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Table of Contents

1. Introduction.....	4
2. Definition of Franchising, its advantages and disadvantages	5
2.1. What is Franchising?	5
2.2. Advantages of Franchising	6
2.3. Disadvantages of Franchising	7
3. Franchising in different theories	7
3.1. Franchising from the perspective of Agency theory	7
3.2. Franchising from the Perspective of Resource Scarcity Theory	10
3.3. Franchising from the Perspective of Transaction Cost Analysis (TCA)	11
4. The reasons to control franchisees' behavior	15
4.1. Agency costs in franchisor-franchisee relationship	15
4.2. The need in the local market knowledge	16
4.3. The motivation of franchisees.....	17
4.4. Franchisee's power in the network.....	17
4.5. Franchisor-driven factors for control	18
5. Methods of control	19
5.1. Franchise contract	19
5.2. The Supporting Activities	20
5.3. Franchise partner selection.....	20
5.4 Establishment of a good relationship with franchisees	21
5.5. Control through the use of master or area development franchising	21
5.6. Relational governance as the antecedent of franchisee's entrepreneurial behavior	23
6. Formal control vs. relational governance	23
7. The impact of power on the choice of the methods of control	26
8. Formulation of Research Hypotheses	28
9. Empirical Research	31
9.1. Methodology	31
9.2. The Check of Normally Distributed Data.....	31
9.3. Descriptive Analysis.....	33
9.4 Dependent Variable	34
9.5. Independent Variables	35
9.6. Control Variable	36
9.7. Research Findings.....	36

9.8. Discussion	40
9.9. Conclusion	41
10. Managerial Implications	42
11. References.....	44
12. Zusammenfassung.....	49

List of Figures

Figure 1: The model of choice between formal control and relational governance	14
Figure 2: Relationship between agency costs and levels of autonomy	16
Figure 3: The importance of brand name for achieving competitive advantage.....	33
Figure 4: Distribution of Franchisees in sample.....	33
Figure 5: The duration of franchise contract across Industry Sectors.....	33

List of Tables

Table 1: Data distribution.....	32
Table 2: The duration of franchise contract.....	34
Table 3: Number of franchise systems in Germany (2009).....	34
Table 4: Number of franchised outlets in Germany (2009)	34
Table 5: Overall Correlation Analysis	37
Table 6: Overall regression analysis	38

1. Introduction

Franchising is a relatively new phenomenon in the organizational economics and yet it has been rapidly expanding throughout the world in the last decades (Welsh et al., 2006). According to the estimations franchising generates \$1 trillion worth of business in gross sales in the USA which is about 50% of U.S. retail trade (Swartz, 2001). In Canada franchising accounts for approximately 25% of the retail trade (Welsh, 2002). In the U.K. the number of franchising systems has increased by 30% from 1994 to 1997 (Boyle, 1999).

The popularity of franchising among firms is caused by different advantages that it brings, such as access to financial and managerial resources, ability to expand franchise network quickly etc. However, franchising requires a lot of efforts in the coordination of a network and there is still lack of theoretical knowledge about franchising that needs to be accumulated to reduce its risks for the firms. The popularity of franchising causes increased interest from the side of researchers and leads to the development of theories that would help companies to operate their franchise systems effectively benefiting from their advantages to a full extent.

The way, in which a franchise network is coordinated and controlled, is one of the determinative factors for its success or failure. Methods of control used by franchisors can differ in the degree of their rigidity and the extent to which formal control is applied. The methods of control used depend on different internal and external characteristics of a franchise network. The following thesis concentrates on the choice of different methods of control in the franchise systems. It uses primarily agency and monitoring costs theories to explain how franchisors organize their systems of control and which factors influence their choice. The first part of the thesis gives an overview of the theories and research in the field of control methods used in franchising. The second part represents an empirical research of the use of control as allocation of decision rights in the franchise systems. The impact of some characteristics of franchise networks on the methods of control are considered in the empirical part of this work. In the end, results of the research and managerial implications are presented.

2. Definition of Franchising, its advantages and disadvantages

2.1. What is Franchising?

“Franchising is a special form of licensing in which the franchisor makes a total marketing program available, including the brand name, logo, products, and method of operation.”(Gillespie et al., 2004) “It entails a more integrated relationship between the parties involved compared with other forms of licensing.”(Fulop and Forward, 1997) Besides that, franchising suggests that a franchisor not only allows a franchisee to sell franchisor’s goods under his branded name, but also transfers to him the knowledge of a business format. “The franchisor should provide a proven method of operating, support and advice on the setting up of the franchisee’s business and ongoing support to the franchisee.” (Forward and Fulop, 1993) Business format franchising has become spread only relatively recently and represents a modern form of franchising.

It is one of the ways to enter new geographical markets or to enlarge activities which can be characterized by relatively low risk and high speed of the market entrance. Franchising is one of the initial stages of a company’s internationalization process as it doesn’t demand complete involvement of a franchisor into international activities. In a franchise relationship a franchisor grants a franchisee with the right to use his know-how, business plan and brand in exchange for royalties which are usually paid as a percentage on the franchisee’s revenues.

The concept of franchising has been investigated from the standpoint of different disciplines: marketing, economics, law, organizational theory. Findings from the analysis of franchising come from these different spheres. This interest can be explained by the complexity and diversity of the phenomenon of franchising (Fulop and Forward, 1997).

It is possible to identify 3 stages in the development of franchising. The first formal use of franchising was made by the Singer Sewing machine Company in 1850’s. Albert Singer used franchising as a way to distribute his sewing machines to a wider geographic area as he didn’t have enough capital to pay the salaries of salesmen. The main contribution Singer made to franchising is the creation of the first franchise contract which has become the basis for modern franchise contracts. (Younger B., “The history of franchising”) The second stage of franchising development took place in 1920-1930’s when franchising was employed by the petrol companies who strived to expand their operations (Fulop and Forward, 1997). The third stage of franchising development is the modern business format franchising. It has begun in the USA in the post World War II period (1940’s-1950’s). The most prominent examples of companies that have

successfully developed their operations on the basis of franchising are Kentucky Fried Chicken (1930), Burger King (1954), McDonalds (1955), service companies such as Holiday Inn, Hertz and many others. Fast development of franchising led to the creation of International Franchise Association (IFA) in the USA whose aim is to regulate the franchising industry.

2.2. Advantages of Franchising

Franchising offers a lot of advantages in comparison with other forms of company development. First of all, franchising allows to avoid the risk of investing in company-owned facilities. Consequently, it's easier to exit the market if activities there turn out to be unprofitable. Franchisee carries the whole responsibility and risk for the franchise operations. Secondly, franchising allows a franchisor to benefit from the local knowledge of a franchisee which might be difficult and costly to acquire. The third advantage of franchising is that it allows to save time and scarce financial resources in entering new markets. This can also give an advantage if a company needs to enter a certain market rapidly.

Franchising represents a relatively easy way for small companies to expand because it doesn't require as much investment as the opening of a wholly-owned outlet does. Franchising not only allows to save scarce financial resources but also to reduce the managerial efforts involved in the operations. At the same time, franchising agreement guarantees the ability of a franchisor to control franchisees and hence to insure the consistency of quality standards and brand name across the network. Franchising also offers lower capital risk for franchisors because franchisees have to invest their own capital into the opening of an outlet. This insures that franchisees are highly motivated to work for the success of the outlet as they invest their own money in this venture. In this way franchising allows even large companies to partially acquire the strengths of small firms. (Fulop and Forward, 1997) The agency theory also suggests that franchising can be used as a mechanism for reducing the agency costs if the company-owned subsidiaries are geographically dispersed or high costs are incurred from controlling them. (Fulop and Forward, 1997)

2.3. Disadvantages of Franchising

Simultaneously with advantages franchising has some disadvantages that should be considered when choosing this form of operations. First of all the results of franchising almost completely depend on the franchisee's ability to obtain revenues and hence to pay royalties. Royalties are usually lower than the profits that a company might get when carrying out the operations itself. Another risk is the risk to create potential competitor who will be able to employ the obtained knowledge also after the termination of the franchise contract. However, the largest risk of franchising is the opportunistic behavior of a franchisee. This raises the problem of assuring appropriate product quality and the quality of operational activities such as marketing. Improper behavior on the part of a franchisee may ruin the image of the brand as a whole. In general, agency costs, caused by the difficulty to control company-owned operations, are reduced by the use of franchising. However, in the operations with a high proportion of non-repeat purchases there is a high risk of opportunistic behavior on the part of a franchisee who will seek to increase revenues by decreasing the quality of the products. This will have destructive influence on all the outlets of the network (Fulop and Forward, 1997). To cope with this risk franchisors may use different ways of control of franchisees' behavior.

3. Franchising in different theories

3.1. Franchising from the perspective of Agency theory

Agency theory is based on the principal-agent relationship, in which one party (the principal) delegates work to another (the agent), who performs the work on a day-to-day basis (Doherty and Quinn, 1999). Agency theory highlights three major problems in the principal-agent relationship: the importance of the information transfer process, the conflict of goals of franchisor and franchisee and associated monitoring costs. The background for the principal-agent problem is the separation of ownership rights from the decision rights (actual control over resources). In the case of franchising the most important resource that is transferred from franchisor to franchisee is the brand name, business concept and reputation of franchisor. There are two possibilities to ensure successful cooperation between franchisor and franchisee: direct monitoring of franchisee's behavior and incentives tied to franchisee's outputs (Eisenhardt, 1989). Outcome-based arrangements find their reflection in the positivist agency theory. They are believed to be effective in reducing agent opportunism because "such contracts co-align the

preferences of agents with those of the principal...and, therefore, the conflicts of self-interest between principal and agent are reduced” (Eisenhardt, 1989). Behavior-based arrangements require principal’s investments into information systems to be able to monitor the behavior of an agent. However, there is always a balance between the costs of monitoring behavior and the costs of measuring the outcome. The advantage of franchising for the franchisor is that franchisees have to invest their own capital and are interested in the improved performance of their outlets. (Bradach, 1997) In this way, the need to monitor the behavior of franchisees is reduced.

For a relationship to be successful it is necessary to ensure that adequate information transfer between partners is guaranteed. In the principal-agent relationship this is often connected with the difficulty and the costs for the principal to monitor the actual behavior of an agent. Under the conditions of information asymmetry it becomes important to balance out the benefits obtained from control on the part of the principal with high monitoring costs. At this point incentives connected to the franchisee’s activities become more effective. Franchisees have to make some investments at the beginning of the franchise relationship and their profits directly depend on their performance. Thus, franchisees are highly motivated to increase their performance and this leads to the decrease in the monitoring costs on the part of a franchisor (Castrogiovanni et al., 2006).

The adoption of agency theory to the explanation of domestic franchising has been largely supported by scholars (Doherty and Quinn, 1999). Doherty and Quinn (1999) state that also international franchise activities can be compared with the principal-agent relationship, thus allowing agency theory to be used in the analysis of international franchise relationship. In fact, the geographic dispersion of outlets shows the strongest relationship with franchising (Castrogiovanni et al., 2006). It increases the monitoring costs of franchisor and emphasizes the importance of franchisees’ incentives to perform well even without being observed. Thus, Doherty and Quinn (1999) assert that the international retail franchisor-franchisee relationship is parallel to the principal-agent model and corresponds to the requirements of Eisenhardt (1989) to apply the agency theory successfully, that means, the two parties are interdependent and cooperative yet rationally may pursue different, even contradictory goals (Lassar and Kerr, 1997). This brings forward the problems of bounded rationality, danger of opportunism and information asymmetry which are present both in principal-agent and franchisor-franchisee relationships. The problem of information asymmetry is especially evident in the franchisor-franchisee relationships where a significant amount of intangible assets is involved.

Information asymmetry is to a large extent inherent to the business format franchising, where most of the assets to be transferred are of tacit nature and cannot be transferred easily. In this case, a principal (franchisor) cannot obtain all the information regarding the day-to-day activities of an outlet or is not able to interpret it in an adequate manner (Doherty and Quinn, 1999). Information asymmetry is especially strong in international franchising when there are differences in economic development, legal regulations and cultural practices (Doherty, 1999). These differences between domestic and foreign markets also lead to higher monitoring costs. Information asymmetry can cause the problems in the franchisor-franchisee relationship if the economic goals of both are not coherent, that is there is a danger of moral hazard on the part of a franchisee. For example, in a franchise network it is almost impossible for a franchisor to determine the investments into marketing made by every single franchisee. Thus, on a short term a franchisee is motivated to under-invest into the development of a franchise brand. Given that the investment levels of other franchisees in the network stay same, the franchisee can increase his profits by decreasing marketing expenditures. In this case, the information asymmetry (the difficulty to monitor franchisee's marketing investments) leads to franchisee's free-riding on the franchisor's brand name.

Information asymmetry and the danger of moral hazard lead to the necessity to implement the mechanisms to monitor the behavior of franchisees. "The perceived seriousness of a potential agency problem has a direct impact on the extent of the premiums and the complexity of the contracts" (Doherty and Quinn, 1999). In the case of international retail franchising where information asymmetry poses a significant problem, there are attempts to decrease the potential for moral hazard and opportunism through contracting, royalty payments and fees. Thus, when international franchising is paralleled with the agency theory, it can be expected that contracting (formal control) will be the main way to overcome the information asymmetry and to control the behavior of franchisees.

Still from the perspective of the agency theory franchising is a preferred way to enter markets which are substantially different from the domestic one (Doherty and Quinn, 1999). Firstly, the information asymmetry when using franchising will be lower than for example entering a new market through acquisition due to the local knowledge of a franchisee. Secondly, the use of royalty payments and fees are supposed to decrease the danger of moral hazard and help to align the economic goals of franchisor and franchisee. However, Lal argues that royalties play almost no role in the coordination of a franchise network (Lal, 1990).

Agency theory suggests that the main source of control is through the franchise contract and its strict enforcement to ensure that franchisees properly use the intangible assets, provided by the franchisor (Doherty and Quinn, 2000). Thus, agency theory advocates the use of coercive means of control.

Another theory often used together with the agency theory to explain the use of franchising by firms is resource scarcity theory. Carney and Gedajlovic (1991) were the first to find out that companies, besides for the agency-based effects, preferred franchising more often if they lacked resources.

3.2. Franchising from the Perspective of Resource Scarcity Theory

Resource Scarcity Theory is one of the frameworks that are most commonly used to explain franchising (Castrogiovanni et al., 2006). It tries to explain franchising based on the economic motivation of organizations. Due to the shortage of resources inside organizations (such as capital, labor, managerial know-how, local market knowledge), franchising offers an opportunity for organizations to gain competitive advantage and to grow successfully (Altinay and Wang, 2006), because these resources can be obtained through franchisees. Organizations can develop unique capabilities through the use of franchising. So, from the viewpoint of resource scarcity theory organizations employ franchising only when they lack resources that are necessary for them to grow, mainly capital and managerial know-how (Castrogiovanni et al., 2006). This can be the only way to compete against large competitors when resources that are available inside an organization are not enough to expand rapidly.

Creation of a franchise system based on the motivations of resource scarcity theory can lead to the reluctance to invest resources into establishment of a lasting relationship with a franchisee. As described by Oxenfeld and Kelly (1969) small firms use franchising to speed up expansion until they can generate sufficient economies of scale (Oxenfeld and Kelly, 1969). Once this goal is achieved franchising no longer plays a vital role in the development of the organization. Franchisor tries to buy out the most profitable outlets of franchisees and ceases to develop his franchise network. Since the final goal of franchisor is not to develop a strong franchise network but rather to develop organization itself by means of franchising, franchisor may pay too little attention to the need to align his own economic goals with those of franchisees and may fail to construct a successful system of control and information exchange. The information exchange

with franchisees is of particular importance if franchisor plans to repurchase the franchise outlets in the future because it promotes the transfer of franchisee's know-how to franchisor and enables him to obtain the local market knowledge. Besides, the failure to create an efficient system of monitoring and control can lead to opportunistic behavior on the part of a franchisee and this can have drastic effects on the brand name of the franchisor.

3.3. Franchising from the Perspective of Transaction Cost Analysis (TCA)

A franchising network as a whole is definitely influenced by the transaction costs which are incurred during the process of exchange between franchisor and franchisees. According to Rindfleisch and Heide (1997) transaction costs are the "costs of running the system" and include ex ante costs (preliminary coordination, e.g. negotiating a contract) as well as ex post costs (the costs of monitoring and enforcing agreements) (Rindfleisch and Heide, 1997). Williamson (1996) suggests that transaction costs are based on two behavioral assumptions (bounded rationality and opportunism) and have two dimensions (asset specificity and uncertainty) (Williamson, 1996). These are the features that characterize franchising because the danger of opportunism is inherent to every franchise network and franchisor cannot easily verify the behavior of franchisees. Besides, transactions between the franchise partners always include some degree of uncertainty (both environmental and behavioral) and asset intangibility. Thus, coordination of a franchise network inevitably causes a high level of transaction costs. The amount of transaction costs incurred can be reduced by a proper distribution of decision rights, and trust is an important antecedent of this distribution.

Trust cannot reduce the space for opportunism but can in some cases lower its probability by aligning the goals of franchisees with those of franchisor. "Opportunism is the assumption that, given the opportunity, decision makers may seek to serve their self-interests." (Donaldson, Barney, 1990). According to Williamson (1996), opportunism includes calculated efforts to mislead, deceive, and otherwise confuse as well as violating rules (agreements) (Williamson, 1996). However, in definite situations such violation of agreements on the part of franchisees may be caused by the imperfectness of the agreement in its turn caused by the environmental uncertainty and lack of knowledge of the local markets. In such case the self-interest of franchisees can be used for the benefit of the whole franchise network. Trust to the franchise partner and granting more decision rights can help improve the communication in the network and decrease opportunism. Besides, the allocation of enough decision rights to franchisees

reduces the need to review the contract constantly and helps the network better adapt itself to the environment.

Opportunistic behavior of franchisees is especially critical for companies with high asset specificity. When high probability of opportunism is given “high levels of asset specificity increase the costs of safeguarding contractual agreements” (Rindfleisch and Heide, 1997). This means that for franchise networks with high brand value transaction costs will increase because of franchisor’s fear of franchisee’s opportunistic behavior. Trust and formal control through various monitoring mechanisms represent the two ways to deal with opportunism. An attempt to avoid the opportunistic behavior of franchisees through increased formal control will inevitably lead to increased transaction costs. On the other hand, the use of trust as a way to decrease the probability of opportunism allows to decrease the transaction costs. “In addition to vertical integration, firms can protect their specific assets by pursuing a variety of unilateral and bilateral hybrid governance mechanisms such as...the development of relational norms” (Rindfleisch and Heide, 1997).

Trust may also play an important role in decreasing the negative effects of bounded rationality because it fosters more intensive information exchange between franchisor and franchisees. So, the franchisor has more information to assess the behavior of franchisees. Well-structured communication between the franchise partners is of particular importance, as one of the reasons of existence of franchising is the opportunity to get more information about local markets and acquire the know-how of franchisees. In this connection transaction frequency is another important dimension that has influence on the transaction costs of a franchise network. According to Williamson (1985) high transaction frequency motivates firms to use hierarchical governance because the costs of its creation can be easily recompensated by the large scale of transactions (Williamson, 1985). So, high degree of trust and hence high degree of communication between franchisor and franchisee should lead to increased transaction costs.

“The basic premise of TCA is that if adaptation, performance evaluation, and safeguarding costs are absent or low, economic actors will favor market governance.” (Rindfleisch and Heide, 1997). On the other hand, if these costs are too high, the firms will prefer hierarchical governance. As mentioned above, transaction costs in the franchise networks can be very high and this should lead firms to turn franchisees’ outlets into company owned ones. One of the most significant reasons why franchise networks exist is the need in the information from the local market that cannot be gathered and employed by company-owned outlets as efficiently as

through franchise outlets. Since local market knowledge occupies such a significant position, timely and open information exchange is indispensable to achieve the goals of a franchise network. And this can be guaranteed only if trust prevails in the franchise relationship.

Environmental and behavioral uncertainties are other dimensions in the transaction cost analysis which help to explain the prevailing forms of governance in franchise networks.

High levels of environmental uncertainty lead to increased costs of adaptation of contractual agreements, and thus increase the transaction costs (Rindfleisch and Heide, 1997). The study of Pilling et al. (1994) has shown that environmental uncertainty has a positive effect on the costs of developing an exchange relationship but has no effect on the costs of monitoring such relationship (Pilling et al., 1994). This may mean that a relationship between franchisor and franchisee is regulated through relational norms and trust, which manifests itself through a thorough process of partner's choice. Once this choice is done, the monitoring activities and the transaction costs don't change under the conditions of high environmental uncertainty. At the same time franchise network can benefit from the possibility to respond more quickly to the environmental changes in the local markets than it would if the outlets were vertically integrated into the firm. This is also supported by the findings of Klein (1989) who states that high levels of environmental dynamism motivate firms to exert lower levels of control (Klein, 1989). This allows firms to decrease transaction costs associated with adaptation problems.

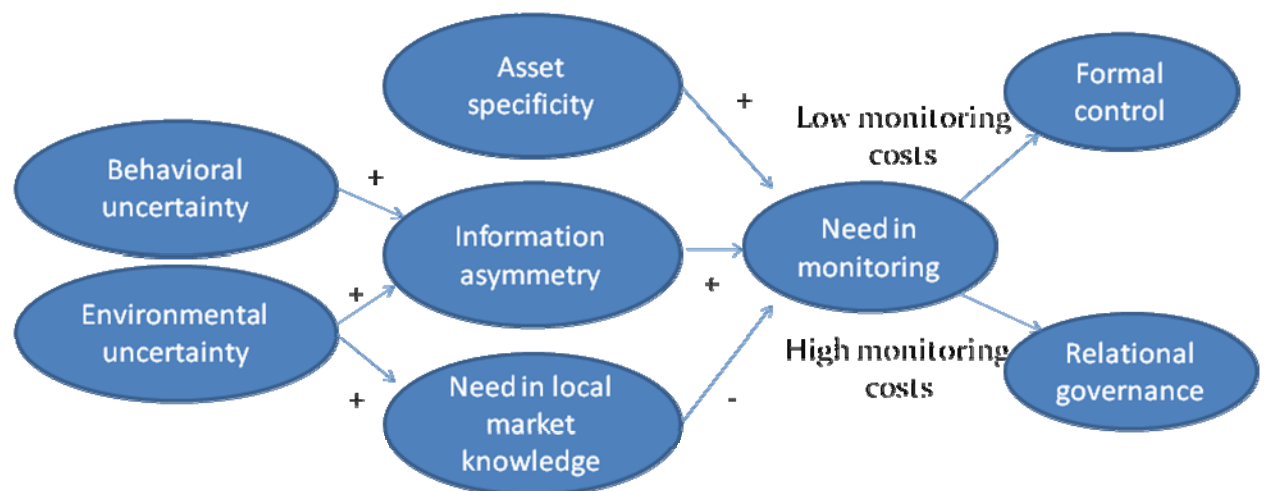
Behavioral uncertainty is viewed by the transaction cost analysis as a factor that increases the costs of evaluating the performance of business partners (Rindfleisch and Heide, 1997). Firms will try to reduce their transaction costs through vertical integration. As this method is not available for franchise networks, the only way to decrease transaction costs will be to develop a system of relational governance that will decrease the necessity to monitor franchisees' behavior.

Transaction costs may take the form of direct and opportunity costs (Rindfleisch and Heide, 1997). These costs are closely related to the behavioral assumptions and dimensions of transaction cost analysis. For example, the need to protect firm's know-how leads it to the necessity to monitor the behavior of franchisees. On the other hand, failure to protect firm's knowledge can lead to the financial losses. Environmental uncertainty causes the problems of adaptation. However, if a company is unable to adapt to the changing environment it will not be able to survive in a long term. Behavioral uncertainty makes it more complicated to evaluate the behavior of franchisees and their compliance with the agreement but without finding a way to cope with behavioral uncertainty a firm will be unable to prevent opportunism.

According to Rindfleisch and Heide (1997) the original framework of transaction cost analysis proposes only two variants of governance: market exchange or internal organization (Rindfleisch and Heide, 1997). Franchising represents a hybrid form of organization which nevertheless allows to benefit from the features of internal governance, such as control and monitoring mechanisms, and to obtain local know-how and market knowledge. The need in the franchise partner's know-how will be decisive for the balance of the decision rights in the relationship and whether this relationship will be governed more by the coercive or non-coercive methods of control.

To summarize, environmental and behavioral uncertainties in the network increase the information asymmetry and the need in the local market knowledge of the franchisees. These two factors as well as the franchisor's asset specificity have an impact on the franchisor's perceived need to monitor franchisees' activities. The higher the asset specificity (e.g. high brand value) the higher the need in monitoring will be because of potential opportunistic behavior from the side of franchisee. For the same reason information asymmetry will also have direct influence on the need to monitor. On the other hand, need in franchisee's local market knowledge should decrease franchisor's desire to monitor franchisee's behavior and rely more on relational norms of governance. After all these factors have been analyzed, the choice between formal control and relational governance still depends on the level of monitoring costs. Low monitoring costs will make it easier for franchisor to monitor the franchisees' behavior through formal methods of control, whereas high monitoring costs will make him rely more on relational governance to decrease transaction costs. This model is shown in the figure below:

Figure 1: The model of choice between formal control and relational governance



4. The reasons to control franchisees' behavior

Power and control play an essential role in the configuration of a franchise network. The success of franchising to a large extent depends on the ability of a franchisor to find the right combination of control and autonomy in the relationship with franchisees and the methods of control that he will use. Franchising systems have some similarities and differences in comparison with completely vertically integrated and decentralized systems (Lal, 1990). As in vertically integrated systems franchisor has substantial control over the activities of franchisees which is directly expressed in a franchise contract. Nevertheless, franchisees also have a higher level of freedom compared with company-owned outlets and this allows to adapt the marketing mix of an outlet to the local market needs. The difference between an independent outlet and a franchisee lies first of all in the profit sharing arrangements concerning the payment of franchise royalties and different fees for the training and supporting activities provided by franchisor (Lal, 1990). Besides that, as the franchise outlets have to be similar across the system, a franchisee must comply with the regulations concerning the design of the outlet, product offer, service level, marketing etc. The combination of autonomy and control in a franchisor-franchisee relationship depends on a large number of factors. The degree of control and autonomy in a franchising network may differ from one franchisee to another. (Cochet et al., 2008) These differences may be caused by such factors as inequality of agency costs across franchisees, the need in the local market knowledge, a franchisee's power in the network and the motivation of franchisees.

4.1. Agency costs in franchisor-franchisee relationship

“Autonomy means the perception of own sovereignty regarding work procedures, goals and priorities.” (Strutton, Pelton, and Lumpkin, 1993)

Despite all the advantages of the franchisees' autonomy, it increases the monitoring costs and the agency costs. (Cochet et al., 2008) These costs may exceed the benefits from the improved performance connected with higher autonomy. The inequality of monitoring costs to control different franchisees and hence the inequality of autonomy provided to the franchisees by franchisor are caused by the franchisee's location, size and cultural differences. As the monitoring costs may differ across franchisees, it means that different franchisees will experience different levels of autonomy.

Nevertheless, Fulop and Forward state that the agency theory views franchising as a method to reduce agency costs compared with the establishment of company-owned subsidiaries which have almost no autonomy (Fulop and Forward, 1997). In this case franchising is applicable not only as a way to raise capital for small franchise firms but also for large companies who want to gain efficiency and reduce the agency costs. Franchising in this case is more efficient than vertical integration. This means that given large distance and difficulty to monitor activities agency costs are higher for company-owned subsidiaries than for franchise outlets. Thus, with high agency costs franchising should be preferred over company-owned branches, and the higher the agency costs the more autonomy should be provided to franchisees. Besides, franchisor will have to rely more on relational forms of control than on formal control. This idea is shown in the figure below:

Figure 2: Relationship between agency costs and levels of autonomy



4.2. The need in the local market knowledge

The level of control and the choice of control methods are closely connected with the need of a franchisor in the local market knowledge. As a rule, the more geographically distant the franchisee is from the franchisor the more difficulties the latter has in monitoring his activities. At the same time the distance from the franchisor's local country may mean a more urgent need to adapt the business concept to the demands of the consumers. In these conditions more autonomy in the decision making should be granted to the franchisees. The preference will be given to less formal forms of control, first of all relational governance. Relational governance as a method of control insures that there is a constant flow of information between franchisor and franchisee. Thus, franchisor can also benefit by acquiring new information about the local markets from the franchisees.

4.3. The motivation of franchisees

The characteristics of franchisees and their motivation to pursue franchising activity are also essential to the franchise relationship and the choice of control methods by a franchisor. There are two views on the motivation of franchisees. The first one postulates that franchisees are individuals with few entrepreneurial characteristics as franchising entails less risk than independent activity and at the same time offers some flexibility and autonomy at the unit level. (Dant, 1995) In other words, franchising offers an opportunity to buy a job. When choosing to enter a franchise network franchisees deliberately select to work in an interdependent environment of a big organization that decreases business risk. The other view suggests that franchisees use franchising as a way to start their own business, to be relatively independent compared to being an employee and yet to benefit from the established business concepts. (Peterson and Dant, 1990) In this case imposing too much formal control on the franchisees will lead to an increased dissatisfaction and disappointment.

4.4. Franchisee's power in the network

In the franchise networks, franchisor rather than franchisee has the majority of power (El-Ansary and Stern, 1972). However, franchisees can also obtain power depending on the character of the franchise relationship. The power that franchisees have on franchisors and franchise network has often been underestimated. (Fulop and Forward, 1997) Franchisors are dependent on franchisees' ability and willingness to operate in accordance with the agreement to guarantee the congruence in the franchise network. If essential changes are to be made to the franchise system a franchisor actually has to obtain the consent of the franchisees to the changes because their dissatisfaction will have negative influence on the network's activity results. Franchisors have to entrust their brand name and the reputation of the franchise network to the franchisees whose improper behavior may damage the reputation of the franchisor and other franchisees in the network. Besides, even though franchisor has a franchise contract to impose his requirements on the franchisee, litigations can cause loss of profit, negative publicity and increased dissatisfaction of other franchisees in the network.

And at last, the development of the franchise network (such as the increased number of multi-unit, area, and master franchisees) leads to an increased power of franchisees in a franchise relationship because they possess enough financial power to enforce their decisions. Franchisors become more dependent on a small number of franchisees to maintain the franchise network. This leads to the necessity to compromise and to keep the disagreements to a minimum. The

level of franchisees' power in the franchise system has a significant impact on the balance of control and autonomy in the relationship and also on the control methods that franchisor will rely on.

4.5. Franchisor-driven factors for control

There are also franchisor-driven factors that influence the choice of the control methods and the extent of autonomy provided to franchisees. Control of franchisees' activities will take place on a larger scale if it is important for a franchisor to control his brand or, in other words, if a brand name is essential for the success of a network. Franchisees tend to undertake actions that will maximize the profits of their own outlets and not necessarily the profits of the chain. (Lafontaine and Shaw, 2005) They are interested in the franchisor's brand name only as long as it brings profits for their outlet, whereas franchisor obtains profits from all the outlets in the franchise network and is thus interested in the maintenance of a brand name throughout the chain. This imbalance may lead to under-investment of franchisee into the franchisor's brand name which is difficult to detect in a short term but which may ruin the brand name in the future. "The desire to exercise power and utilize the mechanisms available is determined by the franchisor's perception of their brand and the value the franchisor places on the brand." (Doherty and Alexander, 2006). If franchisor doesn't have a strong strategic direction and cannot effectively differentiate his brand name from competitors, then it is difficult to control the activities of the franchisees. Under such circumstances it is likely that franchisees will obtain more autonomy in the franchise network and that the corporate image will be diluted. Such lack of clear franchise concept also makes it difficult to enforce the franchise contract, because franchisor himself is not sure of what he is franchising. (Doherty and Quinn, 2000)

The level of control exercised by franchisor will also be higher if the need for standardization is high. The higher the required level of standardization the higher the risk of a brand damage and hence the higher the level of control exercised by franchisor. The control methods may evolve with time as a company moves from carrying out mere product franchising to business format franchising. In the course of its development a company becomes involved in a strategic planning making it put special emphasis on its brand. The desire to protect his brand makes a franchisor introduce different methods of control to make sure that the activities of a franchisee are consistent with the overall perception of a brand. This may also cause the willingness of a franchisor to enforce the contract (formal control). If there are several franchisees in a chain then it is in their best interest that a franchisor takes control of the franchise activities, because it

ensures consistency of a brand. This also means that a brand is of value to a franchisor and helps build trust.

Other factors that influence the choice of control methods are the company size and the stage of franchise system development. It can be suggested that as a company gets larger higher complexity of franchise operations will cause more use of formal control because it is too difficult to control a large number of franchisees through supporting activities. As a franchise network gets larger problems can occur if the head office of franchisor remains small in size as compared to the number of franchisees, because in this case franchisor cannot provide adequate supporting activities and this will arouse increasing dissatisfaction of franchisees.

5. Methods of control

The methods that a franchisor may use to control his franchise network are franchise contract (formal control), the supporting activities, franchise partner selection, establishing a good relationship with the franchisees, usage of master or area development franchising (relational governance). (Doherty and Quinn, 2000) The last four methods allow to create conditions under which formal methods of control will be unnecessary as it is obvious that formal methods are not appropriate for the day-to-day control of franchise activities.

Relational governance is believed to be more preferable in a franchise network, because it is likely to increase franchisees' motivation, which will lead to an easier control by franchisor, a better exchange of knowledge between franchisor and franchisee, better cooperation and lower numbers of litigations. (Hunt and Nevin, 1974)

5.1. Franchise contract

Initially, the power distribution in a franchisor-franchisee relationship is to a great extent predetermined by a franchise contract. Franchise contract is a major source of power, control and conflict in the franchising relationships. Its goal is to control for the potential of moral hazard arising as a result of information asymmetry. (Doherty and Quinn, 2000) The peculiarity of franchising is that the franchisor and franchisee remain legally separated even though they rely on each other to succeed and develop the franchise network. For this reason a franchise contract plays an essential role in the determination of rights and obligations of the parties and is expected to help to avoid conflicts. Because of the legal independence of a franchisee a contract

must state all the obligations of the parties and provide an effective means of control for a franchisor. Thus, a franchise contract defines the formal relationship between the franchisor and the franchisees.

5.2. The Supporting Activities

Supporting activities are another way to gain control over franchisees. But in contrast to the franchise contract, supporting activities rely on the establishment of positive attitudes towards franchisor, as it is believed that the more satisfied franchisees are, the more willingly they will accept the attempts of franchisor to impose control on their activities. However, evidently it's more expensive and complicated to carry out supporting activities in the international setting because differences between countries have to be taken into account. The major reasons for the difficulty to provide supporting activities to international franchisees are "non transferable experience, distance and communication difficulties" (Kaufmann and Leibenstein, 1988).

5.3. Franchise partner selection

Franchise partner selection represents one of the methods of relational governance and is one of the most crucial aspects of a franchise relationship because failure to select a right partner may not only lead to the failure of the relationship but also to negative financial and strategic consequences (Altinay and Wang, 2006). At this stage franchisor decides whether it is possible to build a meaningful relationship with a potential partner based rather on trust than on a legal agreement and whether a potential franchisee will follow his business concept. Since the franchisee's ability to adapt the franchisor's brand concept is very important for the development of a franchise network, the culture and prior knowledge between franchisor and franchisee have to fit (Altinay and Wang, 2006). According to Altinay and Wang (2006) prior knowledge involves the accumulated knowledge and experience of a franchisor used to educate franchisee and to ensure that the strategic goals of the partners coincide. Cultural distance indicates how hard it will be for franchisor and franchisee to understand each other's way of doing business and establish a good relationship. The larger the cultural distance the more difficult it will be for the franchise partners to come to an agreement and the higher the failure risk will be. Altinay and Wang point out that prior knowledge, which is an important strategic issue for the establishment of a partner relationship, may become a barrier for franchisor to adapt new local knowledge and to change its business concept where necessary. This rigidity will impede the establishment of a

successful business relationship and may give rise to opportunism, where franchisees believe that their local know-how will not be appreciated by franchisor.

5.4 Establishment of a good relationship with franchisees

Establishment of a good relationship with franchisees is another way to control their behavior. It is meaningful under condition that both parties expect to obtain more profit than they would without establishing a relationship. This form of relational governance allows to reduce the informational asymmetries inherent to the franchisor-franchisee relationship.

Communication is the essential part of the franchise relationship. Trust between franchisor and franchisee is crucial for the establishment of such communication. And as communication is the basis for relational governance trust lies in the centre of it. Trust can be developed only if both parties see their venture as a long term relationship and invest time and money into it. To make a franchise relationship successful not only the franchisor has to trust the franchisee but also the other way round. If a franchisee trusts a franchisor he is more willing to follow his recommendations and to stick to the franchise contract. It should be noted that relational form of control may only be effective if there is compatibility in the economic goals of a franchisor and a franchisee.

Successful establishment of a good relationship with franchisee begins first of all with the right choice of the franchise partner and requires efforts to build up trust. In a short run the conditions of the contract can be imposed on the franchisee but this already means that something has gone wrong and may be the reason for the failure of other franchise operations.

5.5. Control through the use of master or area development franchising

Area development and master franchising also belong to methods of relational governance as they foresee the delegation of authority over a large area of activities to one franchisee. Their main idea is to optimize the franchise relationships by entrusting one partner with the development of a franchise chain in a particular country or region. Operating a franchise chain consisting of several franchisees in one region may require too many resources from the franchisor to guarantee appropriate control of the activities. On the other hand, dealing only with one franchisee requires a lot of trust in the relationship because the larger the franchisee the more power he has. At the same time such empowerment has a positive influence on the motivation of a franchisee.

Area development franchising requires that a franchisee opens several outlets in a region during a definite period of time but doesn't allow sub-franchising. In the study of Cochet et al. (2008) on the relationship between the extent of autonomy and relational governance it is stated that high levels of intra-chain competition increase the danger of opportunistic behavior (Cochet et al., 2008). Several competing stores of the same franchise chain in the same geographical area reduce the market size of each single franchisee and decrease the profits that can be obtained. This may motivate the franchisees to increase the short term profits by compromising the quality of the product. This statement was supported by the results of the study. It has also been found out that the positive relationship between autonomy and relational governance intensity is stronger among franchisees with high levels of intra-chain competition. Area development franchise agreement allows to avoid the risk of opportunism and the costs of investing more into relational forms of control because a franchisee has exclusive rights for opening outlets in a certain region and is in this way protected from the intra-chain competition.

The master franchising allows a franchisee to sub-franchise the business concept of the franchisor in a particular region and he is then in charge of this franchise chain in a region. "In master franchise agreements the rights and responsibilities of the master franchisee are extended to include training, coordination of local franchisees, monitoring performance and the implementation of franchisor strategies." (Brookes, Roper, 2008) Such arrangement overcomes the information asymmetry problems which can arise when there are significant cultural and language barriers, differences in legislation and operating practices between franchisor and potential franchisees.

In master franchising arrangement the local partner becomes a major source of information and monitors the activities of the sub-chain. In such arrangements a master franchisee is highly interested in the development of the franchise network as he invests substantial resources into it. This helps to keep the problem of the moral hazard to minimum. Besides, due to the local knowledge the monitoring costs of a master franchisee will be much lower than if franchisor has to monitor the activities of each franchisee in the network. The adoption of master franchising not only allows to control the franchise network efficiently but also to guarantee its successful development in the future because its spread will not be connected with huge monitoring costs for a franchisor.

5.6. Relational governance as the antecedent of franchisee's entrepreneurial behavior

The use of relational methods of control such as franchisor's supporting activities and trust leads to more entrepreneurial behavior of the franchisees. Franchising relationship itself constrains the entrepreneurial ability of the franchisees because they have to follow the provisions of the franchise contract. Thus a franchisor would not be able to benefit from the local know-how of a franchisee. The preference for relational governance allows to build up a strong communication link between the two parties and the introduction of innovations on behalf of a franchisee will lead to the improved overall performance of the chain.

According to the previous research "entrepreneurial behavior in firms is moderated by organizational characteristics such as the openness of communication channels, control mechanisms and levels of support within the organizations" (Weaven, 2004). Franchisees are more susceptible to the changes in their environment and are more flexible due to their small size. Closer relationship with franchisor facilitates communication and the implementation of innovations across the network. Closer communication of franchisees with franchisors in its turn reduces the information asymmetry and thus reduces monitoring and agency costs.

It can be concluded from the research (Hadfield, 1991) that franchisors prefer a combination of formal control and relational governance because too much formal control may impede the desire of franchisees for innovation and entrepreneurship.

6. Formal control vs. relational governance

It is generally recognized that the employment of relational forms of governance bring a lot of advantages, such as the possibility to decrease monitoring costs, higher flexibility, more information exchange, etc. From the point of view of the franchisee, the use of the contract by franchisor can make franchisee less loyal and less cooperative. In the situation of information asymmetry this can lead franchisee to share less information with franchisor and will decrease the benefits that franchisor can achieve from this relationship. However, more extensive use of relational governance also means higher degree of franchisor's vulnerability to opportunism. "The challenge is to construct governance structures that safeguard the exchange while simultaneously maximizing benefits for the participants" (Cannon et al., 2000).

Relational norms and legal contract can be viewed as complementary: each franchisor-franchisee relationship can be characterized by a certain combination of these two governance mechanisms with one or the other prevailing. It has been pointed out that the choice between the different methods of control is influenced by the levels of external as well as internal uncertainty (Cannon et al., 2000).

The relationship between the parties' interdependence, uncertainty and the use of a formal contract and relational norms can be investigated from the perspective of marketing channels literature, which recognizes that franchisor can use both coercive and non-coercive power to control franchise network.

The use of different methods of control is influenced by such characteristics of a relationship as interdependence and uncertainty. "Uncertainty, when combined with some form of dependence, is a major factor affecting the organization and governance of exchange" (Cannon et al., 2000). The study of Cannon et al. (2000) on the plural forms of governance has concentrated first of all on the supply markets, yet can be adopted to the franchisor-franchisee relationship which is also characterized by high levels of both internal and external uncertainty as well as high levels of dependence. External uncertainty exists in the franchisor-franchisee relationship through the variations in the product demand, market dynamism, competition in the market etc. Internal uncertainty is manifested through the difficulty to measure performance of a single franchisee and the difficulty to determine actual behavior of franchisees in the network. The members of franchise networks are also highly interdependent. Franchisor entrusts his brand name and his business concept to the franchisees whose opportunistic behavior can cause great damages. Franchisees depend on the franchisor to prolong the franchise contract and to provide enough supporting activities as well as to coordinate the franchise network properly. Given all these factors it can be stated that the combination of formal control and relational governance in a franchisor-franchisee relationship is moderated by the levels of uncertainty and dependence.

Legal contract alone is not considered to be an effective way to coordinate relations in the network (Williamson, 1985). There is always some level of environmental uncertainty and it is impossible to foresee all the contingencies in the contract. For this reason the so called neoclassic contract doctrine has been developed to make the contracts more flexible and "open" to unforeseen future changes (Cannon et al., 2000). According to this doctrine contracts may include such provisions as "good faith", "reasonable commercial standards" and other general provisions to ensure the adaptability of a contract to the future developments. However, it is argued that even such contractual provisions are limited in flexibility and the contracts including

them cannot guarantee appropriate relational control (Williamson, 1985). Based on this Cannon et al. (2000) state that when a relationship is characterized by high levels of uncertainty and interdependence between partners, detailed contracts alone cannot be effective means of governance and will not lead to improved performance. Nevertheless, it is unreasonable to deny the role of a legal contract at all because it clarifies from the beginning the roles of the parties, their assumptions and expectations.

Relational norms can be defined as “shared expectations regarding behavior and reflect expectations about attitudes and behaviors parties have in working cooperatively together to achieve mutual and individual goals” (Cannon et al., 2000). Cannon et al. (2000) reduce the number of relational norms suggested by Macneil (1980) to the five major ones:

- *flexibility* – implies that the parties view an agreement as open to changes as the environmental conditions change;
- *solidarity* – the belief that success will come from cooperation with each other rather than competition against each other and dictates that parties have to support each other in the situations when difficulties arise;
- *mutuality* – means that the parties have to strive for joint gains and that one cannot benefit at the expense of the other. This norm is crucial to prevent opportunistic behavior in a franchise network;
- *harmonization of conflict* – shows the willingness of partners to cooperate in finding a solution in conflicts acceptable to all parties;
- *restraint in the use of power* – means the reluctance to exploit the advantages of one’s bargaining position to achieve gains. The logic and the necessity of this norm in a relationship have been explained in the study of Frazier and Summers (1986). It has been found out that exploitation of power in a relationship can lead to retaliation and will have negative impact on the satisfaction of partners in the network and the continuity of the relationship itself thus opening way to opportunistic behavior.

These relational norms represent a strong control mechanism and help to avert opportunistic behavior where a legal contract is incomplete and where high uncertainty is given. The reliance on such norms provides high flexibility of a system which is especially important in an uncertain environment. However, due to their ambiguity relational norms will not necessarily lead to improved performance of the system and need to be backed up by a legal contract to determine clearly the tasks and the expectations of franchisor and franchisee. Also, though a legal contract

is not appropriate for a day-to-day control of the system it may serve as the last way to enforce the conditions which are of particular importance to a franchisor.

The findings of the study by Cannon et al. (2000) have shown that detailed contracts will not increase performance in conditions of the high levels of uncertainty however can be an effective way of governance in a stable environment. It has been also found out that relational norms enhance the performance in a relationship irrespectively of the levels of uncertainty because they emphasize the shared values and the solidarity of the parties. According to the study the right combination of a legal contract and relational norms is important to guarantee the enhancement of performance. When the uncertainty is high, performance will decrease if it is coordinated only with the help of a detailed contract without the support of relational norms. On the other hand, if relational norms are well-developed in a network, then a contract will improve the performance. In the conditions of low uncertainty, the main contingencies can be specified in the contract and thus relational norms become unnecessary and don't influence the performance of a franchisee.

7. The impact of power on the choice of the methods of control

As mentioned above, the source of power and restraint in its use have a significant impact on the way control is exercised in a franchise network and on the levels of franchisees' satisfaction with the franchise relationship. Franchisees' satisfaction in its turn determines whether relational norms will be sufficient to control the behavior of franchisees.

“Power, in its most general sense, refers to the ability of one individual or group to control or influence the behavior of another” (Hunt and Nevin, 1974). The franchise literature suggests that there is a dichotomy in the sources of power that franchisors have, that is coercive and non-coercive sources of power. “The franchisor, being the strong channel member, has coercive and noncoercive sources of power that can be exercised to control the franchisee” (Hunt and Nevin, 1974). Non-coercive power implies the use of trust and persuasion as a means to coordinate the activities of franchisees rather than threat (Doherty and Quinn, 2000). Depending on the sources of power available to a franchisor the methods of control that he uses will differ. French and Raven have defined five major sources of power: coercive, reward, legitimate, referent and expert power (French and Raven, 1959):

- Coercive power (ij) – power based on the expectations of j concerning the possible punishment by i if j fails to correspond to the demands of i;

- Reward power (ij) – power based on the belief by j that i has the ability to mediate rewards for him;
- Legitimate power (ij) – power based on the belief of j that i has a legitimate right to influence j;
- Referent power (ij) – power based on the identification of j with i or a desire for such identification;
- Expert power (ij) – power based on a level of knowledge that j attributes to i in a certain area.

Reward, legitimate, referent and expert power belong to non-coercive sources of power.

There is no unanimous opinion on whether high levels of power possessed by a franchisor will cause him to use more or less formal methods of control (Frazier and Summers, 1986). Some researchers suggest that franchisor's high levels of power will lead to exploitation of franchisees and the use of predominantly formal strategies of control (Robicheaux and El-Ansary, 1975). Others assert that high levels of power will insure effective coordination of the system and better exchange of information (Reve, Stern, 1979). Though laboratory studies have shown positive correlation between higher power and formal control (Smith and Leginski, 1970) it is probable that their results cannot be generalized onto the real-world intra-channel relationships (Frazier and Summers, 1986). In the long-term relations franchisor with high levels of power is unlikely to exploit it through increased formal control because this may have negative effect on the relationship with franchisees and because franchisor is interested in the successful development of the system. The research by Hunt and Nevin (1974) has identified that "franchisors were found to rely primarily on coercive sources of power to achieve control over the franchisees" (Hunt and Nevin, 1974). Later research by Etgar (1976) addressing the power in conventional distributive channels contradicted Hunt and Nevin's (1974) findings, noting that non-coercive power sources (provision of training, supportive advertising etc.) are more helpful in achieving control over the agents than reliance on their dependence (coercive power). Non-coercive power sources imply a voluntary exchange process between principal and agents and render agents more willing to yield some of their independence in return for the services received from the principal (Etgar, 1976). Interestingly, even though Hunt and Nevin (1974) have come to the conclusion that franchisors tended to use formal methods of control, their research has found out that higher reliance on relational governance will lead to higher levels of franchisees' satisfaction. Such factors as higher quality assistance in the areas of equipment, site location, training, product deletions and additions were stated to significantly improve the franchisees' satisfaction with the franchise relationship (Hunt and Nevin, 1974).

The study of Frazier and Summers (1986) on the correlation of franchisor's power with its use in the franchise channel of car dealerships has shown that the manufacturer's power is related inversely to the manufacturer's use of formal methods of control (Frazier and Summers, 1986). This can be due to the interconnectedness between franchisor and franchisee. A suggestion has been pointed out that franchisors with high levels of power will use formal methods of influence only after other methods have been employed without success. This suggestion was supported by the findings of the empirical study (Frazier and Summers, 1986). One of the reasons why it is believed that high levels of power are negatively related with formal control is franchisor's fear of retaliation on the part of franchisees (Frazier and Summers, 1986). This hypothesis has also found support in the empirical study. A positive relationship has been found between the coercive strategies of influence by franchisor and the dealer's use of these strategies. The results of the study have shown that franchisees are less satisfied with the relationship if franchisor uses formal methods of control and are more likely to consider dissolving this relationship thus bringing losses to the franchisor and weakening the network.

Thus, it can be assumed that high franchisor's power has a positive influence on the coordination of the network and is positively related to the use of non-coercive influence strategies given that higher levels of franchisees' satisfaction will facilitate control over them.

8. Formulation of Research Hypotheses

Hypothesis #1: Rindfleisch and Heide (1997) have stated that transaction costs consist of ex ante costs (preliminary coordination of relationship) and ex post costs (the costs of monitoring and enforcing agreements) (Rindfleisch and Heide, 1997). Once franchising is chosen as a way of company's expansion franchisor has to deal with some degree of transaction costs, and first of all the costs of monitoring franchisee's behavior. Franchisors have to choose the level of control to monitor franchisee's performance and to avoid opportunistic behavior. An attempt to control franchisees through increased formal control will inevitably cause an increase in transaction costs. On the other hand, relational forms of control allow to decrease the probability of opportunism at the same time keeping transaction and monitoring costs low. It can be assumed that the higher the monitoring costs the higher will be the desire of franchisors to reduce them, and thus:

H.1: The higher the monitoring costs, the less formal control will be used in relationship with franchisees.

Hypothesis #2: One of the most important advantages of franchising in comparison with company-owned outlets is the flexibility of franchisees in response to quickly changing environment. However, high levels of formal control and the need to strictly adhere to the legal contract can lead to adaptation problems within a franchise system. Franchisor and franchisee must constantly negotiate the adaptation of the contract to the environmental changes. These environmental changes will lead to the increase in the transaction costs if franchisor-franchisee relationship is guided by more formal control (Rindfleisch and Heide, 1997). Reliance on relational forms of governance will permit the system to benefit from increased flexibility and higher responsiveness to environmental uncertainty. This leads to the second hypothesis:

H.2: When there is high degree of environmental uncertainty less formal control will be preferred.

Hypothesis #3: Rindfleisch and Heide (1997) postulate that high transaction costs will lead firms to adapt hierarchical governance in their relations with business partners. High transaction costs are caused by such factors as high environmental and behavioral uncertainty and danger of opportunistic behavior. These features are quite dominant in franchise networks and would motivate companies to reject franchising as a possible form of expansion. However, according to the resource scarcity theory the main motivation of firms to use franchising is the lack of financial resources, labor and local market knowledge inside the organization. If the need in the local market knowledge from the part of franchisor is high, this implies high information asymmetry and increase in the transaction costs. Franchisor is more likely to use less formal control and relational forms of governance to decrease the transaction costs. This leads to the third hypothesis:

H.3: The higher the need of franchisor in the local market knowledge of franchisee, the less formal control will be used.

Hypothesis #4: The agency theory views contracting, royalty payments and fees as an effective way to reduce opportunism and potential for moral hazard. Furthermore, for franchisors it's of advantage that franchisees have to invest their own capital into the outlets because they are more

motivated to increase performance of their outlets than outlet managers would be. This reduces the need to monitor the behavior of franchisees (Bradach, 1997) and in view of lower probability of opportunism less formal control can be applied to coordinate the franchise network. Thus the 4th hypothesis is:

H.4: The higher the investments of franchisees, the less franchisor will tend to use formal control to monitor their behavior.

Hypothesis #5: The separation of ownership rights on the intangible assets (such as a brand name) from the decision rights in a franchise relationship leads to the principal-agent problem. The goals of franchisor and franchisees are not completely congruent, because franchisees are interested only in the profits they can obtain from their outlets whereas franchisor obtains profits from the performance of the whole chain. The imbalance leads to the short-term strategic orientation of franchisees and reduces their desire to undertake investments into franchisor's brand name. This opportunistic behavior is invisible and difficult to detect in a short term but can destroy the brand name in the future. The perceived seriousness of this agency problem between franchisor and franchisee has a direct impact on the levels of the fees and the complexity of the franchise contracts as a way to control the behavior of franchisees (Doherty and Quinn, 1999). Thus, it may be assumed that:

H.5: The higher the importance of a brand to franchisor, the more formal control will be used.

Hypothesis #6: The business format franchising can be characterized by a high degree of information asymmetry because most of the assets that franchisor transfers to franchisee are intangible and can be neither easily transferred nor easily controlled by franchisor. Franchisor can't collect all the information concerning the everyday activities of a franchisee and even when he can he can't interpret it correctly (Doherty and Quinn, 1999). The intangibility of the assets will lead to high behavioral uncertainty and will make franchisor's attempts to monitor the behavior of franchisees very expensive (Rindfleisch and Heide, 1997). Firms will normally try to reduce their transaction costs and the only way to achieve it and to avoid high monitoring costs will be to employ less formal control and to develop a system of relational governance. From this the 6th hypothesis follows:

H.6: *The more intangible the knowledge and know-how of the franchisor the less formal control will be used.*

9. Empirical Research

9.1. Methodology

To test the hypotheses of this study the data have been collected from a sample of franchisors operating in Germany. The study was designed as a mail survey and was carried out from April to September 2010. A self-administered questionnaire was sent to a sample of 700 franchisors. Each mail contained a 6-page long questionnaire, a cover letter explaining the purposes of the study and guaranteed anonymity to the participants. The questionnaires were returned by mail or could be filled out in Internet. After reminders the response rate of 20% has been achieved. The final sample consisted of 137 questionnaires.

9.2. The Check of Normally Distributed Data

The testing of the hypotheses above is based on the analyses which assume normally distributed data. Since the data include a lot of variables, only those variables will be checked for being normally distributed which are used in the analyses of the above mentioned hypotheses. For the reasons of conciseness mean scores will be used for the variables. These are:

- 1) The franchisee's decision rights in different spheres of activities (mean value);
- 2) The monitoring costs (the mean value of: the difficulty of controlling the behavior of an outlet manager, the difficulty to assess his competencies/capabilities, the difficulty to measure his performance);
- 3) High environmental uncertainty (the mean value of: fluctuation of sales at the outlet level, the difficulty to predict the market development at the outlet level, the speed of the change of the economic environment in the local market);
- 4) The advantage of higher local market knowledge (Franchising vs. Company-owned outlets);
- 5) The investment level of franchisees (the mean value of all franchisee's expenses at the beginning of a franchise relationship);
- 6) The importance of a brand (the mean value of: the strength of a brand name compared to competitors, brand recognition of a franchise system compared to competitors, franchise

system's good reputation for quality and the importance of a brand name for achieving competitive advantage);

- 7) The intangibility of franchisor's know-how (the mean value of asset intangibility in different spheres of activities).

The values for the franchisees' decision rights have been recoded to reflect the level of formal control used on the part of franchisors.

The check for the assumption of the data normal distribution has produced the following results:

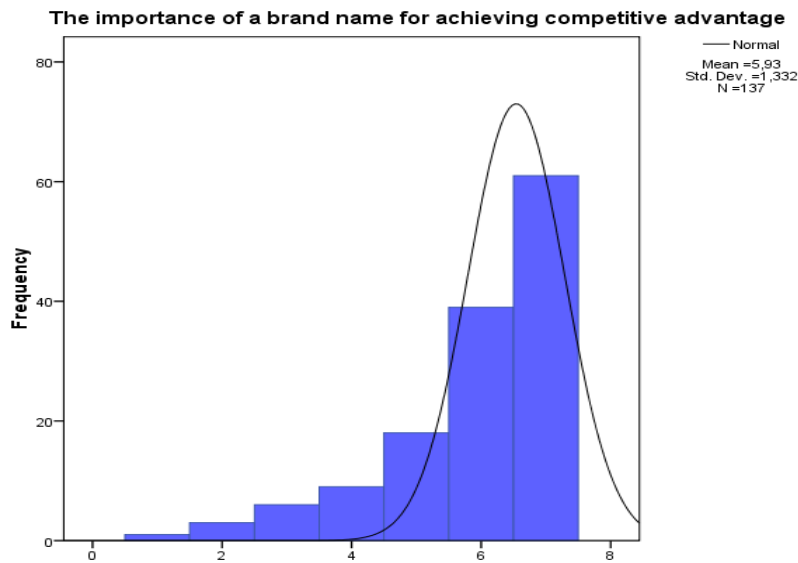
Table 1: Data distribution

Statistics							
	Mean of formal control	Mean of the monitoring costs	Mean of environmental uncertainty	Advantage of local market knowledge	Franchisee's average expenses	Mean of brand name importance	Mean intangibility of franchisor's know-how
N Valid	127	127	127	136	135	137	137
Missing	10	10	10	1	2	0	0
Mean	2,8612	3,6273	3,7323	5,2647	3,9951	5,6448	3,5796
Median	2,8333	3,6667	3,6667	6,0000	3,6667	5,7500	3,5000
Mode	3,00	4,00	3,00	6,00 ^a	3,67	7,00	3,75
Std. Deviation	1,16806	1,24836	1,35956	1,63406	1,47280	1,11306	1,30069
Variance	1,364	1,558	1,848	2,670	2,169	1,239	1,692
Skewness	,314	,369	,127	-,777	,224	-,876	,455
Std. Error of Skewness	,215	,215	,215	,208	,209	,207	,207
Kurtosis	-,588	-,326	-,774	-,319	-,851	,923	-,315
Std. Error of Kurtosis	,427	,427	,427	,413	,414	,411	,411
Minimum	1,00	1,00	1,00	1,00	1,00	1,33	1,00
Maximum	5,75	7,00	7,00	7,00	7,00	7,00	6,63

a. Multiple modes exist. The smallest value is shown

These results suggest that in general the data are not normally distributed, but as the sample is rather large the deviations are relatively small and acceptable, except for "the importance of a brand name in achieving competitive advantage". For this variable the data are strongly negatively skewed and are very pointy.

Figure 3: The importance of brand name for achieving competitive advantage



9.3. Descriptive Analysis

Out of the sample of 137 franchisors 4 franchisors carried out Product Franchising, 42 were active in Sales/Distribution Franchising and a majority of 81 franchisors were engaged in Service Franchising. 10 franchisors haven't provided response concerning their type of franchising. The average duration of a franchise contract is 6.8 years with the most spread contract duration of 5 and 10 years.

Figure 4: Distribution of Franchisees in Sample across Industry Sectors

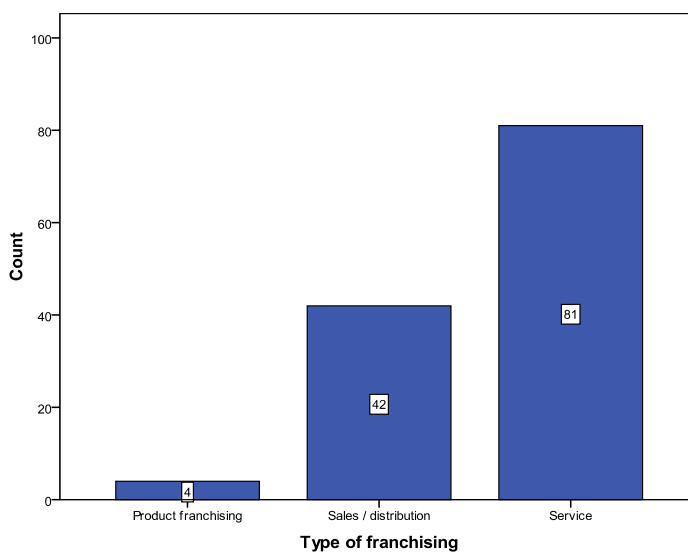


Figure 5: The duration of franchise contract

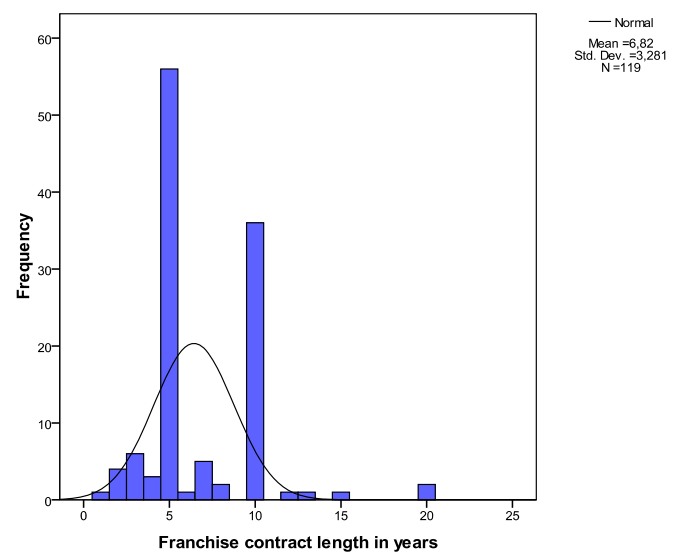


Table 2: The duration of franchise contract

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Franchise contract length in years	119	1	20	6,82	3,281
Valid N (listwise)	119				

The average number of franchises in Germany in 2009 makes up 95 franchisees. At the same time the number of franchised outlets in Germany in the same year averages 123 which means that some franchisees are eager to open more than 1 outlet.

Table 3: Number of franchise systems in Germany (2009)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Number of franchisees in In Germany2009	119	0	2300	95,42	270,577
Valid N (listwise)	119				

Table 4: Number of franchised outlets in Germany (2009)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Number of franchised outlet in Germany in 2009	121	0	2500	123,36	302,060
Valid N (listwise)	121				

9.4 Dependent Variable

The use of formal control by franchisor was operationalized by calculating the mean of items related to the level of franchisor's decision rights in different spheres of activities: implementation of investment activities, financing the investment projects, selection of suppliers, product / service offering in the local market, sale price, use of advertising and sales promotion, equipment, procurement of inputs, introduction of new products in the local market, use of accounting system at the outlet level. Hiring and training of the employees have been excluded from the scale as they reduced the score of the Cronbach's Alpha. Overall the result for the Cronbach's Alpha was 0,88, which is above the acceptability level.

9.5. Independent Variables

The monitoring costs. The level of the monitoring costs was measured by three separate items in the questionnaire. The franchisors were asked to assess how difficult it was to control the behavior of an outlet manager, to measure his performance and to assess his competencies and capabilities. The scale was then constructed averaging the scores with equal weights for these three items. Cronbach's Alpha score is 0.76, inter-item correlations also supported the reliability of the scale.

Degree of environmental uncertainty. Environmental uncertainty was operationalized by the use of three questionnaire items: the degrees of fluctuation of sales at the outlet level, the difficulty to predict the market development at the outlet level and the speed of the change of the economic environment in the local market. The exactness of sales forecasts concerning the development of local outlets had to be deleted from the scale as it reduced the Cronbach's Alpha score significantly. The left three items have been aggregated with equal weights into one scale. The Cronbach's Alpha score is equal to 0.74 which is an acceptable level of reliability.

Local market knowledge of franchisee. To estimate the need of franchisor in the franchisee's local market knowledge, franchisors were asked to assess to which extent franchising provided greater market knowledge advantage compared with company-owned outlets.

The investments of franchisees. The investments that franchisees have to make were measured by averaging expenses they incur at the beginning of a franchise relationship with regards to training, technical and organizational support by franchisor and equipment at the outlet level. The Cronbach's Alpha score is reduced by the item measuring expenses incurred for the equipment. However, Cronbach's Alpha score is not significantly below the acceptance level (0.63), so this item was kept in the scale.

The importance of a brand name to franchisor. This variable was operationalized by combining four items from the questionnaire: the strength of a brand name compared to competitors, brand recognition of a franchise system compared to competitors, franchise system's good reputation for quality and the importance of a brand name for achieving competitive advantage. The Cronbach's Alpha produced the score of 0.82. Inter-item and item-to-total correlations also suggested reliability of the scale.

The intangibility of franchisor's knowledge. To measure the intangibility of franchisor's knowledge 8 items which assessed the difficulty to transfer franchisor's know-how to franchisee were used. These items included the difficulty to transfer a brand name, marketing, organizational, administrative, quality management, accounting, human resources and IT know-how. Cronbach's Alpha was rather high (0.91) which means high reliability of the scale.

9.6. Control Variable

To check to which extent the choice of the level of franchisor's formal control depends on the internal characteristics of a franchise system it has been decided to use ***the size of a franchise system*** (the sum of company-owned and franchised outlets of the system) as a control variable for the model.

9.7. Research Findings

9.7.1. Correlation Analysis between Variables

The correlation analysis of all the variables in the model has shown that a negative significant correlation exists between the level of exercised formal control and the monitoring costs. Besides, the use of formal control by franchisor was also negatively and significantly correlated with the intangibility of franchisor's know-how. The correlations of other independent variables with the use of formal control turned out to be insignificant.

Table 5: Overall Correlation Analysis

Correlations									
Pearson Correlation	Mean of formal control	Mean of the monitoring costs	Mean of environmental uncertainty	Advantage of local market knowledge	Franchisee's average expenses	Mean of brand name importance	Mean intangibility of franchisor's know-how	Size of franchise system	
	1,000	-,342	-,008	-,095	-,105	-,074	-,255	-,172	
	-,342	1,000	,065	-,105	,167	,026	,350	,071	
	-,008	,065	1,000	-,146	-,009	-,102	-,051	,021	
	-,095	-,105	-,146	1,000	,024	,099	-,019	-,026	
	-,105	,167	-,009	,024	1,000	,170	,395	-,051	
	-,074	,026	-,102	,099	,170	1,000	,052	-,159	
	-,255	,350	-,051	-,019	,395	,052	1,000	,038	
	-,172	,071	,021	-,026	-,051	-,159	,038	1,000	
Sig. (1-tailed)		,000	,465	,153	,127	,212	,003	,031	
	,000		,241	,129	,035	,389	,000	,220	
	,465	,241		,057	,459	,136	,292	,410	
	,153	,129	,057		,399	,143	,418	,391	
	,127	,035	,459	,399		,033	,000	,291	
	,212	,389	,136	,143	,033		,287	,044	
	,003	,000	,292	,418	,000	,287		,341	
	,031	,220	,410	,391	,291	,044	,341		
N	119	119	119	119	119	119	119	119	
	119	119	119	119	119	119	119	119	
	119	119	119	119	119	119	119	119	
	119	119	119	119	119	119	119	119	
	119	119	119	119	119	119	119	119	
	119	119	119	119	119	119	119	119	
	119	119	119	119	119	119	119	119	
	119	119	119	119	119	119	119	119	
	119	119	119	119	119	119	119	119	
	119	119	119	119	119	119	119	119	
	119	119	119	119	119	119	119	119	

9.7.2 Overall Regression Model

Finally, all the independent variables used in the above hypotheses have been included into the regression analysis to estimate the overall capacity of the model in estimation of the franchisor's decision rights. These variables are:

- 1) monitoring costs;
- 2) environmental uncertainty;
- 3) advantage of the local market knowledge provided by franchising vs. company-owned outlets;
- 4) initial investments of franchisees;
- 5) the importance of a brand for achieving competitive advantage;
- 6) the intangibility of franchisor's know-how.

In the second case the control variable has also been added to the regression model to evaluate the dependence of results on the size of a franchise system.

Having included all 6 independent variables and the use of franchisor's control as the dependent variable it can be concluded that the model explains 16% of the variation in the level of franchisor's decision rights. The Durbin-Watson score of 2.01 and Variance inflation factors show that there are no collinearity problems within the data and the assumption for regression is met. After the control variable "Size of a franchise system" is added to the model, the model's capacity to explain the variation is increased to 18%. This implies that the level of formal control exercised by franchisor depends to some extent on the size of the franchise system. As the correlation analysis above has shown, the larger the size of the system the less is the use of the formal control by franchisor.

Table 6: Overall regression analysis

Model Summary ^c										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	,396 ^a	,157	,112	1,11422	,157	3,480	6	112	,003	2,010
2	,426 ^b	,182	,130	1,10269	,025	3,354	1	111	,070	

a. Predictors: (Constant), Mean intangibility of franchisor's know-how, Advantage of local market knowledge, Mean of brand name importance, Mean of environmental uncertainty, Mean of the monitoring costs, Franchisee's average expenses

b. Predictors: (Constant), Mean intangibility of franchisor's know-how, Advantage of local market knowledge, Mean of brand name importance, Mean of environmental uncertainty, Mean of the monitoring costs, Franchisee's average expenses, Size of franchise system

c. Dependent Variable: Mean of formal control

ANOVA^c

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25,920	6	4,320	3,480	,003 ^a
	Residual	139,045	112	1,241		
	Total	164,965	118			
2	Regression	29,998	7	4,285	3,524	,002 ^b
	Residual	134,967	111	1,216		
	Total	164,965	118			

a. Predictors: (Constant), Mean intangibility of franchisor's know-how, Advantage of local market knowledge, Mean of brand name importance, Mean of environmental uncertainty, Mean of the monitoring costs, Franchisee's average expenses

b. Predictors: (Constant), Mean intangibility of franchisor's know-how, Advantage of local market knowledge, Mean of brand name importance, Mean of environmental uncertainty, Mean of the monitoring costs, Franchisee's average expenses, Size of franchise system

c. Dependent Variable: Mean of formal control

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	5,195	,789		6,581	,000		
	Mean of the monitoring costs	-,283	,088	-,300	-3,214	,002	,862	1,161
	Mean of environmental uncertainty	-,017	,076	-,020	-,228	,820	,962	1,039
	Advantage of local market knowledge	-,094	,065	-,128	-1,442	,152	,961	1,040
	Franchisee's average expenses	,015	,077	,019	,196	,845	,820	1,220
	Mean of brand name importance	-,052	,092	-,050	-,568	,571	,954	1,048
	Mean intangibility of franchisor's know-how	-,144	,091	-,158	-1,587	,115	,756	1,323
2	(Constant)	5,389	,788		6,835	,000		
	Mean of the monitoring costs	-,273	,087	-,289	-3,122	,002	,858	1,165
	Mean of environmental uncertainty	-,017	,075	-,020	-,225	,822	,962	1,039
	Advantage of local market knowledge	-,094	,065	-,128	-1,459	,147	,961	1,040
	Franchisee's average expenses	,008	,077	,010	,107	,915	,818	1,223
	Mean of brand name importance	-,077	,092	-,075	-,842	,402	,933	1,072
	Mean intangibility of franchisor's know-how	-,138	,090	-,152	-1,533	,128	,755	1,325
	Size of franchise system	,000	,000	-,160	-1,831	,070	,967	1,034

a. Dependent Variable: Mean of formal control

Collinearity Diagnostics^a

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions							
				(Constant)	Mean of the monitoring costs	Mean of environmental uncertainty	Advantage of local market knowledge	Franchisee's average expenses	Mean of brand name importance	Mean intangibility of franchisor's know-how	Size of franchise system
1	1	6,534	1,000	,00	,00	,00	,00	,00	,00	,00	
	2	,138	6,876	,00	,02	,47	,01	,11	,00	,13	
	3	,118	7,429	,00	,13	,16	,36	,00	,02	,04	
	4	,089	8,583	,00	,42	,08	,03	,52	,00	,00	
	5	,061	10,366	,00	,27	,05	,03	,24	,03	,77	
	6	,047	11,830	,02	,11	,04	,40	,13	,46	,02	
	7	,013	22,294	,98	,05	,20	,17	,00	,48	,03	
2	1	6,730	1,000	,00	,00	,00	,00	,00	,00	,00	,00
	2	,806	2,890	,00	,00	,00	,00	,00	,00	,00	,95
	3	,138	6,980	,00	,02	,47	,01	,11	,00	,13	,00
	4	,118	7,556	,00	,12	,17	,36	,00	,02	,04	,00
	5	,088	8,747	,00	,44	,08	,02	,52	,00	,00	,01
	6	,061	10,535	,00	,26	,05	,03	,25	,03	,78	,00
	7	,046	12,043	,02	,12	,05	,40	,11	,46	,01	,01
	8	,013	22,847	,98	,05	,19	,17	,00	,50	,03	,02

a. Dependent Variable: Mean of formal control

9.8. Discussion

The empirical research has shown that one of the hypotheses used in this study has been supported by the data (Hypotheses #1). Hypothesis #6 has found only very weak statistical support. Hypotheses #2, 3, 4 and 5 have not been supported by the findings.

Hypothesis #1: It has been found out that indeed higher monitoring costs lead franchisors to use less formal control and to provide more decision rights to franchisees. This finding corresponds to the views of transaction costs theory which states that when transaction costs are high companies will search to decrease them. In the case of franchising this means that franchisor will rely less on direct monitoring of franchisee's performance but rather on relational forms of governance and will leave more decision rights to franchisees.

Hypothesis #2: The hypothesis that explained a relationship between the level of environmental uncertainty and the choice of the level of control has not been supported by the study.

Hypothesis #3: Despite the expectations, the hypothesis that determines that higher need in local know-how will decrease control of franchisors has not been supported by the data. The results could be influenced by the sample and low international activity of the German franchise systems included into it. As a result, if the examined franchise systems are concentrated mainly in Germany, then low heterogeneity of the market is given and the need in local market knowledge is significantly reduced.

Hypothesis #4: Though the correlation analysis has indicated a negative relationship between the extent of formal control and franchisees' expenditures as was predicted by the hypothesis, but the results have turned out to be statistically insignificant.

Hypothesis #5: The hypothesis stating that higher importance of a brand name for franchisor will mean more formal control and less decision rights for franchisees has not been supported by the research. On the contrary, it has been determined that there is a negative though statistically insignificant relation between the importance of a brand name and the extent of formal control. Further research has shown that almost all franchisors have indicated that their brand name is very important for achieving competitive advantage. From the one side, this could be a signal for the bias of franchisors towards their brand name. From the other side, a strong brand name is a

prerequisite for the establishment of a business format franchise system and might not be seen by franchisors as a reason to limit franchisees' decision rights.

Hypothesis #6: The last hypothesis that predicted direct influence of intangibility of franchisor's know-how on the use of less formal control has been only weakly supported by the research findings. This to some extent supports the assumption of the transaction costs theory that franchisor will try to reduce high transaction costs connected with high intangibility of assets by the decrease in formal control, and will develop a system of relational governance instead. As it is too hard to constantly monitor the franchisees' use of intangible assets it is easier for a franchisor to use less formal control and develop an efficient system of communication with franchisees to keep them motivated to use his intangible assets properly.

9.9. Conclusion

In this thesis different views on the choice of the level of formal control in franchise networks have been presented. Transaction cost theory and agency theory supplemented by the resource scarcity theory have served as the main theoretical basis for the research and development of hypotheses.

According to transaction cost theory transaction costs are based on two behavioral assumptions (bounded rationality and opportunism) and possess two dimensions (asset specificity and uncertainty). These four features play an immense role in franchisor's choice between different forms of governance. Relational governance and formal control through various monitoring mechanisms represent the two ways to deal with the danger of franchisee's free-riding. In general, franchisor will seek to reduce transaction costs connected with the coordination of a franchise network. Such factors as asset specificity and high environmental/behavioral uncertainty increase the information asymmetry and as the result the monitoring costs of franchisor. The higher the costs of monitoring the franchise system the less formal control will be preferred. This hypothesis has also been supported by the empirical research used for this paper. Asset intangibility is closely associated with asset specificity. As it has been detected in the empirical research, asset intangibility to some extent contributes to the decrease in the use of formal control because it is an antecedent for increased monitoring costs.

It has been asserted by many scholars that franchisor-franchisee relationship represents a principal-agent model because two parties are interdependent and yet may pursue different and even conflicting goals. Thus, agency theory can be applied to investigate franchise systems. The agency theory highlights the same problems as transaction cost theory: information asymmetry, bounded rationality and danger of opportunism. But unlike transaction cost theory, agency theory suggests that more formal control through the franchise contract is more suitable to guarantee that franchisees use the intangible assets of franchisor properly. Nevertheless, the 6th hypothesis that was explained by the transaction cost theory and previewed a weaker use of formal control in connection with high asset intangibility has been weakly supported by the research, meaning that when franchisor's asset intangibility is high he will apply less formal control.

There are different methods to control the behavior of franchisees, which can be divided into formal control and relational forms of governance. Formal control implies strict enforcement of the franchise contract. Relational forms of governance include supporting activities, franchise partner selection and usage of master or area development franchising. Franchise partner selection is believed to be one of the most critical issues in the franchisor-franchisee relationship because at this stage franchisor decides whether it will be possible to build a relationship with franchisee based on trust and cooperation rather than on a regular enforcement of the franchise contract.

In general, it is believed that the preference for less formal methods of control allows to build up strong communication between franchisor and franchisees, will motivate innovation in the franchise system and will allow franchisor to benefit from the local know-how of the franchisees, which is one of the reasons to use franchising instead of the establishment of company-owned outlets.

10. Managerial Implications

The theories used to explain franchising and the choice between the methods of control give an overview about the reasons to use franchising instead of company-owned subsidiaries and facilitate the decisions concerning which methods of control should be used in the day-to-day activities of the franchise system.

Franchising offers not only a possibility for companies to raise capital and speed up the expansion into international markets but also allows to reduce agency costs compared with the establishment of company-owned subsidiaries. When there is a great difference between activities in the domestic and foreign markets franchising should be preferred to company-owned outlets because it gives access to the local market knowledge and reduces the need in monitoring the behavior of a franchisee compared with an outlet manager.

The choice between different methods of control should be made depending on the characteristics of the franchise system. Such factors as environmental and behavioral uncertainty, asset specificity and need in the local market knowledge must be taken into account. The main danger of franchising is the opportunistic behavior of franchisees. High intangibility of assets puts franchisor in front of a choice either to incur high monitoring costs and precisely control the behavior of franchisees or to build up a system of relational governance which will allow to co-align the goals of franchisor and franchisees and to reduce the monitoring costs. The findings of the research (though weakly significant) have shown that franchisors used in the sample associated high asset intangibility with the need to use less formal control and give more decision rights to franchisees.

Environmental uncertainty of the market is one of the factors that can influence the activities of a company dramatically. It increases the need in the local market knowledge and makes it more difficult to monitor and assess the performance of a franchisee. High levels of environmental uncertainty also increase the costs of adaptation of contractual agreements. High level of formal control would lead to higher transaction costs and lower flexibility of the franchise system. The assumption that higher environmental uncertainty will lead to decreased use of formal control hasn't been supported by the empirical research. However, the study of Pilling et al. (1994) has shown that environmental uncertainty increases the costs of developing an exchange relationship but has no effect on the costs of monitoring such relationship (Pilling et al., 1994). So, it can be assumed that high environmental uncertainty makes franchisee selection process more accurate but once a relationship is established, it should be less governed by formal methods of control.

Thus, all characteristics of a franchise system and its environment have to be assessed when deciding which type of control is to be used in relations with franchisees. However, taking into account that local market knowledge and flexibility are some of the most important reasons for the choice of franchising instead of company-owned outlets, franchisor should seek to develop a system of relational governance to benefit from the advantages of franchising to full extent.

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12. Zusammenfassung

Die vorliegende Diplomarbeit untersucht die Wahl der „Governance“-Methoden in Franchise-Netzwerken. Die Transaktionskostentheorie, die Prinzipal-Agent-Theorie sowie die Theorie der Ressourcenknappheit, bilden die theoretische Basis für die empirische Untersuchung und Entwicklung von den Hypothesen.

Bei der Wahl der „Governance“-Methoden wird hauptsächlich zwischen formeller und relationaler „Governance“ unterschieden. Formelle „Governance“ bedeutet eine detaillierte Regelung der Beziehung zwischen dem Franchisegeber und dem Franchisenehmer im Franchisevertrag. Relationale „Governance“ hingegen schließt verschiedene Unterstützungsmaßnahmen, eine sorgfältige Wahl der Franchise-Partner und die Verwendung von Master-Franchising oder Gebietsentwicklung ein.

In der Diplomarbeit wurden die Determinanten der formellen „Governance“ untersucht. Diese Determinanten sind: die Überwachungskosten; die Umweltunsicherheit; der Vorteil des lokalen Marktwissen; die Investitionsaufwendungen der Franchisenehmer am Anfang der Vertragsbeziehungen; die Bedeutung des Markennamen für den Wettbewerbsvorteil und die Intangibilität vom Know-how des Franchisegebers.

Die Datenanalyse von 137 Fragebögen, die von Franchisegebern ausgefüllt worden sind, hat gezeigt, dass nur die Überwachungskosten einen starken negativen, statistisch signifikanten Einfluss auf die Ausübung der formellen „Governance“ haben. Dieses Ergebnis entspricht der Transaktionskostentheorie, die besagt, dass je höher die Überwachungskosten im Franchise-Netzwerk sind, desto weniger wird formelle „Governance“ bevorzugt. Durch die empirische Untersuchung wurde auch eine negative Abhängigkeit der formellen „Governance“ von der Intangibilität des Know-hows des Franchisegebers festgestellt. Das kann dadurch erklärt werden, dass höhere Intangibilität vom Know-how des Franchisegebers die Überwachungskosten im Franchise-System erhöht. Der Einfluss der anderen, in der Studie verwendeten Determinanten auf die Wahl der „Governance“-Methoden konnte während der Untersuchung nicht bestätigt werden.

Im Allgemeinen gilt, dass weniger formelle „Governance“ einen intensiveren Informationsaustausch und mehr Innovationen im Franchise-System fördert. So kann der Franchisegeber stärker von dem lokalen Marktwissen, das als Anreiz für den Aufbau des Franchise-Netzwerks dient, profitieren.

Lebenslauf

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