



Department of Business and Management

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Strategic Partner Selection in International Franchising:
The Berkshire Hathaway HomeServices Case

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INTRODUCTION

In the dynamic landscape of the real estate industry, strategic decision-making plays a crucial role in the success and expansion of ventures. Focusing on one of the most acknowledged entry modes and business formats, international franchising, this thesis explores the strategic partner selection process of Berkshire Hathaway HomeServices and its international franchising endeavors. When considering franchising, choosing the right partner requires a strategic approach to ensure alignment with the desired market context and company objectives. In the case of Berkshire Hathaway HomeServices, the complexities of international franchising highlight the importance of partner selection, considering diverse cultural, regulatory, and market dynamics. The intriguing topic of how Berkshire Hathaway HomeServices (BHHS) chooses its franchisees and integrates them into its global franchising framework is in the spotlight of this inquiry. This research delves into BHHS's strategies, showcasing the techniques underpinning the franchisee selection process and the global franchisee integration process.

The real estate market certainly has the feature of being extremely diverse, every country has its own way of carrying on the business. However, it can be agreed that besides the actual properties, one of the most important assets of this industry is people. Buyers and sellers remember those who are actively engaged in this business and perform their best. Therefore, relying merely on the company's reputation may not be enough to succeed and expand in this business. Hence, finding the right people to join forces with is the actual key to prosperity.

Indeed, in this context, more than ever franchising should be considered as a form of cooperative entrepreneurship ([Shane and Hoy 1996](#)). Following this perspective, selecting internationally the right partner is an issue that must be addressed to adapt to the host country's cultural characteristics ([Sakarya, Eckman, and Hyllegard 2007](#)). As a result, it is critical to consider the host country's perspective while picking the ideal franchisees to collaborate with ([Graciá and Fernández 2014](#)).

This dissertation claims that leveraging relationships is the best way to succeed in this industry and make the best choice for the partner selection process. Previous literature has tried to present some frameworks for pointing out the path of partner selection. [Doherty \(2009a\)](#), gave us a model defining two of the main approaches for selecting a partner, the strategic approach and the opportunistic approach. [Altney and Miles \(2006\)](#), did the same, particularly focusing on a cross-cultural context.

However, even though these partner selection frameworks represent a basis for the partner selection issue, the literature has overlooked the major role played by relationships in finding the right partner for an international venture.

Considering this shortcoming, this thesis focuses on the relationship aspect in selecting a new international franchisee for Berkshire Hathaway HomeServices. Central to this study's contribution is an exclusive interview conducted with the Global Business Developer of Berkshire Hathaway HomeServices. This interview provides valuable insights into the methodology and criteria employed by BHHS in selecting new franchise partners. This study adds to the current literature on franchising strategies by documenting personal opinions and insider information, as well as providing a comprehensive understanding of the factors that support franchisee selection in a global environment. Employing a triangulation of data sources, including interviews, archival records, and documentation, BHHS's entire expansion strategy was traced back within the international franchising arena.

Chapter 1 provides a comprehensive overview of franchising, encompassing its various forms and structures. It explores why franchising is often preferred over other entry modes, highlighting its advantages and appeal to both franchisors and franchisees. The chapter delves into the motivations behind adopting international franchising strategies and discusses the key considerations for implementing them effectively. Additionally, it examines the complexities of managing international franchising operations, including challenges and best practices for successful execution.

In Chapter 2, the methodology employed for this research is outlined, detailing the chosen research approach and the rationale behind it. Various sources utilized in the study are cataloged. The chapter explains the development of the interview protocol, providing insights into the process of crafting effective questions to extract pertinent information from interviewees. Furthermore, it offers a comprehensive overview of Berkshire Hathaway's international expansion journey, tracing its growth trajectory alongside its international franchisees. As the crucial piece of the chapter, the interview with Berkshire's Global Business Developer sheds light on the company's selection process and strategies. Additionally, the chapter includes an interview with the CEO of the selected Rome-based real estate agency, offering insights into their experiences as a Berkshire franchisee in Italy.

Finally, In Chapter 3, a comprehensive overview of the holding company Berkshire Hathaway is presented, examining its diverse portfolio of activities and financial performance. Similarly, HomeServices of America, the holding under which BHHS operates, is analysed, illustrating its operations and financial results within the real estate sector. Furthermore, the chapter provides an analysis of the real estate market, highlighting its distinctive characteristics and the factors

influencing investment decisions within this industry. In addition, a competitor analysis is conducted, comparing the activities and performance of BHHS with those of a competitor utilizing the international franchising model. The chapter closes by depicting the onboarding of a new BHHS franchisee, highlighting the advantages of joining the brokerage network and the responsibilities placed on franchisees to preserve their standing in the BHHS franchise network.

1. INTERNATIONAL FRANCHISING

1.1 What is international franchising?

New market entry is a critical decision for companies willing to expand their operation and reach new customers. When it is time to take this crucial step, companies must select the best and most effective entry mode. Market entry modes are business strategies that companies pursue to break into new markets and increase their competitiveness ([Amankwah-Amoah et al. 2022](#)). These business strategies are also considered governance structures by which MNEs organize their value-adding activities in foreign markets ([Brouthers and Hennart 2007](#)). Franchising is certainly known and considered one of the most famous entry modes and formats for doing business in many different industries. Franchising is a type of licencing in which an independent entity, the franchisee, is granted permission to conduct business in a prescribed manner by a parent corporation, the franchisor ([Rosado-Serrano, Paul, and Dikova,2018](#)). More precisely, this organizational structure is created when a company (the franchisor) sells another company (the franchisee) the right to use its trade name, operating systems, and product specifications. Then, the franchisee is allowed to create one or more retail locations that sell the franchisor's goods or services and use the franchisor's name ([Castrogiovanni, Combs, and Justis 2006](#)). International franchising is, therefore, the relationship described above but between the entrant in the foreign market (the franchisor) and a host country entity.

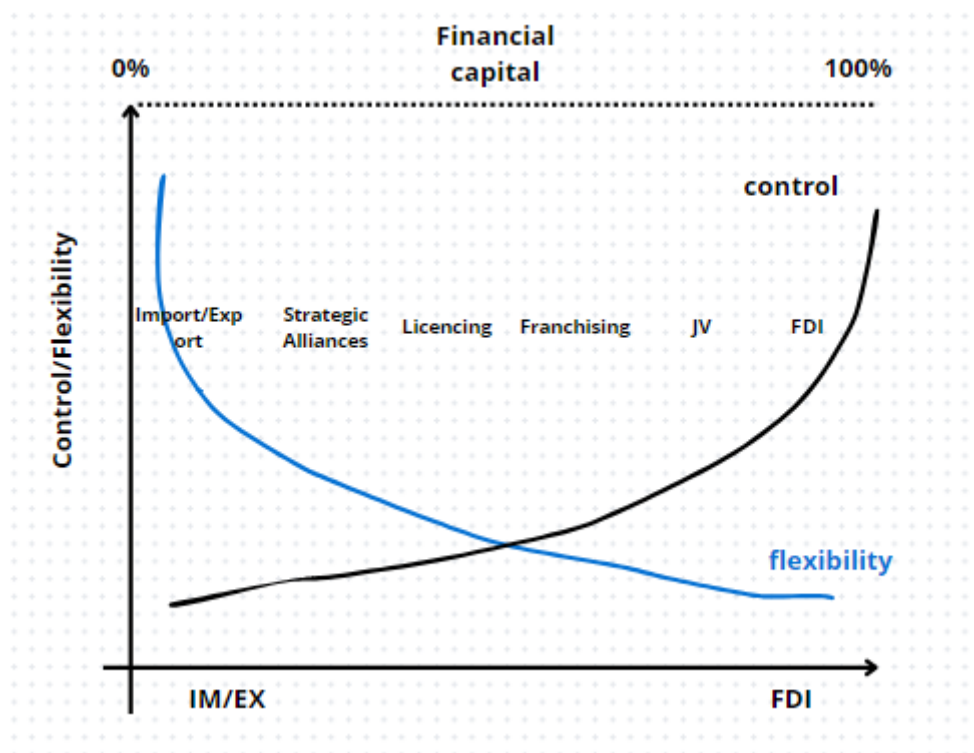
Hence, franchising is listed among an array of different approaches that a company can pick as their chosen one for supporting their entrance into a new market. These distinct entry modes vary from a simple activity of importing and/or exporting, a strategic alliance, licensing, a joint venture, to a foreign direct investment (FDI).

These modes of entry represent a paramount choice for the company willing to expand its operations, and it should select the one that best fits taking into consideration that the most appropriate one is a function of the trade-off between control and cost of commitment ([Anderson and Gatignon 1986](#)). In fact, the list of formats mentioned above can be grouped as they form a pattern highlighting a trade-off between two of the most important variables in business: flexibility and control. In Figure 1, (here below), it is noticeable the trade-off between flexibility and control on the y-axis, and the entry modes in the exact order shown above ranging from importing/exporting to FDI on the x-axis. Then, the more we move towards complex forms of entry modes (in which the percentage of financial capital

is higher) such as the FDI, the degree of control gradually increases while the degree of flexibility decreases. This is due to the progressive increase in the operating leverage, in fact, a high degree of investment results in a high level of fixed costs which eventually drag down the flexibility aspect of the venture.

In the situation described, franchising is the entry mode which stands right in the middle, making it a mix of both flexibility and control.

Figure 1: Entry Modes

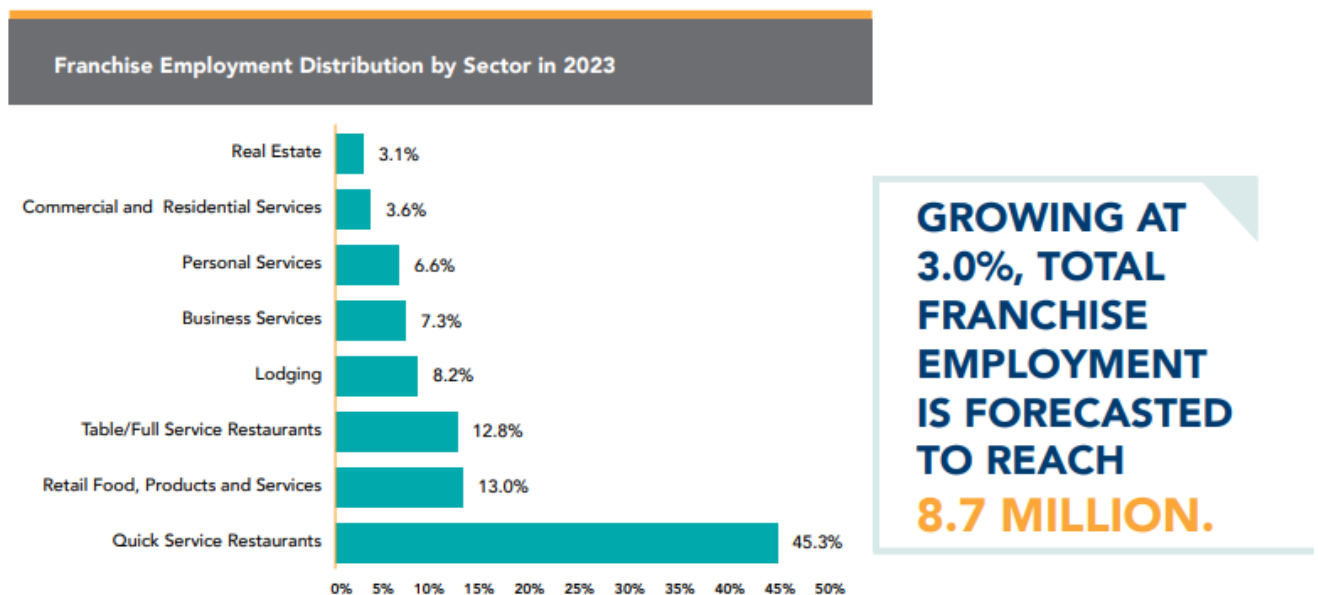


Source: Own Elaborations

This mode of entry is certainly one of the most famous and known to consumers as it gave birth to some of the biggest business ventures in the quick service restaurant market, making notorious brands such as McDonald's; Burger King; KFC; 7Eleven, etc. For example, the McDonald's chain is one of the most popular instances of a franchising machine, as reported by the [Financial Times](#), 95% of the 40,275 outlets worldwide of the corporation are managed by franchisees. 61% of the \$23 billion in revenue that McDonald's recorded in 2018 came from its fees.

Indeed, even though franchising covers quite a lot of different industries, the quick-service restaurant industry is the most known for doing business through this format. The International Franchise Association (IFA), in its franchising economic outlook ([IFA,2023](#)) shows the franchise employment distribution, showing that quick-service restaurants are the ones that guarantee the higher number of jobs (45.3%). However, many other industries are acknowledged to be welcoming of the franchising layout, following in the IFA’s employment distribution statistics, in a decreasing way, we find sectors such as Retail Food, Products and Services (13.0%); Lodging (8.2%); Business Services (7.3%); Personal Services (6.6%); and Real Estate (3.1%).

Figure 2:Franchise Employment Distribution by Sector in 2023- IFA



Source: Franchising Economic Outlook, 2023

1.1.1 Categories of franchising

Whenever a company decides to move to a foreign market it may conform to a separate set up of franchising. [Petersen and Welch \(2000\)](#), define the different categories of international franchising and state that there may be very different patterns to achieve this business layout internationally, therefore, it may be difficult to group globally the reasons to adopt franchising. Let us now describe the main configurations of international franchising.

There are typically three main ways to create international franchising: Direct Franchising; Master Franchising; and Area Development.

Direct franchising refers to the situation in which the franchisor individually sets up each franchisee without seeking any help from intermediaries ([Petersen and Welch 2000](#)). This results in the franchisor's arrangement and management of the resulting network in the foreign markets. This is certainly the easiest way to start an international franchising, but, whenever this approach is selected the franchisor must conduct all the activities that enable the enterprise to operate effectively. Whenever a network is too big or far away from the domestic market, the management may be too hard.

Master franchising is the configuration in which an external company, the master, is licensed to operate on behalf of the franchisor to manage and establish the franchising network in the foreign market. This mode of entry specifically refers to the business arrangement that exists between a franchisor and a separately held sub-franchisor (the master franchisee) to create a predetermined number of franchises for the only right to operate the business model in a specific area for a predetermined amount of time ([Baena 2012](#)). This organizational form of franchising is one of the most preferred since it is adaptive. Indeed, the master franchisee knows better the country of interest to operate and it can run the franchise network with less complexities. In addition, master worldwide franchising is a distinct method of entering the market as opposed to exporting (direct franchising) because it entails keeping agents (the master and its sub-franchisees) at arm's length, giving the agents access to intangible and priceless assets (the franchisor's brand and business model), and giving the master the authority and know-how of a franchisor ([Alon 2006](#)).

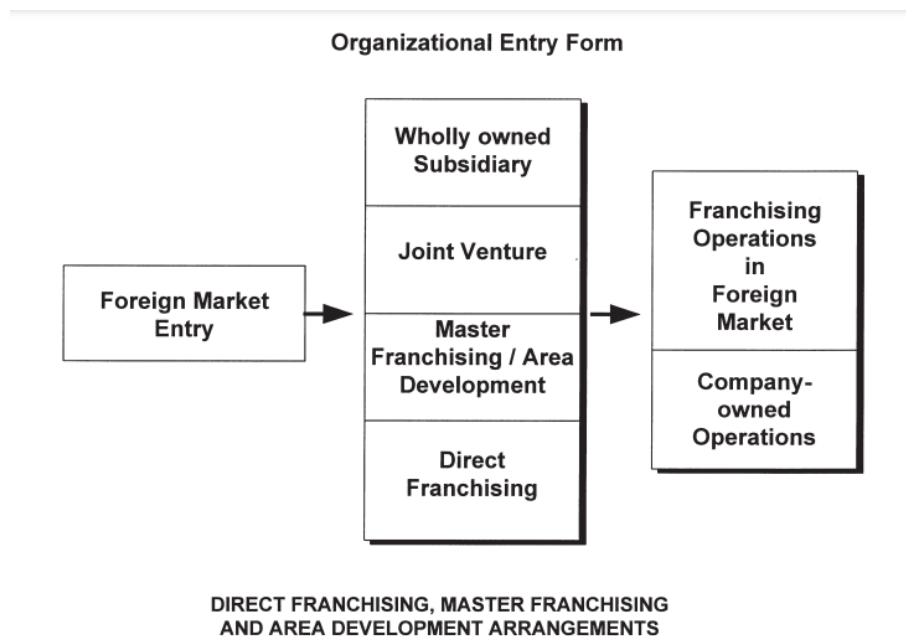
In the area development organizational form, the franchisor allows a franchisee to set up individual units together with its management within a precise territory. This type of configuration differs from the master franchising one since the individual units or outlets are renowned as franchisor-owned units rather than sub-franchised units ([Petersen and Welch 2000](#)). This shows that even though

franchising is seen as a format to expand without critically increasing the level of control, often these activities are mixed with company-owned ventures.

Each of these three organizational forms of franchising is set for different situations and scenarios the franchisor is facing, however, the choice will be made concerning the final objective to keep a very high level of consistency. Consistency is the mantra for the franchising entry mode, it is the variable that better highlights whether a company is replicating its business in the right manner or not. Consistency may concern the food a business is serving, the approach the company uses to address a client, or also the kind of service it is offered to customers. Nevertheless, consistency is key to replicate the same experience all over the business is spread, often customized for different customers, that the company is willing to offer to every client.

[Petersen and Welch \(2000\)](#) illustrate these organizational entry forms and entry paths into the use of franchising. Indeed, in Figure 3 it is shown that entering a foreign market is mainly done through the franchising formats explained above together with high control mode such as joint venture and a wholly owned subsidiary. Nevertheless, in most cases franchising operations will co-exist with company-owned operations to balance the management of the new market approached.

Figure 3: Organizational Entry Form



Source: Petersen & Welch, 2000 Pg. 479-96

1.2 Why International franchising?

Going international is undeniably one of the biggest steps a company can make in its life cycle. It is the ultimate test to see whether the idea is powerful enough to be commonly accepted not only among the domestic walls but also in different and diverse realities. Selecting franchising as the international entry mode is a brave move as well since it means selecting the right partner to hop in your venture. With this regard, franchising is the biggest example of the shift from a traditional way of entrepreneurship towards cooperative entrepreneurship ([Shane and Hoy 1996](#)).

However, it is appropriate to reflect on why franchising should be preferred to other entry modes.

First, it is appropriate to state that studies have found that international franchising is advantaged over domestic franchising ([Jell-Ojobor and Windsperger,2014](#)). International franchising is better in terms of the amount of capital generated, which helps the company absorb the risk of failure. Moreover, international franchising with time will develop superior knowledge and benefit from superior brand awareness. It is important also to take into consideration macro-environmental factors that incentivize the creation of international franchising. Those factors must be considered for each country a firm is willing to enter, and vary from economic factors, financial factors, political factors, legal factors, to the overall cultural distance. All these determinants affect international franchising. For instance, legal barriers may make it difficult to enter a foreign market and may make international franchising the best entry mode available. Likewise, the overall cultural and geographical distance may be the decisional factor that denies a firm from entering a foreign market even though economic factors are encouraging. Finally, domestic market conditions such as increasing competition are a driving force fostering the will to expand internationally ([Alon 2006](#)).

It is pivotal to address the previously mentioned factor of cultural distance as a determinant of international franchising. Indeed, one of the most important issues in the internationalization process is the need to adapt to the cultural characteristics of the host country ([Sakarya, Eckman, and Hyllegard 2007](#)). Therefore, franchising is one of the best entry modes whenever the host country is highly different in terms of culture. In fact, franchising allows the transfer of responsibility to the franchisees who best know the environment and can take care of the business on behalf of the parent company. Consequently, it is crucial to take into consideration the host country perspective for selecting the right franchisees to partner up with ([Graciá and Fernández 2014](#)).

Then, let us begin with what is required to for setting up a franchising entry mode. To run an international franchising efficiently it should be clear which type of governance mode (categories of

franchising) to apply. [Jell-Ojobor and Windsperger \(2014\)](#) have studied the different governance modes of international franchising through property rights theory. It is to say that, in this view, control is different based on the ownership and decision rights determining the governance mode. In particular, and plugging in transaction costs theory as well ([Anderson and Gatignon 1986](#)), the franchisor's choice of governance mode depends on these factors: Environmental uncertainty; Behavioural Uncertainty; and Transaction-Specific investments. Digging into the details of these factors, environmental uncertainty can be broken down in: Institutional uncertainty (changes in the political, legal, and regulatory framework); Economic Uncertainty (changes in demand and competition); and Cultural Uncertainty (difficulties resulting from the overall cultural distance). Environmental Uncertainty requires a tailored approach referring to the specific country the firm is operating. The company should react in different ways depending on how a specific country is used to handle business. Therefore, the governance mode applied whenever environmental uncertainty is high should be a lower control one since it must adapt to the specific country conditions. Behavioral uncertainty refers to the risk associated with agency problems such as free-riding and shirking which are aggravated by geographic distance. These risks may be mitigated by monitoring and incentives. A successful alignment of objectives between the franchisor and the franchisee should reduce opportunistic behavior and lower control modes such as area development and master franchising could help in this situation. Lastly, we must consider Transaction-specific assets. In franchising, there are system-specific assets such as know-how, resources, capabilities, advertising, etc. All these assets are at high stakes because they are both tailored for a unique partnership and are difficult to replicate, increasing the risk of a hold-up problem. Usually, one may think: the higher these system-specific assets the higher the control. However, if we think of an industry where an adaptive procedure must be followed (e.g.: the food and service industry) it is reasonable to assume that a competitive advantage is reached only if the franchisor can combine local-market assets and system-specific assets. Therefore, whenever local market assets are high a low control mode can be the right solution.

Closing with the [\(Anderson and Gatignon 1986\)](#) discussion, overall, franchising is often preferred over other entry modes because it can help to lower transaction costs, reduce uncertainty, and manage complexity. When it comes to protecting transaction-specific assets like brand name, trademark, and know-how, franchisors tend to choose franchising over other entry modes. These resources have the potential to be extremely valuable, yet they can also be copied and abused. Franchisors can lower the risk of losing control over these assets by licensing franchisees to utilize them. Moreover, concerning the uncertainty issue, by partnering with local franchisees, franchisors can gain access to local expertise and knowledge, which can help them navigate unfamiliar regulatory environments and

cultural norms. Concerning the complexity aspect, by standardizing their operations and procedures, franchisors can create a consistent customer experience across different markets.

Another aspect to compare franchising with other entry modes is the ownership aspect of the venture. By nature, the franchising business format exists to expand the business without necessarily owning every inch of the venture. This aspect raises some questions on why some franchisors rely mostly on the franchise network and why others do not. By using the argument of [Carney and Gedajlovic \(1991\)](#), which stated that franchising is both a hybrid organizational form and a hybrid capital instrument, we can introduce their discussion of the two main theories in the franchising format.

[Carney and Gedajlovic \(1991\)](#), through an analysis of a sample containing 128 franchise systems outline the two competing theories in franchising: the resource scarcity thesis (RS); and the administrative efficiency thesis (AE). The authors emphasized that neither theory alone can explain the franchise patterns and that the two theories are driven by a different set of casual factors. The resource scarcity thesis is at the basis of economics and relies on the importance of the brand name and economies of scale. This theory is based on the principle that franchisors could not attain full ownership due to capital and managerial constraints. In particular, the resource scarcity theory explains the situation in which small chains tend to franchise to grow faster than rivals, and when a certain outcome is reached the franchisor will eventually buy back and retain ownership. The RS theory assumes that through this process the franchisor will experience rapid growth, learn faster, and experience at a quicker rate positive cash flows. As a counterpoint of the RS, the administrative efficiency theory (AE) takes into consideration franchising from the perspective of agency theory. From this perspective, some agency problems have been identified for a franchise system. What mostly represents a concern is the cost of monitoring managers' performance. A moral hazard problem is at the basis of the AE theory, while franchisors can inspect the stores' performance through financial results, it is more difficult to assess the level of effort of the managers. The idea is that managers of owned stores know that their compensation is mostly fixed and independent of performance. Hence, the risk of shrinking is very high. Adopting a franchising model may be the solution to this problem since franchisees are considered entrepreneurs whose income is directly related to their performance. Therefore, franchising can be considered as a way to align incentives. However, even if this business framework can economize on monitoring costs it is not completely efficient. Using this kind of incentives through franchising, three main problems could arise: inefficient investment; free-riding; and quasi-rent appropriation. Concerning inefficient investment, the issue is due to the reluctance of the franchisee to invest its resources properly. The rationale behind this is that franchisees would prefer to under-invest in certain assets because the economic return could be addressed not only on

the specific franchisee that invested but also on other franchisees that did not spend any money. For instance, advertising and marketing investments could have a return on more than one franchisee if the units are geographically concentrated. Therefore, when there is a geographic concentration of units, collective ownership should take place to facilitate effective investment. For what concerns the second agency problem which is free-riding, the context is that franchisees who can internalize the benefits of their performance and externalize the costs are dangerous. An example of this kind of franchisees are the ones located in mostly tourist areas, which do not benefit from repeating customers. In this situation, the franchisee may offer an inferior quality of the good or service and devalue the brand reputation. The administrative efficiency thesis, therefore, will suggest the franchisor to own units that serve a large portion of mobile customers. The last agency problem is the quasi-rent appropriation. The quasi-rent is the value of an asset over its salvage value. The idea is that if quasi-rents are high it is easier for franchisors to buyback, and within these circumstances, franchisees will be hardly attracted. Therefore, franchisees must demand appropriate returns to bear the risk of their asset-specific investment.

Another view on the comparison of entry modes is the choice of whether to rely or not on partners which is shown by [Kedia, Ackerman, and Justis \(1995\)](#). It must be said as a starting point that some issues may arise in the internationalization process. For instance, the product or service that the franchisor is proposing may not fit international markets. Or else, the franchisor may be uncertain on how to locate potential franchisees in other countries and might encounter difficulties in finding the right partner. Alternatively, another issue that may doubt the franchisor to expand internationally is the difficulty in monitoring the performance of international franchisees. To make the study, the authors issued a questionnaire to 380 CEOs of U.S. firms practicing franchising. They obtained 142 useful responses and split the sample into 70 firms using international franchising and 72 using domestic franchising. The questionnaire asked questions on items that had to be ranked in order of importance and difficulty whenever proposing a franchising format. These items were then ranked into seven groups: (i) supply of material; (ii) foreign government regulation; (iii) franchising and business knowledge; (iv) promotion of franchising; (v) competition; (vi) technical support; and (vii) finance. Generally, the items in the groups perceived to be the most difficult were also considered the most important but not in the same order. This was related to whether the firm was operating domestically or internationally, indeed, domestic franchisors ranked all items at a higher degree of difficulty compared to international franchisors. The path that the author extrapolated from this study is that at the earlier stages of international expansion, informational barriers appeared to be of the greatest importance. During the latest stages, marketing and financial barriers take the lead. However, the most important result of the analysis was that international and domestic franchisors agreed upon

the fact that the most difficult and important factor was finding good and reliable partners to join the franchising network. Therefore, it can be said that relationships are considered more important than resources.

A final aspect to consider in the choice of franchising as an entry mode is the importance of relationships. [Altnay and Brookes \(2012\)](#) say that international franchising relationships involve cross-border transactions, and the partnership franchisor-franchisee may be affected by cultural distance. In franchising, as previously seen, a core motivation to join a franchise network is to access the franchisor's brand, value, and reputation. International business literature states that there are cultural differences between parties which are likely on both the formation and the sustainability of strategic partnerships. Not being able to make the relationship work could be a big issue and to sustain alliances it is required a quality association between parties. The authors analysed two hotel groups applying a franchising format. The first group had 90% of its network directly franchised, while the second group was using a master franchising organizational mode. Regarding the first group, the franchisees were attracted by the possibility of accessing the franchisor's resources and benefits concerning the support of initiatives. To attract the franchisees, the franchisor had to leverage on the above-mentioned aspects to create a valuable relationship. In addition, the franchisor also tended to support the partnership through additional documents and guidance to make the partner understand the organizational values and vision. It was also important the aspect of cultural sensitivity in cultivating relationships. Understanding the franchisee's practices in their home market is seen a way to commit to the partnership. It is also pivotal to send managers who could easily adapt or are originated from the target market to deal more efficiently with franchisees. The hotel group which was using a master franchising format, instead, to select franchisees applied continuous and informal communication to assess whether the right chemistry was present. Franchisees, on their part, joined the master franchising network because they considered themselves not big enough. The franchisor, instead, attained the master franchising because it was seeking market knowledge and through this franchising format, it was able to show more tolerance and open-mindedness. However, master franchisees reported issues regarding the franchisor's attitude to "controlling the brand everywhere". More specifically, the problems were raised concerning territorial issues, cultural issues, technology issues, and priority issues. To overcome these complexities the franchisor had to transfer knowledge and resources. The transfer of knowledge helped strengthen the relationship and created the right mindset for accepting differences. Nevertheless, if the relationship is not strategically built this approach could lead to anarchy and chaos.

1.3 Reasons and path for international franchising

International franchising, as we have seen, is a proven method to replicate a successful business model across borders, it offers several compelling advantages, including rapid expansion, reduced risk, and access to new markets and resources.

However, the main concepts a company should reflect on whenever there is the ambition to expand internationally are always referring to when it is the right time to make the move and how to do it.

[Petersen and Welch \(2000\)](#) say that, in the first place, companies typically change their franchising set for foreign markets once they have mastered it in the domestic environment. Moreover, another feature that fosters entrance into a foreign market is having already an international background, either by managers or employees. In addition, having already an international network of facilities ready to use is an attribute that facilitates the beginning of international operations.

Following the reasoning of the above-mentioned authors who investigated the franchising approach of 60 Danish clothing companies, a piecemeal approach could be used. It is possible, indeed, to have company-owned stores and start franchising once the new market is understood at its best. Certainly, the most difficult path for international franchising is whenever there are no prior international operations and no cross-border experience whatsoever. Moreover, it is of utmost importance to take into consideration whether the franchising process is focused on the same industry or if it is aimed at switching to another sector. Indeed, if a company lies in the case of the industry switch, it must develop a new set of skills and knowledge. A barrier to franchising, in truth, is the lack of knowledge and skills together with the package development, which are gained through expansion in the home market.

Concluding with the [Petersen and Welch \(2000\)](#) arguments, the sample in the study presented a framework of a path to reach the international franchising format. Typically, the Danish firms started by mastering the domestic operations and then they started establishing new company-owned outlets domestically, since, having more outlets in the home market increases the level of control over the products and services offered. Then, the companies move towards the franchising frameworks whenever an appropriate level of experience and reputation is reached.

Like this process, a second approach has been illustrated by [Cheng et al. \(2007\)](#). The authors, through the analysis of mostly franchise systems in Taiwan, propose a stage model for international franchise system development in five stages.

Stage 1 is a “creative business concept”. The set up of an international franchise system begins with the creation of a business in the home market. If the concept survives, the business gains popularity in the domestic market and the company may start experiment expansion. At this very first stage, however, the business will lack of experience and financial capital to run the expansion map and it will need to adopt a franchise format. At this point, the founder selects the best franchising model for its business and starts selecting the right franchisees to remain afloat until the franchise network is fully operative.

“Pre-International Franchising– Domestic Franchise System Development”, is stage 2. The goal of this stage is to become a popular franchise business in the domestic market. A good starting point would be to reach a level of standardization for the transferring of knowledge to make a franchisee operative as fast as possible. Indeed, it is important to achieve a fast rate of growth which will both foster popularity in the home market and attract foreign investors. By this time, the founder may consider master franchising as an option to manage foreign operations.

Stage 3 is “Initial International Franchising– Experimental Involvement”. In this stage, international operation commences, and the franchisor will select one of the categories of franchising we have seen previously that best fits its business in the new market. One of the major problems may be the acceptance of the business by the foreign market. To minimize the risk of this inconvenience, the company must research the selected market which should also be geographically close to not deep dive into a context in which the company may feel disoriented. A helpful option may be applying to the master franchising model, the master franchisor helps the franchisor learn how to work with the new foreign market by using it to change the local franchising code, pay royalties, and start small.

Moving to stage 4, “Developed Franchising–Active Involvement”, the business starts to spread faster and in more diverse locations as the company has gained experience through its previous operations. Foreign sales and total sales increase sharply, and the profits are redistributed again to foreign activities. International operations now are a bigger chunk of the business, and it is necessary to prepare the appropriate organizational structure for future growth. At this point, the firm may also switch from master franchising to direct franchising, as it should have gained enough experience. In addition, the company may enter new industries as a response to the inevitable increase in competition, especially in the home market.

Finally, stage 5 is “Mature International Franchising”. Now the maximum aspiration for the business is to become top tier in every country it has entered (which was not necessary for the previous stages). Unfortunately, it is extremely difficult to reach this objective as none of the firms analysed by the

authors were able to show this achievement at the time of the research. Finding the best strategy to maintain the profit-oriented business and enable it to continue developing will probably be the issues to address.

On how to strategically approach international franchising, [Carney and Gedajlovic \(1991\)](#) say that franchising typically operates downstream, and it must be considered as both a hybrid organizational form and a hybrid capital instrument. They state that, initially, a franchisor should locate its franchisee close to the headquarters to create an organizational routine and to personally intervene, if necessary, faster. Over time, routines will be created, and new stores may spread geographically.

Moreover, analysing a sample of 128 franchise systems, the authors developed a set of ownership patterns (or behavioral strategies) adopted by the above-mentioned franchise systems.

The first strategy is the one of “rapid growers”, it is characterized by the presence of a big retail network combined with a fast pace of new stores opening per year. Franchisors behaving this way typically ask their franchisees for an average investment to get into the network. These characteristics result in a rapidly expanding network that is geographically dispersed.

Moving on, the “conservative expensives” price the investment to enter their network above other franchisors. They look for a partner which can bear this cost, otherwise, they prefer to retain control and go for full ownership. Finally, the franchising fee decreases over time, to eventually demand more upfront compensation.

The next pattern is the one of “franchise converts”, they are known to be the latest player to enter the franchising format. Indeed, franchise converts usually live up to 35 years before deciding to adopt a franchising business model, and when they do finally start, they act similarly to the rapid growers.

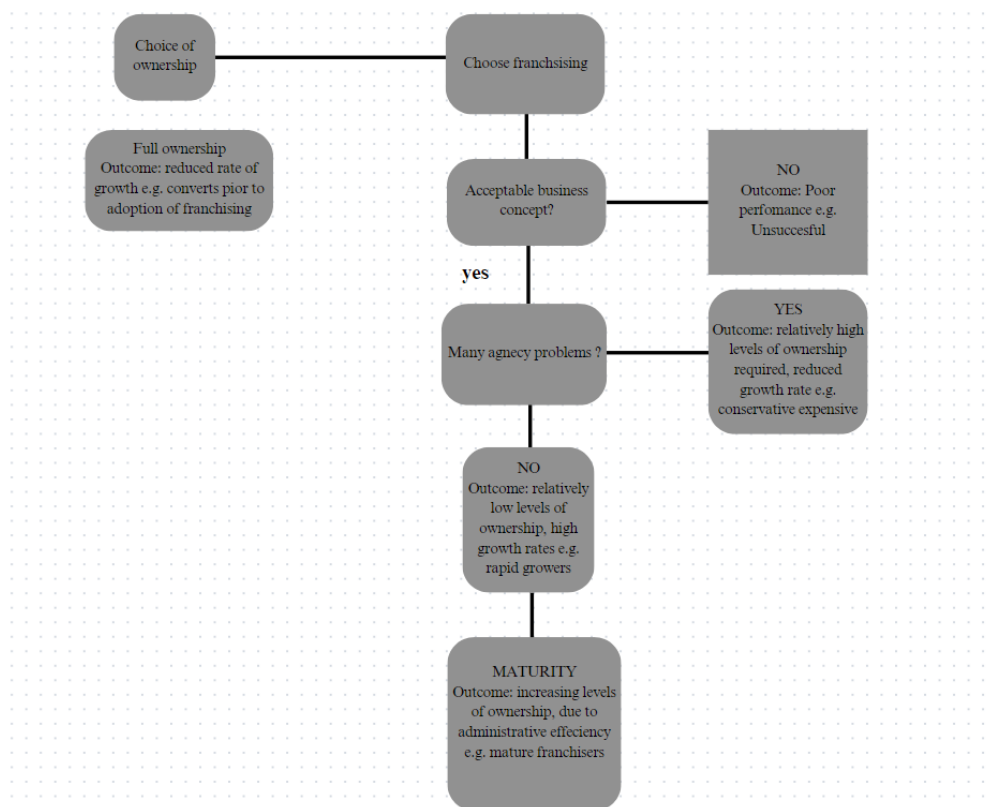
“Mature franchisers”, instead, have been franchising for a long time and have developed a large retail system. As the rapid growers and the franchises converts, such a network is geographically dispersed and they opt, when possible, for a buy-back option to retain control.

Finally, the last ownership pattern is the “Unsuccessfuls”. They seem to have adopted a strategy of rapid franchising. Unsuccessful demand the lowest fee to enter their network compared to the other players, leading to a failing market formula. To complete their profile, they typically started franchising early and never retained control to balance the system with company-owned stores.

[Carney and Gedajlovic \(1991\)](#), graphically show us the path model of franchise ownership patterns. The first step is the choice of pursuing a franchising format and leaving the full ownership strategy (as the Converts group). Indeed, starting by selecting the franchising governance mode, it is crucial

to have a business concept that works in the market to not poorly perform and end up as the unsuccessful group. The next issue to consider is whether agency problems arise. If the agency problems represent a major issue, it will be then probable that the company will need to attain to high ownership levels following a reduction in the growth rate, as per the conservative expansive group. If the company can cope with agency problems, instead, a low level of ownership will be demanded, and a high growth rate can be achieved (rapid growers). However, in both the cases described for the agency problems at the maturity stage of the franchising format, the company will start retaining ownership and exert buy-backs, becoming mature franchisers.

Figure 4: Path Model of Franchise Ownership Patterns



Source: Carney and Gedajlovic, 1991 Pg 607-29

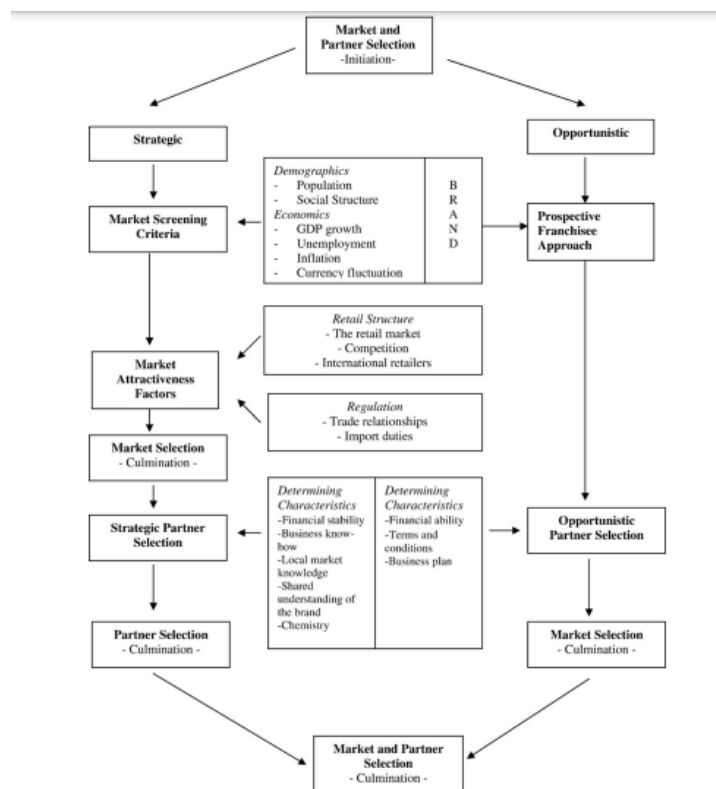
1.4 Managing an international franchising

Having experienced some of the paths that franchising could take to go international, it remains crucial the management aspect of the venture. Indeed, having a franchise network spread around the world means having to deal with several contingencies that must be met individually with a tailor-made approach. This task is extremely difficult to handle alone, and international franchising is a striking instance of the subject matter.

To manage an international franchising it is crucial to start with a solid ground for the venture, it is to say, that the right basis for the creation of a franchise network must be set and strategic choices must be made. For this reason, selecting the right partners and the right markets is pivotal to the success of the franchise. [Doherty \(2009a\)](#), defines the process of appointing the right partner and the right market for an international franchising studying the profile of six UK companies operating in the retailing industry. There are two approaches delineated for the selection of both a market and a partner: an opportunistic approach and a strategic approach. The opportunistic approach refers to the process of selecting a market and a partner by the franchisor without any instigation from the franchisor itself, whereas a strategic approach defines the active search for the best market and partner to appoint by the franchisor. The strategic market selection is based on some market screening criteria. Typically, there are two market attractiveness factors: regulation and the business structure of interest. In addition, once a business is in the process of market screening it must consider demographic and economic factors as well, such as the population habits, culture, GDP, unemployment rate, and inflation. On the other hand, the opportunistic market selection is purely characterized by the franchisor's overall appeal excluding the above-mentioned factors. Once the market has been selected, the partner selection process starts. Following a strategic approach, a company may be looking for some specific features in a partner, such as expertise in the industry, an understanding of the future of the business, or even an overall chemistry. Nevertheless, in the study, the repeating criteria for the partner selection among the companies were: financial stability; know-how; understanding of the brand; chemistry; and understanding of the local market. In the opportunistic perspective, companies may fail to select the right partner because they avoid investigating suitable franchisees and focus only on some general characteristics such as financial stability and the best business plan presented. To conclude with the study, it is important to highlight as well that the opportunistic and strategic approaches are the result also of a learning path. Indeed, companies after a failure may find their personalized approach for selecting a partner and market with their preferred features to look at in the process.

[Doherty \(2009a\)](#), provides a comprehensive framework (Figure 5) illustrating the two approaches emphasizing elements that must be considered and treated at the same time resulting in the right way of market and partner selection. Indeed, when it is time to select a new partner and a new market, the two approaches present different paths. The two procedures start with the opposite goals. In the strategic path, the first step concerns the market selection following the precise screening criteria seen above. With the opportunistic path, instead, it all starts with the partner selection which has no screening criteria but rather approaches the company mainly because of the brand attractiveness. Moving on with the strategic approach, a further analysis is done concerning the attractiveness factors such as the structure of the market itself together with the regulation analysis until the final choice is made. By contrast, after the partner has approached the company, it is time for the analysis of some screening criteria for the opportunistic partner selection which are, as previously seen, focused on the financial stability and business plan proposed by the possible partner to the company. Concluding with the opportunistic methodology, the market is selected because of the instigation of the partner willing to join the network. On the other hand, the conclusion of the strategic path is preceded by a rigorous partner selection based on factors such as local market knowledge, business know-how, and overall chemistry. After all these analyses, the strategic approach is finally completed, and the strategic market is paired with the strategic partner.

Figure 5: Market and Partner Selection, a Conceptual Framework



Source: Doherty, 2009 Pg 528-34

Another perspective on the partner selection process is given by [Altınay and Miles \(2006\)](#). The authors made research on multi-national UK listed hotel group doing franchising in the EMEA region. They added in the research design interviews with organizational members and document analysis as well. It came up that there were two major categories as frames of reference for the analysis: cultural distance and the management of the franchisees. To select the best partner there were two steps undertaken in the approach: (i) a formal corporate selection process and (ii) a set of guidelines. These steps lay in the two macro steps of the process which were: identification and selection. The development directors in charge of the search for the best partner were typically locals of the host country, making them experts in the new market environment, habits, and business context. The guidelines set for the partner selection approach were subdivided into five stages: strategic rationale; the market; financial analysis; details on the business partner; and property overview. In the strategic rationale phase, the aim is to have clear in mind why the company is undertaking the project of selecting a specific franchisee. It must be stated the current market position of the company as well, and what would possibly be the impact of the project. In the market stage, it must be defined the current market conditions, the competitors that the franchisee will be facing, the target market that must be addressed, and the current stage of the industry development process. Moving to the financial analysis, the company should define the financial justification of the project, why the project can be considered as a contribution to the shareholder value, which are the KPIs contributing to the success of the venture, and the degree of risk attributed to this specific choice. The details on the business partner step are characterized by a general overview of the selected business partner, the financial strengths must be highlighted, and it should be clear the franchisee's current strategy. Finally, on the property overview step, the franchisor should know the present state of the franchisee's infrastructures, in the case of the study: the hotels.

[Altınay and Miles \(2006\)](#) make clear also that whenever franchising operates in a cross-cultural context many concerns may arise, indeed, companies going international should keep in mind that different countries do business in the way they prefer the most. It is also a reality that some countries may exert an “aversion to franchising”, typically those countries are the ones where family-owned businesses are at the core of the country like Italy and Spain. Another concern in selecting the best partner could be that the franchisee is not able to recognize and therefore is not capable of taking advantage of the power of the brand. To avoid this inconvenience a pivotal aspect that must always be reminded whenever applying a franchising format in a business is setting standards and preserving at all costs consistency.

A final consideration on the approach of selecting a partner internationally with a different perspective is given by [Al-Khalifa and Peterson \(1999\)](#). The authors collected data from 42 senior executives of 42 international Joint Ventures located in Bahrain. The business of reference was manufacturing. A questionnaire on 14 items was issued to the executives to rank in order of importance. At the top of the list, features such as the reputation in the market, the financial status, and the similarity of goals and objectives were identified as top priorities. Surprisingly at the bottom of the list were features such as previous experience in a JV, and prior success in a JV. The authors followed their study with a factor analysis to group the above features and try to explain the total variance. Four factors were identified: local reputation and contracts; managerial competence; marketing and technical competence; and personal compatibility. The factors were discriminated by the authors in two categories: task-related; and partner-related. For instance, the factor “marketing and technical competence” was labeled as a task-related factor, whereas the remaining factors are considered partner-related. Further, the authors with a regression analysis showed how these factors vary significantly depending on the company’s characteristics and the managing directors as well. For example, the factor “local reputation and contracts” from the company perspective increases with the number of experiences in the market, while, in the executive perspective the relevance rises with the number of years in joint venture experience as well as educational attainment. It is important to keep in mind that the above-mentioned factors cannot be ranked by any means, they are individually ranked in the view of the company’s needs and top-decision makers’ characteristics.

2. THE RESEARCH

2.1 Methodology

This dissertation aims to try to answer the research question: how does Berkshire Hathaway HomeServices select its partners and make them operative in an international franchising network?

When it comes to answering “why” and “how” questions, one of the best solutions is approaching case study research, hence, to conduct a case study in the most accurate way possible I followed [Yin \(2017\)](#) and his manual of case study research. Indeed, the path pursued to analyse how Berkshire Hathaway HomeServices (from now on “BHHS”) selects its global partners is the single case study. To begin with, it is crucial to show accurately some aspects of a case study protocol proposed by [Yin \(2017\)](#). In particular, it is appropriate to define the overview of the case study and the data collection procedures.

The overview of the case study highlights the mission and goals of the research together with my hypotheses. Since I have already stated the research question of interest, I might move to the choice of international franchising, which is mostly due to my interest in entry modes and the possibility of personally witnessing one of the most important companies in the world, Berkshire Hathaway, make use of it to enter Rome. Therefore, I believe that analysing the strategy of a giant entity in a country mostly averse to franchising such as Italy ([Altnay and Miles 2006](#)) can be useful for research purposes and for highlighting the huge influence of relationships, particularly in this business format.

To conduct a relevant case study, I followed the principle of using multiple sources of evidence. Indeed, I aimed at a triangulation to do an in-depth analysis of a phenomenon in a real-world context [Yin \(2017\)](#). Moving along with Yin’s guidance, I used three of the six major sources of evidence. This research was conducted using documentation, archival records, and most importantly, interviews.

For the documentation, I have analysed articles and reports of expansion activities of BHHS from sources such as the BHHS press releases, Financial Times, Fortune, and Marketline. To find the relevant documentation, more specific research had to be done. Indeed, typing “Berkshire Hathaway” on the major business reporting platforms will produce thousands of results which will report mainly Warren Buffet’s investing activities and related businesses. Since Berkshire Hathaway is a holding, and BHHS is a newborn business, it is necessary to be more accurate on the information needed. Therefore, I found most of the documentation reporting the real estate business under the keyword

“HomeServices”. The archival records consulted, instead, were taken from reports directly from the BHHS website such as annual reports, and primarily from the official franchise disclosure agreement valid since April 2023 proposed to new franchisees. In table 1, The documentation used for the research.

Table 1: Research Documentation

N	Title	Source	Year
1	Berkshire Hathaway HomeServices Announces First Global Franchisee	https://www.bhhs.com/about/newsroom/press	2018
2	Luxury Central London Estate Agency Kay & Co to Join U.S.-Based Berkshire Hathaway HomeServices	https://www.bhhs.com/about/newsroom/press	2018
3	Berkshire Hathaway HomeServices Names Network Member in Dubai	https://www.bhhs.com/about/newsroom/press	2019
4	Milan Estate Agency Maggi Group Real Estate to Join U.S.-based Berkshire Hathaway HomeServices	https://www.bhhs.com/about/newsroom/press	2019
5	Buffett, nuova scommessa sull'Italia. Arrivano le sue agenzie immobiliari	https://www.ilsole24ore.com/	2019
6	Estate Agency LARVIA Begins Operations with the Berkshire Hathaway HomeServices Brokerage Network	https://www.bhhs.com/about/newsroom/press	2019
7	Berkshire Hathaway HomeServices Begins Franchise Operations in Canada as Blue Elephant Realty Joins Globally Acclaimed Brokerage	https://www.bhhs.com/about/newsroom/press	2020
8	Berkshire Hathaway HomeServices Brokerage Franchise Network Expands to Mexico's San Miguel de Allende	https://www.bhhs.com/about/newsroom/press	2020
9	Berkshire Hathaway HomeServices Welcomes Second Network Member in Mexico	https://www.bhhs.com/about/newsroom/press	2020
10	Berkshire Hathaway HomeServices awards franchise in the Province of	https://www.bhhs.com/about/newsroom/press	2020
11	Berkshire Hathaway HomeServices Welcomes First Real Estate Company in India	https://www.bhhs.com/about/newsroom/press	2021
12	Berkshire Hathaway HomeServices Welcomes Berkshire Hathaway HomeServices Atlantic Portugal to Global Network	https://www.bhhs.com/about/newsroom/press	2021
13	Berkshire Hathaway HomeServices Expands Global Presence in Greece Welcoming ENEA Real Estate	https://www.bhhs.com/about/newsroom/press	2021
14	Berkshire Hathaway HomeServices Welcomes Berkshire Hathaway HomeServices Atlantic Portugal to Global Network	https://www.bhhs.com/about/newsroom/press	2021
15	Berkshire Hathaway HomeServices Announces LX Bahamas Luxury Realty Group Will Join its Global Network	https://www.bhhs.com/about/newsroom/press	2021
16	Berkshire Hathaway HomeServices Expands Footprint in Latin America	https://www.bhhs.com/about/newsroom/press	2021
17	Berkshire Hathaway HomeServices Expands Global Presence in Italy	https://www.bhhs.com/about/newsroom/press	2022
18	Berkshire Hathaway HomeServices arriva a Roma	https://www.fortuneita.com/	2022
19	Berkshire Hathaway HomeServices Expands Presence on Mexico's Pacific Coast	https://www.bhhs.com/about/newsroom/press	2022
20	Berkshire Hathaway HomeServices Announces Global Expansion in Aruba	https://www.bhhs.com/about/newsroom/press	2022

Source: Own Elaborations

Finally, the hugest part of this dissertation is represented by the two interviews conducted and aimed at understanding how is designed the franchisee selection process of BHHS. As [Yin \(2017\)](#) highlights, one of the most important sources of evidence is the interview. Indeed, using interviews as data for a case study usually helps in addressing “how” and “why” questions together with giving explanations of key events. Case study interviews present a fluid design and support the researcher in presenting the participant’s own reflections on some crucial issues. The interviews are “shorter case study interviews”, as [Yin \(2017\)](#) refers to them as “open-ended” and “conversational” still following the researcher’s line of inquiry. To handle this powerful source of evidence and address the

research question in the closes way possible, I have interviewed the BHHS ‘EVP of Global Business Development, Frank Perdichizzi, who is directly responsible for all BHHS expansion operations outside the US. Finally, to get a complete vision of the partner selection practice, I interviewed the Roma Immobiliare CEO, Francesco Minervini, who is the franchisee partner selected in June 2022. These interviews were structured in a way to give the top executives a fresh commentary on the franchisee selection practices and their personal opinions. Both the interviews were personally recorded (with the participant consensus) and transcribed to report them in the most accurate way possible.

2.2 Franchising overview

BHHS embarked on the expansion operation in Europe after having mastered its franchising network in the United States. To have a quick snapshot of the franchising landscape of the business, from the addendum to the franchise disclosure document, it is possible to analyse the franchising trend of BHHS. From the documentation, data can be extracted on the number of outlets worldwide and in the US from the year 2020 to 2022 (Table 2).

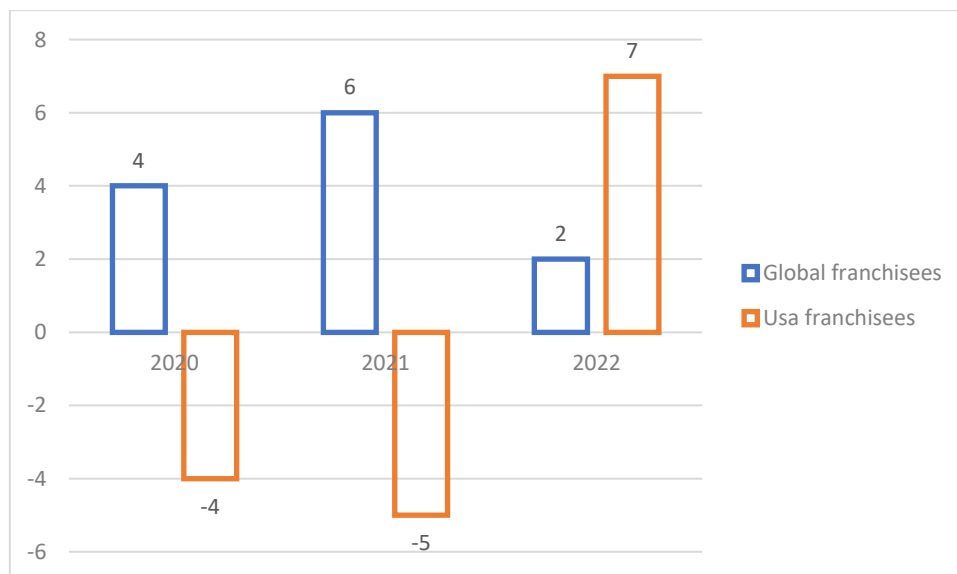
Table 2: System-wide Franchisee Summary

Outlet type	Year	Outlets at the start of the year	Outlets at the end of the year	Net change
USA franchisees	2020	257	253	-4
	2021	253	248	-5
	2022	248	255	7
USA Company Owned	2020	16	16	0
	2021	16	20	4
	2022	20	21	1
Global franchised	2020	6	10	4
	2021	10	16	6
	2022	16	18	2
Total outlets	2020	279	279	0
	2021	279	284	5
	2022	284	294	10

Source: Elaboration from Addendum to the Franchise Disclosure Document

From the very beginning of 2020 to the end of 2022 in the US the number of outlets franchised remained stable, starting with 257 units and closing with 255. The net change throughout the years highlighted a slight decreasing trend. Nevertheless, from the table, we can visualize the franchising structure adopted by the company. The ratio of US franchised outlets over total US outlets in the three years was respectively 94%, 93%, and 92%. This emphasizes the strong approach used by BHHS to rapidly expand in the US and master this business format. As of April 2023, the US are currently the BHHS main market, with 276 outlets operating in over 1,500 office locations. The number of BHHS Brokerages and office locations that are open at any given moment in the USA can fluctuate for several reasons, including lease expiration, the termination of a franchise agreement after a serious breach, and closure for business purposes. Contrary to the light decrease of American franchised outlets when it comes to international expansion, not even Covid stopped the BHHS march. As noticeable, from the beginning of 2020 to the end of 2022 global franchisees experienced a 200% growth, tripling their presence starting with 6 outlets in 2020 and closing with 18 in 2022, ranging from South America to Europe.

Figure 6: Net Change of Franchisees USA vs Global



Source: Elaboration from Addendum to the Franchise Disclosure Document

2.2.1 International expansion

As of April 2023, the total number of international franchisees is 19. These ventures are split in North and South America, Europe, and Asia. Indeed, in North and South America BHHS holds nine locations, and most of its presence resides in Canada and Mexico with respectively three and four franchisees. Since BHHS has undertaken overseas operations, the company completed ten partner selection processes marking its presence in Great Britain, Greece, India, Spain, UAE, Germany, twice in Portugal, and twice in Italy.

Table 3: List of BHHS International Franchisees

Franchisee business name	City	Country
Berkshire Hathaway HomeServices Aruba Realty	Oranjestad	Aruba
Berkshire Hathaway HomeServices Bahamas Real Estate	Nassau	Bahamas
Berkshire Hathaway HomeServices Toronto Realty	Toronto	Canada
Berkshire Hathaway HomeServices Advisory Realty	Toronto	Canada
Berkshire Hathaway HomeServices Quebec	Montreal	Canada
Berkshire Hathaway HomeServices London Kay & Co	London	Great Britain
Berkshire Hathaway HomeServices Athens Properties	Peristeri	Greece
Berkshire Hathaway HomeServices Orenda India	New Delhi	India
Berkshire Hathaway HomeServices MAGGI Properties Agency	Piacenza	Italy
Berkshire Hathaway Roma Immobiliare	Roma	Italy
Berkshire Hathaway HomeServices Applegate Realtors	Puerto Vallarta	Mexico
Berkshire Hathaway HomeServices Baja Real Estate	Los Cabos	Mexico
Berkshire Hathaway HomeServices Cancun Properties	Cancun	Mexico
Berkshire Hathaway HomeServices Colonial Homes San Miguel	San Miguel de Allende	Mexico
Berkshire Hathaway HomeServices LARVIA	Madrid	Spain
Berkshire Hathaway HomeServices Atlantic Portugal	Lisbon	Portugal
Berkshire Hathaway HomeServices Portugal Property	Vilamoura	Portugal
Berkshire Hathaway HomeServices Gulf Properties	Dubai	United Arab Emirates
Rubina Real Estate & Rubina Real Estate GmbH	Berlin	Germany

Source: Elaboration from Addendum to the Franchise Disclosure Document

BHHS, started its international expansion after having mastered the franchising business format in their home market, as [Petersen and Welch \(2000\)](#) would have suggested. However, the international expansions did not start as one would imagine by launching the first operation close to the home market either geographically or culturally. As a matter of fact, the very beginning of the international expansion happened in 2018 with Berlin-based Rubina Real Estate GmbH, BHHS first international franchisee. This move can be explained by the investing activities which Warren Buffet was already undertaking in Germany, in fact, Berkshire invested in motorcycle gear and accessories shop Detlev Louis Motorrad-Vertriebs in 2015 and Wilhelm Schulz, a piping firm, in 2017 through its Precision Castparts unit. Nevertheless, this move marked the beginning of BHHS international franchising. By

retracing BHHS expansion activities throughout press releases and journal articles it is possible to retrieve a complete path of what BHHS have been doing until now. Right after Berlin, BHHS established a franchisee in London (UK), a closest one in terms of cultural distance, ending 2018 with two international franchisees. In 2019, the franchising operations moved east by setting up 3 new locations first in Madrid (Spain), then in Milan (Italy), and finally in Dubai (UAE). In 2020, the BHHS march did not stop establishing four new international franchisees. This time, the franchising activities were adopted close to the home market. Indeed, two locations in Toronto (Canada) and Montreal (Quebec) were added, together with two new franchisees in Cancún and S. Miguel De Allende (Mexico). Six new franchises were set up in 2021. Before June, four new locations were added to the network: New Delhi (India); Peristeri (Greece); Lisbon (Portugal); and Vilamoura (Portugal). The end of 2021 reported two new expansion activities first in Nassau (Bahamas) and then in Los Cabos (Mexico). Closing the international expansion recap with 2022, the locations added to the roster were Rome (Italy), Puerto Vallarta (Mexico), and Oranjestad (Aruba). From these operations we can observe the very fast pace adopted in setting relationships and new franchisees covering in just four years twelve countries, four continents, and nineteen locations.

It is crucial, however, to reflect on the rationale of why certain expansion plans have been undertaken to understand how BHHS composes its business partner selection process. Starting with its first international franchisee press release ([“Berkshire Hathaway HomeServices Announces First Global Franchisee,” n.d.](#)), we can first have an idea of the typology of real estate agency which BHHS had identify has the best partner to start with in Germany. As a matter of fact, the Berlin based Rubina Real Estate GmbH at the time of the franchise agreement was considered “an award-winning brokerage known for service and operational excellence” and “a perennial honoree for Germany in the prestigious International Property Awards held each fall in London, named Best Real Estate Agency and Best Property Consultant (Marketing) for all of Europe.”. In addition, the German real estate agency was considered a perfect fit due to its business acumen and excellence, together with being a market leader and being superbly positioned in the German real estate market. Gino Blefari, BHHS chairman, explained that this initial expansion was the result of a strategic approach to research which could have been considered the start of the BHHS march. Indeed, from this press release was already clear that a quick expansion was in act, and more franchisees were up to come in the following months.

Another case to examine when looking at the BHHS partner selection process is the first entrance in Italy, the third global franchisee. The international franchise network welcomed Italy in June 2019, and the selected partner was Maggi Group Real Estate. From the official press release ([“Milan Estate](#)

[Agency Maggi Group Real Estate to Join U.S.-based Berkshire Hathaway HomeServices”,nd\)](#) and journal reports ([“Buffett, Nuova Scommessa Sull’Italia. Arrivano Le Sue Agenzie Immobiliari”](#)), it is noticeable again the level of experience and acknowledgment as a well-known operator of residential and commercial real estate serving the areas of Milan as well as Emilia Romagna, Liguria, Lombardy, and Veneto. For BHHS Milan had to be considered a strategic choice since it represents Italy’s financial hub and Europe’s third largest economy. In addition, the real estate agency was a market leader in his area of competence serving what BHHS considers its market segment: high-end and luxury real estates. As goal the opening plan foreseen the inauguration of at least 7-10 offices in the main Italian cities and in some tourist locations over the next five years.

An instance to retrace the strategic approach of BHHS is the expansion in North America as well, with the beginning of the franchising operations in Canada. The Toronto based partner selected was the real estate agency Blue Elephant Realty and represented the fifth global franchisee for BBHS. As per the official press release ([“Berkshire Hathaway HomeServices Begins Franchise Operations in Canada as Blue Elephant Realty Joins Globally Acclaimed Brokerage Network” nd](#)), at the time of the franchise deal, the real estate company employed over 100 real estate professionals and had quickly grown to become one of Toronto's most prestigious and sought-after luxury residential real estate organizations. Specifically, what intrigued BHHS was that agents at Blue Elephant Realty had a well-deserved reputation for offering their clients unmatched, individualized care in addition to a wide range of marketing services.

A final example to analyse the expansion activities of BHHS can be the second franchisee established in Italy, specifically in Rome in 2022. Through the press release ([“Berkshire Hathaway HomeServices Expands Global Presence in Italy”,nd](#)) and newspaper reports ([“Berkshire Hathaway HomeServices Arriva a Roma”](#)) it is highlighted again that the selected partner, Roma Immobiliare, was considered an experienced player in real estate focused on luxury real estates. To further explain this strategic expansion, Christy Budnick (BHHS CEO) explained: "Italy and Rome need no presentation worldwide. The Bel Paese has always garnered incredible and growing interest from foreign investors looking for prestigious solutions. Since our arrival in 2019, our global investors' enthusiasm for the Roman market and all the "flagship" destinations in the world has been growing steadily. The pandemic crisis and geopolitical instability have created shocks, but luxury does not lose its attractiveness. Our growth continues: joining our network means opening a window of opportunity from around the world."

It is now paramount to identify certain recurrent criteria which BHHS look for when selecting a new franchisee. In the first place, a common feature which is selected is the experience of the agency.

Indeed, the average experience among all 19 global franchisees is 20 years. Second, the selected locations are part of a flourishing and coveted market either historically or touristically. The cities in which BHHS expands are part of an ecosystem of locations highly demanded for the real estate market. Another important aspect for BHHS appears to be whether the targeted real estate agencies operate in more than one office and more than one city. For instance, we have previously seen the Milan franchisee which had offices in all of northern Italy, but this feature can be retraced in most of the franchisees. In India, for example, the franchisee establishment allowed BHHS to reach immediately multiple agents which already were serving most of the northern side of India such as Delhi, Mumbai, Chennai, Kolkata, Bengaluru, Hyderabad, Pune, Ludhiana, Ahmedabad, Lucknow, Jaipur, and Goa. Or again, the same pattern was possible to be established in Bahamas by gaining instant access to a network of agents performing in multiple locations like the islands of New Providence, Paradise Island, Eleuthera and Exuma. Finally, two important features appearing to be crucial for BHHS are the customer segment served by the selected partner which must be high-end clients, and the size of the company which should be neither too small nor too big to let the BHHS powerful brand help with the deployment of the partner's full potential.

2.3 The BHHS Business Development Plan

To acquire some meaningful insights into the franchisee development action plan, I interviewed Frank Perdichizzi, the executive and vice president of BHHS Global Business Development. The interview, having the purpose to gain some fresh insights and personal commentary on the actions taken, covered topics such as the beginning of his operations, the desired features for a new partner, the plan of action, and the current goals, together with some of his personal opinions on BHHS practices. To have a glimpse of the kind of people BHHS selects to run the business, Mr. Perdichizzi began his career as a real estate broker of his own real estate company and joined BHHS in 2014 as a sales director, managing the growth of the business in the US. Mr. Perdichizzi took over in 2022 after the exit of BHHS's previous Global Business Developer, Michael Jalbert. He made me clear what his role is about now. Indeed, as a Global Business Developer he has very little responsibility in the United States but when it comes to dealing with the network established in other continents, that is his business. As specific responsibilities of his role, he must make sure that people on the ground, those who actively work as part of the franchising network are happy and efficient. Moreover, he must monitor whether the people in the brokerage system use BHHS resources (logo, processes, platform, etc.) correctly. The beginning of Mr. Perdichizzi activities was the Mexico takeover,

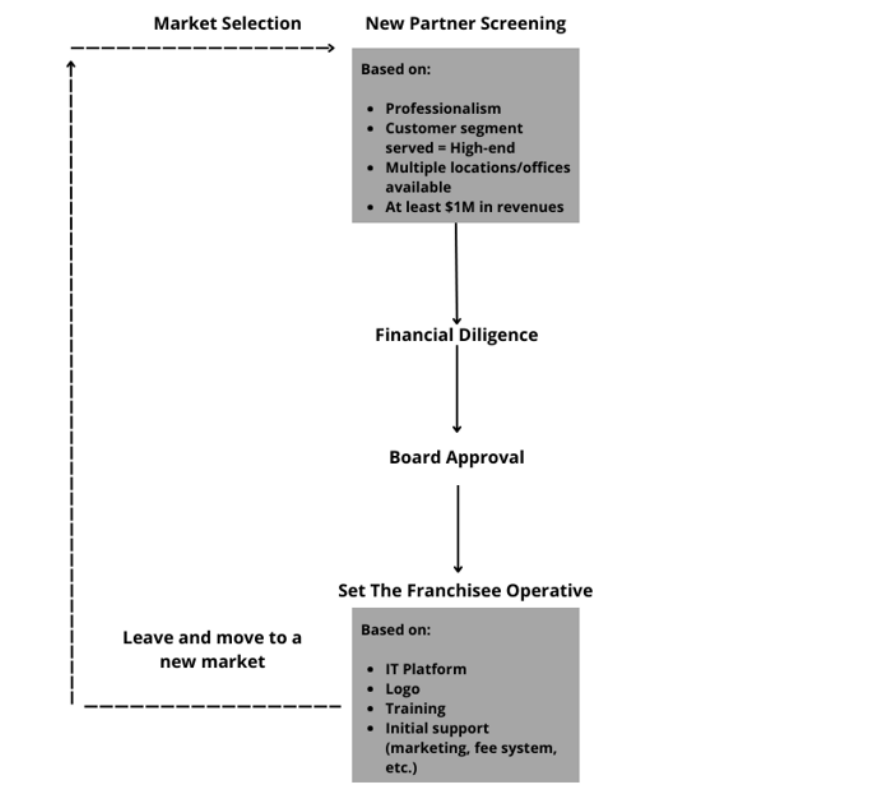
establishing the franchisees in Cancùn, San Miguel de Allende, and Cabo. It is now his mission to develop the network in France, the Netherlands, and then progressively move towards east. As he reported to me, “to resume my work in a nutshell, I have to find a good market, a good partner in that specific market, set the basis, and then let him/her take the lead while I go somewhere else”. As features and characteristics described by Mr Perdichizzi to succeed in such a role he declared “you need someone who loves people and is able to start relationships to create a network”. Giving a real-life scenario he explained “for instance, when I am in a new market in which I am willing to start operating, the first thing I do is to put my tennis shoes on, and do four miles of the city to understand where I am. In the meantime, I keep track of all real estate agency companies I notice. So, when my four miles are done, I change my clothes and go talk to all those people and start making relationships. This process in my opinion needs up to two years”.

For what concerns the characteristics required from the BHHS Global Business Developer for becoming a new partner, Mr. Perdichizzi referred to the Jim Collin’s “Good to Great” book rationale in examining good companies and comparing them with great ones to understand the gap. The process is about starting with the “who” and then move to the “what”. Therefore, when he starts establishing a network in a new market, he first thinks about “who” stood up to him in a professional way so that could take the BHHS’ brand and do no harm to it. Following is the “what”, and the question asked to himself is “what is it going to take to get them on team?”, to understand this aspect he goes talk to them to establish a relationship. For instance, he explains “When I was in Cabo (Mexico), I talked to 28 brokers. They were all nice, but only one of them had what I believed everything a person needs to be good in this business. He had charisma, he was very professional in his business, and dealt with very high-end customers. Therefore, there was a perfect alignment of goals, and I knew he was the right guy. I met a lot of nice people but there was not an alignment of goals and expectations (e.g: the offices were not good looking enough; delays in paying employees, etc.)”. The BHHS’s Global Business Developer has a certain degree of autonomy when it comes to selecting a new partner. Indeed, as Mr. Perdichizzi remarked, he has a broad range of action but still having a little bit of guidance. The real estate companies which he takes over must make at least one million dollars in revenues. BHHS believes that it is a good parameter to start with to ensure the stability of the business of interest. In any case, when it is time to seal the deal, he had prepared a whole book about the company of interest to present it to the Board of Directors. As he ensures “majority of the times the board trusts me, but the one I do is more of a heart check. I do believe in the people I select, and I believe in them because I spent a lot of time with those people. I may take a three-hours flight just to have lunch with them and come back, this is essential to build good relationships”. However, it is important to consider the aspect of the brand. Indeed, Berkshire Hathaway is one of the most famous

and renowned companies in the world, but still, among average consumers or European countries it has not the same aura it has in the US. Indeed, it is crucial to understand how BHHS empowers its brand whenever it operates in a market where it is not considered as it should be. On this topic Mr. Perdichizzi clarified “it really depends on the market you pick. We may have a very good name, we have Warren Buffet, Berkshire Hathaway, and all those magazines ranking us as top firms in the world, but when I talk to people who I want to be franchisees and I must be sure that they understand their part in it. I always tell those people that my job is to give them a Ferrari, but they must drive them, put gasoline in it, and maintain it”. An aspect which is dear for BHHS is the marketing as a way to keep the name and business on top. Referring to the Portuguese franchisee, the Global Business Developer explained “I visited them last month. As soon as I got off the plane, I saw BHHS advertisements everywhere. I got to the taxi station and saw ten taxis with our advertisements on it. So, he has taken the Ferrari and has been driving it. But again, it is their job to take advantage of the brand. Therefore, part of my job is to clarify to the franchisees what the expectations and responsibilities are, but if they know it upfront, typically, they grow quickly”.

The path followed by the BHHS Global Business developer may be illustrated as follows:

Figure 7: BHHS Partner Selection Process



Source: Own Elaborations

It must be considered the way of doing the same business in different countries as well. As matter of fact, when attaining to the franchising business format, most of the times is up to the franchisee to operate as they believe is the best way possible since they know the market the better. Moreover, in certain businesses such as real estate, people tend to trust more the agents they found more professional and helpful for their needs rather than the agency. Mr. Perdichizzi and BHHS are very aware of the different ways of conducting the real estate business and the law enforcement practices in other countries. For instance, he drove me in his conscious description of the real estate practices in the countries in which he sets partners. “In Italy, to become a real estate agent you are supposed to go to school, attend some courses and get the real estate licence. The fact is that very few Italians have their real estate licence, they pretend to be agents and there is no one who enforces in any way the law on real estate licences. In America is a completely different story, you cannot sell any property without a license which is given to an agent after 120 hours in real estate education, half of it being in contract law.” Finally, on the Rome entry of BHHS he gave some insights of the rationale of the market selection. “I believe this is a very good market to make business. Italy has the highest percentage of houses owned by the same individuals. Or else, in Italy youngsters stay at their parents’ home for a longer period of time and when they have saved enough money, they move out to buy. Therefore, I believe the Rome expansion is a great move to get more and more competitive in an interesting market”.

Now, to have a clear picture of the BHHS partner selection process, it is helpful to examine the other side of the coin. Indeed, we can gain interest insights from who was chosen as an international franchisee. The short interview I had with the CEO of the Rome’s agency selected as BHHS partner in 2022, Roma Immobiliare, helped in this task. Mr. Francesco Minervini is a two years BHHS franchisee now, and he gave me some guidance in understanding the franchisee’s point of view together with his personal opinions on this business format. First of all, as previously seen, the desired partner responded to some criteria such as a relevant experience in the sector. As a matter of fact, Mr. Minervini started his journey in real estate 21 years ago and he started his real estate company “Roma Immobiliare” back in 2008. In his resume, he can count on his knowledge of dealing with high-end customers and real estate, and his company’s three offices in Rome give him a range of action in the broader area of the city. A curious fact is that he started his real estate company to escape from the possibility of becoming a franchising in the previous agency where he was employed as a real estate agent. On the process of how he became a BHHS affiliate, he explained that it was a very smooth operation. He was contacted by representatives of BHHS and talked back and forth to find the solution which best suit everybody before officially becoming a franchisee. “It is important to highlight that this franchising is not restricted to a limited territory in the city. We are free to manage ourselves in

the best way possible knowing that we are representing the BHHS brand” he explained on the reason of accepting the franchising option. To further clarify on why he accepted becoming a BHHS franchisee while he first rejected this business format back in the days, he continued “I was intrigued by the possibility to represent a huge brand such as BHHS which is one of the most renowned companies in the world. Moreover, I thought my brand (Roma Immobiliare) had reach the maximum of its aspirations and a collaboration could have boosted my agency’s growth, since the real estate market is more and more moving towards globalization”. On what he thinks on why he was the chosen one for the BHHS Roman expansion, he confirmed what it already clear “they were looking at seven agencies in Rome that were good for them. They needed an agency with experience in the luxury and high-end segment, with nice offices and well positioned, which was not too big to take over, and with a certain structure that could be boosted by the BHHS’brand. We were chosen because we met all the requirements”. A final aspect to consider is the power of the brand on the new franchisees, but as we said Italy is not a country where all America biggest companies are known and admired, and Berkshire Hathaway is not one them. However, for the specific target addressed by BHHS, the brand is helping the franchisees in growing quickly. Mr. Minervini said “Surely, BHHS is not well known in Italy like Disney or Coca-Cola. We are pushing to let the people know. Nevertheless, concerning high-end customers the brand is a blessing, people know it and appreciate it, so it is easy to capture these targeted clients. Then, it is also true that my agents are the most important assets for BHHS, they are the ones which people trust and they promote the BHHS brand on a daily basis”. Finally on Mr.Perdichizzi’s “ drive the Ferrari”, Mr. Minervini commented “ it is true but certain consideration has to be made. Certainly, in America the company can be considered a Ferrari but in Italy is different, it has not reached this status yet. We are trying to drive it at our best but in this country the gasoline is more expensive”.

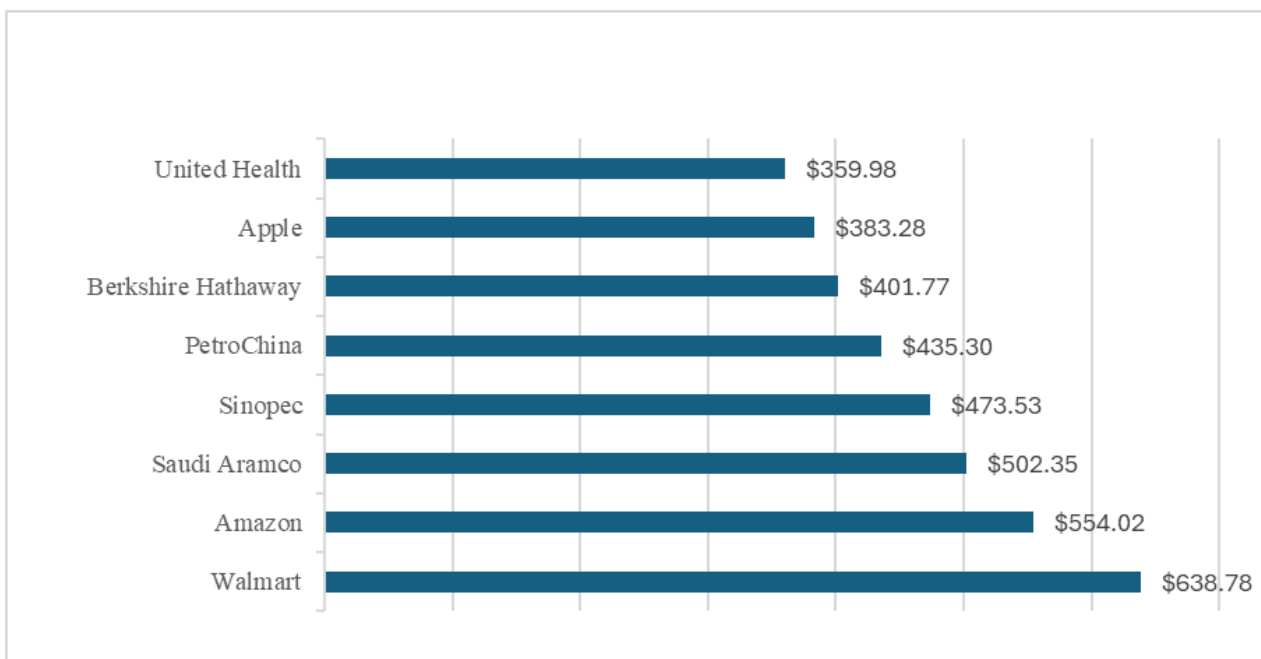
3. THE CASE

3.1 Company Overview

When discussing Berkshire Hathaway Homeservices, it is critical to first explain its parent business, Berkshire Hathaway, which is one of the most followed, admired, and copied holding company in history.

Berkshire Hathaway, as said, is a diversified holding company headquartered in Omaha, Nebraska. It is the sixth largest company in the world by revenues ([Statista,2023](#)), with total revenues in 2023 equal to \$401.77B.

Figure 8: The Largest Companies in the World Ranked by Revenue in 2023 (in Billion U.S. dollars)



Source: Statista, 2023

Its CEO and chairman, Warren Buffet, according to the Bloomberg Billionaires Index ([Bloomberg, 2024](#)), as of the 6th of April 2024, is the seventh richest man in the world with an estimated total net worth of \$138B.

Originally established in 1839 as a textile company, it underwent a dramatic restructuring in 1965 and became a conglomerate, led by Vice Chairman Charlie Munger (until 2023) and Chairman and CEO Warren Buffett. Insurance serves as the company's primary line of business and primary source of capital. The float, or retained premiums, from this sector are invested in a variety of subsidiaries,

equity positions, and other assets. Among its business and investments, the insurance and reinsurance business activity is pivotal. It's startling to learn that Berkshire Hathaway is the world's largest firm that owns multiple businesses. In recent years, Warren Buffet has assisted the corporation in the acquisition of numerous enterprises. Berkshire Hathaway possesses around 70 businesses in a variety of industries. Indeed, Berkshire Hathaway's presence ranges from businesses such as financial services (American Express, Bank of America), beverages (The Coca-Cola Company), pharma (GlaxoSmithKline), apparel (Fruit of the Loom), construction (Acme Brick Company), technology (Apple), energy (Berkshire Hathaway Energy), real estate (HomeServices of America) and more. To highlight its overall activities, the company owns 100% of GEICO, BNSF, Lubrizol, Dairy Queen, Fruit of the Loom, Helzberg Diamonds, FlightSafety International, and NetJets, as well as significant minority stakes in Kraft Heinz Company, Mars, American Express, The Coca-Cola Company, Wells Fargo, IBM, and Restaurant Brands International.

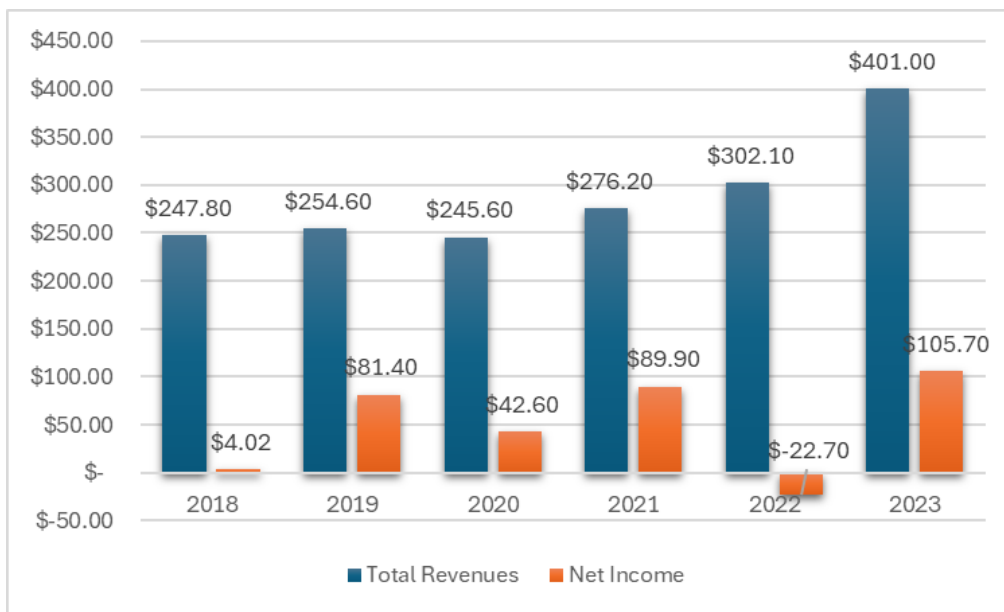
Table 4: Berkshire Hathaway Subsidiaries

Insurance & Finance	Berkshire Hathaway Assurance, BoatUS, Berkadia, Central States Indemnity. GEICO, General Re, Kansas Bankers Surety Company, Medical Protective. National Indemnity Company, United States Liability Insurance Group, Wesco Financial.
Clothing & Household Items	Brooks Sports, Fechheimer Brothers Company, Fruit of the Loom, Garanimals. H.H Brown Shoe Group, Justin Brands, Oriental Trading Company.
Material & Construction	Benjamin Moore & Co., Cavalier Homes, Clayton Homes, Forest River, International Metalworking Companies (IMC). Johns Manville, Kern River Pipeline, Lubrizol, MiTek. Northern Natural Gas, PacifiCorp, Precision Steel Warehouse, Inc. Richline Group, Russell Brands, SE Homes, Shaw Industries, TTI Inc.
Media & Logistics	BNSF Railway Company, Business Wire, Charter Brokerage, McLane Company, Omaha World-Herald, WPLG-TV
Food & Beverages	Dairy Queen, Pampered Chef, Pilot Flying J, See's Candies, H. J. Heinz Company.
Others	AltaLink, Ben Bridge Jeweler, Berkshire Hathaway Automotive, Borsheim's Fine Jewelry, CTB Inc, Berkshire Hathaway Energy. Ebby Halliday Companies, FlightSafety International, Helzberg Diamonds. Larson-Juhl, Louis Motor, Marmon Group, NV Energy, Scott Fetzer Company.
Business Services	NetJets, Precision Castparts Corp., XTRA Lease, NetJets Europe.
Furniture	Jordan's Furniture, Nebraska Furniture Mart, CORT Business Services, RC Willey Home Furnishings, Star Furniture.

Source: Elaborations from Annual Report, 2023

In table 4, is a comprehensive recap of the major business activities in which Berkshire Hathaway has a stake. These brilliant operations over the years have more and more established the company’s reputation as a solid, worth investing in, and well-managed corporation. Looking at the results of the last six years (Figure 9), it is noticeable the constant growth of total revenues resisting, thanks to its investments, to big shocks such as Covid.

Figure 9: Berkshire Hathaway Total Revenues and Net Income (in Billions)



Source: MarketLine, 2024

To understand how such a big entity has exceptionally been managing itself, it is helpful to have a look to its management creed. From the last Berkshire Hathaway annual report (2023), a few principles can be extrapolated.

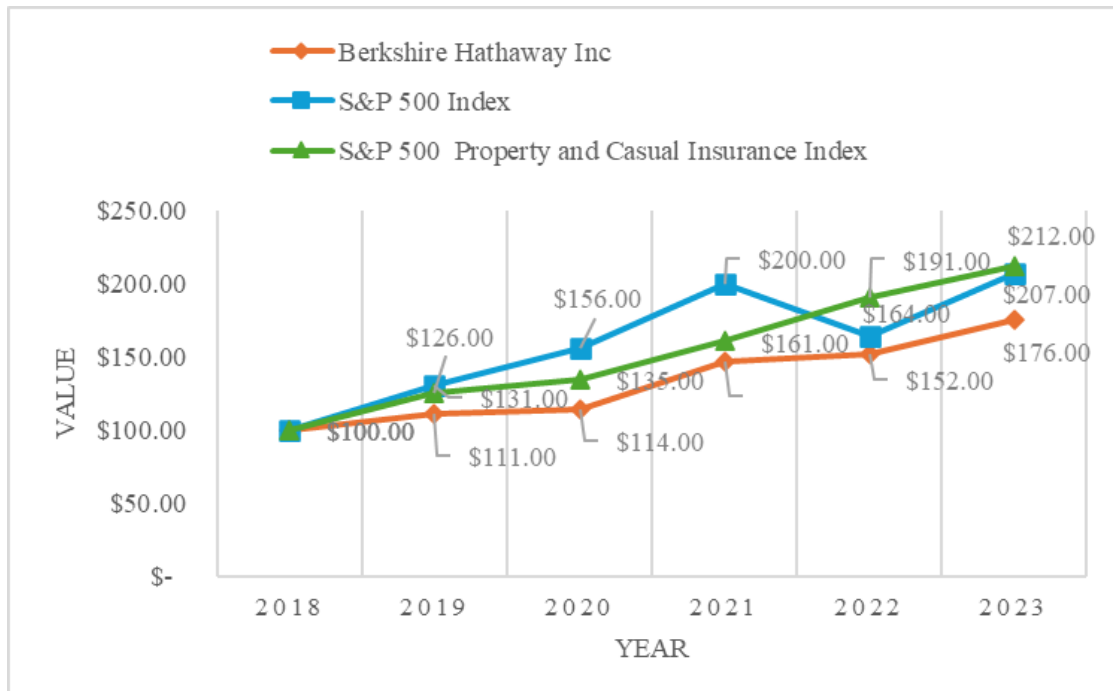
The operational divisions of Berkshire are run in an exceptionally decentralized manner. Few corporate functions are connected or centralized. The senior management group at Berkshire is involved in and ultimately in charge of making important decisions about capital allocation, investment activities, and choosing the CEO to lead each of the operational businesses. Senior management at Berkshire is also in charge of creating and overseeing the company's corporate governance policies. This includes keeping an eye on governance initiatives, including those at the operational companies, and taking part in any necessary problem-solving connected to governance. The Board of Directors of Berkshire is in charge of appointing a qualified successor to the Chief Executive Officer. Berkshire’s corporate governance is regulated through an official code, the

Berkshire Code of Business Conduct and Ethics, which establishes fundamental guidelines for its employees' moral and legal behaviour, among other things. It also highlights the importance of adhering to legal and ethical requirements.

Another fundamental aspect to take into consideration in the management of this huge holding company is human resources. As a matter of fact, Berkshire Hathaway including all its business must deal with a workforce close to 400,000 people. By the end of 2023, Berkshire and its subsidiary business units employed approximately 396,500 individuals globally, with about 80% of those workers based in the United States. Workers are involved in a broad range of professions. In line with its decentralized management approach, each of Berkshire's operational companies sets up its own procedures and policies for luring and keeping employees in their respective workforces. Certain rules and practices may differ significantly throughout Berkshire's operating subsidiaries due to the considerable variances in the type and scale of business activity. Keeping a safe workplace and reducing or eliminating workplace injuries are just a few of the issues that policies and practices typically address. Other issues include wellness programs; competitive compensation that concern benefits like health insurance and retirement plans as well as incentives to recognize and reward performance; training, learning, and career advancement opportunities; and hiring procedures designed to find qualified candidates and encourage diversity and inclusion in the workforce.

A final consideration can be done on Berkshire Hathaway's shares management, in fact, the company reflects its CEO's philosophy of long-term and value investing. Indeed, Berkshire has not declared a cash dividend since 1967. As of February 12, 2024, Berkshire had about 1,200 record holders of its Class A common stock and 18,000 record holders of its Class B common stock. Record owners included nominees holding at least 323,000 shares of Class A common stock and 1,307,000,000 shares of Class B common stock on behalf of beneficial-but-not-of-record owners. In figure 10, the stock performance graph of Berkshire Hathaway. The value of \$100 invested in Berkshire common stock on December 31, 2018, is compared in the chart to an equivalent investment in the Standard & Poor's 500 Stock Index and the Standard & Poor's Property & Casualty Insurance Index. It is challenging to create a peer group of businesses that are comparable to Berkshire as the company owns subsidiaries involved in a variety of different business ventures, the property and casualty insurance industry being one of the most significant. In light of this, Berkshire makes use of the Standard & Poor's Property & Casualty Insurance Index when making comparisons.

Figure 10: Berkshire Hathaway's Stock Performance



Source: Berkshire Hathaway's Annual Report, 2023

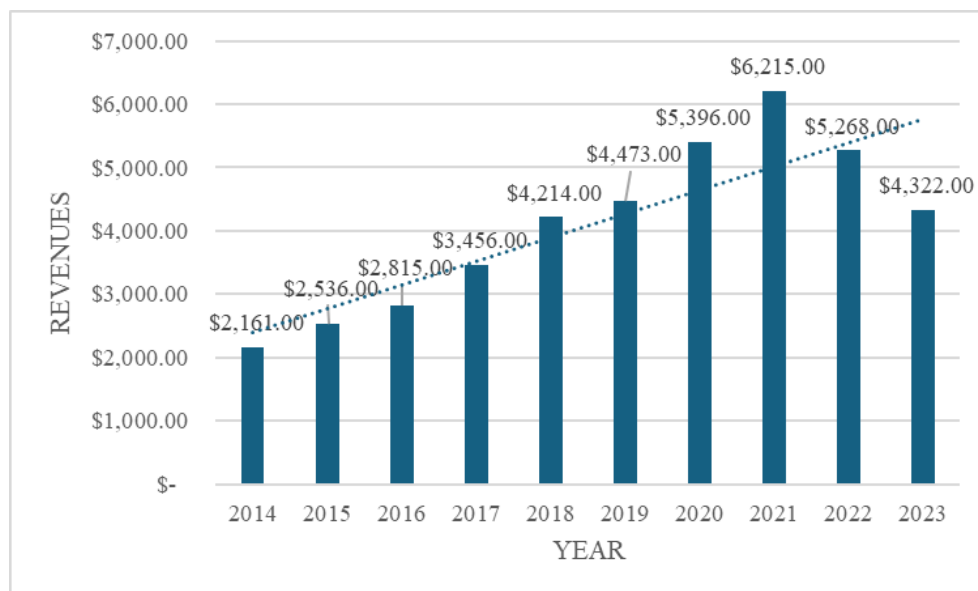
3.2 HomeServices of America

Among the variety of business lines managed by Berkshire Hathaway is Real Estate, which goes by the name of HomeServices of America. In fact, Berkshire Hathaway HomeServices, of which it has been talked about in chapter 2, must be intended as a brokerage franchise network, legally speaking, a limited liability company established on November 14, 2012, under the laws of the State of Delaware, USA. The main activity of BHHS is to franchise the right to use the Berkshire Hathaway HomeServices name and the system in the operation of a real estate brokerage business (a “BHHS Brokerage”), hence, it may also be considered a master franchising company.

However, the ultimate controlling company of the brokerage network is HomeServices of America, ultimately controlled by Berkshire Hathaway Energy, ultimately controlled by Berkshire Hathaway Inc. HomeServices of America is one of the biggest residential real estate brokerage companies in the United States and a fully owned subsidiary of Berkshire Hathaway Energy. Currently, HomeServices' franchise network, mostly in the United States, consists of over 300 franchisees and over 1,500 brokerage offices with about 48,000 real estate agents operating under two brand identities. HomeServices offers advertising campaigns, orientation programs, training and consulting services, and other services in exchange for a set of fees. It also grants the right to use the Real Living or

To see the powerful effect of the brokerage network of Berkshire Hathaway HomeServices, going through the financials may be useful. A nine-year time frame is considered. The choice of starting analysing the Real Estate revenues of Berkshire Hathaway from 2014 onwards is given by the will to notice the impact of domestic and international franchising activities. Indeed, taking into consideration domestic franchising activities, from 2014 to 2017, a 59% increase in revenues is noticed. In addition, considering international franchising activities as well (first year 2018), revenues from real estate reached a peak in 2021 exhibiting a 79% increase compared to 2017. Instead, operating revenue dropped \$947 million in 2022 compared to 2021, mostly as a result of reduced \$637 million in income from brokerage and settlement services and \$305 million in revenue from mortgages. A decrease of 11% in closed transaction volume, primarily from 23% fewer closed units at existing companies as a result of rising interest rates and a corresponding slowdown in home sales, offset by acquisitions and a 7% increase in average sales price, was the cause of the decline in brokerage and settlement services revenue. A 40% drop in financed volume, due to a downturn in refinance activity brought on by rising interest rates, caused the decreased mortgage revenue. Nevertheless, constant growth is highlighted with a CAGR of 7.18%, evidencing a structured and well-thought approach to real estate franchising.

Figure 12: Berkshire Hathaway Real Estate Revenues (in millions)



Source: Berkshire Hathaway Energy Annual Report, 2023

3.3 The Real Estate Market

Having laid the groundwork by examining the company's operations and strategies, it is useful now to pivot towards the broader context of the real estate market, exploring its complexities and significance within the framework of international franchising endeavors.

Starting with the basics, the market is said to be in an equilibrium state when there are about the same number of properties for sale as buyers seeking to buy a home. The exchange of properties, including commercial (like office buildings and industrial properties) as well as residential (like houses and flats), is referred to as the real estate market. This market includes leases and real estate valuations in addition to property sales. Apartment and home leases are the two categories under which the residential real estate market is subdivided. The residential real estate market includes both real estate transactions and leases.

A pivotal aspect to the proliferation of the real estate market is the amount of FDI it receives. [Fereidouni and Masron \(2013\)](#), recall that foreign real estate investment is a crucial factor in assisting a host country's economy by providing financial resources, offering services in terms of quantity, pricing, quality, and diversity, and bringing in extra rivalry, creating jobs, and bringing in technology. The authors, throughout an analysis of a sample of 31 developed countries and emerging market economies during the period 2000 – 2008, found determinants impacting the development of the real estate market. For instance, the level of infrastructure, meaning, how much a country is developed to sustain investments, positively affects foreign real estate investment. Interest rates are found to be determinants of real estate investments. Indeed, countries with higher mortgage rates tend to attract fewer investors in the market. Another determinant affecting the market is transparency. The less “corrupted” and fairer the market is perceived, the more investors are attracted. Property prices are also found by the authors as a pointer for real estate investment. The higher the prices, the more the foreign real estate investments, underlying that foreign real estate investors pursue return on capital. A final mention can be made on what was not found significantly relevant as a determinant of the market by the authors. Indeed, political stability and market size do not have significant associations with real estate investments.

As showed in the “Residential Real Estate: market data & analysis” report ([Statista,2023](#)), Due to rising borrowing prices and significant inflation, the global housing market has stagnated. Owning a real estate property is one of the most widely recognized symbols of personal satisfaction. It is a long-term investment as well as a source of stable housing. Property values increased following the global

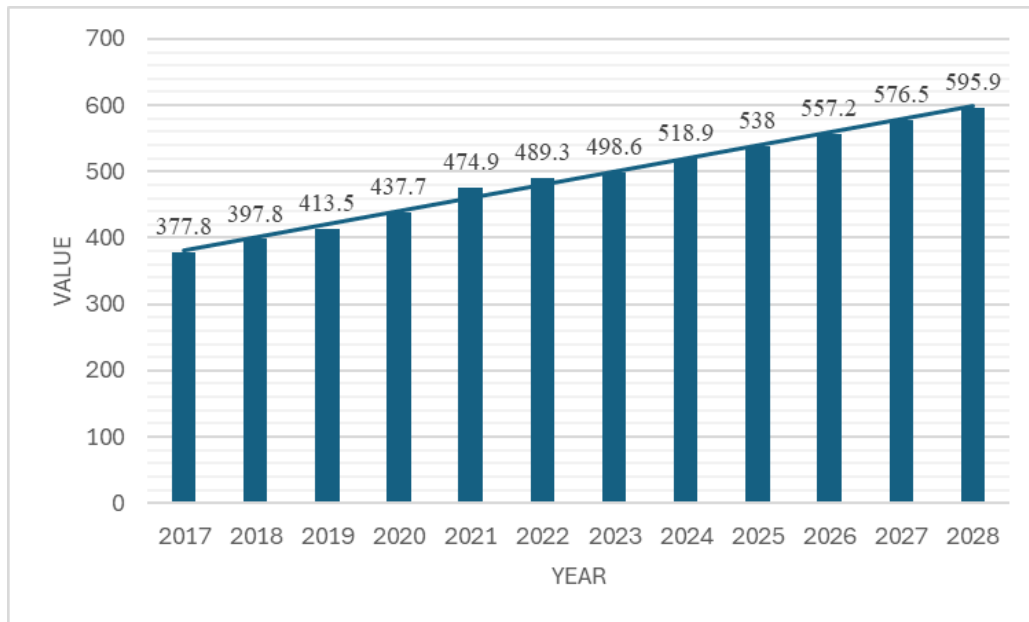
financial crisis, particularly in developed economies. After that, the home market experienced a growth trajectory for over ten years, which culminated in the housing boom that coincided with the COVID-19 pandemic. However, the market has cooled as a result of housing shortages in fiercely competitive markets, recent quick increases in home prices, skyrocketing inflation, and, as a result, some of the highest mortgage interest rates seen in the previous ten years.

Among the macroeconomic factors influencing the real estate market, there are certain recurring indicators that may be considered fundamental when analysing the market. The employment rate is certainly one of the most common pointers of the industry, hence, the more people employed the more stable incomes exist in the market allowing people to afford buying or renting properties. Interest rates are crucial indicators as well. Lower interest rates lead to easier access to credit, which allows people to increase demand for properties and increases borrowing. On the contrary, higher interest rates shrink the demand for houses and reduce borrowing. Demographics also have to be considered when investigating the real estate market. Factors such as age, income, and family size may influence the demand for a certain type of housing. For instance, younger families could be more inclined to go for larger homes with greater facilities, whereas an aging population might choose smaller homes or condos. An obvious indicator is the market balance, it is to say, housing supply and demand. The lower the available houses in the market the higher the prices will tend to be. Consumer confidence is another aspect influencing the real estate market. Generally speaking, high confidence encourages more investment and expenditure, especially in the real estate sector. A final macroeconomic indicator which plays a huge role in all industries is inflation. There are various ways in which inflation may impact the real estate market. Low levels of inflation can make it simpler for buyers to afford homes, while high levels of inflation can result in higher borrowing rates and less demand.

In recent years, the real estate market has been experiencing trends driven by a variety of factors and circumstances. The first trend is the shift towards suburban areas. People are more and more starting to move out of cities to live in residential areas. The demand for greater room, more affordable accommodation, and the flexibility to work remotely has propelled this trend. As a result, demand is rising in certain suburban areas while it is falling in other metropolitan districts. Another trend taking place in the real estate market is the increase in research for sustainability. People are more and more demanding for energy efficient housing lowering the impact to the environment. A final trend to be considered is the increase in demand for rental properties. This tendency is taking place particularly in suburban areas. A desire for greater flexibility in living arrangements, the high expense of housing, and student loan debt are some of the causes driving this trend.

In Figure 13, the global residential real estate value.

Figure 13: Global Residential Real Estate Value (in trillion USD)



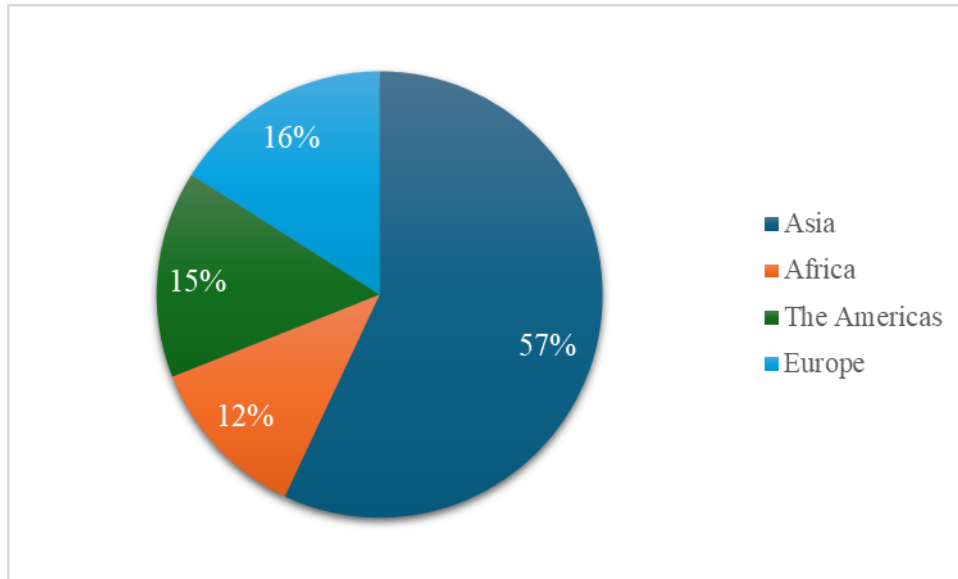
Source: Statista "Residential Real Estate: market data & analysis" report, 2023

The global residential real estate market closed in 2023 with a total value of \$498.6 T, it is expected to constantly grow with a CAGR of 4.2% and reach in 2028 a value of \$595.9 T.

The residential real estate accounted for 81.38% of the real estate market in 2022. It is important to see which are the countries leading and more and more pushing the real estate market to see where the real action takes place. According to Statista's report, five countries are playing the starring role in the real estate industry: China; US.; India; Germany; and Japan. As of 2022, the market was dominated by the Asian continent with China, India, and Japan reporting a residential real estate transaction volume of respectively 537 million, 311 million, and 62 million. Whilst, for the Americas continents, the U.S. represented the biggest chunk of the cake with a transaction volume of 150 million. Concluding with Europe, Germany has registered the biggest amount of real estate transactions which corresponded to 46 million.

In Figure 14, the continents that play a major role in terms of residential real estate transactions. As anticipated, it is Asia which dominates and lead the market with 57% of transactions. It follows Europe, the Americas, and finally Africa.

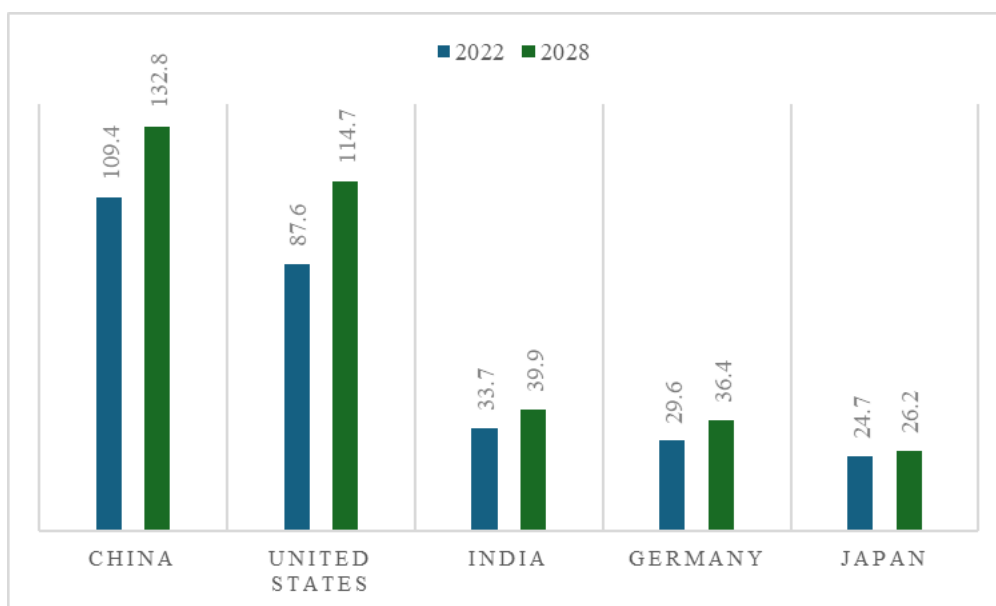
Figure 14: Residential Real Estate Volume Comparison (in million, 2022)



Source: Statista “Residential Real Estate: Market Data & Analysis” Report, 2023

In Figure 15, the projection for the residential real estate value up to 2028. The situation is expected not to change dramatically from what it currently is, with China dominating the market. However, the U.S. and Germany will grow at a faster rate with a CAGR of respectively 4.6%, and 3.5%. China will continue to grow at a CAGR of 3.3%, India at 2.8%, and finally Japan at 1.0%.

Figure 15: Residential Real Estate Value Projections (in Trillion USD)



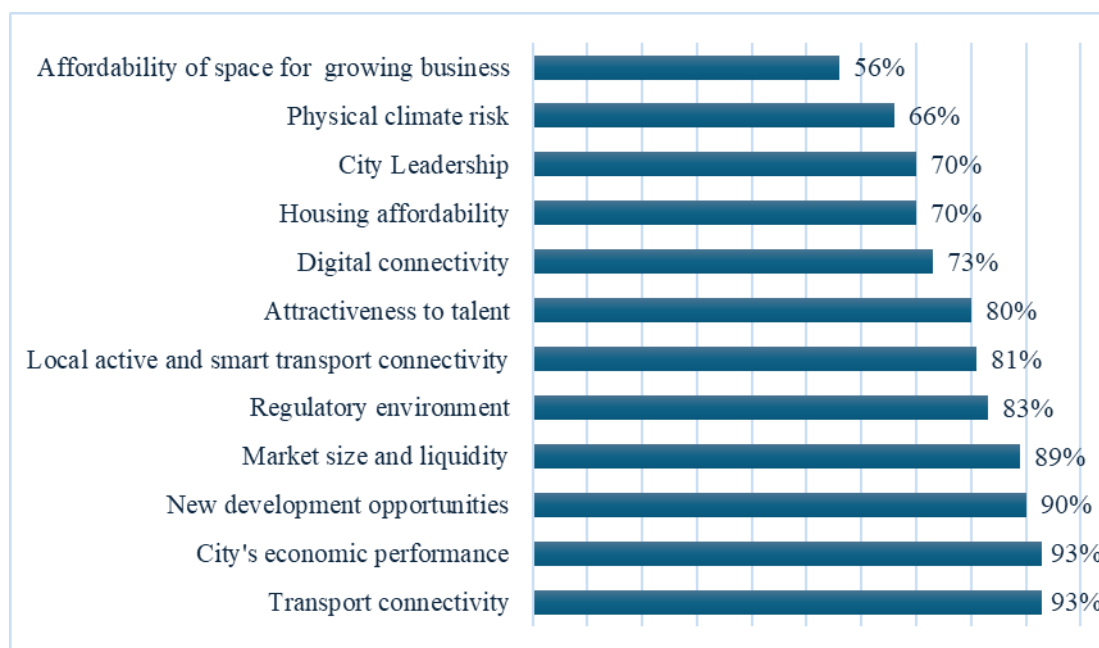
Source: Statista “Residential Real Estate: Market Data & Analysis” Report, 2023

To conclude this general analysis of the residential real estate market. A further focus on one of the continents could be useful. For instance, a focus on Europe may help for simplicity and out of habit.

An interesting insight on Europe's residential real estate market are the determinants for real estate investment in a specific European city. It is to say, there are numerous elements to consider before an investor or developer chooses a location. Statista, with a survey collecting over a thousand responses developed the list of the most important factors for selecting a European city for real estate investment in 2024. According to the survey, the most essential variables to examine for 2024 were the city's transportation connectivity, economic performance, and the availability of assets or chances for development.

In figure 16, all the factors considered in the survey.

Figure 16: Factors for Selecting a European City for Real Estate Investment or Development in 2024



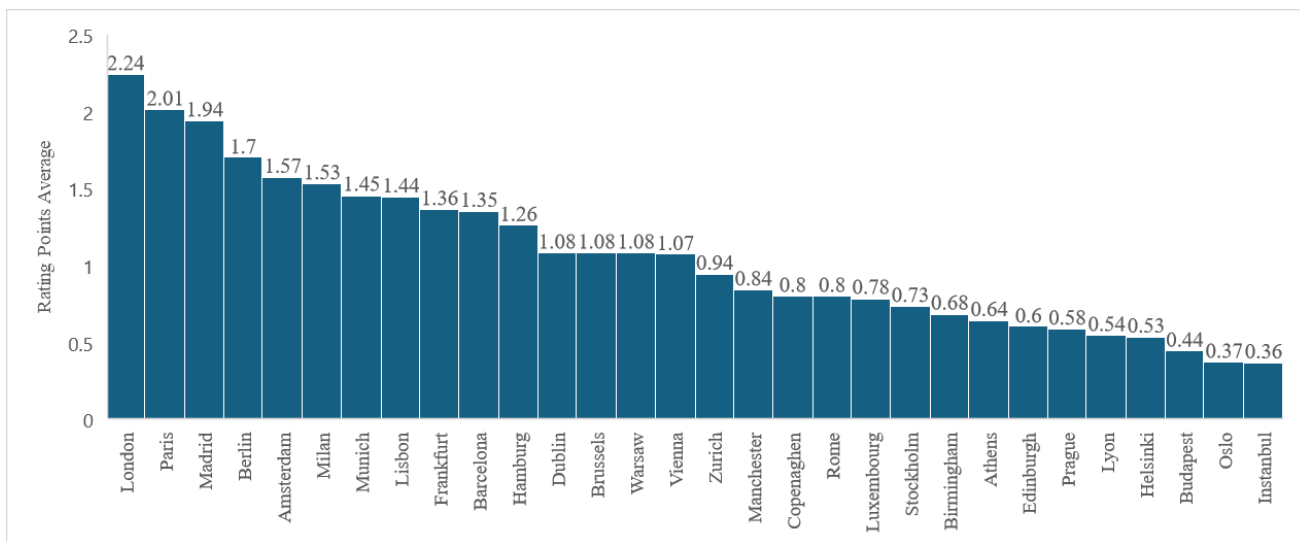
Source: Statista, 2023

By applying these factors as drivers for ranking cities, the actual ranking was made up showing best cities for real estate investment and development in Europe in 2024. London, Paris, and Madrid are the three European cities with the best overall outlook for 2024. The main challenges influencing real estate professionals' investment decisions were also building costs, capex requirements, and environmental sustainability criteria.

In Figure 17, the select leading European cities ranked by overall prospects in the real estate market in 2024.

The scores were computed by taking into consideration all the determinants seen in the previous Figure. The highest-scoring areas for investment opportunities were new energy infrastructure, health sciences, and data centers. This should come as no surprise given that the value of investments in industrial and logistical real estate in Europe has surged by more than three times since 2012.

Figure 17: European Cities Ranked by Overall Prospects in the Real Estate Market in 2024



Source: Statista, 2023

3.4 BHHS Competitor analysis

To fully understand the impact of Berkshire Hathaway HomeServices in the real estate market it is appropriate to compare its results with someone who has been a master in high-end real estate for decades.

A profile that matches this description is surely Engel & Volkers, the company is operative since 1977 and it is headquartered in Hamburg. It operates internationally exactly as BHHS by having established a series of franchised offices and company-owned operations. In 1990, Palma de Mallorca became the first location outside of Germany. The Engel & Völkers brand could then be used by independent brokers as a licensee partner. In 1995, the Engel & Völkers firm standardized its whole branding in anticipation of the 1998 launch of the franchise system.

Domestically, Engel & Volkers presence is deeply rooted. The company operates in all 16 German states and has outlets in 392 locations as of 2024.

In table 7, the count of all Engel & Volkers' domestic outlets. On the national territory, Engel & Volkers have developed a similar approach to BHHS (which has 276 US outlets) by aiming for widespread expansion in its own country.

Table 5: Engel & Volker's' Domestic Outlets

STATE	NUMBER OF OUTLETS
Baden-Wurttemberg	55
Bavaria	54
Berlin	14
Brandenburg	16
Bremen	5
Hamburg	12
Hesse	33
Lower Saxony	41
Mecklenburg-Vorpommern	20
North Rhine-Westphalia	72
Rhineland-Palatinate	15
Saarland	3
Saxony	8
Saxony-Anhalt	4
Schleswig-Holstein	31
Thuringia	9
TOT	392

Source: www.engelvoelkers.com

For what concerns the global expansions, instead, Engel & Volkers is ahead of BHHS due to its consolidated presence in the business for 40 years. Indeed, the German real estate company is operative in 5 continents: Europe; North America; South America; Asia; and Africa.

In table 8, the comparison of continents and countries in which Engel & Volkers and BHHS operate. Engel & Volkers are way more spread globally than BHHS and it operates in one more continent (Africa). More specifically, Engel & Volkers operates in 5 continents and 36 countries while BHHS operates in 4 continents and 12 countries. The continent which has been more targeted by both companies is certainly Europe in which Engel & Volkers and BHHS are present respectively in 20 and 6 countries.

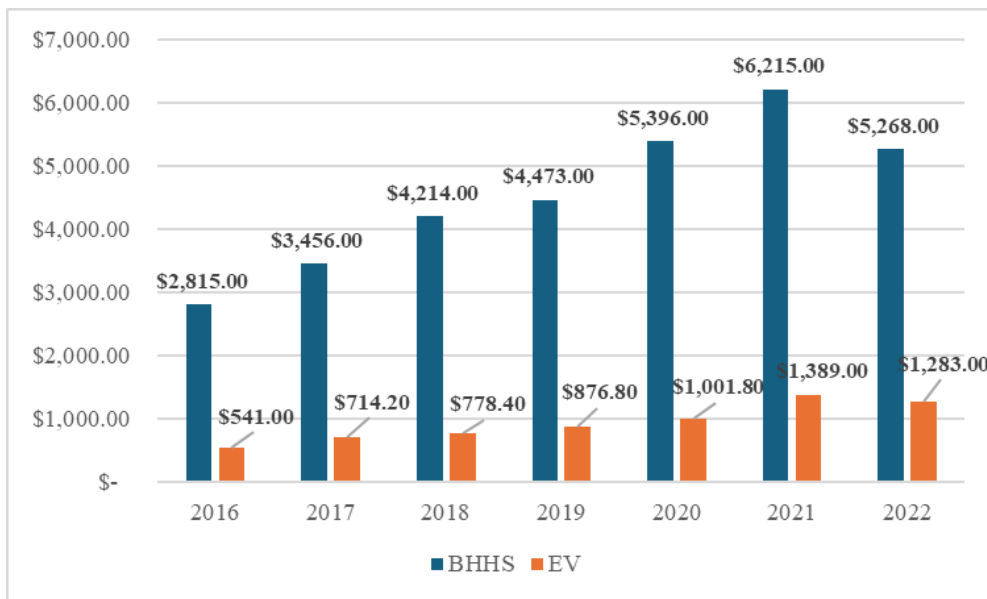
Table 6: Operative Countries for Engel & Volkers and BHHS

Continent	E&V	BHHS
Asia	UAE	India
	Hong Kong	
Europe	Andorra	Germany
	Austria	Greece
	Belgium	Italy
	Croatia	Portugal
	Czech Republic	Spain
	Denmark	UK
	France	
	Germany	
	Greece	
	Hungary	
	Ireland	
	Italy	
	Lichtenstein	
	Luxembourg	
	Monaco	
	Netherlands	
	Portugal	
Spain		
Switzerland		
UK		
North America	Bahamas	Aruba
	Canada	Bahamas
	Cayman Islands	Canada
	Turks and Caicos Islands	USA
	USA	
South America	Belize	Mexico
	Chile	
	Colombia	
	Costa Rica	
	Mexico	
	Panama	
Uruguay		
Africa	Mauritius	DNE
	South Africa	DNE

Source: Own Elaborations

In the global snapshot, these two real estate companies have different approaches to territorial domination. Engel & Volkers surely plays on global presence, indeed, the German company has at least an office in exactly three times more countries than BHHS. On the other hand, BHHS compensates by establishing in every country where it makes business more offices and agents. This strategy could work in the sense of promoting the brand much harder than rivals, and having more agents surely points towards a customer-centric approach in which buyers and sellers have the guarantee of having an agent completely focused on the client's needs. BHHS has a global network of over 45,000 agents dislocated in over 1,500 office locations, while Engel & Volkers has approximately 14,000 agents dislocated in 1,000 office locations.

Figure 18: Revenue Comparison, Engel & Volkers Vs. BHHS (in million USD)



Source: Own Elaborations from Annual Reports

In Figure 21, the revenue comparison between Engel & Volkers and BHHS from 2016 to 2022. It is clear that Berkshire Hathaway HomeServices significantly outperforms Engel & Völkers in terms of overall revenue. Since 2016 BHHS has grown very fast and the international franchising model certainly has boosted revenues. In this 7-year time frame, BHHS has grown with a CAGR of 9.3%, reaching its peak in 2021 with total revenues equal to 6.2 B\$. On the other hand, Engel & Volkers' revenues grew at a faster rate with a CAGR of 13%, but still, BHHS in almost 10 years succeeded in being more profitable than a company in the industry since the 70s.

Certain dynamics may explain all this variance between Engel & Volkers and BHHS. Surely, market presence plays a crucial role. Engel & Volkers is indeed present in more countries, but BHHS is deeply rooted in the countries that, as previously seen, are more lucrative such as the US and India. Another determinant may be the network from which BHHS benefits in the US for showcasing the difference in performance. In fact, in the US, a service called MLS (Multiple Listing Service) is present in which real estate agents can join forces with other professionals to complete a transaction on a house listed and share the profits on commissions. Finally, an aspect which must not be left apart is the diversification nature of Berkshire Hathaway. The conglomerate, providing access to additional resources and financial backing, is fundamental to all the business lines undertaken. Indeed, all franchisees when set up are granted a series of benefits and additional resources by BHHS.

3.5 Setting the franchisee

To establish and make a new franchisee operative, BHHS settles its franchising fee mechanism for each new partner willing to enter the network. The first fee required is the initial fee, the new franchisee will always pay a first fee which is not less than \$40,000. The precise amount varies depending on each potential franchisee. In particular, the charge is determined by the specific market in which the new entry is operating, its annual gross revenues, the number of offices it owns, and the specific cost of entry in the market. When this valuation is done, the new franchisee is given access to BHHS brokerage, meaning, it becomes part of the business from its location utilizing the BHHS marks. Once being part of the brokerage network, the new franchisee is given the right to use the “Berkshire Hathaway Homeservices” service mark and other trademarks. Moreover, BHHS gives to the new partners some initial boost tools to start operating as quick as possible. These initial tools are: marketing; public relations; professional development; conventions and meetings; business consulting; and technology. Indeed, BHHS provides proactive marketing initiatives to support its global franchisee network by establishing, growing, and sustaining brand recognition. The external PR firm and the Global Public Relations and Communications team collaborate with the media to spread news about the network, its franchisees, and sales representatives. In addition, franchisees get access to a training platform that is available in web-based, instructor-led, and virtual instructor-led forms. Real estate professionals can register, monitor, and oversee their professional growth with the network's current “LearnCenter” resource. BBHS also offers events and educational programs that give network professionals access to tools, resources, and viewpoints as well as commercial networking opportunities. For instance, networking professionals can connect with peers and learn about the newest trends in the field by attending the annual sales convention. Moreover, the Network Services team oversees providing franchisees with a range of support services, including training, transition services, business consulting, and referral-channel growth. Finally, with the creation of a Global Network Platform, Berkshire Hathaway HomeServices has created a collection of web tools, apps, and services. A few examples of resources are a mobile app, a custom video production app, a social media platform, a lead generation tool, a marketing and client-contact platform, and more.

These services are always available but in the long run will be continuously paid as fees by the franchisee. However, the most important fees that a new partner must face to be part of the BHHS brokerage network are the continuous royalty and the marketing fee. The continuous royalty is the fee from which BHHS makes his franchising business model work. The continuous royalty fee amounts to a declining percentage of gross revenues. The partner facing this fee is always subject to

a minimum continuous royalty which must be paid monthly. In table 3 it is shown the fee progression table which describes the royalty pattern based on gross revenues.

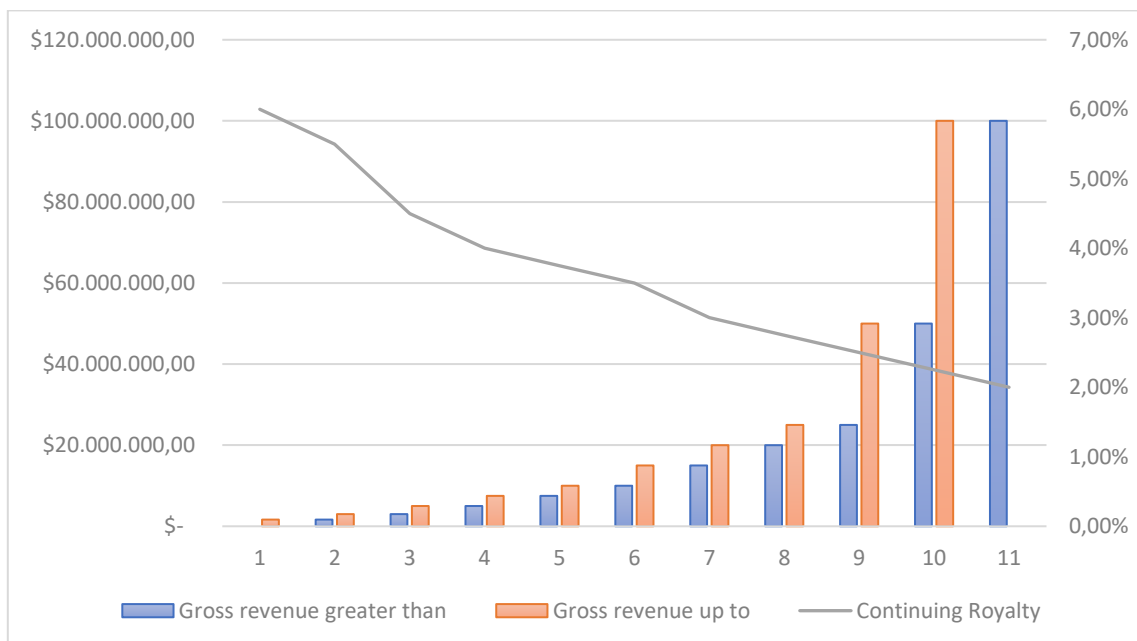
Table 7: Continuing Royalty Fee Progression

Gross revenue greater than	Gross revenue up to	Continuing Royalty
\$ -	\$ 1,650,000.00	6.00%
\$ 1,650,000.00	\$ 3,000,000.00	5.50%
\$ 3,000,000.00	\$ 5,000,000.00	4.50%
\$ 5,000,000.00	\$ 7,500,000.00	4.00%
\$ 7,500,000.00	\$ 10,000,000.00	3.75%
\$ 10,000,000.00	\$ 15,000,000.00	3.50%
\$ 15,000,000.00	\$ 20,000,000.00	3.00%
\$ 20,000,000.00	\$ 25,000,000.00	2.75%
\$ 25,000,000.00	\$ 50,000,000.00	2.50%
\$ 50,000,000.00	\$ 100,000,000.00	2.25%
\$ 100,000,000.00	and greater	2.00%

Source: Elaboration from Addendum to the Franchise Disclosure Document

Gross revenues are meant to be all money or assets received or receivable by the partner representing an account of the BHHS brokerage. For the computation of the fee, the gross revenues prior to the franchise agreement do not count. Indeed, on each anniversary of the franchise agreement, the gross revenue is reset to \$0.00.

Figure 19: BHHS Continuing Fee



Source: Elaboration from addendum to the franchise disclosure document

Figure 8 graphically shows the decreasing trend of the royalty based on the increase of gross revenues. Therefore, starting with a gross revenue of \$0.00 (as per each franchise anniversary) the partner will pay a commission of 6.0% until it reaches the \$1,650,000 boundary. This pattern continues until the limit of \$100,000,000 is reached and the fee to be paid is fixed to 2%. However, it must be pointed out that if the franchisee excels and its gross revenues are in the middle of two fee ranges the amount to compute is fragmented. For example, if a franchisee's gross revenue is \$4,000,000 the first amount to be computed lies in the range of the 5.50% fee and the remaining in the 4.50% fee. Therefore, the partner will pay a first amount equal to \$165,000 ($\$3,000,000 \times 0.055$) and a second amount equal to \$45,000 ($\$1,000,000 \times 0.045$), for a total royalty of \$210,000.

The marketing fee progression (table 4) works as the continuous royalty.

Table 8: Marketing Fee Progression

Gross revenue greater than	Gross revenue up to	Marketing fee
\$ -	\$ 1,000,000.00	1.00%
\$ 1,000,000.00	\$ 5,000,000.00	0.75%
\$ 5,000,000.00	\$ 10,000,000.00	0.50%
\$ 10,000,000.00	\$ 100,000,000.00	0.25%
\$ 100,000,000.00	and greater	0.15%

Source: Elaboration from Addendum to the Franchise Disclosure Document

The cumulative gross revenues reported by the franchisee to BHHS from the most recent anniversary date through the last day of the month for which the marketing fee is payable determines the percentage to be accounted for the monthly marketing fee computation.

Indeed, the franchisee must pay a minimum monthly payment of \$500 toward a marketing fee that is equivalent to a percentage of its gross revenue. The payment is segmented as the previous royalty. Hence, if a franchisee makes, for instance, \$2,000,000 in gross revenues, he will pay \$10,000 ($\$1,000,000 \times 0.01$) as the first fee range and \$7,500 ($\$1,000,000 \times 0.0075$) as the second fee range, for a total marketing royalty of \$17,500.

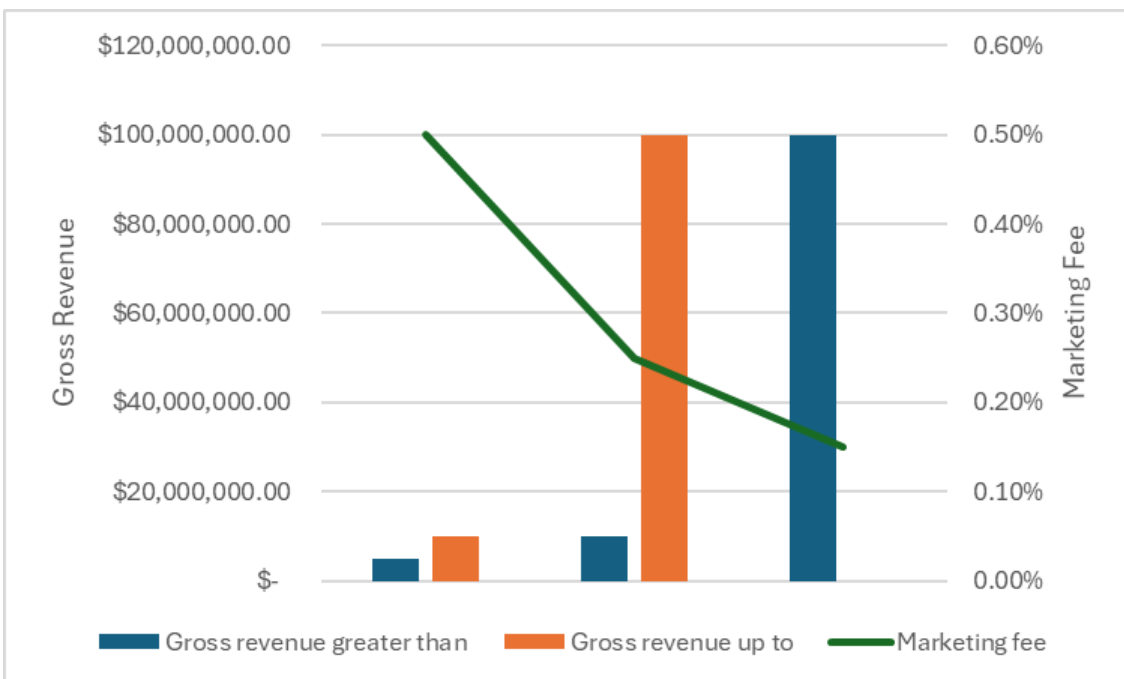
In Figures 9 and 10, the marketing fee pattern.

Figure 20: BHHS Marketing Fee (1)



Source: Elaboration from Addendum to the Franchise Disclosure Document

Figure 21: BHHS Marketing Fee (2)



Source: Elaboration from Addendum to the Franchise Disclosure Document

After the franchisee signs the franchise agreement, a legally enforceable long-term commitment will begin. For a ten years period, the partner must run its BHHS Brokerage. Operating in the BHHS Brokerage and business will require a high level of ability and aptitude, as well as a dedication to the brand and the management team of the partner. BHHS will support and help the franchisee as per the terms of the Franchise Agreement, however, BHHS cannot ensure that the partner's BHHS Brokerage will turn a profit. A BHHS Brokerage's profitability will be the franchisee's responsibility, and BHHS makes no guarantees or statements about expected sales, margins, or profits of any type. Therefore, BHHS is aware of the added value of its brand and reputation and leaves the franchisee operating in autonomy believing that their selected partners understand they are part of a well-oiled machine.

DISCUSSION

Often an international franchising collaboration starts because the potential franchisee is attracted by the franchisor's brand reputation. This opportunistic approach ([Doherty 2009](#)), could make things complex to manage and pair in the same venture people who have nothing to do with each other. In the case of Berkshire Hathaway HomeServices, this situation is unlikely to happen.

Following a clear strategy and approach, as of 2022, BHHS rapidly established 19 international franchisees operative in 12 countries. However, what certainly BHHS focuses on, whenever it is about expanding the business, is the selection of its partner. Through the interview with Mr. Perdicizzi, it was possible to infer that the BHHS' partner selection process is composed of five steps but only two of them represent the core of the methodology, the partner screening and setting the franchisee operative. It has been deduced that the partner screening is based on factors such as professionalism, the customer segment which must be high-end, the multiple number of offices and locations available, and revenues. When it comes to operationalizing new franchisees, BHHS employs a structured fee mechanism to initiate and integrate new partners into its network. The initial fee, tailored to each potential franchisee based on market dynamics, annual revenues, and operational costs, serves as the gateway for entry into the BHHS brokerage. Upon payment, franchisees gain access to BHHS marks and are provided with essential tools for immediate operation, including marketing, professional development, and technology support. BHHS's proactive marketing initiatives and comprehensive training programs further facilitate the assimilation of franchisees into the network. The continuous royalty and marketing fees, determined by a percentage of gross revenues, sustain BHHS' franchising model while aligning with the franchisee's performance. The Global Business Developer made it clear

that in a cross-cultural context as it is international real estate, establishing good relationships appears to be the only way to find trustworthy people who can represent a powerful brand. As a striking example, how BHHS makes their franchisee free to operate as they wish highlights how much the company relies on people. This approach also avoids the possible complexities in managing franchisees which may arise when a master franchisor wants continuously to control the brand ([Altnay and Miles 2006](#)). Indeed, Mr. Perdichizzi has a mixed approach of autonomy and guidance in which individuals are prioritized. This balance allows for flexibility in partner selection while ensuring alignment with organizational objectives. The establishment of relationships with franchisees in culturally and geographically diverse locations speaks to BHHS's adaptability and market responsiveness, enabling it to navigate the complexities of international franchising with a strategic vision. "Drive the Ferrari" is certainly the statement that identifies Berkshire's creed, and through the development of strong relationships, BHHS has a global array of drivers who are empowering the performance of an ambitious venture. It has been useful also considering the other side of the coin, the franchisee. The interview with the Rome BHHS' partner showcased the complete vision of the partner selection process and how the BHHS brand is perceived. Indeed, the Roman agency after having met all the requirements of BHHS had to face the reality that being a BHHS affiliate is not the same all over the world. In Italy, the brand is not fully known, and additional work must be done. Nevertheless, the boost given to the high-end customer segment immediately arrived, confirming that BHHS exactly knows how to choose its people.

CONCLUSION

Strategic partner selection is a crucial step in the growth trajectory of any venture. BHHS represented an interesting instance of the practices adopted by the firm to continuously expand in new markets and honor the reputation of one of the most important companies in the world. The importance of BHHS's international franchising strategy must be emphasized from the beginning in light of the larger picture of global corporate expansion. The BHHS case highlighted the relevance of international franchising as a quick entry option. International franchising allowed BHHS to rapidly enter into new and diverse markets while keeping a consistent approach tailor-made for the country of interest. As reported in Chapter 1, using franchising as a form of entry has clear benefits over other approaches, including quick market penetration, risk reduction, and benefit from local

knowledge. However, the selection of the right partner to expand in a new country is pivotal for the success of the strategy, a wrong choice may ruin the consistency of the venture and spoil the brand perception. Therefore, a focus on the path for partner selection (opportunistic vs. strategic) and a quick introduction to the importance of relationships was made. Using international franchising, BHHS can strategically leverage the abilities of local business owners while keeping control over operational uniformity and brand standards.

In chapter 2, the methodology and the interviews have been showcased. The interview with Mr. Perdichizzi, BHHS's Global Business Developer, underscores the pivotal role of relationships in partner selection, autonomy, and brand empowerment within the international franchising framework. By prioritizing the "who" over the "what," he illustrates the personalized approach required to forge successful relationships and partnerships, emphasizing charisma, professionalism, and goal alignment as key criteria for partner selection. Mr. Perdichizzi's emphasis on relationships as the primary concern for partner selection highlights the paramount importance of aligning values and goals, particularly in diverse cultural contexts. The interview with Mr. Francesco Minervini, CEO of Roma Immobiliare and BHHS franchisee, provides insights from the franchisee's perspective. Mr. Minervini's journey from skepticism toward franchising to becoming a BHHS affiliate underlines the potential of strategic partnerships in fostering growth and market expansion. Referring to the literature, the insights collected from the interviews have deepened and confirmed the knowledge on international franchising. It corresponded the approach of [Petersen and Welch \(2000\)](#) for the beginning of international franchising operations after the mastering of domestic franchising. However, BHHS detached from the concept of commencing international operations in countries that are either geographically or culturally close to the domestic market. Indeed, by beginning the activities in Germany, BHHS demonstrated that a clear picture of the strategy to adopt may help expanding in diverse markets. Furthermore, it has been confirmed that a strategic approach, as [Doherty \(2009a\)](#) suggested, is needed. Certainly, a company must create its own strategic approach with the desired features required for a partner to be taken into consideration. BHHS has shown that besides goal alignment, what truly counts for the company is an alignment of values and the right chemistry. The approach of BHHS reflects also the argument of [Altunay and Miles \(2006\)](#) which underlines that different cultures carry the business their way. In particular, franchising may not be the best choice when a specific country has an imprint of franchising aversion like Italy which is known for its family-businesses structure. Nevertheless, BHHS overcame this issue by selecting the partner that best fits the venture, then by setting the franchisee with all the tools to let the brand empower him, and most importantly by giving the franchisee the complete freedom to operate as he believes is the best possible way.

In chapter 3, an analysis of the holding company together with its operations has been made. The comparative analysis between BHHS and Engel & Volkers sheds light on the distinct approaches employed by these real estate giants in their pursuit of global market dominance. While Engel & Volkers emphasizes a wide global presence, with offices in three times more countries than BHHS, the latter compensates by establishing a dense network within countries where it operates, fostering a customer-centric approach. This strategy not only promotes brand visibility but also ensures a focused commitment to client needs. Furthermore, BHHS's financial performance, as evidenced by its significantly higher revenue compared to Engel & Volkers, underscores the efficacy of its international franchising model. Finally, the franchisee setup process clarifies BHHS's comprehensive support system, from initial fees and boost tools to continuous royalty and marketing fees, reflecting a long-term commitment to franchisee success while maintaining operational autonomy. Certainly, Berkshire Hathaway is a company that knows its businesses. With its decentralized way of conducting all its activities has always demonstrated that is perfectly able to manage itself and outperform competitors, also in real estate.

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