universität wien

MASTERARBEIT / MASTER`S THESIS

Titel der Masterarbeit / Title of the Master´s Thesis

„Determinants of Monitoring in International Franchising“

verfasst von / submitted by

Robin Leichsenring

angestrebter akademischer Grad / in partial fulfilment of the requirements for the degree of

Master of Science (MSc)

Wien, 2017 / Vienna 2017

Studienkennzahl lt. Studienblatt / degree programme code as it appears on the student record sheet	A 066 914
Studienrichtung lt. Studienblatt / degree programme as it appears on the student record sheet	Masterstudium Internationale Betriebswirtschaft
Betreut von / Supervisor:	Univ.-Prof. Dr. Oliver Fabel, M.A.

Statement of oath

I hereby confirm that I have written this thesis on my own and that I have not used any other media or materials than the ones referred to in this thesis.

Vienna, 06/06/2017

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Robin Leichsenring

Acknowledgement

I would like thank first of all my professors Univ.-Prof. Mag. Dr. Windsperger and Mag. Dr. Jell-Ojober for an incredible support during the development of my master thesis. Both provided me with great feedback and recommendations about potential literature. They were a crucial factor for the creation of this thesis. Furthermore, I would like to thank the remaining students that helped collecting the data for the survey of the international franchising companies. To be able to test hypotheses on the base of this survey was only possible through a magnificent team approach.

In addition, I want to thank my family and my friends, who supported me consistently during the development of the thesis.

Table of Contents

Table of Figures and Tables

1. Introduction

Franchising is perhaps one of the most controversially discussed business models in today's global economy.

Various global developments lead to an intensified use of franchising as a method to conquer the competitive landscape of both regional and international markets. Mature regional markets and an integrated seamless global economy, where consumers inform themselves, buy and rate services without any borders, lead to the increase in international franchising networks, especially in the service industry (Burton, Cross, & Rhodes, 2000).

On the one hand, there are various rising stars like McDonald´s ™ or Holiday Inn ™, which are perfect examples of the relentless growth opportunities of franchising networks (Selden, Parker, & Gipson, 2008). The wildest stories of wealth and power are written under the cloak of a franchising system. Fred de Luca and Peter Bucker, two young students who tried to help finance their studies, founded a sandwich company in 1965 that would change the world of fast food forever. With over 44.000 stores today they created the world´s biggest sandwich company Subway´s ™, by using international franchising as a mode of global market entry (SUBWAY®, 2016).

On the other hand, franchising is also characterized by crashing failure, outright thievery or by the slow death of regional enterprises (Selden, Parker, & Gipson, 2008). A good example of the decline of smaller local enterprises can be observed in the bakery branch. The number of bakery stores in Hessen, Germany has halved in the last 20 years through an intensified competition. Some big companies are nowadays the market dominating players and create high market entry borders through their economies of scale and scope. This is equivalent to a steady decrease in regional enterprises in this branch and the potential lack of local employment and cultural heritage (Schulte, 2014).

Franchising in a nutshell is one of the most relevant and popular business concepts and in this context also broadly discussed. It is characterized in various ways, both as the saviour of small businesses in a strong competition and as a threat of the general entrepreneur (Selden, Parker, & Gipson, 2008).

Furthermore, the role of franchising in a global context has increased strongly in the last years.

Firstly, franchising contributes enormously on a quantitative level to the global economies. Taking Canada as an example, franchising services are responsible for about ten percent of the country´s gross domestic product and provide more than one million workstations (Ashraf, 2013).

Besides these quantitative aspects there are more qualitative facts that show the importance of franchising for an economy. Firstly, a franchising system mostly contains both entrepreneurial and company specific characteristics. On the one hand a franchisee can make its own decisions and independently found a new business based on existing knowledge, whereas his actions and risks are always limited by set procedures of the franchisor. This results in a perfect breeding ground for business-minded people to found a company. Additionally, franchising requires a high level of cooperation, teamwork and internal communication, which impacts our society in a very positive way (Ashraf, 2013).

Considering the aspect of monitoring, probably everyone can confirm that it is a huge part of everyone´s life. From the first childhood moments where teachers will not let you play without supervision on a playground, to difficult mathematic lessons where you wish monitoring would not be a part of an exam, culminating in your everyday work where you either monitor the results of your employees or report your own work to a certain instance which oversees you. In all of these situations monitoring can on the one hand always be seen as an obstacle, a disproportionate barrier between you and your normal way of doing things or, on the other hand, as a positive guidance to find your balanced line and to move forward.

The aspect of monitoring is widely discussed in the business context, questioning the right to exist of various monitoring mechanisms in our economic landscape. Waltraud Martius is discussing this issue in a franchising context, analysing the positive and negative aspects of controlling. Therefore, controlling can be seen as an inappropriate duty which blocks necessary resources. This is especially relevant for small, regional franchisees, that are dealing with local fast moving consumer goods as in the example stated by Waltraud Martius (Martius, 2013).

However, most of her analyses result in positive aspects of controlling in a franchising network. Firstly, monitoring can be seen as a metaphor for a captain, who is sailing the ship through unknown business waters and gives guidance and support to the crew. Secondly, controlling is crucial to not only analyse the performance of the franchisee, but also to create an integrated view of the whole franchising network. It is almost impossible for the franchisor to truthfully analyse performance measurements of a franchisee without a certain amount of controlling (Martius, 2013).

Last but not least, it is necessary for an intermediate-term internationalization of a franchise network to provide key performance indicators to potentially new franchises (Martius, 2013). Likewise, Penard sees in his paper a critical relation between the existence of monitoring processes in a franchising network and the overall success of the business model (Penard, Raynaud, & Saussier, 2011).

Taking together the initially stated business model of franchising with all its current relevance for workstations and the global economic development, one can clearly say that franchising is undoubtedly essential for today´s world. Furthermore, the primary illustrated process of monitoring and the direct link to its securing of the overall success of a franchising network states the high relevance of monitoring for franchisors and franchisees.

However, whereas previous literature about franchising in general and monitoring processes in particular suggest the high relevance of both independently and show monitoring as a critical determinant of franchising, the theoretical background on the determinants of monitoring in international franchising has been neglected in previous studies.

2. Research target and methodology

This thesis is focused on the relation between monitoring and franchising and in detail on the determinants of monitoring in international franchising systems.

The first part of the thesis is a theoretical part about franchising and monitoring to illustrate the considerable academic frameworks with the purpose of creating a fundamental overview on the current literature, serving as a base for the empirical analysis. Consequently, in a first step franchising is illustrated as a general business model and as a market entry mode and furthermore structured in different types and formats. Secondly, aspects about monitoring both in general and in relation to franchising are illustrated. Furthermore, an overview about the potential determinants of monitoring according to recent studies is stated. This part closes by illustrating the hypotheses of this paper, including dependent, independent and control variables.

The empirical analysis of the topic is placed in the second part of the thesis. After stating the method of data collection and survey creation, various descriptive elements of the analysis are illustrated.

This is followed by the empirical part composed of factor analyses, correlation analyses and a linear regression. Finally, the results are discussed on the basis of current theoretical approaches.

The paper ends with a conclusion of the results, a description of the limitations of the analysis and an outlook on potential future research topics.

3. Literature review

This section is supposed to illustrate the necessary theoretical background for the further empirical analysis and the following discussion of the results. To begin with, general concepts about franchising are shown.

3.1. Theoretical basics to franchising

The paper is created with the objective of analysing franchising networks in the search of new insights and research areas. In this respect the following section is providing theoretical frameworks about franchising in order to establish a clear understanding of the business model. The main focus lies on noteworthy characteristics.

3.1.1. Definition of franchising

The impact of franchising on global markets in today´s world is immense. Taking the United State of America as an example, more than $ 1.4 trillion revenues are generated by franchising networks each year. Out of all retail sales more than 45% are created from franchise companies (Penard, Raynaud, & Saussier, 2011). This example of one of the world´s biggest economies confirms the significant position of franchising for the global economy.

There are various definitions of the term franchising. One broad view is stated by Burton, Cross and Rhodes in their paper. "(…) the term franchising is used to describe a diversity of business arrangements, under which a broad range of products and services can now be sold (…)" (Burton, Cross, & Rhodes, 2000, p. 376).

Furthermore, Selden, Parker and Gipson differentiate between franchising as a method of distribution and a method of expansion (Selden, Parker, & Gipson, 2008).

Considering the distribution for both goods and services, franchising can be separated in four different formats. Firstly, in the "business format franchises for products", the franchisor provides the franchisee with the regulated allowance on the conduction of a prescribed product. The same format is furthermore applicable for service businesses and is called "business format franchises for services". Here, a service like home cleaning

services or a stay in a hotel is in the focus of the franchising format. “Product franchises” is the third primary franchising mode characterized by a franchisor who manufactures a product and outsources the dealership business to the franchisee. Examples of this format are soft drink bottling companies, ice cream shops or chain hardware stores. Last but not least “Affiliation franchises” is a special American format. An established retailer from the franchisor´s branch is placed as the franchisee (Selden, Parker, & Gipson, 2008).

Franchising as a method of expansion is the second format that is considered by Selden, Parker & Gibson. Besides the aspect of distribution, many small businesses use franchising as a form of expanding an existing business. To expand a business a company normally needs growth capital. In different forms of internationalization this capital is traditionally created by bank financing, venture capital companies or investment banking assets. In a franchising network the franchisor is using the capital and other assets of the franchisee. However, franchising as a format of business is especially attractive in a situation of international expansion or as a market entry form. In these cases franchisors are often culturally and geographically remote from the foreign markets and benefit from the local knowledge and expertise of the potential franchisee (Selden, Parker, & Gipson, 2008).

Furthermore, the speed of internationalization is a crucial aspect of the overall success of the business concept. Franchising as a method of expansion enables businesses to grow rapidly and expand globally in a short period of time (Selden, Parker, & Gipson, 2008). However, besides the opportunity to expand a business in a very fast way there are more additional advantages of franchising. The franchisor can profit from the local market knowhow of the franchisee. The business concept is transferred and further adapted by a second company to the regional characteristics. Due to the fact that the franchisee has a relatively high level of control about his own franchising outlet, his entrepreneurial spirit is strong and will potentially lead to a higher level of intrinsic motivation (Carney & Gedajlovic, 1991).

On the other hand, the franchisee benefits from an elaborate business model including marketing concepts, product design and most importantly brand value. Considering performance measurements of the business of the franchisor and potentially other existing regional outlets, the franchisee has the information advantage and can adjust the concept

to his local market conditions. Furthermore, being part of an international network of franchising companies offer the franchisee access to various experiences and a broad knowhow about different markets and business situations (Combs, Michael, & Castrogiovanni, 2009).

Besides the above stated different methods of franchising, the different reasons from the franchisor and fanchisee´s perspective are an important characteristic to understand the motivation behind the business concept of franchising.

Firstly, the franchisor is the initiator of the expansion plans of the business concept. The company or person representing the franchisor is granting other companies access to do business under their trade mark in accordance with the individually franchise agreement. Sherman indicates, that franchising for a franchisor is a rapid way to penetrate global and domestic markets (Sherman, 2004). Furthermore, the investment of the franchisor for the business expansion is relatively small, due to the initial investment taken by the franchisee. Thus, a franchisor can increase the market coverage of his business concept by enlarging the number of franchisees (Mendelsohn, 2004).

Secondly, considering the perspective of the franchisee, the risk reduction by expanding through franchising is one major motivation. The strength of the franchisor in the industry is built on a proven brand name and business concept, which is consequently adapted by the franchisee in different markets (Baron & Schmidt, 1991). Furthermore, the strength of a strong franchising network is a motivation for a franchisee. Due to benefits of size, the procurement and operational power of the franchisor is relatively big. This leads to a better negotiation position with banks and suppliers and ultimately in better business conditions for the franchisee (Mendelsohn, 2004).

3.1.2. Franchising as a market entry mode

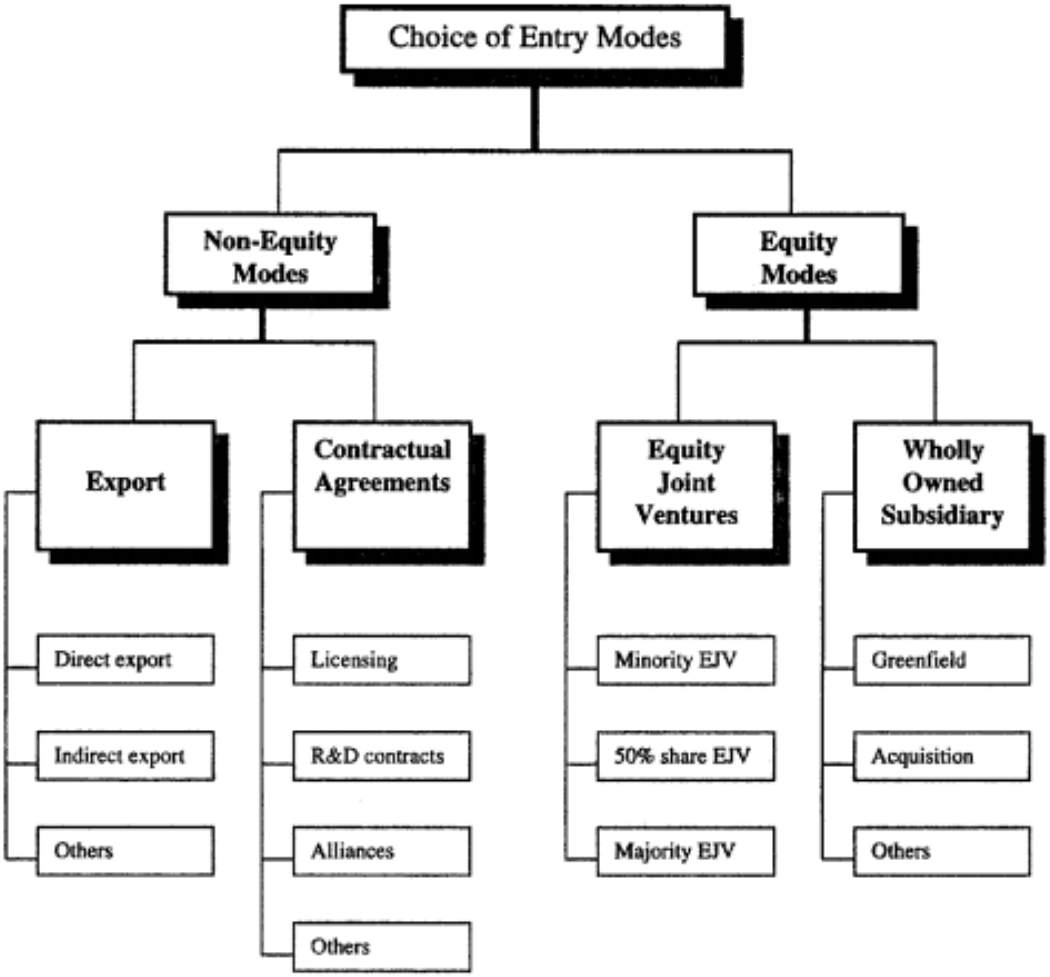
To begin with the theoretical basics on franchising, it is important to analyse franchising as a market entry mode in comparison to different approaches.

Anderson and Gatignon state the fact that every company which plans on performing certain functions beyond domestic borders will face the challenges of choosing the right entry mode (Anderson & Gatignon, 1986).

For these situations, Pan and Tse developed a hierarchical model of market entry modes, that visualizes the different market entry choices. Firstly, entry modes are separated by the use of equity for expansion, resulting in equity and non-equity modes. Equity modes are characterized by a high resource investment of the parent company. Not only financial resources must be placed to establish a new regional outlet, also on-going development and management costs occur.

Therefore, the assessment of a potential market entry via equity mode is crucial, to fully understand and judge factors like adaption to local circumstances, investment risk or control. Furthermore, non-equity modes can be significantly distinguished from equity modes due to the fact that the establishment of an independent outlet, fully or at least partly financed by the parent company, is not necessary for the international expansion (Pan & Tse, 2000).

Table 1 Choice of Entry Modes (Pan & Tse, 2000, p. 538)



Non-equity modes are moreover categorized in export and contractual agreements (Pan & Tse, 2000). Exporting offers growing enterprises a fast, and in order of resource allocation, efficient way of expanding. Furthermore, this market entry mode leads to an increased trade between companies, which simultaneously become more productive and gain more market share. Consequently, an overall positive effect for whole industries is created (Ilmakunnas & Nurmi, 2010). Export in a broader sense can be classed in direct and indirect export. The second non-equity mode according to Pan & Tse are contractual agreements consisting of licensing, R&D contracts and alliances. Webster & Sugden define contractual agreements, in particular licensing, as follows: “A licence can be defined as an agreement by which one company (the licensor) grants another (the licensee) the right to use its intellectual property for a defined purpose” (Webster & Sugden, 2003, p. 450) (Agarwal & Ramaswami, 1992).

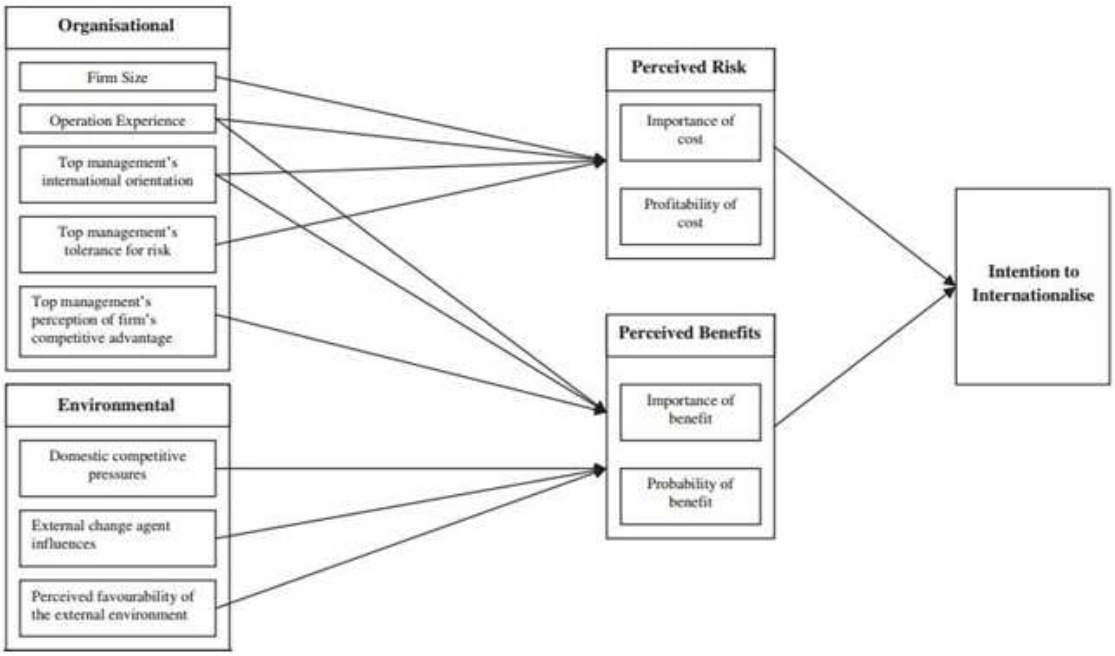
Equity modes on the other side are categorized in wholly owned subsidiaries and equity joint ventures (Pan & Tse, 2000). Equity joint venture is a hypernym for shared control agreements of different companies on a venture. One of the biggest benefits of a market entry via joint venture is the acquisition of new, regional relevant market and business knowhow of the joint venture partner. Consequently, the environmental uncertainty in the situation of an international expansion can be reduced (Tseng & Lee, 2010).

In case of a wholly owned subsidiary, the parent company has full control over the regional outlet based on the fact, that it is the complete owner. Besides the higher investment and commitment in case of a wholly owned subsidiary, there are various benefits for a company that chooses this entry mode. Firstly, less resources are demanded to find the right partner in the foreign market to share equity, secondly the risk for opportunistic behavior is lower if a parent company has the full control over the outlet and last but not least, transaction costs might be lower due to the full transparency of local market information and connections (Tseng & Lee, 2010).

To internationalize a business through a franchising network the franchisor does not need to invest equity. Furthermore, the risk in internationalizing via franchising is smaller, due to the relatively low amount of invested resources in comparison to equity modes. Franchising consequently is a part of non-equity market entry modes. Besides the equity related aspects, franchising creates an internationalization platform for services that cannot be exported (Eroglu, 1992).

Eroglu further created a model to illustrate the internationalization process of franchising systems based in the United States of America. The model is built on the fundamental assumption of Williamson that the increase of the long-term profitability represents the highest goal of a franchising system (Williamson, 1975). Furthermore, the overall risk must be minimized (Eroglu, 1992).

Table 2 Internationalization of Franchises (Eroglu, 1992, S. 22)



3.1.3. Structure and types of franchising

The contract details between the franchisor and franchisee contain, besides paragraphs about trade terms, specification of the business relationship and other contractual details, crucial information about the structure of a franchise system. Various different agreements regarding the scope can be seen, which lead to the differentiation of two different formats of scope (Gomez, Gonzalez, & Vazquez, 2010).

Firstly, multi-unit franchising is characterized by the existence of at least two or more outlets maintained by the franchisee. The bonding between the franchisor and the franchisee is stronger in comparison to the second format of single-unit franchising. One of the main reasons is the increased investment and commitment of the franchisee. Furthermore, the free-riding problem in multi-unit franchising is lower. This describes the opportunistic behavior where a franchisee is taking advantage of the already strong and build up brand or trade mark of a franchising system (Gomez, Gonzalez, & Vazquez, 2010).

Secondly, single-unit franchising is a contractual agreement about one franchising outlet between a franchisor and a franchisee (Gomez, Gonzalez, & Vazquez, 2010).

Besides the differentiation of scope franchising can be categorized by the governance mode. There are various different opportunities for a franchising company to expand in international markets, distinguished by different levels of control. The effect of the decision about the governance mode for a franchisor defines its future returns, flexibility, potential risks and costs of resources. Especially in case of a foreign market entry decision, the appropriate choice of a suitable governance mode is crucial for the success of a company. There are mainly five different governance modes, which predominantly distinguish themselves through the level of control of the franchisor. These modes are wholly-owned subsidiaries, joint venture franchising, area development franchising, master franchising and direct franchising (Konigsberg, 2008).

Wholly-owned subsidiaries

To begin with, a wholly-owned subsidiary is the governance mode where the franchisor has the highest level of control over the franchising outlet. In this market entry mode all foreign operations can be directed to the franchisee, beginning with product and trademark disposition right up to system and process knowledge. Furthermore, the franchisor keeps the full control over the decision rights. Wholly-owned subsidiaries are consequently used when the foreign market entry is very attractive for the franchisor and augurs big potentials (Konigsberg, 2008) (Windsperger & Jell-Ojobor, 2014).

Joint venture franchising

Joint venture franchises are characterized by a franchisor, which has control over a certain share of equity and an equal partner in the host market. In contrast to the wholly-owned subsidiary, not the complete outlet is controlled by the franchisor (Konigsberg, 2008). However, in a second step the equal partner operates as a franchisor in the host market to further regionally expand the franchising system (Windsperger & Jell-Ojobor, 2014).

Area development franchising

In an area development, the franchisor and the franchisee have a contractual agreement about a certain region, where the franchisee is allowed to establish a fixed number of franchise outlets. Consequently, area development franchising is a multi-unit franchising. Besides the freedom of choosing the arranged number of local partners, the franchisee is

not allowed to further distribute the business concept to other sub-franchisees (Burton, Cross, & Rhodes, 2000).

Master franchising

In a master franchising, a sub-franchisor in the specific country or region is chosen to further develop franchise outlets himself or to build a network of sub-franchisees, which then regulates franchise outlets. The second option is established by a contractual agreement about the number of franchise outlets (Konigsberg, 2008).

Direct franchising

Direct franchising, is according to franchising systems, the market entry mode with the lowest level of control. Konigsberg defines it as mode of franchising "which grants franchises directly to the franchisee" (Konigsberg, 2008, p. 74). This citation explains the direct relation between the franchisor and the franchisee, characterized by individual contracts and agreements between the two parties. Furthermore, direct franchising can be classified as direct unit franchising, the creation of local branch offices and area development agreements (Konigsberg, 2008).

3.1.4. Advantages and disadvantages of franchising

Literature points out that the business concept of franchising is accompanied by various advantages and disadvantages. For both the franchisor and the franchisee perspective, there are certain factors that support and obstruct such a cooperation.

Franchisor´s view

One of the main advantages for a franchisor is the opportunity to rapidly internationalize the business concept without the full risk of investment. The franchisee is covering a large fraction of the economic risk (Carney & Gedajlovic, 1991). Furthermore, a big franchising network increases the strategic position and bargaining power of a franchisor. Negotiations with vendors and suppliers are positively affected and economies of scale can be realized (Bisio, 2011). Franchisees are typically highly motivated, because they invested their own money in the business concept and have a high entrepreneurial spirit.

This is another advantage for a franchisor in comparison to an equity mode of internationalization with paid employees (Lillies, Narayana , & Gilman, 1976).

On the other side, the level of control in a franchising system is lower in comparison to fully owned units. Each franchisee has the potential to damage the brand or image of the business and by that impact the investment of the whole franchise network. This leads to an increasing relevance of monitoring (Kaufmann & Dant, 1999). Beside that the choice of the right partner is crucial for the franchisor. As franchising is a method of fast expansion a high number of franchisees potentially join the franchising network in a short period of time. A wrong chosen franchisee can damage the brand and the reputation of the total franchise network (Choo, 2005).

Franchisee´s view

A franchisee benefits from an already proven business concept, that includes an established brand name, aggregated know-how, mature product concepts and elaborated marketing strategies. This concept reduces the risk of failure and increases the chance of high sales results in a short period due to the already established concept (Combs, Michael, & Castrogiovanni, 2009) (Cavusgil, Knight, & Riesenberger, 2012). Furthermore, the franchisee is aware of the regional market characteristics and can evaluate, if the franchising concept suits the local conditions.

However, the benefits for a franchisee implicate various potential disadvantages. On the one hand initial investments and regular royalty payments are a financial risk for the franchisee and create a strong dependence on the franchisor. The dependence is strengthened by centralized processes that are controlled by the franchisor like product development, the purchase of equipment or the brand design. Consequently the franchisee can be negatively affected by the strong dependence on the franchisor (Cavusgil, Knight, & Riesenberger, 2012).

3.2. Theoretical framework of monitoring

After creating a basic understanding of the business model franchising, the next section states fundamental characteristics of monitoring and further gives a first view on its determinants.

3.2.1. Definition of monitoring

Monitoring plays a crucial role for the overall performance and sustainable development of franchising networks. The best business plan and the most promising expansion plan will not succeed if certain processes and milestones are not monitored. Jason Gehrke, a director of the Franchise Advisory Center, who has been involved in franchising as both, franchisor and franchisee for 20 years, further states: “Franchise business plans are worthless without monitoring.” (Gehrke, 2013).

It is essential to maintain and monitor a franchising network, including a system-wide brand and company image, to gain competitive advantages in the market place. However, in today´s fast changing markets a specialized regional adaption and local responsiveness is crucial to adjust to local market demands. Thus, franchisors are facing the challenge to find the right amount of monitoring to control the franchising network and adapt to local needs (Brookes & Roper, 2011).

There are various definitions of monitoring. In a franchising context, Roh defines monitoring as followed: “Monitoring refers to measuring output performance, proportioning rewards, and observing the input behavior. The purpose of monitoring is to maximize the value of the brand name by discouraging franchisee´s self-interest behavior.” (Roh, 2000, pp. 49-50). Consequently, monitoring is a fundamental issue within franchising networks (Brookes & Roper, 2011). A more general attempt to evaluate monitoring was chosen by Ouchi in 1979. He states “People must either be able to trust each other or to closely monitor each other if they are to engage in cooperative enterprises” (Ouchi, 1979, p. 846).

One of the key challenges for a franchisor in a principal-agent exchange is the maintenance of the brand integrity.

This is crucial due to the potential negative effects on the capital of all other franchisees and the franchisor. A key characteristic of the agency theory is the existence of an information asymmetry between the principal and the agent. On the one hand, exclusive knowhow to the principal like future investments or potential franchisee termination motivate the franchisee to support the network. On the other hand, knowhow like regional market conditions or the level of effort they invest in the system are exclusive to the franchisee and create the demand for monitoring processes for a franchisor (Ishida & Brown, 2011).

In this relationship, opportunistic behavior is a classic phenomenon and furthermore a crucial risk for a successful and sustainable franchise system. This kind of behavior is characterized by self-interested behavior that maximizes the welfare of an individual without considering the potential effects on the community, or in this case on the franchising network. Classic examples are shirking, cheating or stealing (Nagin, Rebitzer, Sanders, & Taylor, 2002). Further, internationally expanding franchising networks have a higher chance of facing the challenges of opportunism as stated by Geringer & Hebert: "Typically, as organizations expand in size, there are concurrent increases in the complexity and differentiation of their structures, as well as in the risks of conflicts, opportunistic behavior and competing goals between units." (Geringer & Hebert, 1989, p. 237).

Monitoring is generally defined as efforts from a parent company to guarantee that the franchisee performs as contracted. This includes the implemented avoidance of agent failures like incompetence behavior or purposeful shirking. Both cases strongly align with an information asymmetry between a parent and a local company. This failure to perform in a franchise context is fueled by opportunistic behavior (Wathne & Heide, 2000).

A good practical example is the coffee company AusCafe, that entered the East Asian market by franchising. Firstly, a franchisee in Malaysia sold the business concept to a third company without getting the permission from the franchisor. Secondly, another franchisee refused to pay royalty fees for the business concept and last but not least, one franchise outlet stopped obtaining coffee beans from the franchisor and infringed the contractual agreement by roasting coffee beans on its own (Choo, 2005). These examples

state the potential crucial power that can be released due to opportunism in franchising systems.

To avoid opportunistic behavior, the franchisor has to ensure the integrity of the franchisee to the franchise agreement, which is a key challenge for a successful and sustainable business relation. Monitoring in a franchising context is crucial "because of each franchisee's potential impact on the investment of the other franchisees and the franchisor" (Kaufmann & Dant, 1999 , p. 13). Furthermore, informational asymmetry due to superior information about local market conditions of the franchisee needs to be balanced out by monitoring the contractual compliance. Consequently, the initial function of monitoring is to decrease the information asymmetry between franchisee and franchisor and therefore guarantee the contracted performance of the two parties (Ishida & Brown, 2011).

3.2.2. Structures and types of monitoring

According to Musarra, Robson & Katsikeas, monitoring in a business to business context can be illustrated in two different ways. To begin with, *process monitoring* is used by the parent company to ensure different alliance processes or activities to fulfill the goals of the franchising networks. These processes contain brand and product related characteristics as well as financial plans and regional logistics. Consequently, it monitors the processes that further create output. The second possible way is *output monitoring*, where a franchisor is predetermining specific output levels that must be completed by the franchisee as a part of the contractual agreement. Therefor it monitors the visible output of a franchisees action (Musarra, Robson, & Katsikeas, 2016).

Furthermore, Schaan is analyzing monitoring and control mechanisms, categorizing them in two main types. Firstly, positive control mechanism implemented by the franchisor motivate the franchisee to proactively act in the interest of the whole franchising network. These measures are characterized by an informal character of information exchange and a high degree of participation of the franchisee in planning and reporting. Secondly, negative control mechanisms are used to prevent the franchisee from certain activities. This type has a more bureaucratic character and relies on formal agreements (Geringer & Hebert, 1989). Various different monitoring mechanisms according to Schaan are illustrated in the following table.

Table 3 Positive and Negative Control Mechanisms (Schaan, 1983, p. 249)

Positive and Negative Control Mechanisms

Positive	Negative
Ability to make specific decisions	Board
Ability to design:	Executive committee
1) Planning process	Approval required for:
2) Appropriation requests	1) Specific decisions
Policies and procedures	2) Plans, budgets
Ability to set objectives for JVGM	3) Appropriation requests
Contracts:	4) Nomination of JVGM
management	Screening/No objection of parent before ideas or projects are discussed with other parent
technology transfer	
marketing	
supplier	
Participation in planning or budgeting process	
Parent organization structure	
Reporting structure	
Staffing	
Training programs	
Staff services	
Bonus of JVGM tied to parent results	
Ability to decide on future promotion of JVGM (and other JV managers)	
Feedback; strategy/plan budgets, appropriation requests	
JVGM participation in parent's worldwide meetings	
Relations with JVGM; phone calls, meetings, visits	
Staffing parent with someone with experience with JV	
MNC level in Mexico	
Informal meetings with other parent	

Last but not least, Penard et al. analyse monitoring in franchising chains and differentiate the monitoring policy in the intensity of monitoring outlets or expenditures and the level of penalty, recorded in the contractual agreement. Negative effects of opportunism like shirking or an incorrect declaration of sales figures can be avoided by monitoring. However, as franchise networks further expand and thus the number of regional units rises, the potential monitoring costs increase currently and create a suboptimal situation for the franchisor. Penard et al. findings suggest, that it is not efficient for a franchisor to systematically monitor every franchisee and further, that franchisors should only monitor the franchisee´s, that do not reach certain sales or growth targets (Penard, Raynaud, & Saussier, 2011).

3.2.3. Determinants of monitoring

The main aim of this master thesis is the investigation of determinants of monitoring in international franchising. After introducing both monitoring and franchising based on theoretical frameworks, the goal of this section is to give an introduction on factors influencing monitoring.

As mentioned in the previous section monitoring is characterized by processes, controlling the output performance and the input behavior of franchisees in a franchising network. Those processes demand resources, either financially or organizational. Roh is consequently analysing factors that affect monitoring costs. As an example, he is stating geographical dispersion as an influencing factor (Roh, 2000).

Firstly, the amount and spread of regional outlets influence the total costs of monitoring. Concentrated franchising hubs demand less supervision and lead to lower cost in comparison to higher monitoring demands in globally spread franchising systems. Further, the higher the environmental distance within a franchise, the higher are the monitoring costs (Roh, 2000). Shane follows a similar research field and states: “The more remote the location of an outlet, the higher the costs of monitoring employees and the greater the preference for franchising” (Shane, 1996, p. 74).

Furthermore, the brand value and ultimately the extent of the franchise fee depending on the strength of the franchisor´s brand name determine monitoring efforts in a franchising network. A brand name is a part of the business assets of a company (Norton, 1988). They are defined as properties of a certain firm, which are used in the interest of creating business. Furthermore, business assets can be categorized in tangible assets like produced products or manufacturing buildings, and in intangible assets like brand name or a firm´s reputation (Hill, 2016). In this context, the value of a franchisor´s brand is one of the system specific assets of a company and according to Roh a factor affecting the intensity of monitoring processes in a franchising network (Roh, 2000).

Another potential determinant of monitoring is trust. Per definition trust " (…) is an ongoing process of building on reason, routine and reflexivity, suspending irreducible social vulnerability and uncertainty (…) and maintaining therby a state of favorable expectations towards the actions and intensions of more or less specific others" (Möllering, 2006, p. 111).

Connecting general aspects of trust and monitoring, Boström states "A substitute for monitoring is to rely on trust." (Boström, 2015, p. 247). In his written pleadings he states the assumption that companies might choose a strategic partner based on trust and consequently do not see a need for intensified monitoring. This substitution effect ultimately means that high trust leads to low monitoring and low monitoring necessarily to high trust (Boström, 2015).

The initially explained phenomenon of opportunistic behavior, in particular observed in a principal-agent situation, is not only a formation condition for monitoring but also a determinant. Choo states in his paper, that monitoring is an appliance of opportunism prevention (Choo, 2005).

3.3. Hypotheses

Building up on the briefly presented theoretical frameworks, the research model is based on the dependent variable monitoring with the focus on its independent determinants: behavioral uncertainty, environmental uncertainty, trust and system specific assets. The theoretical basics for the dependent variable monitoring were already presented in the second part of chapter 3.

During the following section the above mentioned determinants are shortly explained based on the current theoretical state of research, and hypotheses on their influence on monitoring in international franchising systems are presented. Further, the control variables age of a franchise system and size of a franchise system are illustrated.

Behavioral uncertainty

Behavioral uncertainty can be described as the doubtfulness attributable to opportunistic behavior (Williamson, 1985). The origin of this aspect is the franchisee and managerial self-interested behavior. This potentially leads to opportunistic behavior affecting the complete franchising system. In this case, one part of the network has superior knowledge on certain aspects and uses it in their own interests. The information sticks with the opportunist and is not disclosed to the other partner. Miller furthermore gives in his statements a possible solution to prevent the potential risks, problems and damages of behavioral uncertainty, which is monitoring (Miller, 1992). Moreover, opportunistic behavior of franchisees can be circumvented, if a franchising network is using monitoring systems to analyse the performance of the franchising outlets (Penard, Raynaud, & Saussier, 2011). Consequently, the following hypothesis is constructed:

H1: Higher behavioral uncertainty leads to a higher level of monitoring.

Environmental uncertainty

For firms operating in an international context the minimization of general risks is one of the highest duties. In detail, corporate risk can be separated in internal and external factors which both influence the performance of a company without being fully predictable. A large part of these risk factors are uncertain and refer to environmental or organizational

variables (Miller, 1992). According to Miller, environmental uncertainty is a part of external risks that include government policy instabilities, natural uncertainties, social uncertainties, macroeconomic uncertainties and political uncertainties (Miller, 1992).

Table 4 Environmental Uncertainties (Miller, 1992, p. 314)

TABLE 1
General Environmental Uncertainties

Political uncertainties
War
Revolution
Coup d'état
Democratic changes in government
Other political turmoil
Government policy uncertainties
Fiscal and monetary reforms
Price controls
Trade restrictions
Nationalization
Government regulation
Barriers to earnings repatriation
Inadequate provision of public services
Macroeconomic uncertainties
Inflation
Changes in relative prices
Foreign exchange rates
Interest rates
Terms of trade
Social uncertainties
Changing social concerns
Social unrest
Riots
Demonstrations
Small-scale terrorist movements
Natural uncertainties
Variations in rainfall
Hurricanes
Earthquakes
Other natural disasters

In his literature Miller describes generic responses to the potential risks of environmental uncertainties composed of control, flexibility, imitation, cooperation and avoidance. Furthermore, he states that mechanisms of flexibility are internal leverages to reduce the costs of organizational adaption. This potentially has an impact on internal monitoring. Consequently, the following hypothesis is constructed:

H2: Higher environmental uncertainty leads to a higher level of monitoring.

Trust

Trust as a determinant is hard to measure consistently due to its personal interpretation. The perception and individual definition of the word trust varies between different individuals. However, in current literature there are various definitions of trust in a business context. For Zand trust is "(…) defined here as consisting of actions that (a) increase one´s vulnerability, (b) to another whose behavior is not under control, (c) in a situation in which the penalty (disutility) one suffers if the other abuses that vulnerability is greater than the benefit (…)" (Zand, 1972, S. 230). In a franchise context, a high level of trust between a franchisor and a franchisee originates from ongoing personal contact between the two parties and ultimately leads to a lower level of opportunistic behavior (Dickey, 2007). Furthermore, trust is a crucial enabler of franchising systems in general, allowing franchisees to appreciate and appraise the concept of a franchisor (Chiou, Hsieh, & Yang, 2004).

Boström connects both research fields trust and monitoring directly as substitutes (Boström, 2015). He states that "instead of monitoring suppliers, a buyer may simply select supplier that it perceives as trustworthy." (Boström, 2015, p. 243).

This leads to the assumption, that a lower level of trust increases the likelihood of opportunistic behavior, which again increases the need for monitoring. Hence, the following hypothesis can be stated:

H3: Lower trust leads to a higher level of monitoring.

System specific assets

System specific assets are regarded as competences of a company that potentially create a competitive advantage for the franchising network. These assets can be as rudimental as the outcome of a business idea. Especially in today´s world defined by fast changing markets, flexibly moving consumers and international possibilities of purchase core characteristics of the offered service or the manufactured product like quality or design are more important than ever (Danneels, 2002). In the survey further dimensions like management competences, organizational competences, customer competences, foreign

market competences, innovation capabilities and product and service competences are considered to evaluate a holistic picture of system specific assets.

Consequently, one can assume that a company is willing to protect and control these competences to maintain its competitive situation. This applies in particular to an international market entry strategy like franchising, where knowledge and specific knowhow is shared with various franchisees (Danneels, 2002). Hence, the following hypothesis is stated:

H4: Higher system specific assets lead to a higher level of monitoring.

Control variables

In the empirical analysis control variables are used to create reliable results. On that account, the year of the start of the internationalization was considered to reflect the age of a franchising system and the section about the number of franchise outlets abroad was regarded to mirror the size of the international franchises. By using control variables, the risk of potential bias in the survey is minimized.

Accordingly, the medium age of the franchising networks is, delimited by the enquiry period between December 2014 and June 2015, approximately 12-13 years. The average size is defined by around 106 units abroad per franchising network.

4. Empirical analysis

In this chapter the methodological approach of the thesis is illustrated. In a first part the data collection process, that embodies the fundament of the analysis, is explained. Furthermore, after stating some insights about the questionnaire the factor analysis and regression is illustrated.

Data collection and Questionnaire

For the analysis of the determinants of monitoring in international franchising an international survey was collected. Mag. Dr. Jell-Ojober and ao. Univ.-Prof. Mag. Dr. Windsperger initiated and designed the survey due to their combined interests in analysing international franchising systems. The main objective of this survey is to find empirical proof on the assumptions and postulated hypotheses in their former paper "The Choice of Governance Modes of International Franchise Firms – Development of an Integrative Model" (Windsperger & Jell-Ojobor, 2014). The subject group of the survey consists of franchising companies, which perform in an international environment and with headquarters based in Germany, Austria, France, Spain, Italy, the Netherlands, the United Kingdom or the United States. Several international franchising associations hold the contact data for their regional franchising companies available and we were able to benefit from this database in the analysis.

The data collection initially started in December 2014 with an online based questionnaire. Therefor participating students were assigned to groups of one to five people to contact all the franchising companies out of several regions by mail. I was responsible for Germany and the United States of America. To secure a valid sample for the analyses a response rate of 20% was set as a target. However, due to insufficient response rates a second period of data collection was initiated in February 2015. This time the prior contact method was telephone calls. A total number of 2713 was contacted by the whole project team. Finally, in March 2015 an additional postal survey was conducted to increase the response rate of the European franchising companies, which did not reply by that time. With the final clearance of inaccurate data the collection was finalized in June 2015. As a result 162 valid samples of international franchising companies were collected, which results in a final utilizable response rate of six percent.

The choice of an online based questionnaire was the foundation for the international context of the empirical research. It was possible to reach a greater number of attendees in various international countries. Furthermore, the questionnaire is easily accessible through the broad global internet coverage nowadays.

However, there are some limitations of the online based questionnaire. The geographical distance between the participant and the interviewer creates a loss of control about the right accomplishment of the survey. On the one hand participants might not be able to fulfill the survey due to insignificant barriers, which could easily be overcome in a face-to-face questioning (i.e. misunderstanding of certain questions). On the other hand it cannot clearly be proven which person completed the survey. Considering both, advantages and disadvantages of the online based questionnaire, one can clearly say that the positive aspects dominate. A representative international sample would be difficult to create with offline based methods.

The questionnaire can be found in detail in the appendix. In this section the general structure and key domains of the questionnaire are presented.

The beginning gives the participant a first understanding of the main objectives of the survey and the purpose. In the first section general aspects about the franchising network like industry, year of foundation or number of franchising outlets abroad are prompted. This information is of extreme importance for the empirical analyses and the definition of control variables.

Secondly, the essential question about the international operations of the franchising system separates the survey group of interest from the rest, due to the fact that only international franchise companies are considered. In the subsequent section the market entry mode and the relevant countries are concerned. During the further procedure of the questionnaire the research areas environmental uncertainty, behavioral uncertainty, evaluation of monitoring, control, transaction specific investments, decision rights, competitive advantages, know-how transfer, trust and systems specific assets are stated. The statistical method used for the individual questions is a seven-digit Likert scale. The questionnaire closes with accomplishments of performance goals of the franchise network.

5. Empirical results

5.1. Descriptive analysis

In this section the characteristics of the sample are presented. The data set is composed of 162 international franchising companies from Germany, Austria, France, Spain, Italy, the Netherlands, the United Kingdom and the United States of America. The statistical analysis of the study was realized by using SPSS. Before using the data base for the statistical test of the hypotheses, the main attributes are illustrated in a frequency analysis beginning with the geographical distribution of the franchising systems. According to a frequency analysis the most common country where the franchisor has it´s headquarter is Germany (25.3%) followed by the United Stades (14.8%) and Spain (14.2%).

Table 5 Frequency analysis - Headquarter

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	USA	24	14,8	14,8	14,8
	UK	8	4,9	4,9	19,8
	Germany	41	25,3	25,3	45,1
	Austria	16	9,9	9,9	54,9
	Netherlands	10	6,2	6,2	61,1
	Italy	18	11,1	11,1	72,2
	France	22	13,6	13,6	85,8
	Spain	23	14,2	14,2	100,0
	Total	162	100,0	100,0	

Analysing the industry that belongs to the franchise system a vast majority of the subject group, who shared their information, rank among the service sector (62.9%). The remaining 37.1 % of the subject group who answered the question are split in distribution industry (28%) and production industry (9.1%).

Table 6 Frequency analysis - Industry

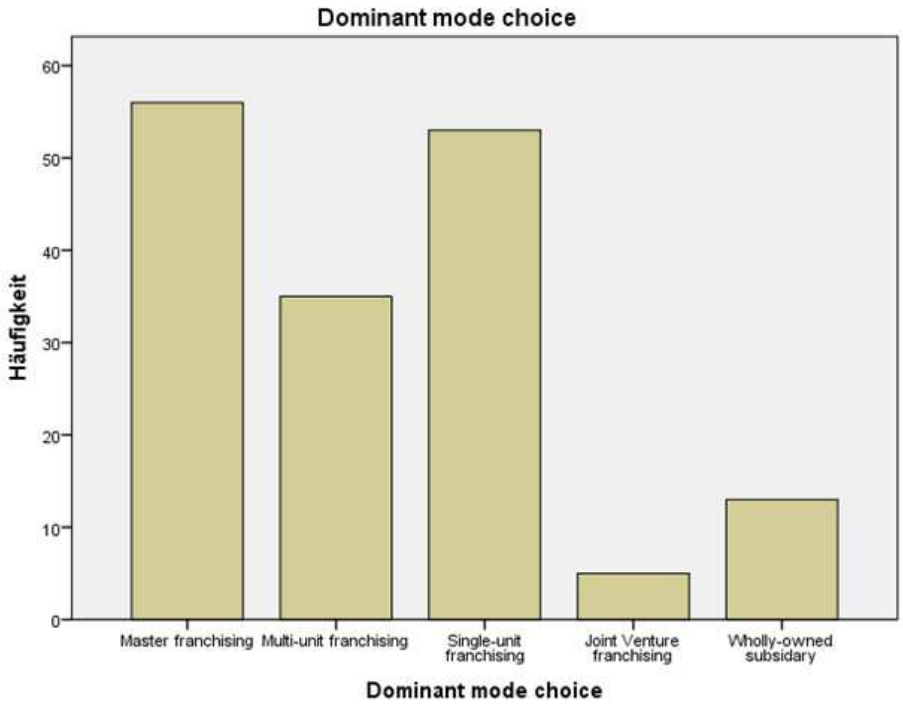
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Distribution	40	24,7	28,0	28,0
	Service	90	55,6	62,9	90,9
	Production	13	8,0	9,1	100,0
	Total	143	88,3	100,0	
Missing	Not answered	19	11,7		
Total		162	100,0		

In a next step, the dominant market entry mode choice of the survey group is illustrated. Taking a closer look at the preferred entry mode in the host market, master franchising is the most common entry mode (34.6%). The second most common mode is single-unit franchising (32.7%) followed by multi-unit franchising (21.6%). Wholly-owned subsidiaries are the fourth most common entry mode with 8.0%. Only a small percentage of the complete survey has a Joint Venture franchising as their dominant mode (3.1%).

Table 7 Frequency analysis - Dominant mode choice

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Master franchising	56	34,6	34,6	34,6
	Multi-unit franchising	35	21,6	21,6	56,2
	Single-unit franchising	53	32,7	32,7	88,9
	Joint Venture franchising	5	3,1	3,1	92,0
	Wholly-owned subsidary	13	8,0	8,0	100,0
	Total	162	100,0	100,0	

Table 8 Frequency analysis - Dominant mode choice 2



Furthermore, the age of the franchising network can be illustrated by analyzing the question "Year, when the internationalization started". More than half of the survey group started international expansion processes in the 21th century, in particular 19.75% between 2011 and 2015 and 33.33% of the sample between 2001 and 2010. Furthermore, 17.9% internationalized the franchising between 1991 and 2000, 6.79% between 1981 and 1990, 3.7% between 1971 and 1980, 0.62% in the year 1970 or earlier and 17.9% abstained from answering this question.

Last but not least, the size of the franchising network is shown by considering the question about the system size "number of franchise outlets abroad". On average the subject group consists of franchising systems with 106 outlets abroad.

5.2. Factor analysis

In general there are two different types of factor analyses, confirmatory and exploratory. Confirmatory factor analyses are used to test the compatibility of the existing data with a predefined model (Garson, 2013). The exploratory factor analysis is a method used in multivariate statistics with the aim of analyzing structures of various variables and the purpose of minimizing the research dimensions. Furthermore, the focus of a factor analysis is the detection of independent dimensions. Variables with a strong correlation among each other are combined and named "factor". Consequently, strongly correlating variables are separated from the remaining variables. Thus, factor relations can be analysed and condensed statements about various factors can be created (Backhaus, Erichson, & Weiber, 2011).

Factor analysis – Monitoring

The factor analysis was used for the research areas monitoring (dependent variable), environmental uncertainty, behavioral uncertainty, trust and system specific assets (independent variables). Firstly, the control section is considered to extract the factor for monitoring. In the beginning of the analysis the Kaiser-Mayer-Olkin measure (further called KMO) is illustrated. This criterion measures the sample adequacy of certain variables for a factor analysis by analyzing the proportion of variance among variables that is common variance. An extracted value of 0.5 or lower states an insufficient base for a potential factor analysis. A value of 0.8 or higher indicates a meritorious or marvelous result. Regarding the control variables the KMO measure is 0.743, which is adequate for a factor analysis (Backhaus, Erichson, & Weiber, 2011). Furthermore, the Bartlett test of sphericity analyses the overall significance of all correlations. In this case the significance value is 0.000, which states various correlations between the variables and consequently eliminates the H0 hypothesis (Bauer & Romm, 2008).

Table 9 KMO and Bartlett´s Test - Control

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,743
Bartlett's Test of Sphericity	Approx. Chi-Square	358,555
	df	28
	Sig.	,000

The Principal Component Analysis (PCA) is the next step of the factor analysis with the focus of reducing the dimensions. This statistical instrument illustrates the communalities, which describe the extent of the explained variance by one variable. The first column shows the initial estimate of the communalities and the second column states the extent of the explained variance.

Table 10 Communalities - Control

	Initial	Extraction
Control: We closely monitor the extent to which the foreign partners follow established procedures.	1,000	,797
Control: We regularly monitor the quality control maintained by our foreign partners.	1,000	,762
Control: We frequently monitor the marketing activities performed by our foreign partners.	1,000	,665
Control: We have developed specific procedures for our foreign partners to follow.	1,000	,555
Control: The extent of territorial coverage that our foreign partners needs to attain for our products and services i...	1,000	,475
Control: The franchise contract specifies sales targets for our foreign partners.	1,000	,650
Control: The terms of our agreement require our foreign partners to attain a certain market share for our products an...	1,000	,645

Control: Our future relationship with our foreign partners is contingent on how they achieve the specified goals.	1,000	,610

Extraction Method: Principal Component Analysis.

The higher the explained variance between these items the better the ability of the factor to explain the superior research area.

In a next step, the total variance explained and the initial Eigenvalues are analysed. The number of factors in one question depends on the Eigenvalue of the factor. There is no universal regulation of the optimal number of factors that should be extracted. Following the Kaiser Criteria, factors with an Eigenvalue of 1 or higher are relevant for the study. An extraction value of 0.5 or less is in general a poor representative for the factor (Backhaus, Erichson, & Weiber, 2011).

In the following illustration the Eigenvalues of the control variables are sorted by size. Two factors can be extracted with the Eigenvalues of 2.909 and 2.249. Together these two factors explain 64.473 % of the overall variance (Lucerne University of Applied Science and Arts, 2016).

Table 11 Total Variance Explained - Control

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2,909	36,358	36,358	2,807	35,088	35,088
2	2,249	28,115	64,473	2,351	29,385	64,473
3	,775	9,690	74,163			
4	,572	7,146	81,309			
5	,508	6,350	87,659			
6	,443	5,543	93,202			
7	,330	4,129	97,331			
8	,214	2,669	100,000			

Extraction Method: Principal Component Analysis.

In a further step the items are assigned to the two factors in a rotated component matrix. The rotation method used for this analysis is the varimax rotation. The first four items form one factor and the last four questions form the second factor. Taking the content of

the respective items in consideration, the first factor summarizes “Monitoring” while the second factor stands for “Control”. All variables with a factor loading below 0.5 cannot be used to explain the factor. The extent of the explained variance in a varimax is unchanged, however the orthogonal basis is rotated (Backhaus, Erichson, & Weiber, 2011).

Table 12 Rotated Component Matrix - Control

	Component	
	1	2
Control: We closely monitor the extent to which the foreign partners follow established procedures.	,893	
Control: We regularly monitor the quality control maintained by our foreign partners.	,872	
Control: We frequently monitor the marketing activities performed by our foreign partners.	,812	
Control: We have developed specific procedures for our foreign partners to follow.	,718	
Control: The extent of territorial coverage that our foreign partners needs to attain for our products and services i...		,644
Control: The franchise contract specifies sales targets for our foreign partners.		,799
Control: The terms of our agreement require our foreign partners to attain a certain market share for our products an...		,802
Control: Our future relationship with our foreign partners is contingent on how they achieve the specified goals.		,781

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

The last step of the factor analysis is the reliability analysis with the Cronbach Alpha statistic. Cronbach Alpha is one of the most common used statistical test procedures to quantify the reliability. It is typically used to evaluate the scale of multiple Likert questions. In general a Cronbach Alpha with a value higher than 0.7 states a reliable factor. The Cronbach Alpha for the factor monitoring is hence reliable (0.835), considering the first four variables as one factor (Laerd Statistics, 2016).

Table 13 Cronbach Alpha - Monitoring

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
,835	,839	4

Factor analysis – Behavioral Uncertainty

In a second step after defining monitoring as the dependent variable with a factor analysis, the independent variables are depicted. Firstly, the KMO measure for behavioral uncertainty is 0.775 which states a good sample adequacy of the variables (Backhaus, Erichson, & Weiber, 2011). Secondly, the Bartlett´s test shows a significance of 0.000 and thus eliminates the H0 hypothesis.

Table 14 KMO and Bartlett´s Test - Behavioral Uncertainty

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,775
Bartlett's Test of Sphericity	Approx. Chi-Square	266,014
	df	6
	Sig.	,000

The communalities for behavioral uncertainty, extracted with the Principal Component Analysis, are attached in the appendix.

In the following illustration the total variance explained and the initial Eigenvalues are outlined. For behavioral uncertainty one factor has an Eigenvalue higher than 1.

Table 15 Total Variance Explained – Behavioral Uncertainty

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2,894	72,339	72,339	2,894	72,339	72,339
2	,540	13,490	85,829			
3	,338	8,452	94,281			
4	,229	5,719	100,000			

Extraction Method: Principal Component Analysis.

Due to the fact that only one factor was created, there is no rotation necessary. This factor explains 72.339% of the total variance. In the component matrix the single items are assigned to the factor.

Table 16 Component Matrix – Behavioral Uncertainty

	Component
	1
Behavioral uncertainty: ... evaluate the qualification of foreign partners.	,810
Behavioral uncertainty: ... monitor the franchise product/service quality in foreign countries.	,901
Behavioral uncertainty: ... monitor the misuse of proprietary knowledge by foreign partners.	,822
Behavioral uncertainty: ... assess the performance of foreign partners.	,866

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

The Cronbach Alpha for this factor is reliable (0.872), considering all four variables of the question.

Factor analysis – Environmental Uncertainty

After analyzing behavioral uncertainty, the second independent factor environmental uncertainty is considered. To begin with, the KMO measure for question D111 (cultural, institutional and environmental distance) is 0.858 which states a meritorius sample

adequacy of the variables (Backhaus, Erichson, & Weiber, 2011). Furthermore, the Bartlett´s test shows a significance of 0.000 and thus eliminates the H0 hypothesis.

Table 17 KMO and Bartlett´s Test - Environmental Uncertainty

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,858
Bartlett's Test of Sphericity	Approx. Chi-Square	638,350
	df	55
	Sig.	,000

The communalities for cultural, institutional and environmental distance, extracted with the Principal Component Analysis, are attached in the appendix. The total variance explained and the initial Eigenvalues show the number of factors that can be extracted from this question. In this case two factors have an Eigenvalue of 1 or higher and explain 57.177% of the overall variance.

Table 18 Total Variance Explained - Environmental Uncertainty

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4,940	44,906	44,906	4,391	39,918	39,918
2	1,350	12,271	57,177	1,899	17,259	57,177
3	,961	8,741	65,918			
4	,840	7,638	73,556			
5	,781	7,097	80,653			
6	,521	4,740	85,393			
7	,488	4,434	89,827			
8	,376	3,418	93,246			
9	,323	2,937	96,182			
10	,227	2,061	98,243			
11	,193	1,757	100,000			

Extraction Method: Principal Component Analysis.

In a Rotated Component Matrix the single items are assigned to the two factors. The first seven items form the factor “Environmental uncertainty”, whereas the last four items build the factor “Economic uncertainty”.

Table 19 Rotated Component Matrix - Environmental Uncertainty

	Component	
	1	2
Cultural,institutional, environmental distance: Cultural differences between our home and the foreign countries are h...	,750	
Cultural,institutional, environmental distance: The business practices in our home and the foreign countries are quit...	,753	
Cultural,institutional, environmental distance: The language barriers between our home and the foreign countries are ...	,510	
Cultural,institutional, environmental distance: The legal protection of intellectual properties such as patents and t...	,688	
Cultural,institutional, environmental distance: The political environment is quite uncertain in the foreign countries.	,845	
Cultural,institutional, environmental distance: The risk of ownership restrictions is high in foreign countries.	,844	
Cultural,institutional, environmental distance: The quality of local infrastructure, such as phones, roads and IT, is...	,689	
Cultural,institutional, environmental distance: Customer demand is strongly changing in foreign countries.	,497	,471
Cultural,institutional, environmental distance: Sales forecasts are not easily predictable in foreign countries.		,788
Cultural,institutional, environmental distance: Market shares are pretty unstable in foreign countries.	,474	,659
Cultural,institutional, environmental distance: The number of existing and potential competitors is high in foreign c...		,697

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.[a]
a. Rotation converged in 3 iterations.

For the first factor, environmental uncertainty, the Cronbach Alpha is 0.861 considering the first seven questions.

A potential method to optimize the combination of variables is a reliability analysis. The overall goal of this step is to detect variables, which negatively influence the Cronbach Alpha of a factor. Furthermore, the influence of the single variables on the factor is illustrated (Schmitt, 1996).

By analysing the "Item-Total Statistics" a possible improvement according to the reliability of a factor can be seen by examining the "Cronbach Alpha´s if item deleted table". In this scenario the already very high Cronbach Alpha of 0.861 could be further improved by deleting item number three. However, the improvement would be on the one hand only marginal (+0.008) and on the other hand the Cronbach Alpha simply provides a benchmark for the reliability. It does not distinguish between contentual suitable or incongruous items (Laerd Statistics, 2016). In this case item number fits content-wise to the concept of environmental uncertainty and is integrated in this factor.

Table 20 Item Total Statistics - Environmental Uncertainty

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Cultural,institutional, environmental distance: Cultural differences between our home and the foreign countries are h...	21,00	58,305	,630	,841
Cultural,institutional, environmental distance: The business practices in our home and the foreign countries are quit...	21,32	60,112	,649	,839
Cultural,institutional, environmental distance: The language barriers between our home and the foreign countries are ...	21,73	61,727	,446	,869
Cultural,institutional, environmental distance: The legal protection of intellectual properties such as patents and t...	21,93	58,247	,619	,843
Cultural,institutional, environmental distance: The political environment is quite uncertain in the foreign countries.	22,24	56,933	,747	,825
Cultural,institutional, environmental distance: The risk of ownership restrictions is high in foreign countries.	22,28	57,577	,765	,824
Cultural,institutional, environmental distance: The quality of local infrastructure, such as phones, roads and IT, is...	22,59	59,495	,594	,847

The second factor economic uncertainty has a Cronbach Alpha of 0.669 which is in the tolerance range, considering the last four questions. However, the Cronbach Alpha can be significantly increased by deleting the last variable from the factor. Thus, a Cronbach Alpha of 0.781 can be created.

Table 21 Item Total Statistics – Economic Uncertainty

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Cultural,institutional, environmental distance: Customer demand is strongly changing in foreign countries.	11,26	12,874	,434	,613
Cultural,institutional, environmental distance: Sales forecasts are not easily predictable in foreign countries.	11,20	11,299	,657	,461
Cultural,institutional, environmental distance: Market shares are pretty unstable in foreign countries.	11,68	12,039	,605	,503
Cultural,institutional, environmental distance: The number of existing and potential competitors is high in foreign c...	11,38	14,875	,186	,781

Factor analysis – Trust

Furthermore, the third independent variable trust is analysed. To start with, the KMO measure for trust is 0.730 which states a good sample adequacy of the variables (Backhaus, Erichson, & Weiber, 2011). Furthermore, the Bartlett´s test shows a significance of 0.000 and thus eliminates the H0 hypothesis.

Table 22 KMO and Bartlett´s Test - Trust

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,730
Bartlett's Test of Sphericity	Approx. Chi-Square	392,809
	df	55
	Sig.	,000

The communalities for trust, extracted with the Principal Component Analysis, are attached in the appendix.

The total variance explained and the initial Eigenvalues show the number of factors that can be extracted from this question. Considering the questions in regard of trust, three factors are extracted with an Eigenvalue of greater than one, which combined explain 62.531% of the overall variance.

Table 23 Total Variance Explained - Trust

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3,699	33,627	33,627	3,191	29,009	29,009
2	1,804	16,402	50,030	2,227	20,246	49,255
3	1,375	12,501	62,531	1,460	13,275	62,531
4	,975	8,861	71,391			
5	,711	6,466	77,857			
6	,637	5,795	83,652			
7	,516	4,687	88,339			
8	,507	4,608	92,947			
9	,379	3,450	96,396			
10	,243	2,212	98,608			
11	,153	1,392	100,000			

Extraction Method: Principal Component Analysis.

In a Rotated Component Matrix the single items are assigned to the three factors. Analysing the content of the extracted factors the following three different trust factors can be defined. Items 6,7,9 and 11 create the first factor “General trust”, Items 1, 2, 3, 4 and 5 build the second factor “Knowledge-based trust” and the third factor “Suspicion” is composed of items 8 and 10.

Table 24 Rotated Component Matrix - Trust

	Component		
	1	2	3
Trust: The relationship with our foreign partners is based on mutual trust.	,406	,575	
Trust: Generally, a foreign partner with whom I have a longer relationship is likely to help me when I need it.		,658	
Trust: As a franchisor I feel more secure when I work with a foreign partner I know well than with someone I don`t know.		,801	
Trust: The foreign partners I trust are those with whom I have long-lasting relationships.		,738	
Trust: Most people will respond in kind when they are trusted by others.		,483	
Trust: Most people are trustworthy.	,893		
Trust: Most people are trustful of others.	,848		
Trust: Most people are basically dishonest.			,755
Trust: Most people are basically good and kind.	,824		
Trust: I trust a person I don`t know more than one I know well.			,783
Trust: I am trustful.	,727		

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.[a]

a. Rotation converged in 4 iterations.

Considering the Cronbach Alpha´s the third factor "Suspicion" is below 0.6 and consequently too low to be meaningful.

Both the first factor "General trust" (0.858) and the second factor "Knowledge-based trust" (0.698) have a Cronbach Alpha higher than 0.6 and are relevant.

Factor analysis – System specific assets

Last but not least, the fourth independent factor system specific assets is considered. To begin with, the KMO measure for question E101 is 0.616 which states a tolerable sample adequacy of the variables (Backhaus, Erichson, & Weiber, 2011). Furthermore, the Bartlett´s test shows a significance of 0.000 and thus eliminates the H0 hypothesis.

Table 25 KMO and Bartlett´s Test - System specific assets

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,616
Bartlett's Test of Sphericity	Approx. Chi-Square	221,714
	df	15
	Sig.	,000

The communalities for system-specific assets, extracted with the Principal Component Analysis, are attached in the appendix.

The total variance explained and the initial Eigenvalues show the number of factors that can be extracted from this question. In this case we receive two factors with an Eigenvalue of higher than 1, which combined explain 67.562% of the overall variance.

Table 26 Total Variance Explained – System specific assets

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2,773	46,224	46,224	2,059	34,323	34,323
2	1,280	21,338	67,562	1,994	33,239	67,562
3	,794	13,241	80,803			
4	,626	10,437	91,239			
5	,281	4,679	95,918			
6	,245	4,082	100,000			

Extraction Method: Principal Component Analysis.

In a Rotated Component Matrix the single items are assigned to two factors and after analysing the content the following factors can be defined. Items 1, 2 and 3 create the first factor “Management and customer competence”. The second factor “Product and market knowledge” is built from items 3 to 5.

Table 27 Rotated Component Matrix – System specific assets

	Component	
	1	2
System-specific assets: ... management competence (like operating policies and procedures and HR management)	,904	
System-specific assets: ... organizational capabilities (like cultural management and information management)	,865	
System-specific assets: ... customer competence (like marketing / advertising / promotion, pricing)	,593	
System-specific assets: ... foreign market competence (like setting up foreign operations, knowledge of foreign markets)		,579
System-specific assets: ... innovation capabilities (like product and organizational innovations)		,900
System-specific assets: ... product and service competence (like product/service quality and design)		,818

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.[a]

a. Rotation converged in 3 iterations.

Product and market knowledge has a Cronbach Alpha of 0.701 and management and customer competence has a Cronbach Alpha of 0.771. Consequently, both values are higher than 0.6 and thus reliable for the further statistical analysis.

5.3. Correlation

Correlation is a statistical method that analyses the relation between two variables and reveals the existence, direction and strength of relations among them.

The most common method to generate this analysis is the Pearson Correlation, illustrated with the letter "r". The potential range of values for r is -1 until +1, with 0 representing a state of non-existing correlation between two items. A value of -1 is equivalent to the maximal negative correlation, thus +1 shows the maximal positive correlation between two variables. According to Pearson an area between +/- 0.5 to +/-1 is showing a high correlation, +/- 0.3 to +/- 0.5 a medium and +/- 0.1 to +/- 0.3 a low correlation (Andale, 2013). Furthermore the Sigma (2-tailed) value analyses the significance of the respective relation. If the value is between 0.00 and 0.05, the relation is significant and can be further considered (Backhaus, Erichson, & Weiber, 2011) (Martens, 2003).

In the following section the focus lays on detecting significant relations between the independent, dependent and control variables.

To begin with, the dependent variable monitoring and the independent variable behavioral uncertainty have a Sigma 2-tailed level of 0.000, which show a significance between these two factors. The Pearson Correlation of -0.317 means that increasing behavioral uncertainty leads to decreasing monitoring. This stands in contrast to the hypothesis H1, where the existence of a positive correlation between behavioral uncertainty and monitoring is assumed.

Secondly, the dependent variable monitoring and the independent variable management and customer competence have a Sigma 2-tailed level of 0.002, stating a significant relation between monitoring and system specific assets. The Pearson correlation of 0.298 illustrates a positive correlation between the two variables. An increase in management and customer competences in international franchise companies lead to an increase in monitoring measures.

Thirdly, the dependent variable monitoring and the control variable year when internationalization started (age of the franchising network) have a Sigma 2-tailed of 0.056 and a low positive correlation (r = 0.179).

Further, the respective correlations between all independent variables are examined. Consequently significant correlations are seen between behavioral uncertainty and environmental uncertainty (r = 0.397); behavioral uncertainty and economic uncertainty (r = 0.343), behavioral uncertainty and general trust (r = -0.330), environmental uncertainty and year when the internationalization started (age of the franchising network) (r = -0.205) and year when the internationalization stated (age of the franchising network) and number of franchising outlets abroad (size of the franchising network) (r = -0.210).

Table 28 Correlation

Correlations

		Monitoring	Behavioral Uncertainty	Environmental Uncertainty	Economic Uncertainty	General trust	Knowledge-based trust	Management and customer competence	Product and market knowledge	International Time line & System size: YEAR when internationalization started	International Time line & System size: Number of franchise outlets ABROAD
Monitoring	Pearson Correlation	1	-,317**	-,015	,010	,050	,051	,298**	,150	,179	,080
	Sig. (2-tailed)		,000	,876	,918	,629	,624	,002	,129	,056	,388
	N	121	120	117	117	95	95	104	104	115	118
Behavioral Uncertainty	Pearson Correlation	-,317**	1	,397**	,343**	-,330**	-,030	-,148	,037	-,029	,061
	Sig. (2-tailed)	,000		,000	,000	,001	,769	,129	,707	,752	,500
	N	120	129	124	124	97	97	107	107	122	125
Environmental Uncertainty	Pearson Correlation	-,015	,397**	1	,000	-,130	,013	-,050	,162	-,205*	,153
	Sig. (2-tailed)	,876	,000		1,000	,211	,903	,612	,100	,023	,089
	N	117	124	129	129	94	94	104	104	122	125
Economic Uncertainty	Pearson Correlation	,010	,343**	,000	1	-,122	-,025	-,141	,053	,102	,030
	Sig. (2-tailed)	,918	,000	1,000		,242	,814	,155	,591	,265	,743
	N	117	124	129	129	94	94	104	104	122	125
General trust	Pearson Correlation	,050	-,330**	-,130	-,122	1	,000	,040	,011	-,005	,054
	Sig. (2-tailed)	,629	,001	,211	,242		1,000	,699	,914	,963	,599
	N	95	97	94	94	99	99	96	96	95	97
Knowledge-based trust	Pearson Correlation	,051	-,030	,013	-,025	,000	1	,096	,096	-,069	-,126
	Sig. (2-tailed)	,624	,769	,903	,814	1,000		,353	,354	,505	,218
	N	95	97	94	94	99	99	96	96	95	97
Management and customer competence	Pearson Correlation	,298**	-,148	-,050	-,141	,040	,096	1	,000	,123	,045
	Sig. (2-tailed)	,002	,129	,612	,155	,699	,353		1,000	,215	,644
	N	104	107	104	104	96	96	109	109	104	106
Product and market knowledge	Pearson Correlation	,150	,037	,162	,053	,011	,096	,000	1	-,119	,157
	Sig. (2-tailed)	,129	,707	,100	,591	,914	,354	1,000		,228	,107
	N	104	107	104	104	96	96	109	109	104	106
International Time line & System size: YEAR when internationalization started	Pearson Correlation	,179	-,029	-,205*	,102	-,005	-,069	,123	-,119	1	-,210*
	Sig. (2-tailed)	,056	,752	,023	,265	,963	,505	,215	,228		,017
	N	115	122	122	122	95	95	104	104	133	130
International Time line & System size: Number of franchise outlets ABROAD	Pearson Correlation	,080	,061	,153	,030	,054	-,126	,045	,157	-,210*	1
	Sig. (2-tailed)	,388	,500	,089	,743	,599	,218	,644	,107	,017	
	N	118	125	125	125	97	97	106	106	130	136

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

5.4. Regression

In contrast to a bivariate regression, a linear regression analyses the coherences between various independent variables and the dependent variable. Thus, it can be illustrated how a dependent variable can be explained by a model of independent determinants. The significance of the entire model is tested with the help of an ANOVA test (Krüger, Borgmann, Antonik, & Meyer, 2012) (Backhaus, Erichson, & Weiber, 2011).

In this section, the results of the linear regression for each hypothesis are illustrated. In this method of testing, the dependent variable is predicted by a variety of independent variables. To test the above mentioned hypothesis, a regression model was created, which relates the dependent variable monitoring and the predictors behavioral uncertainty, environmental uncertainty, economic uncertainty, general trust, knowledge-based trust, product and market knowhow, management and customer competences. Furthermore. two control variables age and size of the franchising system (year when internationalization started; number of franchise outlets abroad) were integrated.

Monitoring is set to be the dependent variable in the regression model to consequently test the determinants on monitoring. Two control variables are integrated to minimize the risk of bias in the survey. The two variables are age (year when the internationalization started) and size of the franchising system (number of franchise outlets abroad).

In the linear regression the first aspect to consider is the model summary. The adjusted R^2 describes the percentage of the variance of the dependent variable that can be explained through the model. In this case 34.6% of the variance of the dependent factor monitoring can be explained by the regression model.

Table 29 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,645[a]	,416	,346	,81299885

a. Predictors: (Constant), International Time line & System size: Number of franchise outlets ABROAD, Behavioral, Knowledgetrust, Productmarketknowhow, Generaltrust, mngmcompetence, International Time line & System size: YEAR when internationalization started, Economicuncert, Environuncert

b. Dependent Variable: Monitoring

In a second step the ANOVA table analyses the significance of the model and whether at least one independent variable influences the dependent variable in a significant way. If the Sigma is lower than 0.05 the null hypothesis is discarded and the model is significant. In this case the model has a Sigma of 0.000 which states the existence of significant variables.

Table 30 Regression ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35,260	9	3,918	5,927	,000[b]
	Residual	49,573	75	,661		
	Total	84,833	84			

a. Dependent Variable: Monitoring

b. Predictors: (Constant), International Time line & System size: Number of franchise outlets ABROAD, Behavioral, Knowledgetrust, Productmarketknowhow, Generaltrust, mngmcompetence, International Time line & System size: YEAR when internationalization started, Economicuncert, Environuncert

After testing the significance of the model as a whole the individual independent variables are analysed.

The coefficients show the significance of the individual independent variables. A Sigma value of less than 0.05 shows a significant influence from the independent variable on the dependent variable. Furthermore, the Standardized Coefficient Beta states the status of the independent variable. A positive value for example shows, that an increase in the independent variable implicates an increase in the dependent variable. Besides the

direction of the effect of the independent variable, the Standardized Coefficient Beta furthermore illustrates the conciseness, depending on the extent of the value.
The Sigma of behavioral uncertainty (0.001), management and customer competences (0.028) and product market knowhow (0.002) are below 0.05 and have a significant effect on the dependent variable monitoring. This states a significant relation between the initially presented hypothesis *H1: Higher behavioral uncertainty leads to a higher level of monitoring* and *H4: Higher system specific assets lead to higher level of monitoring*.
However, the independent variables from the remaining two hypotheses *H2: Higher environmental uncertainty leads to a higher level of monitoring* (Sigma = 0.886) and *H3: Lower trust leads to a higher level of monitoring* (General trust, Sigma = 0.586; Knowledge based trust, Sigma = 0.974) do not show a significance.

The standardized coefficients Beta are the among themselves comparable regression coefficients. A positive value states a positive impact of the independent variable on the dependent variable. However, the standardized coefficient does not show the exact correlation of two variables in a linear regression.

In the following paragraph, the main findings of the regression are stated. The discussion and reflection of the findings is illustrated in the part “Discussion”. In the beginning the variables with a significant impact on the dependent variable are considered.

Firstly, behavioral uncertainty has a negative impact on the dependent variable monitoring (Beta = -0.387), which is contrary to the assumption of a positive impact in hypothesis H1.

Secondly, hypothesis H4 focusing on the influence of system specific assets as a determinant of monitoring showed significant results for both management and customer competences (Beta = 0.212) and product and market know how (Beta = 0.301). Both factors, summarizing system specific assets in the survey, have a positive impact on monitoring. Consequently, a high amount of system specific assets leads to higher monitoring, which in conclusion confirms hypothesis H4.

Thirdly, the two control variables, size and age of the franchising network both influence the dependent factor in a significant way (Age of the franchising system, Sigma = 0.004; Size of the franchising system, Sigma = 0.025). The age of the franchising system influences monitoring in a positive way (Beta = 0.290) and also the size of the franchising network has a positive impact on the dependent variable (Beta = 0.216).

In a second part, the variables with a non-significant effect on the dependent variable monitoring are considered.
Both factors extracted from the section about cultural, institutional and environmental distance do not influence monitoring in a significant way. The Sigma of environmental uncertainty (0.886) and economic uncertainty (0.576) are both above the defined borderline for significant relations (Martens, 2003). Thus, the hypothesis *H2: Higher environmental uncertainty leads to a higher level of monitoring* cannot be confirmed.

Furthermore, the two factors from the section concerning trust do not impact monitoring in a significant way. According to the regression coefficients table the Sigma for general trust (0.586) and knowledge based trust (0.974) do not fall in the scope of significant results (Martens, 2003). Consequently, the hypothesis *H3: Lower trust leads to a higher level of monitoring* cannot be confirmed.

Table 31 Regression Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-57,370	19,453		-2,949	,004		
	Behavioral Uncertainty	-,390	.110	-.387	-3,545	,001	,652	1,533
	Environmental Uncertainty	,015	,101	,015	,144	,886	,752	1,330
	Economic Uncertainty	.053	.094	.055	.562	.576	.815	1.227
	General trust	-,051	,092	-,051	-,547	,586	,906	1,104
	Knowledge-based trust	.003	.096	.003	.032	.974	.943	1.061
	Management and customer competence	,232	,103	,212	2,247	,028	,874	1,144
	Product and market knowledge	,308	,097	,301	3,187	,002	,873	1,146
	International Time line & System size: YEAR when internationalization started	,029	,010	,290	2,944	,004	,803	1,245
	International Time line & System size: Number of franchise outlets ABROAD	,001	,001	,216	2,289	,025	,872	1,147

a. Dependent Variable: Monitoring

In a fourth step the multicollinearity of the model is illustrated to examine strong correlations between the independent variables, which could potentially pervert the outcome of the empirical survey.
This can be seen by analysing the VIF value. If the value of the independent variable is below 10 there is no strong correlation among them. In the illustrated linear regression model all VIF values among the independent variables are in a range between 1.061 and 1.533, stating a compatible measure of correlation between the independent variables.

After the multicollinearity analyses, the P-P Plot examines the model for potential model errors. In particular the results must be normally distributed to be fully acknowledged. The following P-P Plot shows that the results are normally distributed.

The last step in the analysis of the validity of the model is the visualization via Scatterplot, to examine a homogenous or heterogeneous distribution of the data. In our model the distribution is even and no inconsistencies can be found.

Table 32 Regression P-P Plot

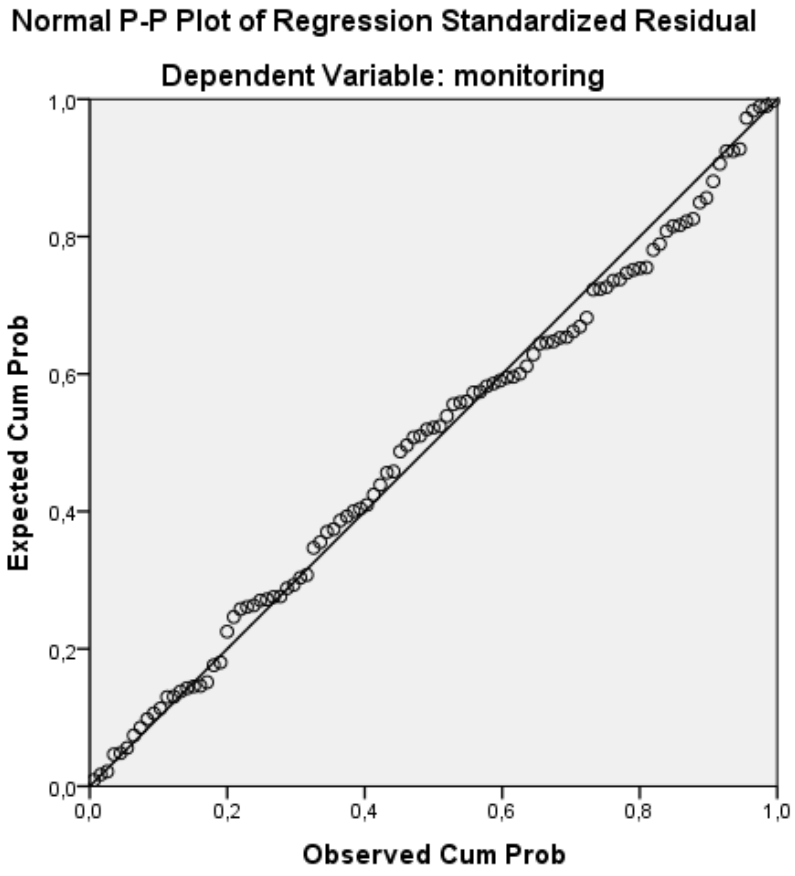
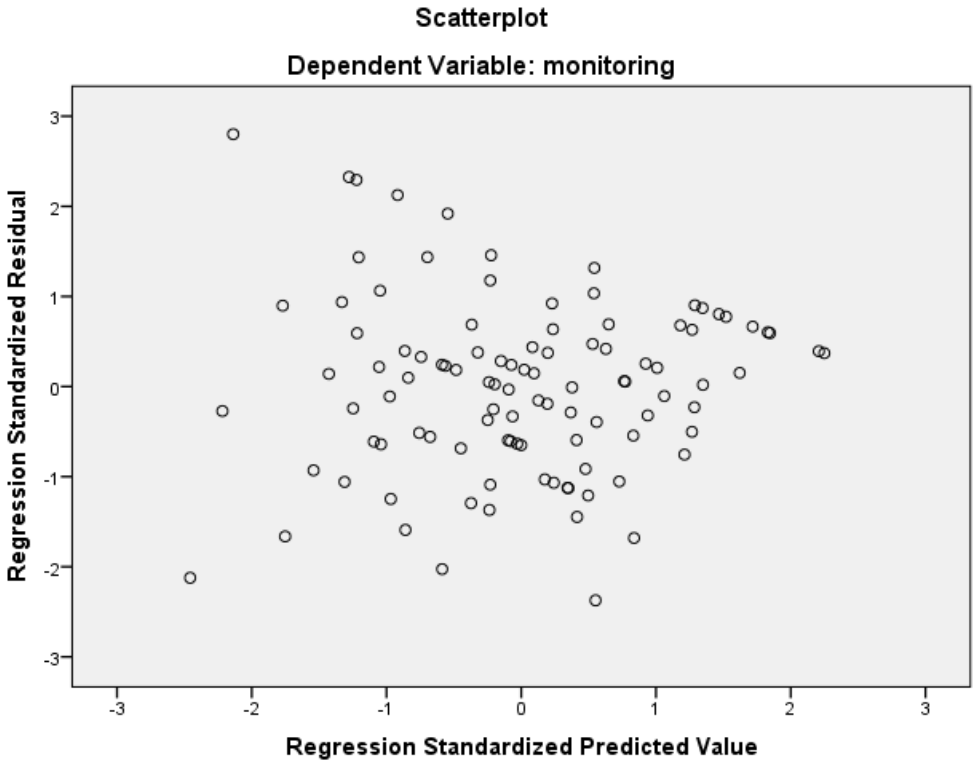


Table 33 Regression Scatterplot



6. Discussion of the results

In this section the above mentioned results from the linear regression model are used to test the aforementioned hypotheses. Furthermore, the resulting findings are discussed.

The first hypothesis, tested in the regression, was the impact of behavioral uncertainty on monitoring.

H1: Higher behavioral uncertainty leads to a higher level of monitoring.

Behavioral uncertainty has a significant impact on monitoring in the outcome (Sigma = 0.004). However, interestingly in contrast to the initial hypothesis the effect is negative (Beta = -0.387), which means that a franchising network with a low behavioral uncertainty has high monitoring processes, or that a high behavioral uncertainty is directly linked to a low level of monitoring.

The main question will be the causality between monitoring and behavioral uncertainty.

The general assumption behind the hypothesis H1 is that behavioral uncertainty leads to actions or behavior, which potentially damage a franchising company. Consequently, this leads to the requirement of monitoring systems to prevent detriments of the company (Williamson, 1985) (Miller, 1992). This effect is directly reflected in the outcome of the linear regression.

Low behavioral uncertainty correlates with high monitoring measurements. Consequently, a low extent of managerial self-interested behavior, with the potential to maximize the utility of the individual by affecting the companies welfare, are linked to franchising companies with a high amount of process or outcome oriented monitoring procedures. Furthermore, a franchising system that allows a high extent of the illustrated opportunistic behavior represents a network with a low level of monitoring.

In summary it can be said, that the main assumption of the first hypothesis H1 can be proven in a significant way, although the initial hypothesis was focused on a positive correlation between the independent and the dependent factor.

The second hypothesis tested in the regression covered the impact of environmental uncertainty on monitoring.

H2: Higher environmental uncertainty leads to a higher level of monitoring.

The outcome of the regression states that there is no significant effect of the independent variable environmental uncertainty on monitoring (Sigma = 0.886). Interestingly, the theoretical and empirical analyses of Roh on geographical dispersion of units in a franchising system result in a significant effect of the intensity of unit distribution on monitoring (Roh, 2000). However, Roh is focusing his hypothesis on environmental uncertainty almost exclusively on geographical distances that lead to an intensified monitoring without further including other environmental aspects. In case of the study depicting the fundament of this paper, broader aspects of environmental uncertainty like cultural differences, different business practices, language barriers, legal protection standards of intellectual properties, political environment, the risk of ownership restrictions and the quality of the local infrastructure are considered. Furthermore, this study focusses on international franchises based in Germany, Austria, France, Spain, Italy, the Netherlands, the United Kingdom and the United States of America, which excludes the Asian and the South American continent from the study. According to Hofstede´s cultural dimension analysis, countries and regions can be distinguished by power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity, short-term versus long-term orientation and indulgence versus restraint. The outcome of Hofstede´s analysis shows for example a difference in the cultural dimension between Asian and European countries (Hofstede, 1980) (Hofstede, 2001). Further on, Miller sees a high relevance of the analysed country unit for an evaluation of environmental uncertainties. He examines country interdependences regarding the economic, political, and social system of a country, that consequently influence the environmental uncertainties (Miller, 1992).

Due to the existing environmental differences between Asia and Europe an integrated approach including international franchising companies based in Asia might result in different or even significant findings. However, the findings in this study do not support the results of the analysis from Roh (Roh, 2000).

The third hypothesis tested in the regression was the impact of trust on monitoring and in particular the impact of general trust and knowledge-based trust.

H3: Lower trust leads to a higher level of monitoring.

The outcome of the linear regression shows that neither general trust (Sigma = 0.586) nor knowledge-based trust (Sigma = 0.974) have a significant effect on monitoring.

This result is converse to the remarks of Boström on the effect of trust on monitoring. He suggests that trust can even be seen as a substitute for monitoring and that companies that search for trusted partners eventually skip monitoring processes completely. However, Boström is building his findings on a qualitative case study approach with a Swedish procurement organization and analyses the relation between buyers and sellers, which already expresses a significantly diverse explorative approach and can be an indicator for deviating findings (Boström, 2015).

The relation between trust and monitoring in a business context is furthermore a controversially discussed topic. According to Das & Teng various scholars indicate on the one hand the relevance of both control and trust aspects to secure a healthy business relationship between two partners (Das & Teng, 1998).

On the other hand they state that “in fact, to trust and to control seem to be two completely different kinds of approaches” (Das & Teng, 1998 , p. 495). Besides the diversity of theoretical approaches it can be inherently said that the use of both variables, trust and monitoring, has the power to reduce the overall risk in a franchising network and consequently reduce the likelihood of actions harmful for the network (Das & Teng, 2001). Nonetheless, in this study no significance between the independent factor trust and the dependent factor monitoring could be proven.

Last but not least hypothesis H4 can be confirmed. Both individual factors “Management and customer competence” and “Product and market knowledge”, extracted with the factor analysis, have a significant effect on the dependent variable monitoring.

H4: Higher system specific assets lead to a higher level of monitoring.

Danneels already mentions the increasing importance of product knowledge in today´s world by stating “(…) really new products are crucial to firm survival in the fast-changing business environment” (Danneels, 2002, p. 1095). This citation shows the relevance of product knowledge in current markets that must be protected.

The regression analysis showed a positive effect of the independent variable product and market knowledge on the dependent variable monitoring with a Beta of 0.301. This means that high system specific assets in particular related to product or market knowhow are directly linked to high monitoring systems in international franchising systems.

Furthermore, the model shows a positive effect of management and customer competences on monitoring with a standardized coefficient beta of 0.212. As a consequence, higher competences in operating policies, HR management, cultural management and marketing lead to higher monitoring processes in international franchising companies.

The outcome of the analysis of Roh on the role of royalty rates in determining monitoring costs illustrated a significant effect of franchising fees on monitoring. The franchising fee depends on the strength of the franchisor´s brand value. Consequently, a strong brand name of a franchising system leads to high franchising fees. As initially stated, the reputation of a company is a part of a firms intangible assets and thus part of the system specific assets (Norton, 1988). Consequently, the findings of my study prove the significant impact of system specific assets on monitoring.

7. Conclusion, limitations and areas of future research

The main aim of this empirical study was to investigate the determinants of monitoring in international franchising systems. In particular the impact of behavioral uncertainty, environmental uncertainty, trust and system specific assets on the dependent variable monitoring was tested.

Firstly, a theoretical perspective was illustrated that builds the foundation of the empirical analysis. After introducing the most important aspects of international franchising, the paper continues by giving insights into monitoring. Based on these two areas of research, I combined both in a third part and depicted monitoring in franchising networks and further gave an introduction into the current theoretical literature about the determinants of monitoring.

Secondly, to answer the leading questions, I analysed the impact of all independent variables together in a regression on the dependent variable monitoring. As a result, two out of four hypothesis delivered significant results. Furthermore, both control variables, age and size of the franchising network, have a significant effect on monitoring.

The hypothesis *H4: Higher system specific assets lead to a higher level of monitoring* could be proven. Furthermore, hypothesis *H1: Higher behavioral uncertainty leads to a higher level of monitoring* showed a significant effect on monitoring. The effect of behavioral uncertainty on the dependent variable is negative. Furthermore, the two control variables both have a positive effect on monitoring

However, there are some limitations to the analysis that must be considered.

The study above is an exploratory quantitative study and is consequently subdued to its limitations, which in turn are the potential benefits of a qualitative study like the guarantee of interviewing the person in charge of franchising decision through vis-à-vis interviews or the ability to adjust better to the study participant. Further, the study was realized with franchises in an international environment and with headquarters based in Germany, Austria, France, Spain, Italy, the Netherlands, the United Kingdom or the United States, which limits the validity of the results on these countries.

The results of the survey clearly state the importance and relevance of monitoring in international franchising. Furthermore, two significant determinants on monitoring were illustrated and in addition discussed.

Quinn and Doherty put the demand for further research about the determinants of monitoring in international franchising in a nutshell by stating: “Control is an issue of serious concern for international franchise companies. (…) as a consequence, more attention needs to be given to managing the international retail franchise relationship between the franchisor in the home market and the franchisee at the local level.” (Quinn & Doherty, 2000 , p. 354). There is the potential for further research on additional determinants of monitoring in international franchising to create more precise forecasts.

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9. Appendix

9.1. Abstract English

Franchising is one of the biggest and globally most relevant market entry modes. Due to the international context of franchising and the lower level of control in comparison to other market entry modes, monitoring becomes a crucial factor of influence for the success of a franchising system.

The main objective of this study is the analysis of determinants of monitoring in international franchising. Firstly, in a broad theoretical part the relation between monitoring and franchising and theoretical approaches on the determinants of monitoring are illustrated. Secondly, hypotheses concerning the potential impact of behavioral uncertainty, environmental uncertainty, trust and system specific assets on monitoring are positioned and further analysed in a linear regression. The empirical results show a significant effect of both behavioral uncertainty and system specific assets on monitoring. The remaining two hypotheses are not significant.

The thesis shows that behavioral uncertainty and system specific assets positively influence monitoring in a significant way. There is the potential for further research on additional determinants to predict monitoring more precisely.

9.2. Abstract German

Franchising ist eine der weltweit bedeutendsten und am häufigsten vorkommenden Markteintrittsentscheidungen. Dabei ist Monitoring ein entscheidender Einflussfaktor für den Erfolg eines Franchising Systems, bedingt durch den internationalen Kontext der Markteintrittsentscheidung und des geringen Kontrollniveaus im Vergleich zu anderen Methoden.

Die Zielsetzung dieser Studie ist die Analyse der Einflussfaktoren auf Monitoring in internationalen Franchiseunternehmen. Zunächst stellt die Masterarbeit in einem theoretischem Teil die Konzepte Franchising und Monitoring dar und geht des Weiteren auf die Einflussfaktoren auf Monitoring ein. In einem zweiten Schritt werden die Hypothesen, bezogen auf den Einfluss von Verhaltensunsicherheit, Umweltunsicherheit, Vertrauen und System spezifischem Vermögen auf Monitoring dargestellt und im weiteren Verlauf mittels einer linearen Regression analysiert. Die empirischen Ergebnisse zeigen einen signifikanten Einfluss von Verhaltensunsicherheit und System spezifischem Vermögen auf Monitoring. Die verbleibenden beiden Hypothesen liefern keine signifikanten Ergebnisse.

Die Masterarbeit besagt somit, dass sowohl Verhaltensunsicherheit als auch System spezifische Vermögen einen signifikanten, positiven Einfluss auf Monitoring haben. Es besteht zudem weiterer Forschungsbedarf in Bezug auf weitere Einflussfaktoren, um Monitoring noch genauer vorhersagen zu können.

9.3. Questionnaire

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Vienna, 16th March 2015

Faculty of Business, Economics and Statistics
Department of Management
Oskar-Morgenstern-Platz 1, 1090 Vienna, Austria

Prof. Josef Windsperger, josef.windsperger@univie.ac.at

Dr. Maria Jell-Ojobor, maria.jell-ojobor@univie.ac.at

Scientific Study on International Franchising

Dear Franchisor,

The Department of Management at the University of Vienna is conducting a research project on INTERNATIONAL FRANCHISING. The goal of our study is to investigate the **CHOICE OF ORGANIZATIONAL MODE** of international franchise companies.

International franchise systems utilize different modes of expansion into foreign markets, such as a WHOLLY-OWNED SUBSIDIARY, SINGLE-UNIT FRANCHISING, MULTI-UNIT FRANCHISING, MASTER FRANCHISING and JOINT VENTURE FRANCHISING.
Our findings will provide new insights on the factors that determine the internationalization strategies of franchise systems headquartered in the USA, UK, SPAIN, ITALY, FRANCE, NETHERLANDS, GERMANY, and AUSTRIA.

The successful implementation of the survey requires continued close cooperation between the corporate industry and science. Achieving the proposed objective of the survey can only be successful if a large number of franchisors fills the questionnaire from which the outcomes and relevant information gathered would become useful to both the corporate community and researchers in the academia.

Our target is to have all questions answered. Kindly find the best possible answer from the set of options available therein.

For any problems in completing the questionnaire, please contact us personally at your disposal through the following contact details:
Josef Windsperger - josef.windsperger@univie.ac.at, Tel: 00431427738180,
Maria Jell-Ojobor - maria.jell-ojobor@univie.ac.at, Tel: 00431427738158.

You find the questionnaire also at the following link:
http://im.univie.ac.at/windsperger/news/?no_cache=1.
You may also fill the questionnaire online following this link:
www.soscisurvey.de/InternationalFranchising/?l=eng

We apologize for receiving this questionnaire should you have already participated in the survey.

We will gladly share the outcome of this study with you in a scientific **Report on International Franchising**. *The information will be used exclusively for research purposes, and the contact details are treated strictly confidential and will not be disclosed to third parties.*

We thank you for your cooperation.

Sincerely yours,

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Key question of the survey:

Please choose your DOMINANT (i.e. most used) FRANCHISE MODE to enter foreign countries.

- ○ Wholly-owned subsidary
- ○ Single-unit franchising
- ○ Master franchising
- ○ Joint Venture franchising
- ○ Multi-unit franchising

Please answer the following questions for the foreign markets where you use the DOMINANT MODE.

Please assess the following environmental conditions faced in the foreign countries (where you use your DOMINANT MODE).

	strongly disagree 1	2	3	4	5	6	strongly agree 7
Cultural differences between our home and the foreign countries are high such as norms, values and habits.	○	○	○	○	○	○	○
The business practices in our home and the foreign countries are quite different.	○	○	○	○	○	○	○
The language barriers between our home and the foreign countries are high.	○	○	○	○	○	○	○
The legal protection of intellectual properties such as patents and trademarks is weak in the foreign countries.	○	○	○	○	○	○	○
The political environment is quite uncertain in the foreign countries.	○	○	○	○	○	○	○
The risk of ownership restrictions is high in foreign countries.	○	○	○	○	○	○	○
The quality of local infrastructure, such as phones, roads and IT, is under-developed in foreign countries.	○	○	○	○	○	○	○
Customer demand is strongly changing in foreign countries.	○	○	○	○	○	○	○
Sales forecasts are not easily predictable in foreign countries.	○	○	○	○	○	○	○
Market shares are pretty unstable in foreign countries.	○	○	○	○	○	○	○
The number of existing and potential competitors is high in foreign countries.	○	○	○	○	○	○	○

3/9

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Please answer the following questions for the foreign markets where you use the DOMINANT MODE.

Please evaluate the monitoring in the foreign countries (where you use your DOMINANT MODE).

It is difficult to ...	strongly disagree 1	2	3	4	5	6	strongly agree 7
... evaluate the qualification of foreign partners.	○	○	○	○	○	○	○
... monitor the franchise product/service quality in foreign countries.	○	○	○	○	○	○	○
... monitor the misuse of proprietary knowledge by foreign partners.	○	○	○	○	○	○	○
... assess the performance of foreign partners.	○	○	○	○	○	○	○

Please evaluate the control in the foreign countries (where you use your DOMINANT MODE).

	strongly disagree 1	2	3	4	5	6	strongly agree 7
We closely monitor the extent to which the foreign partners follow established procedures.	○	○	○	○	○	○	○
We regularly monitor the quality control maintained by our foreign partners.	○	○	○	○	○	○	○
We frequently monitor the marketing activities performed by our foreign partners.	○	○	○	○	○	○	○
We have developed specific procedures for our foreign partners to follow.	○	○	○	○	○	○	○
The extent of territorial coverage that our foreign partners needs to attain for our products and services is clearly specified in the contract.	○	○	○	○	○	○	○
The franchise contract specifies sales targets for our foreign partners.	○	○	○	○	○	○	○
The terms of our agreement require our foreign partners to attain a certain market share for our products and services.	○	○	○	○	○	○	○
Our future relationship with our foreign partners is contingent on how they achieve the specified goals.	○	○	○	○	○	○	○

Please answer the following questions for the foreign markets where you use the DOMINANT MODE.

Please comment on the adaptation of your franchise business format in foreign countries (where you use your DOMINANT MODE).

Local adaptation of ...	not at all 1	2	3	4	5	6	to a very large extent 7
... franchise products / services (such as product mix and service offerings)	○	○	○	○	○	○	○
... brand identity	○	○	○	○	○	○	○
... operational strategies (such as training of employees and service quality control)	○	○	○	○	○	○	○
... managerial strategies (such as operation manuals, pricing and marketing)	○	○	○	○	○	○	○

Please evaluate the headquarters' resource commitments in the foreign countries (where you use your DOMINANT MODE).

Our Headquarters has ...	strongly disagree 1	2	3	4	5	6	strongly agree 7
... invested heavily in personnel dedicated to our foreign partners.	○	○	○	○	○	○	○
... made significant investments in displays etc. dedicated to our franchise relationships.	○	○	○	○	○	○	○
... developed very specialized procedures and systems for our foreign partners to follow.	○	○	○	○	○	○	○
... involved considerable commitment of time and money in training and qualifying our foreign partners.	○	○	○	○	○	○	○

Please evaluate the resource commitments of your foreign partners (of your DOMINANT MODE).

Our foreign partners ...	strongly disagree 1	2	3	4	5	6	strongly agree 7
... have made significant investments in tools, equipment and procedures dedicated to the franchise relationship.	○	○	○	○	○	○	○
... have committed substantial time and money in employees' (or sub-franchisees') training of the franchise-specific techniques.	○	○	○	○	○	○	○
... would lose a lot of their investment made to develop the local franchise network, if they decided to stop working with us.	○	○	○	○	○	○	○

5/9

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Please answer the following questions for the foreign markets where you use the DOMINANT MODE.

Please comment on the decision rights of your foreign partners (of your DOMINANT MODE).

Our foreign partners decide over ...	not at all 1	2	3	4	5	6	to a very large extent 7
... the development of new products and processes.							
... accounting and control systems.							
... HR practices (e.g. recruitment and training).							
... marketing and promotion strategies.							
... procurement strategies.							
... pricing at the local market.							
... financial investment strategies at the local market.							

How important are the following factors for the competitive advantage of the franchise network?

The Headquarters' ...	unimportant 1	2	3	4	5	6	very important 7
... management competence (like operating policies and procedures and HR management)							
... organizational capabilities (like cultural management and information management)							
... customer competence (like marketing / advertising / promotion, pricing)							
... foreign market competence (like setting up foreign operations, knowledge of foreign markets)							
... innovation capabilities (like product and organizational innovations)							
... product and service competence (like product/service quality and design)							

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Please answer the following questions for the foreign markets where you use the DOMINANT MODE.

Please assess the know-how transfer between headquarters and the foreign partners (of your DOMINANT MODE).

It is difficult...	strongly disagree 1	2	3	4	5	6	strongly agree 7
... to write a manual describing our service delivery processes.	○	○	○	○	○	○	○
... to document critical parts of our franchise business format.	○	○	○	○	○	○	○
... to understand how to deliver our franchise products/services by studying blueprints.	○	○	○	○	○	○	○
... to educate and train new personnel or partners.	○	○	○	○	○	○	○
... for our competitors to assess the success factors/competitive advantage of our franchise business.	○	○	○	○	○	○	○
... for our headquarters to acquire the local market knowledge needed to operate the franchise network in the foreign countries.	○	○	○	○	○	○	○
... to transfer the foreign partners' market know-how to our headquarters.	○	○	○	○	○	○	○

How important are the foreign partner's know-how and resources for operating the franchise network at the local markets (where you use your DOMINANT MODE)?

The foreign partners'...	unimportant 1	2	3	4	5	6	very important 7
... local market knowledge	○	○	○	○	○	○	○
... organizational know-how	○	○	○	○	○	○	○
... administrative know-how	○	○	○	○	○	○	○
... human capital resources and management know-how (recruitment)	○	○	○	○	○	○	○
... quality control know-how	○	○	○	○	○	○	○
... innovation know-how	○	○	○	○	○	○	○
... marketing know-how	○	○	○	○	○	○	○
... financial capital	○	○	○	○	○	○	○

7/9

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Please answer the following questions for the foreign markets where you use the DOMINANT MODE.

Please evaluate the accomplishment of performance goals of your franchise company for the LAST THREE YEARS.

	strongly disagree 1	2	3	4	5	6	strongly agree 7
The relationship with our foreign partners is based on mutual trust.							
Generally, a foreign partner with whom I have a longer relationship is likely to help me when I need it.							
As a franchisor I feel more secure when I work with a foreign partner I know well than with someone I don't know.							
The foreign partners I trust are those with whom I have long-lasting relationships.							
Most people will respond in kind when they are trusted by others.							
Most people are trustworthy.							
Most people are trustful of others.							
Most people are basically dishonest.							
Most people are basically good and kind.							
I trust a person I don't know more than one I know well.							
I am trustful.							

LAST PART OF THE QUESTIONNAIRE!

Please evaluate the accomplishment of performance goals of your franchise company over the LAST THREE YEARS.

	not at all 1	2	3	4	5	6	7	8	9	to a very large extent 10
Sales volume										
Sales growth										
Profitability										
Return on investment										

Table 34 Monitoring Reliability Statistics

Cronbach's Alpha	N of Items
,835	4

Table 35 Behavioral Uncertainty Communalities

	Initial	Extraction
Behavioral uncertainty: ... evaluate the qualification of foreign partners.	1,000	,656
Behavioral uncertainty: ... monitor the franchise product/service quality in foreign countries.	1,000	,812
Behavioral uncertainty: ... monitor the misuse of proprietary knowledge by foreign partners.	1,000	,675
Behavioral uncertainty: ... assess the performance of foreign partners.	1,000	,750

Extraction Method: Principal Component Analysis.

Table 36 Behavioral Uncertainty Reliability Statistics

Cronbach's Alpha	N of Items
,872	4

Table 37 Environmental Uncertainty Communalities

	Initial	Extraction
Cultural,institutional, environmental distance: Cultural differences between our home and the foreign countries are h...	1,000	,576
Cultural,institutional, environmental distance: The business practices in our home and the foreign countries are quit...	1,000	,574
Cultural,institutional, environmental distance: The language barriers between our home and the foreign countries are ...	1,000	,289
Cultural,institutional, environmental distance: The legal protection of intellectual properties such as patents and t...	1,000	,522
Cultural,institutional, environmental distance: The political environment is quite uncertain in the foreign countries.	1,000	,718
Cultural,institutional, environmental distance: The risk of ownership restrictions is high in foreign countries.	1,000	,725
Cultural,institutional, environmental distance: The quality of local infrastructure, such as phones, roads and IT, is...	1,000	,496
Cultural,institutional, environmental distance: Customer demand is strongly changing in foreign countries.	1,000	,469
Cultural,institutional, environmental distance: Sales forecasts are not easily predictable in foreign countries.	1,000	,730
Cultural,institutional, environmental distance: Market shares are pretty unstable in foreign countries.	1,000	,660
Cultural,institutional, environmental distance: The number of existing and potential competitors is high in foreign c...	1,000	,532

Extraction Method: Principal Component Analysis.

Table 38 Environmental Uncertainty Reliability Statistics

Cronbach's Alpha	N of Items
,861	7

Table 39 Economic Uncertainty Reliability Statistics

Cronbach's Alpha	N of Items
,669	4

Table 40 Trust - Communalities

	Initial	Extraction
Trust: The relationship with our foreign partners is based on mutual trust.	1,000	,501
Trust: Generally, a foreign partner with whom I have a longer relationship is likely to help me when I need it.	1,000	,493
Trust: As a franchisor I feel more secure when I work with a foreign partner I know well than with someone I don`t know.	1,000	,643
Trust: The foreign partners I trust are those with whom I have long-lasting relationships.	1,000	,566
Trust: Most people will respond in kind when they are trusted by others.	1,000	,461
Trust: Most people are trustworthy.	1,000	,840
Trust: Most people are trustful of others.	1,000	,736
Trust: Most people are basically dishonest.	1,000	,674
Trust: Most people are basically good and kind.	1,000	,712
Trust: I trust a person I don`t know more than one I know well.	1,000	,666
Trust: I am trustful.	1,000	,586

Extraction Method: Principal Component Analysis.

Table 41 Trust Reliability Statistics Suspicion

Cronbach's Alpha	N of Items
,459	2

Table 42 Trust Reliability Statistics General Trust

Cronbach's Alpha	N of Items
,698	5

Table 43 Trust Reliability Statistics Knowledge-based Trust

Cronbach's Alpha	N of Items
,858	4

Table 44 System Specific Assets Communalities

	Initial	Extraction
System-specific assets: ... management competence (like operating policies and procedures and HR management)	1,000	,818
System-specific assets: ... organizational capabilities (like cultural management and information management)	1,000	,777
System-specific assets: ... customer competence (like marketing / advertising / promotion, pricing)	1,000	,504
System-specific assets: ... foreign market competence (like setting up foreign operations, knowledge of foreign markets)	1,000	,460
System-specific assets: ... innovation capabilities (like product and organizational innovations)	1,000	,812
System-specific assets: ... product and service competence (like product/service quality and design)	1,000	,683

Extraction Method: Principal Component Analysis.

Table 45 System Specific Assets Reliability Statistics Product and Market Knowledge

Cronbach's Alpha	N of Items
,701	3

Table 46 System Specific Assets Reliability Statistics Management and Customer Competence

Cronbach's Alpha	N of Items
,771	3