

SUCCESSFUL FAST-FOOD FRANCHISING IN BRAZIL  
AND THE ROLE OF CULTURE: FOUR CASES

By

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## TABLE OF CONTENTS

	<u>page</u>
ACKNOWLEDGMENTS .....	ii
LIST OF TABLES .....	vi
CHAPTERS	
1 INTRODUCTION .....	1
Significance of the Study .....	2
Franchising .....	3
Definition .....	3
Standardization vs. Adaptation .....	5
Franchising In Brazil.....	5
Organization of the Study.....	8
2 REVIEW OF THE LITERATURE.....	10
International Franchising Research.....	10
Why Expand Internationally? .....	10
Advantages of Franchising Over Other Foreign Investment .....	12
Entry Modes .....	13
Franchising Studies on Brazil: Contributions and Findings .....	14
The Role of Culture in International Franchising .....	16
What is “Culture”? .....	17
Adapting to Local Culture.....	18
Case Studies Dealing with Cultural Differences.....	19
Other Factors to Consider Before Franchising Internationally.....	20
Brazilian Culture .....	23
Hierarchy/The Elitist Tradition.....	27
Personalism.....	28
Paternalism.....	30
<i>Malandragem</i> (Cunningness).....	30
The <i>jeito</i> .....	31
Sensualism and Attraction to Adventure .....	32
Brazilian Corporate and National Culture .....	34
Regional Differences.....	36

3 RESEARCH APPROACH .....	38
Research Method-Similar and Contrasting Case Studies .....	38
Inter-relational Dimensions.....	40
Universalism and Particularism.....	41
Individualism and Collectivism.....	42
Neutral versus Affective .....	42
Specific versus Diffuse .....	43
Achievement versus Ascription .....	44
Other Inter-relational Dimensions .....	45
Structure.....	45
Thinking Styles.....	46
Problem Solving.....	48
Human Resource Issues .....	49
The Cases .....	50
Use of Case Study Method and Personal Interviews.....	51
Sources of Information.....	52
Collection of Data .....	52
4 PRESENTATION OF CASES .....	55
McDonald's.....	56
History.....	56
Product .....	57
Operations .....	59
Store format/Location.....	59
Training.....	60
Marketing.....	60
Customer Service.....	61
Local Networking .....	61
Selection of Joint Venture Partner .....	62
Franchiser-Franchisee Relations .....	62
Community Service.....	63
Dunkin Donuts .....	64
History.....	64
Product.....	64
Operations .....	67
Store Format/Location.....	67
Training.....	68
Marketing Strategies .....	68
Customer Service.....	69
Local Networking .....	69
Master Franchiser Selection.....	70
Franchiser/Franchisee Relationship .....	70
Pizza Hut .....	71
History.....	71
Product .....	75

Store Format/Location.....	76
Training.....	76
Marketing.....	77
Customer Service.....	77
Local Networking.....	78
Master Franchise Selection.....	78
Franchiser/franchisee Relationship.....	78
Subway.....	80
History.....	80
Product.....	82
Operations.....	82
Store Format/Location.....	82
Training.....	83
Marketing.....	84
Customer service.....	85
Local Networking.....	85
Master Franchiser Selection.....	86
Relationship between Franchiser and Franchisee.....	86
Subway Today.....	87
A New Subway at PUC-Rio: FASTWAY.....	87
Analysis Of Cases And Cultural Factors.....	89
5 CONCLUSIONS.....	95
Principal Findings.....	95
Significance.....	99
APPENDICES	
A LETTER SENT TO EXECUTIVES.....	101
B SAMPLE INTERVIEW QUESTIONS.....	102
Questions for Paulo Guimarães:.....	102
Questions for Gerson Keila:.....	103
Questions for Jorge Aguirre:.....	104
General Questions for Marcelo Cherto, Ricardo Young and Daniel Plá.....	105
C KEY FACTORS FOR SUCCESS.....	106
D FACTORS FOR SUCCESS FROM EXECUTIVES INTERVIEWED.....	108
LIST OF REFERENCES.....	109
BIOGRAPHICAL SKETCH.....	117

## LIST OF TABLES

<u>Table</u>	<u>Page</u>
2-1 : Reasons Companies Expand Abroad.....	11
2-2 : Reasons for not Expanding Abroad.....	12
2-3: Advantages to Franchising over Exporting .....	13
2-4: Factors Influencing Entry Mode Decision.....	14
2-5: Common Errors of American Franchises in Brazil .....	15
2-6: Cultural Programming .....	18
2-7: Factors to Consider When Franchising Abroad .....	21
2-8: Brazilian Traits for an Organizational Analysis .....	27
3-1: Inter-Relational Dimensions .....	41
3-2: Issues Addressed in Interviews.....	53
4-1: Summary Of Company Information.....	55
4-2: Some Key Factors of Success for Franchising in Brazil .....	90
4-3: Franchising Success Factors and the Role of Culture .....	91
4-4: Inter-Relational Dimensions-Areas of Change in Workplace .....	92
4-5: Brazilian National Traits-Areas of Change in the Workplace.....	93

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The objective of this research was to discover the strategic factors that determine the success or failure of American fast-food franchises in Brazil and to analyze the role that culture plays in those factors. The study involved four similar and contrasting cases of franchises. Data were collected through personal, qualitative interviews with executives directly associated with each of the four cases and with others knowledgeable of the Brazilian franchising industry. These data were complemented by secondary sources of information on franchising found in Brazilian and American journals, and publications from franchising associations. The case information was then analyzed in terms of theories of cultural attitudes and behavioral tendencies of Americans and Brazilians.

The results indicate that to enter the Brazilian market, there are key factors that must be considered and in some cases strategically adapted to ensure success. Some

elements to examine for planning a successful market entry are product, operations, store layout, training and marketing approach. In addition, it was found that the impact of culture does enter into every one of these factors to a significant degree.

Finally, many national and corporate characteristics and behaviors of both Americans and Brazilians are changing. While review of the literature implies that an entering company must adapt its corporate culture to the local one, it turns out that in the cases studied, this is not necessarily true. In some instances the entering franchise absorbs local behaviors, but in the majority of areas, the American style corporate culture is predominating in the franchising corporate environment. The key is finding a balance of what areas need to be adapted toward the American or Brazilian cultural model in order to guarantee success as the franchise molds itself into the best fit with the Brazilian market. As this is an exploratory study it is hoped that the findings here will stimulate interest and encourage further study of the issue.

## CHAPTER 1 INTRODUCTION

This study analyzes various factors affecting the performance of North American fast-food franchises within the Brazilian business environment, with a primary focus on the role of culture. It is derived from four specific cases of companies currently operating in Brazil. The franchises to be compared and contrasted are McDonald's and Dunkin Donuts, which represent franchises that have adapted best to the Brazilian market and have encountered minimal difficulties. Pizza Hut provides an example of a company that has entered the Brazilian market but had to reduce its presence and re-formulate its business strategy to attract the Brazilian consumer and maintain profits. Subway is a case of a company that had many difficulties and has virtually abandoned the market.

The main objective of this thesis is to understand what type of strategies are necessary for an American franchise in the fast-food sector to employ to be successful in Brazil. The principal element to be focused on is cultural adaptability. The study draws on qualitative interviews of executives affiliated with the franchising industry, secondary sources and analyses of the four cases. Onsite observations of the four franchises (where possible) will also provide data concerning the physical set-up, menu offerings, client interactions, and general marketing approach of each restaurant chain.

International franchising has grown dramatically in recent decades. According to a 1992 survey by the International Franchising Association (IFA), fifty percent of franchisers without international operations planned on opening new locations abroad and ninety three percent of those with foreign franchises planned on expanding overseas.

The reasons for their growth are many. First, international opportunities have expanded because of increased global media promoting brand names. Economic integration and trade agreements between nations, such as NAFTA and MERCOSUL, have reduced the entry barriers that existed previously. Along with these broad external influences are the internal trends of nations which are following those that made franchising so successful in the United States. These include increased demand for goods and services, expanding urbanization, increasing mobility, greater number of women in the workforce, rising disposable incomes, shift to service economies and limited expansion opportunities at home (Ayling 1988).

Although these positive indicators seem to facilitate the entry of franchises into foreign markets, caution must still be exercised before transferring one's business across national borders. Not every company may be suitable for international expansion without making adjustments to product, operations or format. Examples of failed franchise operations in the international market demonstrate that regardless of how successful a business may be domestically, attention must be given to the local culture the company is entering in order to achieve success for the long-term.

### Significance of the Study

This study is aimed at defining sustainable strategies for American companies to succeed in international franchising endeavors in Brazil. As stated by Shane (1996), the skills and abilities needed to franchise abroad are quite different from those needed to franchise domestically. Information for international expansion is limited, and even more so in the area of cultural aspects. A better understanding of the relationship between culture and business practices in the Brazilian case is needed given the size of the market

and its recent opening and growth. According to the Inter-American Development Bank (IADB) Report 2000, “In Latin America, Brazil has achieved the greatest economic growth since the 1950s, with an average annual per capita growth rate of 2.5 percent”(IADB 2000: 5).

Also, according to McCoy’s 2000 Latin American Business Environment Assessment, direct foreign investment increased by record levels in 1999. As the political environment remains stable and inflation is controlled, more businesses are willing to venture into Brazil. Aside from those incentives to enter Brazil, competition is strong, creating a need for more detailed, tailored and flexible approaches in order to remain profitable. This can only be achieved by knowing the cultural intricacies of Brazil and utilizing local resources to their fullest. Thus, information and studies that focus on business ventures in Brazil are more vital than ever to provide entrepreneurs with a competitive edge.

## Franchising

### Definition

Franchising is an agreement between organizations where a producer of a product or service grants rights to independent entrepreneurs to conduct business in a specified way, in a designated place and during a certain time frame (Valente 2000: 33, Seltz 1982: 1-8). The type of franchising that is most common today is called “business format franchising” or “package franchising.” With this type of franchising, the franchisee receives more than just the rights of using the product, service and trademark. They receive the whole business plan including the standardized marketing strategy, operating and training manuals, quality control, support from the franchising company, store

layout, etc. The other form of franchising is “Product and Brand,” which was the original version of franchising at the beginning of the twentieth century. In this form, a brand of product or service is re-sold by another. Typical examples are the beverage industry, gas stations and car dealerships.

According to Preble (1992:187) the advantages of the business format franchising strategy for the franchiser are: cost sharing, rapid market penetration at a relatively lower cost than establishing one’s own distribution system, economies of scale and a motivated workforce. The advantage for the franchisee is the ability to start a business at a low cost with a proven standardized product or service, plus the support received from the franchiser for the brand concept.

The concept of franchising dates back to the Middle Ages, but the widespread use of franchise strategies began in the United States around 1850 when Singer Sewing Machines, located in New England, decided to market its products throughout the United States. At the time, the “franchising” element (Product and Brand) consisted only of the right to use the brand name at the store and sell the product. Towards the end of the century General Motors and Coca-Cola began to use the franchising concept to expand the markets to which they could sell their products. Throughout the twentieth century, franchising expanded gradually into other industries. In 1917 the first franchised grocery store, the Piggly Wiggly went into business. While Hertz began franchising automobile rentals in 1925, the first fast-food franchise, A & W opened in the same year.

The largest expansion of franchising occurred in the late 1940’s at the end of World War II when many veterans returned home desiring to open their own businesses. In the 1950’s major fast-food chains like Burger King, McDonald’s and Dunkin Donuts

began to appear. By the 1960's onward, these and other American fast food chains began their expansion into international markets.

### Standardization vs. Adaptation

While one of the advantages of expanding through franchising is the standardization of the brand, product and format that the franchisee receives, this advantage also brings about a dilemma when expanding globally. This is the key issue in this study, which examines how to balance adaptation and standardization in order to be successful internationally. Reaching a balance is particularly challenging in geographically remote and culturally different host countries. To what extent does the franchise adapt to its new cultural environment without losing brand image and its familiar format? In reference to the importance of cultural elements in international franchising, Huszagh, Huszagh and McIntyre (1992) state that the franchise concept and its management system are extensions of the cultural roots of the franchiser's home country. According to Aydin and Kacker (1990) the transferability of the system becomes a function of the cultural distance between the foreign and domestic cultures. The very strength of the franchise format--its standardization--makes its successful replication in foreign markets difficult.

### Franchising In Brazil

The current franchising industry in Brazil includes a broad range of products and services. It is the fifth largest country of franchises after the US, Japan, Canada, Germany; according to individual franchise association information (IFA 2001). The Associação Brasileira de Franchising (ABF) 2000 Census reports significant growth across all industries with the top sectors being those related to Health, Beauty and Sports

as well as businesses in Education and Training. Gerson Keila, current president of ABF and Executive Director of Dunkin Donuts Brazil, comments: “The numbers do not indicate that any sector is stagnated or saturated. On the contrary, they show a stabilization of sectors such as Food and Clothing, in which only the most well-prepared and well-structured companies can grow and survive in an economy like the Brazilian one” (Censo 2000: 9). Optimism for the Brazilian franchising industry in the new millennium is also expressed by Vinícius Lummertz, Technical Director of SEBRAE (Serviço Brasileiro de Apoio às Micro e Pequenas Empresas), in his assessment of future plans for the industry. The goal is to create mechanisms to facilitate the development of “know-how,” financing for investors, mediation organisms for the resolution of problems, and systems of communication to supply a constant flow of information within the industry.

The first Brazilian franchise was Yazigi, a foreign language chain that began to expand its business in 1963. Foreign franchise brands entered the market in the late 1970’s, the first being Ziebart, an American brand of products and services for vehicles. In 1979, McDonald’s entered Brazil through Rio de Janeiro. In 1985, Brazil had only 16 franchises, excluding gas stations and car dealerships. In 1987, the Associação Brasileira de Franchising (ABF) was formed to support the growth of the industry. From this time on the franchising industry in Brazil expanded at a rapid rate throughout the 1980’s and 1990’s. Some of the growth in the 1990’s can be explained in part by the Real Plan in 1994, which lowered inflation and brought approximately 15,000,000 new consumers into the market (Santos Kubota 1997).

In terms of investors, new federal legislation helped accelerate growth through the implementation of The Franchise Law of 1994, which defined the legal requirements of a franchise agreement. One of the most significant aspects of the Franchise Law is the requirement of franchisers to provide franchisees with the Franchise Offering Circular (Circular de Oferta de Franquia), which is a disclosure statement on the economic and financial health of the business. The tax and legal environment was also improved around this time period with a resolution by the National Institute of Industrial Property that regulated the remittance of royalties by foreign franchisers.

The ABF 2000 census provides an analysis of the existing 894 franchisers and thirteen market segments within Brazil as of 1999. In the census, Keila (2000), current ABF president, states that these 894 franchisers are responsible for 46,534 franchise units (owned and franchised). The industry has a market revenue of twelve billion dollars and generates 226,000 jobs. Ninety four per cent of the business format franchises are Brazilian, the remaining six per cent are of foreign origin and operated primarily under master franchiser plans. The largest sector in the franchising industry continues to be that of fast-food where competition is fierce. In the “2000 Census Report” and “Official Guide of Franchising 2001”, it is interesting to note some of the comments on the positive impact foreign franchises and the franchising system in general have had on Brazilian business practices even though the presence of foreign name chains is so small in comparison to Brazilian ones. According to economic analyst Cláudia Pamplona, the “boom” of the franchising market in the 1980’s helped open Brazil’s closed market. “The system was very healthy for the Brazilian economy and helped in its stabilization. It is much better for the balance of payments to pay royalties than to have foreign

companies installed or to import products. This is what the growth numbers of the sector demonstrate” (Guia Oficial: 36).

Mauro Trivellato of Prosul Franquias (Guia Oficial 2001: 36) states that in the 1980’s, franchising was the primary guarantee of success for a foreign brand in Brazil. Due to the complex business environment of Brazil, more than ninety percent of foreign businesses failed. In contrast, failure rate with franchised businesses was at a mere seven percent. In addition to these benefits to the economy, Marcelo Cherto, consultant and President of the Instituto de Franchising, comments that foreign franchisers like McDonald’s that entered Brazil in the 1970’s revolutionized the fast-food market. The businesses at the time involved in that market had to improve their services in order to avoid losing their customer base that had begun to demand more quality (Guia Oficial 2001). The remainder of this thesis will examine the impact and influence that the four franchises studied have had in Brazil and how Brazil has affected them.

### Organization of the Study

This study is divided into five chapters:

- Chapter 1 introduced the study and its significance. It then defined and provided a brief background of franchising.
- Chapter 2 provides the review of the literature on successful international franchising with special attention to the importance of cultural considerations.
- Chapter 3 describes the approach to the research, the theoretical background on inter-relational dimensions, the explanation for the choice of companies included as cases and the collection of data.
- Chapter 4 analyzes the cases and the role culture has played in the factors determining success or failure of the companies.

- Chapter 5 summarizes and concludes the study with recommendations for future businesses entering Brazil and suggestions for further research.

## CHAPTER 2 REVIEW OF THE LITERATURE

Research on international franchising has been increasing in recent years with the growth in the number of companies taking their brand abroad. Some of the most common topics of research that will be covered in this chapter include the motivation for franchisers to cross borders, the advantages of franchising as opposed to other international expansion options, how franchise companies decide to enter the host country and factors to consider before crossing borders. Lastly, I will discuss culture and its importance in international franchising and its specific connotations in Brazil.

### International Franchising Research

#### Why Expand Internationally?

The motivations for expanding abroad can be divided into external and internal factors. (See summary in Table 2-1.) Among the external factors for expanding, Walker (1989) lists the inquiries potential franchisees make to franchise companies about purchasing a license agreement. Aydin and Kacker (1990) cite the factor of domestic market saturation, which creates an incentive to exploit foreign markets with higher profit potential. Experts also argue that risks are fewer and minimal finances are required compared to other forms of foreign investment since it is the franchisee that bears most of the burden to initiate the business.

A key internal factor is the possession of expertise and know-how that franchisers acquire over time. The company must then have the ability to transfer this

know-how through successful implementation of profitable site selection, operating procedures and store design, all which can be duplicated in another country with minimal investment (Huszagh et al. 1992). Welch (1989) discusses the importance of possessing a certain amount of domestic experience before attempting to implement a brand's franchising system in foreign markets. The study by Walker (1989) reveals the importance of the "timing" of global expansion. His study indicates that over seventy five percent of franchises surveyed owned at least 100 domestic units and had at least five years of domestic experience before venturing across borders. Finally, Kedia, Ackerman, Bush and Justis (1994) and Agrawal and Ramaswami (1992) argue that a contributing factor to expanding international is managerial attitude and perception, as well as their desire to expand and increase profits. They do not concur with the market saturation explanation, stating it does not explain all cases.

TABLE 2-1 : Reasons Companies Expand Abroad

	<b>FACTOR</b>	<b>STUDY</b>
EXTERNAL	Inquiries by potential franchisees	Walker (1989)
	Domestic market saturation	Aydin and Kacker (1990)
	Lower risks	
	Minimal financial investment	
INTERNAL	Possession of expertise and know-how to transfer	Huszagh (1992)
	Ample domestic experience	Welch (1989)
	Timing	Walker (1989)
	Managerial attitude and perception	Kedia et al. (1994), Agrawal and Ramaswami (1992)
	Desire to expand and increase profits	

Aydin and Kacker (1990) elaborate on reasons why companies do not expand internationally, such as satisfaction with domestic sales and growth and perceived lack of expertise. (See Table 2-2 below.) In addition to these reasons, Eroglu (1992) indicates that part of the problem of some companies deciding to expand internationally is not the actual results of a risk-benefit analysis, but rather the filtered perception of decision makers about the limited available information on the risks and benefits of going abroad.

TABLE 2-2 : Reasons for not Expanding Abroad

<b>FACTOR</b>	<b>STUDY</b>
Satisfaction with domestic and sales and growth	Aydin and Kacker (1990)
Fear of lack of expertise	Aydin and Kacker (1990)
Filtered perception of decision makers about risks and benefits of expanding	Eroglu ( 1992)

#### Advantages of Franchising Over Other Foreign Investment

Aydin and Kacker (1990) emphasize that the benefits of going international with the business franchising format are due to the attributes of the franchising system itself in terms of the company, source country and the recipient country. (See summary in Table 2-3.) The unique characteristic of franchises being standardized reduces the amount of resources to be used to set-up a business. The product or service is produced and sold by the company within the recipient country as opposed to importing and exporting them. This way there is minimal problem with exchange rates, and there is an interaction of cooperation and control between the franchiser and franchisee. The advantage for the source country of the franchiser is that the franchise is locally owned thus, less financial outflow is needed to expand. The benefit for the recipient country is the reduced balance

of payment drain since the bulk of profits generated stay in the host country. The franchisee is only responsible for paying the initial franchise fee and an annual percent of sales in the form of royalties.

TABLE 2-3: Advantages to Franchising over Exporting

<b>Unit</b>	<b>Advantage</b>
Company	-Minimal amount of resources used -Minimal exchange rate issues -Cooperation between franchiser/franchisee
Source Country	-Franchise locally owned -Less financial output to expand
Host Country	-Lower balance of payment drain -Profits(minus royalties) stay in local economy

Source: Aydin and Kacker (1990)

#### Entry Modes

Justis and Judd (1989) classify forms of entry into foreign markets by fast food franchisers in the following ways: direct investment setting up subsidiaries, joint venture agreements with foreign partner or government and franchising rights with a master license. The most popular modes for franchise expansion tend to be joint venture and master licensing. Aydin and Kacker (1990) state this is because these forms of entry create the least amount of financial burden for the franchising company. Joint ventures also allow for investment, control, shared profits, entrepreneurial initiative, and generally meet government requirements for local equity participation.

Through master franchise licensing, an individual purchases the franchising license which entitles them to open up stores within a specific country or territory. The master franchiser receives training from the franchise company and is expected to transfer this acquired know-how to franchisees. In both modes, it is advantageous to

have an indigenous entrepreneur that knows the local environment. However, selection of a qualified, local master franchiser is especially crucial due to the possible risk of a company losing control of the quality and standards of its brand (Preble 1992). Preble provides a chart (See Table 2-4.) that demonstrates the considerations involved when determining the way companies enter foreign countries.

TABLE 2-4: Factors Influencing Entry Mode Decision

FACTOR	Entry Mode		
	Subsidiary	Joint Venture	Master Franchise
Commitment to host country			
Low		X	X
High	X		
Company Resources			
Few			X
Considerable	X	X	
Cultural Distance			
Small	X		
Great		X	X
Government Regulation			
Restrictive		X	X
Open	X		
Level of Economic Risk			
Low	X		
High		X	X
Political Risk			
Low	X		
High		X	X

Source: Preble 1992: 195. *Journal of Global Marketing*.

#### Franchising Studies on Brazil: Contributions and Findings

Only one study was found on Brazilian considerations for taking their franchises abroad. That study by Simões da Motta (1998) stated that few Brazilian franchises had expanded internationally, only 12 out of the 90 surveyed at the time of his study. He found that the reasons Brazilian franchises hesitated to cross borders were due to

perceived risk associated with company size and percent of owned stores to franchised units. Gurtner (1997) studied some of the common errors of American franchises in various sectors in Brazil which are listed below in Table 2-5. His overall recommendations for entering the Brazilian market are to focus on selling a long-term business that offers a unique product or service, not just selling franchise licenses. This is culturally significant in that franchises entering Brazil need to integrate themselves by building relationships at all levels with the community in terms of suppliers, distributors, franchiser/franchisee and customer interaction. He also advises expanding at a gradual rate and working with a local partner that is knowledgeable on the region's cultural attributes and customs.

TABLE 2-5: Common Errors of American Franchises in Brazil

**COMMON ERRORS**

Poor selection of master franchiser Inadequate training for operating a chain of restaurants High prices focusing on consumers of Classes A and B Concentration of stores on main avenues like the Paulista Repeating past mistakes of US franchises in Brazil Assuming that all products and services brought from US will work in Brazil Lack of knowledge of Portuguese Lack of local market expertise from inadequate pre- market research Inadequate links with local distributors and suppliers
---

Source: Gurtner 1997

Marcos Cohen (1998) conducted a study on the impact of the relationship between the franchiser and franchisee in Brazil. His results indicated a high correlation between positive working relations and greater success of business. Other franchising studies on Brazil are available but are not included here since they are less pertinent to the topic of this thesis and the role of culture in international franchising.

### The Role of Culture in International Franchising

As will be seen in the review of the literature to follow, the importance of culture for foreign franchise companies operating in Brazil is unanimously agreed upon. It is paramount to take cultural variations into account, yet it is still difficult to quantify the costs or profits of failed and successful attempts to adapt to the national culture in which a company is working. In addition, it is difficult to determine what formula is necessary to adapt a franchise culturally to its new market without jeopardizing the standard format on which it was founded.

A study conducted by Hopkins (1996) attempts to bring light to this dilemma. His findings revealed that franchisers feel that cultural differences do affect the demand for their product or service; however, they prefer keeping the brand standardized over too much cultural adaptation. Hopkins found that most alterations that had to be made in order for the operation to be successful were in the areas of promotion and advertising, pricing, product/service characteristics and financial requirements. The results of the study also showed that there was a slight tendency for franchises to make more changes when entering a market with more extreme cultural differences. At the same time, companies that adapted their products or services too much tended to be less successful. Further study is needed on this issue and how the respective cultures of the source country and the host must adapt, change or interact for a franchise to be successful. One of the key objectives to this study is to delve further into the issues of standardization versus adaptation. However, first it is necessary to discuss the concept of culture in more detail and see its implications for the business environment in general and that of Brazil specifically.

### What is “Culture”?

The concept of culture is huge and elusive as it deals with the very core of civilization. Everyone talks about it and knows that it is important when crossing national borders and dealing with people, but what does it mean? Webster’s (1994) defines culture as “the ideas, customs and skills of a people or group, that are transferred, communicated, or passed along to other generations.” Hoecklin’s (1995) definition of culture includes what it is and what it is not. Culture is not right or wrong, it is not inherited, and it is not about individual behavior. Within each national culture there are variations of beliefs and behaviors. Culture is a shared system of meanings. Culture indicates how people perceive the world, how they interpret meaning from events and gestures, and how they anticipate the expected behaviors and responses within societies. Culture is relative, not absolute. Different groups have different cultural rules but there is no set standard of which cultural values are better or worse than others. Culture is learned from social environment and is not genetic. Lastly, culture is about groups and reflects a collective phenomenon of beliefs on certain values and meanings. Hence, business people working with individuals of other cultures need to have an open mind and be aware of the different perspectives, tastes and behaviors of others in order to interact successfully and to avoid misunderstandings (Hoecklin 1995: 24-25).

Hofstede (1991) defines culture as the collective programming of the mind that distinguishes the members of one human group from another. He states that each person has layers of cultural programming and expands upon this idea of “mental programming” in a model. (See Table 2-6 below.) With it, he explains that culture lies somewhere between human nature and individual personality.

TABLE 2-6: Cultural Programming

<b>Unit</b>	<b>Trait</b>	<b>Origin</b>
Universal	>Human Nature<	Biological
Specific to groups	>Culture<	Learned
Specific to individuals	>Personality<	Inherited/learned

Source: Hofstede (1991)

According to his theory, the level referring to personality consists of fundamental assumptions that one learns as a child in the process of acquiring the necessary skills for social interaction within a group. This level is the most difficult to change and will vary according to the norms and mores of the society in which one is reared. The other layers of culture are learned throughout life through ones' education, professional life and organizational activities. These layers may be explained as "ways of doing things" and as "practices" as opposed to basic beliefs and values. The basic societal assumptions learned as a child are much more difficult to change than are those of organizations (Laurent 1989). The level considered important to this study is the one related to groups and "learned" national culture the traits of which tend to appear in corporations. It is significant in terms of the strength and possibility of a corporate culture re-programming individuals in organizational environments through training and motivational techniques and in terms of what embedded cultural preferences or values cannot be changed.

#### Adapting to Local Culture

Sensitivity and attention to local customs is crucial in order to be successful in any international market where one is dealing with a different culture. A foreign company must invest the time and finances to conduct marketing and sociological research to be sure they are sensitive to the tastes and habits of the country or region in which they are trying to sell. To achieve a successful transfer of a company from one country to another, Kirzner's (1973) book *Entrepreneurship and Competition*,

emphasizes that success is more than just studying and being aware of cultural differences. It goes beyond that, and importance is placed on the level of a company's or an individual's awareness and willingness to react and adapt to the situation, as well as constantly seeking new information about their surroundings. Kirzner (1973) argues that this skill of "alertness" and ability to adapt and be flexible according to the national context and circumstances is the key to doing well in another culture.

Kirzner's thoughts concur with the more current findings of Brazilian researcher Senoi (1995) and reiterates the key role of cultural concerns in international franchising. Senoi examined the marketing theories that are significant for franchises entering culturally different markets. Her suggestions for a successful strategy emphasize the need for the constant evolution of a chain. The firm must be capable of anticipating local market tendencies in order to develop new products and services as the need arises. She also discusses the administrative aspects concerning the importance of open communication and shared decision-making between franchisers and franchisees in order to be successful.

#### Case Studies Dealing with Cultural Differences

Attempts to decipher the role of culture in international franchising is also present in other global franchising research. One study compares franchising characteristics of NAFTA countries (Falbe and Welsh 1998) and the dissertation by Sadi (1994) utilizes a case study approach of fast food franchises abroad. The objective of Falbe and Welsh (1998) was to analyze factors associated with franchising failure and success and to compare these factors as perceived by the NAFTA countries in terms of franchise type, size and country of location. Results indicate that responses by the three nationalities of executives studied on the perceived causes of success and failure are different. Falbe and

Welsh feel that understanding the different perceived reasons for success and failure in each national culture will help international franchisers to know what aspects to monitor more and where to invest. In addition, increased awareness of different country perceptions will also be useful when providing the necessary training and development as companies enter new regions.

Sadi (1994) conducted a comparative, multiple case study of American fast food franchises in Japan, Canada and Russia. The results show that in franchising, it tends to be know-how, technology and trademarks that cross borders, not goods. The key factors to success seem to be quality top management, appropriate selection of a local representative or partner and the delivery of unique and specialized goods and services. Alterations made to the marketing mix and support systems vary for each company depending on the country in which they are operating. Sadi's findings are culturally significant to international franchising because they confirm the need to find an adequate local partner and to adapt marketing and operations when franchising internationally. His findings also seem to indicate that these types of adaptations to a franchise are not necessarily universal and decisions need to be made on a country by country basis. Thus, there exists a need to analyze the cultural characteristics of each nation to design customized entry strategies that will achieve sustainability in each market.

#### Other Factors to Consider Before Franchising Internationally

The studies mentioned so far indicate the advantages of choosing franchising as a form of international expansion and the importance of cultural aspects in order to succeed abroad. However, there are some legal, economical and political factors to consider as well. They are summarized in Table 2-7.

TABLE 2-7: Factors to Consider When Franchising Abroad

<b>Factors</b>	<b>Study</b>
-Geographical proximity -Cultural similarity	Walker (1989)
-Franchise opportunism	Williamson (1985)
-Monitoring capacities	Shane (1996), Kedia et al. (1994)
-Administrative efficiency -Risk management	Fladmoe-Lindquist (1996)
-Selection of master/local partner	Negócios and Franchising (2000)
-Consistent store format/operations	Plá (2001)

Walker (1989) mentions the importance of geographical proximity and cultural similarity to US when deciding to enter foreign markets. The greater the distance and culture differences, the greater the risks and costs of monitoring. Related to the concept of monitoring the business from a distance, results of a study conducted by Shane (1996) indicate that a key issue to consider before going abroad is whether a company is capable of minimizing “franchise opportunism,” defined as any attempt to cheat or act opportunistically between the two independent parties involved in a franchising agreement (Williamson 1985).

In order to reduce the chances of franchise opportunism, Shane first suggests that monitoring capacities must be developed before expanding abroad. Secondly, he advises bonding, which entails setting up legal parameters of the business so that if the franchisee acts opportunistically at any point, the contract is forfeited. Kedia’s (1994) study concurs with Shane in that sufficient monitoring capability is necessary for the established franchising format to stay within certain specifications of the home country.

Fladmoe-Lindquist (1996) examines other factors of importance in deciding whether to expand internationally. She classifies franchising capabilities that are necessary for success based on the traditional theories of “administrative efficiency” and “risk management.” Under the first category she discusses distance management, which

involves the transmission and communication of information between home and foreign operations. Distance management also deals with topics such as the structure of the international franchising contract that is typically standard within the domestic arena but not necessarily in the international one. Also, under this category is the aspect of cultural adaptability in terms of managing the complexities of day-to-day operations within a different culture. The second classification is that of risk management in the host country where concerns are more of a legal and economic nature. Host country risk management involves the evaluation of government policies in terms of restrictions on ownership and control, intellectual property rights, as well as exchange rate management.

A special feature article in *Negócios & Franchising* (Ferreira 2000) points out the key attributes a franchise should possess when considering expansion abroad. First, the franchise should be firmly established in its own domestic market, have a complete training program and possess the appropriate human and financial resources. Second, the franchise should be selective of the market it is entering and conduct full-scale studies of cultural, legal and economic aspects of the host country. Finally, care should be taken in the selection of a master franchiser and local partners should be sought out. Hiring a consultant experienced in the franchise industry of the country involved is suggested as well.

Daniel Plá (2001), owner of DePlá photography and past president of ABF-Rio discusses the key factors necessary to expand abroad. Along with studying the tastes and preferences of the host country, he suggests a strict and consistent attention to store format and operations which requires constant supervision by a well trained franchisee.

This implies a strong internal operation that can be transplanted and maintained at a distant location without losing the original brand format and characteristics.

### Brazilian Culture

Having reviewed the research on international franchising and the relation of culture to it, what do studies say about Brazil and Brazilians in terms of their national cultural characteristics that may be significant in the business world? Caldas and Prestes Motta (1997) state that corporate culture can only be understood by analyzing the national culture. They feel that the two are interconnected and that the basic assumptions, customs, beliefs and values that characterize a nation, are woven into that nation's organizations and institutions.

Argentinean sociologist O'Donnell (1999) supports this type of cultural analysis as well, but using a political context and by comparing two countries. In one study, O'Donnell relates the national culture to the political tendencies of a country, comparing the systems of hierarchy and authority of Brazil and Argentina. He compares the Argentinean confrontational attitude with the more passive Brazilian one among making other connections to social phenomenon. His argument is that culture and politics tie together and are reflected in minor everyday events within a culture. These interconnections between national, political and organizational culture are important when applied to the current trends of globalization throughout the world.

A study done by Hofstede (1984) discovered a consistent pattern in the tendencies and attitudes of workers of different nationalities working within the same multinational firm. He found that all individuals function under certain basic assumptions, values and beliefs which Hofstede divides into the following: 1) individualism vs. collectivism 2)

power distance 3) level of risk avoidance and 4) masculinity/femininity. Within his proposed framework he classifies Brazil as a collectivist society possessing a hierarchical system that maintains a great distance between power levels. The distribution of power is very unequal yet is accepted and understood in Brazilian society. Brazilians seek to maintain a very low level of risk avoidance as well. They seek stability in the job environment and have the need for formalized regulations to be in place. They see the companies they work for as a traditional family where the boss is seen as the “father” who protects them physically and economically and in return they are expected to be loyal to the company. Brazil is defined as a “feminine” society where the primary values are reflected in personal relationships and quality of life, as opposed to a “masculine” society, which places higher value on the acquisition of material possessions.

According to Borges de Freitas, it is difficult to define Brazilian culture because of the cultural “chaos” it seems to reflect with the many contradictory and heterogeneous characteristics it possesses due to the mix of heritages of European, indigenous and African descent. Borges presents the views available from two well-known schools of thought of Brazilian sociologists and anthropologists. Gilberto Freyre (1964) and Caio Prado Jr. (1942) explain Brazilian culture through ethnological and historical means paying particular attention to the influence of the African and indigenous elements so present in colonial times as a result of the institution of slavery and forced labor.

Freyre is the author of many works on Brazilian culture, among which one of the most famous is “The Masters and the Slaves” where he emphasizes the marked influence that slavery had on Brazil. He states “it is in the Big House that, down to this day, the Brazilian character has found its best expression, the expression of our social continuity”

(Freyre 1964: 10). Freyre explains “that the social history of the Big House is the intimate history of almost every Brazilian. It includes the history of the domestic and conjugal life under a slave-holding and polygamous patriarchal regime” (10). Freyre also mentions the cultural impact of the African and Indian slave woman’s presence in the Big House where they played a huge role in the nurturing of children and preparation of food in the kitchens for the family.

The most notable work by Prado (1942) is “The Formation of Contemporary Brazil.” His thesis is that the early nineteenth century was a critical and influential time for the history and formation of Brazil, but not only because of the arrival of the Portuguese monarchy and preparations for the political emancipation of the country. He asserts that this time period was powerful in its influences on Brazilian culture due to the institution of slavery and the colonial system, which he states has had the most influence in the present day social, political and economic systems of Brazil.

Roberto DaMatta describes Brazilian society by examining the values, beliefs, customs and attitudes of present everyday life. Some of his most famous works are “What Makes Brazil, Brazil?” and “The Brazilian Puzzle.” DaMatta (1984) is most known for his analysis of Brazilians in terms of their actions in certain spaces of *casa* (home life) and *rua* (street or public life). These are two very distinct spheres of interaction for Brazilians; home is a place of calm, with well defined and moral limits for the sacred family unit while public life is associated with the masses, movement, temptation, disorder and competition. In public life, the rules are made by a government that may or may not coincide with the best interest of the family unit. According to DaMatta, the world of work is somewhere in between the spheres of home life and public

life. For the Brazilian, work is seen as punishment or torture but is necessary as a sacrifice for the family. According to Prestes Motta (1997), the connection of the home to the work world is an attempt to create a sense of security in the individual by bringing personal relationships and emotion from the home sphere to the rational institution of the work place.

Borges de Freitas affirms that the national cultural attributes of individuals are present in the majority of cases in the organizational structures of a country and lists five fundamental characteristics of Brazilian behavior in an organization, their origins, their historical development and how they have become what they are today. The five characteristics are described in Table 2-8 below: hierarchy, personalism, *malandragem* (cunningness), sensualism, and need for adventure.

TABLE 2-8: Brazilian Characteristics for an Organizational Analysis

Characteristics	Description
1. Hierarchy	<ul style="list-style-type: none"> <li>-Tendency to centralize power through social groups</li> <li>-Maintaining distance between different social groups</li> <li>-Passivity and acceptance of authority from inferiors</li> </ul>
2. Personalism	<ul style="list-style-type: none"> <li>-Society based on personal relations</li> <li>-Need for closeness and affection in relationships</li> <li>-Paternalism: moral and economic domination</li> </ul>
3. Malandragem(Cunningness)	<ul style="list-style-type: none"> <li>-Flexibility and adaptability as a means of social maneuvering</li> <li>-Jeitinho</li> </ul>
4. Sensualism	<ul style="list-style-type: none"> <li>-Taste for the sensual and exotic in personal relations</li> </ul>
5. Need for Adventure	<ul style="list-style-type: none"> <li>-More dreamer than disciplinarian</li> <li>-Tendency to aversion toward manual or methodic labor</li> </ul>

Source: Borges de Freitas 1997: . *Cultura organizacional e cultura brasileira*.  
Translated by Mary Risner.

### Hierarchy/The Elitist Tradition

The roots of the hierarchical tradition and power of the elite can be traced back to the Portuguese system inherited from the Romans and the system of slavery implanted in the new world. Prado Jr. (1942) points out the significance of extracting African slaves from their natural habitat as opposed to the slave system that existed prior in history where slavery was more of a natural social result of conqueror vs. conquered. This type of organized, forced labor system created rigid hierarchy and social stratification which established an infinite distance between slave and master. In addition, the influence of

the agrarian patriarchal system of Brazil enforced aristocratic power by centralization of the patriarch and the need for strict obedience.

Prado Jr. (1942) describes this power distance between the *patrão* (owner) of the “big house” and the slave and equates it to the relationship of the modern worker/employee and his boss. Prado concludes that this minority rule of the few can still be seen firmly in Brazilian society in terms of the governing system and those governed.

In a report sponsored by the Kellogg Institute for International Studies, Payne (1992) discusses the complexity and uniqueness of the Brazilian elites and their power within politics and business. Payne states, “Business elites derive their privileged position and undue influence over policies from their extensive political resources: financial, organizational, and social” (Payne 1992: 17). A company’s professional finances tend to be tied to their own personal or family wealth. Organizational resources come from their own businesses, and social resources are acquired through informal and family contacts, social circles, and relationships with government officials. Many members of the business elite run for political office and many politicians retire into the private sector. These intricate groups of elites at the upper echelon in Brazil are key to the basic functioning of the country.

### Personalism

DaMatta (1984) explains the principals of capitalism as it originated in England and was inaugurated by the Industrial Revolution. By that definition, all individuals are equal under the law, each individual abandons their singularities of belonging to a family, and the Calvinistic work ethic is praised along with competition. Borges de Freitas, quoting Fernandes (1974), argues that as capitalism entered Brazil it was modified and adapted to the existing colonial structure that had been in place for centuries. As many

areas of Brazil are more industrialized, the economy is not as rural as it once was and the system of *fazendas* (ranches) no longer predominates in the economy, this agrarian system is what affected the creation of the Brazilian version of capitalism in existence today. Borges de Freitas (1997) explains that the ideal capitalist system of competition and free initiative was quickly substituted by the distribution of privileges and favors in social, political and economic factors. Economic processes became adapted to the interests and personal relations of the agrarian oligarchy.

Within the system of capitalism, the impersonal ideology of democratic liberalism was never brought into Brazil. The rural and semi-feudal aristocracy only assimilated those principles that served their interests. Moreover, the relation between master-slave and the domination of the central patriarchal figure were more important than individuals and their rights. Thus, a society emerged based on relationships instead of on the individual. Freitas explains how the characteristic of personalism can be seen in the fact that for many job positions, the choice of candidate is not necessarily related to capability but rather to personal contacts. Also, he notes that all Brazilians know that upon entering a new organization, they should immediately seek out a *padrinho* (godparent figure) closest to those in power who will help them on their way to the top. Finally, DaMatta affirms that the question “*Você sabe com quem está falando?*” (Do you realize who you are talking to?) also demonstrates the personalism of relations in Brazil, aside from its clear hierarchical and authoritarian implications.

The concept of personalism may seem to contradict all that was said in the previous section on hierarchy. However, this appearance of contradiction is just one more example of what some call the “chaos” of Brazilian culture when in fact it is not

chaos but a series of paradoxes that exist in the society due to historical events and development. In this case it is tied historically to the patriarchal system of slavery which represents levels of hierarchy yet is also based on relations and intimate contact, two opposing forces, the closeness of family ties and dependency, yet the distance between slave and master.

### Paternalism

Paternalistic relationships, a common element in Brazilian society and organizations, are defined as situations where a “father” (superior) controls and makes demands on subordinates in an economic relation, yet also treats the subordinates in a nice way and protects them on a personal basis. These types of relationships are very specific to Latin American cultures and distinguishes them from non-Latin American ones. Borges de Freitas connects relationships in today’s work world with the colonial patriarchal relationships of the master where the slave worker was not only a tool to get work done but also a soul for which the master had a moral responsibility to save.

Along with these traditions of hierarchy and paternalism exist the importance of closeness and warmth in relationships which may be tied to Buarque de Holanda’s description of Brazilian’s and their contribution to civilization as their status of being the *homem cordial* (kind and cordial person). He describes the warmth, hospitality and friendliness of Brazilians as a definite personality trait and need for intimate relationships. He cites examples of Brazilian customs suggesting intimacy such as the use of the first name in most social settings, the frequent use of the diminutive *-inho* and the informal and popular treatment Catholic saints.

### Malandragem (Cunningness)

In a society as hierarchical as Brazil, the inequality between groups has

created forms of social interaction through family relations and friendships. In Brazil, people tend to be judged by their personal social circles and contacts. DaMatta (1983) states that it is on these personal relationships that Brazilians depend when laws or situations overlook individual circumstances. He explains that due to the high levels of bureaucracy and inequality in Brazil, Brazilians, more often than others, must turn to their connections as an intermediary to find a solution between the personal and the impersonal. They try to make some kind of connection at any level with the person they are dealing with in order to sell their idea to the other person, consequently reaching their goal.

### The *jeito*

DaMatta (1984) explains that out of this need for an intermediary between the personal and impersonal comes the *jeitinho*, which serves to achieve what is necessary. He defines it as: “a uniquely Brazilian style of living for social interaction, the *jeitinho* is more than a way of life, it is a form of survival. It is a means to interact with others in a sensitive, intelligent and friendly way in order to link the personal with the impersonal.” (99) Translated by Mary Risner.

Freitas explains the *malandro* (crook/streetwise person) as a “master in the art of the *jeitinho*. The term *malandro* has a pejorative connotation to it, but in his discussion, he refers to those maneuvering skills that are valued without being criminal in nature. He refers to a person that is not easily deceived and is flexible enough to win in almost any difficult situation.

Keith Rosen’s (1984) article about Brazil’s legal culture discusses how the legal traditions brought to the New World that were based on Roman Law have come to affect the national Brazilian mentality and bureaucratic system. This can be frustrating and

time-consuming for Americans if they are doing business in Brazil for the first time and are used to more bureaucratic efficiency. Rosen also goes into detail on the positive and negative sides of the Brazilian *jeito* that have come about in relation to the inappropriateness of many aspects of the legal system. According to DaMatta (1984), most of the existing laws do not make sense with the Brazilian reality. In addition, individuals are treated differently under law in correlation to their status and place in society. Thus, the *jeito* is necessary for individuals to use through their personal relationships in order to survive. The positive side is that the *jeito* is a creative way of getting around the cumbersome bureaucracy of Brazil that saves time and gets things done. The negative aspects can be the ethical image projected which is often negative when the *jeito* is used to the extreme and leads to corruption.

One writer of *Você* quotes a Brazilian business executive on the perception of ethics when it comes to making decisions in Brazil:

It is not easy for Brazilians, who were reared under the *Lei de Gerson*, the *jeitinho*, and taking advantage of situations where possible. Socially, we learned that it is necessary to do what is right, but informally it is accepted to use any possible personal advantage to get ahead of others. There are corrupt people everywhere, but in Brazil small misdemeanors or scams are supported and even praised by friends and family. (Jacomino 2000: 35).  
Translated by Mary Risner.

The Brazilian and American definitions of what is ethical tend to be different, thus warranting more discussion and explanation of differences in order to improve the understanding and the working relationship of individuals.

### Sensualism and Attraction to Adventure

Borges de Freitas (1997) traces the roots of Brazilian sensuality to the Portuguese. Freyre (1964) gives examples of Portuguese Catholicism that views the Virgin Mary more in the sense of procreation and love than in that of chastity and rejection of worldly

desires as other Catholic countries did. Ribeiro (2000) in his famous work, “The Brazilian People,” mentions the presence of polygamy in many indigenous groups and the institution of *cunhadismo*, which was a system that allowed the Portuguese as outsiders to enter the communities and adopt polygamist practices. The lack of white women in the colonies and the attraction to the exotic increased the need for the Portuguese men to exercise their physical desires with the Indian women and later the African slave women who were basically at the mercy of the masters and their sons.

In modern society one can see the presence of sensuality in the names of certain foods such as *beijinho* (little kiss), *casadinho* (a pair) and *véu de noiva* (bride’s veil). In the workplace and in social situations one can also see the Brazilian tendency of very little personal space needed when interacting with others, more physical contact, along with affectionate expressions and prolonged stares.

Sérgio Buarque de Holanda (1955), in his work, “Roots of Brazil,” talks about the Brazilian horror of manual labor and routine chores. He divided society into two groups by looking back to primitive times, that of hunter and gatherer and that of laborers. He explains that the figure that stands out for the hunter/gatherer is the “adventurer.” His efforts are aimed at quick and easy gains, planning for big projects without serious thought on how to complete them. On the other hand, the laborer is the figure that loves to work and conquer things. He never wastes time and is persistent in progressing in life, which would be more along the lines of the American perspective on life. Holanda recognizes that in real life neither of these figures exists except in the world of ideas and that no one society or individual portrays only one aspect of them. However, he does

argue that for the most part, the Brazilian spirit goes toward that of the light-hearted adventurer.

Borges de Freitas (1997) agrees that the Brazilian in general does seek a return on investment in minimal time. When something needs to get done, most operate under the law of least effort. As stated by Macunaima, the famous character of the novel of the same name *Ai que preguica!* (Man, I don't feel like doing anything), the Brazilian soul prefers leisure and tends to look down upon manual labor and anyone who does it. This stems from the Portuguese aristocracy and was later reinforced by the institution of slavery for so many centuries and is still passed on today by children seeing any type of manual work being done by hired help or women.

In contrast to the Brazilian corporate and national characteristics, Oliveira (2001: 63) describes those of the U.S. as being fraternalistic, egalitarian and individualistic. Hierarchy tends to be played down and considered less important and employees are expected to prove their worth and advance through quality work. Finally, managers expect to be respected for their knowledge and capacity as a leader. Consideration of the differences between Brazilian and American corporate cultures is important in studying the strategies of the company cases.

#### Brazilian Corporate and National Culture

Also of significance is the question of the "right mix" of organizational adaptation as different national cultures try to work together and how this "cultural meeting point" influences a company's performance. The question is whether American franchises based in Brazil will eventually cede to the American corporate mentality or if American franchises entering Brazil will adapt their corporate culture and standardized ways of doing business to the local way of operating. Calas and Arias (1997) present possible

points of view when analyzing the current status and changes in Latin American organizations, the modernist concepts of “transfer” and “transformation” and the postmodern one of “hybridization.” Transfer is a traditional modernist view that assumes a progressive series of changes of an underdeveloped system to a developed one. Transformation is defined as a more or less logical modification of an existing form. The postmodern concept of hybridization involves the fragmentation and regulation of certain social structures and rituals. These fixed social systems serve as marking points of a before and after and to establish procedures for passing from one mode of doing things to another.

The authors argue against the modernist theories in that it is impossible for the whole world to succumb to the North American/European way of doing things and that it is impossible for world environments and contexts to remain constant. They support the postmodern theory where the world’s cultures are heterogeneous and made up of multiple conditions. Dávila (1992) argues that Brazilian and Latin American organizations should not simply trade in their traditional ways for modern ones and that the region is not behind with a need to catch up to the U.S. Rather as a case study by Arias and McMillen (1995) claims, the Latin American organizations are a mixture of modern and traditional administrative practices. The argument is that organizations do not have a fixed identity and that they adapt and readapt themselves to the combination of existing national cultural attributes and new ones that they encounter throughout time. This question of organizational change and adaptation will be key in the analysis of the four cases in this study and the conclusions to be drawn.

### Regional Differences

As a final note on Brazilian national culture, regional variation is a significant factor when entering Brazil to do business and should be considered for any marketing strategy or business venture in Brazil. Brazil is divided into five official regions: North, West Central, Northeast, South, and Southeast. Each possesses its own unique characteristics. These regional variations are extremely important to understand as franchises start to expand out of the profitable Rio/São Paulo metropolitan areas located in the Southeast, which is the most prosperous region.

American Brazilianist Charles Wagley (1971) points out the diversity yet unity of Brazil. He lists factors contributing to the variety throughout the nation such as climate, topography, general ecology, industrialization, economic development, ethnic origin and historical accident, among others. Borges de Freitas (1997) states that Brazil does seem like a country with many countries with their own cultures. The primary differences exist between north and south. The north being influenced greatly by the indigenous presence that was in Brazil when the Portuguese arrived and the African element brought about by the historical presence of slavery in the region. The south however is influenced by the European element due to immigration policies in the late nineteenth century. The north tends to be much less industrialized than the south and the cultural traditions are deeply rooted in each area. In addition to the north-south differences there exists the dichotomy between rural and urban Brazil as well as the idiosyncrasies of each of the regions in Brazil.

Throughout this review of the literature, studies have shown the motivation and modes of international expansion as well as the benefits and risks associated with doing so. The significance of culture when expanding across borders is undeniable, especially

in the need to recognize the characteristics of the local, host culture as well as that of the entering, source one. The goal of the remainder of this thesis is to discover the necessary mix of adaptation and standardization in order to be successful in Brazil, a significant dilemma for franchises. To determine in what aspects and at what point the franchiser, the franchisee, both or neither have to change. This will be achieved by comparing and contrasting the cases of the four fast food franchises chosen for this exploratory study, the research approach of which is explained in the following chapter.

## CHAPTER 3 RESEARCH APPROACH

In this chapter the research approach to the study is discussed. The methodology consists of a case study utilizing qualitative interviews and secondary data.

### Research Method-Similar and Contrasting Case Studies

In an effort to contribute a missing element to the existing literature on international franchising, the question guiding this research is: What is the role of culture, and what are the specific factors that lead to successful franchising in Brazil? I determined and assessed these factors by implementing a two-by-two exploratory case study of four franchises which were compared and contrasted. All four franchises are similar in that they are successful fast-food chains in the United States and have ample experience in domestic and international markets. The contrasting element among the four cases is that McDonald's and Dunkin Donuts are considered to be successes whereas Pizza Hut and Subway have been considered failures.

A successful franchise is defined in this study as a restaurant brand that has entered the Brazilian market and has not suffered major setbacks, nor has it had to withdraw or close a substantial number of locations because of financial difficulties. A failed franchise for these cases is defined as a brand that has had a wide range of negative experiences in the market such as the closing or franchiser re-purchasing of a considerable number of its locations in order to re-enter and re-build its image within

Brazil as is the case of Pizza Hut, or has almost totally withdrawn from the market as Subway did.

Research Questions:

Research question #1: What are the factors associated with successful fast-food franchising in Brazil?

Research question #2: What is the role of culture as a factor?

Research question #3: Which of these cultural factors are the most influential? Which culture is most affected, the local one or that of the entering company?

Hypotheses:

Hypothesis #1: There will be a variety of factors associated with success.

Hypothesis #2: One of the main factors contributing to a successful strategy and related to most of the other factors will be culture.

Hypothesis #3: In order to be successful it will be necessary for the entering company to adapt itself in a number of ways to the local culture. Thus, the local culture has a greater influence over the business operations of the foreign firm.

The main premise here is that one of the key determinants of success or failure in international endeavors are cultural factors. Culture is primarily tied into the ability of a company to adapt its corporate culture and product to the host country, in this case, Brazil. In the world of franchising, where it is important to maintain a consistent brand concept and format, the pertinent question is to what extent does the company Americanize its franchisees, operations and employees, and up to what point does the franchiser allow its operation to be Brazilianized?

According to Kirzner (1973), cultural sensitivity is linked to the ongoing ability of a company to adapt its corporate culture and philosophy to the host country. Economic

and legal factors are also important in the success of franchising abroad and will not be excluded as factors to be analyzed in this study. However, the hypothesis is that one of the key determinants of success in international markets is cultural sensitivity. Cultural factors are difficult to quantify and this may be why most studies do not focus much on these issues with the exception of brief mentions. This notwithstanding, an attempt must be made to determine the role culture plays in franchising success and to what degree, in this study the effort will be made by comparing and contrasting specific cases.

### Inter-relational Dimensions

In order to have a basis on which to compare interactions between cultures, to follow are five theoretical classifications of value pattern type defining role orientations and how groups tend to act in terms of attitudes and behaviors. In this instance, they are applied to the American and Brazilian cases. Many authors have expanded upon these classifications and use varying nomenclature for the groups but all basically overlap to cover the same areas. Interpersonal and relational skills in business can be more effective by realizing that individuals' actions and motivations can often be explained by examining their "cultural programming" and trying to understand the basic cultural assumptions on which people are operating. To illustrate some of the basic pattern variables under which individuals function, Trompenaars (1994) cites T. Parsons' five types of social value orientations: 1) universalism versus particularism 2) individualism versus collectivism 3) neutral versus affective 4) specific versus diffuse 5) achievement versus ascription. The ways people interact and relate to each other tend to vary within different nations and social systems, therefore awareness of these concepts

can be useful in order to integrate well with colleagues within the international business environment. The dimensions are summarized in Table 3-1.

TABLE 3-1: Inter-Relational Dimensions

<b>AMERICAN TENDENCIES</b>	<b>BRAZILIAN TENDENCIES</b>
Universalism: rules	Particularism: relationships
Individualism: focus on individual	Collectivism: focus on group
Neutral: reserved with emotions	Affective: demonstrative w/emotions
Specific: distance in relationships	Diffuse: involvement in relationships
Achievement: doing/merit	Ascriptive: being/status

Source: Parsons (1951), *The Social System*

### Universalism and Particularism

This category can be summarized as rules versus relationships. The universalist orientation focuses on adhering to standards and laws agreed upon in a society without allowing exceptions, which is typically the case in countries like the U.S. The particularist, on the other hand, emphasizes obligations to people they know and adapt their behavior according to each situation at hand depending on the relationship with the person involved. Particularism, which would be more predominant in Brazil, places importance on the context of current circumstances allowing individuals to make concessions to rules.

One issue that might be affected by universalism and particularism in the international business arena is contracts. Universalists, such as Americans, tend to have lengthy and detailed agreements to sign. Particularists in the Brazilian business environment would interpret the excess of restrictions and stipulations as a lack of respect and trust from one colleague to another. For them, a positive working relationship based on trust is the most important, a contract only serves as a guide.

According to the experience of Trompenaars (1995), American subsidiaries in particularist countries do not follow the universalist tendencies of the head office. Rather, he found that relationships between employer and employees are tailored to the local customs of conduct if the subsidiary is to succeed.

### Individualism and Collectivism

This dichotomy concerns individual versus group mentality. Individualism is usually associated with modernization and the Protestant work ethic, while collectivism is associated with tradition and Catholicism, the predominant influences in Brazil. In terms of the business world, individualism and collectivism are important when the question of responsibility enters. When it comes to errors or work quality, the question is who is responsible. A judgment has to be made about whether the individual or the whole group is credited or blamed.

Issues such as representation and how much power an individual has to make decisions for the group are also pertinent in terms of collectivism versus individualism. Decision-making is different in that individualist mentalities operate on majorities while collectivists prefer to arrive at a consensus regarding the matter at hand. These differences are important to understand when at the negotiating table due to the amount of time that might be needed to conclude what is being discussed.

### Neutral versus Affective

The third dimension of personal interaction defined by Parsons is the affective versus neutral tendency. Here is where one observes the degree to which individuals from different culture express their emotions. People from affective cultures like Brazil tend to show their emotions, whereas someone from a neutral one like the U.S. will appear more reserved and refrain from demonstrating emotion or feelings. This style of

interrelating is reflected in the way people communicate their opinions and feelings through verbal and non-verbal communication.

Verbal communication includes the tone of voice and the choice of lexicon used. Non-verbal examples include such things as eye contact, touching, and personal space. These interpersonal elements of interaction are important in terms of doing international business on the most basic level since they can build or deter trust, understanding, and likeability of clients. If business people are aware of these subtle differences it can help them avoid embarrassing themselves or offending someone.

### Specific versus Diffuse

The fourth dimension, diffuse versus the specific, reflects the extent to which one allows oneself to become involved with other people. This classification is related to the previous relational dimension of expressing emotion in terms of the degree to which businesspeople allow themselves to engage with others. In a diffuse society like Brazil, closeness and confidence between those working together will be more important than a fancy sales presentation of a product or service as might be the case in the U.S. The final decision of signing a deal will reflect the relationship building that has taken place during the negotiation process.

This concept of diffuse is exemplified in the treatment of clients arriving in Brazil. According to the video series “Doing Business in Brazil” (1997), visiting business people are usually picked up in person by a driver or some representative from the company for all appointments and are invited to meals and social events. In the case of the “specific” relational category reflected in the U.S., clients basically must fend for themselves by taxi and relationships are kept strictly to business. The main point in this

video is that in Brazil, the key to doing business is building personal relationships and integrating oneself into the local network.

The idea of private versus public space also correlates with the diffuse versus specific context. Trompenaars cites the example of a situation where if a manager or director were to encounter a subordinate in a social context completely separate from work. In a specific-oriented culture like the U.S., the two individuals would be on equal ground, the levels of professional hierarchy less significant. However, in a diffuse-oriented society like Brazil, the hierarchical space and the superiority of the higher rank would permeate more noticeably into every situation, work-related or not. Therefore, even in an encounter outside of work, the subordinate must still defer to the authority. Caution must be taken to heed the local system of hierarchy in Brazil when dealing with the social levels and status even though it is less egalitarian than the U.S. It could be offensive to a Brazilian to not respect the social distance between oneself and an inferior, especially if an American treats a chauffeur as an equal in front of his boss.

#### Achievement versus Ascription

Parsons' final dimension discussed by Trompenaars is that of achievement versus ascription, of status. In an achievement-based society like the U.S., status is earned by accomplishing goals. The opposite is true of an ascriptive culture like Brazil, where status is based upon age and experience, social class, education and social connections. Status is a result of "being" not doing. As with the particularist vs. universalist dimension, religion seems to be a determining factor by which certain groups are classified as achievement or ascription based. Catholicism tends to be more ascriptive. The reverse implication is that the Calvinistic and Protestant work ethic

typical in Anglo cultures promotes a more achievement- oriented society where people can advance by working hard, regardless of family background or social class.

This dimension is significant when conducting business and introductions are made. Titles and their importance vary by society, and situations dealing with the status of a person must be approached with care. Each society will judge status differently. In the U.S., as an achievement oriented society, educational qualifications are considered important while ascriptive cultures place greater importance on one's status, prestige and title within the organization one currently belongs to. Here, Trompenaars explains how negotiation strategies come in to play again. In an ascriptive society, an individual would probably never speak for the company and commit to anything without consulting a superior or a decision making body, even if they were of a high rank. In contrast, someone from an achievement society may not hesitate to speak for the group regardless of their rank.

#### Other Inter-relational Dimensions

Brake, Walker, and Walker (1995: 45) define and classify a set of “cultural orientation” factors that they feel one must be aware of to function optimally in another culture. Most of their classifications are parallel to the work done by Trompenaars but are broken down into smaller pieces and with slightly different nomenclature. The two elements that Brake et al. include, that are not covered by Trompenaars, are those of structure and the types of thinking that exist in groups.

#### Structure

According to Brake et al., some cultures seek structural order to reduce uncertainty. An example would be Brazil, where conflict is avoided at all costs. There is a perceived need for procedures, both written and unwritten, whether they are actually

followed and applied or not. Structurally flexible cultures like the US thrive on conflict and unknown situations, job mobility is more accepted and people are more willing to take calculated risks without fear of failing or saving face. David Cohen (2000) compares the cultural interpretation of the Brazilian and American concepts of failure: “the word failure in Portuguese is something tumultuous that falls apart, in English it is the state of something that is lacking or insufficient”(107). Translated by Mary Risner. He explains the difference in definition graphically. For Americans, failure is a point between zero and success, and is considered a positive experience from which to learn. For a Brazilian, failure is on the negative side of the zero graph and, it is considered a humiliation. This is a reflection of the structured hierarchical society that exists in Brazil.

In flexible cultures, job and task descriptions are more broad and individuals have more voice to make decisions, coinciding with a less hierarchical environment. The lesson to be learned when dealing with a structurally ordered society like Brazil, is to avoid putting individuals on the spot about an opinion or idea for a concern or in confronting them about a problem around others.

### Thinking Styles

Brake et al. (1995) divide thinking styles into deductive versus inductive reasoning and problem solving into linear versus systemic. Deductive thinkers emphasize abstract thought and general principles. Generalizations tend to come from the conceptual world rather than from facts. This deductive tendency in Brazil is also seen in its roots in the complex system of Civil Law and legal codes brought to the New World by the Portuguese. In this system, decisions are made based on existing principles that are interpreted according to specific incidents that arise and action is then taken depending on “who” is involved. Here it is appropriate to mention Roberto

DaMatta's (1984) discussion of social interaction in Brazil depending on the social classes of the people involved. The typical Brazilian response to show indignation for treatment lesser than expected is *Você sabe com quem está falando?* (Do you realize who you are talking to?). Every situation will be considered and dealt with according to the social ranking of the individuals involved. In contrast, the American equivalent to this type of scenario where someone thinks they deserve special treatment, the reaction is: "Who do you think you are?", because in U.S. culture, breaking the rules and making exceptions for certain individuals is not accepted.

Inductive cultures tend more toward deriving principles from experience and empirical proof is necessary for verification. This tendency probably stems from the Anglo Saxon tradition of Common Law Codes where decisions are made case by case according to the specific facts and data. Evidence is the most important to prove and justify the way the law is enforced.

These differences in thinking may be evident in business presentation styles and discussions of projects and proposals (Big World Video 2000). For the American thinking inductively, it may appear that the Brazilian is taking a long time to get to the point, whereas a Brazilian might feel that the American's style is too direct, blunt and impersonal. These reactions to business presentations could lead to problems in reading the audience's reaction to a proposal as well as general understanding of the concepts of the presentation.

The deductive thinking style most used in Brazil also tends to accept and praise the presence of intuition in the workplace. In his article in *Você*, a Brazilian business magazine, Silveira (2000) discusses how in today's rapidly changing market, intuition

and reason can work together to improve decision making within organizations. Headhunters of recruiting companies even actively seek job candidates who possess intuitive qualities such as being sensitive to interpersonal issues and the changing economy. This type of thought in the U.S. work environment might not be taken seriously and considered to be lacking factual substance on which to base a decision.

### Problem Solving

In terms of problem solving, a linear approach consists of breaking up the problem into small parts and analyzing them as links of cause and effect, the context of the whole is left to the side. This American tendency of looking at things step by step, can be a disadvantage to finding solutions to problems because one tends to lose sight of the entire situation. The systemic approach more commonly employed by Brazilians is considered more integrated and holistic where parts are analyzed by their relationship to the whole. Awareness of these differences can save frustration and lost time when working in teams on group projects. According to Garibaldi's (2000) report on the effects of globalization and privatization in Brazil, knowing about these differences in thinking styles can be used to a manager's advantage. Pooling multi-cultural resources accordingly for projects, a better product or result can be achieved. In the "2001 Official Guide to Franchises", consultant Marcelo Cherto also praises the learning process and exchange of ideas between foreign franchises and Brazil. Foreigners learn how to cope with a constantly changing economy and political arena while Brazilians learn new business concepts. Here again we see the pattern of "hybridization" or blending of the best of situations to bring about an improved result.

### Human Resource Issues

Understanding the way management and subordinates interact best is another necessary component that companies must consider in order to adapt to the local organizational and corporate culture of the society in which they plan to do business.

Before entering into a different country to do business, one must take into consideration differences in managerial styles and philosophies in order to succeed. Trompenaars (1994) mentions goal setting and Management by Objectives (MBO) which are popular management approaches in the United States. However, these philosophies may not be as well accepted in other areas of the world such as Latin American countries because individuals from these societies are not accustomed “to working under the abstract nature of preconceived policy guidelines” (Trompenaars 1994) which is key in the MBO model. Another example of successful management strategy by U.S. standards would be that of employee participation and managers working as part of the team. However, in a very hierarchical culture, like Brazil, this concept might be rejected because the role of those in authority is very clear and separate from that of their subordinates. Brainstorming in the U.S. is common where employees of all levels can contribute ideas. In Brazil, this type of activity would be unpopular traditionally due to the fact a subordinate might not feel comfortable making suggestions in case it appeared to be a criticism to a superior. And at the same time the superior might feel like he has lost face if someone at a lower social level than him comes up with a better idea.

American managers must be cautious in their human resource management philosophy in other cultures because it tends to be based on Anglo Saxon doctrine. This doctrine is based on the idea that in the overall economic scenario, humans are just

another resource like machines and money, which is difficult to accept for a traditional and relationship oriented culture like Brazil. The job of international managers is a difficult one as they must always be aware of their own biases due to their own culture of origin, the local culture and the corporate culture in which they are working.

The final issue greatly influenced by cultural preferences is the type of evaluation and reward system implemented by management. Difficulties in evaluating and rewarding employees not only depend on the type of system but how effectively it is used. According to Marcos Gusmão (2000), most of the current problems of professional evaluations in Brazil have to do with the elaboration, application and use of them in companies. He states that many executives in companies do not have the training to create and conduct objective systems of evaluation. Also, many companies only use them to justify administrative decisions and therefore are not as useful as they should be in improving job performance or increasing motivation of employees .

### The Cases

The analysis of the franchise cases selected employs the use of the inter-relational dimensions discussed above, as well as the organizational behavior attributes considered to be “Brazilian” discussed in the review of the literature. For this study I will apply the assumptions of these inter-relational dichotomies and the tendencies of Brazilian attitudes within organizations to the cases selected. According to the literature reviewed thus far, one would expect to see that the successful cases follow the Brazilian corporate cultural rules and customs whereas the failed cases would follow American models.

I chose four cases of North American fast-food companies in the Brazilian market for this study: McDonald’s, Dunkin Donuts, Pizza Hut and Subway. McDonald’s

represents the most successful implantation of a franchise throughout 120 countries worldwide (McDonald's website). The McDonald's method of global expansion is very systemized and unique. Using the same basic principles for entering other international markets and a few adaptations, McDonald's Brazil has also achieved great success and has had a strong impact on the franchising industry in the country by setting an example of excellence.

Dunkin Donuts is the second case example of what would be considered a "successful" franchise. Dunkin Donuts is especially interesting because it is succeeding in spite of the challenge of an unfamiliar product concept such as the "donut" and the brand name being totally unknown in Brazil before the entry of the company. Pizza Hut was chosen as an example of an effort that originally failed in the Brazilian market. It serves as a model of how and what a company needs to do in order to turn around its operations, product and image in order to win back a lost market.

Subway Sandwiches exemplifies a failed franchise in Brazil that has completely withdrawn from the market and has not yet made an attempt to re-enter and salvage the company name. The analysis of all the cases aims to determine how cultural factors affect success and failure in the Brazilian market.

#### Use of Case Study Method and Personal Interviews

Sadi (1994) explains the advantage of the case study and qualitative approach to conducting research by saying that the "likelihood of valid theory generated through the case study method is high because the theory-building process is intimately tied with the evidence. Thus, the case study approach lends consistency to future empirical observation" (112). The case study method is time consuming and may be criticized for non-standardized procedures, yet has the benefits of being flexible and descriptive, which

allows the development of deeper understanding through the discovery of multiple realities.

### Sources of Information

I examined the history and strategies of each franchising case through secondary sources such as business journals, dissertations and other publications found in the U.S. and Brazil such as: *Revista do Franchising*, *Exame*, *Franquia & Cia*, *Você*, *Gazeta Mercantil*, *Business Horizons*, *Journal of Business Venturing*, *International Marketing Review*, *Journal of Global Marketing*, etc. The latest census on franchising in Brazil conducted by the Associação Brasileira de Franchising (ABF) also served as a source of the current status of the industry.

This information is accompanied by data gathered through primary sources, personal interviews conducted with past and present franchise owners or franchising experts in Brazil. In order to conduct a full analysis of the franchise cases, it was important to complement secondary print sources with firsthand information provided by professionals who have owned or been involved with the franchise cases in the study. These individuals contributed valuable details on the specific cases that are not necessarily available in business journals and also provided a variety of perspectives from which to draw conclusions.

### Collection of Data

The instrument used to gather information was personal interviews with past and present franchise owners as well as with key individuals in the Brazilian Franchising Association (ABF) and the Institute of Franchising in São Paulo.

A brief letter describing the research project and the purpose of the interview was sent to participants before the interview date. (See Appendix A.) The interviews were

conducted with open-ended questions in order to allow the discussion to become exploratory.

Interview questions for individuals affiliated with franchising organizations and institutes were more general in nature. The objective was to obtain their perspective on the historical, current and future situation of the franchise cases each interviewee knew best. The questions for past and present franchise owners were more specific to their own operation. They were designed to collect data concerning the entry and sustainability strategies of each. (Appendix B.)

TABLE 3-2: Issues Addressed in Interviews

<b>Issue</b>
Adaptations of product or service
Physical set-up and layout
Marketing and training strategies
Obstacles to overcome
Operations
Role of corporate culture and philosophy
Opinion on key factors to success

Onsite observations of the franchises (where possible) also provided data and understanding on the various adjustments the restaurants have made in the physical setup, menu offerings, and marketing approach as compared to the original American format. Some informal interviews with Brazilian managers or franchisees as well as patrons at the locations provided other unique insights to the tastes of consumers and the changes required for each franchising model.

Due to the qualitative aspect of the study and the difficulty of quantifying and measuring the effects of “culture” on a business, I will present information gathered from print sources and opinions from executives interviewed and reach conclusions for

the particular cases examined. In order to confirm the conclusions empirically and extrapolate the application of them to other franchises, further study with similar parameters would be necessary using a greater number of cases and a statistical analysis. Considering the difficulty of interviewing every American fast-food franchise in Brazil, it was necessary to employ a sampling technique of the four franchises chosen. Thus, the present project will establish parameters for further research and more rigorous testing with a larger sample group of franchises operating in Brazil in the future. The following chapter presents information on each case included in the study.

CHAPTER 4  
PRESENTATION OF CASES

In this chapter each company case will be described in terms of its historic origins, corporate philosophy and its entry mode into Brazil. In addition, other specific aspects of the businesses that are considered relevant determining factors for success or failure in the Brazilian market will be analyzed such as: history, product, operations, store format/location, training, marketing, customer service, local networking, selection of master franchiser and the relationship between franchiser/franchisee. Due to the unique situation and experience of each company, the information available will vary and conclusions will have to be drawn from what was possible for the researcher to obtain.

TABLE 4-1: Summary Of Company Information

<b>Company Facts</b>	<b>McD</b>	<b>DD</b>	<b>PH</b>	<b>Subway</b>
Year founded:	1955	1950	1958	1965
Year began franchising:	1955	1955	1959	1974
International expansion:	1967	1970	1968	-----
Year entered Brazil:	1979	1982	1989	1994
How entered Brazil:	Joint V	Master	Master	Master
Presence in other countries:	120	40	88	72
Current Status:	+	+	+	-

Source: Company websites and executive interviews

## McDonald's

### History

McDonald's began in 1955 when businessman Ray Kroc discovered a hamburger restaurant owned by two brothers, Dick and Maurice McDonald, in San Bernardino, California. Kroc proposed starting another restaurant with the family name and following the same format. That same year, Kroc opened the first McDonald's store in Illinois and by the following year had opened twenty more throughout the U.S. After twelve years of perfecting the system in the U.S., and with almost 1000 stores in operation, in 1967 McDonald's went international by opening one store in Canada and another in Puerto Rico. The first McDonald's in Brazil was opened by Peter Rodenbeck in Rio in the Copacabana neighborhood in 1979. The second store opened two years later on Avenida Paulista in São Paulo. Both locations operated as joint ventures where McDonald's participated as a shareholder (Cherto 1995). The first franchise did not open until 1987 in Brasilia. In a personal interview with Rodenbeck (2001) and in Cherto's 1995 publication, Rodenbeck explains the professional development and strategic planning that was done before franchising the operations. First of all, it took many years for the first two stores to become lucrative. In order to begin successful franchising, it was necessary to be able to offer an interesting package to potential franchisees and to have a finely tuned operating system that would be installed throughout the country. The final package offered consisted of solid arrangements with suppliers and distributors creating an economy of scale that enabled the company to offer a reasonable profit return for new licensees and the ability to provide advertising support for the brand name. On the operations side, McDonald's Brazil had to determine the best

systems for operating, training, franchisee support and marketing. This investment process in infrastructure took six to seven years but was worth the results as can be seen by the success and firm roots of the company in the Brazilian market. Brazil is one of the five countries in the world where the chain is growing the fastest (McDonald's Website 2001).

According to the McDonald's website (2001), the company establishes its operations on the following four factors in order to achieve success. The concentration of one activity, which is selling a quality hamburger, emphasizing the importance of the treatment and training of their employees, decentralizing administration and forming partnerships with distributors throughout the world. In addition, McDonald's makes sure that all its locations are managed by local entrepreneurs that understand the area's market. Under the McDonald's system, eighty percent of all stores are franchised and the remaining are company owned. The idea behind maintaining company owned stores is to scrutinize the efficiency of everyday operations and stay aware of where problems tend to arise in order to make corrections. At the same time these locations generate income and serve as training facilities for new franchisees (Cherto 1995).

### Product

In the case of McDonald's in Brazil, the hamburger concept was already somewhat known through the hamburger restaurant "Bob's", which was started in Brazil by American tennis player Bob Falkenberg in 1953. The challenge for McDonald's was not fierce competition by many existing quality burgers, as was the case of pizza and Pizza Hut, nor was it of adapting the taste buds of Brazilians as was for the donut and Dunkin Donuts. At the time McDonald's entered the country, the concept of American fast-food existed but was not really prevalent, so the challenge for the company was more

the introduction and acceptance of the American fast food dining system that was key to winning over the market.

Minimal adjustments have been made to product such as the class of beef that would meet the demands of Brazilian's discriminating tastes in meat products. Menu adaptations were made as well such as in the absence of a breakfast menu at McDonald's in Brazil. Brazilians only tend to have a coffee and possibly a light roll for breakfast at home so the demand for that meal in Brazil does not exist. Orange juice from the typical American breakfast menu is sold as a daily beverage along with sodas.

Considering that Brazilians were accustomed to drinking fresh juices, it was necessary to offer a higher quality juice from concentrate (Rodenbeck 2001). In addition, other popular national drinks are offered such as: *guaraná* and a tropical fruit juice *maracujá* (passion fruit). Under the dessert category, minor changes have been made in the type of fruit pies that are served. Instead of the American choices of cherry or apple, in Brazil the flavors are tropical fruits more suited to the Brazilian palate. It is interesting to note here that product adaptation has been so minimal in Brazil that even the names of menu items have not been changed to Portuguese while they have been translated in other countries. For instance, in Spain the chicken sandwich is translated to *McPollo* and the fish sandwich to *Filete de Pescado*. In Brazil they continue to be called by their English product name McChicken and McFish. Milkshake is not even translated on the menu. According to Gurtner's (1997) study, this represents the cultural tendency of Brazilians to be very open and receptive to foreign things.

The minimal product adaptations of McDonald's in Brazil conform with comments by author John Love (1986) and entrepreneur Peter Rodenbeck (2001). When

entering another country, McDonald's focuses more on adapting marketing strategies and management systems through training. Product adaptation is avoided where possible and changes are more common in countries where there are greater differences from western U.S. culture as in the cases of Japan and India. Marketing strategies are used to sell the product as it is and the primary target market is the young which tends to be the market segment with a more open mind to new, non-traditional foods.

### Operations

McDonald's Brazil operates like all other units around the world. In accordance with the company's philosophy of decentralization, each store is an autonomous unit making its own purchases of supplies as well as recruiting and training its employees. McDonald's feels that this philosophy promotes employee participation and creativity in all areas and at all levels of the company. Decentralization is the model at the corporate level, too. Brazil is divided into seven regions: São Paulo Capital 1, São Paulo Capital 2, São Paulo Interior, South, East, Western Central, and Northeast. The McDonald's headquarters is located in Alphaville, part of greater São Paulo.

### Store format/Location

In terms of store layout, adaptations to Brazil have been minor as well. The differences would be due primarily to the high cost of real estate and difficulty of acquiring space in major cities (Rodenbeck 2001). Whereas in the U.S., most stores are located in spacious suburbs, in Brazil store spaces may be smaller if they are located in the urban core. In some areas, freestanding locations are possible and are built with two floors and an outdoor terrace so that customers can enjoy the local climate. This is considered an effort to "tropicalize" (process of adapting foreign product to local preferences) the stores (Revista do Franchising 1997). Locations in malls are also

popular formats in Brazil, and the sale of just desserts such as ice cream cones (*casquinhas*) is popular in front of stores or in free standing locations on a highly trafficked street. Rio's famous shantytown *Rocinha* even has a McDonald's express store (Advertising Age 2000).

### Training

As mentioned previously, training and management systems are the most important elements in McDonald's corporate plan of development and growth. This demonstrates Peter Rodenbeck's (2001) statement, "McDonald's wants to develop businesses, not just sell franchises." In order to be efficiently organized and decentralized, all the McDonald's staff must receive the proper training for the system to work. In Brazil, McDonald's is one of the companies that invests the most in training, more than 20 million reais per year (McDonald's website 2001). Employees at all levels receive initial and ongoing training, with the goal of providing the customer with the best service and a quality product and keeping turnover low.

Training is such an important part of McDonald's philosophy that it has training centers, "Hamburger University," in the U.S., Germany, Japan, Australia and England. In 1997, the *Universidade do Hambúrguer* was opened in Brazil in Alphaville, São Paulo. This location provides training for managers and future franchisees and receives students from all of Latin America and Portugal. The professional development training offered by McDonald's is one reason why the company has been named in the top ten best companies to work for in Brazil by business magazine *Exame* (*Exame* website 2001).

### Marketing

While McDonald's now is a well-known household name in Brazil and television advertising is common, when it first entered the market this was not the case. Television

commercials are extremely expensive in Brazil and according to Rodenbeck (2001), upon opening the first store in Copacabana there were not enough revenues to spend on advertising, thus the first store depended on its customer base growing from walk-in customers and repeat visits. As the company grew and increased its profitability, with time it was able to advertise on TV where the primary focus was on the type of food served, the quality service and friendly people. As mentioned previously, the audience McDonald's targets for their advertising message is youth and families.

### Customer Service

Friendliness of service and cleanliness of the location have been associated with the company since its opening and have influenced the operation of many Brazilian franchises since the fast food wave became so popular in the country. Concern for speed of service is reflected in the use of pre-order tickets (*pre-atendimento*). When there is a large line and rush crowd at a store, an employee will go down the line and take orders in advance so that just the ticket has to be turned in at the counter to pay and pick up one's order. In efforts to give customers unique atmosphere, one McDonald's placed candles on tables and offered champagne in the evenings (Market Latin America 1996). At present three locations are testing a twenty-four hour schedule to meet the demand of around the clock fast food, a service not as common in Brazil as in the U.S. By the end of 2001 McDonald's hopes to have twelve locations operating under this schedule (Gazeta Mercantil 2001).

### Local Networking

In an effort to reduce costs and as part of its philosophy to form partnerships with all store owners and franchisees, McDonald's sources all supplies and ingredients locally. In the case of Brazil specifically, the potatoes and beef come from the surrounding

countryside (Venkatarman 2000). McDonald's and its suppliers work as dedicated partners with stores over the long term, always seeking the lowest costs while maintaining quality and developing new products. As of 1999, the main suppliers were installed in "Food Town," a production and distribution center similar to those in Germany and Russia. "Food Town" is made of three of McDonald's most important partner companies; Brasio (meat), Brapelco (distribution logistics) and Interbakers (bread). The objective of the "Food Town" center is to optimize processes and decrease transportation costs between supplier and distributor. The center in Brazil employs 421 people (McDonald's website).

#### Selection of Joint Venture Partner

As mentioned previously, McDonald's does not operate under the master franchise plan as do many other foreign franchises, but rather with joint ventures through local partners. Although they know the importance of finding the right partner, according to Love (1986) there really is no pattern to the profiles and backgrounds of many of past partners except that they typically come from other fields of work other than the restaurant business. Rodenbeck, the original partner in Brazil came with a banking and finance background. The key to McDonald's succeeding in Brazil and other countries has been selecting local partners that are able to understand and relate to cultural parameters in each foreign market that create a "homegrown flavor" without losing its brand specifications.

#### Franchiser-Franchisee Relations

Success in Brazil is also achieved by applying the McDonald's belief in decentralizing systems, motivating employees, working toward objectives and managing time efficiently. The results are motivated employees at all levels who can work

autonomously, take responsibility for their performance and be rewarded accordingly (Jaggi 1995). McDonald's creates a positive working relationship between upper and lower management by providing training that allows individuals from any background to enter the company and advance by merit. Outstanding employees are recognized and rewarded monthly and annually. Contests and prizes are common forms of compensating good employees.

### Community Service

In an effort to integrate with the community and offer it services where needed, McDonald's operates a Ronald McDonald house in Rio, which provides care and housing for children of low income families with cancer. Other McDonald's institutions and foundations promote fund raising campaigns to fight against infantile cancer by finding a cure. Among other community projects, the company also participates in international partnerships that promote local educational and athletic events with groups like Walt Disney Company, International Olympic Committee, as well as the Brazilian Olympic Committee (McDonald's website).

One of the keys to success for McDonald's has been its patience upon entering the Brazilian market slowly and learning about it before expanding too quickly. In addition, it has excelled due to the company's goal of working with local industry and making it an integral part of the McDonald's-Brazil system. This strategy is effective in the sense that it coincides with the relationship building culture that is necessary in conducting business in Brazil. Its training and management philosophy is also positively received by McDonald's employees since it rewards any Brazilian employee for individual merit regardless of personal connections. This employee satisfaction is evident in that McDonald's reports only a sixty percent turnover compared to one of 150% in most other

fast food businesses in Brazil (Petit, Fontoura and Zapparolli 1994). In addition, the company has been ranked in the top ten companies to work for Brazil for several years in a row by *Exame* business magazine. (McDonald's website, Exame website)

## Dunkin Donuts

### History

Dunkin Donuts was founded in the U.S. in 1950 by Bill Rosenberg, also founder of the International Franchise Association and pioneer of the Franchise Advisory Councils. In 1989, Dunkin Donuts was acquired by Allied Domecq, a company which is committed to providing customers with “magical experiences”, offering profit potential for franchisees through ongoing learning and leadership programs and serving as a strong parent company (Dunkin Donut website 2001). In 1982 Dunkin Donuts entered Brazil through the Birman real estate group. Six years later, Gerson Keila, the current president of Dunkin Donuts Brazil, and his partner bought the brand with the rights of master-franchiser over 12 company owned units in São Paulo city and the unique rights to the provisions of the chain. It was only in 1991, nine years after the initial entrance into Brazil and three years after Keila's strategic analysis of the company's situation, did the company decide to franchise units (D'Ercole 1996).

### Product

The first step Keila and partner took in formulating the future strategy of Dunkin Donuts was a market study, which revealed the company's biggest challenge: to make the brand name and donut product known and accepted in Brazil. This was not an easy task considering that Brazilians did not know what a donut was. Originally it was

confused with other typically Brazilian sweets sold in local bakeries, *sonhos* or *bombas doces* (Keila 2001). According to Ricardo Young (2001), President and founder of Yazigi Language Schools, Keila's humorous approach to marketing the donut with slogans poking fun at the unusual new product to make it known to the Brazilian consumer was a successful tactic. Some examples of the slogans are: "*gordos comam escondido*" (fat people, eat in hiding) and "*caliber seu pneu.*" (fill up your tire). At this point, Keila's efforts to win the Brazilian over to the donut have worked with a current eighty stores and two hundred points of sale (Keila 2001).

Another challenge with the donut product in Brazil was the concept of consuming them for breakfast. When Dunkin Donuts first entered the market, the company attempted to impose the American breakfast habits on Brazilian consumers to no avail. According to Keila (2001), it is not customary for Brazilians to eat sweets in the morning and the product needed to be positioned in a different way, which became as a snack or a treat to have with the many *cafezinhos* Brazilians consume later in the day. The success in the positioning of Dunkin Donuts is evident in comments from franchisees interviewed that the time period between three and six is their busiest times or right after lunch for an after meal coffee.

Aside from creating a place for the donut in the habits and appetite of Brazilians, some other cultural adaptations were necessary to the Dunkin Donut product line and operations and physical layout of the store to have a higher chance of success with the Brazilian consumer. Along with the early attempts of Dunkin Donuts to impose the American breakfast habits on Brazil, they also began serving American drip coffee which just could not compete with the strong flavored coffee served in Brazil. Thus, a special

premium blend of Dunkin Donuts coffee was created for espresso machines in the store and for sale to prepare at home. The quality of the coffee was one response from customers when asked why they chose to go to Dunkin Donuts instead of another Brazilian coffee shop. Although the quality of coffee has been adapted to please Brazilian taste buds, the company does offer the typical American iced coffee which is marketed as “Dunkin Ice”.

The Dunkin Donuts stores in Brazil divide and promote products in categories by *Estações* (stations). The other stations alongside the coffee one are: *Estação Salgado* (salty snacks), *Estação Donut*, (donut snacks) and *Estação Suco* (juices). The “juice station” is a complete novelty of Dunkin Donuts in a continuing effort to “tropicalize” the brand there. Since Brazilians are accustomed to the availability of fresh squeezed fruit at juice bars, Dunkin Donuts has this beverage as an item on the menu, although this is not an option in the original U.S. format. The “donut station” offers both the “ring” (donut with a hole), regular sized filled donuts, mini-filled donuts and éclairs. The filled donuts tend to be the most popular for Brazilians with the product having been adapted to fit the Brazilian taste. Many new fillings were created to appeal to the Brazilian palate. The most popular is *doce de leite*. Other fruit fillings unique to Brazil are guava, banana and cinnamon and *brigadeiro* (a popular chocolate-flavored sweet typical at birthdays). Muffins are also available in fruit flavors adapted to the Brazilian market. The “salty snack” station is culturally adapted in its offering of croissant sandwiches with a local cheese *requeijão* and offers soup and a “Dunkin snack” creation. The most unique innovation however, is the *ring pão de queijo*. This is a classic example of the

flexibility and “hybridization” of two cultures, the Brazilian popular snack of “cheese bread” converted into an American donut shape.

### Operations

In the area of operations, DD has also been very innovative to adapt to the circumstances of the market and succeed. In the U.S., donuts are prepared and baked daily in each individual store, however, due to various factors explained by Keila, this system was not conducive to the conditions in Brazil. First, it is difficult to find franchisees to produce the product on site as well as the question of adjusting operation costs to the business and the sales of each store. The final advantage of a central baking facility according to Keila is that the recipe of the product is kept secret in this main kitchen. The actual “mix” recipe for dough has also been adapted to national tastes and is produced in Brazil along with other ingredients. In order for a centralized system of production to work successfully, all products are produced and baked at the central factory in São Paulo. The freezing process of *criogenia* was adopted to permit the distribution and storage of the product to individual locations. The product is transported to each store under the “Just in Time” system where it is stored at a specific temperature until ready to be filled and frosted by employees for final consumption (D’Ercole 1996).

### Store Format/Location

The physical layout of the Dunkin Donuts store has been strategically adapted to the local market. The very first store in Brazil was built like an original U.S. store, but subsequent stores were designed differently. The colors chosen for Brazilian stores are beige and brown and the product is placed in cases right in front of the consumer as well as behind the cash register like in U.S. stores. The stores are also designed with tables or

barstools for the customer to enter the shop and comfortably consume the products on the premises.

### Training

Three weeks of training as well as ongoing optional training is provided for all Dunkin Donut franchisees. Initial training covers basic operations, selection of employees, selling tools, marketing strategies and techniques in administration of the business. Due to the adaptation of the operations in Brazil with the central kitchen, the training manuals have been re-created and adapted to the Brazilian reality and cannot just simply be translated from the American version. The official training institute is located in São Paulo near the production center and is the facility used for all training (D'Ercole 1996).

### Marketing Strategies

Considering that national advertising in Brazil, especially television, is very expensive, the amount of the Dunkin Donut budget towards advertising is minimal. The marketing strategies used tend to be inexpensive outdoor public signs or point of sale displays of promotions which are much more affordable than TV advertising. The target consumer for Dunkin Donuts is middle and upper class income groups, however, little by little prices should become more accessible as the chain grows and achieves larger economies of scale (Keila 2001). There are many “combo” offers at special prices of coffee plus mini-donut, beverage plus donut, beverage plus salty snack, etc. The coffee plus choice of mini-donut is a successful way to introduce the concept of the donut through a small sample so that perhaps the customer will purchase some on a return visit. Store locations tend to be selected in high traffic areas since the product is an impulse item not one of destination.

### Customer Service

In the area of customer service, the Dunkin Donut store atmosphere has been adapted to the local culture as well. Due to the higher price of Dunkin Donuts' products, a more up-scale image needs to be promoted to ensure the customer that the extra *reais* spent for the product are worth it. In Brazil, donuts can be served "to-go" in paper products but in store there is also a set of nicer ceramic dishes to serve coffee on a mini-tray with the Dunkin Donut logo on it. With a coffee order, stores also provide a "hygiene kit" in a little plastic bag, which includes a napkin, sugar and little coffee stirrer. Some locations have a TV or reading material in the store, which creates a welcoming atmosphere encouraging customers to linger and enjoy their order. This feeling of being welcomed in a store is important in the Brazilian culture and is confirmed by a franchisee in Rio who notices that her regular customers seem to appreciate seeing her there as the owner and familiar face when they come in to the store. Finally, a unique aspect of Dunkin Donuts Brazil is the recent addition of delivery service of donuts and products to homes and offices.

### Local Networking

A future product offering to customers of Dunkin Donuts locations is the upcoming addition of ice cream products. The ice cream to be marketed is Kibon, a brand already well-known throughout Brazil which will minimize any necessary marketing efforts and make the Dunkin Donuts stores more a part of Brazil by offering local products in conjunction with the American brand, emphasizing once again the subtle cross-breeding of the two cultures.

### Master Franchiser Selection

The profile of the Master-franchiser and franchisee plays an important role in the success of a franchising operation, asserts Daniel Plá (2001) of the successful Brazilian franchise DePlá Photography. Not just anyone can fit into either role. Here Dunkin Donuts seems to have made a quality choice in terms of the master franchiser with Gerson Keila. Keila came to Dunkin Donuts with former professional experience in the American company Citibank and has proven himself by his strategic choices and decisions for the Dunkin Donut brand in Brazil. In the arena of franchisee selection the company is just as demanding. Out of the numerous consultations requesting contracts to franchise a Dunkin Donuts location, a small percentage is actually granted which serves as a reflection of the cautiousness practiced in all areas of the company during its presence in Brazil (D'Ercole 1996).

### Franchiser/Franchisee Relationship

The success of Dunkin Donuts is also due to the open-door communication policy of the company between the corporate office and franchisees. Cohen (1998) found in his research on franchising in Brazil, that the quality and satisfaction of the relationship between franchiser and franchisee is relevant and positive to the success of a franchise operation. Franchise owners interviewed stated that they were happy with the relationship with and support provided by the office in São Paulo. The company newsletter, *Toda Hora*, which is unique to Dunkin Donuts Brazil was created as a tool to facilitate contact and information flow among franchisees throughout the region. In the publication, all current news about the company is communicated and new products and services are announced. It is also a source of information on new locations opening, which store has the highest sales and who has any new, innovative ideas for the stores.

The newsletter serves as a tool for informing, motivating and rewarding all those affiliated with Dunkin Donuts.

Dunkin Donuts' success has some points in common with that of McDonald's such as patience for expanding in the market, relationship building with local suppliers and distributors and an open communication management style. However, Dunkin Donuts does stand out in the diligence with which it has used marketing and promotions to adapt an unfamiliar product like the donut to Brazilian culture and to find a niche for it in Brazilian consumer eating habits. Besides the product adjustments, analysis of the Brazilian market situation allowed for necessary changes in the operations to create a central fabrication point.

### Pizza Hut

#### History

The Pizza Hut story began in 1958 in Wichita, Kansas where two brothers, Danny and Frank Caney, opened their first restaurant. Within one year, they franchised their first unit. In 1968, the company entered the international market with a store in Canada. The following year stores opened in Australia, Mexico and Germany. In 1977, Pepsico, leader in the snack and beverage industry acquired Pizza Hut, initiating its entrance into the restaurant industry. At that point in time, Pizza Hut consisted of approximately 3,200 units (Tricon website 2001). By 1989, Pizza Hut had stores in fifty four countries and in the same year the company opened its first location in the state of São Paulo, Brazil. The parent company Pepsico grew later with the acquisition of Taco Bell and KFC, each brand expanding through the development of company-owned units and franchises throughout the world.

In an effort to sharpen Pepsico's focus, in 1997, it announced a plan to separate the company's packaged goods and restaurant businesses. The new company was named Tricon Global Restaurants, and upon its formation became the world's largest restaurant company in terms of units, and second in the world in terms of sales (Pepsico website-press releases). The Tricon corporate philosophy promotes "A passion for putting a 'YUM' on people's faces around the world... that special eating experience that makes you smile and creates lifelong customers" (Tricon website 2001). For all three of its restaurant chains Pizza Hut, Taco Bell, and KFC; Tricon focuses on franchisee support programs and training for their customer-focused operating system.

Pizza Hut entered Brazil in 1989 through engineer Edmar de Souza, who opened a second location shortly thereafter. In 1990, businessman and owner of Fábrica de Produtos Alimentícios Vigor, Ricardo Mansur, bought the two existing locations of Pizza Hut. Mansur signed a contract with Pepsico to open 60 stores over the next ten years. By 1993, Mansur had opened 35 stores in the São Paulo area. At that time, Brazil was the only Pizza Hut operation in the world that was functioning solely with franchises and no corporately owned stores. Pizza Hut was concerned about the lack of equity in their operations in such a large market as Brazil and decided that same year to buy back the Pizza Hut locations from Mansur at a price double to triple that of what he had originally paid. Along with the decision to re-purchase, the Pizza Hut Director of Latin America at the time, Humberto Pandolpho, decided to eliminate the traditional unit franchise system where each restaurant is franchised to an individual franchisee. He instead implemented the concept of a corporate franchising ("*franquia empresarial*")

where a corporate franchisee is assigned a given territory and is not permitted to sell a franchise to others (Revista do Franchising 1994).

Upon the re-purchase, Pizza Hut realized exactly how inefficiently the stores had been managed although business had appeared prosperous with the opening of so many stores. Up until 1994 with the implementation of the Real Plan, exorbitant inflation and daily price adjusting were normal. In such an inflationary environment, consumers had no way of perceiving price differences. Businesses could cover mismanaged finances by passing on high prices to consumers with real and forecasted cost increases. However, as the economy stabilized with Cardoso's Real Plan, price increases were not as common and consumers were able to perceive the value of their money by comparing prices. In addition, as Brazil became more stable, more foreign fast food franchises entered the country creating more competition for existing franchises (Gertner 2001).

In his case study, Gertner (2001) also explains how Pizza Hut was experiencing many other difficulties as well. The new management encountered resistance to attempts to apply Pizza Hut format standards, which had not been enforced prior due to the lack of a supportive and unifying central office. Overstaffing at restaurant locations and at the corporate offices was another problem throughout Pizza Hut Brazil, which led to unnecessarily high operational costs (Aguirre 2001). The customer base was decreasing due to high menu prices resulting from the fact that most ingredients had to be imported to meet corporate specifications and the inflationary problems of the real. Sales were also low due to the lack of pizza options for Brazilians who were not yet accustomed to the Pizza Hut trademark, thick crust style. In the early years of Pizza Hut, many Brazilians originally went to Pizza Hut as a novelty, but they did not necessarily become

repeat customers. Here Pizza Hut failed to utilize market research about existing products and entered Brazil under the arrogant assumption that they were the best pizza in the world without considering the Italian heritage deeply rooted in southern Brazil where quality Italian restaurants serve thin crust style pizzas throughout the region. Comparative advertising criticizing local pizzas and promoting their own Pizza Hut pizza was not an effective approach in Brazil where the intended loser tends to end up being the winner (Gertner 2001). One of the final and biggest blows to the Pepsico operation came when the Pena Branca group who owned stores in the Rio region, shut all 18 stores in April of 1997 due to heavy financial losses.

At that time, Pizza Hut was at the peak of difficulties in Brazil. As some relief to the situation, franchisees of the 13 company designated sub-regions in Brazil formed a nation-wide committee among themselves to fill the gap for the lack of support from corporate headquarters. The group's goal was to work together to find ways of increasing profitability. The first improvement came with a franchisee's creation of a thin-crust Italian style pizza to introduce on the menu. This was the first non-USA product sold by Pizza Hut in the world (Gertner 2001).

Another turn-around for Pizza Hut in Brazil began in January of 1999 when entrepreneur Jorge Aguirre became Executive Vice President of Pizza Hut in São Paulo promoting the belief that with the necessary cultural adaptations and efficient management, Pizza Hut could be a viable business in Brazil. Together with two investors, Jim Wong and John Wright, Aguirre formed Restaurantes Connections International (RCI) and acquired International Restaurantes of Brazil (IRB) as a wholly owned subsidiary, which was formerly the owner of Brazil's Pizza Hut stores in São

Paulo. Aguirre's immediate plan of action included the following: new products, more training, increased motivation of managers and reduced prices through agreements with local suppliers (Oliveira 1999).

### Product

Unlike Dunkin Donuts entering Brazil with a totally new concept of food such as the donut, Pizza Hut entered the market with the advantage of selling a familiar and popular choice of meal. However, the major challenge facing Pizza Hut was the competition of the unique Brazilian style of pizza served at the many local pizza restaurants throughout Brazil, the most famous pizzas being those in the São Paulo area. Another difficulty has been the Brazilian custom of eating pizza only at the evening meal or on the weekends at inexpensive local *pizzerias*. Since the entrance of Pizza Hut in Brazil, that behavior has been modified as more Brazilians are eating pizza as a midday meal (Aguirre 2001).

Considering the existing local competition, product offerings were one of the prime targets needing modification on the menu to achieve a new Pizza Hut image desired by Aguirre. During the first 10 years of business in Brazil, the pan pizza with the typical Pizza Hut thick crust was the only option. Now along with the standard American items, the menu has expanded to four types of crusts for pizzas: Pan, Thin and Crispy, *Artezenale* (a lighter, Italian-style dough) and *Borda Catupiry* (stuffed crust pizza with a typical Brazilian cheese). The standard Pizza Hut Supreme and other American style toppings are still available but other possible toppings include common Brazilian items such as: corn, *calabresa* (sausage), *catupiry* (cheese), and chicken, among others. Also, pizza alone is not enough to bring in customers, pasta dishes and salads are now available even though one manager commented that most lunch customers do tend to

order pizza. Familiar Brazilian brand beverages have also been added: Guaraná, Sukita, VIGOR Iced Tea, Brahma beer and Illy coffee. The dessert menu has been expanded in response to customer requests to include *Torta Mousse* (Mousse Pie) made with *catupiry* cheese and one with passion fruit, as well as a regular chocolate mousse. The *Nhá Benta*, which is sold at a well-known chocolate shop in Brazil, is another typical dessert offered (Pizza Hut website and menus).

#### Store Format/Location

Pizza Hut Brazil operates through three formats: casual dining, express bars and delivery. The casual dining restaurant layout is different from the American model in that not all stores have the traditional Pizza Hut red roof but do use the standard logo on signs. In some casual dining stores the delivery component is a separate part of the store while other locations are pure delivery. The express units are located in high traffic areas like shopping malls and offer a limited menu.

#### Training

Training has been another key area targeted in creating the new image of Pizza Hut Brazil. As of May 2001, Aguirre has invested in 90,000 hours of training for general employees and managers. At the management level the focus has been on training managers to behave as partners, giving them the sense of responsibility to change the company's previous experience of failure to one of success. At the employee level training has concentrated on service in terms of explanation of menu items along with efforts to change the atmosphere and mentality from fast food to casual dining at restaurant locations. All training currently takes place in Brazil. When the new Master Franchiser is selected for Rio, the facilities and means are available in Brazil and the

individual will be trained locally without necessarily traveling to the United States (Aguirre 2001).

### Marketing

Due to the high costs of advertising in Brazil, and especially in São Paulo, Pizza Hut utilizes primarily direct mail and point of purchase publicity for their marketing strategies. Informational brochures are also distributed to nearby businesses and some press coverage is received through articles reporting on the changes taking place at Pizza Hut. Promotional offers such as coupons for fifty percent off can be found in the newspaper or in brochures. Discounts for students are available and in-store promotions are offered, such as buy one dessert get one free, meal packages for two-to-four people which include choice of pizza, breadsticks, beverage and dessert and the “Fast Lunch” special offered between noon and four.

### Customer Service

As part of the effort to further adapt Pizza Hut to local tastes and customer preferences, comment cards are placed at each table and diners are encouraged to talk to the store manager who is always on the premises and easily accessible. Completed comment cards are sent to the corporate office and read by the marketing director. Along with spaces for demographic data, the cards seek opinions on the service, quality of product, why the customer chose Pizza Hut and suggestions for improvement. According to a store team leader, most customers check that they come for the product and quality of service. Suggestions for improvement have been to add more desserts and to accept credit cards. Currently, only cash and company vouchers are accepted for payment.

### Local Networking

Considering the importance of local networking in the Brazilian business environment and the affinity of Brazilians to certain national products, another strategic move on Aguirre's part has been the negotiation of agreements with local suppliers. According to Aguirre, the use of national suppliers is at 95 percent (Oliveira 1999). Not only has import substitution reduced prices by up to 35 percent on promotional items (EIU 2000), it has upgraded the image of the product offerings with familiar quality brands such as Kopenhagen chocolate desserts, Illy coffee, Brahma beer, etc.

### Master Franchise Selection

It seems that the master franchisers for the original Pizza Hut Brazil were chosen without much thought to their ability to plan efficiently or to possess the vision to succeed in Brazil. Similar to what we will see in the failed Subway case, management was inconsistent and primarily concerned with numbers instead of quality business and were only focused on selling franchise licenses. Upon the entrance of Jorge Aguirre, however, the management philosophy of the company changed to one of caution with expansion and to making Pizza Hut an accepted, long term business endeavor that fits into the Brazilian market.

### Franchiser/franchisee Relationship

Upon investing in Pizza Hut, Aguirre argued that "it is impossible for Brazil to be the only country where Pizza Hut cannot succeed" (Oliveira 1999). In efforts to confirm that statement Aguirre has taken action to solve some of the biggest problems of Pizza Hut under Pepsico, which were poor management and the top-heavy structure of the organization. The number of Pepsico employees at the corporate headquarters went from 100 to a current figure of 8 under IRB (Aguirre 2001). One of the primary

objectives of Aguirre for the Pizza Hut brand has been to restore the confidence of its managers and employees. In a personal interview, Aguirre emphasizes that the “failure” was of the company, not the brand nor its employees. He feels that in order to move forward it is necessary to admit and define the problems of the past so they can be corrected. His first step to turn the company around was to break the standard hierarchical barrier of a highly ranked executive spending minimal time listening to company employees. He met with and spoke personally to all the locations’ managers and some employees in order to hear their perspectives on the current situation and needs of the business and customers. In Aguirre’s managerial philosophy, minimal hierarchy and open communication throughout the company and with the central office to report progress as well as problems is crucial. In franchising where each store functions as its own unit and separate from the rest, Aguirre feels it is very important for the manager to have self-confidence. To achieve this, the manager needs to feel and be treated like the owner of his own business and be given autonomy and creative freedom. In accordance with the contributions of each manager and store, a transparent and measurable evaluation system is necessary to reward each team member fairly for his/her participation in the achievement of results. In efforts to demonstrate Aguirre’s reward philosophy and effectively compensate top production, Pizza Hut now offers a system of profit sharing for their branch managers (Aguirre 2000).

So far, Pizza Hut’s changes and new image seem to be producing results. In 1999, sales at the São Paulo franchise increased by twenty three percent. Sales in the first quarter of 2000 also increased a further twenty five percent over the same period in 1999. Some of Aguirre’s changes are being implemented and modified by other franchise

regions in Brazil as well (Economic Intelligence Unit 2000). Though the numbers are promising and Tricon has announced they are seeking a new Master franchiser for the Rio region for an undisclosed figure, Aguirre is exercising caution with expansion and will not open more locations too rapidly in the São Paulo area. In addition, he is collaborating with the Pizza Hut Brazil franchisee group formed in 1997, *Associação dos Franqueados da Marca Pizza Hut do Brasil*. The focus is on centralizing the purchasing for Brazil's other twelve franchises with the objective of gaining scale and greater leverage with the company's new group of suppliers.

Pizza Hut's original failure in the market was caused by greedy expansion tactics that was accompanied by an over-confidence in the American brand and poor, top heavy management instead of quality support throughout the system. The new Pizza Hut that is currently experiencing success in Brazil has been implementing some of the strategies used by McDonald's and Dunkin Donuts such as slower expansion, closer examination of the consumer tastes, recognition of existing competition, decreased hierarchy and greater communication within the company and negotiating with local suppliers and distributors.

## Subway

### History

The Subway concept began in 1965 when a friend lent Fred DeLuca one thousand dollars with the suggestion to start a sandwich business that would provide him with an income to pay for his college studies. DeLuca opened his first store in Bridgeport, Connecticut where he sold foot long sandwiches prepared fresh. DeLuca wanted the business to grow rapidly so in order to meet his expansion plans he found that the best way to do that was through offering franchise opportunities. In 1974 the first Subway

franchise unit opened and the company has been expanding with this format ever since. According to the philosophy of DeLuca, President and founder of Subway, “quality is our success.” Subway offers customers “value, quick service and a variety of tasty, healthy sandwiches” (Subway website 2001). The company also prides itself on the initiative and flexibility of its franchising system which has allowed it to become the world’s largest franchise of sandwiches and second largest in fast food.

Subway has a worldwide presence with stores in sixty eight countries (Subway website 2001). The company entered Brazil in 1994 through economist José Roberto Peixoto who was owner of a business in New York at the time. He foresaw an opportunity for Brazil and paid 500,000 dollars for the rights of master franchiser to bring Subway into Brazil. The first Subway he opened in Brazil was in São Paulo on the well-known and busy Avenida Paulista. In 1997 the Subway chain reached sixty stores. (Fontoura 1997) According to the Subway website, at present 2001, there are eight locations in operation: two in Rio, one in São Paulo, three in Bahia, one in Porto Alegre and one in Espirito Santo. However, my personal visits to Rio and São Paulo and through contacts living where other stores are supposed to be located reveal that most stores are either completely closed or operating under the Subway name without any connection to the Subway headquarters in the U.S. Finally, to be discussed later is the case of one of the Rio locations where the name was changed but the store operates more or less like a Subway shop. The other locations do not seem to be worried about operating under the Subway name without paying royalties.

Due to the short-lived and problematic existence of Subway in Brazil, most of the information provided for this research has been obtained through personal interviews

with a past Subway owner who was willing to provide information (other past owners refused to speak with me for fear of any repercussions from Subway). Other consultant experts knowledgeable about the franchising industry in Brazil also provided information, which accompanies the minimal literature available in print.

### Product

The Subway product entered Brazil with a fairly good advantage in the sense that it was something a little different from the hamburger and fit in with the Brazilian tradition of freshly prepared meals. It also entered the market with a healthy menu offering such items as salads and sandwiches that were not fried or high in fat content. In the Subway sandwich case, no adaptations to the principal product of the sandwich were made and none to the menu although Don Fertman, director of franchise sales, states that cultural and taste variations are made around the world but does not give specific examples of any (Franchise Direct 1999).

### Operations

One of the key selling points of the Subway franchise system is its simplicity in the fact that apart from an oven and the sandwich unit, no cooking takes place in the store. The only food preparation is in advance with the preparation of the sandwich ingredients and then the actual assembly of the sandwich in the presence of the customer. In Brazil bread is baked on the premises like in the U.S. The American recipe is used and all equipment is imported complying with specifications (Guimarães 2001).

### Store Format/Location

Theoretically the physical layout of Subway is another selling point of its franchising system. According to Fertman, director of franchise sales, the idea is for a standard store to be able to operate from a small base, approximately one hundred square

meters. The seating provided is typically minimal because sixty percent of the product sales tend to be for take-out (Franchise Direct 1999), with the exception of Brazil where customers do tend to eat at store (Guimarães 2001). In terms of location, the Subway strategy is to open a store in a secondary location, away from the main shopping areas in order to take advantage of lower rent. Once the brand name and concept is known, then the location is moved to a primary location. Interestingly enough however, in Brazil none of these guidelines were followed. The first store built on Avenida Paulista was a prime location and very expensive to rent. Not only that but the store's dimensions were much bigger than a standard Subway store. According to past ABF president Ricardo Young (2001), Subway tried to project an image of the store as something very chic and elegant with large areas for in house dining in contrast to the normal Subway layout which tends to be very small and simple.

### Training

The Franchise Direct interview with Fertman reports that new Subway franchisees receive a total of 15 days of training at one of their training centers in Connecticut, Costa Rica or Australia. Equal time is spent in the classroom on theory and in-store. The courses are interspersed to apply theoretical training to actually working in the store environment. However, in reality, the Subway informant for this study reports that the training was not that useful. The primary focus was on numbers and calculating how to staff a store, very little emphasis was placed on managing a store well nor on providing customer service. In 1996, my informant's training took place at the Area Development Agent's store located in downtown Rio. Training was primarily a translation of the American manual without specific adaptations for Brazil. Apart from this initial training, my informant met Peixoto on one occasion and typically had contact with Aloiso, the

Area Development Agent for Rio once a week during the short time he was with Subway (Guimarães 2001).

### Marketing

Again due to the high cost of television advertising in Brazil, Subway also did not use TV commercials, which is typical in the U.S. Contrary to what Fertman reports about stores being typically located in secondary, inexpensive sites until the brand name is recognized in the area, Subway Brazil opened first in very high rent, highly trafficked areas and depended on business from potential customers passing by, no investment was made in publicity (Gondim 1998). In addition, the consumer who could afford to eat in a Subway or any other American franchise was typically in the upper and middle income brackets. Prices were high due to overhead costs of locations and the expense of imported ingredients. There was no organized and central control to pool together purchasing in order to achieve cost advantages of economies of scale.

One of the major criticisms of Subway was the unplanned, uncontrolled expansion strategy implemented in Brazil. According to franchising experts Ricardo Young, Marcelo Cherto, and others (2001), Subway did not invest enough money to build the adequate infrastructure necessary to support the rapid rate of growth that was being encouraged in the region. Franchisee contracts were being sold before the logistics of location and store equipment set-up were considered. Subway was calculating their expansion rate as if it were a brand and product that had conquered the Brazilian market but without the finances or customer base. The Subway approach in Brazil was very speculative, an attitude of just selling franchises, not aiming at establishing a long term business like McDonald's and other successful companies. Peixoto, the holder of the master license was not dedicated to building a Subway Brazil, but rather was a broker of

franchisee contracts which did sell quickly. However, with the rapid sales of licenses there was not enough infrastructure support to have centralized purchasing, training and the transfer of know-how, nor publicity for new franchisees to succeed with their stores (Fontoura 1997).

### Customer service

Guimarães (2001) commented that one problem with the new stores being opened in Brazil lacked an initial introductory phase. Sandwiches are not a totally foreign concept to Brazilians but the Subway system was a slightly new way of serving a sandwich. Customers came in a store for the first time without knowing exactly what the procedure was for the size of the sandwich and the process of choosing your own ingredients. The opening of stores was so fast in different places that there was no time for pilot testing of customer preferences or reactions to the original stores nor time for the consumer to develop a brand consciousness of the Subway name.

### Local Networking

Building relationships and local networking are key elements to being successful in the Brazilian business environment. Here Subway also did not adapt itself to the Brazilian system. Not only did the lack of strategic alliances keep prices high by not coming to beneficial economic agreements with local suppliers and for ingredients, but it also did not help with distribution of products to stores located at great distances such as those in Manaus or Porto Alegre (Guimarães 2001). This again shows Subway's surface interest of just selling franchises in Brazil with no intent of making it a permanent business that would work well logistically. Subway never tried integrating itself with the existing Brazilian economic infrastructure.

At one point, Subway tried to bring in TCBY American yogurt into its stores instead of partnering with a known Brazilian brand of ice cream, which might have been successful by attaching the familiarity of a Brazilian brand with the new American one. According to Young, past ABF president, this was a successful approach for Dunkin Donuts. When they originally entered the market they teamed with Bob's for store space during an introductory period (Young 2001).

#### Master Franchiser Selection

As has been mentioned previously, Peixoto never created an adequate infrastructure or support system due to lack of capital (Fontoura 1997). However, an attempt was made to manage the rapid growth by dividing Brazil into areas that would be under the supervision of a "development agent." In each area, the agent would be the first to open a store and for the future selection of other franchisees of that area. In the end it seems that this method did not necessarily help business considering the fact that the development agent may not have the adequate experience and knowledge to judge who would be a good franchisee prospect. The selection of franchisee and the proper profile is also an aspect highly criticized by those knowledgeable of the Subway in Brazil. The basic prerequisite to own a Subway franchise was to have the money to buy the franchise license. No other professional analysis or requirements of experience were needed.

#### Relationship between Franchiser and Franchisee

The lack of experience of franchisees involved, coupled with no support from an organized headquarters only worsened problems of Subway stores. Growth and management of Subway was so mismanaged and out of control that in some instances, certain legal documents were not signed such as the required *Circular de Oferta*

(Guimarães 2001). The lack of good training and transfer of know-how to new franchisees was a weakening factor of the brand, as well as the minimal communication and support from a solid corporate entity.

### Subway Today

At the time of this study, the Subway website reports a total of eight locations still operating in Brazil. The Tijuca location in Rio is still operating without working with Subway U.S.A. The second location in Rio at the Catholic University is still open but has changed the name. The location in Porto Alegre does exist but it is not known if they are still affiliated with the U.S. headquarters. The other locations have been impossible to confirm whether they still exist or operate in conjunction with Subway USA. It is interesting to note this misinformation on the website and the problems Subway has had in Brazil. *Nation's Restaurant News* (2000) published a letter from the Subway Public Relations director in Connecticut which contains a rebuttal against a criticism made about the "failure" of Subway in Brazil. The director defends the "pride" Subway takes in its operations in Brazil yet does not seem to be aware of what the actual status is of the Subway stores there.

### A New Subway at PUC-Rio: FASTWAY

An interesting development has taken place at one of the former Subway locations in Rio which is at the Catholic University (PUC). Due to the lack of support and contact from a Subway central office, the entrepreneur Guimarães decided to run things his own way and change the name of his store. There was a contest among the university students to rename the store and the new name chosen was FASTWAY. The store is successfully in business using the same type of operations as under Subway but with a few menu adaptations and more focus on training to improve customer service. The

sandwiches and salads are prepared basically the same way with a few different local ingredients as options such as the typical cheese from Minas Gerais and the stick style potato chips used as salad croutons. Popular Brazilian beverages such as a tea called *Matte Leão* and *guaraná* are also additions. A totally new item is the typical Brazilian treat of *Pão de queijo* (cheese bread). Alliances with Brazilian suppliers and the addition of Brazilian products have made the store a more of a local business now and has made prices more accessible.

Here again, an American company entered Brazil assuming that just because it is an American product it would have instant success. Subway convinced their development agents and franchisees that Subway would be the competitor for McDonald's and surpass them in number of locations. In 1997 the chain reached sixty stores and in 1998 it had dropped to forty nine. The development agent of Rio is quoted explaining how he was poorly advised to open a huge Subway in the expensive downtown area in order to give "visibility" to the brand. End result, the store only stayed in business for less than a year (Fontoura 1997). The overall growth of Subway in Brazil was not sustainable due to bad management decisions and lack of local strategic alliances to promote long term business.

After examining the information on the four cases, I will discuss how the strategy of each company has influenced their success or failure. In addition, I will look at whether each American franchise has adapted to Brazilian culture or has remained standardized bringing about change in the local Brazilian environment.

### Analysis Of Cases And Cultural Factors

One of the primary objectives of this study was to identify successful strategies of American franchises in Brazil. The literature from franchising and business journals as well as university dissertations provide a long list of what are considered key factors. (See Appendix C.) The list of factors for success provided by Brazilian executives interviewed (See Appendix D.) coincide with these factors along with a few others. For the sake of brevity, the list of key success factors can be placed into categories as seen in Table 4-2. When applied to the four cases studied, there is a correlation of the factors with success and failure of the franchises.

TABLE 4-2: Some Key Factors of Success for Franchising in Brazil

X= Executed well, results=success                      X=Executed poorly, results=failure

<b>FACTORS</b>	<b>McD</b>	<b>DD</b>	<b>PH(1)</b>	<b>PH(2)</b>	<b>Subway</b>
Established brand/product	X	X	X	X	X
Market entry mode	X	X	X	X	X
Product strategies	X	X	<b>X</b>	X	X
Operations	X	X	<b>X</b>	X	<b>X</b>
Store layout	X	X	<b>X</b>	X	<b>X</b>
Training	X	X	<b>X</b>	X	<b>X</b>
Marketing	X	X	<b>X</b>	X	<b>X</b>
Local networking	X	X	<b>X</b>	X	<b>X</b>
Franchisee support	X	X	<b>X</b>	X	<b>X</b>

All four cases are well established companies, domestically and abroad and whose concepts are known worldwide. However, this is obviously not enough to guarantee success in the Brazilian market. The key to success in the Brazilian market involves more than entering with a familiar American product. Attention to detail must be given to various aspects such as product adaptation, operations, store layout, training, marketing message and the quality of relationship building with local distributors and suppliers. It is also necessary to make a good choice of master franchiser or joint venture partner and maintain open communication and understanding between franchiser/franchisee. Finally, as stated by Keila and Rodenbeck (2001), a key factor is in “execution,” not necessarily the “what” is done, but “how.”

The second question of importance in this study was to determine the role of culture in international franchising. Table 4-3 lists some determinants for success and how they are related to culture.

TABLE 4-3: Franchising Success Factors and the Role of Culture

<b>FACTOR</b>	<b>CULTURAL SIGNIFICANCE</b>
Corporate Philosophy	Improved communication, reduction of hierarchical levels, treatment of and benefits for employees
Product	Adjustments to local tastes and preferences, introduction of new concept
Operations	Logistic adjustments to local circumstances, arrangements with local suppliers/distributors
Store Format	Adaptations to city/suburb locations, layout for atmosphere
Training	Transferring know-how that may be new to local culture
Marketing	Adaptation to local media use, style of humor, type of message
Customer Service	Meeting local customer expectations or successfully introducing new formats or procedures
Local Networking	Relationship building, gaining confidence and trust
Franchisee/Partner Choice	Importance of familiarity of and experience with the region involved
Support System	Type of relationship between franchisers/franchisees, strength of brand format
Management	Types of evaluation and reward systems

The final research question was how two cultures interact in the international franchising context. Is there a dominant national culture in the final corporate culture formed? Does the entering/source company adapt to the local environment or does the host/recipient culture adapt to the entering company culture? At the outset of this study and after reviewing the literature on inter-relational dimensions, it was supposed that the entering American franchise's corporate philosophy and business would be obliged to change and adapt to become like the local culture in order to succeed. However, upon examining each of the cases, it became clear that this assumption was not necessarily true

in the franchising context. Table 4-4 shows how in the international franchising environment, many of the behaviors associated with the social value orientations defined by Parsons, and the traditional Brazilian characteristics listed by Borges de Freitas are shifting sides. For example, some traditionally American tendencies are becoming more Brazilian like and vice versa.

TABLE 4-4: Inter-Relational Dimensions-Areas of Change in Workplace

<b>AMERICAN TENDENCY</b>	<b>BRAZILIAN TENDENCY</b>	<b>CHANGES IN WORKPLACE</b>
Universalism	Particularism (leaning towards American Tendency)	More rule oriented, formal standards and procedures
Individualism	Collectivism (leaning towards American Tendency)	More individual responsibility and chance for advancement
Neutral (leaning towards Brazilian Tendency)	Affective	Adaptations to customer service
Specific (leaning towards Brazilian Tendency)	Diffuse	More involvement in business dealings and relationship building
Achievement	Ascriptive (leaning towards American Tendency)	Evaluation/Reward Systems

In terms of management styles, the more democratic and less hierarchical styles are becoming more popular, at least in the franchising context of the cases examined. Individuals have more of a chance for giving input, advancing, and being rewarded objectively for their accomplishments. On the other hand, the importance and strength of the Brazilian quality of warm, human interaction has not experienced change as can be seen in the next table. Table 4-5 summarizes the areas of change in many traditional

characteristics of Brazil listed by Borges de Freitas (1997). Some of these behavior changes seem to be due to the influence of international franchises.

TABLE 4-5: Brazilian National Characteristics-Areas of Change in the Workplace

<b>Cultural Factors Specific to Brazil</b>	<b>Changing due to Franchising</b>	<b>Not Changing</b>
<i>Hierarchy</i> <sup>1</sup>	X	
Elitist Traditions	X	
<i>Personalism</i> <sup>1</sup>	X	
Paternalism	X	
Local Networking		X
Family Connections	X	
<i>Malandragem</i> <sup>1</sup>	X	
Jeito	X	
<i>Sensualism</i> <sup>1</sup>		X
<i>Adventurer</i> <sup>1</sup>	X	

1: Brazilian National Characteristics from Table 2-8

Two areas in the Brazilian workplace where international franchises do not seem to be bringing about changes are in terms of local networking (relationship building) and sensualism. The direct and rushed business approach to rapid expansion for increased profits typical of the U.S. is not effective. The key for corporate management of franchises is relationship building and forming beneficial agreements with local suppliers and distributors. This avoidance of imported items keeps prices lower and “tropicalizes” the product while helping out the economy. The Brazilian need for warmth and closeness in interpersonal relationships as explained by Buarque de Holanda may be so culturally embedded that it is not an element that can be affected by the corporate culture of the international franchising environment. The same may be said for the sensual behavior tendencies of Brazilians described by Freyre and Ribeiro.

Paternalism, elitist traditions and family connections are giving way to more independent and autonomous opportunities for individuals to invest and own their own business with a reasonable amount of money and without having special connections with anyone. Nepotism, the power and importance of the family nucleus has long been present in Brazil and many of today's biggest firms with the largest revenues are controlled by a few wealthy families in Brazil. However, consultants are advising the traditional, family-run corporations to re-examine their strategies in the new global economy (Caixeta 2000).

The *jeito* is not as easy to employ here as it is in other small or family operated businesses due to the fact that more strict regulations and procedures from foreign home offices require rigorous reporting procedures. In the franchising context of these four cases, corporate culture is becoming more Americanized in the terms defined by Oliveira (2001) where there is a less of a distance between hierarchical levels, more open communication and participation of all employees in successful franchises. Team and individual efforts are evaluated objectively and are awarded accordingly, which allows for employee advancement based on merit instead of needing a family or political connection.

## CHAPTER 5 CONCLUSIONS

### Principal Findings

One of the goals of this study was to discover the best strategies for successful franchising of American companies in Brazil. Sadi (1994) found that franchises entering the foreign markets he studied use different strategies in each country where they operate. Thus, it seemed appropriate to conduct this exploratory study of four franchise cases in Brazil in order to provide more research literature on international franchising in general and on Brazilian business practices in particular. The results indicate that although Brazilian franchising experts differ on what they feel is the “key” factor to success in Brazil, the basic list of factors to achieving success are agreed upon by executives and are in agreement with the literature available on the Brazilian franchising industry and international franchising.

The key factors in strategies for success (Refer to Table 4-2) in the cases studied follow the general guidelines used by McDonald’s in Brazil and around the world, The first factor involves the appropriate choice of a master franchiser or joint partner that is knowledgeable of the Brazilian market and all its cultural intricacies. Second is the need for gradual penetration of the market so that all aspects of the franchise can be tested over a period of time and ensure that the product or service is conforming to the tastes of the Brazilian customer. Success for the franchise brand is a result of consumer acceptance of the product, which is determined by how strategically the company

integrates itself into the habits and lifestyle of Brazil. Winning the patronage of the Brazilian is achieved by marketing strategies sensitive to their perceived needs of what is a unique and quality product offering. Care must be taken here because although Brazilians are fond of foreign products, a foreign name brand does not instantly win customer loyalty.

The third significant factor necessary for success is building relationships and networking with local suppliers and distributors to create products with local ingredients. The fourth factor is related to managerial strategies. Open communication as well as training for autonomous decision making creates a positive and productive working environment with motivated employees. Finally, consistency in store formats and unique offerings assures customer confidence in that they can always count on quality, fast service and cleanliness.

The second objective of this study was to determine the role of “culture” as a factor related to business success in Brazil. In the international franchising literature, culture is said to be important, yet without specific examples of how it can be applied to the business world. Nor does the information demonstrate how culture relates to these factors. The information from this study indicates that culture does influence all factors involved in successful franchising that were examined in the four Brazilian cases. (Refer to Table 4-3.) The role of culture is important in all factors, but can vary in degree from business to business. For example, the lack of familiarity with the product being introduced as in the case of the donut was more culturally significant to find a niche for the market. In the case of Pizza Hut, not studying the popularity of existing pizzas and consumer habits of when to eat pizza were factors that played a major role in their first

market entrance as a failure. In the Subway case, product was not the cultural problem. Rather it was the lack of Subway upper management's knowledge of the cultural importance of integrating into the local market and negotiating agreements with local companies while providing needed support to stores and franchisees.

The last question to be examined in this study was the compatibility of the entering firm's culture with the local one as a key element to obtain success in a foreign market and which one dominates and needs to adapt or change. The cases indicate that even though a foreign company in Brazil needs to be culturally sensitive, in the case of franchising, where standardized business format is so important, it is not necessarily the entering company that must always adapt in all areas. It appears that in Brazil, local adaptations are needed for successful foreign franchising in the areas of product line, local networking practices, customer service and marketing.

However, it is the Brazilian managerial and corporate tendencies listed by Borges de Freitas that change to be more like the entering American corporate culture. Although there surely still are some traces of innate tendencies of the individual Brazilian character and personality in these work places (Refer to Table 4-4, Table 4-5.); in these cases the local culture absorbs and adapts to the entering company's corporate culture especially in areas such as management, human resources and evaluation systems. In addition, the franchise company influences the Brazilian work environment strongly in the areas of American style management by objectives, increased employee autonomy, individual rewards on merit and less hierarchy.

In the final analysis, it is a process of adaptation and adjustment in order to form a comfortable fit of the two cultures as they gradually merge to meet at a certain point

where they create a mutually beneficial management approach, product or service. This conclusion supports the Latin American organizational theories of hybridization (Calas and Arias 1997) so that a foreign company does not necessarily need to adapt completely to all areas of the national corporate culture that it is entering.

It is in the case of the local behavior changing to be more like the entering company where Hofstede's (1990) discussion of mental programming is significant. (Refer to Table 2-6.) As he states, culture is learned and specific to groups; major investment and focus on managerial and business training in a franchise operation can cause the local habits to adapt to the foreign ones producing some Americanization of the traditional Brazilian corporate philosophy and operations. The areas where it is necessary for the entering company to adapt to the national culture are in: product acceptance, marketing, quality of relationship building and local networking.

These are considered areas where "Brazilianization/tropicalization" takes place. Examples would be the cases of Pizza Hut offering more pizza styles on their menu and the Dunkin Donut additions of tropical flavors and fresh juices. In some instances, neither culture will shift completely to another way of operating but in a merger of the two cultures will manifest itself in the creation of a successful "hybrid" product or business approach. An ideal example of a "hybrid" product is Dunkin Donuts' *ring pão de queijo* where the Brazilian cheese bread is marketed in the shape of an American donut. Pizza Hut's product where the stuffed crust pizza is filled with the popular Brazilian *catupiry* cheese and called *borda catupiry*. McDonald's "Food Town" located in São Paulo can be considered their combination of supplying, distributing and

networking locally as a classic example of hybridization of operations and local integration of an American fast food phenomenon.

In conclusion, the process of “hybridization” (Calas and Arias 1997) or swapping off of Americanizing and Brazilianizing in order to do things to find a mutually beneficial meeting point to have a successful franchise is not new to Brazil’s core. As expressed by DaMatta (1995), we are back to the continuous and historical pattern of Brazil as a paradox of many different combinations, that of food, race, religion and political systems. The mulatto who is in between African and European, Umbanda and Candomblé, religions that are part African and part European Catholic, and the democratic yet oligarchic political system. We see even in the corporate world, Brazil defines itself by creating a reality that is a combination of elements forming a new uniquely Brazilian outcome.

### Significance

American corporations and businesses interested in conducting a successful franchise in Brazil must be aware of many elements. They must keep in mind their own biases due to their cultural origins and be aware of the Brazilian national cultural tendencies as reflected in the corporate culture. Primarily, it is essential that business people realize that when you cross borders, nobody’s “way” of doing things is better than another. The goal for a franchise to achieve success should be to recognize and understand the basic premises and history of Brazilian social, political, economical and legal systems. The key for the franchiser is to know when and in what areas it is necessary to adapt itself and integrate to the local market and system of operations. And

on the other side it is also necessary to know when it is possible and beneficial to re-train and adapt local philosophy to the ways of the entering company.

In view of the fact that this is an exploratory study of only four cases in Brazil, it is hoped that the richness of the findings from conducting a case study will create interest and provide impetus for future projects focusing specifically on the importance of culture in international franchising in Brazil. It would be useful to examine whether the role of culture has the same influence across franchising sectors and when compared in other countries. Examination of a larger pool of cases would provide a chance to gather quantitative data that could be considered statistically significant and could quantify the role of culture by factor. Finally, a reverse study of the role of culture on Brazilian franchises entering the U.S. would possibly reveal interesting data that would be helpful to those working in the Brazilian franchising industry and with plans to expand internationally.

APPENDIX A  
LETTER SENT TO EXECUTIVES

Dear Sir:

My name is Mary Risner. I am completing my Master's degree in the Department of Latin American Studies at the University of Florida. My thesis will evaluate the performance of four North American franchises operating in the Brazilian market and determine the factors that affect this performance. Peter Rodenbeck is helping me with my project and he gave me your name from \_\_\_\_\_ Institute/Corporation.

The University of Florida is sponsoring my trip to Brazil from the period of May 10<sup>th</sup> to June 14<sup>th</sup> in order to conduct my research there through interviews with executives associated with the franchising industry and the companies I am analyzing.

During my visit to Brazil I will be primarily in Rio de Janeiro and then in São Paulo for the Franchising Expo of the ABF. I would like to have the opportunity to meet with you for an interview while I am there. Also, I am interested in consulting franchising journals and studies at local franchising institutes that are not available here in the U.S.

I would like to set an appointment with you during the period of \_\_\_\_\_, at your convenience in order to ask you some questions about the franchising industry in Brazil. I thank you in advance for your time. I eagerly await your response.

Sincerely,

Mary E. Risner  
Center for Latin American Studies  
Latin American Business Environment Program  
University of Florida  
PO Box 115530  
Gainesville, FL 32611-5530  
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APPENDIX B  
SAMPLE INTERVIEW QUESTIONS

Company Information

Name of company \_\_\_\_\_  
Year company founded \_\_\_\_\_  
Year company started franchising \_\_\_\_\_  
Owned units in Brazil \_\_\_\_\_ Franchised units in Brazil \_\_\_\_\_  
Units closed? Yes \_\_\_\_\_ No \_\_\_\_\_  
If yes, what were the motives for closing units? \_\_\_\_\_  
Re-purchase of franchised units? Yes \_\_\_\_\_ No \_\_\_\_\_  
If yes, what were the motives for-purchasing? \_\_\_\_\_  
Number of staff at headquarters \_\_\_\_\_

Profile of Executive

University specialization \_\_\_\_\_  
Country of training \_\_\_\_\_  
Years working in franchising \_\_\_\_\_  
Years working in present company \_\_\_\_\_  
Current title \_\_\_\_\_  
Previous work before present position \_\_\_\_\_  
Nationality \_\_\_\_\_  
Experience in other international markets \_\_\_\_\_

Questions for Paulo Guimarães:

What are your main criticisms of Subway's operations and why they didn't make it? (You gave us a handout last year with a list of problems but I didn't take good notes for specific examples for each factor) Do you think that a lack of understanding of the Brazilian culture played a role in some of the problems encountered? How so?

When did you start the business with Subway and how long was it before things started going wrong?

Did you choose the location? Were there other stores in Rio?

Who were the people that came in to train and work with you to set up the business? Were they American or Brazilian? If American, did they seem to have a grasp of Brazilian culture and how to deal with Brazilians in the business world?

Do you know about what happened with any of the other stores? Did you ever meet any other Subway franchisees at meetings?

Can you talk a little about the current business you have made out of your store? Besides the name “Fastway”, what other changes have you made in operations, menu, training, etc. that have made the business a success? Do you have promotions or specials for menu items?

Have you heard anything about Subway trying to come in again to Brazil? (Marcelo said he read something in “Epoca” in January) What would be your advice to them entering in Brazil this time if they hired you as a consultant?

Most important advice to franchise operation coming into Brazil is:\_\_\_\_\_

#### Questions for Gerson Keila:

What kind of market studies has Dunkin Donuts done here in Brazil? Have they been effective?

How are you “teaching” the Brazilians to like a donut?

What kind of advertising does Dunkin Donuts use? What is the message, style and media used? Can any marketing ideas from the US be used in Brazil?

Who is the target market for Dunkin Donuts?

What are some of the promotional strategies that Dunkin Donuts has used to get the Brazilian market to try and accept the concept of a donut? Which have been the most successful and which have not?

Does Dunkin Donuts promote community and cultural events as a way to become known by the public?

What are some of the demands of Brazilian consumers that have led to adaptation of product, store layout, locations, etc.?

What is the corporate philosophy of Dunkin Donuts in terms of its strategy of building its business here in Brazil?

What is the managerial style of Dunkin Donuts and what does the organigram look like at the corporate office in São Paulo?

Why do you feel the “master franchise” system is the best for the company?

What is the focus of training by Dunkin Donuts?

What are some of the challenges you see ahead for expansion into other regions of Brazil and in the growth of Dunkin Donuts in general?

How can an American franchise “know” and “understand” the Brazilian market before entering Brazil?

Most important advice to franchise operation coming into Brazil is:\_\_\_\_\_

#### Questions for Jorge Aguirre:

What kind of market studies has Pizza Hut done here in Brazil? Have they been effective?

What kind of advertising does Pizza Hut use? What is the message, style and media used? Can any marketing ideas from the US be used in Brazil?

Who is the target market for Pizza Hut?

What are some of the promotional strategies that Pizza Hut has used to get the Brazilian market to sample and accept/like the concept of this American style pizza? Which have been the most successful and which have not?

Does Dunkin Donuts promote community and cultural events as a way to become known by the public?

What are some of the demands of Brazilian consumers that have led to adaptation of product, store layout, locations, etc.?

What is the corporate philosophy of Pizza Hut in terms of its strategy of building its business in Brazil? Has that philosophy changed since the company has reduced its size and tried to make a come-back in the market?

What is the managerial style of Pizza Hut and what does the organigram look like at the corporate office in São Paulo?

Why do you feel the “master franchise” system is the best for the company?

What are some of the precautions or measures that are being taken by Pizza Hut to re-enter the Rio market?

How can an American franchise “know” and “understand” the Brazilian market before entering Brazil?

Most important advice to franchise operation coming into Brazil is:\_\_\_\_\_

General Questions for Marcelo Cherto, Ricardo Young and Daniel Plá

1) What are the factors considered most important in order to open a successful North American fast-food franchise in Brazil? Of these factors, which are most affected by the role of culture and how must that be adapted within the Brazilian reality?

2) What were some of the factors involved with the planning and execution of strategies in the cases of McDonald’s, Dunkin Donuts, Pizza Hut, e Subway ? How did those factors determine their success or failure?

Difficulties or advantages found most frequently in the Brazilian market:

Examples of successful or failed strategies:

## APPENDIX C KEY FACTORS FOR SUCCESS

### *Company Characteristics*

Established company in number of franchises and years of experience  
Established product/concept

### *Market Entry Mode*

Be selective of market entering (Brazil is lucrative)  
Method of expansion/decide on best entry method

### *Product Strategies*

Sensitivity to existing tastes/preferences  
Know peculiarities of market., regions

### *Operations*

Sufficient human and financial resources to support international expansion  
Proper management of human and financial resources  
Operate a pilot unit for a time to decide on where adaptations should be made  
Establish good agreements and logistics with local distributors/suppliers

### *Store Format*

Popularity of informal restaurant atmosphere  
Preference for crowds  
Considering meals as ritual and family oriented

### *Training*

Well done training manuals to transmit “know-how”  
Sufficient human and financial resources to support international expansion

### *Marketing*

Understand media use  
Message style of media

### *Local Networking*

Establish good agreements and logistics with local distributors/suppliers  
Build relationships over just signing contracts

### *Choice of Master Franchiser or Joint Venture Partner*

Establish effective profile of joint partner/master  
Good relations between franchiser/franchisee

*Financial*

Luvas

Financing/loan obstacles:

Understand inflational and unstable Brazilian economy

*Other*

Study and understand legal, economic and cultural aspects of new market

Understand politics of shopping centers

Understand security issues

Seek out franchising consultant (Ferreira, 2000, Gurtner 1997)

APPENDIX D  
FACTORS FOR SUCCESS FROM EXECUTIVES INTERVIEWED

The following list provides what each executive interviewed felt were the most important factors for success when franchising in Brazil.

**Jorge Aguirre, Vice President of Restaurant Connections Intl.**

*Director of Pizza Hut São Paulo*

Training, open door management policy, objective employee reward system, product adaptation

**Marcelo Cherto, Consultant, President of Instituto de Franchising,**

*Founder of ABF-Brazil*

Management of day to day operations, constant onsite presence of manager, non arrogant attitude of foreign company entering Brazil

**Gerson Keila, President of Dunkin Donuts, Master Brasil**

*Current President of ABF-Brazil*

Product adaptation, “execution” of details, communication

**Daniel Plá, President of DePlá Fotografia**

*Past President of ABF-Rio*

Franchisee profile, ability of franchiser to transfer know-how to foreign market

**Peter Rodenbeck, Founder/Past Partner of McDonald’s Brazil**

*Current Partner for Outback Steakhouse*

“Execution” of details, strong corporate philosophy

**Ricardo Young, Founder/President of Yazigi Language Schools**

*Past President of ABF-Brazil*

Consider cultural issues, bring in local people for product development, training

**Paulo Henrique Guimarães, Past Franchisee of Subway**

Study Brazilian market, slow market entrance, lower prices, customer service

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## BIOGRAPHICAL SKETCH

Mary Risner was born in Virginia but grew up in Sanford, Florida. She became interested in the study of foreign languages and other cultures while pursuing a degree in marketing and Latin American studies at Stetson University in DeLand, Florida. While in attendance at Stetson, she participated in several study abroad programs in Spain and Mexico. Upon completion of her studies, she returned to Spain and worked as an English instructor in private companies and later as a consultant in a productivity firm. Upon her return to the U.S. she worked in private industry and in education for some years before returning to school for a Master of Arts in Latin American studies at the University of Florida. It was here at UF that she complemented her knowledge of Spanish Latin America through coursework and research on Brazil and the Portuguese language.