the same as those at the time of inception because franchisees become more skilled and confident at running the business independently. For this reason, current franchisees in this study gave a lower ranking than potential franchisees to the perceived value of HC.

By contrast, tacit knowledge is based on the OC of franchisors' know-how, value and culture, which cannot be easily transferred to franchisees. Whereas explicit knowledge is gained through learning-by-doing, tacit knowledge is acquired through experience in the long-term (Paswan and Wittmann, 2009). Furthermore, some tacit knowledge is under contractual obligation (e.g. intellectual property). Therefore, when the franchise contract terminates, franchisees leave the system in the possession of explicit knowledge (HC) but without tacit knowledge (OC). This leaves current franchisees striving to remain with franchisors who utilise continuous development in OC firms, which cannot be achieved without the franchisor's support. This finding contributes to Watson and Stanworth's (2006:346) proposition that "the perceived value of the franchisor's IC inputs will be negatively related with the length of time the franchisee has been in the system". This proposition can be specified according to my finding as follows: *The perceived value of OC is positively related to the length of time with franchisors, whereas the perceived value of HC is negatively related to the length of time with franchisors.*

The findings showed that a business lacking OC is more likely to intend to convert to franchising by affiliating with international brands, attracted by factors such as the acquisition of technology, knowledge transfer, advanced management and operation, and quality, product and service development (Chapter 7).

The ample evidence on the impact of franchising on enhancing OC in franchisees in general and tourism in particular emerged from the experience of converted businesses (Chapter 8). The findings revealed that all converted businesses have

a shortage of OC before conversion, with the exception of the car rental case, which possessed well-structured OC. The lack of OC includes the weakness of facilities management, operating problems, poor quality, lack of classification, administrative problems, a lack of software and low standards.

Converted businesses (Chapter 8) showed that the enhancement of OC was underpinned primarily by standardisation, which is a skeleton for the franchising format. The significant impact of standardisation on the enhancement of OC was based on the specification of store-level elements (building, layout, equipment, facilities, and designs) and system-level elements (management, administration, electronic programmes) (Kaufmann and Eroglu, 1999). The standardisation of store-level elements focused on the two hotels, whereas the standardisation of system-level elements was heavily applied to all converted businesses (four case studies). This confirms that the franchising format is associated more with intangible assets (IC) rather than tangible assets. In this context, Meso and Smith (2000) differentiated between the advantages of intangible (strategic assets) and tangible (non-strategic assets) in the long-term, stating that the latter can be easily imitated by rivals.

Standardisation was an assistance factor in the upgrade of one of the hotels by one star, because of the specifications requested by franchisors. This indicates that standardisation can contribute to enhanced hotel quality. Milohnic and Grzinic (2010) found that competitive advantage rises when a parallel relationship occurs between increasing quality and increasing the rating of small hotels by one star. This finding draws attention to the parallel relationship between franchisor standards and the classification system. Although ratings depend on the fulfilment of the required SCTA specifications, conversion to franchising is a driving force. International franchisors underpin and maintain the quality of services in the tourism sector because they have higher standards and more continuous monitoring than government.

The findings showed the direct impact of standardisation and franchisor quality control on a business's overall IC (HC and RC) and performance, including

improving services, quality, occupancy rate and revenue, meeting local rules and regulations, raising standards and satisfying customers. This corresponds to the finding of Kaufmann and Eroglu (1999) that standardisation is primarily used to facilitate monitoring and quality control by international franchisors, to manage overall franchisee performance. This result agrees with that of Bontis et al. (2000), who found a direct relationship between OC and business performance, regardless of industry type.

9.2.3 Relational capital (RC)

Chapter 6 identified a considerable number of weaknesses in the RC of tourism businesses, which severely affected customers, such as customer dissatisfaction, unavailability of basic services demanded by domestic tourists, not meeting customers' (children, families) needs, insufficient tourism facilities and poor marketing strategies. The deficiency of tourist services is not confined to less developed regions. For instance, the findings showed that the absence of tourist services was higher in the Eastern region, which is considered to be a domestic tourist destination. Further, the weakness of RC is not only limited to customers but also extends to the relationship with government, as Bontis et al. (2000) indicated. In this context, the findings showed that some hotel businesses have difficulties fulfilling government standards such as classification. Moreover, owner/managers with no previous experience in business are more likely to consider a poor marketing strategy to be a barrier.

As discussed in Chapter 7, current franchisees are satisfied with the perceived value of advertising. Furthermore, the findings from Chapters 5–8 confirmed that international customers, expatriates and local customers are attracted by international franchises. Franchisees are more likely to spot the impact of franchising on attracting international tourists, compared with independent tourism businesses.

In the same context, the findings suggested that the growing number of expatriates promotes international franchising (Chapter 5). This finding corresponds with those of Alon et al. (2002) and Tuncalp (1991). Furthermore,

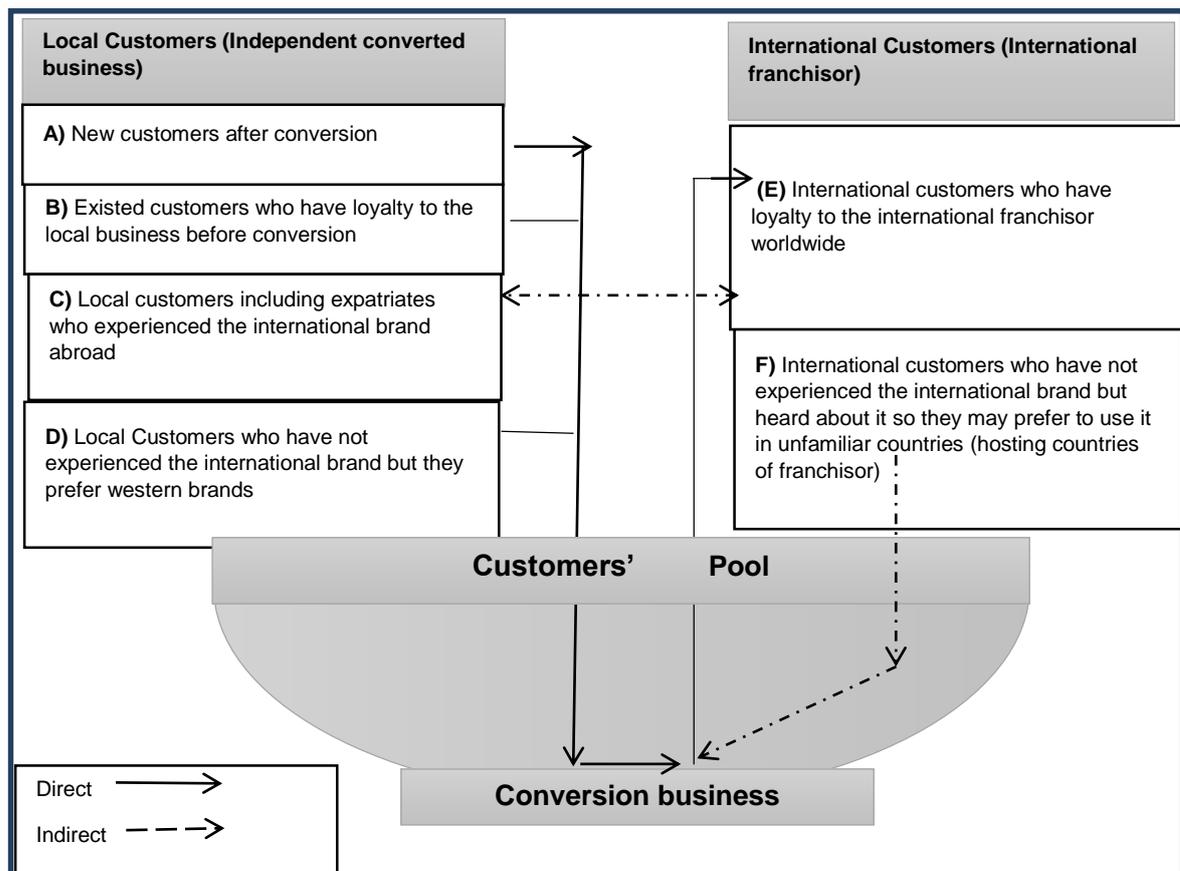
there is an association between the growing number of expatriates and restaurant, food and beverage franchises. This finding corroborates with that of Burusnukul et al.(2011), who found that tourists prioritise their familiarity with food products as a key attribute to selecting chain restaurants. Although expatriates are not tourists and used to be excluded from food tourism studies (Howteerakul et al., 2004), they also have positive attitudes towards internationally franchised restaurants, especially if the international brand reminds them of their home country. In the case of local customers, the findings suggested that Saudis' preferences for foreign brands and large population will promote international franchising in KSA. The latter will increase demand for franchising services in the health and construction sectors (Chapter 5).

Customers were mentioned as a perceived advantage of conversion by businesses in different life cycle stages. This includes targeting more new local customers (start-up stage), changing current customers (decline stage), exchanging customers between markets (growth stage) and attracting foreign customers (maturity stage). Since a business in the maturity and growth stages has built strong trust and loyalty with existing customers, conversion to franchising would be mutually advantageous to both independent businesses and international franchisors in widening the customer pool. From the franchisor's perspective, this finding agrees with Hoffman and Preble's (2003) study that existing customers are a major advantage provided by convertors to international franchising. However, the findings of the decline-stage of businesses disagree with Hoffman and Preble (2003) because existing customers are unsatisfied and cannot be considered to be a competitive advantage for franchisors when conversion has occurred. Keeping customers who have negative experiences with a brand is not possible (Ambler et al., 2002).

Chapter 8 showed the possible customer/tourist categories attracted to a converted local business. Figure 9.2 shows the mutual benefits for converted businesses and international brands in terms of widening, sharing and exchanging customers in direct and indirect relationships between local and international markets. A direct relationship occurs when local converted

businesses keep satisfied customers before conversion (B), adding to them new customers after conversion who have not experienced the local business before conversion (A), or have not experienced international franchisors but have a perception of the quality of international brands (D). Moreover, converted local businesses will be attractive to both locals, including expatriates (C) and international customers (E) who have experienced international franchisors outside KSA. The indirect relationships between converted businesses and international franchisors occur when international customers who have not dealt with international franchisors but have heard about them (F) are attracted by the converted business in the local market. After generating all possible categories of customers that can be attracted to converted businesses and integrating them in one pool, these categories will be transferred to international franchisors and shared by the franchisors' chains worldwide.

Figure 9.2 Customers' Pool of Conversion Franchising



Source: Author

This model contributes to the franchising conversion literature. The shortcoming of this model is that dissatisfied customers are not included among these categories. Assuming that a converted business targets the same customer type as before conversion, determining how the franchise conversion could change the perceptions of dissatisfied customers towards the new business, and how to retain dissatisfied customers, are challenges. This is an important issue for future research on franchising conversion.

Chapter 7 showed that when tourism businesses lack RC, they are more likely to convert to franchising, as brand name was the most frequent reason given for intention intending to convert. The findings stated three factors in the decision towards conversion, namely brand name, customers and competition, which were shared by all case studies in different life cycle stages, with the exception of the maturity stage that only shares the first two.

Converted businesses identified brand name as the first reason for conversion. This agrees with other studies (Hoffman and Preble, 2003; Hodge et al., 2013). Concerning competition, the findings showed that conversion to franchising can be a quick path to survive and grow, especially in fragmented industries such as hotels and real estate. This finding supports previous research that links market structure (fragmentation) with franchising as a strategy for providing similar products and services to a large number of fragmented markets (Hoffman and Preble, 1991), for development (Shutt and Whittington, 1987), for marketing new firms with scarce resources (Brown, Crosno & Dev, 1997) and for repositioning the business among competitors (Spinelli, Rosenberg & Birley, 2004).

The findings showed the overall impact of franchising on the RC of converted businesses, including widening customer categories, customer satisfaction, worldwide marketing, networks and partnerships, and expansion. This finding indicates that RC is significantly enhanced by OC. For instance, the acquisition of systems such as ICT, CRS and quality assurance has increased responsiveness to customer needs. This fact supports the finding of Bontis et al. (2000), who found a significant relationship between HC and OC on RC in service businesses.

9.2.4 The impact of IC on performance

Overall, the considerable positive impacts of IC franchising on business performance, including growth, survival and financial indicators, were reflected by the converted businesses' experience. This result corresponds with Pena's (2002) findings that IC is positively related to business performance.

In accommodation, the hotels' experience after conversion showed a significant performance increase through their financial indicators, including PADR, occupancy rate and revenue. The driver behind higher revenue was customer satisfaction, rating, quality, and improvements in tangible and intangible resources. Furthermore, adopting ICT also enhanced the competitiveness of hotels along with accessibility to international networks, global distribution systems and worldwide marketing. All these can be summarised as a brand's competitive advantages (Prasad and Dev, 2000). Most importantly, the business that had several problems before conversion not only survived but also grew and gained considerable competitive advantage.

Due to the limited data provided by cases, this study does not investigate the profitability of these convertors, especially in the presence of the franchise fees. Moreover, these hotels were fairly recently converted (four years ago), which means that this short period may be insufficient to confirm the sustainability of these advantages in the long-term, assuming that more units of these hotel chains are opened around KSA. O'Neill and Mattila (2004) found a negative relationship between the increased number of franchise units within the same chain and both customer satisfaction and occupancy rate. In addition, this may be affected by the age of the hotels in the long-term, when owners are not motivated to invest capital to boost their tangible resources.

The findings showed the notable impact of IC on the rental car case's performance, including an increase in cars and revenue per day as well as opening more branches every year. Similarly, real estate agents showed higher revenue, increases in sales and a widening customer base in all franchise outlets. By contrast, previous studies have found that franchise real estate agents have

different performances and returns in different regions and that their profitability is less than non-franchise firms, which might be owing to high franchise costs despite the higher revenues (Anderson, Lewis, & Zumpano, 2000; Benjamin et al., 2006; Benjamin et al., 2007).

9.3 Types of businesses that can be franchised

This finding suggests that franchising in the tourism industry remains a new and under-researched phenomenon. Because of well-established infrastructure, and the availability of rich tourism resources in different regions, international franchising has the potential to develop several tourism sub-sectors. However, large-scale surveys provided a different picture of the potential of international franchising in certain tourism businesses. Traditional franchise activities (travel agents, cafes, restaurants) and lower classified hotels (1–4 stars) have the highest potential compared with non-traditional franchise activities such as entertainment, resorts, training institutes and colleges, tourism guidance and tour organisers, and motorway services. Moreover, a mixed picture emerges in accommodation (with the exception of lower classified hotels) and transportation between tourism and franchise groups. This finding must be interpreted with caution because previous research has not provided evidence of the potential of franchising in different industries (see Chapter 2), and the tourism sector in particular, with the exception of hotels. Possible explanations for this finding are based on five factors, namely generalisation, specification, measurement and the different perspectives of franchisees and franchisors.

With regard to generalisation, the franchising in food services (restaurants/cafes), hotels and travel agencies mirrors traditional franchising activities worldwide. At the international level, although there are a variety of franchises in different sectors, franchising in restaurants and hotels dominates the market (Brown and Dev, 1997; Cox, 2002; O'Neill and Mattila, 2004, O'Neill et al., 2006; Nijmeijer et al., 2013). In KSA, the findings showed a misconception among entrepreneurs that franchising is confined to food and clothes (Chapter 5). This may limit the franchising opportunities in other sectors.

In terms of specification, this study classified franchising in tourism activities into sub-categories not previously investigated. For example, previous research has explored hotel chains in general, whereas this study classified them into hotels (with different classifications, non-classified hotels) furnished apartments (classified and non-classified). In addition, the concept of conversion was added to non-classified accommodation to make it more specific (Chapter 7). In this context, the findings suggest that lower classified hotels are more likely to be franchised. An outstanding illustration comes from the case studies in which two (four- and two-star) hotels were converted to franchising. This finding concurs with Pine et al. (2000) who suggested spreading well-known franchises among lower classified hotels to promote tourism in China.

In terms of measurements, the potential of franchising in non-traditional activities was based upon the opinions of tourism and franchise businesses. The potential of franchising in tourism was predicted through the lens of current franchisee's experiences and practices in franchising, and tourism businesses' needs, practices and problems. However, it is important to bear in mind the possible bias in these responses. For example, a mixed picture emerged for hotels (with the exception of lower classified hotels) and transportation. Franchisees seemed to disagree on hotels, whereas the tourism group was in agreement. The latter appeared to support franchising in hotels because of the current presentation of accommodation, but current franchisees may be more aware about the high fees paid to franchisors. Therefore, these activities may need further support from the measurements used by Watson and Kirby (2000) to determine the feasibility of franchising in non-traditional sectors. These measurements include the ratio of franchises to number of units operating in each sector, percentage rate of business failure and average gross weekly wage by industry. However, in the current study, some franchises were absent and others dominated by a small number of companies. Furthermore, investment cost, franchise fees (initial and royalty) and other unforeseen expenses indicate the potential of franchising in tourism activities.

This study neglected franchisors' opinions and only reflected franchisees' perspectives, which means that considering franchisors' opinions about these tourism activities may offer different results and interpretations. A number of issues might be understood different from the franchisor's position. For instance, it has been found that franchisors favour using franchising when less importance is paid to human resources in decision-making process (Michael, 1996). This fact explains the divergent opinions in tourism businesses relying mainly in human resources such as tourism training institutes, tour guidance and tour organisers; however, it does not explain the differences in entertainment centres and motorway services, in which standardisation can be applied easily.

Potential franchisees can also promote franchising in specific sectors. For instance, Watson and Stanworth, (2006) argued that when entrepreneurs do not possess the skills and know-how, franchising is favourable. In contrast to expectations, however, the lack of experience of Saudi entrepreneurs in tourism investment did not support franchising in some tourism businesses. As this study neglects novice entrepreneurs who did not own their businesses and may be interested in starting up a tourism business through franchising, it is believed they may provide different results.

In addition, other factors may bias the opinions of current franchisees and tourism businesses towards franchising in tourism. With respect to current franchisees, the findings showed that they were interested in tourism franchising (Chapter 7) because they run a franchise in a different sector or because of external factors related to the tourism environment in KSA. Therefore, their answers may be biased by their personal interest rather than the feasibility of franchising in certain tourism sub-sectors. With regard to prospective franchisees (tourism businesses), the findings showed that they do not intend to start a new business through franchising because they prefer being independent over paying fees to partners (Chapter 7). In addition, some have no intention to convert their own tourism businesses into franchising for various reasons, including the possession of IC. Therefore, their opinions on the feasibility of franchising in tourism may be affected by their personal perceptions.

9.4 International franchisors

International franchisors prefer well-known businesspeople to novice entrepreneurs because of their financial capabilities, accumulated experience and ability to expand horizontally in the local market (Chapter 5). This results in the domination of small players by large companies in the franchise sector, which prevents novice entrepreneurs from becoming franchisees.

This criterion set by international franchisors is a challenge that cannot be avoided, especially as this study calls for international franchising as a model for start-ups in tourism. Therefore, master franchisees could act on behalf of international franchisors, as mini-franchisors. The study also found that master franchisees tend to have managerial and financial abilities from other businesses besides their current franchise (Chapter 5). This finding suggests that master franchisees can link international franchisors and local start-ups. International franchisors grant franchises to master franchisees, who then have the right to sell franchises to sub-franchisees (novice entrepreneurs) in the local market within a specific territory. This meets the international franchisors' criterion of prioritising capable businesspeople who can accelerate their international expansion with lower monitoring and management costs (Grewal et al., 2011). As international franchisors have no direct relationships with local financial institutions, the equity of master franchisees can encourage banks to finance domestic franchises. In addition, they can lend to start-up franchisees (Chapter 5). Further, master franchising is a preferred strategy utilised by franchisors to penetrate new markets and accelerate a market's expansion (Connell, 1997) in order to circumvent direct contact with geographically or culturally distant countries (Welch, 1989; Preble and Hoffman, 2006).

Chapter 8 showed that international franchisors are among the largest and leading companies worldwide in their sectors. Hence, when an independent business decides to convert and lose independence, this sacrifice may be worthwhile to join one of the leading international franchises. Moreover, since these international franchises are well-known worldwide, their requirements to join their networks cannot be met by individuals that do not have high financial

and administrative abilities. Hence, owning an independent business is positive evidence of these abilities.

According to the two measurements (firm age and size) utilised by Lillis et al. (1976) to determine the life cycle of franchisors, international franchisors of convertors in this study have mature and late-mature franchise systems who are more likely to approach existing businesses (Chapter 8). Presumably, international franchisors in their early life cycle (e.g. penetration and growth stages) are more likely to approach start-ups. This can be explained by two theories; scarce resources and agency cost. Based on agency cost theory, late mature franchises are large companies saturating international markets and aiming to access new markets that are non-local and culturally distinct. Based on scarce resources theory, early life cycle firms seem to be SMEs aiming for expansion but lacking resources. Therefore, early franchise systems are more likely to set low criteria, to target entrepreneurs to provide capital entry. This would favour novice entrepreneurs in tourism in KSA because early life-cycle franchisors, although having built a proven business, may not have established a reputation yet, and this would see them charge low franchise fees to attract potential franchisees (Shane, Shankar & Aravindakshan, 2006).

Chapter 5 highlighted franchise fees and flexible terms as determinants that can promote or prevent franchise diffusion in KSA. Three factors were influenced by franchise fees: franchises in services, younger respondents, and franchise location. These should be considered by international franchisors in tourism. Although franchise fees influence the decision to franchise, this area needs more investigation. One of the misconceptions about franchising in the GCC market is that “Arabs are rich”³², which may impel franchisors to raise franchise fees. This would result in the reluctance of prospective franchisees to turn to franchising. Shane et al. (2006) stated that attracting potential franchisees requires adequate franchise terms and a fair pricing policy.

³² Presentation by Murad Alnasur (General Manager and Director of Business Development at International Leisure Investment) at the World Franchise Convention on 29–30 October (2013) in Dubai.

As this research focuses on franchising tourism businesses, the findings show that high fees are typically associated with service-oriented firms (Chapter 5) and that the high cost of operation in tourism compared with other businesses (Chapter 6) may negatively affect promoting franchise and tourism investment. Previous studies consider tourism investment as a low entry barrier (Kozak and Rimmington, 1998). In addition, Shane et al. (2006) found that franchises with a lower initial investment have high potential to attract franchisees. Therefore, international franchisors should consider these factors to attract potential franchisees in KSA, taking into consideration that high royalty fees increase franchise failure through profit reductions, which directly affects franchisees' willingness to continue (Michael and Combs, 2008). Furthermore, the high cost of service franchising may also include upfront fees, since Baucus et al. (1993) found a parallel relationship between royalty and initial fees in franchised services. More positively, Chapter 7 showed that franchisees remain so because of the 'capability of the franchise to reduce business start-up expenses'. This indicates that franchisees benefit from franchising when starting up their businesses in various sectors, including tourism businesses. However, this capability may depend on other factors, such as investment size and business location.

The findings showed that franchises located in Western provinces are more likely to be influenced by high franchise fees, which may be related to the high cost of real estate in these regions, especially the religiously significant areas (Chapter 5). This finding may lead to potential opportunities for franchise success in other cities that possess well-developed infrastructure such as in Eastern, Northern and Southern regions, as well as some cities in Central regions. These regions and cities not only lack tourism businesses and franchises but also fundamental services that can serve residents. These regions contain 48% of the total population. This finding concurs with Alon and Banai (2000), who advised that the consolidation of adequate infrastructure might impel franchises to look for new opportunities in remote areas with population growth, when franchise opportunities are depleted in well-known cities.

9.5 Potential start-ups in tourism (franchisees or entrepreneurs)

Chapter 6 emphasised that the newness of the tourism investment concept in KSA, as well as the fear of failure, has led entrepreneurs to hesitate to engage in new tourism ventures. Stinchcombe (1965) argued that the “liability of newness” makes new firms have a higher probability of failure compared with old ones because of the cost associated with learning new roles and tasks with constrained capital and the lack of a network of supporters such as customers and suppliers (cited in Bruderl and Schussler,1990:530). Although previous research on the franchising failure rate compared with traditional businesses has drawn a mixed picture (Chapter 2), the relatively good correlation between franchises and a low failure rate found in this study may be attributed to the fact that the vast majority of franchises that participated in this study (Chapter 5) and some successful convertors (Chapter 8) have been running for 6–10 years. This finding concurs with that of Stanworth et al. (1998) who found franchising to be less risky once break-even has been reached; after four or five years of commencing the business but before reaching break-even, franchising is more risky than that in conventional businesses.

Chapter 7 revealed high agreement on the ‘capability of the franchise to reduce the chances of failure’. Therefore, the franchising format could offer a proven model for lowering the failure rate compared with conventional businesses. In particular, franchises can introduce new tourism activities to the Saudi market and pave the way for entrepreneurship in tourism. Henriques and Nelson (1997) suggested that the services needed in the tourism sector can be created by franchising in some countries.

Figure 8.1 shows that potential entrepreneurs in tourism can benefit from franchising directly (franchisee start-ups) and indirectly (entrepreneur start-ups). The direct benefit occurs when franchisees start-ups initiate their business from the beginning as a franchise format, moving from the idea stage with franchisors through financing, structuring and operating the business. These franchisees will have an indirect impact on their employees and potential start-ups. Choo and Bowley (2007) suggested that well-trained employees in franchise businesses

may be considered to be desirable future franchisees. Furthermore, the findings suggest that those franchises will prepare the market for tourism entrepreneurship (Chapter 7). This is an indirect benefit when franchisees create a demonstration effect. The potential start-ups will be stimulated by current franchisee start-ups and then become followers in their own way, commencing their businesses independently in an innovative manner.

With respect to the direct benefit, the findings identified different categories that can contribute to the tourism sector as start-up franchisees. These include tourism graduates, the unemployed, retirees, high turnover employees and women. As explained earlier, HC development encourages those convertors who were already running businesses in tourism to join franchising. This finding indicates that the desperate need for HC for novice start-ups who lack previous experience in business will be greater than among convertors. Therefore, the impact of franchising IC discussed in section 9.2.1 confirms that the motivation of potential franchisees to join a franchise is significantly associated with HC.

As the findings indicate, college/university graduates in tourism have a gap between their theoretical knowledge and practices needed in the market (Chapter 6). The franchising format can therefore benefit tourism graduates as employees (on-the-job training) and self-employed (potential franchisees). The first way was discussed in section 9.2.1 in which franchising underpin human resources skills. The second way when tourism graduates are approached as start-up franchisees. The profile of tourism businesses and franchisees in various sectors (Chapters 5 and 6) showed that old managers/owners dominate the two sectors, while young people are not represented. This fact may confirm that young Saudis face difficulties in getting involved in business in general, and in tourism in particular, as either entrepreneurs or managers. Therefore, this study suggests that tourism graduates are an under-utilized resource for creating a basis for entrepreneurship in tourism.

Firstly, tourism graduates are passionate and motivated about the tourism industry, more so than those who engage in this sector incidentally. Mostly, their

passion for tourism influences them to choose tourism as a field of study. Hence, tourism graduates might have a long-term vision about their career prospects in tourism, whether as entrepreneurs, developers or employees. This positive attitude contributes to the goodwill to work in tourism compared with other graduates who chose tourism jobs as a bridge to reach jobs in the public sector (Chapter 6). Secondly, tourism graduates possess theoretical knowledge about the tourism industry. Accordingly, the franchise format will refine their knowledge through practice, guided by a proven business model.

Thus, this study argues that tourism graduates may prompt international franchisors and master franchisees to recruit them into their networks over other candidates educated in other disciplines. In this context, this study found an association between franchise type and level of education (Chapter 5). Despite the lack of evidence on qualifications related to operational lines of franchising, the importance of education levels of franchisees is a controversial issue among franchisors, as it was found to be unrelated to the outcomes of franchisee performance (Jambulingam and Nevin, 1999).

This finding sheds light on the opportunities for people with various education and experience levels to join tourism via the franchising format (e.g. unemployed, retired). Chapter 6 revealed that Saudis abandon their jobs in tourism because they preferred to work in white-collar jobs for cultural reasons (e.g. the fact that society undervalues some types of jobs). This specific category of employees may desire to be their own boss. Hence, the franchising format could convert them from jobseekers to being self-employed.

Further, the findings showed that retired people dominate the furnished apartments market. Criticism is directed at their low business knowledge, resulting in poor quality in this sector (Chapter 6). As these retirees have the financial ability to own real estate, they can contribute to developing the accommodation sector. For instance, some franchise marketers³³ target retired people in their campaigns, stating that elderly people have personal savings,

³³ <http://www.franchiseroute.co.uk/franchise-articles/article-35.html>.

retirement funds, accumulated experience and greater connections with society, and may be attracted to a specific type of business that does not require physical effort. However, Jambulingam and Nevin (1999) found no difference between franchisee outcomes by age.

Although women did not participate in this study due to their relatively low prevalence in both sectors, Chapter 6 highlighted some cultural norms and obstacles based on gender segregation that prevent them from working in tourism in KSA. Women have been isolated from participation in the tourism workforce, which has contributed to keeping them apart even from tourism education at colleges. For example, a vice-dean of management studies in KSA stated that it is not logical to accept females on to tourism courses since they will not be able to get a job in the industry, thus tourism courses are only for men (Riyadh newspaper, 2014)³⁴.

Neglecting women in tourism not only holds women back in terms of their skills and experience but also affects tourism development, since women may be considered as more understanding of families' and children's needs. Therefore, this study suggests that the franchising format can underpin the participation of woman in tourism. For instance, statistics show that the majority of female Saudi investment is in the real estate sector (Almasah capita ltd, 2010). Therefore, they can be recruited to franchising in the accommodation sector. In addition, some tourism activities may be suitable for women such children/women's activities, online travel agencies, reservation systems and housekeeping. Female entrepreneurs will also contribute to raising female employment in their organisations.

All these above categories encourage franchising. Similarly, Frazer et al. (2007) found that redundancy, unemployment and retirement are driving factors for people to become franchisees. The absence of franchising acculturation and training programmes is also a reason for the low prevalence of these categories

³⁴ Riyadh newspaper Online. (2014). Employ Saudi woman in tourism and hospitality! Available at <http://www.alriyadh.com/909451>

(Chapter 5). Thus, franchising education, training programmes and exhibitions contribute positively to attract all the above categories in business in general and tourism in particular. For example, Torikka (2004) showed the effectiveness of franchising training on the heterogeneous backgrounds of people who bought a franchise after the completion of the training programme.

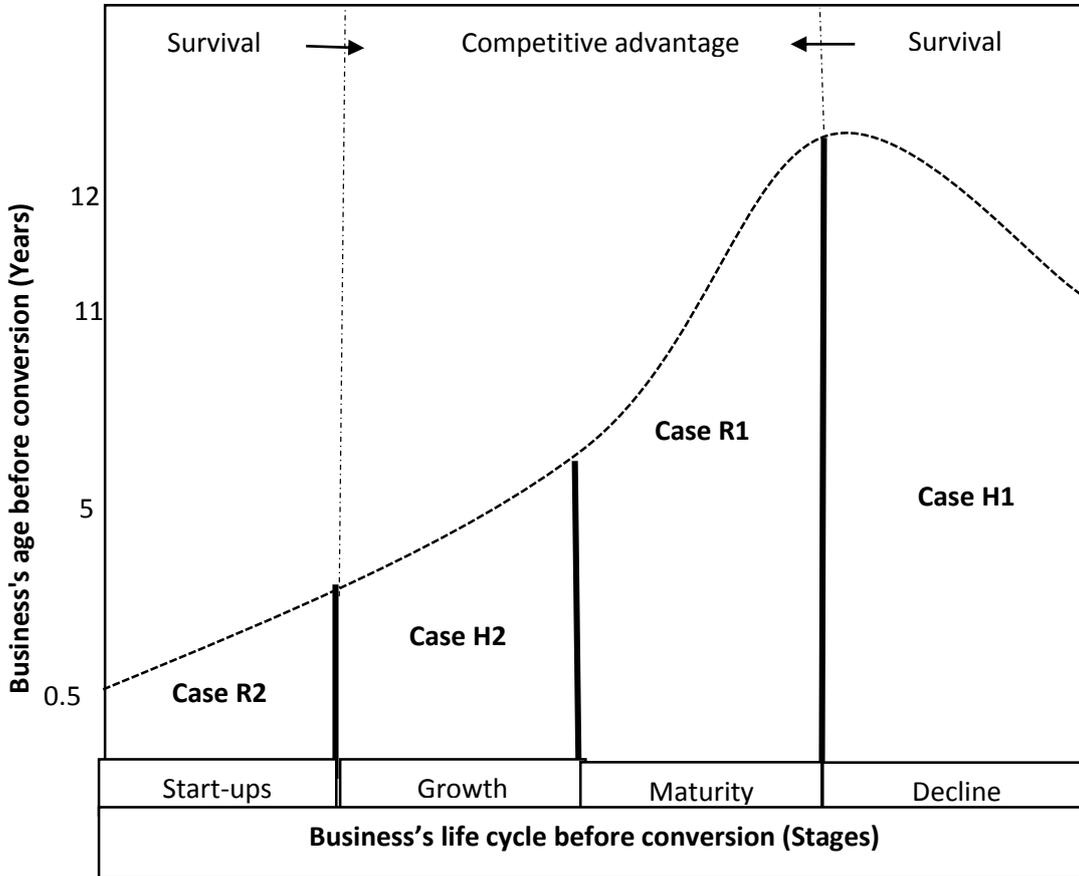
9.6 Local independent businesses

The findings identified two types of local independent tourism businesses that can benefit from franchising directly and indirectly. The direct way is as “convertors” (Chapter 8) and indirectly as “observers” (Chapter 7). In a direct way, independent businesses can be converted into franchises by importing an international brand, to be standardised by international franchisors. Indirectly, independent businesses can play a role as observers, watching and learning from franchises in tourism. Observers can later be developed into domestic franchisees or franchisors. These two ways are discussed next.

9.6.1 Convertors

The findings suggest that local tourism businesses that lack IC (RC, OC, HC) are more likely to have a positive attitude towards conversion (Chapters 7 and 8). The business’s age and its performance before conversion (see Chapter 8), can be used to estimate at which stage conversion into franchising occurred. It is proposed that after 6 months a business is classified as a start-up (Case H1), at 5 years is in a growth stage (Case R2), and at 12 years (Case R1) has reached the maturity stage. The business age of Case (H1) is 11 years, which can be located between the growth/maturity stages; however, the description of the business performance can classify it as being in a decline stage. Accordingly, Figure 9.3 shows that conversion to franchising can occur during any period of the business life cycle.

Figure 9.3: Life cycle of independent businesses before conversion into franchising



Source: Author

Generally, the most dangerous stage in the business life cycle is start-up, when the business is most vulnerable to failure, as discussed in section 9.5. The findings from the pre-conversion stage showed that start-ups and declining businesses use conversion for survival, while businesses in the growth stage use conversion as a growth strategy when IC is already established.

However, one unanticipated finding was the conversion of the tourism business (rental car R1) in the maturity stage that possessed a variety of IC. This result may be explained by the fact that the international franchisors proposed collaborating via franchising with the local mature businesses, mature tourism

firms being perhaps unlikely to convert to franchising without this invitation. Therefore, it is reasonable to suppose that when domestic independent businesses own IC in the maturity stage, they are more likely to be recruited purposively by international franchisors. Another possible explanation for this finding is the lower popularity of adopting a franchise system as an expansion strategy among successful SMEs in KSA, while the absence of institutions, education and developers of franchising (Chapter 5) may also transfer potential domestic franchisors to franchisees of international franchisors.

With regard to conversion at start-up, it is somewhat surprising that start-ups do not start out as franchises. They instead start as independent business then convert, which makes it easier to meet franchisors' requirements and standardisation given that the start-up was converted within six months of launching the business. The findings show that the intention to convert to franchising could be planned before establishing the independent business, due to franchise regulations in KSA. For example, potential franchisees should first apply for a business licence regardless of franchise contract and meet the requirements of SCTA and other government organisations, such as the municipal council and civil defence, which takes a long time, as discussed in Chapter 6. These long procedures may prevent investors from committing to international franchisors before getting the licence. Hence, conversion to franchising after establishing the independent business is easier than a franchise start-up.

Perceived values for conversion, by life cycle

The perceived advantages for convertors were related to the IC components and their improved business performance, as discussed in sections 9.2.1, 9.2.2, 9.2.3 and 9.2.4. Although much has been written about why franchising is chosen over independent business (Peterson and Dant, 1990; Kaufmann and Stanworth, 1995; Stanworth and Kaufmann, 1996), less is known about the reasons behind converting independent businesses into franchisees. These perceived values have not previously been investigated in the literature. Although Hoffman and

Preble (2003) investigated the reasons behind converting, their study was based on franchisors' opinions, not those of franchisees.

Most of the perceived values for conversion mentioned in this study were similar to the advantages associated with starting a new business through the franchise system, mentioned in the franchising literature (Kaufmann, 1999; Pine et al., 2000). However, when each perceived value is linked to its life cycle stage for local businesses, it gives a new insight, as shown in Table 9.1.

Stage	Table (9.1): Perceived values for conversion, by life cycle							
	Perceived value for conversion							
	Brand	Customers	Competition	Raising standards	Gaining experience	Advance technology	Increasing income	Making profit
Start-up	✓	✓	✓		✓		✓	
Growth	✓	✓	✓			✓		
Maturity	✓	✓						
Decline	✓	✓	✓	✓				✓

Source: Author

Table 9.1 shows the different and shared perceived values of conversion in each stage in the life cycle of an independent business . The number of perceived values is higher in the declining and start-up stages than it is in the growth and maturity stages. This finding reflects the previous performance of each business – what has been built so far before conversion and what needs to be done with conversion. For instance, a mature business has the fewest perceived values (brand name and customers), and these were shared by all stages. This finding confirms that the probability of conversion to franchising decreases as independent businesses enter the maturity stage.

Despite the fact that none of the independent businesses would convert if the value of franchising did not surpass the value of being an independent business in terms of profit (Williams, 1999), profitability and increasing income were not mentioned as perceived values by all convertors. This is somewhat similar to

previous studies where profitability was not mentioned, or not one of the top ranking reasons to become franchisees (e.g. Peterson and Dant, 1990; Withane, 1991; Guilloux et al., 2004). Thus, these perceived values may rather reflect short- and long-term strategies. In the short-term, the need in the decline and start-up stages is survival, whereas the need in the growth and maturity stages is to gain and maintain competitive advantage, respectively. For example, the support provided by franchisors for “gaining experience” and “raising standards” in declining and start-up business systems will help provide stability and security through “making profit” and “increasing income”. In comparison, growth stage businesses prioritise the “acquisition of advanced technology”, which leads to gaining competitive advantage. In terms of a long-term strategy, a brand package ensures the sustainability of competitive advantage.

9.6.2 Independent businesses: “Observers and learners”

The findings suggested that the accession of franchises to the tourism sector has an indirect impact on other local small and medium tourism enterprises (SMTEs). Three possible outcomes occur: the local business will be improved through imitation, or it will exit the marketplace. Franchisees will introduce good practices to the tourism sector, specifically service quality and customer satisfaction. Therefore, SMTEs must drop old practices and deliver good products and services. This can be accomplished partly through learning franchises’ practices by observing and imitating, in order to compete and survive in the marketplace. This finding concurs with Kusluvan and Karamustafa (2001) who stated that international companies increase the competitiveness of local tourism enterprises. Menon and Pfeffer (2003) found that competitors are a useful tool from which to learn and borrow practices, to boost performance and avoid being outcompeted.

Although the franchising format is based mainly on strategic assets that are difficult to imitate, it can be modelled as follows. Tangible assets and basic practices that are absent in SMTEs can be borrowed and customised locally. Converted hotels (Chapter 8) illustrated that affiliating with international brands has changed their tangible assets; these can be replicated by SMTEs without

affiliating with international brands. This agrees with Welch (1989) who stated that the access of US franchises to Australia has increased the number of imitators among local firms.

The second outcome is converting to franchising by affiliating with international brands. The findings showed that conversion can be chosen as a defence mechanism against competition, as discussed in sections 9.2.3 and 9.6.1.

The third outcome is exiting from the market as a failed business. Even though SCTA expected poor quality businesses to leave the market because of the restrictive new rules (Chapter 6), international franchises may have more power. The findings suggest local SMTEs that resist such a cultural business shift and that have an inability to confront competition may not remain in the market (Chapter 7). Welsh et al. (2006) argued that franchising has a negative effect on small businesses that cannot compete with international expertise. Moreover, Alon (2006) described the positive impact of international franchising in local markets as a painful economic restructuring that involved exterminating several local businesses that do not possess adequate standards, and constructing and fostering highly structured amenities and facilities.

9.6.3 Potential domestic franchisors

Local SMTEs can also develop over time to become domestic franchisors. The findings suggested that the entrance of franchisees into tourism might not only stimulate local SMEs to improve their competences but also induce them to be domestic franchisors. This finding agrees with scholars (Goncalves and Margarida, 1994; Sanghavi, 1998; Alon, 2004) who have described the role performed by international franchisors in hosting markets as stimulating the evaluation of domestic franchising locally and internationally, through their learning and emulating of the franchise model. According to the Chamber of Commerce, more than 200 firms in various sectors can be franchised, but they lack the criteria for building effective franchise systems (Chapter 5). This may be attributed to the franchising format concept not being understood by local businesses. Therefore, the network between local SMEs and franchises will

stimulate capable firms to learn how to construct the franchise format in their business. In the long-term, these local SMEs are more likely to expand globally after building an effective franchise model over some years.

9.7 Current franchisees (to remain or to leave)

Although the findings showed the overall satisfaction of current franchisees, as they perceived value delivered by international franchising, this may not guarantee their remaining in the franchise system. Frazer (2004) found that some franchisees access franchising with a long-term plan for success, while others utilise franchising as a pathway to access the industry as independent operators, after the acquisition of essential experience. Watson and Stanworth (2006) stated that HC is the main incentive for franchisees, whether their intention is to remain or to leave. As discussed in section 9.2.1, the perceived value of a franchisor's HC becomes less important over time; hence, some franchisees may leave the system and run an independent business. This finding concurs with that of Frazer and Winzar (2005), who found that some ex-franchisees run their own businesses in the same operational line as the previous franchise. Accordingly, this study suggested that franchising can be used as a means to gain HC in the tourism sector in the short run. Afterwards, ex-franchisees can establish an independent business in the same line as their previous field of tourism. This will not only tackle the current shortage of HC but also speed innovation and create new business ideas. This is better than conversion, for which learning only arrives after a long period of operating and some convertors may resist the dependency.

9.8 Government and private sector strategies

The findings in Chapter 6 showed the profound efforts by the government (SCTA) to promote tourism investment in five areas: coordination, planning, legislation, entrepreneurship, and stimulation (Sillignakis, 2008). The latter two areas can be more effective if the franchising is employed as a vehicle for business ownership that is associated with lower failure rates, stimulating financial institutions to fund these proven businesses. Accordingly, this study suggests that international franchising should be a tool for promoting tourism entrepreneurship, especially in

the absence of leading domestic tourism firms. Several research projects have found that the adoption of national government guidelines for franchising has led to faster economic growth, and the development and stimulation of entrepreneurship (Sanghavi, 1998; Wang, Zhu and Terry, 2008; Harif et al., 2011). In addition, international franchises stimulate not only local franchisees but also other local supplementary business in other sectors. For instance, the findings on converted hotels (Chapter 8) stated that agreements were signed with local outsources such as housekeeping, food suppliers and so on. This result agrees with Alon (2006), who illustrated that the emergence of international franchises in Russia has promoted significant investment in supplementary sectors in the local market.

As the results demonstrate, the SCTA has adopted the strategy of learning from international experiments to overcome shortages and weakness in some tourism fields, including training, classification, operation management agreements, and motorway services. It can thereby widely support marketing and fund international franchising in tourism investment. For example, SCTA cooperates with several financial programmes to promote tourism businesses (Chapter 6). However, the majority of these financial institutions (Chapter 5) has not adopted a franchise fund. Therefore, this study calls for them to add franchising funds to their programmes, to promote franchising in tourism.

In addition, for the first time in KSA's history a franchise has been mentioned in governmental policies, through the recent initiative adopted by His Majesty the Custodian of two Holy Mosques, King Abdullah Bin Abdulaziz, who has donated SR. 100,000,000 a year to the Social Charity Fund, which will be spent on financing franchise businesses alone (Alriyadh, 2011), designed to support minorities (poor families, orphans, and divorced women, recovering drug addicts) to initiate their small businesses . Previous research has suggested links between franchising's impact on society and support for minorities (Hunt, 1972; Chaudhry and Crick, 2005). Moreover, recently, franchising was added to the activities list that will be funded by the Kafalah program, designed to cover the bank's risk up to 80% or up to two million(SR) of the total investment (Kafalah,

2013), which means that bank loans are fully covered and guaranteed by the government. All these efforts will work positively in encouraging Saudi youths to enter franchising, and franchising in tourism is no exception.

Chapter 5 emphasised that franchises will have the potential to prosper once the specific law of franchising is issued (expected soon). This will result in increasing franchise campaigns and exhibitions as well as rising attention from lawyers, developers, brokers and academics to engage in this sector.

9.9 Cultural conflicts

As this study targets only international franchising as a tool for developing tourism investment in KSA, cultural conflicts should be taken into consideration. International companies may promote 'westernisation' in developing countries through its effect on beliefs, life-styles and consumption patterns (Kusluvan and Karamustafa, 2001). Some constraints related to the cultural context may discourage the diffusion of international franchising in KSA. For example, interviews' results showed that one of the opponents is against international franchising in general, due to the cultural differences between mother companies, which usually come from Western countries, and conservative countries such as KSA (Chapter 7). Alon (2006) claims that such opponents do not see the economic modernisation of franchising but consider it to be a tool to spread cultural homogenisation based on Americanisation and capitalism. Legrain (2003) believed that globalisation does not dissolve national cultures but rather frees people from the tyranny of geographical boundaries, allowing them to choose what enriches their lives and experiences. Legrain (2003) states that:

Even though American consumer culture is widespread, its significance is often exaggerated. You can choose to drink Coke and eat at McDonald's without becoming American in any meaningful sense. One newspaper photo of Taliban fighters in Afghanistan showed them toting Kalashnikovs — as well as a sports bag with Nike's trademark swoosh. People's culture — in the sense of their shared ideas, beliefs, knowledge, inherited traditions, and art — may scarcely be eroded by mere commercial artifacts that, despite all the furious branding, embody at best flimsy values³⁵.

³⁵ <http://www.philippelegrain.com/cultural-globalization-is-not-americanization/>

Participants in this study also believe that traditions and cultural norms might restrict the promotion of some tourism businesses, such as co-entertainment facilities. The findings in Chapter 5 showed that entertainment activities are generally neglected by investors because of gender segregation, which maximises their operation costs. Adding franchise fees to this type of business may become unattractive to potential franchisees. However, gender segregation is not necessarily a problem because the majority of international franchisors (mostly in restaurants) have successfully customised their outlet designs in KSA according to the requirements of the local culture. Chapter 8 also showed that international franchisors waive some standards to respond to the preferences of local culture.

9.10 Summary

This discussion chapter presented a model that illustrates how international franchising can be a tool to develop the tourism industry in KSA. This model combines the main findings from Chapters 5–8. Many of the factors provided evidence that international franchising can be a rich source for the acquisition of IC, including HC, OC and RC.

With regard to what types of tourism businesses can be franchised, there are some important limitations. The chapter showed that tourism entrepreneurship can be promoted through successful franchises for different categories of entrepreneurs, including start-ups and local businesses. Franchising can also be an effective tool to foster government and private sector strategies for economic renaissance. The chapter concluded by highlighting some of the constraints affecting tourism investment through franchising that are specific to the Saudi cultural context. Although the researcher supports the idea of learning from international franchising, she views it as a short-term solution in light of the current barriers, as it would be a tool for education to introduce the high standards used globally to the Saudi market and create tourism products and services that conform to the local culture. In the long-term, Saudis should be able to present their local culture through their tourism businesses.

Chapter 10: Conclusion

10.1 Introduction

Overseas franchising has been adopted as a vehicle for business ownership for novice entrepreneurs, as a growth strategy for SMEs and as an entrepreneurship development mechanism for accomplishing governments' economic plans. Franchising systems originated and developed in countries such as US, UK and Australia, from where a considerable number of successful brands have established and expanded these systems, both domestically and globally. Thus, franchising can be perceived as one of the effective mechanisms for transferring knowledge from more developed to developing countries, as a means of stimulating the growth and progress of a variety of economic sectors. This transfer mechanism is implicitly embodied in tacit and explicit knowledge present in pre-designed franchising packages that are provided by franchisors, who grant franchisees the right to operate a standardized business under their trademark against royalty fees paid by the latter on a regular basis. The franchising package is designed to support and enhance the Intellectual Capital (IC) of a given business, including Human Capital (HC) (e.g. training, experience, operational manuals), Relational Capital (RC) (e.g. brand, global advertising) and Organizational Capital (OC) (e.g. organizational culture, policies, systems and programmes).

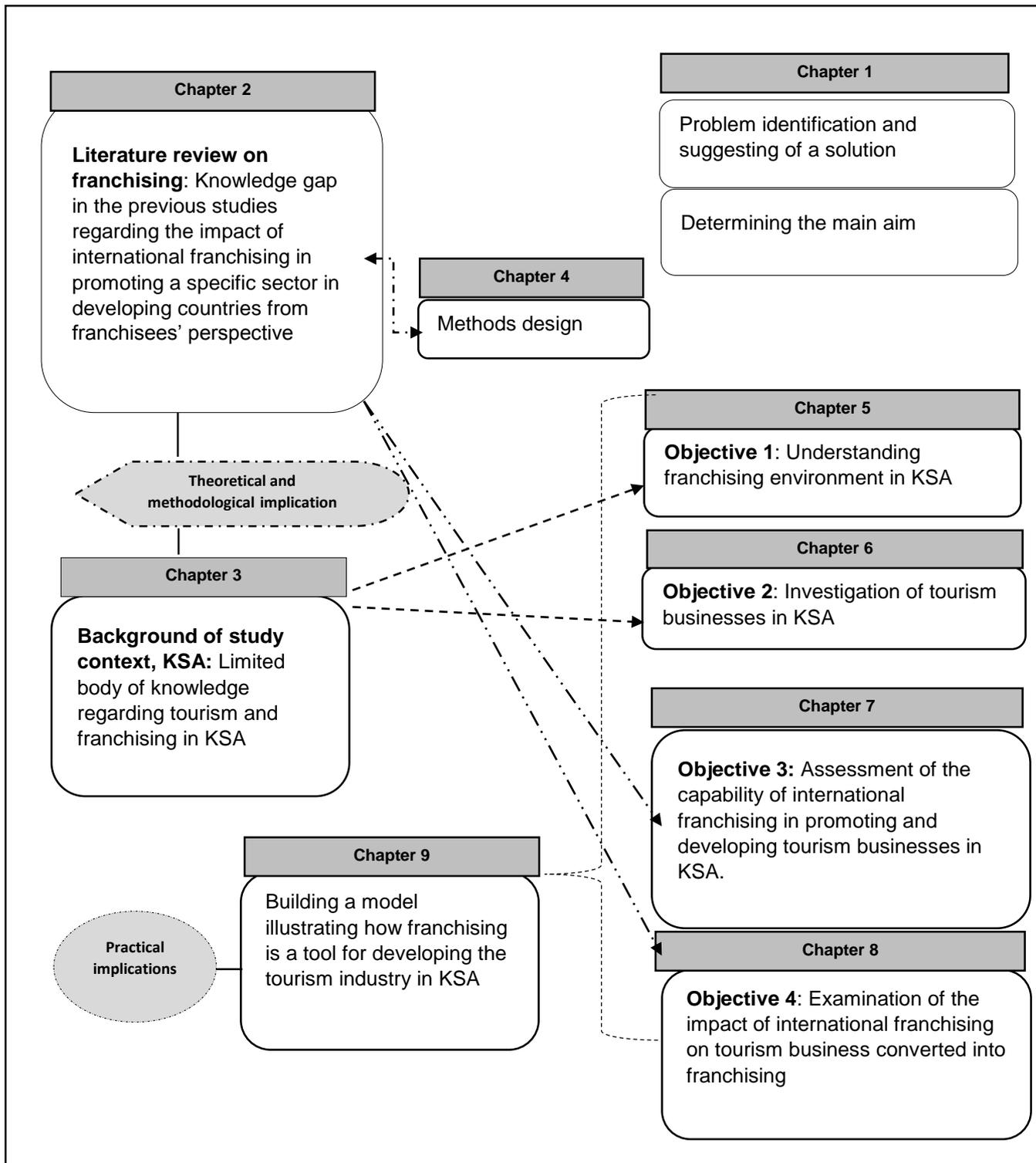
One of the examples where franchising has gained prominence is the tourism industry. The present study has focused on KSA, where the tourism industry could benefit from international franchising significantly more than other sectors of the Saudi economy. This is due to several reasons. First, the tourism industry is a new phenomenon in KSA, insofar as it was not considered as an individual category in the five-year plans of economic development commissioned in the period 1970-2005 (Albishry, 2007). Second, although the Saudi Commission for Tourism and Antiquities (SCTA), since its inception in 2000, has exerted considerable effort to create infrastructures and facilities promoting the tourism industry, tourism in KSA still faces an array of obstacles, mainly related to the prevailing inadequacies of human capital and only a modest supply of services catering specifically for tourist,

both in terms of quantity and quality (Altayyar, 2001; Alghamdi, 2007; Sadi and Henderson, 2005a; Alshammari, 2010; Johnson, 2010).

The above mentioned indicates that franchising represents a possible means of eliminating a large number of barriers preventing or dissuading people from doing business in general, and in the tourism industry in particular, especially through its ability to make up for the lack of business experience and knowledge on the side of newcomers to this industry. More specifically, this study aimed to research the possibility of adopting international franchising, with its proven business models that meet the international standards, by the tourism industry in KSA, as a systematic solution to its most persistent weaknesses.

In order to fulfil its main aim, the present study required a specific conceptual framework through which the potential of international franchising in KSA would be examined. This framework was constructed through procedures reflected in nine chapters, as shown in Figure 10.1. Accordingly, the focus of this chapter is to summarise the findings based on the above mentioned objectives of the study and demonstrate how these objectives were achieved by utilising sequential multiple methods (section 10.2). The chapter also outlines practical implications of the research findings (section 10.3), formulates the study's academic contribution (section 10.4), identifies the research limitations (section 10.5) and proposes suggestions for further research (section 10.6).

Figure 10.1: Conclusion of the research



Source: Author

10.2 Summary of findings

The main aim of this study was to examine the potential impact of international franchising on developing the tourism industry in KSA. Since the study applied a three-stage methodological approach to analyse the relationship between both tourism and franchising, the findings will be summarised according to the three-stage process (starting with the results from the preliminary interviews, then those from follow-up surveys and finally those from in-depth case studies) in relation to each of these objectives:

- (1) To understand the barriers that Saudi SMEs and start-ups face when striving to become franchisors or franchisees.
- (2) To investigate the factors that Saudi SMEs and entrepreneurs face when striving to grow or establish tourism business
- (3) To assess whether international franchising can be capable of promoting and developing tourism businesses in KSA.
- (4) To examine the impact of international franchising on developing local business recently converted to franchising as franchisees.

10.2.1 Objective one

The first objective of the study was to investigate the factors that Saudi SMEs and entrepreneurs face when striving to become franchisors or franchisees (see Chapter 5). The investigation started by interviewing franchise administrators and representatives (businessmen) of the Chamber of Commerce. According to the findings from the interviews, there are six types of factors influencing franchising diffusion. These are related to various aspects of legal, financial, institutional, marketing, educational and environmental characteristics, whilst being also informed by an array of factors related to franchisors/franchisees and existing domestic franchises. These factors are similar to those investigated by earlier franchising research in KSA (Tuncalp, 1991; Abughazala, 2007), Arab countries (Briggs and Araghi, 2009; Elsaman, 2012; Chanut, et al., 2013) and other developing countries (Anttonen et al. 2005; Alon et al., 2007; Bunea-Bontas and Petre, 2009).

In contrast, the current findings highlighted some factors that are considered as the most attractive for promoting franchising (Walker and Etzel, 1973; Alon and McKee,

1999, Anttonen et al., 2005). For instance, KSA's large population, a growing number of expatriates, accession WTO in 2005, customers' preference for foreign products and trademarks, the existence of intellectual property law and its large number of tourist sites.

The findings of the interviews conducted in the first phase of the study assisted in developing the research instrument for the second phase, a large-scale survey of 104 franchisees in different sectors. The first part of the franchise questionnaire validated the main barriers and drivers that were generated and extracted from the interview findings, and also allowed for further investigation of other relevant issues. Although the barriers mentioned may have a negative influence on accelerating the development of the franchise environment, making franchises less popular among SMEs and start-ups, these barriers have not so far affected the success and rapid growth of franchising in KSA. Essentially, this is because of the high demand for Western products and services among Saudi consumers (Bhuiyan, 1997; Assad, 2008). Such demand has then made international franchises successful despite the shortcomings of the legislative environment. Another reason in this regard is that the international franchisors have granted franchises to large Saudi companies that have the financial and managerial capabilities to maximise their horizontal expansion by opening several outlets in different regions within KSA.

The second part of the franchise survey investigated the characteristics of franchises currently operating in KSA. The findings showed that the franchises were generally concentrated in the Riyadh region and were managed by middle-aged and older owners/managers who possessed university degrees and had previous experience in business before their current franchises. This finding is congruent with franchisee profiles in the research previously carried out (e.g. Peterson and Dant, 1990; Hatcliffe et al., 1995; Williams, 1999; Guilloux et al., 2004; Weaven and Frazer, 2006; Natwest/BFA, 2013). This may be attributed to criteria requested by some franchisors (Edens et al., 1976; Clarkin and Swavely, 2006). This project's findings indicate that franchisees with financial capability and managerial experience were highly desired by franchisors.

Although the findings of this part of the survey provided a clear picture of the current situation regarding franchising in KSA, there was not enough information to

determine and analyse the relation between franchising and tourism. Therefore, the third part of the survey was specifically tailored to address this issue (see objective no. 3).

10.2.2 Objective two

The second objective of the study was to investigate the factors that Saudi SMEs and entrepreneurs face when striving to grow or launch tourism businesses (see Chapter 6). Similarly to the first objective, the investigation started by interviewing tourism administrators and representatives (businessmen) of the Chamber of Commerce. This resulted in identifying several factors that have hindered more effective and successful investments into tourism. Among these factors were challenges related to the absence of institutional and financial support, insufficient and inadequate human resources, marketing, cultural environment and other domains. Furthermore, the findings emphasised the urgent need to boost a wide array of elements of tourism businesses, including hotels, furnished apartments, motorway services, entertainment, events and exhibitions, transportation and tour guidance. Generally, the scarcity of new tourism investment ideas, the poor quality of existing tourism businesses, the lack of experience among investors and employees in tourism, and the absence of basic elements of tourist attractions were the major problems faced by people and businesses involved in the tourism industry in KSA. These findings are similar to what had been identified earlier by tourism research conducted in KSA during the last decade (e.g. Altayyar, 2001; Sadi and Henderson, 2005a; Sadi and Henderson, 2005b; Alghamdi, 2007; Alshammari, 2010; Johnson, 2010).

The above mentioned findings gave rise to a particularly sensitive yet urgent question regarding whether the existing barriers hindering the development of the tourism investment in KSA are a consequence of the lack of an overall governmental strategy of the development and support of tourism, or whether they are the result of a lack of entrepreneurial experience. Therefore, the identified barriers were presented to the official body responsible for regulating the tourism sector - SCTA. Respondents from SCTA explained their attempts to tackle these issues, especially regulatory ones. The findings demonstrate that the SCTA has supported the

development of the tourism industry since its inception in 2000 through five areas: coordination, planning, legislation, entrepreneurship, and stimulation (Sillignakis, 2008). Although SCTA has exerted substantial efforts to stimulate entrepreneurship in tourism and to develop its human resources, encouraging entrepreneurs to join this sector still constitutes a pressing issue.

This qualitative phase identified some factors that can enable the known benefits of franchising to assist in dealing with the current problems of the tourism industry that pertain to human resources: quality, marketing, operations, absence of development strategy, and customer satisfaction. This can largely be addressed through the enhancement of elements of IC, including HC, RC and OC.

The results of this phase also helped the researcher to design a large scale survey that was distributed to 475 tourism businesses. The first part of the distributed questionnaire validated the results obtained from the first phase of the study regarding the existing barriers and drivers. The second part of this questionnaire investigated the characteristics of tourism businesses currently operating in KSA. The findings of this part point to the fact that that the tourism industry has been dominated by small businesses established more than 10 years ago. These businesses were largely owned/managed by older owners/managers who held university degrees and had previous business experience.

Moreover, this survey helped to identify associations between certain barriers/drivers and characteristics of the existing tourism businesses. The main findings suggested that the newest and oldest tourism establishments, and owners/managers with less experience, were more likely to be affected by weaknesses in human resources and marketing strategy. Owners/managers with no previous experience in tourism were more likely to agree strongly with the statement calling for an 'increase in internal and external training for employees in the tourism sector'. Furthermore, the findings showed that a lack of sufficient capital and limited government and private sector funds had higher potential to be very influential on the younger respondents. Respondents of surveyed tourism businesses also agreed about the two factors related to international experience that were included as suggestions to promote the tourism sector, namely the 'recruitment of foreign experts' and 'attracting international franchising in tourism'.

These findings highlight the potential of international franchising to address some of the existing problems within the tourism industry. However, what was revealed stood in need of further supporting information to fully confirm the pertinent potential of international franchising. Therefore, the third part of the survey conducted as a part of this study was specifically tailored to obtain such information (see objective no. 3).

10.2.3 Objective three

The third objective of this study was to assess whether international franchising is capable of promoting and developing the tourism industry in KSA. Chapter 7, which dealt with this objective, presented mainly the third and fourth part of each survey. Both respondents of independent tourism businesses (as prospective franchisees) and franchises (as current franchisees) were asked in their questionnaires the same questions regarding four main areas, whereby a comparison was possible between the responses from both groups. These areas were (1) perceived values of international franchising stemming from joining a franchise (tourism group) or remaining with the current franchisor (franchise group); (2) the type of tourism business that has the potential to be franchised in KSA; (3) sources of information about franchising; and (4) the extent to which international franchising in tourism can be applied through conversion and start-ups.

The findings showed that there was a high level of agreement from both groups on the perceived values of international franchising, including: capability of the franchise to reducing costs, reducing risk of failure, achieving high profits, increasing competitive value, providing accumulative experience, advertising, training, access to credit facilities, enhancing quality, developing products/services, and attracting foreign tourists. The majority of these perceived values were found by previous studies when they asked current franchisees (e.g. Knight, 1984; Knight, 1986; Peterson and Dant, 1990; Withane, 1991; Williams, 1999; Tunnanen and Hysky, 2001; Gauzente, 2002; Weaven and Frazer, 2006; Bennett et al., 2009) or prospective franchisees (e.g. Kaufmann and Stanworth, 1995; Guilloux et al., 2004; Bennett, Frazer, and Weaven, 2010).

However, this project's findings showed significant differences between both groups with respect to some perceived values. The perceived values related to enhancing human capital (HC), including experience and training, were more important to motivate potential tourism businesses to join franchising, whereas those related to enhancing organizational capital (OC), including the continuous development of products and services together with some tangible values, including the reduction of costs and failure rates, were more important as an incentive for current franchisees to remain with the franchise system.

With regard to the type of tourism business that has the potential to be franchised in KSA, the findings showed that traditional tourism activities (accommodation, restaurants, cafes and travel agencies) have high potential for successful franchising in KSA. Due to the unpopularity of franchising in some activities, uncertainty appears in non-traditional tourism activities such as entertainment, resorts, training institutes, tourism guidance and tour organisers, and motorway services. This supports what is argued by Watson and Kirby (2000), that the growth of franchising has not shown a uniform increase, with a few sectors displaying more growth than others.

The findings revealed that the current franchisees had used a wider range of sources to gather information before they bought their franchises, with local exhibitions and Chambers of Commerce being the top channels used. This was to narrow down their possible franchise options (Chapman, 1997). However, the tourism group had no prior intent to seek out a franchise, and therefore these channels were not as important to them. In this context, the findings indicate that the Internet is an effective source of information used by prospective franchisees to learn about franchising opportunities.

The absence of tourism franchising in KSA was explored by surveying the respondents of franchises in different sectors of the Saudi economy. The most frequently mentioned reasons for not pursuing franchising in tourism were mostly related to their exclusive interest in their current field of business. The most interesting result in this section was the attitude of tourism businesses regarding converting their current business into franchises. Regardless of the level of their agreement, the opinions from the survey indicate that when an independent tourism business lacks IC, it is more likely to convert to franchising. This supports Watson

and Stanworth's (2006) assumption that the decision to become a franchisee is related to the possession of IC. The foregoing has been a basis for constructing a proposition that was later tested as a part of the study's fourth objective.

10.2.4 Objective four

The fourth objective was to examine the impact of international franchising on the development of local tourism businesses that have recently been incorporated into franchising as franchisees (see Chapter 8). This examination aimed to test the proposition that emerged from the tourism questionnaire (objective no.3), which assumed a positive relationship between gaining IC components and conversion to franchising. This proposition was comprised of three sub-propositions that help to trace the local business through four stages, paying particular attention to IC: the pre franchising stage, the decision-making stage, the conversion stage and the post-franchising stage.

The results indicate that joining a franchise can be done at any stage of the life cycle of a business, and the decision to convert may not be confined to a lack of IC. The motivation behind conversion was mainly based on the following desired benefits: maximizing profit and revenue, increased competitiveness, widening of customer range, gaining experience, enabling IT acquisition, and raising of overall business standards. Some of these motivations are consistent with Hoffman and Preble (2003) who investigated the reasons behind converting based on franchisors' opinions, and others are similar to the advantages associated with starting a new business through the franchise system (e.g. Peterson and Dant, 1990; Kaufmann, 1999; Gauzente, 2002). However, the current findings indicate that when each perceived value is linked to its life cycle stage for local businesses, it gives a new insight. For instance, the perceived values in the decline and start-up stages are more likely to reflect the need for survival, whereas the perceived values in the growth and maturity stages more likely to reflect the need for gaining and maintaining competitive advantage.

The case studies examined showed that the process of selecting a particular international franchise started with observation, gathering information, comparing opportunities and negotiating the franchise agreement. The conversion stage was

mainly based on the implementation of two main elements: standardisation and training. While franchisors primarily apply standardisation to facilitate monitoring and quality control, and manage overall franchisee performance (Kaufmann and Eroglu, 1999), they also prioritise training franchisees as a route to success (Ioanna and Maria, 2013). The findings of all the examined case studies indicate a positive impact of franchising conversion on the business' IC components, which were positively related to franchisees' performance outcomes. This agrees with Bontis et al. (2000), who found a positive relationship between IC components and business performance.

10.3 Implication of the research

As such, the findings, mainly based on the Saudi context, served as a platform for proposing a model of the impact of international franchising on stimulating the tourism industry in KSA (see chapter 9, Fig 9.1). These findings were gathered from respondents with various roles and level of experience; hence, their views provided an opportunity to create a link between government and private sector interests, which has consequently enriched the quality of the present research. Therefore, the findings of this study are of interest to a wide array of various parties including policy makers, novice entrepreneurs, current franchisees, existing SMEs and international franchisors.

Policy makers can benefit from findings since they help to determine the most significant barriers preventing entrepreneurs from engaging in the tourism industry and to identify drivers capable of promoting entrepreneurship in tourism in general. The findings of the present study may encourage policy makers to adopt franchising as a strategy for economic development as has been successfully done in other countries.

According to the proposed model, it is claimed that the effective international franchising is a source of three components of intellectual capital including HC, IC and RC for establishing a business. These three components should be taken into

consideration by potential franchisees as well as current franchisees as a means of assessing the opportunity to join/remain with a franchise network based on expected values received from franchisors. Novice entrepreneurs can use these findings to make their decision regarding franchising by increasing their awareness of the perceived values related to HC that are often associated with international franchising. These benefits can then help the novice entrepreneurs to address the shortage of human resources in tourism through ongoing training designed by franchisors for all employees to achieve effective business performance. The provision of such training is particularly important given that the tourism industry as a whole is lacking educational and training programmes and the unwillingness of owners to conduct costly training sessions for their employees. The owners often justify this by pointing out the high employee turnover rate in the industry. Since the perceived values of HC by current franchisees is eroded with possessing greater experience over time (Peterson and Dant ,1990), this study helps current franchisees to assess whether to renew their contract and remain with current franchisors or whether to leave franchising based on the received values of OC. In this regard, it should be noted that some ex-franchisees run successfully their own businesses in the same operational line as their the ex-franchise (Frazer and Winzar ,2005). This study would suggest that for those who do not wish to be franchisees for a longer period, franchising can be used as a means to gain HC in the tourism sector in a relatively short time. Such move will not only tackle the current shortage of HC but also speed up innovations and create new business ideas once the to-be ex-franchisees start their own businesses.

Given that the findings revealed that young Saudis are not present in the tourism industry as entrepreneurs or even as managers, franchising can be utilized to offer an opportunity for young people to engage in this sector. This study draws financial institutions' attention to emphasis on franchising fund and the presentation of young entrepreneurs in designed fund programmes.

With respect to existing businesses that face a problem of a high level of competition or they lack one of IC components regardless of their current business life cycle, this study can provide them with examples of successful businesses that used international franchising as a practical solution for their problems.

The findings of this study have also an important marketing implication for international franchisors who are interested in entering the Saudi market. These international franchisors could benefit from this study's findings, insofar as they increase these franchisors' understanding of the franchising environment in KSA, thus helping them to identify franchise opportunities in tourism activities and assist in the subsequent process of approaching and dealing with prospective franchisees. The findings confirmed the notion of existing opportunities in the tourism industry that need to be developed with a host of tourism services still not being provided by local businesses. Moreover, these findings can also assist international franchisors in selecting the most appropriate strategic choice of international franchising forms whether direct franchising, area development franchising, or master franchising. Since the findings highlight the fact that the mature international franchising system are prioritising business people with high financial and managerial capabilities, master franchising for capable franchisees seems to be the most suitable strategy to be adopted by international franchisors to maximise their franchise expansion in KSA (Welch, 1989; Preble and Hoffman, 2006). These capable master franchisees have rich knowledge about the local market and know how to approach appropriate sub-franchisees whilst minimising the monitoring cost and culture constraints in delivering franchising package to sub-franchisees (Grewal et al., 2011). Master franchisees are more likely to have a direct relationship with local financial institutions, which encourages banks to finance sub-domestic franchisees that are not financially independent to a sufficient degree. In addition, master franchisees can help their sub-franchisees to start-up a single unit franchise.

Furthermore, the findings highlighted that franchise fees can be a determinant that can promote or prevent diffusion in KSA whilst the total investment size can be increased in some location. International franchisors should take this issue into account when they are designing a specific price structure for a given location or a

type of business (Shane et al., 2006). In addition, franchisors can use the findings of this study to identify the mechanism that would increase the recruitment process efficiency. Local exhibitions and Chamber of Commerce's campaigns are more likely to attract potential franchisees, whereas an approach utilising websites can be used to attract prospective franchisees and increase their awareness about franchise-associated benefits.

10.4 Key contributions

The research provides better understanding of the potential impact of international franchising on the development of the tourism industry in KSA. In addition, the present study also makes a theoretical and methodological contribution to the existing body of knowledge in the domains of franchising and tourism research. The following section details these contributions.

10.4.1 Theoretical contribution

The findings of this research provide a theoretical contribution in five academic areas. First, since the franchising research field is still widely unexplored in the Middle East and GCC in particular, this research will serve as a foundation for future franchising studies in Arab countries (Alharbi, 2014). In the KSA context, this is the first study to investigate the socioeconomic characteristics of the owners/managers of franchisees, franchisors and their franchised businesses on a large scale. Furthermore, in response to scholarly claims that there is a lack of statistical data on franchising in KSA (Tuncalp, 1991; Sadi & Al-Fuzai, 2010), this study provides a comprehensive up-to-date overview of the franchise systems (data and trends) by analysing the secondary data derived from the Ministry of Industry and Commerce.

Second, this research will serve as a base for future tourism research in KSA since previously conducted research studies have neglected the issue of missing investments in tourism in KSA (Sadi and Henderson, 2005a; Johnson ,2010). The findings further advance the understanding of the barriers that entrepreneurs face when they seek to begin or grow their tourism businesses whilst also reflecting SCTA's efforts to develop and promote tourism investments since its inception.

Third, the research findings constitute a significant contribution to the existing knowledge by identifying a link between international franchising and the development of certain economic sectors. This research responded to Combs et al.'s (2011) suggestion that future research should use acumen from opportunity recognition to determine who will be drawn to franchising. This positive impact is extended to start-ups, SMEs, employees, domestic franchisees and franchisors and government and private sector strategies as embodied in a proposed model (Fig 9.1, Chapter 9). Since research into franchising has been often criticized for relying on single sector experience, mostly food sector, this study sheds light on less researched franchise activities such as tourism businesses (Cox, 2002; Dant, 2008; Nijmeijer et al., 2013).

Fourth, the findings enhance our understanding of the perceived values of franchising among three different categories of franchisees that have not been previously explored by most of franchising studies. These categories are (1) perceived benefits of current franchisees that motivate them to remain with current franchisors, (2) perceived benefits of joining franchising through converting to franchising as seen by prospective franchisees (independent business) (3) perceived benefits as recognised by current franchise convertors after the conversions. The motivation of current franchisees to remain as such provides an insight into understanding of the drivers behind the reasons for franchisees to continue with current franchisors after a specific period. This is particularly valuable contribution as this area of the pertinent research field has received less attention (Watson and Stanworth, 2006), insofar as previous studies have focused more on the motivation to become franchisees. In the same context, the findings progress and develop this assumption through the comparison of the current and prospective franchisees.

Fifth, empirical findings in this study provide a new insight on conversion franchising decision that can be made by independent businesses to be transformed into franchisees in the same operational lines as their business. This investigation is significant in at least four major respects. Firstly, in contrast to previous studies that

treated SMEs as potential franchisors, with exceptions to Hoffman and Preble (2003) and Hodge et al. (2013), this research explicitly introduced independent small and medium tourism enterprises (SMTEs) as prospective franchisees and examined their motivation towards joining the franchising through conversion. Secondly, converted businesses have not been empirically examined in the previous literature, which is probably due to the difficulty of identifying and tracking these types of businesses rather than due to the unpopularity of conversion. Third, the understanding of the life cycle stage in which an independent business can be converted into franchising along with a comparison between the business before and after conversion adds significant knowledge to the field of franchise research. Finally, the findings provide a model of a customer pool that can be generated from conversion to international franchisors. The findings of the probability of an independent business converting is somewhat compatible with the general assumption proposed by Watson and Stanworth (2006) that prospective franchisees with fewer IC are more likely to join franchising. Thus, this research confirmed the positive relationship between IC and the decision to become franchisees.

10.4.2 Methodological contribution

Since franchising research generally has been criticised for being heavily reliant on the quantitative approach (Elango and Fried, 1997; Gauzente, 2002; Nijmeijer et al., 2013), this study adopted a mixed methods design consisting of interviews, questionnaires, and case studies. To the researcher's knowledge, no previously conducted research has provided any form of empirical evidence regarding the impact of franchising from franchisees perspectives in tourism sector by utilising sequential mixed methods. Each field (franchise/tourism) was explored through preliminary interviews which findings then informed the development of a survey questionnaire investigating more issues related to the role of franchising in the development of the tourism industry. Finally, the two fields were combined through an in-depth understanding of four case studies of tourism businesses that were recently transformed into franchisees.

In terms of data collection triangulation, most franchising studies have focused on either the franchisor or the franchisee units. In contrast, this study has dealt with different categories including the government and the private sector, domestic franchisees and franchisors and convertors. In addition, this research adopted a new form of analysis that has not been done in franchising research before by tracing a converted business via three stages: pre-conversion, conversion and post-conversion stage. Subsequently, the performance of the local businesses before and after conversion was compared, including various scenarios that the firms operated with between these three stages.

As several aspects of this adopted methodology were explored, in terms of both franchising and tourism, the generalisation of the findings will take different forms depending on the examined concept. With respect to factors which may affect the diffusion of franchising in the KSA (Chapter 5), these may extend to countries in which franchising, as a mode of investment, is still not popularly spread and adopted by SMEs. For instance, GCC markets share many of the same characteristics as Saudi markets, including customer attitudes, market conditions, open trade boundaries, language, religion and culture. In addition, these factors can be also generalised to other Arab markets in the Middle East, though recent changes in countries that have been hampered by continuing political instability and security incidents should also be considered, such as those in Egypt, Libya, Iraq, Yemen and Syria.

As this research exists within a Saudi context, the factors that hold back the development of tourism (Chapter 6) may not be adequately generalizable to other countries, including neighbouring Arab countries; there are two main reasons for this. First, the newness of the tourism industry in the KSA presents a number of barriers; countries that have prior experience in tourism have already overcome these challenges, as their markets are already established and their nation open to international tourists from a variety of backgrounds. Secondly, as the KSA is considered to be the birthplace of Islam, housing two prime religious cities, this shapes the culture of the country significantly. For instance, the KSA is the only country that strictly applies Sharia law (Islamic law), derived from the Quran and

Hadith, as the main reference of legislation when compared to other Arab countries that institute parallel civil legal laws. In this sense, the conservative culture of KSA is unique and facilitates the development of its civil regulation, economy and politics. Therefore, employing franchising as a method of encouraging tourism products and services should conform to the nation's legal and cultural traditions.

Regarding the findings outlined in Chapter 7, obtained from a large sample questionnaire related to the perceived value of joining, or remaining within, a franchise, one could argue that the process of franchising could be extrapolated to other countries, developed or developing, ensuring that the experience of franchisor is considered, that ongoing support to franchisees is given, and provided that the economic and political environment of a hosting franchising countries is suitable.

Concerning the notion that case studies 'ability to be generalised to large population is debatable (Yin, 2003), this study attempts to examine the impact of franchising on converted businesses in areas other than the tourism sector (chapter 8). It is clear that the theoretical proposition put forward by case studies can be extended to other sectors. The findings provide clear evidence that the outcomes and performance after conversion, in all examined case studies, exhibited similar results and confirmed the general theoretical proposition: that there exists a relationship between IC and the decision to convert into franchising. More importantly, the heterogeneity of a franchising format should be considered when these findings are generalised to other sectors. For example, the way in which franchising systems are applied and operated, and how franchisor support is delivered in a converted business, can differ from sector to sector.

10.5 Limitations of the study

There are certain limitations of this research that need to be considered. These limitations occurred during the process of determining the research design and collecting data. Due to the fact that this research is one of the first studies investigating the potential impact of international franchising on the development of

the tourism sector in KSA, it began the preliminary exploration from a wide-angled view of the range of factors affecting the development of two fields - franchising and tourism - prior to linking the two fields together. Several themes emerged as having an influence on both sectors. Some examples of these themes are classification matters, legislation and administrative barriers, tourism education, women employment, norms and culture, franchise law, domestic franchising, marketing etc. Because the focus of this phase was to move from the pre understanding (through investigating the main issues by qualitative approach) to identifying the substantive context of the study (through a quantitative approach), data needed to be collected during a limited time prior to conducting the large surveys. Thus, there was no time to analyse all these themes in depth, as each theme can constitute a solo research topic, but rather they were analysed to the extent to which it served the main aim of this study.

As this research has mainly examined the impact of international franchising on the development of local entrepreneurs, one of the greatest limitations was exclusion of international franchisors from the study design. This was due to the difficulties of establishing contact with these franchisors. The researcher attempted to overcome this limitation by including master franchisees (mini franchisors) and domestic franchisors to represent the general thoughts and attitudes of franchisors. However, the sample was relatively small because their total population did not exceed 13 (MCI, 2012). The absence of international franchisors' views is mitigated by the findings from the four case studies, which mirror some characteristics of the profiles and attitudes of international franchisors.

The research study was conducted in an environment where gender segregation represents a social norm. Given that the researcher was female, this fact therefore had to inform the employed methods and design of the data collection process, especially with respect to interviewing male officials and businessmen in the KSA. As explained in Chapter 4, the initial plan was to organise a face-to-face focus group with high officials of SCTA. However, the existing separation of genders within the

SCTA premises forced the researcher to conduct group interviews via closed circuit television instead which might have affected the quality of interaction with interviewees and elaboration of raised issues. Moreover, some interviews were conducted through a phone, as the interviewees were unwilling to meet a female researcher. This had an impact on the quantity of information obtained from these interviews compared to interviews conducted face to face. As the researcher is well acquainted with her culture and customs, she attempted to alleviate any biases that would negatively affect the flow of information through her responding to participants' desires and preferences (e.g. the location of the interviews, the method of the interviews (telephone, face-to-face, with a group, conference call) and the chosen data collection method (e.g. whether the interview can be recorded)).

Despite the fact that representatives of franchisees differ from managers in some attributes, which may explain franchisees' decision to own rather than manage a franchise outlet (Gassenheimer, Baucus & Baucus ,1996), this study did not differentiate between these two categories when examining survey responses. This is due to the fact that the pilot surveys in both sectors exhibited a difficulty in finding available owners to answer the questionnaire due to their busy schedules. Moreover, some franchise owners may be considered passive owners. Indeed, the findings confirmed that a half of franchisees' owners own several outlets around KSA. Therefore, it was an obstacle to trace the availability of franchisees' owners in their outlets. This issue is not confined only to surveys, but also to the four case studies in which the owners owned multiple businesses. In order to mitigate this limitation, the researcher ensured that the large-scale surveys in both sectors (franchise and tourism) only included responses by either owners or general managers and did not include other staff's responses since some questions were related to decision-making (e.g. expansion strategy and conversion).

As franchising in the tourism industry remains a relatively new and under-researched phenomenon, in an attempt to gain a clearer picture of the potential of franchising in non-traditional activities that can be successfully franchised in KSA, the obtained

results were mainly concluded upon the opinions of current/prospective franchisees. These findings should be interpreted with caution, because the respondents' answers may be biased, insofar as they can be affected by their personal interests rather than the feasibility of franchising in certain tourism sub-sectors. Therefore, the findings would have been more relevant if the researcher could have supplemented these findings by providing some indicators (see chapter 2) from standard government data sources (e.g. sales share, failure rates, employees paid wage, and representation of franchising) that were previously used to examine the potential of franchising in a specific industry (Michael, 1996; Watson and Kirby, 2000; Watson, Kirby, and Egan ,2002). However, such data are not available to the general public; hence the research could not have obtained them.

As suggested by this study's findings, there are potential opportunities for promoting franchising in tourism to novice young entrepreneurs such as graduates, unemployed and women. However, none of these categories participated in the research. Therefore, their views could not be included due to the difficulties of finding the right sample with the intention of starting a tourism business through franchising, especially with the absence of franchise exhibitions where prospective franchisees can be easily identified.

10.6 Recommendation for future research

This section will highlight a number of research suggestions for the future in the light of the study's findings and the limitations that have been identified in the previous section. Essentially, this study represents a platform for further research into both the field of franchising and tourism.

This study has focused predominantly on the views of local franchisees. However, it is also very important to study international franchisors' perspectives, especially those operating in the tourism industry. Including such franchisors might help in providing a clearer picture of the decision-making process on the side of international franchisors with regard to a potential expansion of their businesses in a specific culture such as KSA. Furthermore, focusing on international franchisors can raise awareness about the way in which they transfer their business packages to their

franchisees whilst taking into consideration the specific local cultural dimensions such as language and social norms. Furthermore, there is a need for examining and raising awareness about international franchisors' opinions on determination the type of tourism business that have the potential to be successfully franchised in KSA.

Although this study contributes to the field of franchising research by analysing the correlation between franchising advantages and the development of the tourism industry, it should be noted that this industry consists of various non-homogenous subsectors such as hospitality, transportation, and entertainment. Therefore, additional research is needed to better investigate each sub-sector individually and independently in order to provide a deeper understanding of how each sub-sector can benefit from franchising and how franchising package can be applied. Furthermore, it is important to consider that the heterogeneity of a franchising format should not be generalised to other sectors. Thus, future research can examine the unpopularity of franchising in some sectors and the potential impact of international franchising on knowledge transfer to sectors in developing countries that have not experienced franchising; this is of particular importance given that franchising currently covers more than 65 industries in the world. Further research can examine the elements of the proposed model that illustrates the potential impact of international franchising on the development of tourism industry in KSA (Figure 9.1, chapter 9) and the potential of international franchising facilitating advancement of various industries in other developing countries.

In spite of the fact that four converted businesses displayed overall positive consequences of joining international brands, these case studies are in their early life cycle as franchisees. This means that the early life cycle may not effectively confirm the sustainability of current advantages in the long-term. Another issue is that the findings show the impermanence of the perceived benefits of joining franchising, whereby these benefits can change over franchisee's age. Therefore, more empirical research regarding these benefits and their association with the franchisee's life cycle would help to establish a greater degree of accuracy on this

matter. One way in which future studies can tackle this problem is to examine views and experience of ex-franchisees and failed franchisees, thus presenting another side of franchising.

The qualitative findings indicated a positive relationship between international franchising and IC; yet this correlation needs to be tested using a larger quantitative survey aimed at franchisees, utilizing the resource-based view theory that examines franchising in relation to a firm's resources and how they are employed.

It is also important to conduct a study analysing the effect of political environment on promoting international franchising in the Middle East in general and KSA in particular. Indeed, a host country's political stability is highly prioritised by any international franchisor seeking expansion. Given the foregoing, the phenomenon of the Arab spring and the recent wave of acts of terrorism and vandalism committed by ISIS have increased the perceived risk of a terrorist attack in KSA. Therefore, future research should provide an in-depth analysis of the impact of terrorist threats on international business and highlight the existing policies regarding terrorism, risk assessment together with necessary adjustments for coping with the challenge of terrorism in the Middle East.

Finally, it is of great importance to conduct more research that would produce a more comprehensive understanding of identified factors that influence the development of tourism in KSA outside the frame of franchising. More specifically, such research should focus on aspects of the tourism industry such as human resources, education, women employment, classification system, and culture and norms. In addition, empirical research is required to investigate these themes as a solo topic research in details.

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Appendix 1: Meta-analysis of franchising studies on franchisees perspectives (Methods, industry and country)

Franchising from franchisees perspectives					
Author	Perspective	Methods ¹	Industry	Country	Reasons
Izreali (1972)	-	-	Grocery retailer	UK, USA	National-known name, consumer publicly recognized the system as a reputation, national publicity and promotion, nationally recognized products and services, standard product and services, standard management system and methods, standard accounting method and inventory control, aid in financing business, built purchasing advantage, proven system, assistance pre-opening, psychological testing for screening franchisees, counsel of business experts, training programme, design of facilities and advice on fixture, display signs, local promotion of business, guidance in selecting inventory.
HUNT(1977)	Franchisees	-	-	-	Known trade name, training, advertising, belonging to a large chain, pre-opening assistance, and post-opening assistance.
Rosson (1977)	Current franchisees (first time, second time) trade name	QN	Car's garage	UK	There is a difference between a first-time franchisees' incentives and second one: Lack of local competition (motivation of first time franchisees) and the success of franchisors (motivation of second time franchisees).
Rubin 1978	-	-	-	-	Trademark, assistance for human capital, managerial advice/training, capital accessible loan.
KNIGHT (1984)	Current franchisee vs independent business	QN/QL		Canada	Known trade name, more profitable, proven business formula, less risky, quick business development.
KNIGHT (1986)	Current franchisees vs franchisors	ON/QL		Canada	Known trade name, more profitable, proven business formula, less risky, quick business development, more independence than salaried, employment, greater job satisfaction than salaried employment.
Peterson and Dant (1990)	Current franchisees	QN	Service industry	USA	Established name, training, better investment, lower development cost, independence (compared to salaried work). Additional reasons (limited employment opportunity, improving employment opportunities for others, helping people grow, rewards of one's effort, total responsibility)
WITHANE (1991)	Current franchisees vs franchisors	ON/QL		Canada	Start-up support, on-going support, gain some experience in management or in the sector, mass media, possibility to make profit (than salaried work or more than independent business, ease of obtaining loans from the bank, low development costs, proven business format, less risky, quick start, personal liking, availability of expert consultation.
Pilling (1991)	Prospective franchisees (existing small business)	QN	Truck Stop Operators (motor way services)	USA	Strong competitive position of small businesses would be negatively correlated with the appeal to join franchising.
Baron and Schmidt (1991)	Current franchisees and franchisors	QL	Various sectors	UK	Brand name, back-up help and support available, franchisor would guarantee the loan/ would assist the franchisee with introductions to a bank, proven concept, reduced risks.
Kaufmann and Stanworth	Prospective franchisees vs employed,	QN	--	USA	The motivation is to gain business support for those with prior experience and independency for those without prior experience.

¹ QN: Quantitative, QL: Qualitative

(1995)	independent operators				
Silvester et al. (1997)	Franchisors	QN		UK	Proven business system, independence/chance to be one's own boss, ongoing support, reduced risk, a known trade name, help with funding, good income, good long-term investment.
Hing (1995)	Current franchisees buying the behaviour model	QN	Restaurants	Australia	Well-known name, quality products, territorial allocation, profit, ease of obtaining finance, ready-made, indecency, satisfied with work amount, range of products.
Stanworth and Kaufmann (1996)	Prospective franchisees in UK and USA	QL	-	UK and USA	Known trade name, ongoing support, training, good income, less capital than independent business, proven business system, reduced risk independence.
Litz and Stewart (1998)	Current franchisees- vs -independent business	QN	Hardware industry (trade name)	USA	Trade name franchising, empirically tested, trade name franchise (TNF) can provide a competitive advantage to its franchisees by gaining scale economies through collective purchasing and through the use of the trade name.
Nunn et al. (1998)	Current franchisees. Push-pull factors	QN	Various sectors	UK	Job frustration, interested in area, spouse's circumstances change, early retirement, dismissed children, became older, divorce/relationship split, inherited money, and inherited franchise.
Stanworth and Curran (1999)	Current franchisee vs independent business	-	-		Recognized trademark, reputation, selecting the site, equipment provision, training, operational procedures, pricing, advertising ,marketing research, development for product and services, buying power/profit, financial assistance, lower risk, ease of entry, no experience needed, overcome informational barriers regarding business.
Williams (1999)	Franchisees vs independent business	Secondary data		USA	Wealth maximization, industry risk, access to financial capital.
Kaufmann (1999)	Prospective franchisees (self-employment)	QN	-	USA	Recognized trade name, territorial protection, training, presence of earnings, disclosure, available financing, amount of capital required to start and develop business, proven business concept, reduced financial risk.
Tuunanen and Hyrsky (2001)	Current franchisees (entrepreneurial characteristics)	QN	Various sectors	Finland	Ongoing franchisor support, a proven business concept, greater job satisfaction, economies of scale .
Gauzente (2002)	Current franchisees	QL	Various sectors	France	Brand, advice, training, advertising, profession, promotion, source of revenue, limited initial investment, security and efficiency of the business formula, reduction of risk, business development and growth, independence, possibility of a geographically settled opportunity, reconversion (in case of fired people), entrepreneurial spirit , professional change and opportunity, security and stability of the business formula.
Hoffman and Preble (2003)	Current franchisors (conversion)	QN	Various sectors	USA and Canada	Brand name, service support, training, marketing benefits, cost saving, operating /performance, franchisor's characteristics.
Guilloux et al. (2004)	Potential franchisees/ current franchisors	ON	-	France	Name, advice and assistance before opening, franchisor support, franchisor advertising, profitability, possibility for development.
Watson and Stanworth (2006)	Intellectual capital Framework	-	-	-	Human capital, relational capital, structural capital
Weaven and Frazer (2006)	Current franchisees: single vs multiple units	QL	Restaurants	Australia	Brand/trademark value, franchisor expertise, initial training, local marketing, future product and service additions, expected financial returns, proven business concept, reduction of risk, provision for family

					employment, easy method of self-employment, transferability of business units, lifestyle factors.
Bennett, Frazer, and Weaven (2009)	Current franchisees-vs-independent business	QL	Various sectors	Australia	Support provided, training provided, cost-saving, ready-made business, proven system, impressed with the offering, knew a current franchisee, complemented hobbies, a spontaneous decision, associated with a high-level investment.
Bennett, Frazer, & Weaven (2010)	Prospective franchisees	QN	-	Australia	Known brand name, support in running a business, training, growth opportunities in franchising (multi units), return on investment, benefits associated with residual claimancy, proven system, security issues, favourable lifestyle balance, being your own boss
Welsh, Davis, Desplaces and Falbe (2011)	Resource-Based View theory (RBV)	-		US	Prior industry experience will be negatively associated with becoming a franchisee. Hours worked will be positively associated with becoming a franchisee.

Source: Author

Appendix 2: Main tourism indicators inbound and outbound tourism from 2004 – 2014

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Inbound Tourism											
Tourists (Overnight Visitors) - ('000)	8,579	8,037	8,620	11,531	14,757	10,896	10,850	17,498	14,278	15,800	18,300
Tourist Nights - ('000)	111,810	91,359	112,383	152,372	209,309	157,010	180,885	388,805	279,132	---	---
Tourism Receipts (SR Million)	24,321	20,324	18,580	19,592	36,450	29,122	25,643	49,015	57,231	58,000	59,900
Domestic Tourism											
Tourists (Overnight Visitors) - ('000)	35,282	30,236	27,080	28,549	28,775	32,014	22,780	22,474	19,039	23,800	37,100
Tourist Nights - ('000)	216,870	196,737	183,527	188,403	199,037	198,477	116,982	109,761	95,590	---	---
Expenditure (SR Million)	36,320	31,968	32,262	31,770	37,590	33,398	31,324	35,548	52,644	23,400	44,500
Internal Tourism (Inbound + Domestic)											
Tourists (Overnight Visitors) - ('000)	43,861	38,273	35,701	40,080	43,532	42,910	33,630	39,972	33,315	39,600	55,400
Tourist Nights - ('000)	328,680	288,096	295,910	340,775	408,346	355,487	297,867	448,566	374,722	---	---
Tourism Receipts (SR Million)	60,641	52,292	50,842	51,362	74,040	62,520	56,967	84,563	89,875	81,400	104,400
Outbound Tourism											
Tourists (Overnight Visitors) - ('000)	3,811	4,403	2,000	4,126	4,087	6,032	17,827	15,281	18,671	19,200	19,800
Nights Spent Outside the KSA - ('000)	52,844	56,143	25,944	45,376	42,155	54,657	218,478	200,093	121,347	---	---
Tourism Expenditure (SR Million)	15,960	14,146	6,765	18,299	19,653	28,397	55,509	60,599	62,877	74,500	80,800
Hotel Occupancy Rate											
Rooms' Occupancy Rate (%)	50.6	51	51.2	50.8	51.8	54.6	59.2	63	64	---	---
Furnished Apartments Occupancy Rate											
Apartments' Occupancy Rate (%)	--	45.6	47.8	50	54.5	49.8	54.2	68.3	58.2	---	---

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Direct Tourism Employment (DTE)											
Total Jobs - DTE	333,521	332,275	355,555	426,561	466,523	616,485	629,310	670,028	709,292	751,000	795,000
Percentage of Saudis (%)	20.0	19.5	22.0	22.0	20.2	19.8	20.4	26.4	26.7	27	27.1
DTE/Total Labor Force in KSA (%)	6.2	5.4	5.6	6.4	6.6	7.9	7.9	7.9	8.0	7.9	7.9
DTE/Total Labor Force in the Private Sector (%)	7.2	6.2	6.4	7.3	7.5	8.9	9.0	9.1	9.1	----	----
Tourism GDP											
Tourism GDP (SR Billion)	36.4	36.5	35.5	45.4	51.6	52.1	61.6	65.7	70.2	----	----
Gross Income of Tourist Est. (SR bn)	57.3	59.1	60.0	75.5	84.5	91.9	100.6	107.5	115.1	----	----
Ratio of Tourism GDP to the Kingdom's GDP											
GDP - %	3.9	3.1	2.7	3.2	2.9	3.7	3.7	3.1	2.6	2.7	----
Non Oil Sector - (%)	7.2	6.6	5.9	7.1	7.5	7.1	7.7	7.2	5.2	5.2	----
Private Sector - (%)	11.3	10.5	9.5	11.2	11.7	11.5	12.5	11.7	7.5	---	---

Source: STCA (2012, 2014)

Appendix 3: Previous studies in tourism in the context of KSA

Year	Author	Theme of the study	Area Covered	The Main Aim	1- Methods 2- Sample size
1989	Al-Hijji	Leisure, recreational and behavioural motivation	Riyadh	To investigate the leisure-time of people and their perception of leisure availability.	1- Questionnaire 2- 721
1989	Din	Religious tourism	Islamic countries	To examine the extent to which the religious factor has a bearing on policy and development strategy affecting tourism in Islamic countries, and particularly in Malaysia.	- - -
1991	Thagaffy	Religious tourism	Jeddah, Makkah, Madinah	To examine aspects of leisure and holiday activities of the population, with special reference to Makkah province.	1- Questionnaire 2- 1,800
1992	Paul and Rimmawi	Nature and rural tourism	Asir	To collect information about tourists, their duration of stay at the Asir national park.	1- Questionnaire 2- 208
1992	Rinschede	Religious tourism	- - -	To describe the historical and contemporary forms of religious tourism	- - -
1993	Hammadi	Leisure, recreational and behavioural motivation	Jeddah's Corniche	To investigate outdoor recreational and leisure patterns in Jeddah's Corniche and their roles in determining open space planning and design.	1- Questionnaire 2- 275
1995	Ady	Nature and rural tourism	Taif	To investigate the practices of nature conservation in Taif.	- - -
1998	Al-Abdullah	Leisure, recreational and behavioural motivation	Dammam	To explore the social and culture values of Saudi society and their impacts of recreational utilities on the sea front.	1- Observation and Interviews 2-72
2002	Bogary	Leisure, recreational and behavioural motivation	Jeddah and Abha	To explore motivations for domestic tourism.	1- Questionnaire 2- 505
2003	Seddon and Khoja	Nature and rural tourism	Makkah, Madinah, Al-Jouf, Qassim, Hail, Riyadh	To gain an understanding of how Saudis spend vacations, interest in nature-based recreation, and the activities and facilities appropriate for reserve development.	1- Questionnaire 2- 202

2005	Sadi and Henderson	Tourism development	- - -	To investigate the future of tourism in Saudi Arabia .	Delphi Technique
2007	Alghamdi	Leisure, recreational and behavioural motivation	Outbound tourists in Saudi Arabia who travelled to Bahrain, Egypt and France.	To explore the motivations (explicit and implicit) of Saudi outbound tourism.	1- Questionnaire, Interview 2- 600 Questionnaires, 25 Interviewees
2007	Albishry	Services satisfaction	Jeddah and Abha	To assess Saudi tourists satisfaction or dissatisfaction with value delivery, in tourism services within the country	1- Questionnaire and observation/ Interview 2- 600 Questionnaires and 24 Interviewees
2008	Bokhari	Religious tourism	Pilgrimage and Umrah performance in the Holy Mosques in Madinah and Makkah	To evaluate the economic impact of religious tourism in Saudi Arabia, using a computable general equilibrium model.	1- Questionnaire 2- 503
2010	Zamani-Farahani, and Henderson	Religious tourism	Iran and Saudi Arabia	To explore managing tourism development in Islamic societies.	- - -
2010	Johnson	Tourism development	Overall view of Tourism in the Kingdom	To discuss potential to develop the Tourism Industry.	Secondary sources /personal communication
2011	Abdullah	Tourism development, Conference tourism	KSA and UEA	To investigate the current state of international conference tourism and assess of its future development possibilities.	Interviews, survey

Source: Author

Appendix 4: Interview questions of franchise committees/department

Main Issues	Questions
Legal environment	<p>1- What role do the franchise committees and department play in the daily franchise business operation and regulations process?</p> <p>2- Which government departments are responsible for issuance of licences for franchise activities?</p> <p>3- There is no specific law of franchise as some countries have, so under which rules and regulation do franchise operate? And how would this affect attracting international franchisors? What about the proposal of the issuance of specific franchise law by the Ministry of Commerce?</p> <p>4- In term of competition, does the law deal with restrictions on pricing and charges as well as terms and conditions?</p> <p>5- Is there any disclosure article in the agreement, or misrepresentation article which covers advertisements and oral representation by franchisors granted to franchisees?</p> <p>6- How do franchise agreement covers the protection of trademarks?</p> <p>7- Are there problems ?</p>
Investment environment	<p>8-As a trader what kind of franchise businesses do you think are feasible?</p> <p>9-From my observation, I noticed that the franchise sector is dominated by businessmen who already have their own large companies, so how would you open opportunities for potential small investors?</p> <p>10- How could franchise committees /departments help small business to start their business through franchising?</p> <p>11- Would you consider franchise businesses as a tool to improve tourism activities?</p> <p>12- What kind of franchise tourism business do think will be successful? From which countries?</p> <p>13- I noticed that there were only nominal franchisors of tourism business in the all three exhibitions; why?</p> <p>14- I noticed that the majority of franchise business is in fast food services/cafes; why?</p> <p>15-Why there is an absence of franchises among hotels and furnished apartments?</p> <p>16- Would you suggest a franchise business for some activities such as catering/ transportation and train services/ tourists guidance, etc.?</p>
Marketing /funding environment	<p>17-Do you have databases for potential investors who wish to start their business through franchise and are facing financial barriers?</p> <p>18- Do you have databases for potential franchisors who wish to grant franchises to Saudi citizens?</p> <p>19- What are your plans to promote investment in tourism through franchise businesses and how would they be implemented?</p> <p>20- Do you have any franchise magazine or any type of advertisement to propagate franchise as a mode of investment?</p> <p>21- Are there franchise consultants /services to market franchise businesses?</p> <p>22 -What role do the franchise committees /departments play in funding potential franchisees?</p> <p>23- Why there is an absence of franchise training institutes for potential franchisors /or franchisees in Chambers of Commerce?</p>
Factors related to franchisors	<p>24- What kind of international franchisors are interested in franchising in Saudi Arabia?</p> <p>25- What kind of local franchisors are interested in franchising?</p>
Factors related to franchisees	<p>26-Would you make use of unemployment as an attracting factor to encourage Saudi citizens to be franchisees?</p> <p>27-What criteria do franchisors apply before granting franchises to franchisees?</p>
Cooperation environment	<p>29- Are there any relationships between you and international franchise committees or associations?</p> <p>30- Is there any cooperation between franchise committees/departments and tourism committees/departments in the Chamber of Commerce? How?</p> <p>In terms of marketing:</p> <p>31-Is there any cooperation with the mass media?</p> <p>In terms of human resources:</p> <p>32- Is there any cooperation/coordination between you and human recourses programmes funds/ private institutes fund?</p> <p>33- Is there any cooperation between the franchise department and other government ministries such as the Ministry of Commerce and the Saudi Commission for Tourism and Antiquities?</p>
Obstacles	<p>34-What kind of problems and barriers face the franchise committees /department...</p>

Source: Author

Appendix 5: Interview questions of tourism committees/departments

Main issues	Questions
Legal environment	<p>1- What role do the tourism committees and departments play in the daily tourism business operation and regulation process?</p> <p>2- Which department are responsible for issuance of licences for tourism activities?</p> <p>3- Are there any kinds of contradiction or problems due to the existence of different departments, which regulate tourism businesses?</p> <p>4- What about the classification of some activities such hotels, furnished apartments?</p>
Tourism resources development	<p>5- What role do the tourism committees and departments play in developing tourism sources such as museums, parks, recreation?</p>
Investment environment	<p>6- As a trader what kind of tourism businesses do you think are feasible?</p> <p>7- From my observation, I noticed that the tourism sector is dominated by large companies owned by well-known businessmen, so how would you open opportunities for small and medium investors?</p> <p>8- How could the tourism department help small businesses to start up in the tourism sector?</p> <p>9- Would you take on another line of business development, such as importing foreign experience?</p> <p>10- Would you consider franchise business as a tool to improve tourism activities?</p> <p>11- What kind of franchise business for tourism do you think will be successful? From which countries?</p> <p>12- I noticed that there were only nominal franchisors of tourism business in all three exhibitions; why?</p> <p>13- What role do the tourism committees/departments play in developing tourism activities?</p>
Marketing/Funding environment	<p>14- Do you have databases for potential investors who wish to work in the tourism sector and are facing financial barriers?</p> <p>15- What are your plans to promote investment in tourism businesses? And how would these be implemented ?</p> <p>16 - What role do the tourism committees/departments play in funding potential investors?</p>
Human resources environment	<p>17- What role do the tourism committees/departments play in recruiting Saudi graduates / potential employees?</p> <p>18- The most recent report of SCTA (2010) indicated that more than 84% of employees in the tourism sector are non-Saudis, so what are the barriers that affect citizens' employment?</p> <p>19- Are there training programmes (long-term or short-term) in the Chamber of Commerce to develop Saudis workers' skills?</p> <p>20- As a trader, do you have internal training in your companies?</p>
Cooperation environment	<p>In terms of tourism:</p> <p>21- What kind of cooperation is there between you and regional branches of SCTA?</p> <p>22- Are there any relationships between you and international committees?</p> <p>In terms of franchise:</p> <p>23- Being under one organization, is there any cooperation between franchise department and tourism committees?</p> <p>In terms of marketing:</p> <p>Is there any cooperation between you and media institutions?</p> <p>In terms of human resources:</p> <p>24- Is there any cooperation with the human resource development Fund (HRDF) or with any private sector funding institutes?</p>

Source: Author

Appendix 6: Franchise sector questionnaire



Questionnaire of owners and managers of firms engaged in franchise activities in the Kingdom of Saudi Arabia

Dear Owner/Manager

I am pursuing an academic research study at Exeter University, United Kingdom. The aim of the research is to explore the impact of international franchising on developing tourism sector in Saudi Arabia. As your business is recognized as a distinguished player in franchising market, your valuable feedback will guide efforts to improve franchise /tourism services in the future.

Please spare some of your valuable time to complete the attached questionnaire. I assure you that all information in this questionnaire will be completely confidential and all answers will be reported anonymously. Finally, many thanks for your cooperation and contribution to this survey.

Best regards,

Mona Mohammed Alharbi
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Section (1): Opinions about franchise environment in KSA:

Q1: How influential are the following factors in restricting franchise environment in KSA: (Tick one box only for each statement)

No	Factors	Very influential	Influential	Some Extent influential	Not influential	Totally Not influential
1	Lack of specific law that govern the franchise agreements					
2	Lack of laws related to dispute settlement and litigation					
3	Slow execution of judicial resolutions					
4	Lack of application of competition rules and regulations					
5	Lack of specialized administration unit at the franchisor's entity to look after the franchise business and follow up with the franchisor					
6	Lack of franchise association that organize the relation between the companies dealing in franchise business					

7	Lack of specialized consultants to study the franchise agreements and provide the franchise services					
8	Lack of information about investment through the franchise system					
9	Lack of training courses in the educational and training institutes about the franchise					
10	Lack of acculturation programs that propagate the franchise business					
11	General thinking that franchise business is limited to fast food restaurants and coffee					
12	High cost of franchise fees					
13	Lack of special funding institutions to support franchise business					
14	Others(please specify).....					

**Q2: How influential are the following factors in promoting franchise environment in KSA:
(Tick one box only for each statement)**

No	Fact ors	Very influential	Influential	Some Extent influential	Not influential	Totally Not influential
1	Existence of intellectual property Law					
2	Differentiation between franchise business and commercial agencies					
3	Accession to World Trade Organization (WTO) in 2005					
4	Flexible terms of franchise agreement					
5	Obligation of the franchisor to his duties towards the franchisee					
6	Low franchise fees					
7	Existence of banks and other lending institutions to financing franchise business					
8	Large population in KSA					
9	A growing number of expatriates					
10	Customers preference of foreign products and trademarks					
11	Large number of tourist sites in KSA					
12	Rehabilitation and preparation of tourism sites to accommodate tourism activities					
13	Others (specify).....					

Section (2): Opinions about choosing franchising as a mode of investment:

Q3: To what extent the following perceived values motivate you to remain within the current franchise system: (Tick one box only for each statement)

Capability of franchising						
		Not at all capable	Not capable	Capable to some extent	Capable	Very capable
1	Capability of the franchise to reduce the business start-up expenses					
2	Capability of the franchise to reduce the chances of failure					
3	Capability of the franchise to achieve high profits					
4	Capability of the franchise to increase competitive value					
5	Capability of the franchise to make use of accumulative experience					
6	Capability of the franchise to advertise					
7	Capability of the franchise to access training from the franchisor					
8	Capability of the franchise to access credit facilities					
9	Capability of the franchise to provide high quality services					
10	Capability of the franchise to develop competitive products and services continually					
11	Capability of the franchise to attract foreign tourists					

Q4: To what extent the international franchise systems have the opportunity to succeed in developing the following tourism activities? (Tick one box only for each statement)

Type of tourism business that can be franchised						
		Not at all possible	Not possible	Possible to some extent	Possible	Very possible
1	Five-star hotels					
2	Other classified hotels (Four- or Three-star hotels, etc.)					
3	Unclassified hotels (conversion)					
4	Classified furnished units and apartments					
5	Unclassified furnished units and apartments (conversion)					
6	Travel agents					
7	Restaurants					
8	Coffee shops					
9	Car rental companies					

10	Entertainment (theme parks, amusement centres, zoological parks, water parks, museums, themed resorts, and natural attractions)					
11	Resorts (seaside resorts, mountain resorts)					
12	Transportation companies (coaches, buses)					
13	Private transportation (limousine)					
14	Tourism training institutes and colleges					
15	Tourism guidance and tour organisers					
16	Motorway services (motels, cafes, restaurants, shops, toilets, etc.)					

Q5: Please indicate the importance of the following ways in reaching and meeting franchisors or franchisees: (Tick one box only for each statement)

No	Ways	YES	NO
1	Local Fairs		
2	International Fairs		
3	Newspapers and Magazines		
4	Commercial Agent		
5	Franchise Association		
6	Chamber of Commerce		
7	Direct Contact		
8	Websites (company website, other advertisement webs)		
9	Others (specify).....		

Section (3): Prediction for investing in tourism through franchising:

Q6: Would you consider investing in tourism activity through the franchising? Please mention the reasons?

Yes Specify the activity

No Specify the reasons

Section (4-A): General Information

1. Location

Middle region

Western region

Eastern region

2. Please tick the appropriate activity or activities the franchise is involved in:

No	Kind of Business Activity	Options
1	Restaurants/Fast Food and Coffee Shops	<input type="checkbox"/>
2	Suppliers of Food Stuff/Beverage	<input type="checkbox"/>
3	Textiles/Readymade Clothes	<input type="checkbox"/>
4	Medical Equipment/Medicines and Drugs Home	<input type="checkbox"/>
5	Appliances/Electrical Tools Furniture/Home and Office	<input type="checkbox"/>
6	Furniture Perfumes/Cosmetics and Accessories Children	<input type="checkbox"/>
7	Toys/Handicrafts/Gifts Cars/Spare Par	<input type="checkbox"/>
8	Industrial Equipment/Tools	<input type="checkbox"/>
9	Building Materials	<input type="checkbox"/>
10	Trade and Gold Smith/Jewellery and Watches Communication/Internet/Computer	<input type="checkbox"/>
11	Devices/Electronics Travel Agent Services	<input type="checkbox"/>
12	Consulting Services (Accounts/Legal/Management etc.)	<input type="checkbox"/>
13	Hotels/Furnished Units and Apartments/Motels	<input type="checkbox"/>
14	Petrol Services Entertainment	<input type="checkbox"/>
16	Services Social services	<input type="checkbox"/>
17	Others	<input type="checkbox"/>

If you are franchisee please go to section (4-B). If you are a franchisor please skip to Section (4-C)

Section (4-B) – General information about yourself and your franchise business:

If you are a franchisee, please answer the following general questions about yourself and your franchise business:

1. Are you the:

- Manager Manger and owner Owner

2. Age of the owner/manager

- 20- 29 30- 30 40- 49
 50- 59 60- 69 Above 70

3. Qualification of owner/manager:

- Post graduate University Secondary Intermediate (and less)

4. Do you have previous experience in business before owning /managing this franchised business? If yes for how long?

- Yes Year (s) No

5. How long have you been with your current franchisor?

- 1– 5 Years
 6– 10 years
 15- 11 years
 More than 16 years

6. What type of agreement do you have with your franchisor?

- Single unit franchise Multi-unit franchise
 Area developer franchise Other (please specify)

7. How many outlet(s) of this franchise system do you own?

.....(Outlet/Outlets)

Section (4-C) – General information about yourself and your franchise business:

If you are a franchisor, please answer the following general questions about yourself and your franchise business:

1. Are you the:

- Manager Manger and owner Owner

2. Age of Owner/Manager

- 20- 29 30- 30 40- 49
 50- 59 60- 69 Above 70

3. Qualification of Owner/Manager:

- Postgraduate University Secondary Intermediate (and less)

4. Do you have previous experience in business before owning /managing this business? If yes for how long?

- Yes Year (s) No

5. Which of the following best describe the franchisor of this business?

- Owner of the mother Company Master franchisee Other (please specify)

6. How long has your company been franchising in Saudi Arabia?

- 1– 5 Years
 6– 10 years
 15- 11 years
 More than 16 years

7. How many franchised unit(s) does your company have in Saudi Arabia?

.....(Unit/Units)

8. Do you have other businesses owned in addition to the franchised unit(s)? If yes how many?

- Yes Business(s) No

9. Please indicate the degree of the importance of the following statements for choosing your franchisees (Tick one box only for each statement)

No	Statement	Very Important	Important	Some Extent	Not Important	Totally Not Important
1	Financial Capability of franchisee					
2	Administration Experience of franchisee					
3	Personal Relation with franchisee					
4	Recruiting current owners of independent business as franchisees					
5	Geographical location of the franchise business					
6	Other reasons of importance (Please Specify)				

Appendix 7: Tourism sector questionnaire



Questionnaire of owners and managers of the firms engaged in tourism sector in the Kingdom of Saudi Arabia

Dear Owner/Manager

I am pursuing an academic research study at Exeter University, United Kingdom. The aim of the research is to explore the impact of international franchising on developing tourism activities in Saudi Arabia. As your business is recognized as a distinguished player in tourism market, your valuable feedback will guide efforts to improve franchise /tourism services in the future.

Please spare some of your valuable time to complete the attached questionnaire. I assure you that all information in this questionnaire will be completely confidential and all answers will be reported anonymously. Finally, many thanks for your cooperation and contribution to this survey.

Best regards,

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Section 1: Opinions about the Tourism Sector Firm in the Kingdom of Saudi Arabia

Q1: How influential are the following factors in restricting investment in tourism industry? (Tick one box only for each statement)

No	Factor	Very influential	Influential	Some extent influential	Not influential	Totally Not influential
1	A – Legal Factors: Issuance of licenses from more than department					
2	Long administrative procedures to establish Tourism projects					
3	Large number of requirements to avail tourism activities license.					
4	High criteria for hotel and furnished unit and department classification					
5	B– Financial Factors: Lack of enough capital for Small and Medium Establishments					
6	Unwillingness of banks to finance for small and medium enterprises					

7	Limitation of finance by the specialized government and private sector lending institutions					
8	Non enjoyment of investors of tourism for customs concessions in tourism sector like other sectors					
9	High operational costs of tourism business compared to other sectors.					
10	C – Human Resources Factors: Inexperience of the employees working in the Tourism sector					
11	Domination by expatriates in jobs of tourism sector					
12	High turnover of Saudi employees in tourism sector					
13	Weakness of graduates from the Educational and Training Tourism Institutes					
14	Small number of Tourism Colleges and Institutes					
15	Inexperience of establishment of Tourism Training Institutes					
16	D. Marketing Factors Non availability of specialized marketing offices to propagate domestic Tourism					
17	Poor marketing tourism products and services by tourism businesses					
18	Dependency on official efforts in advertisement (the activities of SCTA and the municipalities)					
19	E – Other Factors: Hesitation of businessmen to invest in relatively new tourism sectors					
20	Lack of services at tourist attractions such as beach, national parks					
21	Seasonality of the Tourism activities					
22	Lack of tourist focus at events and festival					
23	Imitation of business businesses in one geographic area					
24	Difficulty in availing information about the investment opportunities in the sector					
25	Others (please specify)					

Q2: How influential are the following factors in promoting tourism investment in KSA :(Tick one box only for each statement)

No	Factors	Very influential	Influential	Some Extent influential	Not influential	Totally Not influential
1	Recruitment of foreign experts					
2	Attracting international franchising in tourism					
3	Increase internal and external training for employees in tourism sector					

4	Development of training programs in the establishment engaged in training of tourism					
5	Conduction of conferences and exhibitions for promoting attraction of investment in tourism industry					
6	Initiation of new ideas and activities during festivals to attract tourists					
7	Decrease of hotels and furnished apartments classification standards					
8	Gradual application of official hotels and furnished apartments classification standards					
9	Enhancement of government support to investment in tourism activities					
10	Establishment of special fund Institution to support the tourism Industry					
11	Establishment of joint stock company with big financial resources specialized in tourism investment					
12	Establishment of business incubators for financing training and support tourism activities					
13	Balanced distribution of festivals and events throughout the year					
14	Other (please specify					

Section (2): Opinions about the Franchise as a mode of investment in Tourism:

Q3: To what extent the following perceived values would motivate you to join franchise system as franchisees :(Tick one box only for each statement)

Capability of franchising						
		Not at all capable	Not capable	Capable to some extent	Capable	Very capable
1	Capability of the franchise to reduce the business start-up expenses					
2	Capability of the franchise to reduce the chances of failure					
3	Capability of the franchise to achieve high profits					
4	Capability of the franchise to increase competitive value					
5	Capability of the franchise to make use of accumulative experience					
6	Capability of the franchise to advertise					
7	Capability of the franchise to access training from the franchisor					
8	Capability of the franchise to access credit facilities					
9	Capability of the franchise to provide high quality services					
10	Capability of the franchise to develop competitive products and services continually					
11	Capability of the franchise to attract foreign tourists					

Q4: To what extent the franchise systems have the opportunity to succeed in developing the following tourism activities? :(Tick one box only for each statement)

Type of tourism business that can be franchised		Not at all possible	Not possible	Possible to some extent	Possible	Very possible
1	Five-star hotels					
2	Other classified hotels (Four- or Three-star hotels, etc.)					
3	Unclassified hotels (conversion)					
4	Classified furnished units and apartments					
5	Unclassified furnished units and apartments (conversion)					
6	Travel agents					
7	Restaurants					
8	Coffee shops					
9	Car rental companies					
10	Entertainment (theme parks, amusement centres, zoological parks, water parks, museums, themed resorts, and natural attractions)					
11	Resorts (seaside resorts, mountain resorts)					
12	Transportation companies (coaches, buses)					
13	Private transportation (limousine)					
14	Tourism training institutes and colleges					
15	Tourism guidance and tour organisers					
16	Motorway services (motels, cafes, restaurants, shops, toilets, etc.)					

Q5: Specify the means through which you have come to know the franchise system as a mode of investment and expansion of business:

No	Ways	YES	NO
1	Local Fairs		
2	International Fairs		
3	Newspapers and Magazines		
4	Commercial Agent		
5	Franchise Association		
6	Chamber of Commerce		
7	Direct Contact		
8	Websites (company website, other advertisement webs)		
9	Others (specify).....		

Section (3): Prediction for investing in tourism through franchising

Q6: Would you consider converting your current business to international franchised business (as franchisee)? Please mention the reasons?

Yes Specify the reasons

No Specify the reasons

Section (4-A): General information about the business:

1. Location

Middle region

Western region

Eastern region

2. Please tick the appropriate activity or activities your tourism business is involved in:

No	Kind of Business Activity	Options
1	Five star hotels	<input type="checkbox"/>
2	Other classified hotels (Four, Three, two stars etc...)	<input type="checkbox"/>
3	Unclassified hotels	<input type="checkbox"/>
4	Classified furnished units and apartments	<input type="checkbox"/>
5	Unclassified furnished units and apartments	<input type="checkbox"/>
6	Travel agents	<input type="checkbox"/>
7	Restaurants	<input type="checkbox"/>
8	coffee Shops	<input type="checkbox"/>
9	Rent-a-car	<input type="checkbox"/>
10	Entertainment centres	<input type="checkbox"/>
11	Resorts	<input type="checkbox"/>
12	Transportation companies (buses)	<input type="checkbox"/>
13	Tourism educational /training institutes and colleges	<input type="checkbox"/>
14	Tourism guidance /tour organizers	<input type="checkbox"/>
15	Rest houses	<input type="checkbox"/>
16	Private Transportation (Limousines)	<input type="checkbox"/>
17	Others	<input type="checkbox"/>

3. Which of the following best describe this tourism business:

- Sole Proprietorship
- Company
- Franchise
- Others (specify).....

4. How long has this business been established?

- 1– 5 Years
- 6– 10 years
- 15- 11 years
- More than 16 years

5. Does the current company have branch(s) in Saudi Arabia? If yes how many?

- Yes Branch (s)
- No

6. Do you have other businesses owned in addition to the current tourism business in Saudi Arabia? If yes how many?

- Yes Business (s)
- No

Section (4-B): General information about yourself:

1. Are you the:

- Manager
- Manger and owner
- Owner

2. Age of the owner/manager

- 20- 29
- 30- 30
- 40- 49
- 50- 59
- 60- 69
- Above 70

3. Qualification of owner/manager:

- Postgraduate
- University
- Secondary
- Intermediate (and less)

4. Do you have previous experience in business before owning /managing this business? If yes for how long?

- Yes Year (s)
- No

Appendix 8: Pilot survey of franchise businesses

A) Reliability analysis

Question's number	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	Number of Items
Q1	.732	.734	9
Q2	.776	.786	10
Q3	.911	.886	9
Q4	.705	.724	15
Q5	.832	.825	9
Overall reliability of the Questionnaire Items	.813	.820	42

B) Suggestions and amendments:

Respondents made some suggestions regarding some questions as follows:

Question's number	Comments	Amendments
Q1	Add the following factors	High cost if franchise unit . Lack of laws related to disputes settlement and litigation. Slow execution of judicial – resolutions. Lack of application of competition rules and regulations.
Q2	Add the following drivers	Flexible term of franchise business. Obligation of the franchisor to his duties towards the franchisee. Low franchise fees. Existence of intellectual property law.
Q3	Add the following values	Capability of the franchise to develop competitive products and services continually. Capability of the franchise to increase competitive value.
Q6	Add the following criteria	Geographical location of the outlet.

Appendix 9: Pilot survey of tourism businesses

A) Reliability analysis

Question's number	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	Number of Items
Q1	.864	.885	23
Q2	.832	.825	10
Q3	.866	.869	9
Q4	.849	.845	15
Overall reliability of the Questionnaire Items	.907	.903	38

B) Suggestions and amendments

Respondents made some suggestions to add some factors and reasons to some questions as follows:

Question's number	Comments	Amendments
Q1	Add the following factors	Lack of tourist focus at events and festivals. Imitation of tourism businesses in one geographical area. Difficulty in availing information about investment opportunities in tourism sector.
Q2	Add the following drivers	Development of training programs in the establishment engaged in training of tourism. Increase the number of festivals to be equally distributed among regions Gradual application of official classification standards. Reduction of official classification standards.
Q3	Rewording	Change Likert's Scale from Excellent... To Very Capable... To Not Capable At All
Q4	Separate the two activities in the list	Restaurant and coffee shops

Appendix 10: Case study protocol

A) An overview of the case study: The purpose of the case study is to provide an in-depth investigation of the impact of franchising on the development of the independent tourism businesses and real estate agent. This investigation will be carried out in **4 stages**:

The first stage (Pre-conversion): this stage will describe the status of the business before its conversion to franchise, through the socio-economic characteristics of the business.

The second stage (Conversion decision-making): this stage will investigate the idea, reasons, information sources and evaluation of choosing to franchise.

The third stage (Conversion): this stage will investigate the process of the conversion from signing the contract to modifying the business to be franchised.

The fourth stage (Post-conversion) this stage will describe the business after its conversion to franchising through the socio-economic characteristics of the business. The comparison between the pre-conversion stage and post-conversion stage will test the three propositions about the capability of franchising to make the business survive and grow.

B) Data collection procedures:

1) Names of firms and interviewees:

The case study interviews will be conducted with 4 different firms that have converted to franchising. Three firms are in the tourism sector (Hotels and rental car) and one company operates in the real estate sector. Types of business will be used to identify the participants: Hotel (H1) and (H2) Rental car (R1), Real estate agent (R2).

2) Data collection plan:

The interviews will be conducted in Riyadh city. Each interview will be last between 90 and 120 minutes and the interviews will be recorded and transcribed.

C) Expected preparation prior to site visits:

The outline of the interview will be sent to participants. Participants may need to prepare some figures.

D) Case study questions:

I designed the questions (four stages) to be asked to the hotel that converted to franchise, as shown below. Rental car and real estate companies will be asked the same questions with some modifications according to the nature of the business .

Case study questions

A) Pre-conversion stage:

1- What were the socio-economic characteristics of the business before franchising, in terms of:

- Type of business (B&B, Hotel, Inn, etc.)
- Type of establishment (Independent, part of chain), year of establishment
- Number of bed spaces
- Charge per single room
- Charge per double room
- Occupancy rate
- Number of employees
- Profit/income (yearly/quarterly)
- Characteristics of customers (target customers, tourists, locals, businessmen, etc.)
- Customer services (booking process)
- Hotel facilities (restaurants, gym, etc.)

- Advertisement /marketing
 - Membership of associations / awards/ social responsibility
 - Characteristics of the owner (passive/active owner/ has other businesses/experiences)
- 2- **Describe the previous status of the hotel before obtaining international brand?**
 - 3- **What were the weakness and strengths of your businesses?**
 - 4- **Was anything threatening your business? How did you deal with it?**
 - 5- **Did you face any problem with seasonality? How did you deal with it?**
 - 6- **Was there any development strategy adopted? Examples? Results?**
 - 7- **Training employees**
 - 8- **Was the hotel unclassified? Did your business fail to meet classification requirements? Example?**

B) Conversion decision-making stage

The Idea:

- 1- Tell me how the idea of conversion came into your mind.
- 2- Were there other options considered apart from franchising?

Reasons:

- 3- Explain why you considered converting your business to a franchised business, in terms of :
 - Motives? >>> Here for franchising in general not for particular franchisors
 - Solution to problems?
 - Would you consider this step as a **recovery strategy** or gaining a **competitive advantage** to prevent your business from failure?
 Was the classification one of these reasons? If yes, why could you not meet the standards and remain independent?

Information sources:

- 4- What information sources did you use to look for franchise opportunities?

Evaluation (opportunity)

- 5- How did you choose /evaluate potential opportunities compared to others?
- 6- How did you evaluate the franchisor? Did you contact other franchisees to ask them about their experience with them? Did you ask franchise experts? Lawyers?
- 7- Why did you choose to be a three star hotel not four star hotel?

Evaluation (Franchisor's perspective):

- 8- What were the criteria desired by the franchisor that you chose?
- 9- Did you get rejected from other franchisors? If so, why?
- 10- From the franchisors' perspective: Some franchisors may not want to grant their trademark to an unsuccessful business. What do you think?
- 11- Tell me about the negotiation process until signing the agreement?
- 12- Did the fees affect your decision of choosing a 3 star hotel instead of 4 star?

C- Conversion stage:

- 1- Fees: Details about: initial fees/ loyalty fees /marketing fees? Costs?
- 2- Do you think that franchising reduces business starting up expenses?
- 3- Details of the contract: Type of contract (single unit /multi unit), flexible or strict terms?
- 4- Intellectual property protection?
- 5- Did you get financial funds from banks/other financial institution?
- 6- Were you asked if you could move to another building/ location?
- 7- Changes (building refurbishment, car parks, facilities, services, etc.). How long did they take?
- 8- Franchisor support (pre-opening, training, operation directory etc.)

D: Post-conversion stage

1- What are the socio-economic characteristics of the business after conversion, in terms of:

- Number of bed spaces
- Charge per single room
- Charge per double room
- Occupancy rate

- Number of employees
 - Profit/income (yearly/quarterly)
 - Characteristics of customers (target customers, tourists, locals, businessmen, etc.)
 - Number of outlets
- 2- Customer services (booking process)
 - 3- Advertisement /marketing
 - 4- Membership of associations / awards / social responsibility
 - 5- Is there anything threatening your business?
 - 6- Do you face any problem with seasonality?
 - 7- Training employees
 - 8- Territory / competition with the same franchises/ chains/ other hotels?
 - 9- What have been the advantages /disadvantages after becoming a franchisee?
 - 10- What on-going support /obligation of franchisors towards their duties towards the franchisee?
 - 11- Future plans?

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Appendix 11: Franchise interview transcription

Interview with the Manager SME's Development Center (Franchise Section) The Manager of Franchise Section in Riyadh Chamber of Commerce and Industry

What is the role of the Franchise Department in operating and organizing the Franchise activities in the Kingdom?

Our role is acculturation and raising of businessmen awareness to enhance the contribution of Franchise in the business fields. We concentrate to tell the people what is Franchise, who is the Franchisor, who is the Franchisee, what are the obligations and the rights of each party of the Franchise, what the Franchise should give, and what the Franchisor should give, and what is the Franchisee should receive... How to establish a Trade Mark.. How to import a Trade Mark if it is local or international.. We have many services to offer to the business field such as organizing the Conferences, and International Exhibition of Franchise, Conducting Lectures and Symposiums, all these efforts are ways to expand the knowledge about Franchise and spread Franchise culture.. We are working in our region only i.e. Riyadh Region, but there are some interested people in the other regions who are working within their territories.

What about issuance of licenses?

Issuance of licenses of Franchise Establishment right now is subject to Commercial Agents Law, because there is no law for Franchise up till now.. but we in Riyadh prepared a Special Draft Law of Franchise and submitted the same to the Minister of Commerce.. This Draft is prepared by Riyadh Chamber of Commerce with collaboration of some legal advisors and consulting offices. The Minister referred the Draft to Internal Commerce Department who have several meetings with their legal consultants and the cooperating attorney offices.. Now they are reviewing the Draft and trying to add more articles and amend some part so that the law will be complete and cover every aspect of Franchise, it is expected to be issued in the near future.. Now the Ministry applied the Commercial Agent Law because it contained some articles about Trade Mark.. The procedure of registering the Franchise Unit takes many steps, Firstly the Franchisee have to prepare the agreement and registered with one lawyer, and lodged with the Ministry of Commerce under the Commercial Agents Law. But now we are working to have independent Franchise Law...

Do you think that this new law will cover all Franchise aspects? Does stand on some contracts or rules from abroad?

Of course.. we consider many international measures and standards which are commensurate with the Saudi Market Measurements, and fulfill the applied standards at international level specially in aspects related to Franchisor/Franchisee relationship.

Do you consider absence of special Franchise Law as a barrier that works against spread of Franchise System?

In fact, No... it is not a barrier, but having independent and special Franchise Law will help in finding a clear Mechanism of Franchise Operation.. and it will be a base on which the contracts and agreements of Franchise will be prepared.. For example, The lawyers who used to prepare the agreements between the Franchisor and the Franchisee are supposed to have a local law on which they can stand, and consider it as a reference on which they refer any expected disputes, and it will be a base on which the contract or agreement is made when importing a Trade Mark or signing an agreement to offer local or international Trade... It is important to have this law as a legal issue to safeguard the rights of every party, and reserves the Copy Rights and Royalty Rights.

But now if I want to issue a license where I should go? And what are the Measurements and Standards?

Firstly, if you want to choose a Trade Mark.. you should avail the consent of the Franchisor.. and in Saudi Arabia the agreement should be made from a lawyer's office, and get it registered with the Ministry of Commerce, provided having a valid Commercial Registration related to the activity that will be imported as Franchise... from the existing experience the foreign companies used to ask the history of the local company, and the profile that showed the conduct of the company during many years, specially the Small and Medium Trade

Marks, but the Big International Trade Marks used to ask for the experience of the businessman as well as his company and for how long they are in the market, and if they are successful establishments or not... etc..

In your opinion what are the perspective activities to be Franchised?

There are many Commercial activities and many opportunities in Industrial, Vocational, Commercial and Services Sectors. In fact, the opportunities in the market are many, but I am not specialist to suggest some of them, because they need some feasibility study. But it has been observed the Franchise business is concentrated in consumer goods, and retail activities.. There are many opportunities in the professional activities such as Consultation Offices, Legal Consultants, Accountants.. many are working through Franchise.. some services are working through Franchise such as Education and Training.. Franchise is available in Trade and Commerce such as Textiles, Readymade Clothes, Leather Products, Cosmetics, Food and Restaurants and Cafe Shops.. In Tourism activities such as Hotels.. over all it spreads widely in retail sector.I think all tourism business can be franchised.

How do you support someone who wants to invest through Franchise System, and he is in need of guidance?

We SME's Development Center in the Chamber of Commerce, our role is to acculturate the businessmen and define to them the Franchise as a mode of business expansion and development..

What are the applicable rules and regulations.. what are the rights and obligations of the Franchisee and the Franchisor, from where he will start where to stop.. and this why we issued a series of brochures called "The Successful Businessmen", these brochures contained the procedure of How to get a Commercial Registration or a License issued, How to get a License of Franchise.. How to invest through Franchise.. In addition to these brochure conducted detailed study about the Franchise in the Kingdom in 2005..this study indicates that there are more than 200 local businesses that are capable of being franchisable but there are a number of barriers that prevent them from realising this potential, such as lack effective franchise systems in their firms, trained teams to follow up, quality control systems, support.

Then we formed the Franchise Department in the SME's Development Center. We conducted many Lectures and Symposiums with the aim to support the businessmen. Moreover we have on our site inquiry forms and we used to give replies to all the questions or provision of information related to Franchise System or the companies who used to offer Franchise at international or local levels.

Do you have any Franchise Directory or Magazine?

No, we do not have Franchise Directory or Magazine, but we have Database containing the names and addresses of those who want to Franchise their Trade Marks.

Does it subject to continuous modification?

In fact no, it was made before two years.

It is a long period, isn't it?

Yes, but we are busy in issuance of the Franchise Law.. Also it is difficult to survey the market to find out the opportunities of Franchise, because this requires comprehensive team, which is not available at this moment.. But in the presence of Franchise Law it will be more easy.

Do you have any relation with International Organizations for marketing of Franchise Trade Marks?

No, but it is supposed that the perspective investor should look for the good opportunity, and choose his Franchisor if he wishes to engage in Franchise business.. Because most of the businessmen are not interested in Franchise, and only 10% of the are interested in Franchise.. Our main target is to expand the Saudi Trade Marks market abroad, starting from a legal base which supported by clear law on which foreign Franchisees and Saudi Franchisors will depend on it. Now a days the Saudi market is importing Franchise business, and Saudi companies are Franchisees and not Franchisors?

Do you have any experience?

Yes, we have few experience in Restaurants such as Kudu, Herfy and others who spread outside the Kingdom. Anyhow it is a new limited experience, and the Saudis as Franchisors is also new experience, but as Franchisee it is very old practice.

But, it is been observed that the Franchise if local or international is concentrated in Restaurants?

Yes, but it is also in few Hotels,

What about other activities?

Education and Training activities are Franchised.. and it is spread more in Retail Trade, in general we cannot compare the Education Sector with the Retail Sector, because it is difficult to open two training centers on one road, while it is possible in Retail Trade.. Moreover Retail Trade requires small capital compared to the services and industrial activities.. and this phenomena is international and not limited to the Kingdom.

It has been observed that Franchise in foreign countries is spreading among Small and Medium Establishments, but in K.S.A. it is spreading among well known businessmen, and the owners of the big companies are Franchisees of foreign Franchisors, why?

In fact, my opinion is from the practical experience and not based on research.. the international companies go for known businessmen to use their financial capabilities and utilize their accumulated experience in the local market . They ask franchisees to open tens of outlets in a short period which will might be a negative effect on franchisees .

But, there should be an agreement which obliged the Franchisee to provide the service as per operation directories?

This question takes us back to the necessity of having special Franchise Law.. When the legal advisor makes the Franchise Agreement he will be in need of law to be as terms of reference.. This law is now under study.. Moreover the foreign companies usually ask for previous experience, and the Franchise agreement will be registered initially in the Franchisor home country, and then registered in K.S.A. as part of completion of formalities.. For example in U.S.A. the Franchise agreements are subject to approval of the congress.. because it is considered as transformation of American culture.. in Lebanon, the Franchise Association, and their system is very advance.

The Franchise Committee was formed in 2010, it is new? Isn't it?

Yes, but the Franchise System is old, for example Patchi Trade Marked in Franchise Market for about (30) years.

But, we are also experiencing Franchise for more than (30) years?

Yes, but our experience is weak, in Lebanon you may find one unit which strictly apply the measurements and standards and grant Franchise to the Franchisee who will be bound to apply these measurements in full.. This will make the Franchise expands safely in a good legal environment.

What is the role of the Chamber of Commerce in encouraging the youth investors to invest in Franchise System?

Of course, we have to do, we conducted workshops with the idea to transform the experience to these young men, because the young businessman will come with some capital and he does not want to stay for (30) or (35) years to build a name and be famous.. and the people will take much time to know him and build confidence in him.. So it is better for him to import or adopt a well known Trade Mark and he will benefit from the administration and marketing experience of the Franchisor, and he will enjoy the continuous support of the Franchisor to the Franchise, so he will be famous in short time and build his own Trade Name in the market.

What is the reason behind absence of diversity of Franchise activities in the last Franchise Exhibition?

In fact, there was diversity in activities from different countries. But, it has been observed that there is absence of Tourism activities?

We are not concentrating on one sector.. We in the SME's Center trying to give equal chances to all business activities.. We used to help in conducting market survey, and the Tourism Committee is responsible for the Tourism Sector and they have to encourage the businessmen the Saudi Youth to invest in its promising opportunities.

Is there any cooperation between you and the Tourism Committee in suggesting the promising activities in the Tourism Sector?

Yes, there is cooperation, but not limited to Franchise.. They have not nominated or suggested to us any Tourism activities to be Franchised.. and we used to organize our exhibitions through specialized even organizers such as Marcom or Riyadh Exhibition Est. All these conferences and exhibitions were not concentrating in marketing of Franchise System or introducing Franchise Products or Services to be Franchised.. They all concentrated in acculturation of the society of businessmen and introduction of what is Franchise and how to transfer the experience of others and guide the people and introduce them to the supporting lending institutions and establishments, and helping the productive families to start a successful business.. In fact those who want to adopt Franchise as a mode of business they will look by themselves through Website, Franchise Associations and have the correspondence with them directly..

When the exhibition will be conducted this year?

No, it will not be conducted instead we are planning to conduct exhibition for all SME's..

Do you agree that it is better to have Franchise exhibition more than once a year, and not only in Riyadh, just like the case in other countries such as U.K. and U.S.A.?

No doubt.. it is better, but when we conduct an exhibition it cost us a lot, and we are trying to cover all types of business activities.. and the Franchise is one of Ten Modes of investment. Moreover when you make it for Franchise only you have to bring specialized people, this will involve cost.. Our target is not Franchise System only because we are responsible for all SME's and so we have to balance the requirements of all business activities and to spread the culture of entrepreneurship, and the culture of free work in general.. Despite that we spent five years working on Franchise and conducted three exhibitions beside many lectures and symposiums... Regarding conduction of the exhibition in other regions, this is not the practice in the Saudi Chamber of Commerce Council Policy.. We are responsible for Riyadh businessmen, and Jeddah and Dammam Chamber of Commerce are responsible for their regions.. Riyadh Chamber of Commerce is supposed to serve its subscribers only.. Despite that in my opinion, if the law issued, we will be engaged in many new activities and new field of business will be opened such as importing of new business opportunities, and will not be limited of how to spread the Franchise culture like what we are doing now.. Now we cannot go to the mass media and talk about the Franchise, because the first question from anybody will be about the law that governs the business activity.

If I want to grant a Franchise as a Franchisor, how the Chamber of Commerce qualifies and helps me to do this job?

We have cooperation agreement with Shell Company, they prepared a training course "**How to start your business?**" and Franchise System is included in that course.. We also conducted special course in 2008 with the cooperation of specialized American Company it was one day intensive course.. It was in English and it was attended by many people..

What about the output of these courses? Do they become Franchisors or Franchisees?

I do not know, because our role is to train them, and to raise knowledge about what is Franchise and how to be a Franchisor or a Franchisee..

In the absence of Franchise Association who will look after the Franchise Business in K.S.A.?

The Ministry of Commerce is responsible for that, because they are registering the Agreements and issuing the Licenses and Commercial Registrations.

Is there any plan of formation of Franchise Association in K.S.A.?

In fact now we are interested in issuance of the law which will govern the business, and later on we will think how to formulate the Association in the light of new situation.

What are your future plans for Franchise Business?

Conduction of exhibitions, spreading the Trade Marks at local and international levels, marketing because the Saudi Trade Marks are still domestic..

Regarding the marketing.. Are there any marketing companies that work beside you?

There was only one company, and it stopped. It was a Franchise Company which used to give advices with the coordination of Z.D.F. Company.

Is it Franchise? Why there is local company which will be as commercial opportunity and work in marketing of Franchise opportunities?

Now, we are in the stage of acculturation of the society about what is Franchise, this will help in creating the business environment that may accept formation of Franchise Marketing Company to meet the demand of Franchise activities.

What is your role in financial support?

We are not giving any financial support.. but there are specialized lending funds like the Saudi Credit and Saving Bank, The Centennial Fund, "Riziq Jameel" – Private Sector Fund of Abdul Lateef Jameel Company.. but some of them are not financing the Franchise and they concentrate on Handicrafts.. and professions.. We are not mediators, and the investor can apply to them directly.. We have an old agreement with us, but now the application is lodged with them directly.

What about the Logistic and Technical Support?

We have Consulting Unit in the center which will guide and advise the investor and show him all the steps he should follow in getting the license.. and we have agreement with Consulting Offices which we recommend to the investor to make his feasibility study.

I noticed that the absence of Franchise Law is not in K.S.A. only but in many countries, despite that it is not a barrier in development of the Franchise?

I attended a workshop about Franchise in Sharm El-Shaikh in Egypt last year.. It was conducted by the Arab Union.. There are member from Egypt, Kuwait, Lebanon and the Gulf States including Saudi Arabia. It is said that Saudi Arabia have the best investment environment.. They are the biggest consumers in the market, because of the big number of population and the vast area.. Moreover our commercial rules are more flexible than others, our commercial rule is open more than the American rule.. The Minister of Commerce is welcoming the Franchise business and supporting issuance of Franchise Law..

The Franchise is now started and it is maturing since 2005, the year during which the first exhibition took place.. The economic leap and the big income of the population and the increasing knowledge about the Franchise will help in developing the Franchise System as a mode of investment.. The culture of the society is changing due to expatriates and the travel of Saudis abroad.. Also the consumption culture is changing, now the Saudis are accepting to welcome the guests in restaurants, and booking the food from a restaurant which was not acceptable few years back and considered as greediness or disrespect to the guest.. Now the other cultures of other nations have been accepted in uniform, types of food like foreign dress, American Burger, Eastern Food like Japanese Sea Food. The culture comes to the society through Franchise of the products and services of these nations.

Now we are wearing their dress and eating their food. Now we are trying to export our culture through our domestic and traditional products.. For example, there was small unit for "Kaleeja Production" (a type of biscuit).. This started with small unit in Trade Mark thinking of Franchising it abroad.. Therefore we are targeting the SME's and helping them to go out from the local market and export their products to the other countries.. We are targeting the majority of enterprises and not the 10% big companies.. which dominating the market.. The law will help the SME's to expand and build up their Trade Mark which will be registered in the Saudia and abroad.

Is there any cooperation between you and the other Chamber of Commerce in respect of Franchise System?

No, as I said before each Chamber of Commerce is serving the businessmen and its subscribers in the region. The Council of Saudi Chamber of Commerce is only coordinating the general issues at Kingdom level.

Appendix 12: Bivariate analysis of franchise diffusion barriers (as a mode of investment and expansion) and independent variables

	Item	Test Statistics	Fisher exact test	P value
Influential factors that promote investment in tourism sector				
1	Lack of specific law that govern the franchise agreements	Franchise age	4.644	.035
2	Lack of laws related to disputes settlement and litigation	Type of business	7.651	.014
3	Slow execution of judicial -resolutions	Type of business	18.612	.002
4	Lack of application of competition rules and regulations	Outlets	4.657	.025
4	Lack of application of competition rules and regulations	Type of business	12.839	.007
5	High cost of franchise fees	Type of contract /franchisee	2.865	.048
5	High cost of franchise fees	Years of experience	9.073	.027
5	High cost of franchise fees	Type of business	4.153	.027
5	High cost of franchise fees	Location	6.350	.012
6	Lack of information about the investment through franchise system	Type of business	2.053	.05
7	Lack of acculturation programs that propagate the franchise business	Type of business	1.916	.047
8	Lack of specialized consultants to study the franchise agreements and provide the Franchise services	Type of contract	6.403	.005
8	Lack of specialized consultants to study the franchise agreements and provide the franchise services	Years of experience	9.337	.001
9	Lack of training courses in the educational and training Institutes about the franchise	Type of business	3.815	.032
10	Lack of an association that organizes the relation between the companies dealing in franchise	Type of contract /franchisee	5.078	.009
10	Lack of an association that organizes the relation between the companies dealing in franchise	Years of experience	12.798	.006
11	Lack of specialized administration unit at the franchisor's entity to look after the franchise business and follow up with the franchisor	Years of experience	9.439	.025
13	Lack of special fund institution to support franchise business.	Age	9.524	.038

Source: Author

Appendix 13: Bivariate analysis of contributors to a successful franchise environment and independent variables

	Item	Test Statistics	Fisher exact test	P value
Influential factors that promote investment in tourism sector				
1	Obligation of the franchisor to his duties towards the franchisee	Type of business	14.589	.000
2	Low franchise fees	Location	5.804	.000
2	Low franchise fees	Type of business	13.619	.011
2	Low franchise fees	Age	9.975	.024
3	Flexible terms of franchise business	Location	24.608	.000
3	Flexible terms of franchise business	Type of business	15.152	.001
3	Flexible terms of franchise business	Age	10.845	.030
4	Existence of intellectual property law	Outlets	6.508	.005
	Existence of intellectual property law	Type of business	7.848	.038
5	Large population in KSA	Type of business	9.473	.032
6	Customers preference of foreign products and trade marks	Type of business	8.567	.042
7	A growing number of expatriates	Type of business	13.927	.045
8	Differentiation between franchise business and commercial agencies	Type of business	6.923	.034
9	Rehabilitation and preparation of tourism sites to accommodate tourism activities.	Location	20.872	.000
10	Large number of tourist sites in KSA	Type of business	11.121	.014
11	Existence of banks and other lending institutions to financing franchise business	Age	4.872	.05

Source: Author

Appendix 14: Analysis of the current situation of various tourism businesses: Chamber of commerce /SCTA

Chamber of commerce's participants		SCTA's response
The current situation	Reasons	Efforts
Hotels/Furnished Apartments		
-Poor quality and low standards	<ul style="list-style-type: none"> - Owners are retired people or real estate owners who lack knowledge and tourist concepts - Owners' roles are passive. They hire low-paid, low-skilled foreigners and don't want to spend money in developing their business. - High increasing demand makes them careless - Seasonality 	-Good quality and seasonality are negatively related as some furnished units are in a regular demand during the whole year because of their good quality.
-Failure to meet the minimum standards of classification	<ul style="list-style-type: none"> - Poor quality - Building specification, labour force, lack of car park, lack of emergency exits - Exemption should be made especially for those old investors before the issuance of classification system in (2010) - The classification is connected with the prices of services 	<ul style="list-style-type: none"> - Classification procedure was implemented at several stages based on international standards. - Prices of services are one of the SCTA's attempts to stop the old practice of providing low quality. -Six foreign hotels management companies will appear in the future.
Entertainment:		
<ul style="list-style-type: none"> - Lack of indoor/outdoor activities -Lack of theme parks, amusement centres, zoological parks, and water parks - Lack of maritime attractions for children - Most services required by tourists are unavailable 	<ul style="list-style-type: none"> - Repetition or lack of sophisticated ideas - Uncertainty - Lack of skills in operation and maintenance - Gender separation - Entertainment centres are very old, established 30 years ago 	- The services are not commensurate with the requirements and tourists' needs because of the short time of KSA's tourism experience
Motorway services		
<ul style="list-style-type: none"> - Poor quality road services ("below standard", "dirty rooms", toilets are "disasters", and restaurants provide "bad food"). - Inconsideration of heavy traffic caused by pilgrims - Inconsideration of long hours travelling between cities 	- One company (SASCO) dominates the road services.	<ul style="list-style-type: none"> - Conflicts between several governmental departments - Franchise trademark agreements will be signed with an international company regarding motels - We have evaluated the activity and we made some standard measurements to be implemented.
Resorts		
Limited number of resorts Coast/mountains)	Resorts are appearing, but many shortcomings remain	N/A
Transportation		
<ul style="list-style-type: none"> - Insufficient public/private transport - Limited coach services between cities - Unavailability of buses inside cities and poor taxi services 	<ul style="list-style-type: none"> - Public transportation provided solely by SAPTCO Company - Taxi services described as "unauthorised", "unregulated", and "unmetered" 	N/A

Conferences/Exhibitions and Events		
<ul style="list-style-type: none"> - There are some shortages in this field 	<ul style="list-style-type: none"> - Lack of professional companies managing exhibitions - Lack of experts and qualified sites for exhibitions - Poor quality in products and services , - Difficulty in conducting international conferences 	<p>The SCTA's role is to support these activities, but they are designed and supervised by the municipalities. All the events are supported by the SCTA if they are conducted by firms or individuals.</p>
Tourism Guidance		
<ul style="list-style-type: none"> - Lack of qualified tour organisers/tour guides - Anybody can be a tour guide after just four days of training 	<ul style="list-style-type: none"> -There are only three persons qualified as tourist guides. 	<ul style="list-style-type: none"> - The field is mature, but most Saudis do not like to engage in tourist guidance because of cultural and social factors. As such, the role should have special qualifications and require personal characteristics. -“Comprehensive test for the International License of Tourism Guidance”

Source: Author

Appendix 15: Bivariate analysis of tourism investment barriers and independent variables

	Item	Independent variable	Chi-square	Sig(2-sided)
Influential factors that restrict investment in tourism sector				
Legal barriers				
1	High criteria for Hotel and Furnished Apartment Classification	Location	45.526	.000
1	High criteria for Hotel and Furnished Apartment Classification	Age of establishment	27.942	.000
2	More requirements to avail license to start Tourism Business	Location	16.207	.003
2	More requirements to avail license to start Tourism Business	Age of establishment	17.206	.002
3	Long administrative procedure to establish Tourism Projects	Location	15.765	.003
3	Long administrative procedure to establish Tourism Projects	Age of establishment	21.788	.000
4	Issuance of Licenses from more than one Government Department	Location	60.985	.000
4	Issuance of Licenses from more than one Government Department	Age of establishment	17.570	.001
4	Issuance of Licenses from more than one Government Department	Branches	9.092	.011
Other Factors:				
5	Seasonality of the Tourism Activities	Location	44.395	.000
5	Seasonality of the Tourism Activities	Type of business	35.885	.007
5	Seasonality of the Tourism Activities	Years of experience	18.920	.001
6	Hesitation of Businessmen to invest in relatively new Tourism sub-sectors	Location	20.526	.000
7	Lack of services at Tourist attractions such as Beach, National Parks	Location	27.096	.000
7	Lack of services at Tourist attractions such as Beach, National Parks	Years of experience	11.037	.026
8	Lack of Tourist focus at Events and Festivals	Location	22.681	.006
8	Lack of Tourist focus at Events and Festivals	Type of business	35.901	.007
8	Lack of Tourist focus at Events and Festivals	Age group	14.941	.005
9	Imitation of tourism business ideas in one geographical area	Location	34.370	.000
10	Difficulty in availing information about investment opportunities in Tourism Sector	Location	29.867	.000
Financial Factors:				
11	lack of sufficient capital for start-up tourism businesses	Age group	32.692	.000
11	lack of sufficient capital for start-up tourism businesses	Years of experience	26.205	.000
12	Limitation of finance by the Specialized Government Lending Institutions	Age group	25.735	.000
13	Non-Enjoyment of investors of Tourism for Customs Concessions in Tourism Sector like others	Previous experience	13.917	.001
13	Non-Enjoyment of investors of Tourism for Customs Concessions in Tourism Sector like others	Years of experience	10.807	.029
14	High cost of operation compared to other projects	Age group	13.659	.008
15	Unwillingness of Banks to finance Small and Medium Enterprises	Age group	17.014	.002
Marketing				
16	Poor Marketing of Tourism Products and Services by Tourism Businesses	Previous experience	14.873	.001
17	Non-availability of Specialized Marketing Offices to promote Domestic Tourism	Previous experience	22.340	.000
18	Dependency on official efforts in advertisement (The activities of SCTA and the Municipalities)	Previous experience	6.669	.036
Human Resources				
19	Inexperience of the employees working in the Tourism Sector	Age of establishment	12.681	.013
19	Inexperience of the employees working in the Tourism Sector	Previous experience	28.315	.000
20	Inexperience of establishments of Tourism Institutes	Previous experience	29.382	.000
21	Weakness of graduates from the Educational and Training Tourism Institutes	Previous experience	31.895	.000
21	Weakness of graduates from the Educational and Training Tourism Institutes	Years of experience	11.118	.025
22	Small number of Tourism Colleges and Institutes	Previous experience	21.983	.000
23	High turnover of Saudi Employees in Tourism Sector	Previous experience	53.490	.000

Source: Author

Appendix 16: Bivariate analysis of contributors to successful tourism investment and independent variables

Label	Item	Test Statistics	Chi-square	Sig(2-sided)
Influential factors that promote investment in tourism sector				
1	Enhancement of government support to investment in tourism activities	Age group	29.949	.000
1	Enhancement of government support to investment in tourism activities	Years of experience	32.677	.000
2	Establishment of special fund Institution to support the tourism industry	Age group	54.914	.000
2	Establishment of special fund Institution to support the tourism industry	Years of experience	46.034	.000
3	Gradual application of official hotels and furnished apartments classification standards	Age of the establishment	15.996	.003
3	Gradual application of official hotels and furnished apartments classification standards	Age group	24.137	.000
3	Gradual application of official hotels and furnished apartments classification standards	Years of experience	47.546	.000
4	Decrease of hotels and furnished apartments classification standards	Age of the establishment	14.361	.006
4	Decrease of hotels and furnished apartments classification standards	Age group	31.021	.000
4	Decrease of hotels and furnished apartments classification standards	Qualification	14.839	.005
4	Decrease of hotels and furnished apartments classification standards	Years of experience	48.851	.000
5	Conduction of conferences and exhibitions for promoting attraction of investment in tourism industry	Age group	13.594	.009
5	Conduction of conferences and exhibitions for promoting attraction of investment in tourism industry	Years of experience	11.370	.023
6	Establishment of business incubators for financing training and support tourism activities	Age group	16.314	.003
6	Establishment of business incubators for financing training and support tourism activities	Years of experience	23.209	.000
7	Establishment of joint stock company with big financial resources specialized in tourism investment	Age group	46.160	.000
7	Establishment of joint stock company with big financial resources specialized in tourism investment	Years of experience	60.857	.000
8	Attracting international franchising in tourism	Age group	11.318	.023
8	Attracting international franchising in tourism	Previous experience (group)	12.453	.002
8	Attracting international franchising in tourism	Years of experience	11.693	.020
9	Initiation of new ideas and activities during festivals to attract tourists	Years of experience	10.115	.000
10	Balanced distribution of festivals and events throughout the year	Previous experience (group)	6.267	.044
10	Balanced distribution of festivals and events throughout the year	Years of experience	17.660	.000
11	Development of training programs at the tourism training institutes	Years of experience	10.877	.028
12	Increase in internal and external training for employees in the tourism Sector	Previous experience (group)	15.236	.000
13	Recruitment of foreign experts	Age of the establishment	14.715	.005
13	Recruitment of foreign experts	Age group	18.509	.001

Source: Author

Appendix 17: Perceived values to remain within a franchising system from a franchisee’s perspective

Capability of international franchising (franchisee’s perspective)		Distribution of Responses (Frequencies/Percentages)										Means	S.D
		1		2		3		4		5			
		Not at all capable		Not capable		Capable to some extent		Capable		Very capable			
		n	%	n	%	n	%	n	%	n	%		
CF1	Capability of the franchise to reduce the business start-up expenses	0	0	2	2.1	7	7.3	42	43.8	45	46.9	4.35	.711
CF2	Capability of the franchise to reduce the chances of failure	0	0	0	0	8	8.3	58	60.4	30	31.3	4.23	.589
CF3	Capability of the franchise to achieve high profits	0	0	3	3.1	16	16.7	37	38.5	40	41.7	4.19	.825
CF4	Capability of the franchise to increase competitive value	0	0	5	5.3	24	25.3	33	34.7	33	34.7	3.99	.905
CF 5	Capability of the franchise to make use of accumulative experience	0	0	6	6.3	27	28.4	38	40.0	24	25.3	3.84	.879
CF 6	Capability of the franchise to advertise	0	0	0	0	36	37.5	37	38.5	23	24.0	3.86	.640
CF 7	Capability of the franchise to access training from the franchisor	0	0	0	0	25	26.0	56	58.3	15	15.6	3.90	.776
CF 8	Capability of the franchise to access credit facilities	0	0	14	14.6	40	41.7	34	35.4	8	8.3	3.38	.837
CF 9	Capability of the franchise to provide high quality services	0	0	1	1.0	8	8.3	48	50.0	39	40.6	4.30	.667
CF 10	Capability of the franchise to develop competitive products and services continually	0	0	0	0	7	7.3	46	47.9	43	44.8	4.38	.620
CF 11	Capability of the franchise to attract foreign tourists	0	0	0	0	14	14.6	34	35.4	48	50.0	4.35	.725

Source: Author

Appendix 18: Perceived values of the franchise system from the tourism perspective

Capability of franchising (tourism group's perspective)		Distribution of Responses(Frequencies/Percentages)										Means	S.D
		1		2		3		4		5			
		Not at all capable		Not capable		Capable to some extent		Capable		Very capable			
		n	%	n	%	n	%	n	%	n	%		
CT1	Capability of the franchise to reduce the business start-up expenses	2	.4	12	2.5	122	25.7	292	61.6	46	9.7	3.78	.667
CT 2	Capability of the franchise to reduce the chances of failure	0	0	2	.4	108	22.8	300	63.4	63	13.3	3.90	.607
CT 3	Capability of the franchise to achieve high profits	0	0	1	.2	69	14.6	252	53.3	151	31.9	4.17	.668
CT 4	Capability of the franchise to increase competitive value	0	0	0	0	73	15.4	272	57.4	129	27.2	4.12	.643
CT 5	Capability of the franchise to make use of accumulative experience	0	0	5	1.1	84	17.7	182	38.4	203	42.8	4.23	.772
CT 6	Capability of the franchise to advertise	0	0	8	1.7	90	19.0	266	56.2	109	23.0	4.01	.700
CT 7	Capability of the franchise to access training from the franchisor	1	.2	9	1.9	94	19.8	187	39.5	183	38.6	4.14	.812
CT 8	Capability of the franchise to access credit facilities	0	0	9	1.9	128	27.1	310	65.5	26	5.5	3.75	.581
CT9	Capability of the franchise to provide high quality services	0	0	7	1.5	85	17.9	183	38.6	199	42.0	4.21	.772
CT 10	Capability of the franchise to develop competitive products and services continually	0	0	0	0	79	16.7	227	47.9	168	35.4	4.19	.698
CT 11	Capability of the franchise to attract foreign tourists	0	0	2	.4	85	18.0	292	61.9	93	19.7	4.01	.628

Source: Author

Appendix 19: Opinions towards the possibility of franchising success in tourism business by the franchise group

Type of tourism business that can be franchised (franchisee's perspective)		Distribution of Responses (Frequencies/Percentages)										Means	S.D
		1		2		3		4		5			
		Not at all possible	Not possible	Possible to some extent	Possible	Very possible							
n	%	n	%	n	%	n	%	n	%				
FB1	Five-star hotels	5	4.8	19	18.3	26	25.0	39	37.5	15	14.4	3.38	1.091
FB 2	Other classified hotels (Four- or Three-star hotels, etc.)	4	3.8	17	16.3	27	26.0	41	39.4	15	14.4	3.44	1.050
FB 3	Unclassified hotels (conversion)	5	4.8	17	16.3	35	33.7	44	42.3	3	2.9	3.22	.924
FB 4	Classified furnished units and apartments	4	3.8	19	18.3	28	26.9	42	40.4	11	10.6	3.36	1.023
FB 5	Unclassified furnished units and apartments (conversion)	3	2.9	19	18.3	29	27.9	47	45.2	6	5.8	3.33	.939
FB 6	Travel agents	1	1.0	11	10.6	18	17.3	37	35.6	37	35.6	3.94	1.022
FB 7	Restaurants	0	0	1	1.0	21	20.2	32	30.8	50	48.1	4.26	.812
FB 8	Coffee shops	0	0	3	2.9	26	25.0	34	32.7	41	39.4	4.09	.871
FB 9	Car rental companies	3	2.9	9	8.7	24	23.1	38	36.5	30	28.8	3.80	1.046
FB 10	Entertainment (theme parks, amusement centres, zoological parks, water parks, museums, themed resorts, and natural attractions)	6	5.8	24	23.1	51	49.0	19	18.3	4	3.8	2.91	.893
FB 11	Resorts (seaside resorts, mountain resorts)	6	5.8	33	31.7	47	45.2	10	9.6	8	7.7	2.82	.963
FB 12	Transportation companies (coaches, buses)	2	1.9	11	10.6	35	33.7	41	39.4	15	14.4	3.54	.934
FB 13	Private transportation (limousine)	2	2.0	10	9.8	33	32.4	43	42.2	14	13.7	3.56	.918
FB 14	Tourism training institutes and colleges	2	1.9	26	25.2	62	60.2	11	10.7	2	1.9	2.85	.706
FB 15	Tourism guidance and tour organisers	3	2.9	33	32.4	49	48.0	14	13.7	3	2.9	2.81	.817
FB 16	Motorway services (motels, cafes, restaurants, shops, toilets, etc.)	7	7.4	30	31.6	44	46.3	12	12.6	2	2.1	2.71	.861

Source: Author

Appendix 20: Opinions towards the possibility of franchising success in tourism business by the tourism group

Type of tourism business that can be franchised (tourism group's perspective)		Distribution of Responses (Frequencies/Percentages)										Means	S.D
		1		2		3		4		5			
		Not at all possible		Not possible		Possible to some extent		Possible		Very possible			
		n	%	n	%	n	%	n	%	n	%		
TB 1	Five-star hotels	3	.6	40	8.5	163	34.8	120	25.6	143	30.5	3.77	1.000
TB 2	Other classified hotels (Four- and Three-star hotels, etc.)	1	.2	39	8.4	169	36.3	144	31.0	112	24.1	3.70	.934
TB 3	Conversion of unclassified hotels	1	.2	36	7.8	185	39.9	178	38.4	64	13.8	3.58	.830
TB 4	Classified furnished units and apartments	1	.2	41	8.8	169	36.3	189	40.6	66	14.2	3.60	.845
TB 5	Conversion of unclassified furnished units and apartments	1	.2	31	6.7	158	33.9	236	50.6	40	8.6	3.61	.747
TB 6	Travel agents	1	.2	23	5.0	138	29.8	238	51.4	63	13.6	3.73	.763
TB 7	Restaurants	0	0	0	0	121	26.1	181	39.0	162	34.9	4.09	.777
TB 8	Coffee shops	1	.2	0	0	125	26.9	182	39.2	156	33.6	4.06	.782
TB 9	Car rental companies	2	.4	27	5.8	179	38.7	213	46.0	42	9.1	3.57	.755
TB 10	Entertainment (theme parks, amusement centres, zoological parks, water parks, museums, themed resorts, and natural attractions	2	.4	46	10.0	259	56.1	133	28.8	22	4.8	3.27	.722
TB 11	Resorts (seaside resorts and mountain resorts)	13	2.8	54	11.7	248	53.6	128	27.6	20	4.3	3.19	.802
TB 12	Transportation companies (coaches, buses)	2	.4	46	10.0	233	50.4	167	36.1	14	3.0	3.31	.709
TB 13	Private transportation (limousine)	2	.4	40	8.7	224	48.5	181	39.2	15	3.2	3.36	.704
TB 14	Tourism training institutes and colleges	2	.4	69	14.9	275	59.5	111	24.0	5	1.1	3.10	.664
TB 15	Tourism guidance and tour organisers	2	.4	70	15.1	266	57.5	111	24.0	14	3.0	3.14	.715
TB 16	Motorway services (motels, cafes, restaurants, shops, toilet, etc.)	4	.9	79	17.1	284	61.5	85	18.4	10	2.2	3.04	.690

Source: Author

Appendix 21: Case study interviews

Interview with Manager of Hotel that converted to Franchise in Riyadh:

Before three years the Hotel was classified as Three Stars Hotel (Bed and Breakfast), when I joined the Hotel as a Manager, it started to lose its Stars, the classification was reduced to Two Star. The building was deteriorating because it is old as well as deterioration of the services as reported by the guests in their Feedback Reports. Therefore, The Classification system classified the Hotel as Two Stars Hotel.

Q- What are the reasons that lead to the reduction of the classification from Three to Two Stars?

There are many reasons, but the direct two important ones are:

- 1) Whole Management
- 2) Funding the Hotel was not operating properly so the profits and earnings were deteriorated, moreover the owners of the Hotel are not spending to improve and develop the Hotel. Also there are indirect reasons:
 - The idea of using (Brand) spread among the new neighbouring hotels which have higher classification rate, In brief this factor can be referred to as competitiveness.

Q- What was the type of the Hotel Ownership?

It was independent (Sole Proprietorship). It was composed of (29) Rooms and still (29). But the configuration of Bed is changed. Before Franchise half of the Rooms were Single, but after the Franchise all the Rooms are changed to Double Bed, which means that no Single Bed in the Hotel. Some of the rooms contained Single Bed along with Sofa Bed in addition to the Double Bed which means that it is Triple Bed.

Q- What is the reason behind this idea?

We have tried to provide better services to the customer instead of sleeping on Single Bed the customer may enjoy sleeping on a comfortable Double Bed, and at the same time it can accommodate Two Persons which will increase the number of customers. Before Franchising the average customers was (40) Persons and now the average is (70) Persons, which means that the capacity and the occupancy rate has increased.

Q- What are the prices to be charged for Single and Double Bed?

The best way to answer this question is through the so called Average Daily Rate (ADR) for example: If Ten Rooms are sold in one day at various prices the average will be higher than the Revenue Per Available Rooms (RPAR), because the average in the case of (ADR) will be calculated on the actual sold Rooms, but in the case of (RPAR) the average will be calculated on the total available Rooms for sale and the two values will be equal if all Rooms are sold. In this case the advantage of the Franchise will appear because the ADR was 330 (SR 300 /360), and after Franchise the ADR reached SR 450 (SR 350/ 550). As a result of this the revenue went up by 60% compared to the period Pre-Franchise in brief whenever the occupancy of the Rooms is increased, the charge will increase, the Total Sales increased, so average will increase as was clear in this example from SR 330 to SR 450

This result was due to the Franchise Brand, which required repair and renovation of the building, and new configuration and bedding of the Hotel. If someone imported the Best Brand in the world, and the building is not clean and rehabilitated nobody will come. So it is important before entering into Franchise Business to repair the building to cope with the required Standards and Specifications so as to be ready for competition.

Q- Is this rehabilitation and renovation required by the Franchisor? For example: Double Bedding the configuration of the Rooms.. etc?

The Franchisor has a minimum rooms for any Hotel to be Franchised, we investigated before we enter into negotiation whether (29) Rooms are enough or not, they replied that they have no problem, and the number of room is reasonable. But they asked for fulfillment of the required specification, for example: Length and Width of Bed, type of mattress. The Bathroom should contain Shower, beside the configuration and layout of the Rooms, that

will be furnished with equipment in the rooms (fridge, high-definition TV, digital watch, iron and ironing board, other services free high speed internet, restaurant, hall, kitchenware etc. The Staff should wear Special Uniform and Trained of how to behave (Presentation Staff).

As a result of these renovations and changes the occupancy rate increased but the increase is small, before the franchising the hotel was full but the revenue was low because of cheap price. The occupancy rate increased by 10% but the revenue went up because of high price.

Q- What about the Staff in the Hotel?

The number of employees was the same at the beginning of Franchise, but afterwards we made contracts with outsources House Keeping, so the number of permanent employees was reduced accordingly.

Q- Does the outsourcing enforced by the Franchisors?

Yes, but they have not asked for a certain company, they gave us a list of the companies that provide House Keeping and Cleaning Services and food. We chose one from the recommended list, which means that the Franchisee must deal with nominated companies by the Franchisor, and it is not allowed to deal with companies out of their list. The reason for that it is Brand Backup. Also the suppliers of services should follow the Unified System of the Franchisor. But if you have a standard supplier you can use his services, for example: we are still dealing with our old Food Supplier because they are fulfilling the required specifications of the Franchisor and we used to determine the Standards of required food.

Q- What are the characteristics of the Customers (Guests)?

Before franchising our guests were local tourists from small towns and villages and students, because our prices were affordable.

After franchising we are not targeting these categories, but it doesn't mean that we have some sort of discrimination, but as a result of branding the price of the room was increased, and consequently the guests categories were changed, 40% of the businessmen coming for meetings because they were attracted by the Brand they already knew and trust, or some of them have global agreement, for example: Army and one of famous channels (TV) have an agreement to host their guests, this is one of the benefits of the franchise, if they have an agreement with any company the Franchisee will benefit from that agreement against payment of nominal fees, the Franchisors may sign agreements with the agencies suppliers and they will bring the guests to the franchisees.

In brief the franchisee found himself having more sources of bookings for guests from those who have agreement with the franchisor. Before Franchising we have only three Sources of Booking, now we can have more than (40) Global Agreements. This showed the benefits of Franchise, but anyone must have the following considerations:

- The first visit of the Guest to the Hotel is a result of the Global Agreement, but to make him come again to the Hotel is the responsibility of the Hotel, i.e. if the Hotel has not given him good impression, and the services are bad he will not come again despite the presence of the agreement, and he will change to another Hotel in Riyadh, because there are many options in Riyadh due to spread of hotels, this means that the hotel have competitors within the same brand.

Q- What is the type of the Hotel Franchise?

Single Unit Franchise

Q- What are the provided services and activities before and after Franchising?

Before Franchising, the Hotel used to provide breakfast, but now we renovate the Hall for Breakfast, and the Franchisor gave us an option to choose continental breakfast (Butter, Jam and Tea) or English Breakfast (Soup, Brown) .The Hotel chose Continental Breakfast because many Arabs prefer a light breakfast such as breakfast continental.

Q- This means that it is not related to Price?

On the contrary the Continental Breakfast is more costly, because it composes of Dairy Products and some fresh items such as Milk, Fruits, Butter and the customers are very much pleased with this service.

Q- What are the extra facilities, which have been added?

We have added free wifi, and you know that some of the Hotels are not providing this service free inside the rooms and everywhere in the hotel. This service is included in the franchise agreement

Q- What about Marketing, previously and now?

If you talk about the advertisement of room sale, the Hotel used to depend heavily on the Agencies which used to send booking of guest through E-mail or Fax. The other method is (The word of mouth), i.e. reputation among people. There was shortage of making advertisement or announcement about our services.

But now with (franchise) one of the main things we have is Global Reservation System (GRS). For example: If someone from Canada wanted to book in Riyadh he will see the Hotel because it is included in the list of (franchisor) which means that the Hotel have free advertisement, or against nominal fees, the Franchise provided the following:

- Free Advertisement
- More Professional Way
- More Efficient
- Widespread

For example: If someone in Australia is looking for Hotels in Riyadh, he will look for known and International names, and here the Franchise will play a big role in advertising the Hotel and this is the secret that attracted the customers through announcement or advertisement.

In addition to that there is another benefit that the Franchisee will be included in the list in the Computer System, that list is called (OTA) Online Travel Agencies, and these are Group of Agencies all over the world, they may be in thousands, their idea based on the package reservation of Air Tickets and Hotels and because the Franchisor has an agreement with this association the Hotel will be included in their list, and become well known to thousand of Travel and Tourism Agencies all over the world. This is one of the reasons to join the Franchise System.

Before the Franchise, we are not members of any Association and after the Franchise we are members of Two international associations . one of the associations is based on the collection and propagation of customer points. These frequent customers often came to the hotel and collected points, which entitled them to some offers like earning a free room or various other perks.

Q- What are the characteristics of the Owner?

The present owner of the hotel is an owner for multiple franchises from KFC then he merged with other partners in other businesses having food international brands like Pizza Hut, Property... etc.

Q- This will lead me to an important point, this Owner have many brands of Franchises, which means domination of known business to the Franchise Enterprises, despite the need of the youth to this System to provide them with Training and Experience and easy and quick financing from the bank?

The present Owner was not interested to buy the KFC because it is a Franchise, but because it is a successful businessThis is his first experience and idea about Franchise. But after that he gained experience and started to expand in many Franchise brands. I gave this introduction to the youth with no experience to explain to them that they can gain experience from the Franchise just like this Owner of the Hotel, because the Franchisors will provide them with experience and training. For example: In the case of the Hotel, they trained all staff including the Manager, and they trained him for one month in the head office

as Instructor to train others. franchisor gave us complete courses about outstanding services, marketing and point of sale, they trained us as if we are front desk officers because we are attending guest and giving the first impression that will attract customers.

Q- Do you think that international franchisors do not prefer the business other than the youth because of experience?

No, this is not a problem, because the experience will be gained from them as per their operation system, the owner according to them is a passive owner. Now, I am the present manager of the hotel and I am the decision maker in all aspects as if I am the owner, my knowledge about the franchise was Zero, although I have postgraduate degree, but when the idea came to existence I started to learn the effective management. Now in this year and because of the big volume of information on the Net one can gather all information in one day.

Regarding the work experience: If I am the owner and I have no previous experience, and I have no Hotel, there is no problem I can easily become an expert in this field within three months after Franchising,

Q- If we talk about the competitiveness value before and after franchise what are the main differences?

- The reputation of the Hotel before three years was bad because of the mouth word and feedback of the guest's experience.
- The location of the Hotel was good. There was complete control of business.

But now many things are changed for the better because of the Brand and there is no complete control of the business.

Q- Regarding the last three years what were the things that threatening the Hotel before the decision to enter into Franchise? Did the Sales go down? Did the number of customers decrease?

I will summarize this in three main points:

1. The building is aging, since you know that the building is aging why the Owner was not renovated it instead of entering into Franchise?

I talked to him from business point of view as a Project, if you have profitless business why you are investing your money, and you know that you are losing, how do you consider as investment from which you are going to gain some returns. The average income of the Hotel was low per Day for (29) Rooms. This will not encourage you to spend more but if you know the returns are going to increase it is possible to spend more. Therefore the desire of the Owner was very weak, and he was thinking to sell the Hotel before the Franchise, some people have come to buy it.

2. The Hotel was not able to face the high competition with neighboring Hotels which entered into Franchise Brands.
3. Lack of Professionalism and Lack of Training. The Professional Staff need to have training and there is no way to improve their performance without continuous training. The problem was that the Owner of the Hotel had no experience in Hotels Management, so who will train the staff. But with the Franchise the staff received Free Training. The training was conducted by specialist with high degrees in Hotel Management Training and Marketing. The training is periodically conducted free of charge.

Q- Before the Franchise, how the training was conducted?

Before franchising the old staffs that were not trained used to train their new colleagues, and I am one of them despite the fact that I am well educated, but I have no experience in Hotel Management. I achieved the Effective Management Experience after buying the Franchise,

they are the people behind my success in Hotel Management, it was not lack of experience but it was fear from change.

Q- Most of the Managers and Hotel Owners are not training their employees because of rapid turnover of the labor, and preference of the Saudi Youth to the Government Jobs?

In my opinion, if the youth found a good work environment that encourage them to work with you, they will continue with you to build their career in Hotels field, if you trained him and he left you to another company, this means that the other company offered him better offer, and you are missing him for nothing.

Q- What about the contracts between you and the employees?

We put a condition in the work contract if the employee leave the job after three months of joining and training he will pay all the training charges.

The idea of the employer should not leave the trained worker to leave him. If you have no strong team the progress of the business will be limited. If I have a target of One Million Riyals , and achieved RS 400,000/- this means that I achieved 40% of the target, consequently the revenue will decrease.. But as Owner if I look to the high training of my staff as business investment, I will be successful, it is true that I am going to spend at the beginning but this expenditure is going to decrease in the future, and the result I will be having strong team who will reduce the running cost, and the revenue will increase, so I am going to achieve the target, this means if you have strong team you will be strong. Any businessman working with a weak team and without training he will be weak himself. And the proof is our case before the Franchise, some of our staff did not know the basic things of hospitality.

Q- Before three years, did the Hotel make any strategy to develop the work without entering into Franchise System?

We tried to sign contracts with some agencies to bring more customers, we ourselves tried to give some offers, for example: If you stay Five Nights you are entitled to certain discount. We made Agreements with some companies to send their guests to our Hotels and their staff.

Q- What are the results of these strategies?

These strategies were not succeeded, because, you need to have a group to share the liabilities, and to provide an alternative if your Hotel is fully occupied you may send the Guest to them if they have the same Brand. But as one Hotel you cannot solve this problem in the presence of enforceable contract. Moreover, the quality of hotel was not encouraging

Q- Did you enter into Franchising to raise the Stars ratings?

To raise the Standardization is very difficult for many reasons, for example: When our Hotel was degraded from Three Stars to Two Stars, for example: We renovated the Hotel and we spent on that a lot of money to raise the grading once again to Three Stars, but this has nothing to do with Franchising. In other words if you made the required renovation, and fulfilled the terms of Star rating specification you will get the Stars, for example: If you have Three Stars Hotel like us and you entered a Franchise System and you spent on that Millions you are not going to be upgraded to Four or Five Stars, because the Hotel composed of (29) Rooms. Certain specifications should be fulfilled to get the Stars raised such as Swimming Pool or to change the building and add all required facilities and services as per Standards Terms the Stars rating can be changed.

Q- How you come to the idea of Franchising?

Since the Owner of the Hotel is having some other Franchise Businesses such as KFC I thought about trying to find a Franchise for the Hotel, then I looked for the Brands of Three Stars Hotels, I found this franchise and this will add something new to our business. For future ,in order to bring customers from international countries you must be a part of Big Group. In other words the Big Groups are present in these countries and they have good reputation, and I will be one of them, so will try to protect and contribute to conserve the reputation and cause no damage to it.

When we are looking for the Franchise we are considering an important factor that to find a good brand with less accession charges, in other words how much they are going to charge.

We found that some of the Brands are not having Three Stars, and some of them are over our budget and they do not suit us. In other words we are looking for a Brand that fulfill our needs and help us to achieve the requirements and we want to fit within the Brand, so we found these things in the current Hotel after making a Big Survey among many Franchisors.

Q- Moreover, is there any damage from the fair reputation of the Hotel before Franchising, because some people were not pleased with it, the Franchisor will not grant the Franchisee who have failed business, because it will affect its reputation, especially the Hotel is in the same building?

Yes, these have negative effect; this is why we contacted all Internet Sites after availing the Franchise, and asked them to delete all negative reviews about the old Hotel, because it did not exist. This measure will make people not to come with bad impression, we sent a formal letter to all sites telling them that the Hotel was completely changed and the old one was not existing, and of the bad things there was a photo on Internet for the old walls of the old Hotel. We asked them to delete all these things to change the image.

Regarding the contracts with the agencies, we cancelled all old agreements and replaced them with new ones having the new name.

Q- What are the pushing factors that make you to enter into Franchise?

1. Maximizing the Profit.
2. Sustainability of Business.
3. Raising the Standard and Level of provided services.
4. Change the Staff to Professionals through training.
5. Change categories of Clients and bring new ones.
6. Change the Assets with better services.

Through Franchising we are looking for the best, and it is not important to have high profits, but to have some good sustained profits and pride of the company.

I myself as a Manager I was not proud to manage the old Hotel, but now everything is changed, when I joined the Hotel I told the Owner that my only condition is to allow me to develop this Hotel, and it should not remain as it is. He agreed for that, then he asked how much time you need to develop the business. I told him within one year, in fact the Hotel was ready for operation during one year through Franchising.

Q- Do you think that Franchising was recovery stage to enhance the business, because it was about to collapse?

Yes, you may say that it is a recovery stage. The Franchise actually is a total change of principles of business. Because if you only renovate the building can be recovery strategy, but in fact we have changed everything, the business strategy, the work principles, the operation.. etc.

Q- Is there any alternative other than Franchise?

The possible alternative is the Management Company, we give them the Hotel and they will operate it against percentage of the profit. The other alternative is to rent the building to somebody and they will pay the rent amount (Lease Agreement) and they may change the Hotel.

Q- How do you find this opportunity?

I randomly searched in Google using some keywords (three star –low fees etc.).. as follows :

1. I read some things about them in the sites on the internet.
2. I started to visit the franchisors websites that have the brand and evaluated their business.
3. Then I contacted them directly, we explained to them our present situation, then they visited the Hotel and evaluated the position, and then furnished us with Operation Guide and all required guidance.

Q- What were the criteria required by the Franchisors?

They have no certain criteria, but their interest was how to develop the business and change it to Franchise. But he asked me as a Manager about my qualifications, I told him I have Master's Degree. ,

Q- Did the Franchisor asked for any financial records?

Yes, this fundamental term of the Franchise Agreement, C.V. of the Owner Financial History in order to see whether he is capable to maintain the business or not?

Q- Have you asked for any funds from the Banks to Finance the Project?

Yes, we asked for financing to make the renovation, but we asked for that against the assets of the Hotel itself, and it was guaranteed by the whole value of the Hotel.

Q- Asking financing through Banks indicated that you are lacking liquidity? What was the opinion of the Franchisor in the light of your statement that they are very much interested about the Financial Records?

The Owner was financially capable and trust worthy, in the presence of having many other successful businesses, but the main idea that the Owner did not want to spend the money of any business on the other business which has enough liquidity, but his idea, each business is independent and should support itself by itself without borrowing from a Sister Concern. This is why we availed financial help from the Bank to renovate that Hotel. After renovation we repaid the Banks, and the value of the Hotel Assets went up. Before renovation the Assets were evaluated to SR 6 Million and after the renovation it was evaluated to SR 36 Million which means that it was multiplied six times. Now we availed a loan on the new value and bought another Hotel in cash.

Q- How you manage to avail a loan from the Bank, and your business is a Franchise?

In fact the Franchise helped in that, because the Bank knew the successful enterprises through Franchise, the process of the application of the Franchise Business at Banks is quicker than other independent businesses.

Q- How the negotiation between you and the Franchisor took place from both sides till you reached signing the agreement?

In fact the Franchisor asked for nothing and no negotiations was made, they put their requirements concerning the renovation of the building and asked us to complete them.

From our side we negotiated about the Franchise Annual Fees and the percentages to be paid to them. We succeeded to convince them that the Breakfast value should be deducted from the Gross Revenue because they are getting 10% of that revenue,. This reduces their share and increased ours.

Q- Do you mean to say that the Franchisor was flexible?

Yes, in other words they were looking for someone who can improve their image and help them to wipe out the bad impression created before.

Q- Is it possible to tell me about the initial fees or the loyalty fees? Was it costly?

Ammm.... It is not allowed

Q – Was the Initial Fees high?

In fact I do not know how much the Owner paid to them, but in general it is high, for example: They asked for SR60,000/- as Initial Fees for the Software, while we were paying SR30/- for the old Software. This was to be paid once, along with monthly maintenance fees, if I have no Franchise I was not going to pay these fees.

Q- If I am an novice entrepreneur or young man, (not a businessman) do you think I can afford to pay these fees?

In fact, it is difficult for any Entrepreneur or young man to start big Franchise Business. It is possible to start small business other than Hotels, but to start Hotel Franchise there should be a group of people and not individual if it is like this Hotel.

This Hotel is small? Yes it is small but still difficult for a young man to Franchise it, but there is another solution, for example: 3 Young Men can form a Partnership and get individual loans from the Bank, and they can start their business together.

Q- Do you think that the Franchise helps in reducing the running cost?

Yes but generally the Franchise Business running cost is higher than Private Business. For example: If you have a Private Independent Business your running cost will be limited and you have control over it, but in the Franchise there is "Brand Buy Back", for example: You have to pay some funds for the consumed thing such as Writing Pads, Pens, Envelopes etc. and the clients used to take these things with them, and you have to provide it every now and then, this beside the Cleaning Items. Moreover the Maintenance Charges which are not a must in the independent business, but it is very important in the Franchise Business. For example: If the Bathroom Fan broken, the independent business can ignore or delay repairing it, but in Franchise it should be repaired as quickly as possible if not immediately. This also increases the quality of the business. The franchisor also does a regular inspection every six-three months.

Q- Did the profit covered these costs?

Yes, it is not harming the business, because its profit is high, but if we compared to the old situation the cost increased and at the same time the profit increased, because Room Rates were increased, and this is good for maintaining sustainable business. In brief I can say the cost increased and the profits increased due to entering into Franchising.

Q- When you signed the Franchise Agreement what is your opinion about the Terms and Conditions of the Agreement? Is it fair or not?

There was no problem, the agreement was not flexible, but it was straight forward and exactly to the point and it should be accepted. We have accepted it because it was clear, before and during signing the agreement they tried their best to squeeze you and get the maximum possible amount from you because it is a benefit to them.

Q- Have you consulted a Legal Advisor before signing the Franchise Agreement? Are there any discrepancies in the Agreement?

Yes, we have consulted a Legal Firm, , one lawyer is responsible for the Franchise,

Q- How much time does the idea of conversion of the old business to Franchise take?

The whole process of the deal took one year, like taking of decision to enter into Franchise Business, looking for suitable Franchise, but for finalization of the transaction itself it took (6) months.

Q- What about the Franchisor support during pre-opening period, Training.. etc.?

They provided us with a full guide containing everything, more positive thing they provided full support at the beginning without taking any charges, we have paid nothing for all Brand Buy Back at the beginning, we have paid after four months, (Brand Buy Back, Pens, Writing Pads, Headed Paper, Front Desk, Stationery, Advertisement, Name.. etc.) but we paid the initial fees immediately on signing the agreement.

Q- What about Training?

They trained all the Staff before opening as they were new to the business.. it was in six stages. They have one more interesting thing the so called (Online University). It has comprehensive courses, you assign courses to each Staff Member and Register them in this Program, then they test them and will be awarded Certificates when they pass.

Q- Is it compulsory?

Yes, it is compulsory, if the staff members failed to pass the test, they will not be allowed to work in the Hotel.

Q- What about Seasonality? And what is the difference between the previous period and now?

During the previous period the business was less than 30% in the low season, but after Franchising, the business increased, we have got clients, we did not reach them before, despite the fact that it is not Tourist Season, so we have new category from the business meetings of international people because they have same Brand in their home countries.

Q- What about future plan? Is it expected to expand through Outlets in U.K.?

Now we will open more outlets around the kingdom

Appendix 22: Franchise and tourism questionnaires (Arabic Version)

استبيان
أصحاب ومدراء المنشآت العاملة في أنشطة الامتياز التجاري في
المملكة العربية السعودية

سعادة صاحب المنشأة / المدير العام

السلام عليكم ورحمة الله وبركاته،

أود إحاطة سعادتك بأنني أقوم بإعداد رسالة الدكتوراه في جامعة اكستر بالمملكة المتحدة حول " أثر الامتياز التجاري في تطوير الأنشطة السياحية وكذلك دور الأنشطة السياحية في جلب الامتيازات التجارية ذات العلاقة بالنشاط السياحي للاستفادة من خبراتها الفنية والإدارية.

لذا أمل من سعادتك المساهمة في الإجابة على هذا الاستبيان مؤكدة لكم بأن كافة المعلومات والبيانات الواردة في الاستبيان ستعامل بالسرية التامة دون الإشارة إلى حالة محددة، وهذا يؤكد حركم في كتابة اسم المنشأة او عدمه.

شاكرا لسعادتك مقدا حسن تعاونكم،

ونقبلوا تحياتي

* ملاحظة: هذا الاستبيان يستهدف فقط مالك المنشأة أو المدير العام.

الباحثة: منى بنت محمد الحربي

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القسم الأول

وجهات النظر عن بيئة الامتياز التجاري (الفرنشايز) في المملكة العربية السعودية؟

السؤال رقم (1): ما هو تأثير العوامل التالية في تقييد بيئة الامتياز التجاري في المملكة العربية السعودية، يرجى وضع علامة (✓) أمام أحد الخيارات لكل عامل :

م	العوامل	مؤثر جداً	مؤثر	مؤثر إلى حد ما	غير مؤثر	غير مؤثر إطلاقاً
1	عدم وجود نظام محدد يحكم اتفاقيات الامتياز التجاري	<input type="checkbox"/>				
2	عدم وجود نظام لتسوية المنازعات وإجراءات التقاضي	<input type="checkbox"/>				
3	البطء في تنفيذ قرارات المحاكم	<input type="checkbox"/>				
4	عدم تطبيق الأنظمة ولوائح المنافسة	<input type="checkbox"/>				
5	عدم وجود مستشارين متخصصين لدراسة اتفاقيات الامتياز التجاري	<input type="checkbox"/>				
6	عدم وجود منظمات أو جمعيات تنظم العلاقة بين المنشآت العاملة في مجال الامتياز التجاري	<input type="checkbox"/>				
7	عدم وجود جهة إدارية لدى المانح تهتم بعمل نظام الامتياز التجاري ومتابعة الممنوح	<input type="checkbox"/>				
8	عدم وجود معلومات عن الاستثمار من خلال نظام الامتياز التجاري	<input type="checkbox"/>				
9	عدم وجود دورات تدريبية تعنى بالامتياز التجاري في المعاهد التدريبية والتعليمية	<input type="checkbox"/>				
10	عدم وجود برامج تثقيفية تروج لنظام الامتياز التجاري	<input type="checkbox"/>				
11	الاعتقاد العام بأن أعمال الامتياز التجاري تقتصر على مطاعم الوجبات السريعة والمقاهي	<input type="checkbox"/>				
12	التكاليف العالية لبدء وحدة عمل الامتياز التجاري	<input type="checkbox"/>				
13	عدم وجود مؤسسات التمويل الخاصة لدعم الامتياز التجاري	<input type="checkbox"/>				
13	أخرى (حدد)					

نابلسا يراجنلا زايتملا طاشذ في تلماعلا تاشتملا ءاردمو باحصاً

السؤال رقم (2): ما هو أثر العوامل التالية في تطوير بيئة الامتياز التجاري في المملكة العربية السعودية، يرجى وضع علامة (✓) أمام أحد الخيارات لكل عامل :

م	العوامل	مؤثر جداً	مؤثر	مؤثر إلى حد ما	غير مؤثر	غير مؤثر إطلاقاً
1	وجود نظام للملكية الفكرية	<input type="checkbox"/>				
2	التفريق بين أعمال الامتياز التجاري والوكالات التجارية	<input type="checkbox"/>				
3	الانضمام لمنظمة التجارة العالمية في عام (2005)	<input type="checkbox"/>				
4	المرونة في شروط اتفاقيات الامتياز التجاري	<input type="checkbox"/>				

<input type="checkbox"/>	التزام المانح بواجباته تجاه الممنوح	5				
<input type="checkbox"/>	انخفاض رسوم الامتياز التجاري	6				
<input type="checkbox"/>	وجود البنوك ومنظمات الاقراض الأخرى لتمويل أعمال الامتياز التجاري	7				
<input type="checkbox"/>	الكثافة السكانية في المملكة العربية السعودية	8				
<input type="checkbox"/>	الزيادة المضطردة في أعداد الوافدين	9				
<input type="checkbox"/>	تفضيل العملاء للمنتجات الأجنبية والعلامات التجارية	10				
<input type="checkbox"/>	كبر عدد المواقع السياحية في المملكة العربية السعودية	11				
<input type="checkbox"/>	تأهيل المواقع السياحية وتجهيزها لاستيعاب منشآت الامتياز التجاري	12				
					أخرى (حدد)	13

القسم الثاني

تطوير الأنشطة خلال أنظمة الامتياز التجاري

السؤال رقم (3): إذا كنت ممنوحاً ما هي أهمية الأسباب التالية في استمرارك مع مانح الامتياز الحالي ، يرجى وضع علامة (✓) أمام أحد الخيارات لكل سبب:

م	العبارة	قادر جداً	قادر	قادر إلى حد ما	غير قادر	غير قادر إطلاقاً
1	قدرة الامتياز التجاري على تطوير المنتجات والخدمات السياحية					
2	قدرة الامتياز التجاري على جذب السياح الأجانب					
3	قدرة الامتياز التجاري على زيادة قيمة المنافسة					
4	قدرة الامتياز التجاري على تحقيق ربحية عالية					
5	قدرة الامتياز التجاري على تقليل فرص الفشل					
6	قدرة الامتياز التجاري على توفير التسهيلات الائتمانية					
7	قدرة الامتياز التجاري على توفير التدريب من قبل المانح					
8	قدرة الامتياز التجاري على استخدام الخبرات المتراكمة					
9	قدرة الامتياز التجاري على الانتشار					
10	قدرة الامتياز التجاري على تقديم الدعاية					
11	قدرة الامتياز التجاري على تخفيض نفقات تأسيس العمل					
12	أخرى (حدد)					

القسم الثالث

تطوير الأنشطة السياحية خلال أنظمة الامتياز التجاري

السؤال رقم (4): إلى أي مدى تتاح فرص نجاح الامتياز التجاري في تطوير الأنشطة السياحية التالية، (يرجى وضع علامة (✓) أمام أحد الخيارات لكل نشاط):

م	الأنشطة السياحية	متاحة جداً	متاحة	متاحة إلى حد ما	غير متاحة	غير متاحة إطلاقاً
1	فنادق خمسة نجوم	<input type="checkbox"/>				
2	الفنادق المصنفة الأخرى (4، و 3 نجوم... الخ)	<input type="checkbox"/>				
3	الفنادق غير المصنفة	<input type="checkbox"/>				
4	الوحدات والشقق المفروشة المصنفة	<input type="checkbox"/>				
5	الوحدات والشقق المفروشة غير المصنفة	<input type="checkbox"/>				
6	وكالات السفر والسياحة	<input type="checkbox"/>				
7	المطاعم	<input type="checkbox"/>				
8	المقاهي	<input type="checkbox"/>				
9	منشآت تأجير السيارات	<input type="checkbox"/>				
10	المراكز الترفيهية	<input type="checkbox"/>				
11	المنتجعات (الشواطئ والمرتفعات)	<input type="checkbox"/>				
12	شركات النقل والترحيل (الحافلات)	<input type="checkbox"/>				
13	المواصلات الخاصة (ليموزين)	<input type="checkbox"/>				
14	معاهد وكليات التدريب السياحي	<input type="checkbox"/>				
15	الارشاد السياحي ومنظمو الرحلات	<input type="checkbox"/>				
16	استراحات الطرق	<input type="checkbox"/>				
17	أخرى (حدد)					

نابيتسا يراجنلا زايتملا طاشد في تلماعلات أنتملا ءاردمو باحصاً

السؤال رقم (5) يرجى تحديد الطرق التالية في بحثكم وحصولكم على المانح أو الممنوح بوضع علامة (✓) أمام أحد الخيارات لكل طريقة:

م	الطرق	نعم	لا
1	المعارض المحلية	<input type="checkbox"/>	<input type="checkbox"/>
2	المعارض الدولية	<input type="checkbox"/>	<input type="checkbox"/>
3	الصحف والمجلات	<input type="checkbox"/>	<input type="checkbox"/>
4	وكيل تجاري	<input type="checkbox"/>	<input type="checkbox"/>
5	جمعيات الامتياز التجاري	<input type="checkbox"/>	<input type="checkbox"/>

<input type="checkbox"/>	<input type="checkbox"/>	6	الغرفة التجارية
<input type="checkbox"/>	<input type="checkbox"/>	7	الاتصال المباشر
<input type="checkbox"/>	<input type="checkbox"/>	8	المواقع الإلكترونية على الشبكة
		9	أخرى

السؤال رقم (6): هل ترغب بالاستثمار في الأنشطة السياحية من خلال نظام الامتياز التجاري؟

نعم ، حدد النشاط أو الأنشطة

- (أ)
- (ب)
- (ج)
- (د)

لا ، ما هي الأسباب؟

- (أ)
- (ب)
- (ج)
- (د)

القسم الرابع (أ) النشاط التجاري

السؤال رقم (7):

أسم المنشأة:

(اختياري)

السؤال رقم (1): الموقع

الرياض

جدة

الدمام

السؤال رقم (2): يرجى وضع علامة (✓) على النشاط أو الأنشطة المحددة التي يعمل فيها الامتياز التجاري في مجال عمل منشأتك؟

م	نوع النشاط	الاختيار
1	المطاعم / مطاعم الوجبات السريعة والمقاهي	<input type="checkbox"/>
2	توريد المواد الغذائية/المشروبات	<input type="checkbox"/>
3	الأقمشة/الملابس الجاهزة	<input type="checkbox"/>
4	المعدات الطبية/الأدوية	<input type="checkbox"/>
5	الأواني المنزلية/الأجهزة الكهربائية	<input type="checkbox"/>
6	المفروشات المنزلية والمكتبية	<input type="checkbox"/>
7	العطورات/مستحضرات التجميل والاكسسوارات	<input type="checkbox"/>
8	العاب الأطفال/ الصناعات التقليدية اليدوية والتحف/الهدايا	<input type="checkbox"/>
9	السيارات/قطع الغيار	<input type="checkbox"/>
10	المعدات الصناعية/العدد	<input type="checkbox"/>
11	مواد البناء	<input type="checkbox"/>

<input type="checkbox"/>	12	تجارة وصياغة الذهب والمجوهرات والساعات
<input type="checkbox"/>	13	الاتصالات/الانترنت/أجهزة الحاسب الآلي/الإلكترونيات
<input type="checkbox"/>	14	خدمات وكالات السفر والسياحة
<input type="checkbox"/>	15	الخدمات الاستشارية/المحاسبية/القانونية/الإدارية
<input type="checkbox"/>	16	الفنادق/الوحدات والشقق المفروشة والموتيلات
<input type="checkbox"/>	17	الخدمات البترولية
<input type="checkbox"/>	18	الخدمات الترفيحية
<input type="checkbox"/>	19	الخدمات الاجتماعية
<input type="checkbox"/>	20	أخرى (حدد)

* إذا كنت ممنوحاً يرجى الاجابة على (القسم الرابع ب)، وإذا كنت مانحاً يرجى الإجابة على (القسم الرابع ج)

القسم الرابع (ب)

معلومات عامة عن نفسك وعمل الامتياز التجاري

إذا كنت ممنوحاً يرجى الاجابة على الأسئلة العامة التالية عن نفسك وعن عمل الامتياز التجاري

- هل أنت
 - المدير
 - المدير وصاحب المنشأة
 - صاحب
- عمر صاحب المنشأة/المدير

<input type="checkbox"/> من 20 سنة	<input type="checkbox"/> من 30 سنة	<input type="checkbox"/> من 39 سنة	<input type="checkbox"/> من 40 سنة	<input type="checkbox"/> من 49 سنة
<input type="checkbox"/> من 50 سنة	<input type="checkbox"/> من 59 سنة	<input type="checkbox"/> من 60 سنة	<input type="checkbox"/> من 69 سنة	<input type="checkbox"/> من 70 فأكثر
- مؤهلات صاحب المنشأة/المدير

<input type="checkbox"/> فوق الجامعي	<input type="checkbox"/> جامعي	<input type="checkbox"/> ثانوي	<input type="checkbox"/> متوسط فما دون
--------------------------------------	--------------------------------	--------------------------------	--
- هل لديك خبرة في مجال الأعمال قبل دخولكم في مجال العمل بالامتياز التجاري؟

<input type="checkbox"/> نعم	إذا كانت الإجابة نعم، كم عدد سنوات الخبرة () سنة
<input type="checkbox"/> لا	
- ما هي المدة التي أمضتها المنشأة مع الممنوح الحالي؟

<input type="checkbox"/> من 1 سنة	<input type="checkbox"/> من 6 سنوات
<input type="checkbox"/> من 11 سنة	<input type="checkbox"/> من 16 سنة فأكثر
- ما هو نوع اتفاقية الامتياز التجاري مع المانح الحالي

<input type="checkbox"/> امتياز تجاري وحدة واحدة
<input type="checkbox"/> امتياز تجاري متعدد الوحدات

امتياز تجاري منطقة

أخرى (حدد)

(7) ما هي عدد المنافذ الحالية التي تملكها المنشأة من خلال الامتياز التجاري () منفذ.

القسم الرابع (ج)

معلومات عامة عن نفسك وعن عملك في الامتياز التجاري
إذا كنت مانحاً، يرجى الإجابة على الأسئلة العامة التالية عن نفسك وعن عمل الامتياز التجاري

(1) هل أنت؟ المدير المدير وصاحب المنشأة صاحب المنشأة

(2) عمر صاحب المنشأة/المدير

من 20 سنة من 30 سنة من 40 سنة من 49 سنة

من 50 سنة من 60 سنة من 69 سنة من 70 فأكثر

(3) مؤهلات صاحب المنشأة/المدير

فوق الجامعي جامعي ثانوي متوسط فما دون

(4) هل لديك خبرة أو تجربة أخرى سابقة في مجال الأعمال قبل دخولك في إدارة/ امتلاك العمل الحالي؟

نعم لا

(1) إذا كانت الإجابة نعم، كم عدد سنوات الخبرة () سنة

(2) هل توجد علاقة بين تجربتك السابقة ومجالك الحالي؟ نعم لا

(5) ما هي العبارة المناسبة لوصف منح الامتياز التجاري؟

مالك الشركة الأم امتياز تجاري رئيسي Master Franchise
أخرى (حدد)

(6) كم هي المدة التي مارست فيها المنشأة العمل خلال الامتياز التجاري في المملكة العربية السعودية

من 1 سنة من 6 سنوات

من 11 سنة من 16 سنة فأكثر

(7) كم عدد وحدات الامتياز التجاري التي تملكها المنشأة في المملكة العربية السعودية؟ () وحدة.

(8) هل لديك أي منشأة/منشآت أخرى بجانب وحدات الامتياز التجاري؟

نعم ، لدي شركة/مؤسسة واحدة

نعم ، لدي عدة شركات/مؤسسات

لا

السؤال رقم (8): يرجى تحديد درجة أهمية الأسباب التالية في اختياركم للممنوح والمنشأة الممنوحة، يرجى وضع علامة (✓) أمام أحد الخيارات لكل سبب:

م	الأسباب	مهم جداً	مهم	مهم إلى حد ما	غير مهم	غير مهم إطلاقاً
1	المقدرة المالية للممنوح	<input type="checkbox"/>				
2	الخبرة الإدارية للممنوح	<input type="checkbox"/>				
3	العلاقات الشخصية مع الممنوح	<input type="checkbox"/>				
4	استقطاب مالك منشأة عمل حالي	<input type="checkbox"/>				
5	الموقع الجغرافي للمنشأة الممنوحة	<input type="checkbox"/>				
6	أسباب أخرى					

شكراً لحسن تعاونكم،،

استبيان
أصحاب ومدراء المنشآت العاملة في القطاع السياحي في
المملكة العربية السعودية

سعادة صاحب المنشأة / المدير العام

السلام عليكم ورحمة الله وبركاته،

أود إحاطة سعادتكم بأنني أقوم بإعداد رسالة الدكتوراه في جامعة اكستر بالمملكة المتحدة حول " أثر الامتياز التجاري في تطوير الأنشطة السياحية وكذلك دور الأنشطة السياحية في جلب الامتيازات التجارية ذات العلاقة بالنشاط السياحي للاستفادة من خبراتها الفنية والإدارية.

لذا أمل من سعادتكم المساهمة في الإجابة على هذا الاستبيان مؤكدة لكم بأن كافة المعلومات والبيانات الواردة في الاستبيان ستعامل بالسرية التامة دون الإشارة إلى حالة محددة، وهذا يؤكد حقم في كتابة اسم المنشأة او عدمه.

شاكرة لسعادتكم مقدما حسن تعاونكم،
وتقبلوا تحياتي

* ملاحظة: هذا الاستبيان يستهدف فقط مالك المنشأة أو المدير العام.

الباحثة: منى بنت محمد الحربي
جامعة اكستر

Email: Mona.harbi@ hotmail.com

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القسم الأول

وجهات النظر عن المنشآت العاملة في الأنشطة السياحية في المملكة العربية السعودية

السؤال رقم (1): ما هو تأثير العوامل التالية في الحد من الاستثمار في أنشطة القطاع السياحي، يرجى وضع علامة (✓) أمام أحد الخيارات لكل عامل:

م	العوامل	مؤثر جداً	مؤثر	مؤثر إلى حد ما	غير مؤثر	غير مؤثر إطلاقاً
أ) العوامل النظامية						
	(1) إصدار التراخيص من أكثر من إدارة حكومية					
	(2) طول الإجراءات الإدارية لتأسيس مشروع سياحي					
	(3) كثرة الشروط للحصول على تراخيص لممارسة الأنشطة السياحية					
	(4) المعايير العالية لتصنيف الفنادق والشقق المفروشة					
ب) العوامل المالية:						
	(5) عدم وجود رأس مال كاف لدى المنشآت					
	(6) عدم رغبة البنوك في تمويل الأعمال الصغيرة والمتوسطة					
	(7) محدودية التمويل من قبل صناديق الاقراض المتخصصة الحكومية والاهلية					
	(8) عدم تمتع المستثمرين في القطاع السياحي بالحوافز والإعفاءات الجمركية اسوة بالقطاعات الأخرى					
	(9) التكلفة العالية للتشغيل مقارنة بالمشروعات الأخرى					
د) عوامل الموارد البشرية						
	(10) عدم خبرة العاملين في القطاع السياحي					
	(11) سيطرة الوافدين على الوظائف المتاحة في القطاع السياحي					
	(12) ترك العمل من قبل العاملين السعوديين في القطاع السياحي (سرعة دوران العمالة)					
	(13) ضعف مخرجات التعليم والتدريب من المعاهد والكليات السياحية					
	(14) قلة عدد الكليات والمعاهد السياحية					
	(15) قلة خبرة المنشآت العاملة في التدريب السياحي					
هـ) العوامل التسويقية						
	(16) عدم وجود مكاتب تسويقية متخصصة لترويج السياحة الداخلية					
	(17) ضعف تسويق المنتجات والخدمات السياحية من قبل المنشآت السياحية					
	(18) الاعتماد على الجهود الرسمية في الدعاية والاعلان (أنشطة الهيئة العامة للسياحة والآثار والأمانات والبلديات)					
و) العوامل الأخرى						
	(19) تردد رجال الأعمال في الاستثمار في القطاع السياحي بسبب حدائته					
	(20) عدم وجود خدمات تجذب السياح مثل الشواطئ والحدائق الوطنية					
	(21) موسمية الأنشطة السياحية					
	(22) عدم وجود تركيز على الفعاليات والمهرجانات					
	(23) التقليد في إنشاء الأعمال والأنشطة السياحية المتشابهة في منطقة جغرافية واحدة					
	(24) صعوبة الحصول على معلومات عن الفرص الاستثمارية في القطاع السياحي					
	(25) عوامل أخرى (حدد)					

السؤال رقم (2): يرجى وضع علامة (✓) على درجة موافقتكم على العوامل التي تساهم في تطوير وتنشيط كفاءة المنشآت العاملة في القطاع السياحي (يرجى وضع علامة واحدة أمام أحد الخيارات لكل عامل):

م	العوامل	أوافق بشدة	أوافق	أوافق إلى حد ما	لا أوافق	لا أوافق إطلاقاً
1	توظيف الخبراء الأجانب					
2	جذب أعمال الامتياز التجاري ذات الصلة بالقطاع السياحي					
3	زيادة التدريب الداخلي والخارجي للعاملين في القطاع السياحي					
4	تطوير البرامج التدريبية في المنشآت العاملة في التدريب السياحي					
5	إقامة المؤتمرات والمعارض لتطوير وجذب الاستثمار في القطاع السياحي					
6	تقليل المعايير المعتمدة لتصنيف الفنادق والوحدات السكنية المفروشة					
7	التدرج في تطبيق المعايير المعتمدة لتصنيف الفنادق والوحدات السكنية					
8	زيادة الدعم الحكومي للاستثمار في القطاع السياحي					
9	انشاء صندوق خاص لدعم الأنشطة في القطاع السياحي					
10	التوازن في توزيع المهرجانات والفعاليات خلال العام					
11	ايجاد أفكار وأنشطة مبتكرة خلال المهرجانات لجذب السياح من الداخل والخارج					
12	انشاء حاضنات أعمال للتمويل والتدريب ودعم الأنشطة السياحية					
13	إنشاء شركة مساهمة عامة ذات قدرة مالية كبيرة ومتخصصة للاستثمار في الأنشطة السياحية					
14	أخرى (حدد)					

القسم الثاني

وجهات النظر عن الامتياز التجاري كوسيلة للاستثمار في القطاع السياحي

السؤال رقم (3): يرجى تحديد مدى قدرة الامتياز التجاري في تطوير الأنشطة السياحية (يرجى وضع علامة (✓) أمام أحد الخيارات لكل عبارة)

م	العبارة	قادر جداً	قادر	قادر إلى حد ما	غير قادر	غير قادر إطلاقاً
1	قدرة الامتياز التجاري على تطوير المنتجات والخدمات السياحية					

					2	قدرة الامتياز التجاري على جذب السياح الأجانب
					3	قدرة الامتياز التجاري على زيادة قيمة المنافسة
					4	قدرة الامتياز التجاري على تحقيق ربحية عالية
					5	قدرة الامتياز التجاري على تقليل فرص الفشل
					6	قدرة الامتياز التجاري على توفير التسهيلات الائتمانية
					7	قدرة الامتياز التجاري على توفير التدريب من قبل المانح
					8	قدرة الامتياز التجاري على استخدام الخبرات المترجمة
					9	قدرة الامتياز التجاري على الانتشار
					10	قدرة الامتياز التجاري على تقديم الدعاية
					11	قدرة الامتياز التجاري على تخفيض نفقات تأسيس العمل
					12	أخرى (حدد)

السؤال رقم (4): إلى أي مدى تتاح فرص نجاح الامتياز التجاري في تطوير الأنشطة السياحية التالية (يرجى وضع علامة (✓) أمام أحد الخيارات لكل نشاط):

م	الأنشطة السياحية	متاحة جداً	متاحة	متاحة إلى حد ما	غير متاحة اطلاقاً
1	فنادق خمسة نجوم				
2	الفنادق المصنفة الأخرى (4، و 3 نجوم... الخ)				
3	الفنادق غير المصنفة				
4	الوحدات والشقق المفروشة المصنفة				
5	الوحدات والشقق المفروشة غير المصنفة				
6	وكالات السفر والسياحة				
7	المطاعم				
8	المقاهي				
9	شركات تأجير السيارات				
10	المراكز الترفيهية				
11	المنتجعات (الشواطئ والمرتفعات)				
12	شركات النقل والترحيل (الحافلات)				
13	المواصلات الخاصة (ليموزين)				
14	معاهد وكليات التدريب السياحي				
15	الارشاد السياحي ومنظمو الرحلات				
16	استراحات الطرق				
17	أخرى (حدد)				

السؤال رقم (5) اي من مازايا الامتياز التجاري العالمي يشجعك للانضمام كمانوح مستقبلي في بحثكم وحصولكم على المانح أو الممنوح بوضع علامة (✓) أمام أحد الخيارات لكل طريقة:

م	الطرق	نعم	لا
1	المعارض المحلية	<input type="checkbox"/>	<input type="checkbox"/>
2	المعارض الدولية	<input type="checkbox"/>	<input type="checkbox"/>
3	الصحف والمجلات	<input type="checkbox"/>	<input type="checkbox"/>
4	وكيل تجاري	<input type="checkbox"/>	<input type="checkbox"/>
5	جمعيات الامتياز التجاري	<input type="checkbox"/>	<input type="checkbox"/>
6	الغرفة التجارية	<input type="checkbox"/>	<input type="checkbox"/>
7	الاتصال المباشر	<input type="checkbox"/>	<input type="checkbox"/>
8	المواقع الإلكترونية على الشبكة	<input type="checkbox"/>	<input type="checkbox"/>
9	أخرى		

السؤال رقم (6): هل ترغب في تغيير نشاطك الحالي إلى نظام الامتياز التجاري (كمنوح)؟ مع ذكر الأسباب؟

نعم لا

- (أ)
- (ب)
- (ج)
- (د)

السؤال رقم (7): هل ترغب في الاستثمار في نشاط جديد من خلال نظام الامتياز التجاري؟ مع ذكر الأسباب؟

نعم لا

- (أ)
- (ب)
- (ج)
- (د)

القسم الثالث

1) المعلومات العامة عن المنشأة والنشاط

أسم المنشأة:

(اختياري)

السؤال رقم (1): الموقع

الرياض

جدة

الدمام

السؤال رقم (2): يرجى وضع علامة (✓) على الخيار الذي يناسب نشاطك/ أنشطتك الحالية في القطاع السياحي

م	نوع النشاط	الاختيار
1	فنادق خمسة نجوم	
2	الفنادق المصنفة الأخرى (4، و 3 نجوم... الخ)	
3	الفنادق غير المصنفة	
4	الوحدات والشقق المفروشة المصنفة	
5	الوحدات والشقق المفروشة غير المصنفة	
6	وكالات السفر والسياحة	
7	المطاعم	
8	المقاهي	
9	شركات تأجير السيارات	
10	المراكز الترفيهية	
11	المنتجعات (الشواطئ والمرتفعات)	
12	شركات النقل والترحيل (الحافلات)	
13	المواصلات الخاصة (ليموزين)	
14	معاهد وكليات التدريب السياحي	
15	الارشاد السياحي ومنظمو الرحلات	
16	استراحات الطرق	
17	أخرى (حدد)	

نايئسلي حاييسلا عاظفلا في تلماعلا تآشملا عاردمو باحصأة

السؤال رقم (3): أي نوع من الأشكال النظامية يناسب وصف نشاطكم السياحي؟

منشأة فردية

شركة

امتياز تجاري

أخرى (حدد)

السؤال رقم (4): كم عمر نشاطكم الحالي منذ تأسيسه؟

من 1 إلى 5 سنوات

من 6 إلى 10 سنوات

من 11 إلى 15 سنة

من 16 سنة فأكثر

السؤال رقم (5): هل لدى المنشأة الحالية فرع / فروع في المملكة العربية السعودية؟

نعم لا

إذا كانت الإجابة بنعم كم عدد الفروع؟ (.....) فرع

السؤال رقم (6): هل لديكم أي منشأة / منشآت أخرى بالإضافة لنشاطكم السياحي الحالي في المملكة العربية السعودية؟

نعم لا

إذا كانت الإجابة ب "نعم" كم عدد المنشآت؟ (.....) منشأة

(2) معلومات عامة شخصية

يرجى الاجابة على الأسئلة العامة الشخصية التالية:

- (1) هل أنت المدير
- صاحب المنشأة المدير وصاحب المنشأة
- (2) كم عمر صاحب المنشأة/المدير
- من 20 29 سنة من 30 39 سنة
- من 50 59 سنة من 40 49 سنة
- من 70 فأكثر من 60 69 سنة
- (3) مؤهلات صاحب المنشأة/المدير
- فوق الجامعي جامعي
- ثانوي متوسط فما دون
- (4) هل لديك خبرة سابقة في المجال السياحي قبل تملككم / إدارتكم للمنشأة الحالية؟
- نعم لا
- إذا كانت الإجابة نعم، كم عدد سنوات الخبرة (.....) سنة

شكراً لحسن تعاونكم ،،