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Abstract

This thesis on the field of ownership strategies of franchise-systems tries to shed some light on the relevant factors that influence a franchisor´s choice whether to implement a single- unit or a multi-unit franchising strategy. Three case studies of Austrian franchise-systems should examine the adequacy of a set of propositions we derived from a comprehensive literature review on the issues of franchising business, largely taking into account the principles of the agency theory. The findings reveal drawbacks for the case of single-unit franchising, while multi-unit oriented systems rather seem to meet the theoretical basis. On the other side, pure multi-unit strategies turn out to be hardly relevant in the Austrian markets. Discussing the results of the studies, we want to provide reasons for these deficiencies.

1. Introduction

In recent years, many researchers attended to the topic of franchising. Whereas the core concepts of franchising business have been discussed extensively in the literature, there seems to be a consistent prevailing opinion that further work has to be done on the issue of multi-unit-franchising. The emergence of multi-unit-franchising (MUF) allowed for new approaches and developments in franchising research, as well as it offered new ideas and perceptions for both of the parties, franchisors and franchisees.

Within this diploma thesis, we therefore want to avail ourselves of the theoretical foundations of franchising businesses, and try to focus on the differences between single- and multi unit franchising. In doing so, we will concentrate on the major principles of SUF and MUF and examine interdependencies with other fields of research such as agency or resource based theories.

Our work is divided into two major sections. In the first part, we attend to theoretical aspects. There will be a broad overview on franchising basics, before we will turn to a detailed discussion on some of the most important arguments of research on SUF and MUF. Reviewing current literature, we will try to establish a set of hypothesis that should provide support to answer our research question: Why does a franchisor follow a SUF, or a MUF strategy? This examination should help to point out the crucial aspects of the strategic ownership decision between SUF and MUF of a franchising firm as well as its influence on the franchise-system. In detail, our research question deals with important theoretical aspects that, from the theorists' point of view, influence the franchisor's tendency towards MUF or SUF.The research subject shall be challenged in terms of practical adequacy and should point out which strategic factors affect the ownership orientation and which rather do not. Using a single case study method, we try to analyze the relevance of the different theories regarding the franchise system's decision- making processes. Even though we might not be able to present average tendencies, single case studies can more profoundly explore franchisor's motives and use the principle of falsification. It will help to explain the reasons for a support or refusal of a theoretical approach to a greater extend compared to other empirical methods. We defined core factors for each proposition, which essentially influence the franchisor's strategy concerning the proposition's basic statement. Further, we oppose the companies' individual answers to the expected tendencies in order to evaluate the theoretical basis with respect to practical knowledge. Another part of section one will highlight the situation and current developments of franchising structures in Austria.

In section two we will present three case studies. Two of them attend to Austrian based franchising firms, one pure SUF- and one SUF dominated system. Alternatively, we examine a franchise-system with a MUF orientation within the same industry, which is not Austrian based, but follows a separate strategy for the markets of Austria and Germany. We want to discover whether our theoretical framework can be supported or not. Several studies on the field of ownership strategies of franchising systems primarily occur to be concerned with the franchisee's point of view, whereas we rather want to focus on the franchisor's motivational factors.

2. Section One

2.1 Ownership Strategy - Single- and Multi Unit Franchising

2.2.1 Theoretical foundations

In this section, we briefly want to discuss a company’s opportunities when it decides to expand its business operations through franchising. The main focus should be on providing basic definitions and principles for further explanations of franchising strategies.

When we are looking at franchising systems in terms of ownership strategy, two major forms of franchise contracts become apparent. On the one hand the type of single unit franchising (SUF), where every franchisee can operate just one unit. On the other hand there is the form of multi-unit franchising (MUF), a strategy which allows a franchisee to run more than one outlet, thus giving him the chance to establish and operate a chain of units. According to current research, this type has to be sub-classified into the structures of sequential MUF and Master franchising (Kaufmann, 1992). Kaufmann and Kim (1995) further divide Master franchising into the categories of sub-franchising and area development. The authors explain sub-franchising to be a type where the franchisor allows a subfranchisor to grant to potential franchisees the right to operate one or several units within a determined region conceded by the franchisor. The master franchisor thereby assumes responsibilities for the recruitment of other franchisees as well as for the implementation of the franchisor’s strategies and policies, training, monitoring and coordination functions (for example Shane, 1998). In area development MUF the franchisee has the right and the obligation to open units in a specified geographical area. The time period and the number of outlets are typically stipulated by contract (Kaufmann and Kim, 1995). Sequential MUF on the other hand describes a case where existing franchisees are awarded with the right to open new units based on the (good) performance of their current unit operation (Kaufmann, 1992; Bradach 1995).

Some authors perceive SUF as the “traditional” model of franchising (e.g. Kaufmann and Dant, 1996; Weaven and Frazer, 2003). As stated above, this contractual agreement allows a franchisee to run only one unit of the franchising company. Literature provides various reasons why franchisors as well as franchisees might decide for a SUF relationship, since it is a fundamental distinction whether a franchise system specifies that a SUF relation is the only way to become a partner, or it is the franchisee’s choice to run only one unit. The authors present a basic assumption that describes the potential franchisee as an individual that compares the advantages of franchising to salaried employment and independent small business ownership (Weaven and Frazer, 2003).

2.1.2 Literature Review

Reviewing current literature on the topic of MUF, one will find that a lot of authors that worked on this type of franchising contract have examined multiple advantages this form of franchising might offer. Once again, various theoretical fields turn out to be relevant when we try to study the reasons for a franchisor to establish a MU-network. Within our work, we want to put the focus on the relationship between the franchising business and the foundations of the agency theory.

Before we begin to explore the different theoretical foundations, we will present advantages and disadvantages of MUF over SUF. A number of researchers came up with results that indicate reasonable aspects for a company to prefer a MU-strategy.

As a starting point, one has to keep in mind that it is the franchisor’s choice whether to expand its business operations by means of SUF, thereby opening new outlets and recruit new franchisees, or rather to allocate new units to already existing franchisees. From the franchisor's point of view, MUF might offer several advantages. Following the ideas of Bradach (1995), MUF reduces the level of risk of failure, since existing franchisees are expected to be familiar with the crucial factors for successfully establishing a new unit, such as the franchisor's strategy, its business operations, local market conditions, as well as strengths and weaknesses of the system. In contrast, selecting a new franchisee to add a new unit would involve additional costs of screening, recruiting and training (Kaufmann and Dant, 1996). Moreover, MUF allows not only to use but to reward high quality franchisees in order to improve commitment of the franchisees and thereby to improve efficiency (see Kaufmann and Lafontaine, 2004 in Sanchez *et al*., 2006). Additionally, Bates (1998) provides empirical support for MUF to reduce the risk of failure.

Several authors studied MUF and its relation to system growth. Kaufmann and Kim (1995) indicate a positive relation between the growth rate of a franchise system and the use of MUF. Kaufmann and Dant (1996) also approve the positive relation, additionally stating that MUF better aligns the incentives of franchisor and franchisee, leading to increased growth (Windsperger and Hussain, 2009). Kaufmann and Kim (1995) also point out a chance for rapid system growth under MUF compared to SUF. Whenever a franchise system faces a situation of high growth rates, the franchisor has to be aware of the question how to allocate new units. Following a MUF strategy, a lot of franchise systems use a reward strategy in order to perform system expansion (for example Sanchez et al. 2006), as Kaufmann and Lafontaine (2004) for instance presented this strategy to be the growth policy of Mc Donald's. However, findings of Weaven (2009) indicate local differences, as empirical results of Australian franchisors reveal that the granting of additional units is not explicitly offered as a reward from the outset by franchisors. They rather rewarded good performances. Bercovitz (2004) investigated that franchisors might reduce the risk of shirking and free-riding, agency problems we will deal with in detail later, by means of a reward function. Again, the arguments of Bradach (1995) come into play as he states that franchisors know who they work with from the start, which in turn supports system growth. Grünhagen and Mittelstaedt (2002) as well as Kaufmann and Dant (1996) associate higher system growth with a franchisee’s motivation to enter a franchising relationship. They argue that multi-unit franchisees are characterized by more entrepreneurial attitudes than single-unit franchisees, thus seeking for continuous expansion of their subsystems in order to add value to the franchise-system as a whole. These entrepreneurial ambitions imply that multi-unit franchisees expect a high level of decision-making power (Stanworth, 1995; Grünhagen and Mittelstaedt, 2002; Weaven and Frazer, 2006). Recent findings reveal that multi-unit franchisees tend to use this power to enforce concessions from the franchisor, for instance concerning new products or service additions (Weaven and Herington, 2007). Likewise, a study of Weaven and Frazer (2006) reveals differences in the perception of an ability to expand unit holdings, stating that “multiple-unit franchisees suggested that they were more inclined to join franchise systems that would encourage the growth of franchisee-owned mini-chains”. On the other hand, single-unit franchisees did not mention expansion potential to be a motivational factor for entering a franchise business at all (Weaven and Frazer, 2006).

Another point from the franchisee`s perspective is pointed out in an earlier study of Weaven and Frazer (2003). Economies of scale can be obtained by the collective size of franchising systems, which provides higher value to potential multi-unit franchisees. These economies of scale refer to issues such as increased purchasing power, a specialization of executive functions, an opportunity to gain learning economies from existing outlets or an effective use of advertising media (Weaven and Frazer, 2003). Grünhagen and Mittelstaedt (2002) confirm scale economies to be an advantage of MUF to the franchisee as well as the franchisor.

Furthermore, a study of Weaven and Frazer (2006) reveals motivational factors of franchisees. The study does not rank MUF and SUF over each other, as it rather provides information about the most important incentives for a potential franchisee to join a franchising relationship as well as the differences in the perceptions of potential MU-, or SU-franchisees. Weaven and Frazer (2006) identify the following aspects: trademark value, initial training, easy method of self employment, proven business concept and expected financial returns as the most important motivational incentives for single-unit franchisees. In contrast, multi-unit franchisees stated a reduction of risk, trademark value, franchisor expertise, ongoing training and expected financial returns to be the top five motivational factors to enter franchising. Moreover, multi-unit franchisees quoted an involvement in decision making and the opportunity to expand subsystem unit holdings to be important, factors which have not been extensively considered by single-unit franchisees. Windsperger and Hussain (2009) summarize the findings of Weaven and Frazer (2006), stating that multi-unit franchisees, contrary to single- unit franchisees, place more emphasis on the importance of the business concept, potential for expansion, ongoing training, involvement in decision making processes and the governance structure of a franchise system. These findings largely support earlier studies of Grünhagen and Mittelsteadt (2002). Concerning motivational factors of franchisees, MUF offers the advantage of reducing risk, since running a mini-chain allows the franchisee to diversify risk over a number of outlets (Kaufmann and Dant, 1996).

Generally, MUF networks show a lower level of conflict between franchisor and franchisee than SUF networks, due to the smaller number of franchisees that need to be coordinated (see Zeller et al., 1980 in Windsperger and Hussain, 2009). Weaven and Frazer (2004) empirically confirm this positive relationship of level of conflict and MUF, even though they proposed the relation to be negative. However, at this point one might reveal dissonance. Another study of Weaven and Frazer (2007b) indicates a negative relation, as the authors suppose franchise systems with a high level of conflict to be less attractive for multi-unit franchisees. Weaven (2009) argues that existing conflicts within a network might be perceived as managerial weakness of the franchisor and, thus, franchisees might outlay a frustration of their investment opportunity. Another aspect is concerned with the recruitment and selection process, as present conflicts might allude to an incapacity of the franchisor's ability of selecting adequate franchisees (Weaven, 2009). However, empirical results of Frazer et al., (2006) show that franchisors, in order to adopt MUF, tend to allocate new units to existing franchisees rather than recruit new franchisees, even though they do not bring along the managerial requirements, to prevent potential conflicts. Kalnins and Lafontaine (2004) describe the control mechanism that MUF might perform for the franchisor. Franchisors preferentially choose franchisees with "experience in markets with similar demographic characteristics" to grant them the right to open geographically close outlets and become multi-unit franchisees, which in turn increases the tendency that these multi-unit franchisees comply with the policies and the franchisor's standards and thus decreases the franchisor's need for control activities (Kalnins and Lafontaine, 2004).

Kalnins and Lafontaine (1997) believe that inter-franchise competition is a reason for a franchisee to purchase additional outlets in order to minimize competition with other franchisees within the system. Multi-unit franchisees are able to increase their market power within a territory, compared to single-unit franchisees. A MUF strategy should be beneficial in terms of attempting to restrict local competition (Weaven and Frazer, 2003).

Weaven and Frazer (2007) confirm a positive relationship between MUF and system uniformity. On the other hand, single-unit franchisees perceive a limitation of their entrepreneurial capability by the franchisor's desire to ensure system-wide uniformity (Dant and Grundlach, 1998). Additionally, stating system uniformity as an example of organizational capabilities (Bradach, 1995), Windsperger and Hussain (2009) outline the positive relation between organizational capabilities and MUF. Further, system corporatization is also confirmed to have a positive impact on the adoption of a MUF strategy (Weaven and Frazer, 2007a). Corporate structures are not a motivational factor for single-unit franchisees at all, whereas the existence of these structures and standardized management practices occur to be essential for potential multi-unit franchisees to enter a franchising relationship (Weaven and Frazer, 2006). Research by Grünhagen and Mittelstaedt (2001) supports these arguments, describing multi-unit franchisees as more sophisticated investors than single-unit franchisees. Moreover, compared to single-unit franchisees, multi-unit franchisees implicate a higher willingness to adopt new processes and procedures that are necessary for uniformity and system wide adaptation (Bradach, 1995). Bradach (1997) further examines that multi unit- franchisees replicate the policies of a franchisor's company owned outlets, thereby enhancing uniformity and facilitating franchisor's control efforts.

Welsh and Alon (2003) introduce a franchising issue they call the "Blind date" phenomenon, which refers to the trans-generational shift of franchisees, who appear to be somehow connected by family membership. Franchisors therefore perceive a chance to maintain positive franchise relationships without having to bear recruiting and selection efforts (Welsh and Alon, 2003). Whereas single-unit franchisees place more emphasis on the opportunity to employ family members within their system, multi-unit franchisees perceive greater importance of mitigating work and family conflicts in terms of a higher ability to control working hours by themselves (Weaven and Frazer, 2006).

Verbieren, Cools and Van den Abbeele (2009) point out factors that have influence on the survival of a franchise network. Factors such as franchisee experience, the geographic concentration of the system, the efficiency of the system or franchisee cash investment positively influence the franchisor's probability to survive (Shane, 1998; 2001), whereas a high degree of complexity has a negative impact on the survival rate (Shane, 1998). Concerning the choice between a MUF, and a SUF strategy in this context, Weaven and Frazer (2007) propose a positive relationship between the complexity of a franchise system and MUF.

Several studies confirm that the proportion of MUF occurs to be higher among mature franchise systems compared to rather young and small systems (Weaven and Frazer, 2004; Weaven 2009; Weaven and Herington, 2007). As a reason for this, Kalnins and Lafontaine (2004) state that experienced franchisors perceive it less risky to establish multi-unit subsystems than new franchisors. Experienced franchisors rather know their franchisees and have an opportunity to mitigate unit failure due to previous positive experience with the franchise-partners (Kaufmann and Dant, 1998). Further, experienced franchisors provide reputation, brand name and proven business concepts, which can be seen as a factor to increase franchisee satisfaction as well as to maximize unit performance, which in turn attracts existing franchisees to open new outlets (Weaven, 2009).

Spinelli and Lentz (2007) highlight the importance of MUF regarding a system wide adaption of competitive advantage and a creation of value within the franchisor- franchisee relationship. In this context, several authors consider the franchisor to be the value creator within a franchise system (Mendelsohn, 2003; Grünhagen and Dorsch, 2003). Grünhagen and Dorsch (2003) suggest that single-unit franchisees perceive higher value provided by the franchisor, which the authors, compared to multi-unit franchisees, ascribe to a lack of experience with the franchisor. Additionally, the authors reveal that the view how franchisees perceive franchisors and the value level provided change over time (Grünhagen and Dorsch, 2003). Following their findings, both, single-unit as well as multi-unit franchisees might be discouraged by future expanding efforts due to value expectations that are not met by the franchisor. Referring to Kim and Mauborgne (2002), Spinelli and Lentz (2007) present the concept of value innovation as a basis for an effective franchisor-franchisee relationship, particularly paying attention to multi-unit franchisees. Value innovation thereby is concerned with an optimization of the effectiveness of competitive factors within the franchise network (Spinelli and Lentz, 2007). This process should work out a clear perception and understanding of each others' competencies among the franchise parties, as to implement a strategy that should guarantee a sustained competitive advantage. Establishing such a process requires comprehensive exchange of knowledge and expertise, which is the fundamental source of competitive advantage (Maritz and Lobo, 2007). This exchange in the required extent turns out to be almost impossible for single-unit franchisees, as they typically do not have organizational capabilities such as multi-unit franchisees (Spinelli and Lentz, 2007).

Due to an increasing importance of a service-based economy and an assigned global marketing strategy, Welsh and Alon (2003) refer to cultural and legal barriers franchisors have to cope with when they plan a foreign, respectively a global expansion. Above all, cultural barriers call for a local adaptation of the franchise network. Welsh and Alon (2003) suggest that systems operating in markets of larger cultural distance rather need to adapt their products, where the business formats should be adapted for markets with higher legal barriers. Systems that are willing to expand globally have to be aware that cultural differences vary notably among countries (Garg and Rasheed, 2006), which primarily holds for agency related issues, as for example differences in terms of opportunistic behavior. Shane (1996a) suggests that the relevant franchise form should be based on target market characteristics as well as strategic objectives of the franchisor. Garg and Rasheed (2006) reveal that, in an international context, MUF, compared to SUF, offers a greater ability for franchisors to minimize the risk of franchisees' opportunistic behavior. However, further differentiation between sequential MUF and master franchising occurs to be reasonable, since sequential multi-unit franchisees for example might better address the agency problem of adverse selection, due to greater information about franchisees' capabilities (Kaufmann and Dant, 1996), whereas in countries where, for cultural reasons, the level of opportunism is low, franchisors should rather follow a master franchising strategy (Dant and Nasr, 1998). Notwithstanding the prevailing dominance of arguments for MUF, Garg and Rasheed (2006) mention reasons for the existence of SUF in an international context, as franchisors might try to avoid excessive sharing of power or information as rather claimed by multi-unit franchisees, which would turn out to be even more costly from an international perspective.

However, MUF is not a universally valid answer for any franchisor's expansion. Rather, this strategy entails several risks or disadvantages compared to SUF. Lowell (2007) mentions a few of them, including for instance a "loss of control to another potentially-large and powerful person". This point seems to be obvious, since the franchisor strengthens the MU-franchisee's position in terms of bargaining power, strategic influence or operational independence with every additional unit, thereby implying that it will potentially become more difficult to manage and lead the other person, which is another point mentioned by Lowell (2007). Additionally, he identifies problems regarding the legal relationship to the franchisor, respectively the franchise system and the MU-franchisee, as he sees "potential limitations on the franchise company's ability to enforce its franchise agreement, especially where the franchise system is not a party to the agreement". Furthermore, the complexity of the required agreements and the interrelationship of several required agreements as well as a complexity regarding the required content of disclosure documents and the procedures of registration might negatively influence the establishment of a MU-franchise system (Lowell, 2007).

2.2 Franchising and the Agency Theory

Several authors of recent literature on franchising deal with principles of the agency theory. It is seen as fundamental to some important complexities of the franchising business. Some authors present arguments based on agency theory, trying to explain reasons why franchisors might prefer MUF over SUF. Following the main ideas of previous work, we want to cope with agency problems such as shirking, free-riding, adverse selection, information flow and inefficient risk bearing. In doing so, we want to derive a set of propositions, which partly constitute the basis for the case studies in section two.

Kaufmann and Dant (1996) already declared that the reason for agency theory to be applicable for franchising business arises from the fact that the relationship between a franchisor and a franchisee, with their interest divergences, actually is of the character of an agency relationship. Garg and Rasheed (2006) further illustrate how to apply a principal agent relationship to a franchisor- franchisee relationship, using a principle they call residual claimancy. It is based on the idea of incentive alignment, which means that incentives should be set in such way that in maximizing his own interest, the agent maximizes the principal`s interest as well (Garg and Rasheed, 2006). In franchising, this holds for the franchisor- franchisee relationship, since the franchisee is said to be the residual claimant, meaning that has the claim to skim all profits after the contracted payments to the franchisor. Thus, the incentive to run the unit as efficient as possible is much higher for a franchisee than for any hired manager (Garg and Rasheed, 2006). Since hiring a salaried manager to open a new outlet would be the franchisor’s alternative to franchising the new outlet, a franchisee therefore better resolves for the agency problem of different interests, because residual claimancy provides incentives to a franchisee that are not available to the salaried manager (Garg and Rasheed, 2006).

Even though a majority of authors on this field suggest SUF to be essential for an appropriate adoption of the agency theory (for example Kaufmann and Dant, 1996; Bates, 1998), it will turn out that the principles of MUF might fit better to solve agency problems. We want to pay attention to this proposition and provide substantiated arguments when we come to the different principles of the agency theory in the following.

2.2.1 Shirking

Shirking, an “agent’s tendency to supply less effort than agreed” (Jensen and Meckling, 1976), is suggested to be more of an issue for MUF more than SUF (Kaufmann and Dant, 1996). The authors suggest that SUF involves supervision by owner managers whereas MUF involves supervision by hired managers at the unit level. Sanchez et al. (2006) also refer to this agency problem, proposing that SUF provides a solution to this problem by means of the concept of residual claimancy, which means that the monitoring problem is overcome by the use of an incentive. Garg and Rasheed (2006) do not support these arguments, raising concerns of monitoring to be more efficient under a MUF strategy, in particular for larger systems that are even operating foreign business units. They attribute this to the fact that monitoring in MUF is done by the multi-unit franchisee, whereas in SUF, monitoring tasks have to be assigned to hired managers. Castrogiovanni, Combs and Justis (2006) also mention geographic dispersion as a reason for increasing monitoring costs, adding that franchisors have to gain knowledge about local market conditions to be able to evaluate outlet-level performance. As already mentioned above, franchisor’s incentives are better aligned with franchisees than with hired managers, which consequently results in monitoring to be more effective and less costly under MUF. Thus, Garg and Rasheed (2006) conclude that the overall likelihood of shirking to be lesser and the probability of its detection to be higher in the case of MUF than SUF. Sanchez et al. (2006) further explain that MUF reduces the potential for shirking whenever the units of the multi-unit franchisee are geographically close, since the franchisee is able to benefit from scale economies in the control activities.

2.2.2 Free Riding

Free riding in a franchising context is concerned with the brand name value of the franchise system. From the point of a single-unit franchisee, an incentive to free-ride on the value of the brand name becomes apparent, since all outlets share this brand and, in turn, the benefits from the common investments (Grünhagen and Mittelstaedt, 2001). Since customers may trust in a consistent level of services among different units of a retail system, opportunistic franchisees might free ride on the system's brand name capital because it might offer them the chance to shade input quality without losing business because of the spillover benefits of the other units (Garg and Rasheed, 2006).

Following the theory, MUF reduces the risk of free-riding compared to SUF. Bercovitz (2004b) explains that for multiple units in a geographic area operated by one franchisee, the effect of free-riding would be borne by the franchisee himself, thereby reducing the franchisor's risk of an opportunistic franchisee. Additionally, in the case of detected free-riding, the franchisee correspondingly would have to bear a greater proportion of the costs of free-riding (Garg and Rasheed, 2006). The authors state that reasons for less opportunistic behavior under MUF to be a hazard to potential future growth in the case of detection or the fact that hired managers by the multi-unit franchisee do not have any incentive to free-ride such as a single-unit franchisee.

Due to these arguments, MUF can reduce the risk of free-riding whenever a franchisee owns a number of units within a given geographical area. Thus, the concept of density becomes apparent here. Since a multi-unit franchisee is affected by negative effects of free-riding (respectively the franchisor's actions after detected free-riding) to a higher extent than a single-unit franchisee, the likeliness of free-riding can be assumed to be low within a dense system (see Sanchez *et al*., 2006).

Taking into account the concepts of Bercovitz (2004) and Garg and Rasheed (2006), affirming that a strong trademark will increase the risk of free-riding (especially under SUF), one could consider a franchisor being aware of its brand value might develop a preference for MUF relationships as to minimize free-riding.

Further, MUF in dense systems provide advantages for the franchisor as well as the existing franchisee in terms of knowledge transfer, as geographical proximity of outlets allows for efficient transfer of information (Garg and Rasheed, 2006; Sanchez *et al.,* 2006). However, since this issue does not solely refer to free-riding concerns, we will shed more light on it later.

2.2.3 Adverse Selection

From the perspective of franchising, the agency paradigm of adverse selection is concerned with the franchisor’s effort on the selection and development of appropriate new franchisees (Bradach, 1995). Adverse selection therefore seems to be a factor for the limitation of system growth and demands a franchisor’s resources. Even though their suggestions are based on a perception of international franchising activities, Garg and Rasheed (2006) propose advantages of MUF over SUF. Sanchez *et al.* (2006) find support for this argument, stating that in periods of growth, franchisors face a great number of franchisee candidates and, hence, additionally have to expend time for screening, recruiting and training. The experienced multi-unit franchisee therefore allows the franchisor to reduce these expenditures.

For the franchisor, the problem of adverse selection becomes apparent in the early phase of recruitment. Thus, the collection of information about potential franchisees seems to be the crucial aspect for a reduction of adverse selection (for example Kaufmann and Kim, 1995). Therefore, within the selection process, franchisors should figure out motivational factors of franchisees, in order to identify which type of franchise business, each individual franchisee best aligns the franchisor and franchisee's goals (Weaven and Frazer, 2006). The risk of adverse selection can be reduced under a MUF strategy rather than under SUF, since collecting data of potential franchisees turns out to be more effective in terms of resource and cost aspects (Garg and Rasheed, 2006).

2.2.4 Information Flow and Corporate Learning

Several authors examine the capability of a franchise system to transfer knowledge to be essential for the system's success (Dant and Nasr, 1998; Windsperger and Hussain, 2009). Moreover, there is evidence that MUF has advantages over SUF concerning the efficient knowledge transfer (for example Garg and Rasheed, 2006). This is based on a number of reasons, as Sanchez *et al.* (2006) claim that "geographic proximity facilitates the transfer of knowledge from store to store of a multi-unit owner".

In a successful franchise system, the exchange of knowledge, specially the information flow between franchisor and franchisees should be efficient in both directions, as to say that a franchisee should be able to reproduce system-specific knowledge at the local market level (Windsperger and Hussain, 2009), as well as local market knowledge should be efficiently transferred to the franchisor (Sanchez *et al.*, 2006). This local market knowledge can be gained more easily by multi-unit franchisees rather than single-unit franchisees, since they operate other units within the same local market (Sanchez *et al.*, 2006).

The importance of an efficient knowledge transfer system calls for monitoring efforts of the franchisor. As a large number of single-unit franchisees require an extensive, and therefore costly monitoring system, monitoring can be delegated to the multi-unit franchisee under MUF, so that only a few franchisees are responsible for monitoring tasks within their subsystems. Thus, the amount of information to be channeled between franchisor and franchisees occurs to be lesser under MUF than under SUF, which in turn implies cost advantages for MUF (Garg and Rasheed, 2006). The authors further mention an upward flow of information to be essential whenever local market responsiveness appears to be important. Due to geographical proximity of the outlets and a smaller number of information transfer channels, MUF, compared to SUF, helps to provide faster information exchange and the opportunity for the franchisor to respond faster to changing market circumstances. Dant and Nasr (1998) confirm the upward information transfer to be more efficient under MUF than SUF, due to the better alignment of franchisor-franchisee goals within MUF networks. On the other hand, there is current research that examines local market disadvantages for MUF (for example, Weaven and Frazer, 2007a). Windsperger and Hussain (2009) claim, that single-unit franchisees can acquire local market know-how more easily than multi-unit employees, because of higher entrepreneurial motivations and capabilities. The authors therefore propose a negative relation between the importance of local market know-how and the franchisor's tendency towards MUF, which, at first sight, could invalidate the arguments of Garg and Rasheed (2006).

2.2.5 Inefficient Risk Bearing and Quasi-Rents

The agency problem of inefficient risk bearing (by the franchisee) is based on the argument that agents are said to behave risk averse (Garg and Rasheed, 2006). Following their arguments, two types become apparent, namely the case of under-investment by franchisees and, second, franchisees' expectation of higher returns. The authors further assume that these problems were less significant under MUF strategies. Kaufmann and Dant (1998) support this assumption, stating that "multiple unit franchisees put significantly more investment capital at risk than single unit operators". Based on the ideas of Bradach (1995), Garg and Rasheed (2006) provide an explanation for this type of agency problem.

For any investment that demands for local response, multi-unit franchisees are more likely able to amortize these investment expenditures, as he can spread it over a number of units, whereas a single-unit franchisee has to bear the full investment amount. Thus, the likeliness of sub-optimal specific investments happens to be higher in SUF than in MUF. Further, because compared to multi-unit franchisees, single-unit franchisees are not able to spread their investment risk, they tend to demand a higher compensation (Garg and Rasheed, 2006).

The appropriation of quasi-rents refers to the phenomenon that both, the franchisor as well as the franchisee might post-contractually behave opportunistic (Garg and Rasheed, 2006). Garg and Rasheed (2006) explain this agency problem, as system specific assets that have higher values within the franchise system than in any alternative use, such as a trademark, can be used as a means to apply pressure, in order to assign these quasi-rents. The authors state that the likeliness of a presence of this agency problem is lower under MUF than under SUF since the multi-unit franchisee has greater capabilities to increase overall profits by adding new units to his mini-chain and thereby cover investment efforts (Garg and Rasheed, 2006). Earlier studies by Bercovitz (2003) support these statements, as she reveals that MUF tends to increase the franchisee’s quasi-rents based on higher outlet specific investments. At the same time, franchisors are less likely to appropriate quasi-rents under MUF, since they have to be aware of the multi-unit franchisees’ greater potential to retaliate (Garg and Rasheed, 2006).

Through extensive literature review, we found out that an agency based approach provides several arguments why franchisors might decide to follow a single-unit or multi-unit strategy. Even though, several questions remain unanswered without the consideration of other theoretical foundations. Castrogiaovanni *et al.* (2006) for instance mention the importance of multi-theoretical reasoning as to best explain franchising as a governance form. Therefore we will turn to examine MUF and SUF from a resource based perspective in the following.

2.3 Resource Based View

Franchising, in terms of a resource based approach, might be conceived as an instrument to accomplish a scarcity of resources (Kaufmann and Dant, 1996). A vast majority of literature on resource dependency problems in the context of franchising refers to the franchisor's fundamental question of whether to franchise or not, and with the issue of finding an efficient proportion of company owned and franchised outlets (see Alon, 2001; Windsperger and Dant, 2006; Combs and Ketchen, 1999; Dant *et al.,* 2008; Kaufmann and Lafontaine, 1994). Regarding the strategic choice between MUF and SUF in terms of the resource scarcity theory, a lack of research becomes apparent. The range of scarce resources encompasses several factors, such as capital, scarce managerial capabilities, human resources availability, local market know-how or market assets (Kaufmann and Dant, 1996; Castrogiovanni, Combs and Justis, 2006; Oxenfelt and Kelly, 1969). Additionally, Sanchez *et al.* (2006) mention time for screening, recruiting and training to be a scarce resource, particularly in times of system growth.

Basically, there is a research argument that (young and small) firms, whose survival depends on rapid expansion, use franchising as a means to gain access to capital and to ensure system growth (for example Castrogiovanni, Combs and Justis, 2006). Regarding the question whether MUF or SUF might fit better to tap new resources, Kaufmann and Dant (1996) confirm a positive relationship between system growth and MUF as well as a positive relation between system size and access to capital. Thus, MUF offers an opportunity for the franchisor to expand more rapidly than under SUF, so as to reach a size that allows for raising capital easier. The need to gain access to financial, managerial and informational resources decreases with higher level of growth and maturity of the franchise system (Windsperger and Dant, 2006). Further, Windsperger and Dant (2006) explain the impact of financial transaction costs on franchise structures, stating that, in terms of transaction costs, raising capital appears to be more efficient by means of franchising than by means of external suppliers, even since franchisees have more detailed information about their (financial) capabilities than external investors have about the franchisor's capabilities (Combs and Ketchen, 1999; Lafontaine and Kaufmann, 1994). Additionally, following a financial policy of attempting to raise capital on external markets, such as selling shares for example, is an extensive procedure and at least as difficult as initiating a franchising strategy (Alon, 2001).

Paying attention to the proportion of franchised and company owned outlets, Combs and Ketchen (1999) mention the resource characteristics of managerial skills and capabilities and point out the potential for gaining competitive advantage, since these capabilities cannot easily be transferred from managing franchisees to managing company owned outlets. Franchising firms that managed to create such skills and learned how to effectively handle franchisees, therefore lean on a higher proportion of franchised outlets, so as to exploit this competitive advantage (Bradach, 1997).

An efficient assignment of scarce resources in order to produce competitive advantage can be seen as a core principle of resource –based theory (for example Porter, 1985). In franchising, franchisor and franchisees pool efforts, share goals and bundle resources as to create competitive advantage (Spinelli and Lentz, 2007). Spinelli and Lentz (2007) further examine a positive alignment between MUF and the production of a competitive advantage, though indicating that the concept of competitive advantage and its impact is difficult to assess.

In order to explain determinants of franchising ownership structures, Windsperger and Dant (2006) extend literature on the resource-based view, introducing the aspect of contractibility of (financial) assets. Following the ideas of Baker and Hubbard (2004), Windsperger and Dant (2006) declare ownership structures to be dependent on a differentiation between contractible and non-contractible resources.

Considering the contractibility of assets, a property rights perspective allows for a specification of a resource based approach (Windsperger and Dant, 2006). The authors identify intangible assets such as outlet specific know-how, local information or human resource management on the franchisee's side, as well as brand-name assets or system specific know-how on the franchisor's side, to have a low degree of contractibility and thus, to be a crucial aspect of the relationship between the franchisor and the franchisee. Both of the parties have a function of supplying their specific knowledge to the network and make it transferable, i.e. contractible, among partners. Tempting to adopt the property rights view on the question whether there is an impact on the ownership decision between MUF and SUF, we refer to the perception of a high capability of knowledge transfer to be an organizational capability (Bradach, 1998) and in turn to the advantages MUF offers in terms of organizational capabilities (Windsperger and Hussain, 2009).

Another important issue that shows up to have some strategic impact is concerned with the type of plural management, which we will highlight in the following.

2.4 Plural Management

Welsh and Alon (2003) define plural management as “a combination of company-owned or company-operated, and franchised forms”. Company owned outlets thereby constitute a subsystem within the particular franchise system. For several reasons, the proportion of company owned units and its impact on the franchise system’s overall strategy significantly differs among franchise networks (Seshadri, 2002). Following the ideas of Coompanthu and Roth (2002), Plural management (or “dual distribution)” affects organizational matters such as unit growth, uniformity, system-wide adaptation or local responsiveness. In an environment that calls for effective response to local markets, dual management offers a strategic solution (Welsh and Alon, 2003). Reviewing previous research on plural distribution, there is a lack of reference to MUF or SUF strategies. A large part of literature focuses on the proportion of franchised outlets and company owned outlets (for example Dant et al., 2008; Castrogiovanni, Combs and Justis, 2006; Combs and Ketchen, 1999).

Castrogiovanni, Combs and Justis (2006) put emphasis on the issue of how changes in the ownership fraction influence a franchisor’s strategy. They claim the theoretical perceptions of agency theory and resource scarcity to be the two major factors that drive a firm's decision on how to design their franchising strategy. Several authors support the point of agency theory and resource scarcity theory to be fundamental for plural distribution issues (Shane, 1998; Dant and Kaufmann, 2003). Based on a proposition by Oxenfeldt and Kelly (1969), Castrogiovanni, Combs and Justis (2006) explain that resource scarcity, as a first approach, attributes a firm's decision to franchise to the need to gain access to scarce resources such as capital or human resources. This concept particularly holds true for young and small firms, when rapid expansion turns out to be essential for competitive operations. Franchising offers these firms the opportunity to raise capital as fast as necessary, even though their basic intention for growth would be an ownership rather than a franchising strategy (for example, Oxenfeldt and Kelly, 1969). Completing this approach, as soon as firms pass a critical point, in terms of growth and scale economies, the firm shifts to a strategy of maximizing its returns by means of repurchasing its profitable franchised units (Castrogiovanni, Combs and Justis, 2006; Windsperger and Dant, 2006). However, empirical findings reveal that strong support for the resource scarcity perspective is only based on an investigation of the decision of initiating franchising rather than the subsequent proportion of franchised units (Castrogiovanni, Combs and Justis, 2006).

From an agency based approach, dual distribution is said to be the mix of company ownership and franchising that minimizes agency costs, including costs such as free-riding, shirking or inefficient risk sharing (Seshadri, 2002) and the essential aspect of monitoring costs (Castrogiovanni, Combs and Justis, 2006). Agency theory argues that the fixed salary of company owned outlet managers is the reason for them to shirk (see Brickley and Dark (1987) in Verbieren, Cools and Van den Abbeele, 2009). Windsperger and Dant (2006) examine a positive relation between higher monitoring costs and the degree of franchised outlets of a firm. According to the theory of Rubin (1978), this minimization is due to an optimal alignment between outlet managers' incentives and firms' objectives.

Summarizing important arguments and findings of research on dual distribution, Verbieren, Cools and Van den Abbeele (2009) reveal factors that have negative impact on the proportion of franchised outlets to be franchisor size (from Dant *et al*., 2008), royalty rates (from Shane, 1998), the firm's access to resources (from Dant and Kaufmann, 2003), specific firm knowledge (from Combs and Ketchen, 1999) and the contractibility of local assets (from Windsperger and Dant, 2006).Verbieren, Cools and Van den Abbeele (2009) summarize factors that positively influence the proportion of franchised outlets, so as incidence of internationalization, capital scarcity or asset specificity (see Combs and Ketchen, 1999; Dant *et al*., 2008). Moreover, there are inconsistencies among the findings of different authors concerning other factors, above all the level of initial investment and the age of the franchise firm (Verbieren, Cools and Van den Abbeele*,* 2009).

Weaven and Herington (2007) refer to some advantages of company ownership, saying that these units are "beneficial in promoting consistency across units within the chain". Company owned units raise the franchisor's capability to maintain the level of brand value as well as agency based efforts can be decreased. Sorenson and Sorensen (2001) present the opinion that company owned outlets and franchised outlets complement each other, since "managers of company owned outlets exploit more, while franchisees explore more." Nevertheless, even some research indicates that plural management seems to allow for an alignment of local market innovations on the one hand and system wide adaptations on the other hand (see Bradach, 1997), current empirical findings suggest that pure franchising strategies appear to be favorable over forms of plural distribution (Weaven and Herington, 2007).

Paying attention to the relationship between dual distribution and the ownership strategy of the firm's franchised outlets, some authors find evidence for MUF to have advantages over SUF in a case of dual distribution (for example Garg *et al.,* 2005; Weaven, 2009). In this context, Garg *et al.* (2005) state that it could be beneficial for a franchisor to maintain company owned outlets, as to create mutual advantages in terms of management practices, performance evaluation processes, staff recruitment or reporting schemes.

2.5 Franchising Structures in Austria

In the following section, we want to deal with the current situation of franchising business in Austria. Since it occurs to be the most comprehensive source of current franchising issues, information is primarily based on data of the OEFV (Österreichischer Franchiseverband, Basispressemappe 2009).

In the Austrian markets, the idea of franchising had its breakthrough in the mid 1980's, when a number of 40 franchising systems with 350 franchise partners had been registered. Since then, this business form experienced continuous growth. Within an earlier work on the field of franchising in Austria, Glatz and Chan (1999) declare the growth process to be primarily based on an increasing number of franchise systems with an Austrian origin. At the end of 2008, the OEFV listed 400 systems, with 6.050 franchise partners operating 7.200 outlets. Although there is a lack of detailed information about any proportions concerning SUF and MUF, these numbers can be interpreted as a first indication for a dominance of SUF in the Austrian markets. We will focus on that point in a separate section. However, compared to the U.S., as the origin of franchising business, Austria faces a situation of smaller growth rates, which is due to smaller markets of the rather individual European countries and the associated barriers for system expansion (Glatz and Chan, 1999).

2.5.1 Franchising as an Economic Factor

By now, the franchising business turns out to be of substantial economical importance in Austria. By the end of 2008, franchise systems in Austria employed more than 100.000 people. Notwithstanding an ongoing growth process of the Austrian franchise market, official data up to date occurs to be hardly available. Glatz and Chan (1999) point out the great importance of the franchising business for companies operating in the Austrian service sector, and above all, for small and medium sized enterprises. Concerning the origin of the systems, there is a fraction of 45% Austrian based franchising systems, followed by the large proportion of 33% of the systems with a German origin (see table 1), which can be explained as there are almost no cultural or language barriers for these systems (Glatz and Chan, 1999). Whereas the rest of the non-Austrian based systems are spread among other European countries, American franchise systems constitute a third important part.

Table 1: Origin of Franchise Systems in Austria

Spain	4
The Netherlands	4
Switzerland	11
France	13
Great Britain	14
Italy	14
Other	15
USA	29
Germany	122
Austria	174
total	**400**

Source: OEFV, statistics 2008

Looking at current developments, Austrian based franchise systems foremost expand to Germany and to markets of the CEE countries, whereas German systems currently extend their percentage on the Austrian market.

In 2008, the OEFV stated a closing rate of 4,2%, which is justified by a strong growth of new systems in the service sector within the last years, which in turn produced a number of poorly conceived systems that are not able to bear with requirements of the market. Therefore, the rather high closing rate can be understood as some kind of self regulation instrument of the market. Compared to this rate, the OEFV published the growth rate of new franchise systems in Austria to be continuously between 5% and 8% p.a. since the 1990`s.

2.5.2 SUF and MUF in Austria

As mentioned above, unfortunately there is no exact data on the proportion of SUF and MUF in Austria available. However, statistical data of the OEFV provide information about growth rates of franchise systems, franchise partners and outlets, which allows drawing conclusions from these numbers. Comparing the growth rate of franchise systems for 2008 of 3% and franchise partners of 2% with the growth rate of outlets of 4% within the same period, it turns out that franchisors increasingly seem to give more than one outlet to qualified franchisees and, thus, a tendency towards MUF can be concluded. In other words, observing the ratio of the total number of outlets and the total number of franchise partners for the years 2004, 2006 and 2008, it coevally holds that there is a growth in the proportion of MUF among the franchise systems in Austria:

2004: 6380/5600 = **1.14 (outlets)**

2006: 6900/5950 = **1.16**

2008: 7200/6050 = **1.2**

Table 2: Franchise Systems/ Franchise Partners/ Outlets in Austria

	´95	´96	´97	´98	´99	´00	´01	´02	´04	´06	´08
FS-Dienstleistung	114	134	135	139	156	171	182	188	210	220	227
FP-Dienstleistung	1.270	1.550	1.510	1.710	1.890	1.930	2.145	2.262	3.210	3.365	3.400
OL-Dienstleistung									3.680	3.635	3.770
FS-Vertrieb	92	99	109	115	120	128	130	132	150	162	167
FP-Vertrieb	1.560	1.620	1.717	1.840	1.925	2.220	2.325	2.380	2.350	2.550	2.625
OL-Vertrieb									2.660	3.225	3.400
FS-Produktion	9	8	6	4	4	6	8	10	10	8	6
FP-Produktion	160	160	163	46	50	50	55	58	40	35	25
OL-Produktion									40	40	30
FS-GESAMT	**215**	**241**	**250**	**258**	**280**	**305**	**320**	**330**	**370**	**390**	**400**
FP-GESAMT	**2.990**	**3.330**	**3.390**	**3.596**	**3.865**	**4.200**	**4.525**	**4.700**	**5.600**	**5.950**	**6.050**
OL-GESAMT									**6.380**	**6.900**	**7.200**
Wachstum FS		**11%**	**4%**	**3%**	**8%**	**8%**	**5%**	**3%**	**11%**	**5%**	**3%**
Wachstum FN		**10%**	**2%**	**6%**	**7%**	**8%**	**7%**	**4%**	**16%**	**6%**	**2%**
Wachstum OL										**8%**	**4%**

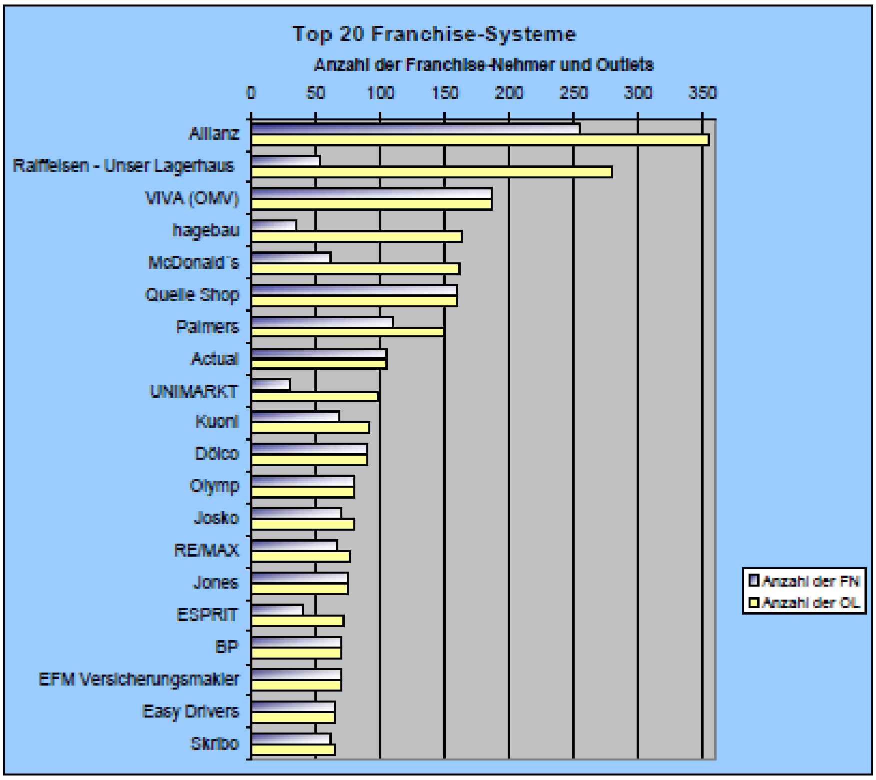
Source: OEFV statistics 2008

However, regarding this set of data, which reveals that for the year 2008, every franchise system in Austria had an average number of 15 franchise partners with an average of 1.2 outlets per partner. Compared to franchise businesses of other countries, this turns out to be quite low. Moreover, since the data offers only average values, we are not able to derive any statement about how many of the Austrian franchise systems offer the opportunity for MUF, how many of them restrict their business to SUF or how many systems operate mixed versions. Further, the OEFV statistics do not provide any proportion of company owned units of the franchise systems, which are neither part of the SUF nor the MUF proportion.

Analyzing data of the top 20 franchise systems in Austria, one can find that the dominance of SUF assumed earlier cannot be supported here. Only nine out of 20 systems turn out to follow a strict SUF strategy. Rather, the ratio of only 6.900 outlets and 5.950 franchise partners (for 2006) might result from the fact that only a few of the systems have a high number of outlets in relation to their franchise partners (Raiffeisen Lagerhaus 53 partners/ 280 outlets, Hagebau 35/163, McDonald’s 61/161), whereas more of the systems that obviously offer both, SUF and MUF, show up with the number of outlets to be just slightly higher than the number of franchise partners, which indicates that only a few of their franchisees run more than one outlet. However, one might identify here that even if the systems do not restrict a MUF-option from the outset, there is a significant SUF orientation among the franchise systems operating in Austria (compare figure A). At this point we are not able to state whether this situation is an outcome of the franchisors' strategies, or rather a specification of the Austrian markets.

Nevertheless, we have to leave our statements with a character of assumptions, since there is no more detailed information about ownership structures available.

Figure A: Top 20 Franchise Systems in Austria, Franchise Partners and Outlets (Ranking is based on the Number of Outlets)



Source: OEFV statistics 2006

2.5.3 The case of McDonald’s Austria

In the following, we want to present an interesting issue in the context of ownership structures of Austrian franchisors, which is concerned with the current franchising strategy of McDonald’s Austria. By the end of 2009, McDonald’s operates 168 stores in Austria, 22 of them are company owned units, whereas 146 stores are run by 56 franchisees (McDonald’s Österreich, Pressemitteilungen 2010). Regarding the growth strategy, the company declares an opening of six up to ten additional outlets per year to be the expansion intended in Austria within the next years. The crucial aspect about the strategic planning is, that new outlets should only be allocated to existing franchisees from now, i.e. a tendency towards MUF. In order to explore McDonald’s reasoning for this strategic shift, we conducted two personal interviews with the Head of Department Marketing and the Senior Manager of Department Franchising of McDonald’s Austria. The interviews were conducted in German and translated, so as to reflect the most important aspects within our work.

First of all, the strategic tendency towards MUF is not an overnight process, as it rather can be observed throughout the last years. Compared to data of the OEFV above, one will find that the number of outlets has increased from 161 stores in 2006 to 168 stores in 2009, whereas the number of franchisees has declined from 61 to 56 within the same period of time. The interviews rather revealed that McDonald’s intension is to highly intensify MUF, stating that the dispersion of new outlets to new franchisees is not foreclosed from the outset, but the mission statement is to „grow with the best“ (existing). The opportunity to open a new store therefore is intended to have an award function for the franchisees that are best performing.

Whereas the potential to expand is rather high in other European countries, McDonald’s faces a situation of density to be very high in Austria. However, the interviewees did not confirm high density to be a positive factor for the use of MUF. Rather the Head of Marketing stated that:

„…of course, selected franchisees in Vienna would not open a new store in Innsbruck, since geographical proximity offers some important cost advantages. Nevertheless, we have to be cautious and check carefully if additional profits can be skimmed from another outlet as we have to face the menace of cannibalization among the stores.“

Benefitting from scale economies in terms of shared fixed costs turned out to be one of the most essential arguments for the company's tendency towards a MUF strategy. McDonald's provides management tasks and several service features to its franchisees, so that the fixed costs of these services McDonald's has to afford for every franchisee, can be spread over more than one store in the case of a multi-unit franchisee. Within the interviews, it was explained that:

„….our company offers these management assignments and services so that the franchisees are able to focus on core competencies. Obviously, we benefit as the payments for these assignments and communication processes we have to bear for each franchisee, is more effective if a franchisee runs two or three stores than for a franchisee who runs only one store.“

Furthermore, the following example:

„….when you think about the costs for, let's say, a tax accountant, the incremental costs for each store of a multi-unit franchisee are far below the costs of single-unit franchisees running the same number of stores. The same holds for every service firm or service partner we, respectively the franchisees, have to deal with.“

Another point that supports a MUF strategy is concerned with the entrepreneurial motivation of franchisees, as the Senior Manager of Franchising reported:

„….those franchisees who understand themselves as entrepreneurs rather provide a chance for higher profits, for their subsystems as well as for headquarters. Typically, this applies to multi-unit operators.“

However, the executives of McDonald's did not solely argue for MUF to be the preferable strategy over SUF, as rather they stated that each single case of opening a new outlet has to be carefully evaluated. In this context, the following objections have been raised:

„…..we experienced that the ability of single-unit franchisees to gain local market know-how is sometimes much higher than in the case of a multi-unit franchisee. We have to take this into consideration whenever we want to open a new store in a small city for instance, because a high degree of local responsiveness adheres to a lot of economic potential“

Further, it is argued that:

„… from the financial perspective, for the case of McDonald’s, it turns out that single-unit operators more easily provide the required investments“

This statement of a positive relation between investment and SUF partially contradicts theoretical foundations (e.g. parts of the resource based approach). For the case of McDonald’s, though it might hold true for the following reasons. In order to become a McDonalds’s franchise partner, franchisees have to oblige a contract with a duration of 20 years. Further, compared to other franchise systems, relative high investments are required. In this context, the interviewees mentioned the factor of the franchisee’s age. They argue that for younger franchisees it would be harder to open a second or third store within a few years, as for instance they might be still burdened with debts of their first store. On the other hand, for older (single-unit) franchisees, it is easier to raise capital to open a new store, but practical experience shows a tendency that the willingness to commit themselves to another contractual relationship of 20 years is decreasing with increasing age.

3. Section Two

In this section of our work we will present the case studies of two franchise systems, one SUF-system and one rather MUF-oriented system, operating within the same business sector. We decided for the cases of the companies MAILBOXES ETC. (MBE) and PRINTSHOP, since we want to base our findings on comparable franchise systems, i.e. same target groups, same industry, same local markets, so as to best possible study the motivations for their current ownership strategies. Additionally, since it turned out that some of the strategic orientations are dependent on industry factors, we want to enlarge our set of arguments by examining another case study, which is concerned with a pure SUF franchise system, operating in another business sector. Thus, we present the case of the Austrian retailer UNIMARKT, and try to merge its results with the findings of Printshop, so as to provide a wider range of arguments within the SUF oriented part. Moreover, it will be emphasized which issues of the case of Printshop can be supported. In order to establish a theoretical framework, we will emphasize on some of the most important aspects we identified in section one. Each of the authors separately conducted his case studies, using slightly different research methods. However, in order to allow for an adequate comparison of the findings, the case studies are largely based on the same theoretical framework, respectively the same set of propositions. We use case study research, a qualitative method which permits an investigation of a “theoretical phenomenon in its real-life context” (Yin, 1984 in Spinelli and Lentz, 2007).

3.1 Theoretical Framework

As already stated above, current literature on franchising reveals agency theory to be essential for many of the questions concerning a franchisor’s decision to adopt a MUF strategy. Thus, our propositions will have a focus on agency based problems. In addition to that we will cope with issues of resource dependence.

Following agency based concepts, MUF increases shirking problems due to a separation of ownership and control responsibilities (Sanchez *et al.,* 2006). However, Sanchez et al. (2006) argue that MUF can reduce shirking problems if outlets are geographically close, because control mechanisms are less costly for the multi-unit franchisee. Further, geographical proximity enhances knowledge transfer and learning procedures within a multi-unit system.

Franchisees with a high capability of knowledge transfer and local market experience tend to succeed in opening new units close to existing ones, i.e. in dense systems (Kalnins and Lafontaine, 2004; Kalnins and Mayer, 2004). Moreover, the closer a new outlet is located to existing outlets of a (multi-unit) franchisee, the more likely the franchisor will grant the new outlet to this franchisee, so as to avoid encroachment problems (Sanchez *et al*., 2006).

Single unit franchisees have an incentive to free-ride on the system's brand name, as they might reduce marketing efforts or input quality (Garg and Rasheed, 2006). A multi-unit franchisee, owning several outlets within a geographical area, internalizes a greater share of quality debasement costs, which in turn reduces the potential of free-riding (Bercovitz, 2004b, Sanchez et al., 2006). Additionally, Garg and Rasheed (2006), presenting the agency problem of quasi rent appropriation, state a high value of a franchisor's brand name to be a reason for this issue, while the likeliness of quasi rent appropriation is lower for franchise systems following a MUF strategy. Thus, we propose the following:

P1: *In franchise systems with a high geographical density of the outlets, the franchisor's tendency towards MUF is greater than the franchisor's tendency towards SUF.*

P2: *In systems where the value of the brand name (trademark) is high, the franchisor`s tendency towards MUF is greater than the franchisor's tendency towards SUF.*

The risk of adverse selection can be reduced under MUF (Bradach,1995). In the case of MUF, the number of applicants tends to be lower than under SUF, which increases the total of information available for the franchisor (Garg and Rasheed, 2006). Further, under MUF, franchisors are able to enhance efficiency due to economies of scale in terms of training, recruiting and screening costs (Kaufmann and Dant, 1996; Sanchez *et al.,* 2006).

Summarizing that comprehensive knowledge about a franchisee's intensions reduces the risk of adverse selection and that the likelihood of adverse selection is lesser under MUF compared to SUF, we can derive the following proposition:

P3: *The greater the information about a potential franchisee available, the lesser the risk of adverse selection and, hence, the franchisor's tendency towards MUF is greater than the franchisor's tendency towards SUF.*

Franchisees have the possibility to contribute to a franchise system's process of knowledge creation as they share local experience, and often account for system-wide strategies (Garg and Rasheed, 2006). Compared to SUF, multi-unit franchisees' capabilities of adopting changes in system-wide strategies are much higher (Bradach, 1995). Kalnins and Mayer (2004) present empirical findings about a positive relation between decreasing risk of unit failure and local market experience. Concerning the definition of system specific knowledge, we follow the explanation of Jensen and Meckling (1995), stating that the specificity of knowledge depends on the costs of communicating it effectively. Due to high costs of an effective communication (Combs and Ketchen, 1999), MUF might offer advantages over SUF in terms of cost efficiencies regarding system knowledge transfer.

Franchisors, compared to franchisees, face a situation of unequal ability to gain local market knowledge. In order to adapt system wide advantages of specific market know-how, there is a dependency of franchisors on franchisees' feedback. Under MUF, the number of upward information channels appear to be lower than under SUF, therefore knowledge transfer as an organizational capability tends to be more efficient under MUF (Garg and Rasheed, 2006). As franchisors operate within a dynamic environment, franchisees' local developments have to be looped back to the franchisor, so as to modify franchise system standards in such way that new franchisees can benefit from current franchisee experiences (Spinelli and Lentz, 2007). Additionally, because of a lower likeliness of opportunism of multi-unit franchisees compared to single-unit franchisees, they are more likely to engage in information sharing (Garg and Rasheed, 2006). Following these ideas, we derive the following propositions:

P4: *In systems with a high importance of system-specific know-how, the franchisor's tendency towards MUF is greater than the franchisor's tendency towards SUF.*

P5: *In systems with a high need for efficient upward information flow, due to local market responsiveness, the franchisor`s tendency towards MUF is greater than the franchisor`s tendency towards SUF.*

The scarcity of financial assets, as a resource constraint for franchise system growth, turns out to be relevant whenever a franchisor faces a need for (rapid) expansion (for example Windsperger and Dant, 2006; Sanchez *et al*.,2006; Kaufmann and Dant, 1996). From the outset, a franchising firm has to decide how to overcome this capital scarcity. One opportunity is to settle on a partnership with franchisees (for example Norton, 1988a). Franchisees can provide financial resources, as they, compared to external investors, can easier gain access to internal information (Combs and Ketchen, 1999a), which in turn reduces their investment risk. In this context, from the franchisee's point of view, MUF appears to have advantages over SUF, since investing in one single outlet appears to be riskier than investing in a number of outlets (Castrogiovanni, Combs and Justis, 2006). Weaven and Frazer (2004) indicate a positive relationship between MUF and the availability of franchisee capital. Grünhagen and Mittelstaedt (2002) support these findings, stating that multi-unit franchisees have more money to invest, and thereby offer greater opportunities for a franchisor to expand than single-unit franchisees can offer. Resulting from this, we suggest that:

P6: *In franchise systems which have to face high risks of financial scarcity, the franchisor's tendency towards MUF is greater than the franchisor's tendency towards SUF.*

Companies which have to grow in the early stages of the system life-cycles initiate franchising, i.e. a dual distribution, as a means of overcoming (capital) resource scarcity (for example Castrogiovanni, Combs and Justis, 2006), as to decrease the proportion of franchised outlets as soon as expansion pressure no longer exists and franchisors can concentrate on maximizing outlet returns (Oxenfeldt and Kelly, 1996). Thus, the authors argue that franchisors tend to repurchase outlets in their advanced stages of organizational life-cycle. Contrasting the resource-based view, franchisors, even successful and mature systems, do not aspire to full ownership strategies (Lafontaine and Kaufmann, 1994). Following an agency approach, dual management can be understood as a cost tradeoff between franchisee ownership related costs and company ownership costs (Seshadri, 2002). Seshadri (2002) names inefficient risk sharing, free riding or legal costs of termination as potential costs from the franchising perspective. At the same time there are the threats of shirking, necessary monitoring efforts or costs of capital for growth as ownership associated costs (Seshadri, 2002). Dual distribution can be considered as a means to minimize the total of these costs. In reference to a positive relationship between system growth and MUF (for example Garg and Rasheed, 2006), as well as a positive relationship between franchisees' entrepreneurial capabilities and the franchisee's ability to raise capital for growth (for example Windsperger and Dant, 2006), and in turn the positive relation between entrepreneurial capabilities and MUF (Weaven and Frazer, 2003), this would indicate that MUF might be the favorable strategy to decrease the costs of dual distribution whenever such ownership patterns of plural management are apparent. Additionally, Sanchez *et al.,* (2006) point out that MUF allows for a reduction of potential free-riding of franchisees, while potentials of shirking can be reduced as well under MUF (Bercovitz, 2004), which in turn decreases the costs of dual distribution as drafted by Seshadri (2002). Therefore, we develop the following proposition:

P7: *In a case of plural distribution, compared to systems where outlets are entirely franchised, the franchisor's tendency towards MUF is greater than the franchisor's tendency towards SUF.*

The efficiency of a franchise system basically depends on the franchisor's strategic decision how to deal with situational requirements. SUF strategies incorporate a relative high ability to respond to local conditions, whereas the higher ability of multi-unit franchisees to share information and to adopt system wide adaptations enhances greater efficiency whenever the main emphasis is placed on the need for information flow between franchisee and franchisor (Weaven and Herington, 2007). System wide adaptations, as an example of organizational capabilities (Bradach, 1998), encourage the system's competitive position and, in turn, increase the opportunity for future growth (Weaven and Frazer, 2007a). Bradach (1995) reveals that MUF provides effective system wide adaptation processes in order to support system growth. Dant and Gundlach (1998) refer to system wide adaptations and uniformity as a franchisor's means to maintain brand value, while Bercovitz (2004) states a positive relationship between brand value and MUF. The franchisor's ambition to strengthen the system's brand value trough uniformity particularly limits a single-unit franchisee's entrepreneurial autonomy (Weaven and Frazer, 2003). Therefore, we would suggest a MUF strategy to be most efficient for markets that are characterized by lower levels of local diversity and whenever franchisors focus on uniformity and system-wide adaptations is seen as a factor of success. Summarizing these arguments, we propose:

P8: *In systems with a high importance of system-wide adaptations, the franchisor's tendency towards MUF is greater than the franchisor`s tendency towards SUF.*

Franchisors that develop foreign outlets within their system need to overcome monitoring requirements (Alon, 2000). Under MUF, compared to SUF, these monitoring tasks can be more efficiently delegated to international multi-unit franchisees (Alon, 2000), since SUF would require a separate foreign subsidiary to monitor international single-unit franchisees. The geographical and cultural proximity as well as managerial and a high level of country- specific expertise supports a multi-unit franchisees' ability to cope with agency problems such as adverse selection or shirking, as the local multi-unit franchisee can more easily gain background information of potential franchisees than the franchisor can from the distance (Garg and Rasheed, 2006). According to Shane (1996), franchisors that expand internationally and therefore recruit foreign franchisees have developed capabilities to monitor potential franchisee opportunism. Bradach (1995) states, that multi-unit-franchisees are more capable than single-unit franchisees to amortize specific investments due to an adaptation to local conditions, which primarily holds in an international context. Considering these arguments, we come to the following proposition:

P9: *There is a positive relationship between franchisors that tend to expand internationally and the tendency towards MUF.*

As already stated above, these propositions, based on theoretical principles, shall be challenged and used as guidelines for the examination of the case studies in the following section.

3.2 Case Study – MAILBOXES ETC. (MBE)

3.2.1 MAILBOXES ETC. – Company Presentation

The following section is dedicated to the case of Mailboxes etc. (MBE). The company was founded in the USA in 1980. Thanks to enormous growth rates, it decided for international expansion and launched its first outlet in Canada in 1988, followed by an expansion to Europe in 1992. Today, the company encompasses more than 6.000 outlets in more than 40 countries in the world, including 870 outlets in 11 European countries. Mail Boxes Etc. offers a wide range of office-, distribution- and communication services and customized solutions, serving private customers as well as business clients. Thus, MBE is the world's leading franchisor within this line of business in the service sector.

3.2.2 Structure of the Franchise System

Concerning structural issues of the franchise system, there is a local partner for every region (country). In 2001, MBE Germany was founded, which is the local partner responsible for the German as well as the Austrian franchisees, headquartered in Berlin. MBE's first outlet in Austria opened its doors in 1999, before it had been integrated into the structure of MBE Germany. MBE Germany follows a separate strategy for the markets of Germany and Austria, apart from the global strategy of MBE in some points, as every market, respectively every region has its own specific requirements. Though, as we are interested in the Austrian franchise market and its franchise systems, we refer to the strategic decisions of MBE Germany within our case study. Likewise the system-wide strategy, MBE Germany follows a strategy of rapid expansion. Running a number of 120 outlets in Germany and 40 outlets in Austria by November 2010, the company plans to open additional 30 outlets in Austria in the medium-term, focusing on regions in the south and the west of the country.

MBE Germany runs only one company owned outlet. The system applies a mixed strategy, including a substantial proportion of MUF as well as a number of SU-franchisees. Since there is almost no franchise system in Austria which is following a pure MUF strategy, we consider MBE to provide reasonable foundations to apply MUF-theoretical principles.

3.2.3 Research Design

Data has been collected by means of a comprehensive questionnaire. In doing so, we mainly used interval scales in order to allow for a gradation of the answers. Documents on the company website as well as press releases were used to provide company- specific information. The questionnaire was sent to and finally answered by the assigned person for franchising concerns of “comm.in”, a PR agency which is exclusively entrusted with the franchising business of MBE in Austria and Germany. Data and statistical numbers refer to the date of November 2010. Further, the questionnaire was prepared and answered in German, as to minimize potential bias due to literal misinterpretation by the respondent.

3.2.4 Findings of the Case Study

P1 - The first proposition is concerned with the geographical dispersion of the franchise system’s outlets and the question whether this dispersion positively affects any of a MUF or SUF strategy. Looking at the strategic concerns of MBE, one can state that the system aims at an achievement of a nationwide network of franchise partners in the medium term. Further, the respondent confirmed the point that MUF strategies provide advantages over SUF regarding possibilities of an effective market penetration. Typically, the franchisor rather than the franchisee decides on the location for new outlets, whereby there is no significant focus on geographical proximity or an integration into a geographical network of existing outlets.

From the viewpoint of a MUF strategy, a positive relation between MUF and the density of the franchise system might rather hold true for the case of urban or city areas, where due to a location requirement to open new outlets only in cities of at least 20.000 inhabitants MUF proportions for such areas tend to be rather low. For the case of the Austrian market, more than half of the outlets of MBE are located in Vienna and its vicinity, compassing MUF-franchisees as well as SUF-franchisees, whereas the rest of the Austrian outlets are solely operated by SUF-franchisees. Any positive influence of the density of the system's outlets on its MUF proportion can therefore only be attributed to expansion within city areas. Though the geographical density of the franchise system's outlet network may be due to demographic rather than strategic reasons, we would refer to an indication of a support of proposition 1 for the case of MBE.

P2 – Proposition 2 suggests a positive relation between a franchisor's tendency toward a MUF strategy and the strength of the system's trade mark. Regarding the trade mark of MBE (Germany), Comm.in stated that the trade mark indeed was important to distinguish itself from competing (franchise) companies, but the argument that the trade mark of MBE provides competitive advantages could not be fully affirmed. Further, the strength of the brand name was classified to be rather mid-leveled, which might be due to the fact that MBE, at least on the Austrian market, has to cope with two well established competitors, namely Printshop and Repa Copy within a rather small industry. Another point reveals that investments that target on strengthening the trade mark tend to be rather low. Threats of free-riding and shirking (on the brand name) rarely emerge from such circumstances. Additionally, the risk of free riding on the system's brand name in terms of shading input quality (see Garg and Rasheed, 2006) appears to be reduced for the case of MBE. This holds true since every outlet, even a SUF outlet, is able to focus on certain specified issues of the system's core competency services, adjusted to local conditions or individual customer demands, which necessarily incorporates responsibility for quality concerns of any of the outlets, regardless whether owned by MUF or SUF franchisees. From the franchisor’s point of view, MBE confirmed the statement that following a MUF strategy rather than a SUF strategy supports the franchisor’s intention to strengthen the system’s brand name. Thus, for the case study of MBE, we can at least state a partial support of proposition 2.

P3 – Proposition 3 examines the relation between the risk of adverse selection and the franchisor’s strategic tendency, accounting for the level of information about potential franchisees available. Notwithstanding a certain proportion of MUF in the franchise system, as a matter of strategy, whenever there are new units to grant to franchisees, MBE first appeals to potential franchisees outside the system before the franchisor turns to existing franchisees. However, the strategic reasons of this procedural method might be due to factors apart from the risk of adverse selection, such as financial resource or growth issues. Nevertheless, Comm.in quoted a high importance of the franchisee selection, whereas from a strategic point, the fundamental step of the selection process is based on providing comprehensive information (e.g. brochures, online features, free information events for interested parties) in order to create an automatic pre-selection process, rather than an active collection of information about potential franchisees, which is primarily addressed to external parties. Therefore, in terms of resource efficiencies, the level of information available of applying franchisees can be increased already at the starting point of the franchisor’s active selection procedures. Summarizing the most important issues on the information, respectively the franchisee selection, we have to state that the arguments are not sufficient for a support of proposition 3.

P4 – Proposition 4 presumes a positive relation between a MUF strategy and the franchise system’s level of system-specific know-how. Concerning this issue, MBE’s responding agency highlighted the very high importance of system-specific know-how in combination with a high importance of quick adjustments to local market conditions to be fundamental principles of the system’s operations. The importance of system-specific know- how might in particular be due to market conditions and the low number of competing firms within MBE's business segment (at least in Austria), which in turn causes such knowledge to be a factor of competitive advantage.

Regarding the relationship between the creation of system-specific know-how in terms of gaining local market experience, the high relevance of this market experience for MBE and MBE's statement that knowledge transfer (costs) can be handled more efficient under MUF than under SUF (as the level of system-specific know-how can be defined by its communication costs (see Combs and Ketchen, 1999)), we can argue that a high level of system-specific know positively affects an orientation towards MUF. Thus, concerning the case study of MBE, we conclude that proposition 4 can be supported.

P5 – Incorporating a relationship to proposition 4, proposition 5 is concerned with the level of information flow and knowledge transfer from the franchisee to the franchisor, and its impact on the franchisor's strategy with respect to MUF or SUF. Aside from the significance of system-specific know-how and adaptations to local market conditions, the company explained a crucial importance of upward information-, specially know-how transfer as another essential factor for the system's positive outcome. In contrast, Comm.in mentioned that from the franchisor's point of view, MUF would not provide advantages over SUF in terms of communication efficiencies between franchisor and franchisees. Rather, it was explained that MUF might provide slight advantages concerning information transfer among franchisees, whereas it was not specified whether this information transfer primarily refers to information flow within a MU-franchisee's chain or even to know-how exchange among all franchise partners. Moreover, since competition requires fast and efficient adaptations to local market conditions, MBE affirmed that a MUF strategy supports and accelerates these adaptations as the number of information senders (i.e. the franchisees, as we focus on upward information flow) and thus the volume of transferred information and know-how can be reduced under MUF. Therefore, since the statement that MUF has no advantages over SUF concerning communication impedes a full support but due to the relevance of upward information for the case of MBE, we would at least examine a partial support of proposition 5.

P6 – Proposition 6 is concerned with the financial aspects of the franchise system's strategy and a relationship between a franchisor's financial scarcity and his tendency towards MUF. The answers to the questionnaire reveal several arguments that (at least partially) support an expected positive relation between a risk of financial scarcity and MUF, whereas others do not. An interesting issue at this point is concerned with the distinction between arguments of MBE that refer to MUF in general which rather state that a MUF strategy might offer advantages to franchisors which have to cope with capital scarcity, while on the other hand there are statements that contradict these arguments for the specific case of MBE. First, it was mentioned that MUF provides advantages in terms of growth potentials and financial resources on the franchisee side. Moreover, MUF-franchisees are imputed to show entrepreneurial behavior to a greater extent. Even though MUF might positively affect system growth, MBE states that growth can be guaranteed by an entry of new franchisees, which would contradict the chance to enhance growth by granting new outlets to existing franchisees. A statement that capital for growth is generated by an entry of new franchisees however has not been verified. Neither could be verified that franchisees are understood to be a means of a reduction of the franchise system's level of financial risk.

For the case of MBE, financial advantages due to the cooperation with franchise partners turns out to be no relevant factor for the franchise system's strategy. Generally, MBE does not affirm any advantages whether for a MUF or a SUF strategy regarding the possibilities to access capital or a diversification of financial risk, which, for the case of MBE might be related to a rather low level of investment required. Referring to the issue of investment, MBE does not state any difference between MUF and SUF franchisees concerning their propensity to invest. Since we primarily base our outcomes on the specifications of the case study of MBE, we can only attest a partial support of proposition 6.

P7 – Proposition 7 assumes tendencies towards MUF for the franchised outlets whenever a franchise system follows a strategy of dual distribution. For the case of MBE Germany an interpretation of strategic concerns referring to dual distribution appears to be limited since there is only one company owned outlet. Generally, a high proportion of company owned outlets would conflict the global and basic principles of MBE, as for instance in terms of the franchise system's specification of a high level of local responsiveness. As already mentioned within the findings of proposition 6, MBE faces conditions of a rather low level of resource (i.e. financial) scarcity. Therefore, there is no need for a high proportion of franchised outlets in order to overcome scarcity which declines the assumption that the high proportion of franchised outlets is based on scarcity reasons (which could affect a strategic orientation towards MUF). Additionally, due to market conditions, there is no explicit pressure for rapid expansion.

Concerning the threats, respectively the costs of shirking (see Bercovitz, 2004), they turn out to be rather low for MBE (as explained in the findings of proposition 2), which in turn reduces the call for dual distribution as a means to minimize these costs. Moreover, as to correspond to theoretical approaches such as Seshadri (2002), entrepreneurial attitudes and capabilities were mentioned to be higher under MUF, as well as it was stated by the respondent that MUF provides advantages in terms of efficiencies of control mechanisms. The agency of Comm.in affirmed that MBE strongly disagrees with the statement that company owned outlets have advantages over franchised outlets. Despite a low level of validity due to the very low number of company owned outlets, we classified MBE to be a system with dual distribution and assessed no support of proposition 7.

P8 – Proposition 8 refers to the relation between the strategic factor of system-wide adaptations and assumes a positive tendency towards MUF whenever the importance of system-wide adaptations is high for the franchisor. Turning to theoretical foundations, some authors mention that MUF systems tend to have higher capability to adopt and to share system-wide information so as to increase efficiencies, which holds for systems that emphasize on information transfer between franchisor and franchisees (for example, see Weaven and Herington, 2007). Moreover, system wide adaptations and uniformity might strengthen the system's brand value.

Referring to these points, MBE examined advantages of MUF over SUF concerning uniformity and a standardized appearance of the system's outlets, as well as it was supposed that MUF enhances the value of a franchise system's brand name. Regarding the information transfer processes however, MBE does not state advantages for any of the strategic orientations, whereas for the business of MBE, a great importance of the information transfer between franchisor and franchisees has been highlighted.

Contradictory, MBE designates the system's high ability to respond to local market conditions to be a key factor for the system. However, efficient adoptions of corporate guidelines as well as the existence of such system-wide guidelines were also specified as fundamental factors. Another theoretical point is concerned with market conditions and the fact that markets with lower levels of diversity occur to be ideal for MUF strategies (rather than SUF). Such conditions however are not fully met for the case of MBE, since there are some differences in local conditions. Taking into account the various aspects of MBE's strategic principles in the end, we can at least approve partial support of proposition 8.

P9 - Proposition 9 examines the relationship between a franchise system's strategic orientation (MUF or SUF), and the franchisor's intention to expand internationally. First of all, regarding the issue of expansion, we have to mention the differentiation between MBE as a global franchise system and the (strategic) separation of MBE Germany. Thinking of MBE's 6000 outlets in more than 40 counties in the world, there is no doubt that the company incorporates a need for global expansion, whereas the scope of MBE Germany in this context occurs to be limited. However, Comm.in stated that expansion to foreign markets was a basic aspect for the success of the system. Quite interestingly, the agency further quoted that the preferred franchisees for (new) foreign outlets neither encompass existing franchisees nor local franchisees, which would definitely foreclose a MUF orientation. Moreover, MBE declared advantages of SUF over MUF in terms of international expansion efforts, which foremost are based on advantages concerning cost structures, respectively financial advantages for internationalization processes for SUF.

Taking again into consideration some of the theoretical approaches, we come to the point of specific investments due to local conditions as named by Bradach (1995), which are suggested to be handled easier by MUF systems. However, it turns out that due to a relative low level of investment requirements, this factor does not have a great strategic impact, even though efficient adaptations to local market conditions have been stated to be a strategic foundation of the franchise system of MBE, and that MUF might fit better in order to adapt to local competition. Another issue refers to monitoring requirements, which typically are increased for foreign outlets. Correspondingly, MBE stated advantages for MUF strategies over SUF in terms of efficiency and economic reasons concerning control and monitoring activities. All together, the arguments which conflict this proposition are prevailing, so that we cannot approve a support of proposition 9.

Table 3: Summary of the Results of MBE

Factor	**Relation to MUF observed**	**Relation to SUF observed**	**Findings**
Density of outlets	+	-	Support of P1
Strength of trademark	-,+	-	Partial Support of P2
Information about potential franchisees/ Selection process	-	+	No support of P3
System-specific know-how	+	-	Support of P4
Upward information flow	+	+	Partial Support of P5
Risk of financial scarcity	+,-	/	Partial support of P6
Strategic impact of dual distribution	/	/	No support of P7
System-wide adaptations	+	/	Partial support of P8
International expansion	-	+	No support of P9

3.2.5 Discussion of the Case Study of MAILBOXES ETC.

One of the first important issues of the case study is concerned with MBE's strategic separation of the units in terms of countries or regions. This separation (which reflects a high level of local responsiveness) foremost affects specific local conditions (such as local transportation partners, etc.) rather than MBE's strategic foundations, but nevertheless we can not exactly state the extent of the impact of the home country strategy (i.e. for the United States) on the strategic principles of MBE Germany. However, in order to come to the point, we can state that the outcome of the case study does not show a clear tendency towards the principles of the theoretical basis, as rather the results appear to be quite balanced. Two propositions (P1, P4) could be supported, we found no support for 3 propositions (P3, P7, P9), and four propositions (P2, P5, P6, P8) could be at least partially supported, whereas some of the findings remain debatable to some extent, since there are arguments pro as well as contra a support within the responses of almost every proposition, so that we had to find a proper emphasis of the arguments in terms of their strategic impact.

Basically, we can examine that quite a number of the theoretical principles which suggest a positive impact on a franchisor's tendency towards a MUF strategy are apparent within MBE's decision making processes. We impute the disability to fully support this positive relationship to the existing influence and importance of the franchise system's SUF proportion, since there is hardly any (pure) MUF franchise system operating in the Austrian market.

Another point we can retrieve from the case study refers to the fact that the franchisor's perspectives do not foreclose a support of the expected positive relationship from the outset. Rather, some of the arguments reveal that there is accordance with some of the theoretical foundations, such as for the factors of system uniformity or upward information transfer for instance. However, for MBE, the reason for a high proportion of SUF is not always due to reasons that oppose a MUF strategy but rather to situational factors like the expansion policy of MBE Germany. As the franchise system follows a strategic focus of a regional proximity of the franchisees as well as another strategic point is concerned with a nationwide expansion (incorporating a location requirement of at least 20.000 inhabitants to open an outlet), the system only accounts for MUF in cities of more than 40.000 inhabitants. On the other hand, the focus to expand all over the country rather supports a growth of the SUF proportion, which might further be the reason for any contradictions within MBE's (respectively the agency's) responses. Interestingly, concerning the system's existing MUF franchisees, the responding agency very well confessed (economic) advantages over SUF outlets, even though a positive influence of factors that, based on literature, typically support MUF strategies (i.e. strength of the brand name, franchisee selection efficiencies, international expansion efforts or financial resource advantages) does not hold true for the case of MBE. Consequently, there is no trend of a general accordance with the theoretical principles which propose this positive relation.

Concluding, we can assess that MBE does not necessarily follow a MUF strategy for agency based reasons as the company rather supports MUF whenever market and demographic conditions allow for reasonable adoption of MUF. On the other hand, since the focus on nationwide expansion exceeds the need for an enlargement of the MUF proportion, the responsibility for the choice for MUF is more on the franchisees' than on the franchisor's side.

3.3 A Case Study of Two Single-Unit Franchising oriented systems: PRINTSHOP and UNIMARKT

The case studies of PRINTSHOP Sofortdruck GmbH and UNIMARKT HandelsgmbH are largely based on an extensive questionnaire. For Printshop, it has been completed by the executive director of Printshop Austria in september 2010, who is also responsible for any franchise-related issues of the company. For the case of Unimarkt, the questionnaire has been completed by the company's franchising sales manager in January 2011. Further, research has been supported by online documents and telephone interviews.

3.3.1 Company Portrait PRINTSHOP

The company was founded in Austria in the year 1988. Printshop describes itself to be the market leader in the field of instant printing and one of the leading providers of office solutions. By the end of 2010, it operates a network of 35 outlets in Austria, and a total of almost 150 international franchised shops, including locations in the countries Germany, Sweden, Italy, Bulgaria, Romania, Switzerland and Poland.

In Austria, single-unit franchising occurs to be the dominant strategy for Printshop, since there are only two multi-unit franchise partners, none of them running more than two units. Moreover, there are six company-owned outlets. The remaining units have to be categorized as to be operated by single-unit franchisees, thus allowing for considering the franchise-system to be strongly SUF-oriented. Since the system`s franchise fees are rather low and the franchisor`s service include financial support for the franchisee, these factors might indicate that the need for a MUF strategy might be reduced. Moreover, at the current stage of the system`s life cycle, financial scarcity does not appear to be a question of substance. Interestingly, research revealed that there seems to be a different strategy for the international outlets, as there are only five international franchise-partners.

3.3.2 Company Portrait UNIMARKT

Unimarkt HandelsGmbH& Co KG is an Austrian based retail chain in the food sector, which was founded in 1975 in Traun, where it has still its headquarters. After a period of restructuring processes, it became a member of the Pfeiffer group in 1983 and started its franchising business in 1995. Unimarkt was the first Austrian franchise system in the food sector. Currently, there are 112 outlets, 76 of them company owned, and 36 of them franchised. Further, there are 36 franchise partners, leading to the fact that Unimarkt is following a pure SUF strategy. Concerning the growth strategy of the system, the proportion of the franchised outlets is growing faster than the proportion of the company owned outlets. The company does not have any international outlets, and currently there are no plans for any international expansion. Rather, its strategy is based on local know-how and regional distinctions to a great extent, which represents a core competency of the franchise system. Moreover, the pure SUF orientation refers to the rather high level of capital required, whereby it is a strategic concern of the company that running a single-outlet should economically allow for the franchisee’s subsistence.

3.3.3 Results

In the following, the propositions of the theoretical framework shall be challenged by applying the findings of the questionnaires. In doing so, we refer to both of the cases, Printshop and Unimarkt, in which we will examine strategic similarities as well as we will differentiate between inequalities.

P1: *In franchise systems with a high geographical density of the outlets, the franchisor’s tendency towards MUF is greater than the franchisor`s tendency towards SUF.*

Proposition 1 could not be supported. In the case of Printshop, the question of how the Austrian outlets are located revealed the following dispersion: there is one outlet in Carinthia, two outlets in Styria, five outlets in Lower Austria and all the remaining outlets are located in Vienna. This situation therefore outlines a high density of the franchise system in Vienna. In turn, given the SUF- oriented ownership strategy of Printshop, the high density contradicts the proposition of a positive relation between a high density and a MUF strategy.

Concerning the selection process where new outlets shall be located, the company provided information that it is a strategic matter of the franchisor to integrate new outlets in a network of existing units, whereas it is the franchisee`s obligation to determine the exact location (i.e. to choose the salesroom). Hence, it might be argued that the factor of density does actually affect Printshop`s strategic decisions but it does not play a role in the ownership strategy. Moreover, the franchisor verified that from his point of view, MUF does not offer advantages over SUF regarding the information transfer among franchisees, which, for the case of Printshop, might invalidate the argument of Kalnins and Lafontaine (2004), stating a positive relation between a high capability of knowledge transfer and a tendency towards MUF.

Referring to the results of Unimarkt, we can state that the factor of density plays a role in the strategic planning of the company, since all of the outlets are located in lower Austria, Upper Austria, Styria and four outlets in Salzburg. Thus, density appears to be high in these regions. As the company states a focus on a careful site selection, a strategic reasoning of the system’s outlet location can be assumed. Nevertheless, since Unimarkt follows a pure SUF strategy, this would in turn foreclose a support of this proposition. The findings reveal that a local connection of the franchisee appears to be highly important for the (franchisee selection) strategy of the system and thereby affects the selection of new locations.

P2: *In systems where the value of the brand name (trademark) is high, the franchisor`s tendency towards MUF is greater than the franchisor`s tendency towards SUF.*

Proposition 2 could also not be supported. The findings point out a high importance of the brand name for the franchisor, as well as the franchisor affirmed a high value and a high level of investment in order to strengthen the trademark of Printshop. Further, it turned out that the franchisor`s arguments support the statement that the brand name provides a competitive advantage to the franchisee, as well as it distinguishes the system from its competitors within the industry.

Keeping in mind the SUF-orientation of the franchise system and the theoretical background, a combination of such factors would result in perfect conditions for shirking and free-riding (see for example Sanchez et. al, 2006), or the problem of quasi-rent appropriation such as presented by Garg and Rasheed (2006). In contrast, it should be mentioned here that Printshop runs a number of company owned outlets, which can be understood as a company`s tool to keep up the brand value (for example, see Weaven and Herington, 2007), as well as a mixture of company owned outlets and franchised outlets reduces the risk of free-riding and shirking.

However, there is no detailed information about any shirking problems for the case of Printshop. Rather, it can only be concluded for this proposition that franchise systems that understand their trademark as an investment as to gain competitive advantages, to strengthen the market position or to support the franchisee do not necessarily follow a MUF ownership strategy. In the case of Printshop, the study disclosed some kind of double edged findings, as the high value of the brand name was stated to be a factor for the success of the franchise-system, whereas the outcome of the questionnaire also confirmed that, from the franchisor`s point of view, a MUF strategy has advantages over a SUF strategy concerning a consolidation of the value of a system`s brand name. At this point we have to say that we are not able to comment on the question how Printshop deals with the problem of free-riding or shirking, respectively if there is a high relevance of these issues within the system.

Though there is constitutive accordance between the results of Printshop and Unimarkt concerning the importance of the brand name for the success of the franchise system, the high level of investment to strengthen the brand name or the competitive advantage provided by the brand name, there are some points where Unimarkt defined different (strategic) approaches. Regarding the strength of the brand name compared to competitors within the business sector, Unimarkt concedes a low level of strength for its trademark. However, the company states that the trademark is important to be differentiated from competing companies. Given this information, it can be argued that threats of shirking or free riding are less essential for Unimarkt. As the company follows a pure SUF structure, there are no differences regarding the potential to free-ride on the brand name due to different shares of debasement costs between any of the franchisees. Additionally, there is a very high number of company owned outlets in the system, which, following the ideas of Seshadri (2002), supports a reduction of the risk of free-riding and shirking.

The study of Unimarkt reveals another interesting aspect concerning the system`s brand name, as the company strongly argues that a SUF strategy has advantages over a MUF strategy regarding a protection of the trademark, i.e. to protect its reputation. This argument contradicts some principles of the theoretical basis of Garg and Rasheed (2006), but can be explained by a high probability of detection for the case of Unimarkt, where monitoring efforts of the franchisor turn out to be rather manageable than in bigger systems with international outlets. Thus, taking into account Unimarkt`s results, a support of proposition 2 has to be refused.

P3: *The greater the information about a potential franchisee available, the lesser the risk of adverse selection and, hence, the franchisor`s tendency towards MUF is greater than the franchisor`s tendency towards SUF.*

Proposition 3 could be partially supported. Printshop reported an efficient selection of franchisees to be a key-factor for the franchise system. Interestingly, the selection of franchisees for new outlets was stated to be not only addressed to external candidates but also to existing franchisees, which would stand in contrast to the SUF strategy in Austria on the one hand, while on the other hand it would correspond to the recruitment strategy for the international markets. Further, it was indicated that the selection process of franchisees for international outlets accounts for local applicants to a great extent.

Thus, it can be concluded that by following a MUF strategy for international outlets, the franchisor tries to minimize the risk of adverse selection, since the collection of information turns out to be more costly, time consuming and risky for the case of international potential franchisees. On the other hand, a present risk of adverse selection does not affect the SUF-dominance of the Austrian outlets.

Due to the pure SUF strategy, Unimarkt restricts its selection process for new franchisees to external applicants from the outset. Although the company does not use the possibility to grant new outlets to existing (even high performing) franchisees for strategic reasons, it states a very high importance of an efficient selection process. Thus, potential economies MUF would provide with respect to the franchisee recruitment process are offset as an investment in order to reduce the risk of adverse selection. Since the extent of information available does not affect Unimarkt`s strategic tendency at all, the arguments of proposition 3 could not be supported from this point.

P4: *In systems with a high importance of system-specific know-how, the franchisor`s tendency towards MUF is greater than the franchisor`s tendency towards SUF.*

P5: *In systems with a high need for efficient upward information flow, due to local market responsiveness, the franchisor`s tendency towards MUF is greater than the franchisor`s tendency towards SUF.*

Propositions 4 and 5 both could not be supported. Again, the reason for the rejection in the case of Printshop is that the variables of system specific know-how as well as the upward information flow between the franchisees and the franchisor turn out to be highly relevant for the success of the franchise system.

Following the statements of Garg and Rasheed (2006), who say that under a SUF strategy the number of upward information channels tend to be higher than under a MUF strategy, one could interpret the high level of importance for Printshop. More upward information channels (by means of a SUF strategy) would thereby at least result in a higher quantity of information available and an opportunity for the franchisor to gain a higher quality of information. Accordingly, Garg and Rasheed (2006) argue that the franchisor is dependent on franchisee`s feedback in order to gain local market know-how. Some theorists further point out cost advantages of MUF strategies due to higher communication, respectively knowledge transfer costs of SUF systems (for example, Combs and Ketchen, 1999). This statement partially holds true for the case of Printshop, as the respondent conceded opportunities to optimize cost structures under a MUF strategy. Further, the results indicate that he confirmed advantages of a MUF strategy over SUF concerning the information transfer between franchisor and franchisee. However, we do not assume this statement to be a support for proposition 5, since a high level of upward information as well as a high relevance of market responsiveness had been confirmed in the case of Printshop`s (SUF) system. Another important point in this case is the existence of company owned outlets. Compared to a MUF strategy, it can be supposed that these outlets to some extent bear (system specific) knowledge transfer liabilities.

The findings of Unimarkt do not significantly differ from the findings of Printshop. Again, constituting an essential contradiction to proposition 4 as well as proposition 5, the franchisor entitled system specific know-how to be a fundamental factor for the success of the franchise system. Moreover, it has been stated that a MUF strategy does not have any advantages over SUF concerning any information exchange channels within the system, neither among franchisees, nor between franchisee and franchisor. For the case of Unimarkt, a rather low level of the need for knowledge transfer among franchisees might result from the strategic focus on local conditions, which in turn rather increases the need for upward information flow. Summarizing the essential statements, high local responsiveness and an associated knowledge transfer from the outlets to the franchisor appears to be a main pillar of Unimarkt`s strategy. Thus, these terms would exactly meet the conditions of proposition 5, whereas the pure SUF strategy is opposed to the expected orientation towards MUF.

P6: *In franchise systems which have to face high risks of financial scarcity, the franchisor`s tendency towards MUF is greater than the franchisor`s tendency towards SUF.*

Proposition 6 could be partially supported. The questionnaire revealed several points about Printshop's growth- and financial strategies. Capital for expansion can be generated by accommodating new franchisees to the system. Growth, on the other hand, is not dependent on adding new franchisees to the system, as rather existing franchisees might adopt this assignment. Concerning the franchisee’s financial resources, the company is not of the opinion that a MUF has advantages over a SUF strategy. Another point is deals with a pooling or diversification of capital risk. While Printshop supports the argument that franchise-partners diversify the company`s entrepreneurial and financial risk, it additionally states that MUF does not offer advantages over SUF concerning this risk diversification. Moreover, the company mentions financing advantages by cooperation with franchise partners not to be an important factor for the success of the franchise-system. However, the issue of risk diversification by means of a MUF strategy rather holds true for the case of Printshop’s international outlets, as the company affirms financial advantages of MUF over SUF in the case of international expansion. Finally, even though Printshop does not see itself being forced to overcome a situation of financial scarcity by turning to a MUF strategy, we would state the proposition to be at least partially supported, since international expansion efforts typically incorporate a higher level of financial risk and at this point a positive relation between a need for capital and a MUF strategy can be assumed.

Contrarily, the findings of the case of Unimarkt provide arguments that franchisees do not reduce the financial risk of the franchise system, which might be based on the high proportion of company owned outlets. Moreover, due to this high number of company owned outlets, the system is not dependent on an entry of new franchisees to generate capital for growth. On the other hand, the respondent argued that the existence of franchisees within the outlet structure provides financing advantages for the overall system. However, according to Unimarkt, these financial advantages (for the franchisor) are not concerned with a MUF strategy, as the franchisor stated for instance that MUF does not offer optimization potentials of cost structures more than SUF. Rather, the questionnaire only reveals advantages of a MUF strategy regarding an access to capital. Unimarkt`s strategic orientation therefore does not contradict proposition 6 from the outset, but it does not hold the condition to be a system facing high risks of financial scarcity. However, at this point we have to remark that the differentiation between the business sectors of Unimarkt and Printshop plays a crucial role concerning the financial issues of the systems.

P7: *In a case of plural distribution, compared to systems where outlets are entirely franchised, the franchisor’s tendency towards MUF is greater than the franchisor`s tendency towards SUF.*

Proposition 7 could be partially supported. At this point, once again a differentiation between the Austrian market and the international markets has to be done for the case study of Printshop. On the one hand, the company reports that there are no advantages whether of a franchised outlet over a company owned outlet or vice versa. From the company`s strategic point of view, the pattern of dual distribution could be understood as an attempt to reduce the risk of franchisee`s shirking or free riding actions within a SUF dominated structure. As already mentioned above, a rather MUF oriented strategy might be useful to realize a reduction of threats such as shirking or free-riding (on a brand name value for instance). Moreover, the company states that MUF provides advantages regarding any control mechanisms, concerning financial as well as efficiency issues, which might hold true for Printshop`s international business. One could therefore assume that the company owned outlets on the Austrian market satisfy some kind of advantages a MUF strategy would incorporate, concerning issues such as cost-structure advantages, a strengthening of the brand value or efficiency advantages of control mechanisms. However, since there is no detailed information about the company owned outlets available, we have to retain a character of assumption. Nevertheless, Printshop`s international strategy of a MUF orientation together with a form of plural management occurs to be at least a partial support for proposition 7.

Unimarkt strongly supported the argument that franchised outlets provide some advantages over company owned outlets on the one hand, while on the other hand the company explained that the existence of company owned outlets was an important basis for a successful operation of the franchise system. This combination clearly contradicts proposition 7. However, from Unimarkt’s strategic point, the franchised outlets focus on system-specific strengths such as local responsiveness. Following theoretical aspects concerning a cost tradeoff between franchising related costs and company owned outlet related costs (for example Seshadri, 2002), Unimarkt argued that franchising provides advantages regarding financing of the system, whereas company owned outlet related costs cannot be balanced by a SUF strategy such as a MUF strategy could do. According to the case of Printshop, the company mentioned advantages of MUF over SUF concerning costs such as expenditures for control mechanisms. Contrary to Printshop’s arguments, Unimarkt reported that a SUF strategy has advantages concerning threats of shirking or free riding on the brand name, which might be due to the system’s business segment, since the company does neither operate in the service sector nor in the production sector per se.

P8: *In systems with a high importance of system-wide adaptations, the franchisor’s tendency towards MUF is greater than the franchisor`s tendency towards SUF.*

Proposition 8 could not be supported. First of all, the findings indicate a great importance of Printshop`s need to be highly respondent to local market conditions as well as local know-how is stated to be a factor of success for the system. Following theoretical arguments (for example, Weaven and Herington, 2007), SUF-strategies typically encompass a high ability to react on local conditions while higher levels of system- wide adaptations would rather call for strategies that focus on an efficient information transfer between franchisor and franchisee, such as MUF strategies typically do. However, regardless the SUF orientation, in the case of Printshop, system wide adaptations and an efficient implementation of company guidelines as well as uniformity of the franchise-systems from a client`s point of view appear to be crucial aspects of the franchisor`s strategy and the franchisor`s overall success. Nonetheless, Printshop mentioned that MUF would provide advantages whenever a franchise-system focuses on system-wide adaptations as a strategic factor. Thus, even though the importance of system-wide adaptations for Printshop turns out to be not sufficient to confirm a positive relation between system-wide adaptations and SUF, at least it forecloses the alternative to support a positive relation between a high level of system-wide adaptations and a tendency towards a MUF strategy.

In the case of Unimarkt, the rather great proportion of company owned outlets plays a role concerning the issue of system wide policies or procedures, respectively system wide adaptations. For the franchised proportion of the outlets, the company reports a high importance of system wide adaptations as well as a high level of uniformity. However, it was argued that any strategy other than SUF would again meet the characteristics of the chain stores (i.e. the company owned outlets), but thereby incorporating the disadvantage of limited access from the franchisor's point of view. Thus, even though the factor of system wide adaptations affects the system's strategy, a MUF orientation appears to be inexpedient, which is again due to the specifications of Unimarkts business sector.

P9: *There is a positive relationship between franchisors that tend to expand internationally and the tendency towards MUF.*

Proposition 9 could be partially supported. Basically, the questionnaire revealed that the company of Printshop does not assess international expansion to be a relevant factor for the success of the franchise-system, whereas it sees advantages for MUF systems over SUF strategies concerning opportunities for an international expansion, which both would at first support proposition 9. Additionally, the company supported the statement that new international outlets are prevalently assigned to existing franchisees. Nevertheless, it has been further stated that international outlets are predominantly assigned to local franchisees, which could indicate that the franchisor considers a MUF strategy rather, respectively only for the international partners. However, regarding the Austrian basis of the franchise-system, we cannot fully but only partially support the proposed tendency, since the company follows a SUF strategy on the home market, whereas there is a MUF orientation on the international markets. Concerning the strategic position of the franchise system of Unimarkt, we can perfectly neglect proposition 9, since there neither exist any international outlets nor did the company currently state any intensions of an international expansion.

The following table summarizes the findings of the case studies and refers to a combination of the arguments of Printshop and Unimarkt in order to support the proposition or not.

Table 4: Propositions and Findings of the case studies of Printshop and Unimarkt

Pro-Posit ion	Investigated Factor (with level expected to be high)	Predicted tendency of the franchisor		Findings of the Case Studies
		MUF	SUF	
P1	Geographical density of the outlets	X		**Not supported**
P2	Value of the system`s brand name	X		**Not supported**
P3	Available information about potential franchisees	X		**Partially supported**
P4	Importance of system-specific know-how	X		**Not supported**
P5	Need for efficient upward information flow	X		**Not supported**
P6	Risk of financial scarcity	X		**Partially supported**
P7	Dual distribution	X		**Partially supported**
P8	Importance of system-wide adaptations	X		**Not supported**
P9	Level of international expansion	X		**Partially supported**

3.3.4 Discussion of the Case Studies Printshop and Unimarkt

Before we come to a discussion of the major findings of the case studies, we want to make a note of some issues we had to cope with. First of all, one should mention that the strategy of the franchise system of Printshop appears to be different for the home- and its foreign markets. As already stated above, the company follows a SUF strategy on the Austrian market, whereas a MUF orientation seems to be applied on the international markets. Data about the firm`s strategic decisions appear to be expedient for the Austrian outlets, while it is very difficult to define the scope of application of the results even for the international units.

Another important argument deals with Printshop`s strategy of plural distribution. Following theoretical principles, a strategy of dual management typically affects the franchisor`s overall ownership strategy. However, we cannot provide encompassing information about the influence of Printshop`s company owned outlets on the whole franchise-system, so that we have to put up with the limitation of only partially taking into account the strategic consequences of a dual distribution. Though, the findings revealed that the company does not state any advantage or disadvantage for any of the two kinds of outlets, either company owned or franchised ones, which of course does not significantly influence the ownership strategy. Unimarkt on the other hand mentioned advantages for franchised outlets over company owned outlets, even though only one third of Unimarkt`s outlets are franchised units in the moment. Most of these arguments refer to advantages that result from a high level of local responsiveness, due to a strategic focus within the franchisee selection process, since local market know-how turns out to be a competitive advantage and a means of distinction from the system’s competitors.

Concluding the case study`s results, the dominant aspect appears to be the fact that almost no proposition could be supported. The main reason might be related to the rather MUF-focused theoretical foundation, which in some points handicaps an evaluation of a SUF-system. Another aspect is concerned with the design of the questionnaire, in particular the problem that a representative questionnaire should be neutral from the outset, i.e. it should not presume tendencies towards MUF or SUF strategies. Notwithstanding any tendencies that might be predictable when a company is being selected to be subject of a case study, the questionnaire, or any other instrument of investigation, should not enforce this tendency. Thus, in the case of Printshop as a SUF company with a dual management, it can be stated that the findings at least do not support the positive relations between the observed variables and a MUF strategy of the franchisor. Consequently, the significance of the results of the study seems to be limited, only aside from the fact that the strategic decisions of the SUF-system indicate that the franchisor`s MUF orientation cannot be supported. However, this does not necessarily lead to a support of a positive relation between the variables and SUF.

Even if the franchisor (foremost taking into account the response of Printshop) stated advantages of a MUF strategy over a SUF strategy concerning most of the variables, such as for propositions 2,4,5,8 and 9, we had to take into account the "reverse argument" which means that as soon as the franchisor declared the variable to be a crucial factor for the success of the (SUF) franchise-system, we had to refuse a support of the proposition. For the variables of the brand value, the importance of system-specific know-how, the efficiency of an upward information flow, and the importance of system-wide adaptations the company particularly affirmed a strong importance for the system`s strategy. Finally, the findings of Printshop's case study do not reveal detailed information about the factors that essentially influence the basis for Printshop`s SUF strategy on the Austrian market, as we can rather only conclude that a number of factors would not provide any advantages if a rather MUF oriented strategy was adapted (i.e. factors that show up to be strategically significant do not necessarily support SUF).

Another argument concerning this issue is the fact that both of the respondents, Printshop and Unimarkt specified that MUF strategies have various advantages over SUF strategies. Nevertheless, both of the systems follow a SUF strategy and declared this type to suit them best. Since the reasons for these discrepancies do not meet the scope of our case studies, it could be a topic for further research. Unimarkt's respondent declared that the advantages and disadvantages of MUF or SUF strongly depend on the business segment of the franchise system. From his point of view, franchisors within the service sector (such as insurances, etc.) significantly differ from franchisors within the production sector concerning their strategic focuses and requirements. Thus, he mentioned that such firms would quite differently evaluate the factors our case studies primarily refer to, even if they follow the same strategic orientation concerning SUF. For Unimarkt, granting more than one unit to a franchisee appears to be not recommendable for the franchise system at all, since this would again turn out to lead to some kind of chain store character, but with the disadvantage for the franchisor of a limited access to business concerns on the unit level. On the other hand, Unimarkt conceded that, for economic reasons, MUF could be a useful strategy, if running only one outlet would be economically unviable for the franchisee for instance, which however should not hold true for any franchisee within the system of Unimarkt.

4. Comparison and Discussion of the case studies

As already stated above, for our case studies we chose two companies within the same business segment but different strategic orientations (concerning SUF or MUF) in order to allow for a proper comparison. As a second factor, we defined the origin of the franchise system. MBE is an US based franchisor that has a separate strategic department for Austria and Germany. Resulting from this we added another case, in particular Unimarkt, which in fact operates in another business sector but meets the criteria to be an Austrian based franchise system.

One mayor point to consider is that a majority of the franchise systems within the Austrian markets appear to follow mixed strategies rather than focusing on a MUF or a SUF orientation. An additional limitation within our work is that we do not consider differentiations between the forms of sequential MUF and area development, even though literature comes up with differences in some (strategic) aspects.

Looking at the density of a franchise system's outlets, it appears that the specific needs of each of the three franchise systems has more strategic weight than the question whether a MUF strategy would fit better than SUF in order to meet these requirements. Whereas Unimarkt's and Prinshop's rather high level of geographical outlet density reflects the importance of the systems' importance of local responsiveness, MBE shows up with a positive relation between density (in city areas) and MUF, even if the company's strategic orientation does not encourage density (and thus MUF) as the strategic focus lies on a nationwide expansion (thereby adopting SUF). Likewise, the positive impact of a strong trademark on the franchisors orientation towards MUF in principle has been supported in the case of MBE, as well as the answers of Printshop, while Unimarkt, the pure SUF system, concedes a reduced strength and importance of the brand name. However, within our case studies, the (agency-)theoretical aspects concerning the strategic impact of the franchisor's trademark (in terms of free-riding or shirking, for instance) did not turn out to be significant factors for the basic decision of the franchise system's ownership patterns.

Taking into account the issue of system specific know-how, there is an essential similarity between the systems of different orientation, since all of the franchisors named this factor to be highly important for their companies. In fact, we have to differentiate the outcomes in reference to a support of the theoretical propositions, as the MUF system reflects the agency principle concerning system-specific know-how, whereas the SUF systems, which do not contradict these principles, do not support our proposition. Rather there is significant importance of the factor for the companies' operations, even though the systems concentrate on an opposite ownership strategy. Almost the same circumstances hold true for the factor of upward information flow (see proposition 5), since system specific know-how and internal (upward) knowledge transfer are related to a close strategic field.

Comparing the financial concerns, which are the issue of proposition 6, we can state that the cases of Printshop and MBE endorse some of the basic assumptions which suggest a positive relation between capital as a scarce resource and a franchise system's orientation towards MUF, like for instance issues referring to system growth potentials. However, since none of the franchise systems of our study faces a stringent situation of financial scarcity, many of the arguments appear to be alleviated, such as the (MU-)franchisee's ability to reduce the system's level of financial risk (in terms of access to capital or a higher entrepreneurial behavior for example). Another theoretical approach highlights an impact of company owned outlets on the franchise system's overall strategy. This is maybe the point that shows up to have the strongest dissimilarities among our case studies. While Unimarkt at one side has a rather high proportion of company owned outlets, MBE meets the other side of the spectrum, running only one company owned outlet. However, in order to briefly summarize their importance, respectively their strategic influence, it rather turns out to be reasons apart from strategic foundations. Moreover, for the case of Unimarkt, for example, the current proportion of company owned outlets is due to the fact that franchising has been successfully adopted two decades after the company has been founded (current developments reflect this situation since the proportion of franchised outlets is growing faster than the proportion of company owned outlets), whereas the company of MBE has been intended to be a franchise system from its early days. Thus, due to these differences, we can hardly derive any verifiable arguments for the factor of dual distribution.

Reviewing the findings of the case studies, there is broad consensus concerning the importance of system-wide adaptations and the influence on the strategic direction. However, we cannot support the proposed positive relationship between such adaptations or system uniformity and the proportion of MUF. Rather, the case studies revealed significant relevance of system wide adaptations for all of the systems, though for the MUF system as well as the SUF systems.

Looking at the influence of international expansion, we come to the issue that plainly points up the dependencies on the particular case studies and the franchise systems' specific conditions. Taking Unimarkt for example, as there no expansion efforts, the case does not allow for any conclusion referring to theoretical arguments. The remaining case studies incorporate different approaches, as Printshop's strategy (rather MUF oriented on the foreign markets) meets some of the theoretical core principles, whereas MBE Germany on the other hand, even though it is part of a global franchise system, predominantly adopts SUF structures in terms of expansion. Thus, concluding this paragraph, single case studies might be a means to reveal profound information, while an assessment of theoretical principles always has to relate to situational conditions.

Another point we should mention here is the importance of market conditions of the Austrian market (i.e. in the service sector). Further examination of these characteristics would be expedient, since they substantially influence the franchisor's choice to follow (at least a proportion of) a SUF strategy. However, we do not primarily base our case studies on the influence of these market conditions as we rather want to focus on strategic factors from the point of the franchise systems active decision making. Further, we came to the point that agency based approaches do not precede the franchisors' strategies as rather factors apart from agency theories dominate the choice between SUF and MUF, which for instance refer to demographic conditions or the level of required (financial) investments. To some extent, a lot of the theoretical principles which suggest to impact the strategic orientation seem to adhere to a dependence on market, respectively area specific conditions (such as for instance differences in the entrepreneurial attitudes of US-based or European-based franchisors), as well as industry specifications. These industry specifications refer to differences in terms of system size, the system's operation distance or the level of competition, since in the fast food industry for instance the rather high level of competition increases the need for efficient processes, which in turn might encourage MUF structures.

Observing the case studies, similarities between MBE and Printshop become apparent, since both of the franchise systems do not actively support an expansion of their MUF proportion, which is due to different reasons for each of the systems. For Unimarkt, on the other hand, following a pure SUF structure is one of the company's fundamental strategic concerns. Regarding the reasons for MBE, the importance to provide a nationwide service network exceeds the importance of growth of the system's MUF structure, even though theoretical approaches suggest advantages of MUF over SUF for expanding franchise systems. Thus, as SUF turns out to be an efficient expansion method, the growth of the MUF proportion should be attributed to franchisee efforts and intentions more than franchisor decisions. Likewise for the case of Printshop, the company does not categorically retard MUF, but since the SUF orientation meets the specifications of the franchise system, there is no essential need for MUF tendencies. Basically, being the only franchisor that restricts one of the strategies, Unimarkt turns out to be the company where the choice whether to follow a SUF or a MUF strategy affects the system's strategy to the greatest extent.

5. Conclusion

Comparing the three single case studies, one can remark that every company follows franchise system specific focuses which importantly influence their strategic orientation and thus, the decision whether to implement a SUF or MUF ownership strategy. Respecting these rather situational conditions we have to arrive at a conclusion that single case studies might be a useful approach to explore what kind of various factors play a role within the strategic orientation of a franchise system. Tough, such an approach might face limitations in terms of a universally valid adoption, respectively a generally accepted survey of theoretical foundations. We therefore would suggest that single case studies might be useful if they try to incorporate further specifications of the industry and/or the respective market. Research that focuses on ownership strategic decisions from the franchisor's point of view should not neglect these conditions. On the other hand, multi-respondent empirical surveys might fit better in order to identify strategic tendencies and their basic relationships to a franchise system's decision making processes.

In order to draw conclusions concerning the development of theoretical approaches from our findings, we can state that – from the empirical point of view - single case studies (generally) tend to be based on the principle of falsification. This means that for any theoretical proposition, its general validity can be valued if the case study in fact cannot proof that the proposed argument is true, but can at least contradict even one of the proposition's statements. This holds true for our case studies, where for instance the importance of the system's brand name was said to be high even for the SUF systems, which contradicts the proposed positive relationship of the brand name for MUF systems. However, we might mention that our outcomes can be alleviated in terms of validity, since our propositions are concerned with tendencies rather than facts.

From the point of current business practice, again we can derive from our studies that there is a major focus on the importance of local market conditions. Keeping in mind the dynamic evolution of the franchise business and the emergence of various specifications of the different systems, we suggest that the theoretical foundations do not provide clear advice in terms of a "black" or "white", i.e. a definite strategic ownership orientation. Rather, the great number of factors with strategic influence claims for some kind of "grey", respectively individual solution. It turns out that almost every franchise system faces individual requirements in order to meet its environmental (market) demands. Thus, we come to the point that the theoretical basis describes strategic tendencies quite well, whereas individual market conditions "overrule" the respective factor.

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Appendix

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