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## **„International Franchising under the Strategic Management View and the Property Rights Theory“**

verfasst von / submitted by

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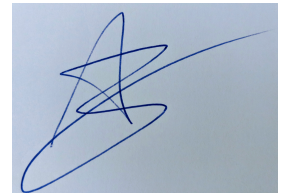
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## **Abbreviations**

Agency theory AT

Area development franchising ADF

Joint venture franchising JVF

Master franchising MF

Multi-unit franchising MUF

Organizational capabilities theory OCT

Principal Component Analysis PCA

Property rights theory PRT

Resource-based view RBV

Single-unit franchising SUF

Transaction cost theory TCT

Wholly-owned subsidiary WOS

## **1. Abstract**

Franchising has become one of the most important market entry modes in a global environment. In this master thesis, the choice of governance modes in international franchising is analysed in relation to the system-specific, local market and financial assets of international franchise systems. The different governance modes presented in this study are differentiated by the control over international operations. The theoretical concept is based on the strategic management view and the property rights theory. The concept of control is strongly linked to the distribution of decision and ownership rights and thus the allocation of these rights can be influenced by the importance and intangibility of assets which constitutes the main goal of this thesis.

Based on the theoretical concepts presented in this thesis, hypotheses are developed and tested using a logistic regression to analyse the influence of franchise assets on the choice of governance modes. The empirical study was based on a research project conducted on 162 franchise companies based in 8 countries in Europe and North America. The empirical results presented in this thesis aim to increase the understanding of international franchising and to add insight into the choice of governance modes in a global setting.



## 2. Introduction and Overview

The history of franchising has its roots in feudal England, where peasants would pay the lords a certain fee to gain some rights on their lands. This system continued in Europe with distribution rights for beer in the 18<sup>th</sup> century and in America with Isaac Singer's sewing machines. Being a manufacturer of sewing machines, he licenced the servicing, repair and reselling rights to local merchants, thus introducing the world to a new form of business model that is most similar to today's franchising. (British franchise association, 2017)

Franchising is basically a widely used distribution channel for both goods and services, especially when intangible assets are present and critically important. (Jindal, 2011) It can also be seen as a cooperative agreement between two or more parties where one partner (the franchisor) sells the right to market its goods or services under its brand name and the contractual obligation to use its business practices to the partner (the franchisee). (Combs, et al., 2004) Another way to describe franchising is as a principal-agent relationship, where the principal (franchisor) controls managerial moral hazard by providing ownership and guidance to the franchisee (agent) and thus making him the residual claimant and decreasing its incentives to shirk. (Jindal, 2011; Garg, et al., 2005) As an organisational form, franchising is a hybrid between market and hierarchy. (Sanchez Gomez, et al., 2010)

The U.S. Department of commerce classifies franchising in two categories: product and trade-name franchising (known as traditional franchising or licensing) and business format franchising. In traditional franchising (e.g. gasoline stations, car dealerships), the franchisee is only a distributor or retailer, while in business-format franchising the franchisor provides 'a way of doing business' to its franchisees. The franchisee is responsible for the production of the final product and typically pays fees to the franchisor. (Lafontaine & Shaw, 1998, p. 98) The use of the general term franchising usually refers to the business format franchising, which is also the case in this thesis.

According to Norton (2004), the definition of business format franchising can be stated as follows:

"Business format franchising involves packaging a mode of business, attracting a supply of capable and dedicated entrepreneurs, selecting superior prospects, training them in the minute details of the business operations, providing assistance in setting up the business at

specific outlets, and maintaining an ongoing business that is profitable for the franchisor and the collective franchisees”. (Norton, 2004, p. 20)

In general terms, franchising is a business relationship in which the owner of a concept (the franchisor) provides the franchisee with the right to do business and operate one or more stores and furthermore assists him with setting up the daily business and also training and marketing. In this relationship, the franchisee acts as a dealer of the product or service that the franchisor wishes to sell.

## Overview

This thesis aims at investigating the choice of governance modes when a franchise system expands internationally. The next few chapters present the theoretical concepts on which this framework was built. The different governance modes are described in chapter 3, followed by the international franchising governance structure based on the Property Rights Theory in chapter 4. The Strategic Management View including the Resource-Based View and the Organisational Capabilities Theory is described in chapter 5. The next chapter includes a detailed overview of the variables and development of the hypotheses. Chapters 7 and 8 contain the empirical study and the regression analysis, while chapters 9 and 10 present the results, discussion and concluding remarks.

### **3. International franchising governance modes**

One of the most widely accepted classification of market entry modes divides the variety of entry modes in two categories, namely equity-based and non-equity-based entry modes. The non-equity modes include export and contractual agreements, while the equity modes include Joint Ventures and wholly-owned subsidiaries. As franchising can be defined as a contractual agreement, it is considered a non-equity entry mode. There are various reasons why a company might decide to expand through franchising which are not included in the scope of this thesis, but after that decision has been made, the question of franchising governance mode choice still remains.

The choice of governance modes represents a crucial decision that a franchisor has to make before engaging in international franchising. Generally, the governance modes can be classified into three categories: direct franchising, master franchise agreements, and joint venture franchising agreements. (Konigsberg, 2008)

#### **3.1.Direct franchising**

Under direct franchising, Konigsberg (2008) understands the direct granting of a franchise to a foreign franchisee, without the intervention of a third party. This franchise relationship allows the franchisee to own and manage the franchise outlets in his home country. In general, there are three different forms of direct franchise agreements, namely direct unit franchising (also called single-unit franchising – SUF), establishment of a branch office or a foreign subsidiary (also called wholly owned subsidiary – WOS), and development agreements (also called multi-unit franchising – MUF – or area development franchising – ADF).

##### **3.1.1. Single-unit franchising (SUF)**

Single-unit franchising (henceforth SUF) represents the granting of franchise agreements directly from the franchisor to individual franchisees in the foreign country. This action implies the allocation of ownership and decision rights directly to the individual

franchisees, without the involvement of a third party, consequently all fees will be paid directly to the franchisor, and not shared with anyone like in the case of area development agreements, master franchise agreements, or joint venture franchise agreements. One of the disadvantages of this governance mode is that all costs, like initial investment costs, continued administration or monitoring costs would have to be supported by the franchisor himself. (Konigsberg, 2008; Jell-Ojobor, 2012)

In order to maintain a well-functioning system, the franchisor is required to develop a reliable internal hierarchy to ensure the proper management of the franchise system abroad. In addition, the franchisor will incur search costs for potential franchisees and will also have to conduct a market research in order to gather market-specific knowledge. (Konigsberg, 2008; Jindal, 2011; Jell-Ojobor, 2012)

### **3.1.2. Wholly-owned subsidiary (WOS)**

Wholly owned subsidiaries (WOS) are a form of direct market entry mode where the investor establishes a new entity in the host market. The input is not shared with anybody and thus the equity remains fully in the property of the foreign investor. This is the natural way for a firm to expand and invest in another country regarding both transaction cost theory as well as knowledge-based view of the firm. (López-Duarte & García-Canal, 2002)

In the context of franchising, we can speak of this governance mode when the franchise company uses a WOS or a branch office in the foreign country to act as the franchisor for the purpose of granting franchises in the foreign country, this also being the main difference to SUF. Thus, the franchise agreements are granted from abroad, in the host country, as well as all issues regarding supervising and the relationship between franchisor and the respective franchisees. Regarding the similarities between this governance mode and direct franchising from the home country, the level of control exercised is similar, since no third party is involved in the process. In the case of the establishment of a subsidiary, the franchisor is required to invest more human and financial capital and should thus prefer it as opposed to franchising from the home country in the case where a significant market potential and growth is expected in the foreign country. (Konigsberg, 2008; Jell-Ojobor, 2012)

### **3.1.3. Multi-unit franchising (MUF)/ Area development franchising (ADF)**

As opposed to Single-unit Franchising (SUF) where each franchisee has only one outlet under supervision, Multi-unit franchising (henceforth MUF) is the governance mode where the franchisor enters in a franchise agreement with a franchisee, who is granted the right to own and operate more than one unit.

Area development franchising (henceforth ADF) is the type of franchising agreement where the franchisee commits to opening two or more units in a pre-specified territory in a pre-specified period. The franchisee not only has the right to manage more than one unit in that area, but he is also obligated to do so, and most area developers also gain exclusive rights in that territory. (Kaufmann, 1992; Kaufmann & Dant, 1996; Garg, et al., 2005; Konigsberg, 2008) Even though MUF and ADF are separately explored in the literature, they essentially imply the same governance mode and will thus be analysed together under ADF in this thesis.

The area development franchisee does not operate every unit by himself but hires managers and thus creates a mini-chain of company-owned-like units. (Kaufmann, 1992; Kaufmann & Dant, 1996; Garg, et al., 2005)

Same as any other franchise agreements, development agreements can be either granted directly from the franchisor's home office or through the foreign subsidiary. (Konigsberg, 2008)

The franchisor has to invest in the search and selection process of the area developer, but after that point delegates his duties as a franchisor to the area developer. He thus is relieved of all the potential cultural or other differences in the new territory. He also receives a substantial amount of initial development (territory) fee. (Konigsberg, 2008)

The area developer has to find outlet sites by himself but requires the franchisor's approval. He is also responsible for hiring employees and outlet managers. All outlets are owned by the area developer and thus he has to do its best in the development, management and monitoring of these outlets. He pays franchise fees like all other franchisees but may get discounts in the fee for some of the outlets. He is also required to pay royalties for the duration of the contract. In addition to residual income and decision rights he also has ownership rights, and accordingly he will have a high level of control over the units he is responsible for and thus will have a greater incentive to create a successful business and he

will also have less incentive to free ride compared to a single-unit franchisee for example. In turn this means that the area developer will not need to be monitored as closely as a district manager in the same position, reducing the need for a large internal hierarchy. (Jindal, 2011)

### **3.2.Master franchise agreements (MF)**

Master franchising (henceforth MF) occurs when the franchisor gives the task of establishing, maintaining, and supervising the franchise system in a country or specific territory to a third party, the sub-franchisor and he, in turn, has ownership-based incentives and benefits from the fees received from the franchisees. Because of this, he is less likely to deviate from the goals of the franchise and he will show a greater effort than a hired manager would. (Shane, 2001; Konigsberg, 2008; Sanchez Gomez, et al., 2010) The sub-franchisor is responsible for developing and monitoring multiple outlets in a particular territory. He acts as a franchisor in that territory and is responsible for searching and selecting the sub-franchisees. He also has the task to assist sub-franchisees in any way a franchisor would do. In other words, the master franchisor receives substantial control over operational and strategic decisions. (Konigsberg, 2008; Jindal, 2011)

Among the cases where MF is the best option are: where the franchisor lacks financial and/or managerial resources to establish the franchise network in the foreign country; and where the cultural and/or geographical distance (or other similar factors, like legal system) is too great. In these cases, a reliable and experienced businessperson from the foreign country would be the best choice. Based on this argument, some of the advantages of MF are the minimization of the franchisor's financial and managerial resources, while at the same time limiting the financial exposure in case of failure. The greatest disadvantage of MF is the fact that the franchisor gives up control of the franchise system to the sub-franchisor in the foreign country. This means that the franchisor will have almost no direct influence on the performance of the individual sub-franchisees, and furthermore, an eventual termination of their contracts in case of misbehaviour is difficult. Another drawback of MF would be the fact that financial returns will be lower than in the case of direct franchising, since all profits (fees and royalties) are shared between the sub-franchisor and the franchisor. (Konigsberg, 2008)

### **3.3.Joint Venture franchise agreements (JVF)**

The Joint Venture is the business association between two (or more) people (or entities) who join their money, property, knowledge, skills, experience, time, and other resources for a particular project, while sharing control as well as profits and risks. The legal entity used in this case is usually a company especially created for this purpose. (Konigsberg, 2008)

Joint Venture franchising (henceforth JVF) occurs when a Joint Venture company enters in either a development agreement or, more frequently, a master agreement with the franchisor. In both cases, the franchisor will have both the role of “franchisor” as well as “developer” / “sub-franchisor” through the Joint Venture. JVF is appropriate in the cases where no other governance mode is allowed (certain laws that inhibit the use of direct franchising), where no reliable business partner (developer/sub-franchisor) with the necessary financial resources is found, or where the franchisor wishes to retain equity in the franchise system while minimizing the risks involved and profiting from the resources and expertise of his joint venture partner. (Konigsberg, 2008)

### **3.4.Degree of control in governance modes**

The decision-making process towards the different governance modes is influenced by five factors: risk, return, control, resource commitment, and flexibility. Thus, the choice of governance forms can be viewed as a trade-off between control, the cost of resource commitment and risk, while also considering flexibility. (Anderson & Gatignon, 1986; Jell-Ojobor, 2012)

Under control, we can understand the franchisors ability to influence systems, methods and decisions of the foreign partner and his franchise operations. Because of its importance, most literature on the subject relates the choice of governance mode to the degree of control each mode affords the franchisor. (Anderson & Gatignon, 1986) The different governance modes presented in the last chapter all imply different levels of control. Thus, this might be an appropriate classification of these governance modes based on the level of control the

franchisor retains over the foreign operations. High levels of control usually mean a higher return, but also higher risk. Along with higher levels of control, the franchisor also has to assume responsibility for decision-making and a high resource commitment. Thus, control can be seen as “the single most important determinant of both risk and return.” (Anderson & Gatignon, 1986, p. 3)

The degree of control is usually strongly correlated with the degree of ownership, but one does not imply the other. Higher control and ownership usually imply higher resource commitment costs and higher inflexibility. There is a certain degree of risk involved with both lower and higher degrees of control. With lower control modes, the risk of know-how dissemination increases. (Jell-Ojobor, 2012)

As suggested by the literature on market entries, the degree of control is an appropriate way to classify governance mode choices. Control can be operationalised by the distribution of ownership rights, residual income rights and decision rights between the franchisor and the foreign partner, which will be discussed in more detail in the next chapter. (Jell-Ojobor, 2012)

Comparing the various governance modes with each other, the degree of control increases from the governance mode with the least degree of control, master franchising, to area development franchising and joint venture, and finally to the governance mode with the highest degree of control, the wholly-owned subsidiary.



## **4. International franchising governance structure**

### **Property rights theory**

The governance structure of a firm can be defined as the “allocation of decision rights and payoffs to the parties, regardless of whether this allocation is achieved through contracts or asset ownership”. (Baker, et al., 2008, p. 148)

As mentioned in the previous chapter, the degree of control is operationalized by the distribution of property rights (ownership and decision rights).

The ownership rights include outlet ownership (proportion of company-owned outlets; multi-unit vs. single-unit ownership), residual income rights, and ownership surrogates. (Mumdziev & Windsperger, 2011; Windsperger, 2013)

Ownership rights indicate the level of equity investment into the foreign operations. Based on Grossman, Hart & Moore’s research (Grossman & Hart, 1986; Hart & Moore, 1990) ownership is the bundle of residual rights of control over the firm’s tangible and intangible assets. They suggested that the person (franchisor or his partner) whose knowledge and actions are necessary and indispensable for surplus generation should possess the majority of ownership rights. This in turn means that this person will have a higher degree of control over the foreign operations. (Jell-Ojobor, 2012)

Ownership surrogates are incentive mechanisms that compensate the franchisor and the franchisees for the dilution of residual income rights. Ownership surrogates that increase the franchisees’ investment incentives are exclusive territory and exclusive customer clauses, as well as lease and alienation rights and the right to control network entry; ownership surrogates that increase the franchisor’s investment incentives are tying arrangements, resale price maintenance, lease control, exclusive dealing clauses and option rights, such as buy-back arrangement and approval rights and termination rights. (Windsperger, 2000; Windsperger, 2002b; Windsperger, 2003)

In the franchisor–franchisee relationship, the residual income rights consist of the royalties and initial fees charged by the franchisor and used as incentives in the franchise relationship. The determinant of these residual income rights is the degree of intangibility of

assets and the distribution of those assets between the franchisor and franchisee. (Windsperger, 2001)

Intangible assets are for example the franchisee's local market knowledge or the franchisor's system specific assets. The residual income and ownership rights are distributed based on the intangibility of those assets and the importance and indispensability they count towards the generation of residual surplus. This, in turn, influences the level of control the franchisor will have over the entire franchise system. (Windsperger, 2001; Jell-Ojobor, 2012)

As previously mentioned, the residual income rights are the royalties and franchise fees that the franchisor receives from the franchisees. According to the Property Rights Theory (henceforth PRT), the initial fees are the reimbursement for the brand name assets (system specific assets) that were transferred to the franchisee, suggesting that initial fees will be higher if the intangible system specific assets are higher. The level of royalties depends on the relative importance between the franchisor's system specific assets compared to the franchisee's market specific assets. (Windsperger, 2001; Windsperger, 2013)

Some decisions in the franchise chain should be made by the local party; hence, some decision rights have to be transferred from the headquarters to the franchisee. This is usually made through contracts that regulate for example the rights to make local advertising and training decisions. (Baker, et al., 2008; Mumdziev, 2013) According to organizational economics, decision rights can be differentiated into residual and non-residual decision rights, where the former refer to the authority concerning decisions about actions in the ex-post period, and the latter refer to the decisions specified in the contract in the ex-ante period. These non-residual decision right can be easily specified in contracts and usually regulate knowledge which can be codified and transferred with ease. (Mumdziev, 2013)

Residual decision rights determine the right to use the firm's intangible assets, which cannot be easily codified or specified in contracts. Similar to the residual income rights, the residual decision rights also depend on the distribution of the intangible assets (system-specific & market-specific). Based on the PRT, the level of residual decision rights will be determined by the relative importance of intangible assets needed for the generation of residual surplus. This influences the level of control the franchisor will have over the entire system, especially the operational and strategic decision-making process. (Windsperger, 2004b; Mumdziev & Windsperger, 2011; Jell-Ojobor, 2012; Mumdziev, 2013)

The franchising firm can thus be seen as an institutional entity, whose governance structure consists of the allocation of residual decision rights according to the distribution of knowledge assets between franchisor and franchisee and the transfer of ownership rights. The Property Rights Theory (PRT) explains two interrelated aspects of property rights: the allocation of residual decision rights and the allocation of ownership rights.

The property rights theory focuses on the explanation of the contract design as a bundle of rights consisting of decision rights, residual income, and ownership surrogates and is concerned mainly with the problem of optimal allocation of residual decision rights and ownership rights. The structure of decision rights depends on the distribution of intangible (noncontractible) assets between the two parties in the franchisor-franchisee relationship. (Windsperger & Yurdakul, 2007)

There are two ways of allocating decision rights, either knowledge is transferred to the party with decision rights, or the decision rights are transferred to the party possessing the knowledge. (Jensen & Meckling, 1976) This usually depends on the cost of knowledge transfer, specifically, when the cost of transferring the local knowledge to the franchisor is low, decision rights will be rather centralized. This happens when the franchisor has a high portion of intangible assets (system-specific assets) and the franchisee only a small portion of intangible local-market assets. In the opposite case, where the transaction costs are high, decision rights will be delegated to the franchisee. This usually happens because the franchisee has very specific local market knowledge, which is not easily transferrable. (Windsperger, 2002a; Windsperger & Yurdakul, 2007; Mumdzhev & Windsperger, 2011; Windsperger, 2013)

Since the allocation of decision rights depends on the cost of knowledge transfer, the factors that influence these transaction costs are important. According to the property rights view, the structure of decision rights (as residual rights of control) is influenced by the relation between tangible (contractible) and intangible (noncontractible) knowledge assets; specifically, it depends on the distribution of intangible knowledge assets. (Windsperger, 2002a; Windsperger, 2004b; Windsperger & Yurdakul, 2007; Mumdzhev & Windsperger, 2011)

Knowledge that can be codified (tangible knowledge) can also be specified in contracts, suggesting that non-residual decision rights can also be specified in contracts. Intangible knowledge assets cannot be specified in contracts, suggesting that residual decision

rights should be allocated to the person with the residual income generating intangible knowledge assets in order to avoid high transaction costs. (Windsperger, 2002a; Windsperger, 2004b; Windsperger & Yurdakul, 2007)

This means that the allocation of residual decision rights depends on the characteristics of knowledge assets in the following way: “The more important a person’s intangible knowledge assets for the generation of the residual income relative to another person, the more residual decision rights should be assigned to that person.” (Windsperger, 2004b, p. 1362)

The franchise relationship is characterized by the interactions and knowledge exchange between the franchisor and his franchisees. Both can have intangible assets that are hard to transfer or specify in contracts. The franchisor’s intangible knowledge assets are system-specific know-how (like knowledge and skills in site selection, store layout, research and development, and procurement) and brand name assets (like system marketing and promotion). The franchisee’s intangible assets include outlet-specific know-how as exploration and exploitation capabilities. Exploration capabilities refer to local market knowledge and innovation, and exploitation capabilities include administrative capabilities, human resource and procurement management, and quality control. These capabilities can have different levels of tacitness, specifically, exploration capabilities usually include more tacit assets, making them harder to specify in contracts. So the main struggle is to maximize the returns from the franchisor’s system-specific intangible assets, since they are dependent on investments in local intangible assets of the franchisee. (Windsperger, 2002a; Windsperger, 2004b; Windsperger & Yurdakul, 2007)

The distribution of intangible assets directly influences the allocation of decision rights in franchising networks. Decision rights can be differentiated regarding strategic and operational decisions. The franchisor is usually solely responsible for strategic decisions, while he divides the operational decisions with the franchisee. Operational decisions include marketing decisions (price, product, and promotion), human resources decisions (training and recruiting), investment, and procurement decisions. (Windsperger, 2002a; Windsperger, 2004b; Windsperger & Yurdakul, 2007; Mumdzhev & Windsperger, 2011)

As mentioned earlier, there are two ways of allocating decision rights, either knowledge is transferred, or decision rights are transferred. When the franchisor’s share of intangible knowledge assets is higher than that of the franchisee’s and knowledge can be

transferred without great costs, the franchisor has a strong bargaining power and can thus acquire local market knowledge without difficulty because of its relatively lower degree of intangibility. In the other case, when the local market knowledge is highly specific, the franchisor has low bargaining power compared to the franchisee, due to the noncontractible local market assets. Decision rights have to be transferred to the franchisee in order to take advantage of its intangible knowledge assets. (Windsperger, 2002a; Windsperger, 2004b; Windsperger & Yurdakul, 2007; Mumdzhev & Windsperger, 2011; Windsperger, 2013)

To summarize, residual decision rights should be allocated according to the distribution of intangible knowledge assets between the franchisor and franchisee. Accordingly, “the more important the franchisor’s (franchisee’s) intangible knowledge assets for the generation of the residual income, the more residual decision rights should be assigned to the franchisor (franchisee), and the higher is the degree of centralization (decentralization) of the franchising network. (a) If the franchisor’s noncontractible system-specific know-how and brand name assets have a high impact on the total residual surplus relative to the franchisee’s intangible knowledge assets, the degree of centralization of the franchising network should be relatively high. (b) If the franchisee’s outlet-specific assets are very important relative to the franchisor’s intangible knowledge assets, the degree of decentralization of franchising network should be relatively high.” (Windsperger, 2004b, p. 1363)

As stated in the beginning of this chapter, ownership rights include the rights to appropriate returns from assets (residual income rights) and the rights to transfer to another person (alienation rights). (Windsperger, 2002a, p. 25)

Co-location of knowledge assets and decision rights can lead to an efficient organization structure if it is not constrained by agency problems. Since the agents may have different goals and motivations, adverse selection, moral hazard and hold-up problems can arise, creating agency costs. The solution to this problem is incentivizing the agents by allocating ownership rights as residual income rights. The complementarity between decision and ownership rights increases the positive effect (residual income generating effect) of decision rights. Thus, residual income rights should be transferred to the person who also possesses the residual decision rights (due to his intangible knowledge assets). (Windsperger, 2002a; Windsperger & Yurdakul, 2007)

The franchisor and the franchisee have strong incentives to use their intangible knowledge assets (system-specific and local market assets) in order to maximize the residual income stream. These incentives are increased when the person with the decision rights also has the residual income rights. Specifically, for franchise networks, these residual income rights include initial fees and royalties, and the proportion of company-owned outlets. (Windsperger & Yurdakul, 2007)

Ownership rights are distributed between the franchisor and the franchisee and thus are partly diluted. However, ownership rights don't include only residual income rights, but also ownership surrogates. These are used as incentive mechanisms to compensate both the franchisor and the franchisee for the dilution of ownership rights. Some examples of ownership surrogates that benefit the franchisee are exclusive territory and customer clauses, option to increase the number of outlets and outlet ownership rights. For the franchisor, these include tying arrangement, exclusive dealing clause, control over resale price and exclusivity, as well as lease control, buy back, approval and termination rights. The franchisor and the franchisee have incentives to invest in intangible knowledge assets. This incentive can be increased through the franchise fees and the ownership surrogates that are included in the contractual agreement. (Windsperger, 2002a; Windsperger, 2002b)

The property rights approach of franchising can be summarized as follows: "The higher the portion of franchisor's (franchisee's) intangible knowledge assets (know-how) are relative to the franchisee's (franchisor's) to generate the network's ex post surplus, the more residual decision rights should be given to the franchisor (franchisee), and the more residual decision rights the franchisor (franchisee) has, the higher should be his fraction of ownership rights (residual income rights and ownership surrogates)." (Windsperger, 2002a, p. 27)

## 5. Strategic management view

According to the Resource-based view (RBV) and Organisational capabilities theory (OCT), every firm is thought to be a bundle of resources and capabilities. The firm's competitive advantage is rooted in its own resources (and capabilities) and the resources (and capabilities) that can be acquired. Thus, the value of these resources and capabilities can be defined in terms of their contribution to the firm's competitive advantage. Resources are assets, organisational processes, system specific attributes, knowledge, or information possessed by a firm, while capabilities are combinations of resources that create higher-order competencies like for example customer competence, organisational competence or quality competence. In a franchising network, these resources and capabilities need to be transferred across firm boundaries, when transferring them to franchisees, or within firm boundaries in the case of transferring them to a wholly owned subsidiary. The most important characteristic of these resources and capabilities is their imperfect imitability. An imperfect imitable resource or capability can be difficult to transfer without loss in value and consequently in competitive advantage. According to the Organisational Capabilities perspective, imperfect imitability is caused by embeddedness, i.e., when the capability is deeply embedded within organisational routines and becomes specific to a firm. (Fladmoe-Lindquist, 1996; Madhok, 1997; Erramilli, et al., 2002; Brown, et al., 2003)

Fladmoe-Lindquist (1996) emphasises that not just the possession of unique resources and capabilities is important to creation of competitive advantage, but also the dynamic capacity for learning or developing new capabilities. "Ultimately, the growth of a firm involves combining its set of existing resources and capabilities with the ability to develop new resources and capabilities (Fladmoe-Lindquist, 1996, p. 497)

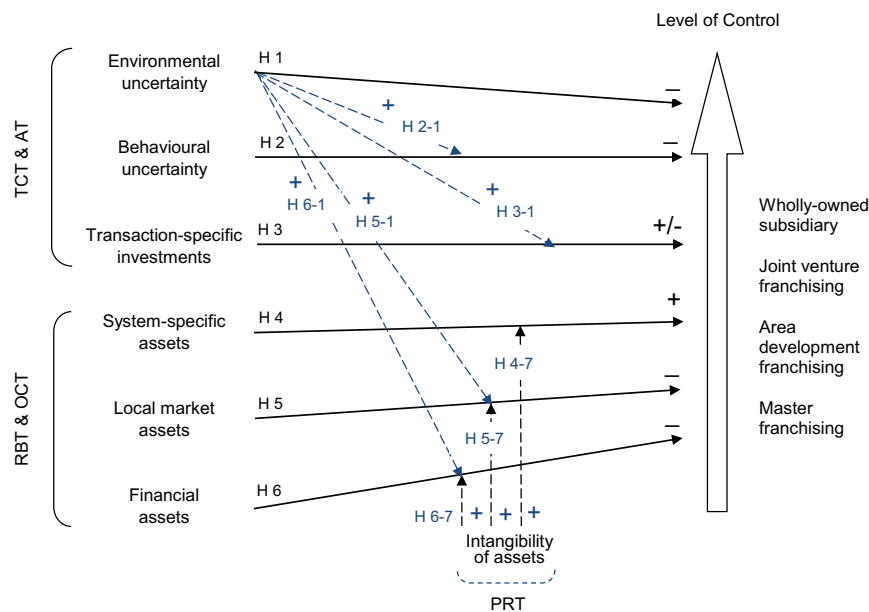
In the franchise network, the intangible resources of the franchisor and franchisees are the most important factors contributing to the creation of competitive advantage and achievement of superior performance. System specific assets, know-how, and brand name assets are the franchisor's intangible resources, while innovation, local market knowledge, quality control, and administrative capabilities are some of the franchisee's intangible resources. (Gorovaia & Windsperger, 2013)

## 6. Variables and hypotheses

In this chapter, the variables influencing the franchisor's choice of governance modes are described and the corresponding hypotheses are developed based on the integrative model of Jell-Ojobor (Jell-Ojobor & Windsperger, 2014). A firm's assets, more specifically the intangible assets can include resources as well as capabilities and furthermore can be provided by the franchisor (system-specific assets) or the franchisees (local market and financial assets).

In this thesis, only the influence of system-specific, local market, and financial assets (based on the RBV and OCT) on the choice of governance modes is analysed and, in addition, the moderator role of intangibility of assets as well (based on the PRT).

The **Figure 1.** below gives an overview of the integrative model developed by Jell-Ojobor and Windsperger (2014)



**Figure 1. The governance mode choice of the international franchise firm: An integrative model. (Jell-Ojobor & Windsperger, 2014, p. 160)**



## 6.1. System-specific assets

System-specific assets refer to the franchisor's intangible assets, including system-specific know-how and franchisor's resources and capabilities. Examples for these assets are: brand name management, reputation, store location and layout, product development and procurement, marketing and R&D capabilities, advertising and promotion, and monitoring techniques. These assets are developed inside the organisation over time and thus include core resources and capabilities of the firm that are deeply embedded into the structure of the organisation. (Jell-Ojobor, 2012; Jell-Ojobor & Windsperger, 2014)

The final product or service offered by the franchise firm is closely related to these assets, which are usually difficult to codify and transfer across firm boundaries, making them hard to imitate and thus important for the value creation of the franchise firm. The quality of the final product or service offered to the customers depends greatly on the ability to transfer these assets to the franchisee. (Jell-Ojobor, 2012; Jell-Ojobor & Windsperger, 2014)

Other studies also confirm a relation between the competitive advantage generated by the system-specific assets and the probability of choosing entry modes with higher control levels. (Erramilli, et al., 2002)

The choice of governance modes will thus be influenced by the levels of knowledge transfer required to ensure an acceptable quality standard in the host countries. The following hypothesis summarises this view:

**H1. The more important the franchisor's system-specific assets for value creation, the higher the franchisor's tendency to use higher control modes.**

## 6.2. Local market assets

Like the franchisor, the franchisee also possesses intangible assets that can be crucial for the business development in the host country. These assets are usually defined as local market assets. These include local knowledge assets in the form of informational and managerial resources, and financial assets. Some examples are: advertising, PR, marketing, sales, customer relations, quality control, HR management, and product innovation. (Windsperger & Dant, 2006; Jell-Ojobor, 2012; Jell-Ojobor & Windsperger, 2014)

The creation of competitive advantage abroad is constrained by the efficient combination of system-specific assets with local market knowledge. These local knowledge assets are generated by the local partner, the franchisee, who can be seen as the supplier of local market assets. (Jell-Ojobor, 2012; Jell-Ojobor & Windsperger, 2014)

The franchisee's assets can be further divided into 'exploration' assets and 'exploitation' (or managerial) assets. The 'exploration' assets imply the creation of new know-how and thus include local market knowledge, innovation and marketing capabilities; and the 'exploitation' assets imply improving existing know-how, and thus include quality control, human resource management, and organisational & administrative capabilities. (March, 1991; Sorenson & Sørensen, 1991; Windsperger & Dant, 2006; Jell-Ojobor & Windsperger, 2014) Local market knowledge is usually non-codifiable and firm specific, and thus it is difficult for the franchisor to acquire it from the franchisee.

The view that local market assets are important to the successful implementation of the franchise concept in the host country is widely supported by literature, suggesting that governance modes with lower control levels should be used in the cases where local market assets greatly increase the competitive advantage of the franchise system. (Contractor & Kundu, 1998a; Contractor & Kundu, 1998b; Erramilli, et al., 2002; Doherty, 2007; Jell-Ojobor & Windsperger, 2014)

The choice of governance modes will thus be influenced by the franchisee's knowledge and capabilities in the host country, suggesting the following hypothesis:

**H2a. The more important the franchise partners' local market assets for the value creation of the network, the higher the franchisor's tendency to use lower control modes.**

However, the degree of intangibility of the local market assets varies over time due to organizational learning. Both 'exploration' and 'exploitation' assets are subject to change, but since 'exploration' assets are less tangible than 'exploitation' assets, their contractibility is lower. This leads to the conclusion that 'exploration' assets should have a higher impact on the allocation of decision and ownership rights, and thus on the governance mode choice. (March, 1991; Windsperger & Dant, 2006) This conclusion leads to the following hypothesis:

**H2b. The influence of the more intangible local market assets (exploration assets) on the governance mode choice is higher than the influence of the less intangible local market assets (exploitation assets).**

### **6.3. Financial assets**

As mentioned earlier, franchisees are suppliers of information, managerial, and financial assets. These financial resources are necessary to overcome possible financial constraints during the expansion process and enable a fast and successful implementation of the franchise network. (Kaufmann & Dant, 1996) An international expansion is never possible without a certain degree of risk involved. The local partner possesses a variety of skills and local knowledge and can thus be in a better position to evaluate the investment risk of the franchise system in his home country and overcome high transaction costs while acquiring financial capital in the host country. (Windsperger & Dant, 2006)

The franchise firms experiencing greater financial constraints are subsequently more likely to try to overcome them through franchising, and thus use lower control modes. (Jell-Ojobor & Windsperger, 2014) The following hypothesis can be thus derived:

**H3. The higher the financial resources required for implementation of the franchise concept in the foreign market, the higher the franchisor's tendency to use lower control modes.**

## 6.4.Intangibility of assets as moderator

As mentioned earlier in chapter 4, according to the property rights theory, the allocation of residual decision and ownership rights and subsequently the choice of governance modes depends on the intangibility of assets. Generally, the following proposition can be applied:

*“The higher the intangibility of assets (system-specific assets, local market knowledge assets and financial assets), the higher is their rent-yielding potential in the network, and the stronger is their influence on the franchisor's governance mode decision.”* (Jell-Ojobor & Windsperger, 2014, p. 164)

The following three hypotheses (**H4.-6.**) are meant to investigate the moderator effect of the intangibility of assets, more specifically, system-specific and local market assets.

### 6.4.1. Interaction between the intangibility of system-specific assets and system-specific assets

The franchisor's system-specific assets are important for generating competitive advantage, but since system-specific assets can vary in their degree of contractibility, not all assets have the same impact. Some assets are codifiable and can thus be protected for example through patents, laws, licenses, procedures manual or software. Some system specific assets, like competences in store design and location, procurement, production and service of the products or services offered by the franchise are intangible in nature and not easily transferable. According to the PRT, only intangible assets influence the ownership structure, and thus, only intangible assets should influence the governance mode choice. The level of control required for the implementation of the system-specific assets in the franchise network depends on the degree of intangibility of these assets. Specifically, higher intangibility of system specific assets leads to a higher degree of control necessary and consequently to the choice of a higher control mode. (Jell-Ojobor & Windsperger, 2014) Therefore, the intangibility of system-specific assets moderates the impact of system-specific assets on the level of control, leading to the following hypothesis:

**H4. The intangibility of system-specific assets positively moderates the impact of system-specific assets on the franchisor's tendency to use higher control modes.**

#### **6.4.2. Interaction between the intangibility of local market assets and local market assets**

Expansion into foreign markets requires some degree of adaptation of the franchise concept to the host markets, which in turn requires specific local market knowledge. This market know-how includes both exploration as well as exploitation capabilities. (March, 1991)

Same as system specific assets, local market assets can have varying degrees of intangibility. According to the property rights theory, only those assets which are intangible and thus not easily transferable should influence the allocation of property rights. Following the PRT arguments, if the local market assets are non-contractible (intangible), a higher proportion of residual decision and ownership rights should be transferred to the local partner, i.e. the franchisee. Local partners with more control over the franchise system will have higher incentives to improve the local market and outlet-specific knowledge and thus improve the overall competitive advantage, and consequently the rent-yielding potential of the network. This suggests that in this case, the franchisor should use lower control modes. The level of control required for the implementation of the local-market assets in the franchise network depends on their degree of intangibility, specifically, the high intangibility of these assets leads to a higher impact on the governance mode choice, favouring lower control modes. (Windsperger & Dant, 2006; Jell-Ojobor & Windsperger, 2014) Therefore, the intangibility of local market assets moderates the impact of local market assets on the level of control, leading to the following hypothesis:

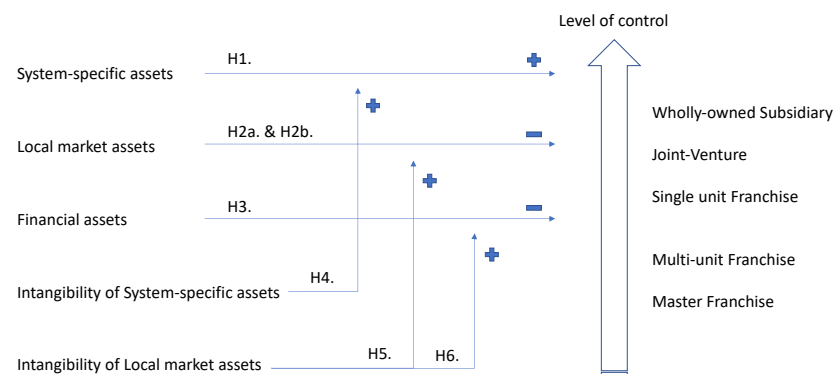
**H5. The intangibility of local market assets positively moderates the impact of local market assets on the franchisor's tendency to use lower control modes.**

### 6.4.3. Interaction between intangibility of local market assets and financial assets

According to Windsperger & Dant (2006), the franchisee's local market assets can also influence the impact of the financial assets on the governance mode choice. The franchisor can obtain financing from the external capital market or from the potential franchisees, but there is usually information asymmetry present. Since the franchisee is also the supplier of local market and managerial assets, he/she can better evaluate the potential risk compared to external capital suppliers. The intangibility of local market assets complicates the transfer of information about the profitability of the franchise business to the external capital suppliers. Therefore, the higher the intangibility of the franchisee's outlet-specific assets, the greater is the positive impact of financial assets on the propensity toward lower control modes. (Jell-Ojabor & Windsperger, 2014) The following hypothesis can be formulated:

**H6. The intangibility of local market assets positively moderates the impact of financial assets on the franchisor's tendency to use lower control modes.**

The **Figure 2.** below gives an overview of the variables and the corresponding hypotheses as they will be analysed in the next chapter. **Table 1.** presents a more detailed summary of the hypotheses.



**Figure 2. Overview of the Variables and Hypotheses**

*Overview of Hypotheses*

|             |                                                                                                                                                                                                                              |   |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|
| <b>H1.</b>  | The more important the franchisor's <b>system-specific assets</b> for value creation, the higher the franchisor's tendency to use higher control modes.                                                                      | + |
| <b>H2a.</b> | The more important the franchise partners' <b>local market assets</b> for the value creation of the network, the higher the franchisor's tendency to use lower control modes.                                                | - |
| <b>H2b.</b> | The influence of the more intangible local market assets ( <b>exploration assets</b> ) on the governance mode choice is higher than the influence of the less intangible local market assets ( <b>exploitation assets</b> ). | . |
| <b>H3.</b>  | The higher the <b>financial resources</b> required for implementation of the franchise concept in the foreign market, the higher the franchisor's tendency to use lower control modes.                                       | - |
| <b>H4.</b>  | The <b>intangibility of system-specific assets</b> positively moderates the impact of <b>system-specific assets</b> on the franchisor's tendency to use higher control modes.                                                | + |
| <b>H5.</b>  | The <b>intangibility of local market assets</b> positively moderates the impact of <b>local market assets</b> on the franchisor's tendency to use lower control modes.                                                       | + |
| <b>H6.</b>  | The <b>intangibility of local market assets</b> positively moderates the impact of <b>financial assets</b> on the franchisor's tendency to use lower control modes.                                                          | + |

**Table 1. Overview of Hypotheses**

## **7. Empirical Study**

In this chapter, the empirical study and analysis will be presented. First, some information about the survey and the data collected for this study, afterwards, the variables used in the analysis are described. In addition, some preliminary analysis will be presented, like descriptive statistics and the factor analysis that was conducted.

### **7.1.Data collection**

This empirical study is based on data that was collected by a team of students from the Department of Management at the University of Vienna during a research project led by Prof. Dr. Windsperger and Dr. Jell-Ojobor. The research project was based on the research paper “The Choice of Governance Modes of International Franchise Firms — Development of an Integrative Model” published by Dr. Jell-Ojobor and Prof. Dr. Windsperger (2014). The main research question was to determine the choice of governance modes of international franchise companies. The survey targeted franchise companies in 8 countries (Germany, Austria, Spain, France, Italy, Netherlands, U.K. and U.S.). The questionnaire used in the research project was developed by the Department of Management at the University of Vienna and included 120 questions that could be answered on average in 15 to 20 minutes. It consisted of single-choice (7-point Likert type scale), multiple-choice as well as open-end questions. The survey addresses many different topics like Franchise System Characteristics, Franchise System Structure, Contract Terms, Strategy & Decision Rights, Performance, Environmental Uncertainty, Behavioural Uncertainty & TSI, and Franchisor & Partner Assets.

Data collection was carried out between the end of 2014 and mid of 2015. Both online and postal questionnaires were sent out to a total of 2719 franchise companies. The raw data was cleaned out by the team and resulted in a sample size of 162 valid questionnaires.



## 7.2.Variables

The Dominant Entry Mode Choice was selected as dependent variable. There are five independent variables used in this study, namely: System-Specific Assets, Local Market Assets, Financial Assets and the Intangibility of System-Specific Assets and the Intangibility of Local Market Assets. The international system's age and system's size will be tested as control variables.

### 7.2.1. Dependent Variable

The Dominant Entry Mode Choice (DOM) reflects the franchisor's choice between entry modes that offer higher control over the business or lower control modes. In this study, the dependent variable, DOM is a categorical (ordinal) variable with the following categories:

1. Master Franchising (MF)
2. Multi-unit Franchising (MUF)
3. Single-unit Franchising (SUF)
4. Joint-Venture Franchising (JVF)
5. Wholly-owned Subsidiary (WOS)

These 5 categories of governance modes can be ordered by their level of control in ascending order from Master Franchising with minimal level of control to Wholly-Owned Subsidiaries with the highest level. The franchisor using Multi-unit Franchising (or Area Development Franchising) also has a low level of control, while the level of control with Single-unit franchising and Joint Venture Franchising is relatively moderate (medium level of control).

Due to the relatively small amount of valid data (162 questionnaires) and to increase the representativeness of the results, the dependent variable was recoded into a binary variable based on the level of control. The lower control modes MF and MUF were recoded into "Low control" or value "0"; the medium and higher control modes SUF, JVF and WOS were recoded into "High control" or value "1". The dependent variable will thus be "High control" vs. "Low control" modes.

### 7.2.2. Independent Variables

#### *System specific assets*

System specific assets are the franchisor's intangible assets and as mentioned before, the competitive advantage generated by these assets increases the propensity to choose entry modes that allow for a higher level on control. The questionnaire included six items related to system specific assets that answer the following question:

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

- E101\_01 ... management competence (like operating policies and procedures and HR management)
- E101\_02 ... organizational capabilities (like cultural management and information management)
- E101\_03 ... customer competence (like marketing / advertising / promotion, pricing)
- E101\_04 ... foreign market competence (like setting up foreign operations, knowledge of foreign markets)
- E101\_05 ... innovation capabilities (like product and organizational innovations)
- E101\_06 ... product and service competence (like product/service quality and design)

The importance of these items was answered on a 7-point Likert-type scale (from 1 - unimportant to 7 – very important) and the variables were then used to build a representative factor, the composite measure 'SSA' with two components: SSA\_1 and SSA\_2.

#### *Local market assets*

Local market assets are the franchisee's intangible assets and refer to the exploration and exploitation potential of the franchisee in the local market. Local market knowledge is in general specific to each market and thus making it harder for the franchisor to obtain it from the franchisee. In such cases, the literature suggests that governance modes with a lower level of control will be preferred in order to increase the competitive advantage of the whole franchise system. (Contractor & Kundu, 1998a; Contractor & Kundu, 1998b; Erramilli, et al., 2002; Doherty, 2007; Jell-Ojobor & Windsperger, 2014)

Based on the research of March (1991) and Windsperger & Dant (2006) the local market assets are divided into exploration and exploitation assets.

"How important are the foreign partner's knowhow and resources for operating the franchise network at the local markets?"

○ **Exploration assets**

- E105\_05 ... marketing knowhow
- E105\_06 ... local market knowledge
- E105\_12 ... innovation knowhow

○ **Exploitation assets**

- E105\_07 ... administrative knowhow
- E105\_08 ... human capital resources and management knowhow (recruitment)
- E105\_11 ... quality control knowhow
- E105\_14 ... organizational knowhow

From these items, two representative factors were built, namely Local market exploration assets (LMA\_exploit) and Local market exploitation assets (LMA\_explore). Another factor was built, LMA\_global, including all items relating to local market assets. The importance of these items was answered on a 7-point Likert-type scale (from 1 -unimportant to 7 – very important).

### *Financial assets*

The franchisee's local market assets include financial assets as well and they can also be used to create competitive advantage in cases where the franchise system is experiencing financial constraints. Similarly to the local market assets consideration, lower control modes will be preferred and thus assuring that the investment risk is supported by the franchisee in the local market. (Kaufmann & Dant, 1996; Windsperger & Dant, 2006)

One question in the survey provides the variable used for the regression analysis and was labelled as Financial\_Capital:

"How important are the foreign partner's knowhow and resources for operating the franchise network at the local markets?"

- E105\_10 ... financial capital

### *Intangibility of assets*

Both the system-specific and the local market assets can have various degrees of intangibility and can thus influence the allocation of control rights in a franchise system. The interaction between the intangibility of assets and the system-specific or local market assets can be measured with the help of two factors created using the following items from the questionnaire:

"Please assess the know-how transfer between headquarters and the foreign partners:"

- **Intangibility of system specific assets**

- E104\_01 ... to write a manual describing our service delivery processes.
- E104\_02 ... to document critical parts of our franchise business format.
- E104\_03 ... to understand how to deliver our franchise products/services by studying blueprints.

- **Intangibility of local market assets**

- E104\_06 ... for our headquarters to acquire the local market knowledge needed to operate the franchise network in the foreign countries.
- E104\_07 ... to transfer the foreign partners' market knowhow to our headquarters.

The factor labelled as ITA\_SSA measures the intangibility of system-specific assets and will be used to test the moderation effect of the impact of system-specific assets on the franchisor's propensity to use higher control modes. Similarly, the factor ITA\_LMA measures the intangibility of local market assets which can impact both the local market assets as well as the financial assets consideration on the governance mode choice.

### **7.2.3. Control Variables**

The control variables used in this study are the age of the system and its size. The age of the system was computed based on the year internationalisation started for each respondent. Since the scope of this study is to test the influence of various company assets on the international governance mode choice, the year when the companies expanded

internationally will be preferred in comparison to the year the company was founded in the home country.

The size of the franchise system was measured by adding the number of company-owned and franchise outlets both in the home country and abroad. It represents the sum of four items in the questionnaire.

- **Age of the international franchise system**
- A210\_05 YEAR when internationalization started
- **Size of the international franchise system**
- A210\_01 Number of company-owned outlets ABROAD
- A210\_02 Number of franchise outlets ABROAD
- A114\_01 Number of company-owned outlets in the HOME COUNTRY
- A114\_02 Number of franchise outlets in the HOME COUNTRY

### **7.3.Methodology**

The empirical analysis conducted during the course of this thesis will be briefly explained before it is presented in greater detail in the next chapters. The statistical tool used to analyse the data was 'IBM SPSS Statistics.

Based on the suggestions and methods of Andy Field (2013), a simple analysis of the answers provided in the questionnaire was conducted, more specifically, frequency distributions and descriptive statistics.

A factor analysis was also necessary, since most of the independent variables included more than one item. The method used to reduce the variables into components was the Principal Component Analysis (PCA), which is a multivariate technique for identifying the linear components of a set of variables. (Field, 2013) A Kaiser-Meyer-Olkin Test was used to determine and verify the sampling adequacy for the analysis and thus an analysis was run to obtain eigenvalues for each factor. Conforming with Kaiser's criterion, the components with eigenvalues above 1 were selected to form each factor. Detailed results and the output tables will be presented in chapter 6.5.

In order to test the hypotheses presented in chapter 6, a binary logistic regression has been conducted. The Chi-Square Goodness of Fit Test (Omnibus Tests of Model Coefficients) was conducted to test adequacy of fit of the model, while the effect size of the model was analysed by looking at the Nagelkerke's R-square values. The overall fit of the model was tested with the help of the Hosmer and Lemeshow Test. The significance of individual independent predictors was tested next and the results are presented in chapter 7 along with the SPSS outputs.

#### 7.4.Descriptive Statistics

The analysis in this chapter includes insight into the data used in this thesis. The total number of used questionnaires sums up to 162, gathered from franchise companies in eight countries in America and Europe. The table below shows the frequency distribution of these countries and the location of their headquarters. Most companies analysed in this study are based in Germany (25.3%), followed by the United States (14.8%), Spain (14.2%) and France (13.6%). Less popular among the respondents were Italy (11.1%), Austria (9.9%), Netherlands (6.2%), and the United Kingdom (4.9%).

| 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                |
|             | Total       | 162       | 100     | 100           |                    |

**Table 2. Frequency distribution - Headquarter**

The distribution of the dominant mode choice across the respondents is displayed in the next table and shows that the most popular entry modes used are Master Franchising (with 34.6% of the total set), followed closely by Single-unit Franchising (with 32.7% of the total set) and Multi-unit Franchising (with 21.6% of the total set). The two least favourite

governance modes are Wholly-Owned subsidiaries (with 8.0% of the total set) and Joint-Venture Franchising (with 3.1% of the total set).

| 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                 |
|                      | Wholly-owned subsidiary   | 13        | 8       | 8             | 100                |
|                      | Total                     | 162       | 100     | 100           |                    |

**Table 3. Frequency Distribution - Dominant Mode Choice**

These companies can also be distinguished by the industry they operate in, namely Distribution (28.0%), Service (62.9%), and Production (9.1%). Some values were also missing in this case (11.7%).

| Industry |              |           |         |               |                    |
|----------|--------------|-----------|---------|---------------|--------------------|
|          |              | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid    | Distribution | 40        | 24.7    | 28            | 28                 |
|          | Service      | 90        | 55.6    | 62.9          | 90.9               |
|          | Production   | 13        | 8       | 9.1           | 100                |
|          | Total        | 143       | 88.3    | 100           |                    |
| Missing  | Not answered | 19        | 11.7    |               |                    |
| Total    |              | 162       | 100     |               |                    |

**Table 4. Frequency Distribution - Industry**

The age and size of the international franchise system will be used as control variables in the regression analysis. The first of the analysed companies to expand internationally was in 1965 and the last one in 2015, putting their ages between 0 and 50 years of international affairs. The sizes of the responding companies range between 6 and 13,500, with an average of 504 outlets in total.

## 7.5. Factor Analysis

A Factor Analysis was conducted in order to create the composite measures needed for the regression analysis in the next chapter and will be briefly explained here. Since the independent variables in this study were based on multiple items in the questionnaire, the factor analysis was necessary for the extraction of the representative factors.

The factors that were created at this stage are: System-Specific Assets (SSA), Local Market Assets (LMA), Intangibility of System-Specific Assets (ITA\_SSA), and Intangibility of Local Market Assets (ITA\_LMA). Details on how they were extracted follow in the next subchapters.

The method used to reduce the variables into components was the Principal Component Analysis (PCA), which is a multivariate technique for identifying the linear components of a set of variables. (Field, 2013)

### 7.5.1. System-Specific Assets

In order to create the composite measure for system-specific assets needed for the regression analysis, a Principal Component Analysis and some preliminary tests were conducted. The Kaiser-Mayer-Olkin measure of sampling adequacy (KMO) represents the ratio of the squared correlation between variables to the squared partial correlation between variables and can take values between 0 and 1. Acceptable are values above .5 (Values between .5 and .7 are mediocre, values between .7 and .8 are good, values between .8 and .9 are great and values above .9 are superb). (Field, 2013) Kaiser's criterion is a method of extraction in factor analysis used to retain factors with associated eigenvalues greater than 1. (Field, 2013)

As observed in the **Table 5.**, the Kaiser's criterion is met (.616) which means that the sample is adequate for the analysis. Bartlett's test of sphericity is significant with  $\chi^2 = 221.714$  and  $p < .001$  and thus all the prerequisites for the factor analysis are met.



| KMO and Bartlett's Test                          |                    |         |
|--------------------------------------------------|--------------------|---------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. |                    | .616    |
| Bartlett's Test of Sphericity                    | Approx. Chi-Square | 221.714 |
|                                                  | df                 | 15      |
|                                                  | Sig.               | .000    |

**Table 5. KMO and Bartlett's Test – SSA**

The total variance explained table (**Table 6.**) indicates the number of factors with initial eigenvalues greater than 1, therefore conforming with Kaiser's (1960) rule. (Field, 2013) The two-component solution explains 67.562% of the total variance.

| Total Variance Explained                                                                                  |                     |               |               |                                     |               |              |                                                |
|-----------------------------------------------------------------------------------------------------------|---------------------|---------------|---------------|-------------------------------------|---------------|--------------|------------------------------------------------|
| Component                                                                                                 | Initial Eigenvalues |               |               | Extraction Sums of Squared Loadings |               |              | Rotation Sums of Squared Loadings <sup>a</sup> |
|                                                                                                           | Total               | % of Variance | Cumulative %  | Total                               | % of Variance | Cumulative % | Total                                          |
| 1                                                                                                         | 2.773               | 46.224        | 46.224        | 2.773                               | 46.224        | 46.224       | 2.309                                          |
| 2                                                                                                         | <b>1.280</b>        | <b>21.338</b> | <b>67.562</b> | 1.280                               | 21.338        | 67.562       | 2.251                                          |
| 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.                                                          |                     |               |               |                                     |               |              |                                                |
| a. When Components are correlated, the Sums of Squared Loadings cannot be added to form a Total Variance. |                     |               |               |                                     |               |              |                                                |

**Table 6. Total Variance Explained – SSA**

The next step in the factor analysis is the Principal Component Analysis (PCA) which illustrates the communalities, which is the proportion of common variance within a variable. (Field, 2013) The aim is to reduce the dimensions by extracting some factors and reduce the variables into components. **Table 7.** displays the communalities before and after extraction, where the second column shows the amount of shared variance that can be explained by the factors.

| 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 7. Communalities – SSA**

Because inter-correlation is assumed, an oblique rotation (direct oblimin) is used. The pattern matrix in **Table 8**. contains the factor loadings, more specifically it contains information about the unique contribution of a variable to a factor. (Field, 2013) In this case, the single items are split into two factors: SSA\_1 and SSA\_2. The first three items form the first factor (E101\_01 ... management competence; E101\_02 ... organizational capabilities; E101\_03 ... customer competence) and the last three items form the second factor (E101\_04 ... foreign market competence; E101\_05 ... innovation capabilities; E101\_06 ... product and service competence).

| Pattern Matrix <sup>a</sup>                                                                                              |             |             |
|--------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
|                                                                                                                          | Component   |             |
|                                                                                                                          | 1           | 2           |
| System-specific assets: ... management competence (like operating policies and procedures and HR management)             | <b>.942</b> | -.141       |
| System-specific assets: ... organizational capabilities (like cultural management and information management)            | <b>.875</b> | .018        |
| System-specific assets: ... customer competence (like marketing / advertising / promotion, pricing)                      | <b>.549</b> | .301        |
| System-specific assets: ... foreign market competence (like setting up foreign operations, knowledge of foreign markets) | .262        | <b>.543</b> |
| System-specific assets: ... innovation capabilities (like product and organizational innovations)                        | -.113       | <b>.933</b> |
| System-specific assets: ... product and service competence (like product/service quality and design)                     | -.024       | <b>.834</b> |
| Extraction Method: Principal Component Analysis.                                                                         |             |             |
| Rotation Method: Oblimin with Kaiser Normalisation.                                                                      |             |             |
| a. Rotation converged in 9 iterations.                                                                                   |             |             |

**Table 8. Pattern Matrix - SSA**

In addition, Cronbach's Alpha test was used to for reliability. Values above 0.7 are considered reliable. SSA as a whole has a Cronbach's Alpha of .764, and SSA\_1 and SSA\_2 both have acceptable values (.771 and .701 respectively), which all indicate very good reliability of the scales in the construct.

| Reliability Statistics |            |
|------------------------|------------|
| Cronbach's Alpha       | N of Items |
| .764                   | 6          |

**Table 9. Reliability - SSA**

| Reliability Statistics |            |
|------------------------|------------|
| Cronbach's Alpha       | N of Items |
| .771                   | 3          |

**Table 10. Reliability - SSA\_1**

| Reliability Statistics |            |
|------------------------|------------|
| Cronbach's Alpha       | N of Items |
| .701                   | 3          |

**Table 11. Reliability - SSA\_2**

### 7.5.2. Local Market Assets

As mentioned in chapter 7.2.2, the franchisee's local market assets can be divided into exploration and exploitation assets, and thus an extraction of two factors is desired. In order to create the composite measure for local market assets needed for the regression analysis, a Principal Component Analysis and some preliminary tests were conducted.

As observed in the **Table 12.**, the Kaiser's criterion is met (.752) which means that the sample is adequate for the analysis. Bartlett's test of sphericity is significant with  $\text{Chi}^2 = 255.962$  and  $p < .001$  and thus all the prerequisites for the factor analysis are met.

| KMO and Bartlett's Test                          |                    |         |
|--------------------------------------------------|--------------------|---------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. |                    | .752    |
| Bartlett's Test of Sphericity                    | Approx. Chi-Square | 255.962 |
|                                                  | df                 | 21      |
|                                                  | Sig.               | .000    |

**Table 12. KMO and Bartlett's Test - LMA**

As indicated by **Table 13.**, there are two factors with eigenvalues  $> 1$ , therefore conforming with Kaiser's (1960) rule. (Field, 2013) The two-component solution explains 63.832% of the total variance.

| Total Variance Explained |                     |               |              |                                     |               |              |                                                |
|--------------------------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|------------------------------------------------|
| Component                | Initial Eigenvalues |               |              | Extraction Sums of Squared Loadings |               |              | Rotation Sums of Squared Loadings <sup>a</sup> |
|                          | Total               | % of Variance | Cumulative % | Total                               | % of Variance | Cumulative % | Total                                          |
| 1                        | 3.283               | 46.907        | 46.907       | 3.283                               | 46.907        | 46.907       | 2.844                                          |
| 2                        | 1.185               | 16.926        | 63.832       | 1.185                               | 16.926        | 63.832       | 2.528                                          |
| 3                        | .823                | 11.757        | 75.589       |                                     |               |              |                                                |
| 4                        | .674                | 9.632         | 85.221       |                                     |               |              |                                                |
| 5                        | .450                | 6.431         | 91.652       |                                     |               |              |                                                |
| 6                        | .337                | 4.818         | 96.470       |                                     |               |              |                                                |
| 7                        | .247                | 3.530         | 100.000      |                                     |               |              |                                                |

Extraction Method: Principal Component Analysis.

a. When Components are correlated, the Sums of Squared Loadings cannot be added to form a Total Variance.

**Table 13. Total Variance Explained - LMA**

**Table 14.** displays the communalities before and after extraction, where the second column shows the amount of shared variance that can be explained by the factors.

| Communalities                                                                          |         |            |
|----------------------------------------------------------------------------------------|---------|------------|
|                                                                                        | Initial | Extraction |
| Local market assets: ... local market knowledge                                        | 1.000   | .481       |
| Local market assets: ... organizational know-how                                       | 1.000   | .699       |
| Local market assets: ... administrative know-how                                       | 1.000   | .654       |
| Local market assets: ... human capital resources and management know-how (recruitment) | 1.000   | .673       |
| Local market assets: ... quality control know-how                                      | 1.000   | .728       |
| Local market assets: ... innovation know-how                                           | 1.000   | .829       |
| Local market assets: ... marketing know-how                                            | 1.000   | .405       |

Extraction Method: Principal Component Analysis.

**Table 14. Communalities - LMA**

Because inter-correlation is assumed, an oblique rotation (direct oblimin) is used. The pattern matrix in **Table 15.** contains the factor loadings. Based on the theory, items E105\_05, E105\_06 and E105\_12 should form one factor, Exploration Assets and items E105\_07, E105\_08, E105\_11, and E105\_14 should form another factor, Exploitation Assets.

#### Exploration assets

E105\_05 ... marketing know-how  
E105\_06 ... local market knowledge  
E105\_12 ... innovation know-how

#### Exploitation assets

E105\_14 ... organizational know-how  
E105\_07 ... administrative know-how  
E105\_08 ... human capital resources and management know-how  
E105\_11 ... quality control know-how

Findings from the data indicate conflicting results. Item E105\_11 ... quality control know how appears to belong in the Exploration Assets factor and item E105\_06 ... local market knowledge loads high into the Exploitation Assets component. Based on this, both items were excluded from the final factors. The Structure Matrix also confirms this decision. Reliability tests were also carried out, revealing a Cronbach's Alpha value of .794 for Exploitation Assets, but only .566 for the Exploitation Assets component. Therefore, a global LMA scale (with  $\alpha = .798$ ), using all items is used for the regression analysis.

| Pattern Matrix <sup>a</sup>                                                                             |           |       |
|---------------------------------------------------------------------------------------------------------|-----------|-------|
|                                                                                                         | Component |       |
|                                                                                                         | 1         | 2     |
| Local market assets: ... local market knowledge                                                         | .720      | -.067 |
| Local market assets: ... organizational know-how                                                        | .752      | .162  |
| Local market assets: ... administrative know-how                                                        | .764      | .093  |
| Local market assets: ... human capital resources and management know-how (recruitment)                  | .849      | -.072 |
| Local market assets: ... quality control know-how                                                       | -.021     | .862  |
| Local market assets: ... innovation know-how                                                            | -.045     | .929  |
| Local market assets: ... marketing know-how                                                             | .081      | .597  |
| Extraction Method: Principal Component Analysis.<br>Rotation Method: Oblimin with Kaiser Normalisation. |           |       |
| a. Rotation converged in 5 iterations.                                                                  |           |       |

**Table 15. Pattern Matrix – LMA**

| Reliability Statistics |            | Reliability Statistics |            | Reliability Statistics |            |
|------------------------|------------|------------------------|------------|------------------------|------------|
| Cronbach's Alpha       | N of Items | Cronbach's Alpha       | N of Items | Cronbach's Alpha       | N of Items |
| .794                   | 3          | .566                   | 2          | .798                   | 7          |

**Table 16. Reliability – LMA\_Exploitation**      **Table 17. Reliability – LMA\_Exploration**      **Table 18. Reliability – LMA\_Global**

### 7.5.3. Intangibility of System-Specific Assets

As discussed in earlier chapters, the intangibility of system-specific assets is assumed to moderate the effect of the importance of system-specific assets on the level of control.

As observed in the **Table 19.**, the Kaiser's criterion is met (.678) which means that the sample is adequate for the analysis. Bartlett's test of sphericity is significant with  $\chi^2 = 221.028$  and  $p < .001$  and thus all the prerequisites for the factor analysis are met.

| KMO and Bartlett's Test                          |                    |         |
|--------------------------------------------------|--------------------|---------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. |                    | .678    |
| Bartlett's Test of Sphericity                    | Approx. Chi-Square | 221.028 |
|                                                  | df                 | 3       |
|                                                  | Sig.               | .000    |

**Table 19. KMO and Bartlett's Test - ITA\_SSA**

As indicated by **Table 20.**, there is only one factor with eigenvalue  $> 1$ , therefore conforming with Kaiser's (1960) rule. (Field, 2013) The total variance explained by this factor is 81.673%.

| Total Variance Explained |                     |               |              |                                     |               |              |
|--------------------------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|
| Component                | Initial Eigenvalues |               |              | Extraction Sums of Squared Loadings |               |              |
|                          | Total               | % of Variance | Cumulative % | Total                               | % of Variance | Cumulative % |
| 1                        | 2.450               | 81.673        | 81.673       | 2.450                               | 81.673        | 81.673       |
| 2                        | .415                | 13.841        | 95.513       |                                     |               |              |
| 3                        | .135                | 4.487         | 100.000      |                                     |               |              |

Extraction Method: Principal Component Analysis.

**Table 20. Total Variance Explained - ITA\_SSA**

**Table 21.** displays the communalities before and after extraction, where the second column shows the amount of shared variance that can be explained by the factors.

| Communalities                                                                                                     |         |            |
|-------------------------------------------------------------------------------------------------------------------|---------|------------|
|                                                                                                                   | Initial | Extraction |
| Intangibility of assets: ... to write a manual describing our service delivery processes.                         | 1.000   | .838       |
| Intangibility of assets: ... to document critical parts of our franchise business format.                         | 1.000   | .898       |
| Intangibility of assets: ... to understand how to deliver our franchise products/services by studying blueprints. | 1.000   | .714       |
| Extraction Method: Principal Component Analysis.                                                                  |         |            |

**Table 21. Communalities - ITA\_SSA**

The component matrix in **Table 22.** contains the factor loadings, which are all above .845 which is a lot higher than the accepted minimum of .5. Values closer to 1 explain a higher proportion of the variance. The solution could not be rotated since there is only one factor with eigenvalue > 1. A reliability test was also carried out, revealing a Cronbach's Alpha value of .884 which indicates a very good reliability of the scales in the construct.

| Component Matrix <sup>a</sup>                                                                                     |           |
|-------------------------------------------------------------------------------------------------------------------|-----------|
|                                                                                                                   | Component |
|                                                                                                                   | 1         |
| Intangibility of assets: ... to write a manual describing our service delivery processes.                         | .915      |
| Intangibility of assets: ... to document critical parts of our franchise business format.                         | .948      |
| Intangibility of assets: ... to understand how to deliver our franchise products/services by studying blueprints. | .845      |
| Extraction Method: Principal Component Analysis.                                                                  |           |

**Table 22. Component Matrix - ITA\_SSA**

| Reliability Statistics |            |
|------------------------|------------|
| Cronbach's Alpha       | N of Items |
| .884                   | 3          |

**Table 23. Reliability Statistics - ITA\_SSA**

#### 7.5.4. Intangibility of Local Market Assets

As discussed in earlier chapters, the intangibility of local market assets is assumed to moderate the effect of the importance of system-specific assets on the level of control.

As observed in the **Table 24.**, the Kaiser's criterion is met (.500) which means that the sample is adequate for the analysis. Bartlett's test of sphericity is significant with  $\chi^2 = 55.614$  and  $p < .001$  and thus all the prerequisites for the factor analysis are met.

| KMO and Bartlett's Test                          |                    |        |
|--------------------------------------------------|--------------------|--------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. |                    | .500   |
| Bartlett's Test of Sphericity                    | Approx. Chi-Square | 55.614 |
|                                                  | df                 | 1      |
|                                                  | Sig.               | .000   |

**Table 24. KMO and Bartlett's Test - ITA\_LMA**

As indicated by **Table 25.**, there is only one factor with eigenvalue  $> 1$ , therefore conforming with Kaiser's (1960) rule. (Field, 2013) The total variance explained by this factor is 81.553%.

| Total Variance Explained |                     |               |              |                                     |               |              |
|--------------------------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|
| Component                | Initial Eigenvalues |               |              | Extraction Sums of Squared Loadings |               |              |
|                          | Total               | % of Variance | Cumulative % | Total                               | % of Variance | Cumulative % |
| 1                        | 1.631               | 81.553        | 81.553       | 1.631                               | 81.553        | 81.553       |
| 2                        | .369                | 18.447        | 100.000      |                                     |               |              |

Extraction Method: Principal Component Analysis.

**Table 25. Total Variance Explained - ITA\_LMA**

**Table 26.** displays the communalities before and after extraction, where the second column shows the amount of shared variance that can be explained by the factors.



| Communalities                                                                                                                                            |         |            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------|------------|
|                                                                                                                                                          | Initial | Extraction |
| Intangibility of assets: ... for our headquarters to acquire the local market knowledge needed to operate the franchise network in the foreign countries | 1.000   | .816       |
| Intangibility of assets: ... to transfer the foreign partners' market know-how to our headquarters.                                                      | 1.000   | .816       |
| Extraction Method: Principal Component Analysis.                                                                                                         |         |            |

**Table 26. Communalities - ITA\_LMA**

The component matrix in **Table 27.** contains the factor loadings, which are all above .9 which is a lot higher than the accepted minimum of .5. Values closer to 1 explain a higher proportion of the variance. The solution could not be rotated since there is only one factor with eigenvalue > 1. A reliability test was also carried out, revealing a Cronbach's Alpha value of .772 which indicates a very good reliability of the scales in the construct.

| Component Matrix <sup>a</sup>                                                                                            |           |
|--------------------------------------------------------------------------------------------------------------------------|-----------|
|                                                                                                                          | Component |
|                                                                                                                          | 1         |
| Intangibility of assets: ... for our headquarters to acquire the local market knowledge needed to operate the franchi... | .903      |
| Intangibility of assets: ... to transfer the foreign partners' market know-how to our headquarters.                      | .903      |
| Extraction Method: Principal Component Analysis.                                                                         |           |

**Table 27. Component Matrix - ITA\_LMA**

| Reliability Statistics |            |
|------------------------|------------|
| Cronbach's Alpha       | N of Items |
| .772                   | 2          |

**Table 28. Reliability Statistics - ITA\_LMA**

## 8. Regression Analysis

In order to test the hypotheses presented in chapter 6, a binary logistic regression has been conducted. For each hypothesis, the regression analysis is described briefly, and some tables from the SPSS output are included for added clarity. The results and discussion will be presented in the next chapter.

### 8.1.H1 – System-Specific Assets

**H1. The more important the franchisor's system-specific assets for value creation, the higher the franchisor's tendency to use higher control modes.**

To test this hypothesis, a binomial logistic regression using System-Specific Assets (SSA\_1 & SSA\_2) as predictors has been carried out.

The Omnibus Test of Model Coefficients or Chi-square Goodness of Fit Test appears to be significant with  $\chi^2 = 19.13$ ,  $p = .001$ . This indicates that this model is significantly better than the intercept-only model. As can be seen in the Model Summary (**Table 30.**), the Nagelkerke's  $R^2$  value is .220, which indicates that the model explains only 22.0% of the variation in the outcome, which means a moderate effect size. The Hosmer and Lemeshow Test is non-significant and therefore shows a good fit of the model with  $\chi^2 = 8.65$ ,  $p = .373$  ( $> 0.05$ ). Looking at the Model in **Table 32.**, neither SSA\_1 nor SSA\_2 don't seem to have a significant influence on the choice of governance (DOM) ( $\text{Exp(B)} = .953$ ,  $p = .830$  &  $\text{Exp(B)} = .758$ ,  $p = .190$ ) since the p-value is above 0.05. The same can be said about the age of the system, which is also non-significant, while size seems to have an extremely small positive influence on the governance choice, meaning that the more outlets a franchise system has, the more likely it is for them to choose a governance mode with higher control. (Field, 2013)

This hypothesis will thus be rejected, implying that the degree of importance of the system-specific assets doesn't have a statistically significant impact on the choice of governance modes with higher or lower control.

| Omnibus Tests of Model Coefficients |       |            |    |      |
|-------------------------------------|-------|------------|----|------|
|                                     |       | Chi-square | df | Sig. |
| Step 1                              | Step  | 19.131     | 4  | .001 |
|                                     | Block | 19.131     | 4  | .001 |
|                                     | Model | 19.131     | 4  | .001 |

**Table 29. Omnibus Tests of Model Coefficients – H1**

| Model Summary <sup>a</sup> |                      |                      |                     |
|----------------------------|----------------------|----------------------|---------------------|
| Step                       | -2 Log-Likelihood    | Cox & Snell R-square | Nagelkerke R-square |
| 1                          | 126,076 <sup>a</sup> | .162                 | .220                |

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than ,001.

**Table 30. Model Summary – H1**

| Hosmer and Lemeshow-Test |            |    |      |
|--------------------------|------------|----|------|
| Step                     | Chi-square | df | Sig. |
| 1                        | 8.645      | 8  | .373 |

**Table 31. Hosmer and Lemeshow-Test – H1**

| Variables in the Equation <sup>a</sup> |          |       |       |       |    |      |        |                     |       |
|----------------------------------------|----------|-------|-------|-------|----|------|--------|---------------------|-------|
|                                        |          | B     | S.E.  | Wald  | df | Sig. | Exp(B) | 95% C.I. for EXP(B) |       |
|                                        |          |       |       |       |    |      |        | Lower               | Upper |
| Step 1                                 | SSA_1    | -.048 | .224  | .046  | 1  | .830 | .953   | .614                | 1.478 |
|                                        | SSA_2    | -.278 | .212  | 1.715 | 1  | .190 | .758   | .500                | 1.148 |
|                                        | Size     | .004  | .001  | 8.101 | 1  | .004 | 1.004  | 1.001               | 1.007 |
|                                        | Age_Int  | -.040 | .024  | 2.855 | 1  | .091 | .961   | .917                | 1.006 |
|                                        | Constant | 2.047 | 1.340 | 2.333 | 1  | .127 | 7.741  |                     |       |

a. Variable(s) entered on step 1: SSA\_1, SSA\_2, Size, Age\_Int.

**Table 32. Variables in the Equation – H1**

## 8.2.H2a – Local Market Assets

**H2a. The more important the franchise partners' local market assets for the value creation of the network, the higher the franchisor's tendency to use lower control modes.**

To test this hypothesis, a binomial logistic regression using Local Market Assets (LMA\_global) as predictor has been carried out.

The Omnibus Test of Model Coefficients or Chi-square Goodness of Fit Test appears to be significant with  $\chi^2 = 16.9$ ,  $p = .001$ . This indicates that this model is significantly better than the intercept-only model. As can be seen in the Model Summary (**Table 34.**), the Nagelkerke's  $R^2$  value is .209, which indicates that the model explains only 20.9% of the variation in the outcome, which means a moderate effect size. The Hosmer and Lemeshow Test is significant and therefore shows a poor fit of the model with  $\chi^2 = 17.8$ ,  $p = .023$  ( $< 0.05$ ). Because of the significance of the Hosmer-Lemeshow test, this hypothesis will be automatically rejected. Nonetheless, the results of the regression analysis will be displayed below. Looking at the Model in **Table 36.**, LMA\_global does not seem to have a significant influence on the choice of governance (DOM) ( $\text{Exp}(B) = 1.120$ ,  $p = .649$ ) since the p-value is above 0.05. The same can be said about the age of the system, which is also non-significant, while size seems to have an extremely small positive influence on the governance choice, meaning that the more outlets a franchise system has, the more likely it is for them to choose a governance mode with higher control. (Field, 2013)

This hypothesis will thus be rejected, implying that the degree of importance of the local market assets doesn't have a statistically significant impact on the choice of governance modes with higher or lower control.

| Omnibus Tests of Model Coefficients |       |            |    |      |
|-------------------------------------|-------|------------|----|------|
|                                     |       | Chi-square | df | Sig. |
| Step 1                              | Step  | 16.955     | 3  | .001 |
|                                     | Block | 16.955     | 3  | .001 |
|                                     | Model | 16.955     | 3  | .001 |

**Table 33. Omnibus Tests of Model Coefficients – H2a**

| Model Summary <sup>a</sup> |                      |                      |                     |
|----------------------------|----------------------|----------------------|---------------------|
| Step                       | -2 Log-Likelihood    | Cox & Snell R-square | Nagelkerke R-square |
| 1                          | 119,465 <sup>a</sup> | .155                 | .209                |

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than ,001.

**Table 34. Model Summary – H2a**

| Hosmer and Lemeshow-Test |            |    |      |
|--------------------------|------------|----|------|
| Step                     | Chi-square | df | Sig. |
| 1                        | 17.831     | 8  | .023 |

**Table 35. Hosmer and Lemeshow-Test – H2a**

| Variables in the Equation <sup>a</sup> |            |       |       |       |    |      |        |                     |       |
|----------------------------------------|------------|-------|-------|-------|----|------|--------|---------------------|-------|
|                                        |            | B     | S.E.  | Wald  | df | Sig. | Exp(B) | 95% C.I. for EXP(B) |       |
|                                        |            |       |       |       |    |      |        | Lower               | Upper |
| Step 1 <sup>a</sup>                    | LMA_global | .113  | .249  | .207  | 1  | .649 | 1.120  | .687                | 1.826 |
|                                        | Age_Int    | -.037 | .024  | 2.363 | 1  | .124 | .964   | .919                | 1.010 |
|                                        | Size       | .004  | .002  | 7.932 | 1  | .005 | 1.004  | 1.001               | 1.007 |
|                                        | Constant   | -.420 | 1.392 | .091  | 1  | .763 | .657   |                     |       |

a. Variable(s) entered on step 1: LMA\_global, Age\_Int, Size.

**Table 36. Variables in the Equation – H2a**

### 8.3.H2b – Interaction analysis – Exploration vs. Exploitation

**H2b. The influence of the more intangible local market assets (exploration assets) on the governance mode choice is higher than the influence of the less intangible local market assets (exploitation assets).**

To test this hypothesis, two binomial logistic regressions using Local Market Exploration and Local Market Exploitation Assets (LMA\_Explore and LMA\_Exploit) as predictors have been carried out.

The Omnibus Test of Model Coefficients or Chi-square Goodness of Fit Test appears to be significant with  $\chi^2 = 16.76$ ,  $p = .001$  for Exploration Assets and  $\chi^2 = 17.75$ ,  $p = .000$  for Exploitation Assets. This indicates that both models are significantly better than the intercept-only models. As can be seen in the Model Summary (**Table 39. & Table 40.**), the Nagelkerke's  $R^2$  value is .206 (.217), which indicates that the models explain only 20.6% (21.7%) of the variation in the outcome, which means a moderate effect size. The Hosmer and Lemeshow Test is significant for Exploration Assets and therefore shows a poor fit of the model with  $\chi^2 = 18.5$ ,  $p = .018$  ( $< 0.05$ ). Because of the significance of the Hosmer-Lemeshow test, this hypothesis will be automatically rejected. Nonetheless, the results of the regression analysis will be displayed below and compared to the results of Exploitation Assets. The same test is non-significant for Exploitation Assets and therefore shows a good fit of the model with  $\chi^2 = 11.67$ ,  $p = .167$  ( $> 0.05$ ). Looking at the Model in **Tables 43. and 44.**, neither LMA\_Explore nor LMA\_Exploit don't seem to have a significant influence on the choice of governance (DOM) ( $\text{Exp}(B) = 1.016$ ,  $p = .926$  &  $\text{Exp}(B) = 1.253$ ,  $p = .321$ ) since the p-value is above 0.05 for both of them. Looking at the direction and size of the effect, the

results seem to contradict the hypothesis, since the value of the odds ratio (Exp(B)) should be higher for Exploration Assets. (Field, 2013)

This hypothesis will thus be rejected, implying that the importance of Exploration Assets doesn't have a greater (statistically significant) impact on the choice of governance modes when compared to the impact of the importance of Exploitation Assets.

| Omnibus Tests of Model Coefficients |       |            |    |      |
|-------------------------------------|-------|------------|----|------|
|                                     |       | Chi-square | df | Sig. |
| Step 1                              | Step  | 16.756     | 3  | .001 |
|                                     | Block | 16.756     | 3  | .001 |
|                                     | Model | 16.756     | 3  | .001 |

**Table 37. Omnibus Tests of Model Coefficients – H2b Exploration Assets**

| Omnibus Tests of Model Coefficients |       |            |    |      |
|-------------------------------------|-------|------------|----|------|
|                                     |       | Chi-square | df | Sig. |
| Step 1                              | Step  | 17.747     | 3  | .000 |
|                                     | Block | 17.747     | 3  | .000 |
|                                     | Model | 17.747     | 3  | .000 |

**Table 38. Omnibus Tests of Model Coefficients – H2b Exploitation Assets**

| Model Summary <sup>a</sup> |                      |                      |                     |
|----------------------------|----------------------|----------------------|---------------------|
| Step                       | -2 Log-Likelihood    | Cox & Snell R-square | Nagelkerke R-square |
| 1                          | 119,664 <sup>a</sup> | .153                 | .206                |

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than ,001.

**Table 39. Model Summary – H2b Exploration Assets**

| Model Summary <sup>a</sup> |                      |                      |                     |
|----------------------------|----------------------|----------------------|---------------------|
| Step                       | -2 Log-Likelihood    | Cox & Snell R-square | Nagelkerke R-square |
| 1                          | 118,673 <sup>a</sup> | .161                 | .217                |

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than ,001.

**Table 40. Model Summary – H2b Exploitation Assets**

| Hosmer and Lemeshow-Test |            |    |      |
|--------------------------|------------|----|------|
| Step                     | Chi-square | df | Sig. |
| 1                        | 18.507     | 8  | .018 |

**Table 41. Hosmer and Lemeshow-Test – H2b Exploration Assets**

| Hosmer and Lemeshow-Test |            |    |      |
|--------------------------|------------|----|------|
| Step                     | Chi-square | df | Sig. |
| 1                        | 11.665     | 8  | .167 |

**Table 42. Hosmer and Lemeshow-Test – H2b Exploitation Assets**

| Variables in the Equation <sup>a</sup> |             |       |      |       |    |      |        |                     |       |
|----------------------------------------|-------------|-------|------|-------|----|------|--------|---------------------|-------|
|                                        |             | B     | S.E. | Wald  | df | Sig. | Exp(B) | 95% C.I. for EXP(B) |       |
|                                        |             |       |      |       |    |      |        | Lower               | Upper |
| Step 1                                 | LMA_Explore | .016  | .172 | .009  | 1  | .926 | 1.016  | .726                | 1.422 |
|                                        | Size        | .004  | .002 | 7.687 | 1  | .006 | 1.004  | 1.001               | 1.007 |
|                                        | Age_Int     | -.035 | .024 | 2.199 | 1  | .138 | .965   | .921                | 1.011 |
|                                        | Constant    | .108  | .934 | .013  | 1  | .908 | 1.114  |                     |       |

a. Variable(s) entered on step 1: LMA\_Explore, Size, Age\_Int.

**Table 43. Variables in the Equation – H2b Exploration Assets**

| Variables in the Equation <sup>a</sup> |             |        |       |       |    |      |        |                     |       |
|----------------------------------------|-------------|--------|-------|-------|----|------|--------|---------------------|-------|
|                                        |             | B      | S.E.  | Wald  | df | Sig. | Exp(B) | 95% C.I. for EXP(B) |       |
|                                        |             |        |       |       |    |      |        | Lower               | Upper |
| Step 1                                 | LMA_Exploit | .226   | .227  | .985  | 1  | .321 | 1.253  | .803                | 1.957 |
|                                        | Size        | .004   | .002  | 8.197 | 1  | .004 | 1.004  | 1.001               | 1.007 |
|                                        | Age_Int     | -.041  | .025  | 2.706 | 1  | .100 | .960   | .915                | 1.008 |
|                                        | Constant    | -1.043 | 1.304 | .640  | 1  | .424 | .352   |                     |       |

a. Variable(s) entered on step 1: LMA\_Exploit, Size, Age\_Int.

**Table 44. Variables in the Equation – H2b Exploitation Assets**

### 8.4.H3 – Financial Assets

**H3. The higher the financial resources required for implementation of the franchise concept in the foreign market, the higher the franchisor's tendency to use lower control modes.**

To test this hypothesis, a binomial logistic regression using Financial\_Capital as predictor has been carried out. The Omnibus Test of Model Coefficients or Chi-square Goodness of Fit Test appears to be significant with  $\chi^2 = 18.75$ ,  $p = .000$ . This indicates that this model is significantly better than the intercept-only model. As can be seen in the Model Summary (**Table 46.**), the Nagelkerke's  $R^2$  value is .233, which indicates that the model explains only 23.3% of the variation in the outcome, which means a moderate effect size. The Hosmer and Lemeshow Test is non-significant and therefore shows a good fit of the model

with  $\chi^2 = 5.15$ ,  $p = .741$  ( $> 0.05$ ). Looking at the Model in **Table 48.**, Financial\_Capital does not seem to have a significant influence on the choice of governance (DOM) ( $\text{Exp}(B) = 1.432$ ,  $p = .079$ ) since the p-value is above 0.05. The same can be said about the size of the system, which is also non-significant, while age seems to have an extremely small positive influence on the governance choice, meaning that the older the system is, the more likely it is for them to choose a governance mode with higher control. (Field, 2013)

This hypothesis will thus be rejected, implying that the degree of importance of the financial assets doesn't have a statistically significant impact on the choice of governance modes with higher or lower control.

| Omnibus Tests of Model Coefficients |       |            |    |      |
|-------------------------------------|-------|------------|----|------|
|                                     |       | Chi-square | df | Sig. |
| Step 1                              | Step  | 18.749     | 3  | .000 |
|                                     | Block | 18.749     | 3  | .000 |
|                                     | Model | 18.749     | 3  | .000 |

**Table 45. Omnibus Tests of Model Coefficients – H3**

| Model Summary <sup>a</sup> |                      |                      |                     |
|----------------------------|----------------------|----------------------|---------------------|
| Step                       | -2 Log-Likelihood    | Cox & Snell R-square | Nagelkerke R-square |
| 1                          | 114,825 <sup>a</sup> | .173                 | .233                |

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than ,001.

**Table 46. Model Summary – H3**

| Hosmer and Lemeshow-Test |            |    |      |
|--------------------------|------------|----|------|
| Step                     | Chi-square | df | Sig. |
| 1                        | 5.152      | 8  | .741 |

**Table 47. Hosmer and Lemeshow-Test – H3**

| Variables in the Equation <sup>a</sup> |                   |        |       |       |    |      |        |                     |       |
|----------------------------------------|-------------------|--------|-------|-------|----|------|--------|---------------------|-------|
|                                        |                   | B      | S.E.  | Wald  | df | Sig. | Exp(B) | 95% C.I. for EXP(B) |       |
|                                        |                   |        |       |       |    |      |        | Lower               | Upper |
| Step 1 <sup>a</sup>                    | Financial_Capital | .359   | .205  | 3.078 | 1  | .079 | 1.432  | .959                | 2.138 |
|                                        | Age_Int           | .004   | .001  | 8.045 | 1  | .005 | 1.004  | 1.001               | 1.007 |
|                                        | Size              | -.034  | .025  | 1.798 | 1  | .180 | .967   | .920                | 1.016 |
|                                        | Constant          | -1.920 | 1.238 | 2.405 | 1  | .121 | .147   |                     |       |

a. Variable(s) entered on step 1: Financial\_Capital, Age\_Int, Size.

**Table 48. Variables in the Equation – H3**



#### 8.5.H4 – Interaction analysis – System-Specific Assets

**H4. The intangibility of system-specific assets positively moderates the impact of system-specific assets on the franchisor's tendency to use higher control modes.**

To test this hypothesis, a binomial logistic regression using the System-Specific Assets as predictor and the Intangibility of System-Specific Assets as moderator (Intangibility of System-Specific Assets by System-Specific Assets - ITA\_SSA\*SSA) has been carried out.

The Omnibus Test of Model Coefficients or Chi-square Goodness of Fit Test appears to be significant with  $\chi^2 = 23.76$ ,  $p = .000$ . This indicates that this model is significantly better than the intercept-only model. As can be seen in the Model Summary (**Table 50.**), the Nagelkerke's  $R^2$  value is .267, which indicates that the model explains only 26.7% of the variation in the outcome, which means a moderate effect size. The Hosmer and Lemeshow Test is non-significant and therefore shows a good fit of the model with  $\chi^2 = 5.4$ ,  $p = .716$  ( $> 0.05$ ). Looking at the Model in **Table 52.**, The intangibility of system-specific assets (ITA\_SSA\*SSA) does not seem to have a significant influence on the choice of governance (DOM) ( $\text{Exp}(B) = 810$ ,  $p = .225$ ) since the p-value is above 0.05. The same can be said about the age of the system, which is also non-significant, while size seems to have an extremely small positive influence on the governance choice, meaning that the more outlets a franchise system has, the more likely it is for them to choose a governance mode with higher control. (Field, 2013)

This hypothesis will thus be rejected, implying that the degree of intangibility of system-specific assets doesn't have a statistically significant impact on the influence of system-specific assets on the on the choice of governance modes with higher or lower control.

| Omnibus Tests of Model Coefficients |       |            |    |      |
|-------------------------------------|-------|------------|----|------|
|                                     |       | Chi-square | df | Sig. |
| Step 1                              | Step  | 23.762     | 5  | .000 |
|                                     | Block | 23.762     | 5  | .000 |
|                                     | Model | 23.762     | 5  | .000 |

**Table 49. Omnibus Tests of Model Coefficients – H4**

| Model Summary <sup>a</sup> |                      |                      |                     |
|----------------------------|----------------------|----------------------|---------------------|
| Step                       | -2 Log-Likelihood    | Cox & Snell R-square | Nagelkerke R-square |
| 1                          | 121,444 <sup>a</sup> | .197                 | .267                |

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than ,001.

**Table 50. Model Summary – H4**

| Hosmer and Lemeshow-Test |            |    |      |
|--------------------------|------------|----|------|
| Step                     | Chi-square | df | Sig. |
| 1                        | 5.386      | 8  | .716 |

**Table 51. Hosmer and Lemeshow-Test – H4**

| Variables in the Equation <sup>a</sup> |                |        |       |       |    |      |        |                     |        |
|----------------------------------------|----------------|--------|-------|-------|----|------|--------|---------------------|--------|
|                                        |                | B      | S.E.  | Wald  | df | Sig. | Exp(B) | 95% C.I. for EXP(B) |        |
|                                        |                |        |       |       |    |      |        | Lower               | Upper  |
| Step 1                                 | SSA            | .207   | .490  | .179  | 1  | .672 | 1.230  | .471                | 3.211  |
|                                        | ITA_SSA        | 1.444  | .995  | 2.108 | 1  | .147 | 4.238  | .603                | 29.767 |
|                                        | Size           | .004   | .001  | 8.191 | 1  | .004 | 1.004  | 1.001               | 1.007  |
|                                        | Age_Int        | -.041  | .025  | 2.679 | 1  | .102 | .960   | .915                | 1.008  |
|                                        | ITA_SSA by SSA | -.211  | .173  | 1.475 | 1  | .225 | .810   | .577                | 1.138  |
|                                        | Constant       | -1.671 | 2.819 | .351  | 1  | .553 | .188   |                     |        |

a. Variable(s) entered on step 1: SSA, ITA\_SSA, Size, Age\_Int, ITA\_SSA \* SSA.

**Table 52. Variables in the Equation – H4**

## 8.6.H5 – Interaction analysis – Local Market Assets

**H5. The intangibility of local market assets positively moderates the impact of local market assets on the franchisor's tendency to use lower control modes.**

To test this hypothesis, a binomial logistic regression using the Local Market Assets as predictor and the Intangibility of Local Market Assets as moderator (Intangibility of Local Market Assets by Local Market Assets - ITA\_LMA\*LMA\_global) has been carried out.

The Omnibus Test of Model Coefficients or Chi-square Goodness of Fit Test appears to be significant with  $\chi^2 = 18.9$ ,  $p = .002$ . This indicates that this model is significantly better than the intercept-only model. As can be seen in the Model Summary (**Table 54.**), the Nagelkerke's  $R^2$  value is .232, which indicates that the model explains only 23.2% of the variation in the outcome, which means a moderate effect size. The Hosmer and Lemeshow

Test is non-significant and therefore shows a good fit of the model with  $\chi^2 = 14.2$ ,  $p = .076$  ( $> 0.05$ ). Looking at the Model in **Table 56.**, The intangibility of local market assets (ITA\_LMA\*LMA\_global) does not seem to have a significant influence on the choice of governance (DOM) ( $\text{Exp(B)} = 909$ ,  $p = .508$ ) since the p-value is above 0.05. The same can be said about the age of the system, which is also non-significant, while size seems to have an extremely small positive influence on the governance choice, meaning that the more outlets a franchise system has, the more likely it is for them to choose a governance mode with higher control. (Field, 2013)

This hypothesis will thus be rejected, implying that the degree of intangibility of local market assets doesn't have a statistically significant impact on the influence of local market assets on the choice of governance modes with higher or lower control.

| Omnibus Tests of Model Coefficients |       |            |    |      |
|-------------------------------------|-------|------------|----|------|
|                                     |       | Chi-square | df | Sig. |
| Step 1                              | Step  | 18.916     | 5  | .002 |
|                                     | Block | 18.916     | 5  | .002 |
|                                     | Model | 18.916     | 5  | .002 |

**Table 53. Omnibus Tests of Model Coefficients – H5a**

| Model Summary <sup>a</sup> |                      |                      |                     |
|----------------------------|----------------------|----------------------|---------------------|
| Step                       | -2 Log-Likelihood    | Cox & Snell R-square | Nagelkerke R-square |
| 1                          | 116,456 <sup>a</sup> | .172                 | .232                |

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than ,001.

**Table 54. Model Summary – H5a**

| Hosmer and Lemeshow-Test |            |    |      |
|--------------------------|------------|----|------|
| Step                     | Chi-square | df | Sig. |
| 1                        | 14.209     | 8  | .076 |

**Table 55. Hosmer and Lemeshow-Test – H5a**

| Variables in the Equation <sup>a</sup>                                                      |                       |        |       |       |    |      |        |                     |        |
|---------------------------------------------------------------------------------------------|-----------------------|--------|-------|-------|----|------|--------|---------------------|--------|
|                                                                                             |                       | B      | S.E.  | Wald  | df | Sig. | Exp(B) | 95% C.I. for EXP(B) |        |
|                                                                                             |                       |        |       |       |    |      |        | Lower               | Upper  |
| Step 1                                                                                      | LMA_global            | .442   | .589  | .564  | 1  | .453 | 1.556  | .491                | 4.938  |
|                                                                                             | ITA_LMA               | .702   | .863  | .662  | 1  | .416 | 2.018  | .372                | 10.946 |
|                                                                                             | Size                  | .005   | .002  | 8.873 | 1  | .003 | 1.005  | 1.002               | 1.008  |
|                                                                                             | Age_Int               | -.045  | .025  | 3.115 | 1  | .078 | .956   | .910                | 1.005  |
|                                                                                             | ITA_LMA by LMA_global | -.096  | .145  | .439  | 1  | .508 | .909   | .684                | 1.206  |
|                                                                                             | Constant              | -2.875 | 3.489 | .679  | 1  | .410 | .056   |                     |        |
| a. Variable(s) entered on step 1: LMA_global, ITA_LMA, Size, Age_Int, ITA_LMA * LMA_global. |                       |        |       |       |    |      |        |                     |        |

**Table 56. Variables in the Equation – H5a**

### 8.7.H6 – Interaction analysis – Financial Assets

**H6. The intangibility of local market assets positively moderates the impact of financial assets on the franchisor's tendency to use lower control modes.**

To test this hypothesis, a binomial logistic regression using the Financial Assets as predictor and the Intangibility of Local Market Assets as moderator (Intangibility of Local Market Assets by Financial Assets - ITA\_LMA\*Financial\_Capital) has been carried out.

The Omnibus Test of Model Coefficients or Chi-square Goodness of Fit Test appears to be significant with  $\chi^2 = 20.5$ ,  $p = .001$ . This indicates that this model is significantly better than the intercept-only model. As can be seen in the Model Summary (**Table 58.**), the Nagelkerke's  $R^2$  value is .254, which indicates that the model explains only 25.4% of the variation in the outcome, which means a moderate effect size. The Hosmer and Lemeshow Test is non-significant and therefore shows a good fit of the model with  $\chi^2 = 2.9$ ,  $p = .940$  ( $> 0.05$ ). Looking at the Model in **Table 60.**, The intangibility of local market assets (ITA\_LMA\* Financial\_Capital) does not seem to have a significant influence on the choice of governance (DOM) ( $\text{Exp}(B) = 942$ ,  $p = .701$ ) since the p-value is above 0.05. The same can be said about the age of the system, which is also non-significant, while size seems to have an extremely small positive influence on the governance choice, meaning that the more outlets a franchise system has, the more likely it is for them to choose a governance mode with higher control. (Field, 2013)

This hypothesis will thus be rejected, implying that the degree of intangibility of local market assets doesn't have a statistically significant impact on the influence of financial assets on the choice of governance modes with higher or lower control.

| Omnibus Tests of Model Coefficients |       |            |    |      |
|-------------------------------------|-------|------------|----|------|
|                                     |       | Chi-square | df | Sig. |
| Step 1                              | Step  | 20.491     | 5  | .001 |
|                                     | Block | 20.491     | 5  | .001 |
|                                     | Model | 20.491     | 5  | .001 |

**Table 57. Omnibus Tests of Model Coefficients – H6**

| Model Summary <sup>a</sup> |                      |                      |                     |
|----------------------------|----------------------|----------------------|---------------------|
| Step                       | -2 Log-Likelihood    | Cox & Snell R-square | Nagelkerke R-square |
| 1                          | 112,041 <sup>a</sup> | .189                 | .254                |

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than ,001.

**Table 58. Model Summary – H6**

| Hosmer and Lemeshow-Test |            |    |      |
|--------------------------|------------|----|------|
| Step                     | Chi-square | df | Sig. |
| 1                        | 2.900      | 8  | .940 |

**Table 59. Hosmer and Lemeshow-Test – H6**

| Variables in the Equation <sup>a</sup> |                              |        |       |       |    |      |        |                     |        |
|----------------------------------------|------------------------------|--------|-------|-------|----|------|--------|---------------------|--------|
|                                        |                              | B      | S.E.  | Wald  | df | Sig. | Exp(B) | 95% C.I. for EXP(B) |        |
|                                        |                              |        |       |       |    |      |        | Lower               | Upper  |
| Step 1                                 | Financial_Capital            | .587   | .670  | .768  | 1  | .381 | 1.799  | .484                | 6.685  |
|                                        | ITA_LMA                      | .519   | .965  | .289  | 1  | .591 | 1.680  | .254                | 11.136 |
|                                        | Size                         | .004   | .001  | 8.775 | 1  | .003 | 1.004  | 1.001               | 1.007  |
|                                        | Age_Int                      | -.040  | .026  | 2.424 | 1  | .120 | .960   | .913                | 1.011  |
|                                        | Financial_Capital by ITA_LMA | -.059  | .155  | .148  | 1  | .701 | .942   | .696                | 1.276  |
|                                        | Constant                     | -3.875 | 4.115 | .886  | 1  | .346 | .021   |                     |        |

a. Variable(s) entered on step 1: Financial\_Capital, ITA\_LMA, Size, Age\_Int, Financial\_Capital \* ITA\_LMA.

**Table 60. Variables in the Equation – H6**

## 9. Results and Discussion

To conclude this analysis, the results will be discussed in this chapter. The first four hypotheses were developed from the Resource Based View and Organisational Capabilities Theory. They all strive to investigate the importance of the assets of a franchise system (system-specific, local market and financial assets) and whether it influences the franchisors choice of governance modes, more specifically the choice between lower and higher control modes.

The first hypothesis (**H1.**) involved the system-specific assets and the statistical analysis showed that both factors used in the regression did not have a statistically significant impact and furthermore, the odds ratio value for both predictors was below 1. This would mean that the importance of system-specific assets decreases the tendency to use higher control modes. Based on these two findings, the hypothesis was rejected.

Also related to the system-specific assets, the moderator analysis conducted during testing of **H4.** was concerned with the intangibility of system-specific assets and how it would moderate the impact of system-specific assets on the choice of governance modes with high or low control. The regression analysis revealed that the interaction effect was non-significant and that with higher intangibility of system-specific assets, the impact of these assets on the tendency to expand via higher control modes decreases. The results don't support the hypothesis and it was rejected.

Local-market assets and their influence on the choice of governance mode was also investigated in **H2a.**, **H2b.** and **H5.** The first regression conducted in this case showed a poor fit of the model (significant Hosmer and Lemeshow Test), automatically rejecting the assumption that the importance of local-market assets increases the franchisors propensity to use lower control modes (**H2a.**). Tests were carried out to check whether the more intangible exploration assets have a higher influence on the governance modes than the less intangible exploration assets, but results were similar to the previous analysis, and the hypothesis **H2b.** was rejected based on the significance of the Hosmer and Lemeshow Test.

The moderator analysis **H5.** implies that the less tangible the local-market assets are, the weaker the impact of these assets on a governance mode choice with lower control will be,

contradicting the hypothesis. These findings were non-significant and thus the hypothesis was rejected.

Regarding the financial assets, **H3.** tested the effect of these assets on the choice of governance modes implying a tendency to choose lower control modes with increasing importance of the financial assets. Results of the regression analysis show that the importance of financial capital increases the tendency for lower control modes. Because of the non-significance of this test, the hypothesis had to be rejected.

Similarly, the moderator effect (**H6.**) of the intangibility of local-market assets on the financial assets proved to be non-significant as well and showed a weaker impact on the propensity to use lower control modes. Thus, the hypothesis was rejected as well.

## 10. Conclusions

The focus of this thesis was on the choice of governance modes a franchisor has to make while expanding internationally. Based on the Resource-Based view, Organisational Capabilities Theory and Property Rights Theory, the influence of the assets of a franchise system was presented. More specifically, the impact of system-specific, local market and financial assets on the governance structure of the international franchise firm. Differentiated by the level of control, the five governance modes considered in this study were Wholly-Owned Subsidiary, Joint-Venture franchising, Single-unit franchising, Area-Development franchising, and Master Franchising. The concept of control is strongly linked to the distribution of decision and ownership rights. The allocation of these rights can be influenced by the importance and intangibility of assets which constitutes the main goal of this thesis.

The empirical study was based on a research project conducted on franchise companies based in 8 countries in Europe and North America and yielded a sample of 162 questionnaires. The importance of system-specific assets, local market assets and financial assets, as well as the moderating effect of their intangibility on the market entry through low or high control modes was analysed in detail in the empirical part of this thesis. Unfortunately, none of the hypotheses yielded statistically significant results which calls for a more detailed study on this topic.

Due to the lack of sufficient respondents, the differentiation of the governance modes was restricted to low and high control modes, which might be a reason for these results. Another limitation of this study might be the fact that this was an exploratory quantitative study and no guarantees can be made that the respondents were indeed the people in charge of international operations with decision-making rights. The questionnaire used aimed to investigate a large number of theoretical propositions and thus contained questions on a variety of topics, which in turn made it quite time-consuming, probably explaining the low response rate. Another point worth mentioning is the fact that the analysed franchise systems were based in very different geographical locations and the differences in headquarter location were not taken into consideration. Nonetheless, there is potential for more detailed and diverse studies in this area of study.



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## 12. German Abstract

Franchising hat sich in einem globalen Umfeld zu einem der wichtigsten Markteintrittsformen entwickelt. In dieser Masterarbeit wird die Wahl der Organisationsformen im internationalen Franchising in Bezug auf die systemspezifischen, lokalen Markt- und Finanzwerte internationaler Franchise-Systeme analysiert. Die verschiedenen in dieser Studie vorgestellten Organisationsformen unterscheiden sich durch die Kontrolle über internationale Geschäftstätigkeiten. Das theoretische Konzept basiert auf der strategischen Managementsicht (strategic management view) und der Verfügungsrechtstheorie (property rights theory). Das Konzept der Kontrolle ist eng mit der Verteilung von Entscheidungs- und Eigentumsrechten verbunden, und daher kann die Zuweisung dieser Rechte durch die Bedeutung und Ungreifbarkeit von Vermögenswerten beeinflusst werden, was das Hauptziel dieser Arbeit darstellt.

Basierend auf den theoretischen Konzepten, die in dieser Arbeit dargestellt werden, Hypothesen werden entwickelt und mittels einer logistischen Regression getestet, um den Einfluss der Vermögenswerte eines Franchise-Unternehmens auf die Wahl der Organisationsformen zu analysieren. Die empirische Studie basiert auf einem Forschungsprojekt das 162 Franchise-Unternehmen aus 8 Ländern in Europa und Nordamerika inkludiert. Die in dieser Arbeit präsentierten empirischen Ergebnisse zielen darauf ab, das Verständnis für internationales Franchising zu erweitern und einen Einblick in die Wahl der Organisationsformen in einem globalen Umfeld zu geben.