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„Multi-unit Ownership Strategy in Franchising“

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

To my kind parents, my caring wife, and my lovely twins.

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Declaration

The work in this dissertation is based on research carried out at the Chair of Organization and Planning of the Faculty of Business, Economics, and Statistics at the University of Vienna, Austria. No part of this dissertation has been previously submitted for any other degree or qualification and it is all my own work unless mentioned otherwise.



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Chapter 1

Introduction

1.1 *Franchising*

The popularity of franchising as an organizational form is an established fact. Particularly, in developed countries, franchising makes a significant contribution toward the economy by service provision and creation of employment opportunities (Spinelli, Rosenberg, & Birley, 2004). In general, franchising refers to a relationship where a firm (franchisor) sells the right to use its brand name, operating systems, and product specifications to a person or a firm (franchisee) who is permitted to market franchisor's products/services within a specific geographical area and time period (Combs & Ketchen, 2003). The franchisor also undertakes to assist the franchisee through advertising, promotion, and other business activities as stipulated in the franchise contract. On the other hand, the franchisee is obliged to follow the methods and procedures prescribed by the franchisor in the franchise agreement. Typically, the franchisee pays an upfront amount (called franchise fee or initial fee) and a variable percentage of sales (called royalties) to his/her franchisor. However, some franchise systems charge a fixed periodical amount or both (variable and fix) in lieu of royalties.

In this chapter, I briefly discuss the background of this organizational form and present the objective and the organization of this dissertation.

1.1.1 Background

The word “franchise” has been derived from the Anglo-French word “*franc*” that means “to free” or “freedom or immunity from some burden or restriction”¹. The history of franchising can be traced back to 19th century. However, there are several contradicting stories regarding the origin of franchising. First, some sources trace the origin of franchising back to 1840s when the beer makers in Germany granted pubs and taverns the right to sell beer under brewer’s brand name and license (Hackett, 1976). Second, some others believe that the modern form of franchising was originated by the Singer Company (Hackett, 1976), a sewing machine producing company, in 1860s when they did not have enough money to pay salaries to their salesmen. They created a network of dealers and these dealers paid a fee to Singer instead of asking for salaries. There is a third group of historians who believe that franchising was originated in England when the government granted some selected persons the right to collect taxes on its behalf and retain a fee for this service (Hoffman & Preble, 1991). The historians have disagreement regarding the place of origin of franchising as well, some consider it a European innovation (Hackett, 1976; Hoffman & Preble, 1991) while others term it as a typical American innovation (Castrogiovanni, Combs, & Justis, 2006a; Dant, 2008).

¹ Merriam-Webster Online Dictionary
<http://www.merriam-webster.com>
(accessed on March 15, 2010)

1.1.2 Why do Firms Franchise?

The previous research offers several theoretical explanations for the use of franchising. Researchers from a broad spectrum of disciplines (for example, economics, management, marketing, sociology, entrepreneurship) have investigated the basic question of why and when firms use franchising (Jindal, 2006). This dissertation applies organizational economics and strategic management theories to explain the use of various forms of franchising; therefore, some of the relevant key answers to this important question are briefly discussed here.

Oxenfeldt and Kelly's (1968) resource scarcity view is considered one of the core reasons behind using franchising and in this way franchisees support franchisors' expansion by financing the opening of new outlets (Cliquet, 2000a), paying fees and royalties, and sharing risk (Combs & Ketchen, 1999). This resource scarcity view argues that the firms face capital scarcity at the start of their life cycle hence they are motivated to use franchising to meet their capital requirement for growth and expansion. As the system gets mature, the firms can have better access to the financial resources and the severity of financial resources scarcity is reduced. It prompts the franchisor to buy back the profitable units from the franchisees that leads to the ownership redirection hypothesis. Therefore, the firm's tendency to use franchising decreases with its maturity and better access to the capital resources. Several researchers, for details see the meta-analysis by Combs and Ketchen (2003), have investigated this resource scarcity

argument as a reason behind the use of franchising. However, a notable number of researchers do not agree to the capital scarcity hypothesis alone and find other explanations, such as agency theory and transaction cost theory, more plausible (Norton, 1995). Behavioral risk at the outlet is an important determinant of the franchising strategy. The managers at the outlets are assumed to be self-interested and that they will sacrifice the firm's interest to achieve their own goals (Eisenhardt, 1989a). Franchising creates a powerful incentive for the outlet managers to act more cooperatively and look after the interests of the franchisor (Shane, 1996). This argument for the use of franchising becomes even more relevant when the monitoring of the outlet managers is difficult and costly (Lafontaine, 1992).

Minimizing transaction costs is another reason behind the use of franchising by the firms (Klein, 1980; Manolis, Dahlstrom, & Nygaard, 1995). Property rights theory (Hart & Moore, 1990) can also be used as an alternative explanation for the use of franchising (Windsperger & Dant, 2006). There are some other theoretical frameworks as well that have been used in the previous research to explain the use of franchising; these include signaling theory (Dant & Kaufmann, 2003; Gallini & Lutz, 1992; Lafontaine, 1993), organizational learning theory (Darr, Argote, & Epple, 1995; Sorenson & Sørensen, 2001), and risk sharing view (Combs & Castrogiovanni, 1994; Roh, 2002). The main research questions of these theories refer to the explanation of royalties, initial fees and the proportion of company-owned outlets.

1.2 Multi-unit Franchising

Franchising is not a monolithic organizational form (Garg, Rasheed, & Priem, 2005) and the franchisors often have to choose between different organizational forms within franchising. The expansion of franchising networks by opening up franchised outlets can be based on two ownership strategies: Single-unit franchising (SUF) and multi-unit franchising (MUF). Under SUF, a franchisee operates only one outlet. On the other hand, in the case of MUF arrangement, a franchisee operates two or more outlets at multiple geographical locations in the same franchise system. The major difference between SUF and MUF arises from the outlet level ownership status. In the case of SUF, the outlet manager is the owner and bearer of the residual income risk. On the other hand, the outlets in an MUF setting are managed by the hired managers who are employees of the multi-unit franchisee.

The phenomenon of MUF can be divided into two types i.e., area development multi-unit strategy and sequential multi-unit strategy (Kaufmann, 1993; Kaufmann & Dant, 1996). In the first case, the franchisee has the right to open a certain number of outlets in a particular geographical area during a specified time period, and in the second case, the existing franchisee is granted the right to sequentially open up additional outlets (Grünhagen & Mittelstaedt, 2005).

In this research, I focus on the franchisor's choice between SUF and MUF. I don't distinguish between sequential MUF and area development. The

variable of my interest is the number of franchised outlets associated with one franchisee regardless of its mode (i.e., sequential MUF or area development). These may include units allotted either through sequential expansion or through area development. The objective of this research and the research questions addressed in this dissertation are explained in the next section.

1.3 Research Objectives, Evidence, and Implications

A major portion of recent growth in franchising business can be attributed to the emergence of MUF (Dant, Kacker, Coughlan, & Emerson, 2007; Grünhagen & Dorsch, 2003; Kaufmann, 1993). Despite having emerged as an increasingly growing phenomenon in franchising, MUF still remains an under-researched area. In the past, the main focus of franchising research has been on SUF.

1.3.1 Research Deficit

Although several empirical studies were published on MUF in the last two decades, the research deficit primarily results from the lack of theoretical foundations of this ownership strategy. Some of the previous studies apply agency theory or resource-based view to investigate MUF while many of them do not apply any specific theoretical framework. The meta-analysis by Combs and Ketchen (2003) suggests that agency theory is the most widely used

framework to explain the use of franchising, they highlight the need for application of theories other than agency and resource scarcity theories to explain the use of franchising. Garg et al. (2005) also suggest that theories other than agency theory should be used to explain the franchise's choice of franchising strategy and that factors like uncertainty should be employed to investigate the use of various forms of franchising.

Starting from this deficit, there is a need to apply multiple theories, based on organizational economics and strategic management, to explain this network form (Castrogiovanni et al., 2006a; 2006b).

1.3.2 Research Objective

As an attempt to address the research deficit described above, the aim of this research is to contribute toward the under-researched phenomenon of MUF by

- (1) explaining the franchisor's choice between single-unit franchising and multi-unit franchising using organizational capabilities view, transaction cost theory, and property rights theory and**
- (2) presenting empirical evidence from the German and Austrian franchise sectors.**

I attempt to extend the MUF literature by developing and empirically testing the hypotheses from resource-based and organizational capabilities

views, transactions cost theory, and property rights theory. Qualitative and quantitative research methods are employed in order to test the theoretical predictions regarding the use of MUF. I present empirical results from a survey of the German franchise systems and case study insights from the Austrian franchise sector.

1.3.3 Empirical Evidence

Since this dissertation mainly uses data from the German franchise systems, I provide a brief overview of the German franchise sector. In Germany, like many other European countries that do not have separate regulations for franchising, franchising is defined as per European Code of Ethics for Franchising developed by the European Franchise Federation (EFF)².

“Franchising is a system of marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the Franchisor and its individual Franchisees, whereby the Franchisor grants its individual Franchisee the right, and imposes the obligation, to conduct a business in accordance with the Franchisor’s concept.

The right entitles and compels the individual Franchisee, in exchange for a direct or indirect financial consideration, to use

² European Code of Ethics for Franchising
http://www.eff-franchise.all2all.org/IMG/article_PDF/article_a13.pdf
(Accessed on November 12, 2010)

the Franchisor's trade name, and/or trade mark and /or service mark, know-how, business and technical methods, procedural system, and other industrial and /or intellectual property rights, supported by continuing provision of commercial and technical assistance, within the framework and for the term of a written franchise agreement, concluded between parties for this purpose"

In 2009, there were 960 franchise systems operating in Germany. These franchise systems had 58,000 franchised outlets and were employing 452,000 people in the country. The economic output of the German franchise sector was Euro 48 billion in 2009 and it is contributing to economic and social development of the country by employing a considerable number of people and by service provision. Although the contribution of German franchise sector to the GDP is relatively lower, as compared to the United States, but still it has a huge potential. The franchising industry in Germany, like in other countries of the world, is continuously growing. The number of franchised outlets has grown over 80% in the last decade. The retail sector is the largest industry employing franchising and the use of this organizational form is increasingly becoming popular in other sectors as well e.g., services sector (Ehrmann & Meiseberg, 2010).

However, it would not be unjust to say that franchising in the most of the European countries is still in its early stages and is mostly unregulated.

Only five countries in Europe (Spain, France, Italy, Belgium, and Romania) require the pre-sale disclosure³. On the other hand, the code of ethics of European Franchise Federation is self-enforced in 17 European countries (Perala, 2007). The German Franchise Federation (DFV) was established in 1978 and has operational cooperation with EFF and the World Franchise Council (WFC). DFV is a membership association of the franchisors in Germany and does not hold any regularity or legal mandate. It sets quality standards and code of ethics for the franchisors. Table 1.1 (appended below) presents an overview of the German franchise sector.

Table 1.1: German Franchise Sector

	1998	2009	Growth
Franchise Systems	630	960	52.38 %
Franchised Outlets	31,000	58,000	87.10 %
Employees	320,000	452,000	41.25 %

Source of information: German Franchise Federation⁴

1.3.4 Managerial Implications

The choice of ownership strategy can have far-reaching implications for the survival and performance of a franchise system. The findings based on organizational capabilities view suggest that the franchisors should consider

³ European Franchise Federation (EFF)
<http://www.eff-franchise.all2all.org/spip.php?rubrique7>
(Accesses on November 12, 2010)

⁴ Franchise Facts 2010
<http://www.franchiseverband.com/index.php?id=71&L=1>
(accessed on May 9, 2010)

using a higher proportion of MUF if their system-specific know-how is highly non-transferable. The franchisors should also use a higher proportion of MUF if they possess a high brand name capital as this organizational form enables them to exercise more control due to higher monitoring capabilities. The transaction cost findings suggest that the franchisors should use a higher proportion of MUF if high transaction-specific investments are required to startup a new franchised outlet. On the other hand, the franchisors should dominantly use SUF in order to cope with adaptation problems created by a highly uncertain local market environment. Furthermore, the findings based on property rights hypotheses advocate that the franchisors should consider using SUF if the franchisee's local market knowledge are very intangible and hence of key importance for the creation or residual income at the local outlets. This would enable them to efficiently exploit the local profit opportunities.

1.4 Organization of the Dissertation

This dissertation is divided into two major parts. The first part comprises of the following two studies/chapters:

- a. Chapter two presents a detailed review of the MUF literature. In this chapter, I review the existing empirical research on MUF in a chronological order and then I analyze these studies in the light of

theoretical frameworks applied therein. I also analyze the research deficit to build the foundations of my research.

- b. In chapter three, I present an integrative model to explain the franchisor's use of MUF. I develop hypotheses from transaction cost theory, agency theory, resource-based and organizational capabilities views, property rights theory, and screening theory. This model presents the possible extensions in the MUF literature, and parts of this model are empirically tested in the second half of the dissertation.

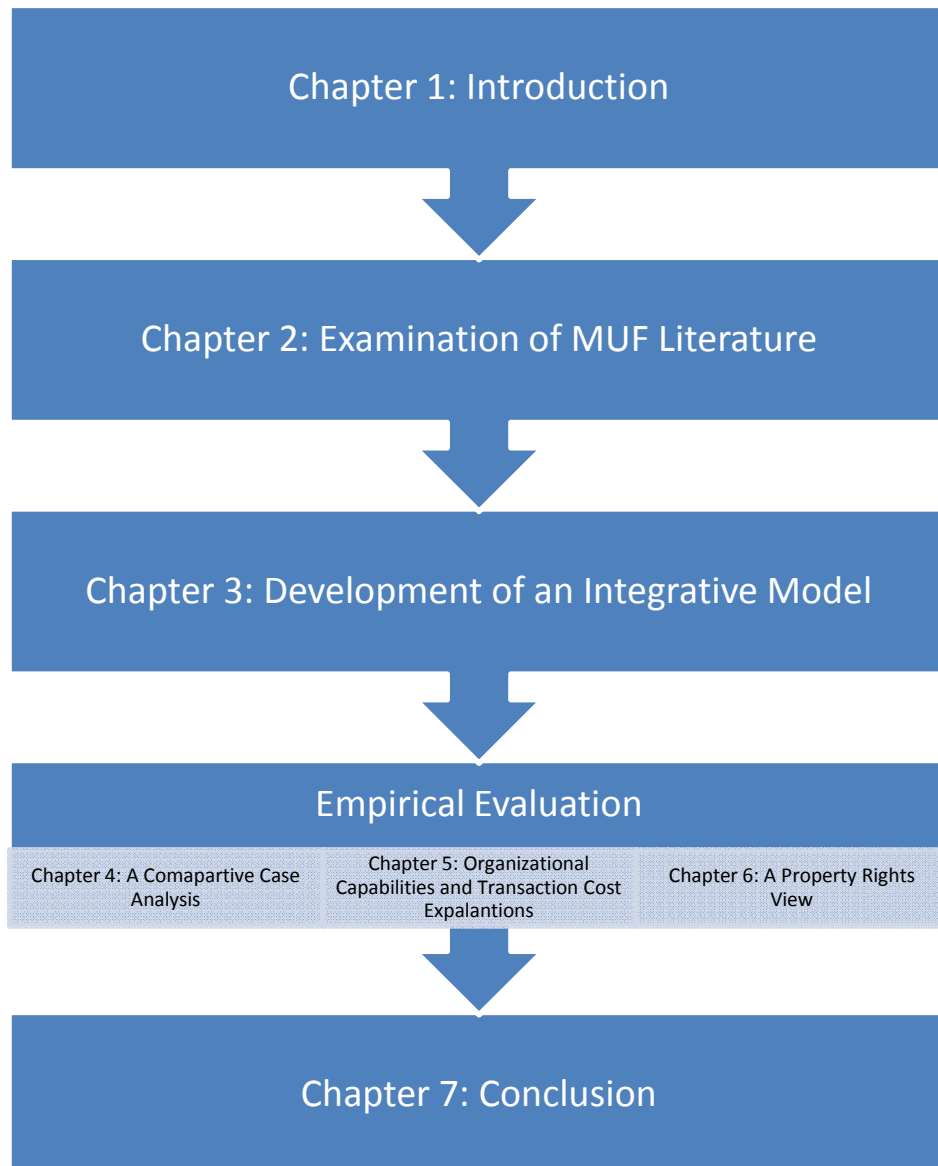
The second part of this dissertation presents the empirical studies conducted to test the hypotheses concerning organizational capabilities view, transactions cost theory, and property rights theory. This part comprises of the following three studies.

- c. In chapter four, I use a comparative case analysis method to explain the franchisor's use of MUF. This study presents insights from a qualitative analysis of the two Austrian franchise systems, one with extensive use of MUF and the other with extensive use of SUF. Hypotheses derived from agency theory, resource-based and organizational capabilities views, and transactions cost theory are examined in this study using the qualitative data. The findings of this study are partially compatible with the hypotheses.
- d. The fifth chapter of this dissertation presents a quantitative study to explain franchisor's use of MUF from organizational capabilities and

transactions cost perspectives. The empirical data from the German franchise sector supports all four hypotheses proposed in this study.

- e. In chapter six, I apply a property rights view to explain the use of MUF from a franchisor's perspective. This study also uses quantitative data from the German franchise sector to test the three property rights hypotheses, two of them are supported by the empirical results.

The last chapter (chapter seven) presents the conclusion of this research. This chapter includes the theoretical and managerial contributions of this dissertation. I also discuss limitations of my research and its findings in this chapter. In the end, I conclude my dissertation by presenting some directions for the future research. Figure 1.1 appended on the next page summarizes organization of this dissertation.

Figure 1.1: Organization of the Dissertation

Chapter 2

Examination of MUF Literature¹

In this chapter, I present the development of empirical literature on MUF. This chapter is divided into three sections. First section presents the chronological development of literature on MUF; in section two, the theoretical foundations of MUF literature are analyzed; and finally, literature deficit and research gap are discussed in the third section.

2.1 Evolution of the Empirical Literature

The phenomenon of MUF has been investigated since 1980s. This section presents evolution of MUF literature in the last three decades. All empirical studies that directly or indirectly investigate MUF are briefly reviewed in a chronological order. Table 2.1, appended at the end of this chapter, presents an overview of the empirical studies on MUF. It may be noted that findings/hypotheses pertaining to only MUF are discussed in this section and are presented in Table 2.1.

In one of the pioneer studies on MUF, Zeller, Alchabal, and Brown (1980) discuss various advantages of MUF systems. They compare SUF to

¹ A condensed version of chapters 2 and 3 was presented at the 23rd Annual International Society of Franchising (ISoF) Conference held in San Diego (California) on February 12-14, 2009 and has been published in the Journal of Marketing Channels (Volume 17, No.1, pp. 3-31).

master franchising in market penetration and locational conflict context and reveal that the franchisor, under MUF, has to coordinate one franchisee instead of several single-unit franchisees, which results in reduced management problems. A relatively lower level of conflicts between franchisor and franchisee typically characterizes MUF networks. MUF can help both franchisor and franchisee achieve their short and long run goals.

Kaufmann (1993) formulates and compares several strategies for the allocation of new units in franchise systems. These strategies include SUF, area development franchising, non-projected sequential MUF (new units are allocated to existing franchisees based on performance tests and continue to permit expansion until the performance falls below the expected level), and the projected sequential MUF (the franchisor projects ahead the effect of allocation of unit to existing franchisees and places a limit on allocating units to the franchisee even if the performance still meets the expected level). By applying simulation method, the author shows that area development franchising has the lowest performance among all four strategies and that sequential MUF may perform better as compared to single-unit strategy. The sequential MUF is used as a reward strategy by the franchisors and increases motivation of the franchisees. On the other hand, the franchisors are reluctant to use area development franchising due to increased influence of franchisees. However, the ease of control is one of the major factors motivating franchisors to use area development franchising.

According to Robicheaux, Dant, and Kaufmann (1994), mature franchise systems use a relatively higher proportion of MUF compared to new franchise systems. In addition, they conclude that franchisors expecting management problems with MUF operation have a relatively lower proportion of area development agreements and that various business sectors have different proportions of MUF. The franchisors are motivated to use MUF due to ease of selection, training, and managing the multi-unit franchisees. This study uses empirical data from the US fast food industry only.

Kaufmann and Kim (1995) make two important contributions toward the MUF literature. First, they empirically verify the use of master franchising and reveal that a vast majority (67.5%) of franchisors use area development and that all franchisors in the study use master franchising. Second, they find a positive relationship between the use of MUF (master franchising and area development) and system growth rate. However, they do not investigate the causal effect in this relationship. They argue that the franchisor has to screen, recruit, and train fewer multi-unit franchisees compared to large number of single-unit franchisees that accelerates the system growth rate. On the other hand, the counter argument, that faster growing systems are in a better position to attract multi-unit franchisees, is also not ruled out in this study.

Based on franchisors' perception, Bradach (1995) in his exploratory study presents a model with four primary management challenges. These include system growth, uniformity, local responsiveness, and system wide

adaptability. The study investigates that how well SUF and MUF can cope with these challenges. The author, based on analysis of the qualitative empirical data collected from five fast food franchise chains operating in the USA, found that MUF systems can address certain management challenges in a more effective way as compared to SUF systems, particularly, the issues related to system growth and system-wide adaptation. The multi-unit franchisees are more efficient in adding new units and they can be easily convinced to adapt system-wide changes. The findings reveal no significant difference among SUF and MUF with regard to uniformity. On the other hand, SUF may outperform MUF in terms of local responsiveness as the single-unit franchisees possess higher level of local market knowledge and, compared to MUF, can react more promptly to the local market changes and requirements.

Kaufmann and Dant (1996) also confirm the positive relationship between MUF and growth rate. They mainly build their argument on the basis of resource scarcity theory. The MUF provides better access to capital which results in higher system growth. In addition, they argue that MUF better aligns the incentives of franchisor and the franchisee that ultimately results in increased growth. Their hypothesized negative relationship between area development agreements and system growth is not empirically verified. The study was conducted using primary data from fast food industry in the USA.

By analyzing survival data from franchise and non-franchise small firms, Bates (1998) finds empirical support that the new units allocated to

existing franchisees enjoy lower risk of failure. The findings reveal that single-unit franchisees are not in a much better position with regard to the survival risk as compared to independent small firms. However, franchised units part of mini-chains and operated by larger establishments have lower risk of failure. The author argues that multi-unit franchisees are larger partners and have greater experience and better access to resources than newcomer single-unit franchisees. The findings also suggest that the franchised outlets purchased from previous franchisee have a higher degree of failure risk.

Dant and Nasr (1998) investigate the Lebanese market and hypothesize a positive relationship between MUF and upward flow of information in the franchise networks. They compare single-unit and multi-unit franchisees in terms of their willingness to provide information to their franchisors. However, they find that all franchisors in their sample are using MUF so they could not test the relevant hypothesis. Additionally, they argue that previous research also suggests that the franchisors are more likely to use the MUF in distant markets. Therefore, all franchisors in their sample use MUF.

Dant and Gundlach (1999) investigate MUF in the context of dependence and autonomy in franchised channels. The authors argue that multi-unit franchisees are much dependent on their franchisors due to the lack of alternative opportunities and that they feel more secure as compared to single-unit franchisees. Additionally, multi-unit franchisees are responsible for

managing the mini-chains and they are likely to spend much of their time in implementing the franchisor's procedures. Hence, they hypothesize that MUF will lead to higher level of perceived dependence and lower level of desire for autonomy at the franchisee's end. The analysis of empirical data from 176 franchised outlets in 26 fast food chains in the USA confirms both of the hypothesized relationships.

Bercovitz (2003) investigates the use of MUF as a governance form to mitigate the risk of opportunistic behavior of franchisees. She argues that shirking and free-riding can be reduced by providing franchisees an opportunity to become a multi-unit franchisee. In addition, she examines the relationship between two performance outcomes (system termination and litigation rates) and system structure. The franchisor is less likely to use disciplinary measures (contract termination, litigations, etc.) if the franchisee does not show opportunistic behavior. The data from 96 food retail and automotive franchise chains in the USA support the hypotheses suggesting that offering MUF reduces the system termination and system litigation rates and that concentration of MUF will increase the likelihood of franchisee's opportunism by depressing the expectations of ex-post rents for the remaining single-unit franchisees. Hence the franchisors are likely to use disciplinary mechanisms in such a situation.

Wadsworth and Morgan (2003) collected data from American and Canadian franchise systems to investigate propensity of MUF. The results

indicate that the franchisors are motivated to adopt MUF to increase the growth rate of their systems, and more units are awarded to existing franchisees as a reward strategy. Approximately 80% of the franchisees are single-unit while rest 20% are multi-unit franchisees. These multi-unit franchisees operate more than 50% of the total franchised outlets. An average multi-unit franchisee owns 4.46 units while an average franchisee owns 1.69 units. The proportion of MUF varies with industry and some industries (for example, automotive, fast food, retail, and services) use higher proportion of MUF.

Bercovitz (2004) applies agency cost and resource scarcity theories to MUF. She argues that MUF is positively related to the geographical distance between franchisor's headquarters and franchised outlets. On the other hand, franchisors that expect higher shirking costs are likely to use higher proportion of MUF. In case of MUF, the franchisee can earn higher economic rents and finds little motivation for cheating. Hence, MUF reduces the risk of free-riding and provides a cost-effective method of mitigating free-riding hazards.

Kalnins and Lafontaine (2004) investigate question about the extent of use of MUF and how new units are allocated to the franchisees. They use data on all new restaurants opened in Texas by seven major fast food chains between 1980 and 1995. The findings reveal that 49% of the franchisees in the seven franchise chains under study are multi-unit franchisees and they operate 84% of the total franchised outlets. They found that franchisors prefer

existing franchisees to allocate new units and, particularly, to the franchisees that presently operate unit(s) close to proposed location of the new unit. In addition, they argue that reduction in monitoring costs and efficiency benefits associated with MUF can compensate franchisor for disadvantages of MUF created by divided attention and increased bargaining power of franchisees.

Kalnins and Mayer (2004) show that local market knowledge gathered by a franchisee plays an important role for the success of subsequent units opened by him in the same geographical area. The authors argue that franchised outlets benefit both from locally and distantly gained congenital knowledge, however, the predicted negative effect of the congenital knowledge gained distantly was not found significant. The study uses data from the pizza restaurants in Texas, USA.

Grünhagen and Mittelstaedt (2005) argue that understanding franchisees' expectations are very important for effective management by the franchisor. They investigate the US fast food franchise systems to explore the motivations of sequential multi-unit franchisees and area developers. The study hypothesizes that sequential multi-unit franchisees are mainly motivated by their entrepreneurial ambition while area developers are more investment oriented. The findings suggest significant difference between the two groups of franchisees. However, they could find empirical support for only one of their two hypotheses – that sequential multi-unit franchisees are more likely to seek

fulfillment of their intrinsic need. Both groups, sequential multi-unit franchisees and area developers, are equally investment oriented.

Garg et al. (2005) investigate factors that influence the franchisor's adoption of MUF. The results indicate that the franchisors that plan for rapid expansion are more likely to use MUF and, within MUF setting, they are likely to employ higher proportion of area development compared to sequential MUF. The results also suggest that the franchisors that place more emphasis on uniformity are more likely to use a relatively higher proportion of area development agreements rather than sequential MUF. Conversely, the franchisors focusing more on local responsiveness are more likely to use sequential MUF agreements. These results are in agreement with the findings of an earlier study by Bradach (1995) who revealed that SUF is likely to perform better in terms of local responsiveness. The sequential MUF is, generally, considered closer to SUF as compared to area development MUF. The proposed negative relationship between MUF and local responsiveness and the proposed positive relationship between MUF and uniformity could not be confirmed by the empirical results.

Jindal (2006), in his doctoral thesis, applies agency theoretical perspective to explain the use of various forms of MUF (area development, master franchising, and sequential MUF). He argues that the franchisors use MUF to address monitoring challenges in the hierarchical relationship by shifting the burden to multi-unit franchisees. The secondary data collected in

the USA from Bond's Franchise Guide and uniform franchise offering circulars (UFOCs) partially support the propositions regarding the positive relationships of the use of MUF with free-riding, difficulty in monitoring, and franchisee recruitment process.

In recent years, important contributions on MUF were published by Scott Weaven and his research colleagues. Weaven and Frazer (2006) examine the motivational factors of single-unit franchisees and multi-unit franchisees. They argue that the franchisors need to take into consideration whether they want to recruit the franchise partners who will remain single-unit franchisees or select and develop the franchisees for multi-unit ownership. They investigate Australian franchise sector and collect qualitative data from franchisees within McDonald's franchise system. Their findings suggest significant differences between single-unit and multi-unit franchisees in terms of their motivations behind entering into the franchise partnership. The multi-unit franchisees place more emphasis on business concept, potential for expansion, ongoing training, involvement in decision-making process, and governance structure. On the other hand, single-unit franchisees give more importance to franchisor's brand, initial training, operational freedom, and potential for employment of family members.

Weaven and Frazer (2007a) apply agency theory and resource-based view to explain MUF. They use convergent interviews to test their nine propositions presented in the article, five out of them are empirically

supported. The findings reveal that franchisors that perceive higher agency costs tend to use a higher proportion of MUF. In addition, the relationships between adoption of MUF and system uniformity and higher brand value are positive and significant. The results suggest that franchisors, generally, have a strategy to reward high-performing franchisees with multi-unit contracts. However, MUF's positive relationships to system-wide adaptations, local market innovation, and franchisor's perception of future chain franchisee opportunism could not find empirical support.

Weaven and Herington (2007) employ a multiple-case study approach to show that the choice of governance structure and human resource management (HRM) policies are influenced by size and age of franchise system and the nature of the industry. The results indicate that less mature and small franchise systems use lower proportion of MUF and less-sophisticated HRM policies and, conversely, large and mature franchise systems use higher proportion of MUF and more-sophisticated HRM policies. In addition, they argue that MUF networks share information more effectively and are more likely to adopt system wide adaptations compared to SUF systems.

Weaven and Frazer (2007b) conducted a study of 19 Australian franchise systems to test their hypotheses about relationships between the characteristics of franchise system and its adoption of MUF. A qualitative research design was adopted for collection of the empirical data. They found

positive relationships between MUF and age, system size, system corporatization, and use of plural forms. They also evidence a negative relationship between level of conflict and MUF. They argue that a system having a higher level of conflict may be less attractive for multi-unit franchisees, and such franchise systems face difficulties in recruiting area developers. However, this negative relationship shows a contradiction with the results of a later study (Weaven, 2009), where the author reports a positive relationship between MUF and the level of conflict.

Empirical results from Germany (Cochet, Dormann, & Ehrmann, 2008) indicate that the objectives of franchisee and franchisor are better aligned in MUF compared to SUF networks. They argue that multi-unit franchisees are less likely to show opportunistic behavior and that franchisors have higher stakes attached to multi-unit franchisees compared to single-unit franchisees. Hence, the franchisors are likely to remain in relationship with multi-unit franchisees for a longer period of time. The study proposes that MUF weakens the relationship between autonomy and relational governance. However, the authors could find only a weak support for their hypothesis.

Lopez-Bayon and Lopez-Fernandez (2008) delve into Spanish restaurant industry to investigate the existence of economic rents and difference in the level of rents perceived by single-unit and multi-unit franchisee. They use archival and primary data of 151 franchisees. The results indicate that *ex-ante* and *ex-post* rents do exist in franchise systems. It

is quite interesting to know that multi-unit franchisees earn significantly higher *ex-post* rents. This could be a result of lower costs due to higher experience and motivation of the multi-unit franchisees. *Ex-ante* rents are also higher in case of multi-unit franchisees; however, this difference is not statistically significant.

Vázquez (2008) investigates the complementarities between MUF and contract length. The author explores the Spanish franchise sector by collecting primary data from 145 franchise system. Firstly, the author argues that a single-unit franchisee is the residual claimant; hence, he has higher motivation that results in reduced moral hazards at the outlet level. If monitoring at the outlet level is very difficult and complex, this would lead to franchisor's lower tendency toward MUF. This relationship is empirically verified in this study. Second, the argument regarding the free-riding hazards is also presented in this study. In contradiction to the first argument, MUF reduces the risk of free-riding by the franchisee. Multi-unit franchisees have lower incentives to free-ride and shirk on providing quality service. Therefore, the importance of free-riding hazard is positively related to MUF. Franchisors offer longer contracts to multi-unit franchisee to mitigate this problem. MUF is a form of reward given to the franchisees performing above the expectations of the franchisor. The analysis of the data supports complementarities between length of contract and propensity to use MUF.

Weaven (2009) examines Australian franchise sector to explore the reasons behind franchisors' decision to adopt MUF. The study hypothesizes seven factors that influence franchisors' adoption of MUF. These factors include franchise system maturity, degree of corporatization, intra-firm conflict, geographical dispersion, reward strategy, and system growth. The author proposes positive relationships between the use of MUF and all of the predictor variables except intra-firm conflict. However, the empirical analysis provides support only for a positive relationship between system maturity and the use of MUF. Additionally, relationship between the degree of corporatization and the use of MUF is also weakly supported. Interestingly, the study proposes a negative effect of the system conflict on the use of MUF; however, the findings suggest a significant positive effect between these two variables. This contradicts to the results from the previous research (Bercovitz, 2004; Weaven & Frazer, 2007b) which confirms the negative relationship between MUF and the system conflict (including litigation).

Finally, a recent study by Gomez, Gonzalez, and Vázquez (2010) shows that MUF is positively related to franchise system density (number of franchised units in relation to population). The authors argue that the risk of free-riding is lower in a dense franchise system. In addition, it is easier for a multi-unit franchisee to manage his mini-chain in highly dense systems. Their data from Spain also support the hypotheses that larger franchise systems and franchise systems operating in sectors with non-repetitive customers use relatively more MUF. The authors argue that non-repetitive customer base

increases incentive for free-riding for the franchisees. Therefore, franchisors use higher proportion of MUF to mitigate this problem at the outlet level. The positive relationship between the use of MUF and system growth rate is not supported. Although several previous studies (Bradach, 1995; Garg et al., 2005; Kaufmann & Dant, 1996; Wadsworth & Morgan, 2003) evidence the positive relationship between system growth and the use of MUF, the Spanish data did not support this hypothesis.

2.2 Empirical Literature and Theoretical Frameworks

As previous research is reviewed, it is important to identify the theoretical frameworks used and the hypotheses investigated in the previous empirical studies on MUF. Thus, I analyze the empirical research results in the light of agency theory, resource scarcity and organizational capabilities views, and transaction cost theory (see Table 2.1).

2.2.1 Agency Theory

In the recent years, agency theory has been the primary foundation for the majority of the studies on franchising (Garg et al., 2005). In franchising, agency relationship exists between the franchisor (the principal) and the franchisee (the agent) and both the counterparts have their own goals and interests (Eisenhardt, 1989a). The business performance depends mainly on the franchisee's input while the franchisor is not sure about the level of input

being made by the franchisee. The information asymmetry between both the partners creates agency problems (Jensen & Meckling, 1976).

Garg et al. (2005) argue that the early MUF researchers found it difficult to explain its use from an agency theoretical perspective, which prompted several of them to apply agency theory to investigate this form of franchising arrangement. Consequently, we have several studies that apply agency theory as theoretical background. The findings of these studies suggest that MUF can address number of agency problems in a more effective way compared to SUF (Bercovitz, 2004; Garg & Rasheed, 2003; Garg et al., 2005; Gomez et al., 2010; Kalnins & Lafontaine, 2004; Kalnins & Mayer, 2004; Vázquez, 2008; Weaven & Frazer, 2007b). Especially, multi-unit franchisees are better motivated to reduce the monitoring costs. The franchisors use MUF to shift the burden (in terms of monitoring) to the multi-unit franchisees (Jindal, 2006). Geographical contiguity of franchised units is one of the important factors that play role in adoption of MUF. The franchise system with a higher number of geographically contiguous units is more likely to use a higher proportion of MUF. SUF mitigates the risk of shirking at the outlet level, as the franchisees are the residual claimants. When the franchisor has a strong brand name, there is a higher risk of free-riding by the single-unit franchisees. The franchisors prefer MUF as compared to SUF to reduce the risk of free-riding at the outlet level (Bercovitz, 2004; Brickely, 1999; Gomez et al., 2010; Kalnins & Lafontaine, 2004; Vázquez, 2008). Fladmoe-Lindquist and Jacque (1995) argue that multi-unit franchisees

provide better quality of goods/services as compared to single-unit franchisees because shirking on quality would affect the multi-unit franchisee's business in the local network and ultimately his/her profitability. Consequently, MUF system is a governance form that reduces monitoring costs and risk of free-riding compared to the SUF system. The use of MUF better aligns the goals of franchisee with those of franchisor resulting in a reduced conflict in the franchise system (Zeller et al., 1980). There are several other incentives attached to MUF in addition to the higher economic rents. The period of franchise contract is longer in case of MUF compared to SUF (Vázquez, 2008). In this way, the multi-unit franchisees are rewarded for higher performance and the incentive created by MUF is further strengthened. On the other hand, MUF has a negative relationship with system termination and litigation rates (Bercovitz, 2003). Hence, it can be concluded that the relationship between the franchisor and the multi-unit franchisee lasts longer compared to that of single-unit franchisee.

2.2.2 Resource Scarcity View

In franchising, resource scarcity theory explains the use of franchising as a means to overcome the scarcity of resources (i.e., capital, managerial resources, and local market assets). Under the capital scarcity perspective, MUF systems have a relative advantage over SUF systems (Kaufmann & Dant, 1996). Multi-unit franchisees are larger partners and have better access to capital to finance system growth. Empirical studies show that MUF and system growth are positively related (Bradach, 1995; Kaufmann & Dant, 1996;

Kaufmann & Kim, 1995). Kaufmann and Kim (1995) argue that franchise systems with a higher growth rate are in a better position to attract high-quality franchisees as multi-unit partners.

Contrary to the predictions of resource scarcity theory, the use of MUF increases with size and maturity of the franchise system (Gomez et al., 2010; Weaven & Frazer, 2007b; Weaven & Herington, 2007). This may be explained by the fact that size and maturity are indicators of greater organizational capabilities of the MUF system (Bradach, 1995; 1998). MUF increases the organizational capabilities (such as monitoring, knowledge transfer, and innovation capabilities) and, consequently, strengthens the competitive position of the system. System uniformity, system-wide adaptations, and system corporatization are examples of organizational capabilities (Bradach, 1995; 1998; Weaven & Frazer, 2007a; 2007b). The franchisors that focus on system uniformity, system corporatization, and system-wide adaptations are more likely to use MUF.

2.2.3 Transaction Cost Theory

Originated by Coase (1937) and further developed by Williamson (1979; 1983; 1985), transaction cost theory argues that a “transaction cost” is associated with each economic exchange. This theory makes two important assumptions regarding the behavior of the managers - bounded rationality and opportunism. Environmental uncertainty, information asymmetry, and asset specificity are the major determinants of the transaction costs. Some

recent researchers, for example, Baker and Dant (2008), term transaction cost theory as a macro-oriented version of agency theory as both of them focus on the principal-agent relationship. The higher transaction-specific investments increase the hold-up risk and hence the ex-post transaction costs (Klein, 1980; Manolis et al., 1995). Simultaneously, such investments may also create the risk of opportunistic behavior by the receiver of transaction-specific investments (franchisor). MUF provides a solution that mitigates the risk of opportunistic behavior at either end. In the MUF literature, only one study – Bercovitz (2003) – applies transaction cost theory to explain this ownership strategy. She argues that MUF increases the franchisee's quasi-rents and thereby increases the self-enforcing range of the franchise contract (Klein, 1995). The increase in long term economic rents of MUF franchise decreases his incentive to show opportunistic behavior to gain short-term profits. Therefore, the self-enforcing range is higher under MUF compared to SUF.

2.3 Research Deficit

The analysis of the literature on MUF has shown that both the franchisor and the franchisee may realize efficiency advantages if they choose a multi-unit strategy. Although several empirical studies exist on MUF, the major focus of previous research has been on the motivations behind entering into multi-unit

arrangements. The major research deficit on MUF arises due to the following issues.

- The majority of studies on MUF apply agency theoretical view. In addition, a few studies use resource scarcity perspective as theoretical foundation of their hypotheses (see Table 2.1 for the details). However, except the agency cost explanations, most of the hypotheses lack a theoretical foundation. Several important determinants of the ownership strategy have not been investigated in the MUF context. Especially, the influence of environmental uncertainty, transaction-specific investments as a bonding device based on transaction cost theory, the effect of contractibility of assets (for example, system-specific assets, local market knowledge assets, and financial assets) based on property rights theory (Windsperger & Dant, 2006) on the use of MUF has not been studied. Therefore, I argue that the previous research lacks in systematic application of transaction cost theory, property rights theory, and organizational capabilities view to explain the franchisors choice of ownership strategy within franchising.
- The analysis of the existing MUF research reveals that majority of the studies use primary or secondary data from fast food sector only (Gomez et al., 2010). Although several of these studies present their own justification for using data from a single industrial sector, however, a sample from one industrial sector may not necessarily be

representative of the overall population. Hence, the generalizability of the results is hampered by the use of single-sector data (also refer to Table 2.1 for the details).

- The German and the Austrian franchise sectors, among many others, remain completely untouched by the MUF researchers. Although few studies (Gomez et al., 2010; Lopez-Bayon & Lopez-Fernandez, 2008; Vázquez, 2008) probe Spanish franchise sector, the overall European markets remain much under-researched in the MUF context. The empirical results from the European countries, other than Spain, can be a valuable contribution to the MUF literature.

Starting from this deficit in the literature, I attempt to extend existing MUF literature by applying organizational economics and strategic management theories.

2.4 Conclusion

This chapter presents a detailed review of literature on MUF. First, I discuss the evolution of MUF literature in a chronological order. Second, the empirical literature is analyzed in the light of theoretical foundations used therein. Third, I also discuss the research deficit. Majority of the previous studies apply agency theory to investigate the use of MUF. The analysis of the literature on MUF has shown that both the franchisor and the franchisee may realize

efficiency advantages if they choose a multi-unit strategy. Although some studies apply resource scarcity perspective, however, the primary research deficit of the existing literature results from the lack of systematic application of the theoretical frameworks.

Table 2.1 containing the summary of evolution of the MUF literature is appended on the next pages.

Table 2.1: Multi-unit Franchising: Development of the Empirical Literature²

Study	Data	Operationalization of MUF	Hypotheses /Major Findings	Hypotheses Confirmed / Not Confirmed ³
Zeller, Alchabal, & Brown (1980)	Simulation	Area developers / master franchisee are considered as MU-franchisees.	The major findings of article include a): Under MUF franchisor has to deal and coordinate with only one franchisee instead of several SU-franchisees and that results in reduced management problems. b): MUF results in relatively lower level of conflicts between franchisor and franchisee. (AT) ⁴	NA ('Not Available')
Kaufmann (1993)	Simulation	Use of area development MUF and sequential MUF arrangements	The author simulated four franchising strategies in the article and results reveal that: a): Area development MUF has the lower performance among all four strategies. b): Sequential MUF performs better as compared other franchising strategies. c): Sequential MUF is used as a reward strategy and increases franchisee's motivation	NA

² Only those hypotheses and important findings have been listed in the table which relate to MUF.³ Confirmation/Non-confirmation refers to the results of statistical tests.⁴ AT means that the hypothesis is primarily compatible with the **Agency Theory**. OC means that the hypothesis is primarily compatible with the **Organizational Capabilities View**. TC means that the hypothesis is primarily compatible with the **Transaction Cost Theory**. RB means that the hypothesis is primarily compatible with the **Resource Based View**.

<i>Study</i>	<i>Data</i>	<i>Operationalization of MUF</i>	<i>Hypotheses /Major Findings</i>	<i>Hypotheses Confirmed / Not Confirmed</i>
Robicheaux, Dant & Kaufmann (1994)	160 fast food franchisors in USA	Franchisees having more than one unit are MU- operators.	<p>The paper reveals that:</p> <p>a): The MUF is widely used in USA, particularly in fast food sector.</p> <p>b): The less mature and declining franchise systems have relatively lower proportion of MUF.</p> <p>c): Franchisors believe that MU-franchisees can effectively manage group of units but have difficulty in managing individual units.</p> <p>d): The franchisor who believe that management problems grow with MU-operations, have relatively lower proportion of area development agreements.</p>	NA
Kaufmann & Kim (1995)	169 franchise systems from multiple industries in USA	Master franchising (sub-franchising and area development)	<p>Important findings include</p> <p>a): The use of master franchising (sub-franchising & area development) has a positive relationship with system growth rate. (RB)</p> <p>b): However the empirical support refers only to the relationship not the causation. The author think that it might be the case that systems with higher growth rates are able to attract MU-franchisees i.e. area developers.</p>	NA
Bradach (1995)	130 "loosely structured interviews held during 1989-1991 from people (franchisees and franchisors) working in 5 fast food restaurant chains in USA	More than one unit owned by a single franchisee is considered as MUF.	<p>The article explores that:</p> <p>a): MUF is more efficient for unit growth as compared to SUF, therefore franchisors who use MUF enjoy a higher growth rate as compared to those who do not use this type of franchising arrangement. (OC)</p> <p>b): MU-franchisees and SU-franchisees perform equally well in terms of uniformity.</p> <p>c): The study disclosed that SU-franchisees are more efficient as far as local responsive is concerned. (OC)</p> <p>d): The MU-franchisees are more efficient in adapting the system wide changes made by the franchisor. (OC)</p>	NA

<i>Study</i>	<i>Data</i>	<i>Operationalization of MUF</i>	<i>Hypotheses /Major Findings</i>	<i>Hypotheses Confirmed / Not Confirmed</i>
Kaufmann & Dant (1996)	152 franchisors in fast food restaurant industry in USA (1986-1991)	Percent of franchisees that owned more than one outlet.	<p>H1: The greater the emphasis on franchising, the greater the system's growth rate. (OC)</p> <p>H2: The greater the proportion of franchisees holding multiple units, the greater the system growth rate. (OC)</p> <p>H3: The greater the proportion of MU-franchisees operating under area development contracts the lower the system growth rate. (OC)</p> <p>H4: The greater the number of units per franchisee, the less the commitment the franchisor has to a strategy of franchising.</p> <p>H5: The greater the ability of the franchisor to attract financial capital elsewhere, the less commitment the franchisor has to a strategy of franchising. (RB)</p>	<p>Confirmed</p> <p>Confirmed</p> <p>Not Confirmed</p> <p>Confirmed</p> <p>Confirmed</p>
Bates (1998)	US secondary data about 52,088 small firms (franchised and non-franchised) that entered into business during 1984-1987.	N/A	<p>The author explored possible causes of young franchisee discontinuance using econometric analysis of secondary data. Major findings of the study include:</p> <p>a) The purchase of franchise does not lower the risk of closure as compared to independent start-ups.</p> <p>b) The franchisors that purchased units from previous franchisee had a higher risk of closure.</p> <p>c) The new units that are allotted to existing franchisors enjoy less risk of failure.</p>	NA
Dant & Nasr (1998)	20 franchisors from Lebanon	Use of MUF (Yes/No)	H4: Multi-unit franchisees will provide more information to their franchisors than their single-unit counterparts.	NA
Dant & Gundlach (1999)	176 owners /managers of fast food restaurants from 26 chains in US	MUF was measured by a dummy variable (Yes/No)	<p>H9: Within a franchise setting, higher levels of multi-unit ownership will lead to higher levels of perceptions of dependence on the part of franchisees.</p> <p>H10: Within a franchise setting, higher levels of multi-unit ownership will lead to lower levels of desire for autonomy on the part of the franchisees.</p>	<p>Confirmed</p> <p>Confirmed</p>

Study	Data	Operationalization of MUF	Hypotheses /Major Findings	Hypotheses Confirmed / Not Confirmed
Bercovitz (2003)	96 franchise systems operating in food, retail and automotive sectors in USA	Number of MU-outlets divided by total number of franchised outlets.	H1: A franchisor's use of disciplinary mechanisms will be negatively related to the franchisor's propensity to offer MUF opportunities, <i>ceteris paribus</i> . (TC) H2: A franchisor's use of disciplinary mechanisms will be positively related to the concentration of MU-ownership, <i>ceteris paribus</i> . (TC)	Confirmed Confirmed
Wadsworth & Morgan (2003)	145 franchise systems from USA and Canada	Franchisees owning more than one unit	The important findings include: a): MU-franchisees account for 19.9% of total franchisees and own 52.6 % of all units. b): Overall average of number of units per franchisee in US is 1.7, while MU-franchisees own 4.5 units on average. c): Certain industries have more propensity of MUF these include fast food, automotive, restaurant, and retail food etc. d): The franchisors use higher proportion of MUF to increase the growth rate of their systems, or to reward the high performing franchisee. (RB)	NA
Bercovitz (2004)	64 franchise system from fast food and other retail sectors in USA.	Franchisees owning more than one unit	H1b: Given franchising, the probability that particular franchised outlet will be one of several owned by an individual franchisee will be negatively related to the level of shirking-based monitoring costs, <i>ceteris paribus</i> . (AT) H2b: Given franchising, the probability that particular franchised outlet will be one of several owned by an individual franchisee will be positively related to the level of the free-riding hazard, <i>ceteris paribus</i> . (AT) H3b: Given franchising, the predicted relationship between the use of MUF and brand name value (spillover potential) will become more positive as the level of the spillover potential (brand name value) increases, <i>ceteris paribus</i> . (AT)	Not Confirmed Confirmed Confirmed

<i>Study</i>	<i>Data</i>	<i>Operationalization of MUF</i>	<i>Hypotheses /Major Findings</i>	<i>Hypotheses Confirmed / Not Confirmed</i>
Kalnins & Lafontaine (2004)	Secondary data about 3428 units in fast food industry in Texas, USA	An owner who has more than one unit in considered as MU-owner.	<p>The paper explores those factors which effect the allocation of new units. The authors draw following conclusions</p> <p>a): MUF is frequently used by franchisors, 49% of franchisee included in the sample are multi-unit franchisees who operate 84% of the total franchised outlets.</p> <p>b): Geographical closeness of the exiting unit has an effective role in allocation of new units to the exiting franchisees; the same applies to company owned outlets as well. (AT)</p> <p>c): The franchisors prefer to allocate new unit to those existing franchisees who have experience of operating the in similar markets. (RB)*</p>	NA
Kalnins & Mayer (2004)	Outlets in pizza restaurant industry in Texas, USA.	More than one units affiliated to a franchisee is considered as MU-outlets.	<p>H1a: The likelihood of unit's failure will decrease with that unit's congenital experience gained locally by its owner.</p> <p>H1b: The likelihood of a unit's failure will increase with that unit's congenital experience gained distantly by its owner.</p>	Confirmed Not Confirmed
Gruenhagen & Mittelstaedt (2005)	192 franchisees belonging to 14 fast food franchise systems in USA	Franchisees having more than one units	<p>H1: Compared with area development franchisees, sequential MU-franchisees are more likely to report that, at the time they became MU-operators, they had a greater entrepreneurship motivation.</p> <p>H2: Compared with sequential MU-franchisees, area development franchisees are more likely to report that, at the time they became MU-operators, they had a greater investment motivation.</p>	Confirmed Not Confirmed

<i>Study</i>	<i>Data</i>	<i>Operationalization of MUF</i>	<i>Hypotheses /Major Findings</i>	<i>Hypotheses Confirmed / Not Confirmed</i>
Grag, Rasheed, & Priem (2005)	94 usable responses from franchisors operating in various industries in USA	Intend to use MUF was measured by a dummy variable (Yes/No)	<p>H1: The greater the franchisor expectation of unit additions, the more likely the franchisor will be to use MUF. (AT)</p> <p>H2: Within MUF, the greater the franchisor expectation of unit additions, the more likely the franchisor will be to use area development franchising. (AT)</p> <p>H3: The greater a franchisor's emphasis on uniformity, the more likely the franchisor will be to use MUF. (OC)</p> <p>H4: Within MUF, the greater the franchisor emphasis on uniformity, the more likely the franchisor will be to use area development franchising. (OC)</p> <p>H5: The greater the franchisor's emphasis on local responsiveness, the less likely the franchisor will be to use MUF. (RB)</p> <p>H6: Within MUF, the greater a franchisor's emphasis on local responsiveness, the less likely the franchisor will be to use area development franchising. (RB)</p>	<p>Confirmed</p> <p>Confirmed</p> <p>Not confirmed</p> <p>Confirmed</p> <p>Not confirmed</p> <p>Confirmed</p>
Weaven & Frazer (2006)	19 (10 single unit and 9 multi-unit) franchisees of McDonald's franchise system in Australia	Franchisee owning two or more unit is considered as MU-franchisee.	<p>The major findings of article include:</p> <p>a): While entering into franchise relationship, single-unit franchisees mainly focus on strength of franchisor brand, initial training days, operations freedom, and opportunities to employ family members.</p> <p>b): Multi-unit franchisees consider business concept, ongoing training and support, professionalism of the governance structure, potential for expansion, and level of involvement in decision making as important factors while assessing a franchise offer.</p>	NA

Study	Data	Operationalization of MUF	Hypotheses /Major Findings	Hypotheses Confirmed / Not Confirmed
Jindal (2006)	Secondary data about 500 franchise systems operating in the USA from the Bond's Franchise Guide and uniform franchise offering circulars (UFOCs)	Binary measure regarding the use of area development, master franchising, or sequential multi-unit franchising	<p>The findings suggest that⁵:</p> <p>a) The monitoring hierarchy suffers from several inherent defects, and the franchisors use multi-unit franchising to escape these problems of hierarchy.</p> <p>b) The franchisors attempt to remove hierarchical relationships or shift the burden to the multi-unit franchisees.</p> <p>c) The scale of franchisee investments in negatively related to franchisor's use of sequential multi-unit franchising.</p> <p>d) Home market concentration is positively related to all three types of multi-unit franchising in the system.</p> <p>e) The proportion of company owned outlets is negatively related to the use of sequential multi-unit franchising in the system.</p> <p>f) The use of multi-unit franchising (all three types) is positively related to the geographical dispersion of the territories of the franchise network.</p> <p>g) Franchisee's specific business experience is negatively related to the use master franchising in the system.</p> <p>h) The system size is positively related to the use of area development and sequential multi-unit franchising in the system.</p> <p>i) Contrary to the prediction of the author, franchisors field training and evaluation supports to its franchisees is positively related to the use of sequential multi-unit franchising in the system.</p> <p>j) Again contrary to the prediction of the author, franchisor's site selection and lease support to its franchisee is positively related to the use of area development in the system.</p> <p>i) The system growth rate is positively related to the use of all three types of multi-unit franchising.</p>	NA ⁶

⁵ The study applies agency theoretical perspective to explain the use of three types of multi-unit franchising (i.e. area development, master franchising, and sequential multi-unit franchising).

⁶ The author develops 24 hypotheses in his doctoral thesis. In order to be specific and to avoid unnecessary details, the important findings of this study are summarized rather than listing all the hypotheses.

<i>Study</i>	<i>Data</i>	<i>Operationalization of MUF</i>	<i>Hypotheses /Major Findings</i>	<i>Hypotheses Confirmed / Not Confirmed</i>
Weaven & Frazer (2007a)	Convergent interviews from 23 Australian franchisors operating in various business sectors	MUF refers to a situation where a franchisee owns more than one outlet.	<p>P1: There is a positive relationship between multiple-unit franchising and a franchisor's perception of future buy-back potential of profitable units. (RB)</p> <p>P2: There is a negative relationship between multiple-unit franchising and a franchisor's perception of future agency cost minimization. (AT)</p> <p>P3: There is a positive relationship between multiple-unit franchising and system-wide adaptation to changes in the marketplace. (OC)</p> <p>P4: There is a positive relationship between multiple-unit franchising and system uniformity. (OC)</p> <p>P5: There is a positive relationship between multiple-unit franchising and local market innovation. (RB)</p> <p>P6: There is a positive relationship between multiple-unit franchising and franchisor's perception of future chain franchisee opportunism. (AT)</p> <p>P7: There is a positive relationship between multiple-unit franchising and value of the franchise system brand. (AT)</p> <p>P8: There is a positive relationship between multiple-unit franchising and the availability of geographical contiguous franchisee units. (AT)</p> <p>P9: There is a positive relationship between multiple-unit franchising and system reward strategies of granting units in the system. (AT)</p>	<p>Not confirmed</p> <p>Confirmed</p> <p>Not confirmed</p> <p>Confirmed</p> <p>Not confirmed</p> <p>Not confirmed</p> <p>Confirmed</p> <p>Confirmed</p> <p>Confirmed</p>
Weaven & Herington (2007)	Qualitative multiple case study approach was used to analyze 19 franchisors operating in Australia	NA	<p>The findings suggest that:</p> <p>a) System size, industry maturity and nature of market demand influence the choice of governance structure of the system.</p> <p>b) Generally less sophisticated HRM policies are employed by the small and less mature franchise systems that predominantly use single unit franchising. (OC)</p> <p>c) On the other hand mature and large franchise systems employ MUF and sophisticated HRM policies. (OC)</p> <p>d) MUF networks share information more effectively and MU-franchisees are more likely to adopt system wide adoptions as compared to SU-franchisees. (OC)</p>	NA

<i>Study</i>	<i>Data</i>	<i>Operationalization of MUF</i>	<i>Hypotheses /Major Findings</i>	<i>Hypotheses Confirmed / Not Confirmed</i>
Weaven & Frazer (2007b)	17 franchisors from various industries in Australia	Convergent interviews conducted to collect the opinions of respondents and test hypotheses. Ownership of more than one unit by a single franchisee refers to MUF.	H1: There is a positive relationship between the age and size of the franchise system and multiple unit franchising adoption. (RB) H2: There is a positive relationship between the degree of franchise system corporatisation and multiple unit franchising adoption. (OC) H3: There is positive relationship between franchise systems characterized by plural form of distribution and multiple unit franchising adoption. (OC) H4: There is a negative relationship between the level of conflict within the franchise system and multiple unit franchising adoption. (AT) H5: There is a positive relationship between the level of franchise system complexity and multiple unit franchising adoption.	Confirmed Confirmed Confirmed Confirmed Not confirmed
Cochet, Dormann, & Ehrmann (2008)	208 franchisees from 11 franchise systems operating in various business sectors in Germany	MUF was measured by a dummy variable (Yes/No)	H1: The extent of franchisee autonomy is positively related to the intensity of relational governance in any dyad. (AT) H2a: The number of outlets owned by a franchisee will moderate the relationship between the extent of autonomy and relational governance intensity specifically; the positive relationship between autonomy and relational governance will be less strong among multi-unit than among single-unit franchisees. (AT)	Confirmed Weakly Confirmed
Lopez-Bayon & Lopez-Fernandez (2008)	151 franchisees from 22 restaurant chains in Spain	Franchisees owning more than one unit are considered as MU-owners.	H1: There exist positive economic rents, ex-ante and ex-post, in franchise chains. (AT) H2: Economic rents at the outlet level will be higher for MU-franchisees compared to SU-operators. (AT)	Confirmed Confirmed

<i>Study</i>	<i>Data</i>	<i>Operationalization of MUF</i>	<i>Hypotheses /Major Findings</i>	<i>Hypotheses Confirmed / Not Confirmed</i>
Vasquez (2008)	145 franchise system operating in Spain in	Number of franchised outlets divided by the total of franchisees in that system	H4: The costs of monitoring outlet managers in a franchise system are negatively related to multi-unit propensity. (AT) H5: The importance of free-riding hazard in a franchise system is positively related to multi-unit propensity. (AT) H6: Contract length and multi-unit propensity will function as complements. (AT)	Confirmed Confirmed Confirmed
Weaven (2009)	144 Franchise systems from Australia	Applied two measures for MUF 1. Use of MUF (Yes/No) 2. Franchise Density Index calculated by dividing number of franchisee by number of franchises outlets	H1: There is a positive relationship between MUF and franchise system maturity. (OC) H2: There is a positive relationship between MUF and the degree of franchise system corporatization. (OC) H3: There is a positive relationship between MUF and franchise system characterized by plural form of distribution. H4: There is a negative relationship between MUF and the level of conflict within the franchise system. (AT) H5: There is a positive relationship between MUF and the availability of geographically contiguous units. (AT) H6: There is a positive relationship between MUF and system reward strategies. (AC) H7: There is a positive relationship between MUF and firm growth. (RB)*	Confirmed Partially Confirmed Not Confirmed Not Confirmed Not Confirmed Not Confirmed Not Confirmed
Gomez, Gonzalez, & Vazquez (2010)	138 franchise systems operating in Spain (81 included in analysis).	Intensity of use of MUF is calculated by dividing franchised units by franchisees in the system.	H1: There is a positive relationship between the geographical concentration of the units in the franchise network. (AT) H2: There is a positive relationship between the size of franchise network and the intensity of use of MUF. (RB) H3: There is a positive relationship between the growth of the franchise network and the intensity of the use of MUF. (RB) H4: Franchisors in non-repetitive industries will use MUF to a greater extent than franchisors in a repetitive industries. (AT)	Confirmed Confirmed Not confirmed Confirmed

Chapter 3

MUF: Development of an Integrative Model¹

3.1 Introduction

The analysis of the literature on MUF in the previous chapter has shown that both the franchisor and the franchisees may realize efficiency advantages if they choose a multi-unit strategy. Although several empirical studies exist on MUF, majority of the studies apply agency theoretical view. In addition, a few studies use resource scarcity perspective as theoretical foundations of their hypotheses. However, except the agency cost explanations, most of the hypotheses lack a theoretical foundation. Several important determinants of the ownership strategy have not been investigated in the MUF context. Especially, the influence of environmental uncertainty, transaction-specific investments as a bonding device based on transaction cost theory, the effect of contractibility of assets (for example, system-specific assets, local market knowledge assets, and financial assets) based on property rights theory (Windsperger & Dant, 2006) on the use of MUF has not been studied. Therefore, I argue that the previous research lacks in systematic application of, transaction cost theory, property rights theory, and organizational capabilities view to explain the franchisors choice of ownership strategy within franchising.

¹ A condensed version of chapters 2 and 3 was presented at the 23rd Annual International Society of Franchising (ISoF) Conference held in San Diego (California) on February 12-14, 2009 and has been published in the Journal of Marketing Channels (Volume 17, No.1, pp. 3-31).

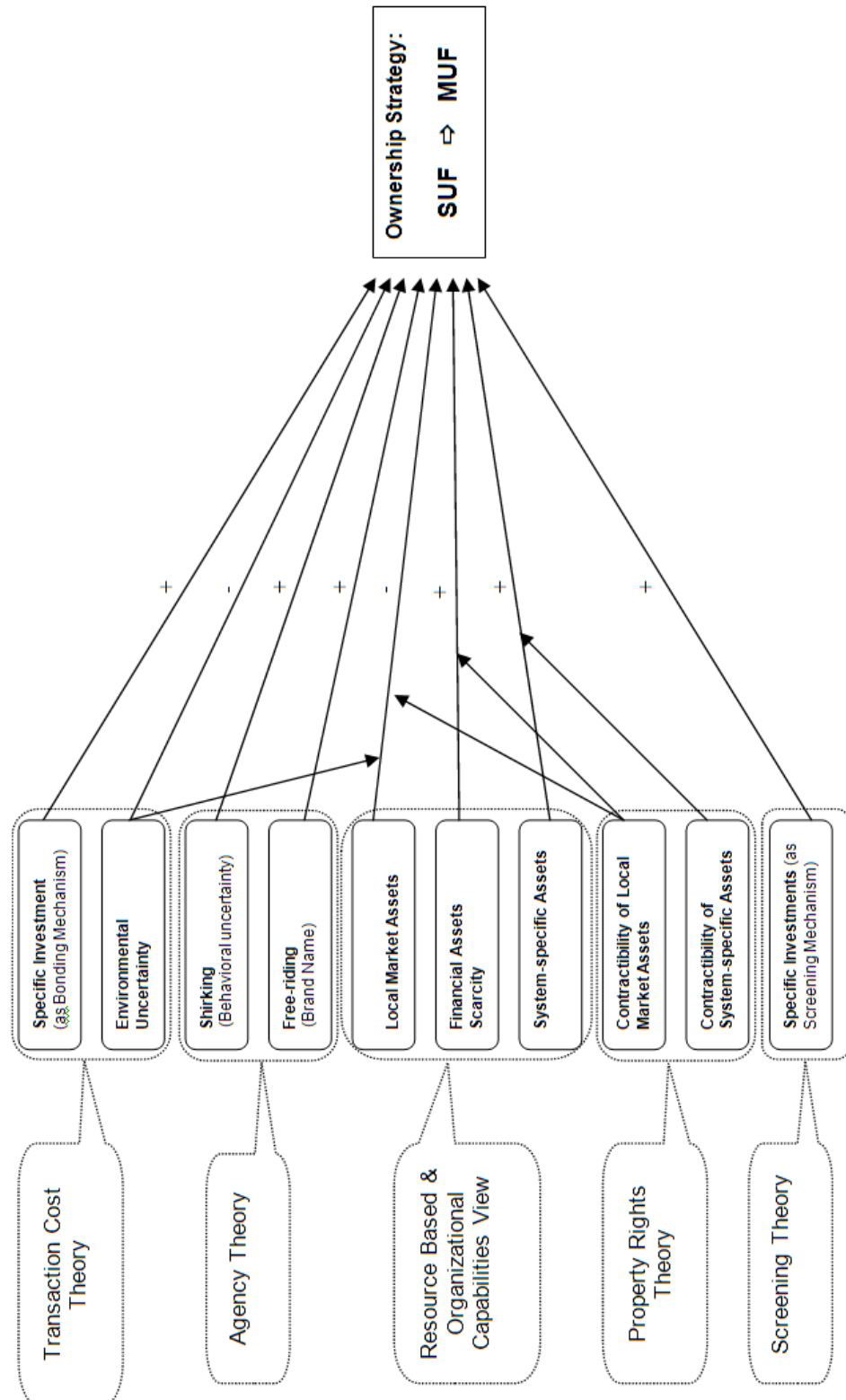
Starting from these deficits, there is a need to apply multiple theories to explain this network form (Castrogiovanni et al., 2006a; 2006b; Combs & Ketchen, 1999). In this chapter, I attempt to develop an integrative view on MUF by extending the existing literature in the following way: First, I apply transaction cost approach by investigating the influence of environmental uncertainty and bonding effect of transaction-specific investments on the choice of ownership strategy; second, I propose hypotheses based on the agency theory; third, I develop hypotheses based on the resource-based and organizational capabilities views; fourth, starting from the property rights theory, I propose the influence of contractibility of resources on the choice of ownership strategy; and finally, I examine the ex-ante screening effect of the franchisee's higher transaction-specific investments that strengthens the ex-post bonding effect compared to SUF. Figure 3.1 (appended on the next page) summarizes the integrative model.

3.2 Development of an Integrative Model

3.2.1 Transaction Cost Theory

According to Williamson (1975; 1979; 1983; 1985), transaction-specific investments and environmental uncertainty are the major determinants of governance mechanism.

Figure 3.1: An Integrative Model



Transaction-specific Investments

Transaction-specific investments (as selfish investments) of the franchisee have the following effect on the governance structure: If the franchisee is a multi-unit owner, he or she has to undertake higher transaction-specific investments to open up the local network compared to SUF. Conversely, the additional investment costs are decreasing with the number of units in the mini-chain. This bonding effect increases the franchisee's dependency and hence his or her motivation to act cooperatively.

In addition, franchisee's investments also increase the franchisor's dependency, if these investments have both a selfish and cooperative element (Che & Hausch, 1999). The cooperative effect results from synergies between franchisee's and franchisor's investments that increase the self-enforcing range of franchise contracts (Klein, 1995). Consequently, I can derive the following proposition: The higher the bonding effect of the franchisee's transaction-specific investments under MUF compared to SUF, the higher is the tendency toward MUF.

Hypothesis 3.1: Franchisee's transaction-specific investments are positively related to the franchisor's tendency toward MUF.

Environmental Uncertainty

Although Williamson (1975) extensively discussed the role of uncertainty/complexity for the choice of organizational form, few studies investigate the influence of this factor on the choice of governance

mechanism (Anderson, 1985; Klein, Frazier, & Roth, 1990; Noordewier, John, & Nevin, 1990). The impact of environmental uncertainty on the governance mechanism is ambiguous and several unanswered questions need further investigation (Rindfleisch & Heide, 1997). Based on Simon's (1947) information processing view of organization, higher environmental uncertainty requires more local information processing capacity (Prendergast, 2002). Applied to franchising, the higher the environmental uncertainty at the local market, the more local information processing capacity is required to acquire and process the relevant local market knowledge (Bradach, 1995; Campbell, Datar, & Sandino, 2009) and the lower is the tendency toward MUF.

Hypothesis 3.2: Environmental uncertainty is negatively related to the franchisor's tendency toward MUF.

3.2.2 Agency Theory

According to the agency theory (Brickley, Dark, & Weisbach, 1991; Lafontaine, 1992), agency costs result from behavioral uncertainty, owing to shirking and free-riding of the network partners. Compared to SUF, MUF can mitigate these agency problems by creating a stronger incentive system for the franchisees. Higher motivation of the franchisees at the local outlets results in lower shirking under MUF compared to SUF. Conversely, additional monitoring costs may arise, owing to agency problems between franchisees and their outlet managers in the mini-chains. However, economies of monitoring and coordination of the mini-chains may mitigate this effect

(Grünhagen & Mittelstaedt, 2002; Weaven & Frazer, 2003). In addition, the stronger incentive effect of MUF compared to SUF may also result in lower free-riding risk (Bercovitz, 2004). Free-riding risk concerns the probability that the franchisor's brand name is tempered by the franchisee's opportunistic behavior. I can derive the following hypotheses:

Hypothesis 3.3a: Behavioral uncertainty, due to shirking, is positively related to the franchisor's tendency toward MUF.

Hypothesis 3.3b: Behavioral uncertainty, due to free-riding, is positively related to the franchisor's tendency toward MUF.

3.2.3 Resource-based and Organizational Capabilities Views

Resource-based View

According to the resource scarcity view, the franchisors do not possess enough local market knowledge and financial resources at the beginning of the franchise life cycle (Kaufmann & Dant, 1996; Oxenfeldt & Kelly, 1968) . SUF enables them to overcome this scarcity problem. The question to ask is: Does MUF additionally mitigate this scarcity problem for the franchisors?

First, local market knowledge can be more efficiently acquired by single-unit franchisees compared to employees of the multi-unit network because the single-unit franchisee (as residual claimant) has higher entrepreneurial capabilities and is more motivated to exploit the profit opportunities at the local market than the multi-unit employee. Conversely,

sequential MUF has efficiency advantages compared to area development MUF because sequential MUF functions as promotion scheme—through the lens of tournament theory—to sort franchisees on the basis of their entrepreneurial capabilities (Lazear & Rosen, 1981; Prendergast, 1993; 1999; Rosen, 1982).

Hypothesis 3.4a: The importance of local market know-how of the franchisee is negatively related to the franchisor's tendency toward MUF.

Hypothesis 3.4b: This negative effect of local market know-how of the franchisee is higher under area development MUF compared to sequential MUF.

In addition, the importance of local market know-how of the franchisee as an entrepreneur to create residual income varies positively with local market uncertainty. Frank Knight (1921), in the early part of the last century, even argues that uncertainty is origin of the entrepreneurial role to seize opportunities for profit. The higher the environmental uncertainty, the more relevant is the outlet-specific knowledge of the franchisee for creation of residual income of the network, and the lower is the tendency toward MUF.

Hypothesis 3.4c: The negative effect of franchisee's local market know-how on the franchisor's tendency toward MUF increases with local market uncertainty.

Second, financial resources scarcity of the franchisor may result in a higher tendency toward franchising to finance the expansion of the system. MUF offers additional growth opportunities for the franchisor compared to the SUF, because multi-unit franchisees are less constrained in financing the local investments compared to the single-unit franchisees. As a result, I derive the following hypothesis:

Hypothesis 3.5: Franchisor's financial resources scarcity is positively related to his tendency toward MUF.

Organizational Capabilities

Based on March (1991), the organization of the firm has two functions:

1. Exploitation of given knowledge (exploitation capabilities).
2. Creation of new knowledge i.e., exploration or dynamic capabilities (Helfat, Finkelstein, & Mitchell, 2007).

The question to ask is: Can the franchising network realize higher exploration and exploitation capabilities by using MUF compared to SUF? In other words, can MUF better circumvent the managerial constraints to system growth compared to SUF, owing to the Penrose effect of franchising (Thompson, 1994)?

Exploitation capabilities refer to monitoring capabilities, knowledge transfer capabilities, and entrepreneurial capabilities. MUF results in higher

monitoring capabilities of the network compared to a system with single-unit franchisees, because the franchisor can decentralize some of the coordination tasks to the franchisees who are able to realize economies of monitoring and coordination in their mini-chains. This is compatible with Bradach's (1997, p. 285) view:

“The chain’s relatively wide spans of control over franchisees are attributable in part to the presence of franchisee-owned and operated mini-hierarchies, which exercised control over franchise units and enabled the chain to devote fewer resources to controlling the units.”

In addition, as multi-unit franchisees are more likely to replicate the organizational routines and procedures of the franchisor in their mini-chains compared to single-unit franchisees, the monitoring capabilities of the network increase owing to the similarity of performance measurement systems of multi-unit outlets and company-owned outlets of the franchisor (Bradach, 1997). Furthermore, the knowledge transfer capability of the network is greater under MUF compared to SUF, because the franchisor can delegate some knowledge transfer tasks to the mini-chains. Moreover, MUF systems are characterized by higher human resources capabilities, owing to economies of training and recruiting of the mini-chains, compared to SUF systems (Weaven & Herington, 2007).

Exploration or dynamic capabilities primarily refer to the higher innovation and site-development capabilities of the networks (Bradach, 1995). MUF improves the capabilities of the system to grow and innovate. Especially, testing and evaluating new ideas in the mini-chains and implementing them in the entire system is more efficient under MUF compared to SUF. Furthermore, MUF networks have greater size development capabilities owing to the experience of multi-unit franchisees accumulated from previous outlet openings. Consequently, the higher exploration and exploitation capabilities of the MUF systems enable both the creation of more system-specific know-how and its more efficient exploitation (through higher knowledge transfer, monitoring, recruiting, and training capabilities) compared to SUF systems. The higher the system-specific know-how, owing to higher innovation capabilities of the MUF system, the more important are its greater monitoring, knowledge transfer, and human resource capabilities for the creation of residual surplus of the system. In sum, I can derive the following hypothesis:

Hypothesis 3.6: System-specific assets are positively related to the franchisor's tendency toward MUF.

3.2.4 Property Rights Theory

According to the property rights theory, the contractibility of assets determines the ownership structure of the firm (Hart, 1995; Hart & Moore, 1990; Windsperger & Dant, 2006). Contractibility of assets refers to the extent to which the franchisor's and franchisee's assets can be easily codified and

transferred to another partner. The impact of contractibility of assets on the choice of single-unit and multi-unit ownership strategy in franchising has not been examined in the literature. The lower the contractibility of local market assets, the more important is the outlet-specific knowledge of the local entrepreneur for the generation of residual income, and hence the stronger is the negative impact of local market assets on the tendency toward MUF. In addition, the contractibility of local market assets also influences the impact of financial resources on the ownership structure (Windsperger & Dant, 2006). The higher the contractibility of local market assets, the lower is the positive impact of financial resources on MUF, because the franchisor's ability to acquire financial resources from the external capital market increases. Moreover, the lower the contractibility of the system-specific know-how, the more knowledge transfer capabilities are required to transfer the system-specific know-how to the local outlets, and the greater is the effect of system-specific assets on the tendency toward MUF. As a result, I can derive the following hypotheses:

Hypothesis 3.7: The positive effect of system-specific know-how on the franchisor's tendency toward MUF increases with non-contractibility of system-specific assets.

Hypothesis 3.8: The negative effect of local market know-how on the franchisor's tendency toward MUF increases with non-contractibility of local market assets.

Hypothesis 3.9: The positive effect of financial assets scarcity on the franchisor's tendency toward MUF increases with non-contractibility of local market assets.

3.2.5 Screening Theory

Based on screening theory (Dnes, 1992), transaction-specific investments have not only an ex-post bonding function, as argued in the transaction cost theory, but an ex-ante screening function as well. Owing to the heterogeneity of potential franchisees regarding their entrepreneurial capabilities, the franchisor uses higher transaction- investments of MUF as a screening device to attract franchisees with high entrepreneurial capabilities and a low propensity to act opportunistically. The latter also results in less monitoring during the contract execution period (Huang & Cappelli, 2006). As mentioned earlier, multi-unit franchisees as area developers have to undertake higher transaction-specific investments than single-unit franchisees. Hence, franchisees choose area development MUF if they believe that they possess the desired entrepreneurial capabilities to generate a high residual surplus that more than compensates the higher investment costs. Consequently, in addition to the transaction cost hypothesis of transaction-specific investments, I can derive the following hypothesis

Hypothesis 3.10: Franchisee's transaction-specific investments as screening mechanism vary positively with the franchisor's tendency toward MUF.

3.3 Conclusion

Castrogiovanni et al. (2006a) recently highlighted the growing importance of application of multi-theoretical reasoning to explain franchising as a governance form. The development of this model makes an important step in this direction. I develop a model that derives hypotheses from agency theory, transaction cost theory, resource-based and organizational capability views, property rights theory, and screening theory. According to this model, the residual income of the network can be increased by reducing transaction and agency costs and by increasing the organizational capabilities of the network, such as monitoring, knowledge transfer, human resource, innovation, and site-development capabilities. Therefore, MUF can better circumvent the managerial constraints to system growth compared to SUF (Thompson, 1994). In addition, higher relationship-specific investments of franchisee under MUF have higher bonding and screening effects than under SUF (Che & Hausch, 1999; Dnes, 1992; Williamson, 1983). Finally, the proposed integrative model should also help franchisors in focusing more sharply on the major drivers of ownership strategy that generate a higher residual income stream of the network.

Parts of this integrative model are empirically tested in the next chapters. Chapter four presents a comparative case analysis to empirically evaluate the hypotheses concerning agency theory, resource-based and organizational capabilities views, and transaction cost theory. A quantitative

analysis is employed in chapter five to test the hypotheses concerning organizational capabilities view and transaction cost theory. Whereas chapter six presents some empirical evidence on the franchisor's use of MUF from a property rights view.

Chapter 4

MUF: A Comparative Case Analysis¹

4.1 Introduction

The role of franchising in national economies is becoming more and more important (Kaufmann & Dant, 1996) by creating employment opportunities and service provision (Spinelli et al., 2004). Franchising is the fastest growing form of retailing and a major portion of the recent growth can be attributed to the emergence of multi-unit franchising (Grünhagen & Dorsch, 2003; Kaufmann, 1993). Multi-unit franchising (MUF) refers to an organizational arrangement where one franchisee operates two or more franchised outlets in the same franchise system (Kalnins & Mayer, 2004). On the other hand, single-unit franchising (SUF) refers to the traditional format where one franchisee operates only one franchised outlet.

In the recent years, MUF has been examined from agency-theoretical , transaction cost and resource-scarcity perspectives. MUF can address a number of agency problems in a more effective way compared to SUF (Garg et al., 2005; Kalnins & Lafontaine, 2004; Kalnins & Mayer, 2004; Vázquez, 2008). Especially, multi-unit franchisees are better motivated to reduce the

¹ An earlier version of this chapter was presented at the 4th International Conference on Economics and Management of Networks (EMNet) held at the University of Sarajevo (Bosnia and Herzegovina) on September 03-05, 2009. The present version has been accepted for publication in the forthcoming issue (Vol. 27, No.1) of the Journal of Applied Business Research.

monitoring costs. Geographical contiguity of franchised units positively influences the use of MUF (Gomez et al., 2010). The franchisors prefer MUF as compared to SUF to reduce the risk of free-riding at the local outlets. Bercovitz (2003) investigates MUF from a transaction cost perspective. She argues that MUF increases the franchisee's quasi-rents based on higher outlet-specific investments and thereby increases the self-enforcing range of the franchise contract (Klein, 1995). If the self-enforcing range is higher under MUF compared to SUF, the opportunism risk is lower, and the franchisor less frequently uses disciplinary measures (litigation and termination) for contract enforcement. Consequently, MUF reduces the hold-up risk due to the stronger incentive effect compared to SUF. Furthermore, MUF-systems have a relative advantage over SUF-systems (Kaufmann & Dant, 1996) under the resource scarcity view. The positive relationship between MUF and system growth has been evidenced in the previous research (Bradach, 1995; Kaufmann & Dant, 1996; Kaufmann & Kim, 1995). Conversely, MUF-systems have lower local market capabilities compared to SUF-systems, due to SUF's higher degree of local responsiveness (Bradach, 1995). Contrary to the predictions of resource scarcity theory, the use of MUF increases with size and maturity of the franchise system (Weaven & Frazer, 2007b; Weaven & Herington, 2007). MUF increases the organizational capabilities (such as monitoring, knowledge transfer, and innovation capabilities) and, consequently, strengthens the competitive position of the system. System uniformity, system wide adaptations, and system corporatization are examples of the organizational

capabilities (Bradach, 1995; Weaven & Frazer, 2007b; 2007a). Therefore, franchisors that focus on system uniformity, system corporatization, and system wide adaptations are more likely to use MUF.

Although several empirical studies exist on MUF, transaction-specific investments (Klein, 1995; Williamson, 1983), system-specific assets, local market knowledge assets, and financial assets as determinants of the ownership strategy have not been investigated. Starting from this deficit, there is a need to apply multiple theoretical perspectives to explain this network form (Hussain & Windsperger, 2010). In this chapter, I develop a set of hypotheses by extending the existing literature in the following way: First, I apply the agency theory by investigating the influence of monitoring cost; second, I examine the bonding and scale efficiency effects of the higher transaction-specific investments from a transaction cost perspective; third, I examine hypotheses based on resource-based view.

The chapter is organized in five sections. In section two, I develop a theoretical framework to explain the franchisor's choice between single-unit and multi-unit franchising. The details of research methodology and the findings are presented in sections three and four. The last section includes discussion and conclusion.

4.2 Development of Hypotheses

4.2.1 Monitoring Costs

According to the agency theory (e.g., Brickley et al., 1991; Lafontaine, 1992), monitoring costs result from behavioral uncertainty, due to shirking of the network partners. The franchisor has two possibilities to reduce the agency costs: On the one hand, to reduce the residual loss by increasing the monitoring activities and, on the other hand, to increase the incentive by allocating a higher fraction of residual income to the franchisee. Higher motivation of the franchisees at the local outlets results in lower shirking under MUF compared to SUF. On the other hand, additional monitoring costs may arise, due to agency problems between franchisees and their outlet managers in the mini-chains. However, economies of monitoring and coordination of the mini-chains may mitigate this effect (Grünhagen & Mittelstaedt, 2002; Weaven & Frazer, 2003).

Hypothesis 4.1: The franchisor's expectation of higher monitoring costs results in a higher tendency toward multi-unit franchising.

4.2.2 Franchisee's Specific Investments

Transaction-specific investments of the franchisee have the following effect on the governance structure: If the franchisee is a multi-unit owner he has to undertake higher transaction-specific investments to open up the local network compared to SUF. On the other hand, the additional investment costs

are decreasing with the number of units in the mini-chain. This latter effect increases the franchisee's dependency and hence his motivation to act cooperatively. In addition, franchisee's investments also increase the franchisor's dependency, if these investments have both a selfish and cooperative element (Che & Hausch, 1999). This bonding effect results from synergies between franchisee's and franchisor's investments that increase the self-enforcing range of franchise contracts (Klein, 1995).

Furthermore, the cost of higher transaction-specific investment is mitigated by the franchisee's expectation of higher residual income due to the scale efficiencies (Grünhagen & Mittelstaedt, 2002). Decreased marginal cost for opening additional outlets and increased franchisee's economic rents due to economies of scale (for example, lower royalties, centralizing of purchase, etc.) and splitting operational costs (for example, monitoring and advertising expenses) result in higher motivation of the franchisee.

Hypothesis 4.2: The higher transaction-specific investments by the franchisee increase franchisor's likelihood to use multi-unit franchising due to bonding effect and scale efficiencies.

4.2.3 Franchisor's System-specific Assets

The franchisor's system-specific assets refer to brand name capital and the system-specific know-how (Hall, 1993; Klein & Leffler, 1981). MUF increases the organizational capabilities and hence the competitive position of the system by more efficiently deploying the system-specific assets. MUF results

in higher monitoring and knowledge transfer capabilities for the network compared to a system with SUF because the franchisor can delegate some tasks to the franchisee that has special market knowledge and realizes economies scale. These higher organizational capabilities enable the franchisor to more efficiently exploiting the system-specific assets.

Hypothesis 4.3: The franchisor's system-specific assets are positively related to the use of multi-unit franchising.

4.2.4 Franchisee's Local Market Assets

According to the resource-scarcity view, the franchisor does not have enough local market knowledge at the beginning of the life-cycle of the franchise system (Kaufmann & Dant, 1996; Oxenfeldt & Kelly, 1968). Franchising enables him to overcome this scarcity problem. The question to ask is: Does MUF additionally mitigate this scarcity problem for the franchisor and hence contributes to explain the tendency toward franchising? Local market knowledge can be more efficiently acquired by single-unit franchisees compared to employees of the multi-unit network because the single-unit entrepreneur (as residual claimant) has higher entrepreneurial capabilities and is more motivated to exploit the profit opportunities at the local market environment than the multi-unit employee.

Hypothesis 4.4: The franchisee's local market knowledge assets are negatively related to the franchisor's tendency toward multi-unit franchising.

4.2.5 Financial Assets

Empirical studies show that MUF and system growth are positively related (Bradach, 1995; Kaufmann & Dant, 1996; Kaufmann & Kim, 1995). MUF offers additional growth opportunities for the franchisor compared to the MUF strategy because multi-unit franchisees are often less constrained to finance the local outlets compared to the single-unit franchisees.

Hypothesis 4.5: Higher financial resources scarcity at the franchisor's end is positively related to franchisor's tendency toward multi-unit franchising.

4.3 Methodology

The objective of this study is to link the theoretical predictions with the empirical patterns on MUF. Case study methods are appropriate for the emerging research topics that have not been researched enough yet (Bradach, 1995; Eisenhardt, 1989b; Eisenhardt & Graebner, 2007; Kaufmann & Dant, 1996; Kaufmann & Kim, 1995). I use a comparative case study method for this investigation as this research design provides multi-dimensional evidence and allows the researchers to match theoretical with empirical patterns (Choo, 2005). Pattern matching is not always simple process of agreement or disagreement; the analysis may take new directions and also generate novel results (Dubois & Gadde, 2002). Therefore, I argue

that the use of comparative case study method is an appropriate research design for this investigation.

4.3.1 Case Selection

The purpose of this study is to investigate the factors influencing franchisor's choice between MUF and SUF. The investigation was designed as a comparative case study and an extensive desk research was conducted to purposely select two appropriate cases for this study from a population of 266 franchise systems in Austria. "*A-COM*" and "*B-COM*" (names changed for confidentiality reasons) were selected keeping in mind that they could provide me with some best insights about the phenomenon being investigated. As suggested by Yin (2008), case studies can generate rich qualitative data. The basic idea behind selection of these two franchise cases rests on the fact that the both systems are of the same age i.e., established in 1999, have multi-national franchise networks, operating in the same business sector, and have comparable sizes. Additionally, both companies had a vast experience in roasting and selling coffee and subsequently decided to enter into gastronomy business. *A-COM* dominantly employs a MUF strategy and *B-COM* uses a SUF strategy. The comparison of these two franchise systems could provide a useful and in-depth view of the factors influencing franchisor's choice between MUF and SUF strategies and enable me to make a valuable contribution to the literature by comparing the these factors with the theoretical predictions.

4.3.2 Data Collection and Analysis

The data were collected by interviews, documents, and online resources. The use of in-depth interviews has been endorsed by researchers in franchising (Kaufmann, 1996; Kaufmann & Dant, 1999). The previous MUF research lacks in theoretical foundations and well-defined constructs (Dant & Peterson, 1990); therefore, I consider the use of in-depth interviews appropriate for this study. The documents included articles and information about the companies available on their own and third party websites. Multiple resources of data strengthen the positive points of qualitative data and contribute toward validity and reliability of the findings (Yin, 2008). Four in-depth personal interviews in June-July 2009 were conducted with the top executives primarily responsible for expansion and selection of franchising strategy. Some of the interviewees had very rich and diverse experience in franchising operations gathered while working at McDonald's, Pizza Hut, Burger King, and finally at the franchise systems under study. The interviews were loosely structured and lasted for 30-150 minutes. The questions focused on the general franchising strategy, the factors that influence franchisor's choice between SUF and MUF, and finally some of the unanswered research questions were presented for comments and discussion. One interview was conducted in English while remaining three were conducted in German and later translated into English. The respondents may be reluctant to provide sensitive information (Kaufmann & Dant, 1999) so anonymity and confidentiality were assured to increase their comfort level.

In the first step, I used the with-in case analysis approach (Miles & Huberman, 1994) and developed detailed case study write-ups for each case. Despite of being descriptive in nature, these write-ups help in getting detailed insights (Gersick, 1988). Secondly, I coded the data in the light of hypothesis using *Emergent Coding* (Stemler, 2001) for the ease of analysis. Finally, I make a comparison of cross-case patterns and examine the model using these patterns.

4.3.3 A-COM

A-COM is a part of an Austrian family enterprise with its headquarters in Austria. The parent group brings along almost 60 years of experience in manufacturing high quality coffee making machines and roasting and selling coffee. They founded *A-COM* in 1999 and opened their first coffee shop in Vienna.

“We tried this concept because we had the coffee machines, and the coffee and all other knowledge to build this up and then we wanted to see how it works. ...People flooded our first shop and everybody wanted to know that how a “to go” concept works. ... We changed the typical self-service coffee shop concept to a full-service concept to get a wider range of customers.”

As of September 2009, *A-COM* had 196 units in 14 countries in four continents (see table 4.1 for details) and their network is continuously growing

in existing markets and penetrating into new ones. They had only 20 units in 2004 and their network has grown up to 194 units in the last five years. A-COM dominantly uses MUF (both sequential and area development) for its expansion.

Table 4.1: A-COM Number of Outlets

Sr. No.	Country	Outlets
1	Germany	70
2	USA	38
3	Austria	34
4	Hungary	10
5	Poland	9
6	Slovakia	9
7	Russian	7
8	Czech Republic	6
9	Egypt	4
10	Turkey	3
11	Croatia	2
12	Macedonia	2
13	Bahrain	1
14	Saudi Arabia	1
	Total	196

4.3.4 B-COM

The parent company of *B-COM* has been roasting “Vienna Coffee” for around 100 years and the idea of *B-COM* was originated by a customer.

“The parent company sells about 5 different kinds of coffee. We blend and roast them at our own and then sell them afterwards to gastronomy. This all begins with cheap breakfast coffee and goes further to high quality espresso. In mid 90s we were present at the exhibition “GAST” in Salzburg, Austria and Mr. Gerlicher, a guy from Germany, came to us and said ‘Wow, you have a great coffee, you should get more out of it’. ...We tried this and the first, relatively small, store was opened in a shopping mall in 1999.”

B-COM had 65 outlets in 10 countries as of September 2009. The company exclusively employs SUF strategy. Table 4.2 appended on the next page presents the details of *B-COM* network.

Table 4.2: *B-COM* Number of Outlets

Sr. No.	Country	Outlets
1	Austria	38
2	Germany	7
3	Hungary	5
4	Italy	4
5	Turkey	4
6	UAE	3
7	Cypress	1
8	Egypt	1
9	UK	1
10	Romania	1
	Total	65

4.4 Findings

A-COM started with *SUF* and after sometime they realized that it could be difficult for them to have efficient control over the franchisees and also that they may not achieve the targeted growth rate, therefore, they shifted toward *MUF* as their expansion strategy. On the other hand, *B-COM* is sticking to their policy of *SUF*. In following sub-sections, I examine the factors that

motivated these franchisors, with many similarities, to choose different franchising strategies. Table 4.3 shows a summary of the findings.

Table 4.3: Summary of Findings

No.	Variable	Predicted Effect	A-COM	B-COM
H4.1	<i>Franchisor's Expectation of Monitoring Costs</i>	+	Supported	Supported
H4.2	<i>Franchisee's transaction-specific investments</i>	+	Supported	Supported
H4.3	<i>Franchisor's system-specific assets</i>	+	Supported	Not Supported
H4.4	<i>Local market knowledge assets</i>	-	Supported	Supported
H4.5	<i>Franchisor's financial resources scarcity</i>	+	Supported	Supported

4.4.1 Monitoring Costs (H4.1)

A-COM considers monitoring costs as an important determinant of franchising strategy.

“When the partner is far away, it doesn’t matter of the partner is in Tyrol or in Russia, then you try to build him up as an organization and you consult an organization. So you do visit the owner or the marketing boss or the operations guy there. You don’t have to visit 55 units and then talk to each of them. This reduces monitoring cost and you cannot do a day to day monitoring in Cairo. Monitoring cost is something that influences the decision on doing single-unit or multi-unit franchising.”

On the other hand B-COM does not expect higher monitoring costs. Therefore, they do not realize any need to provide additional incentive to the franchisee by offering her/him additional units.

“...We have the lowest agency problems. ... A disadvantage for us is that the multi-unit franchisee has to pay lower royalties to B-COM. As far as monitoring costs are concerned, we have almost the same efforts, no matter whether we have single-unit or multi-unit arrangements.”

The franchising strategies at both of the franchise systems are compatible with my monitoring cost hypothesis regarding the choice between

single and multi unit franchising strategies. Hence, the results support my hypothesis regarding the positive effect of monitoring costs on the use of MUF.

4.4.2 Franchisee's Specific Investments (H4.2)

I predict a bi-dimensional effect of franchisee's transaction-specific investments (i.e., bonding and economies of scale effect) on franchisor's strategy. *A-COM* supports both effects of the transaction-specific investments.

"Exactly, when we talk about multi-unit franchising, the initial investment is higher. ... This has an influence on fees, because if you know that development is coming up, usually you negotiate fees. ... Higher investments have a bonding effect because you cannot go out easily. You have your money there and nobody takes risk for money. You will try harder to be successful."

At *B-COM*, bonding effect of franchisee's transaction-specific investments is not very strong. On the other hand, as far as economies of scale are concerned, at *B-COM*, the franchisees are obliged to buy all the products from the franchisor. There is a little room to achieve economies of scale by centralizing purchases at the mini-chain level.

The findings are compatible with Hypothesis 4.2.

4.4.3 System-specific Assets (H4.3)

This hypothesis predicts a positive effect of system-specific assets on the tendency toward MUF. *A-COM* uses MUF to help transfer its USP to the local outlet level.

“Vienna has history, you know it’s romantic, it’s music, it’s theatre, Vienna has a coffeehouse tradition since 1684 after 2nd Turkish invasion, it’s something you can sell to people in every part of the world. So we took that part stronger into our concept. We are able to put two cultures together and create symbiotic approach to the customer that’s why we are there in Saudi Arabia, Bahrain, Egypt, and even America with Carnival Cruise Line Ships. ...We have our own equipment, our own coffee machines, our own coffee, our own technology, and our own know-how; we have a different strategic approach than that in other companies.”

B-COM considers system know-how very important for the success of their business. However, the franchising strategy at *B-COM* is not influenced by the specificity of the system assets.

In addition, *A-COM* claims to integrate culture with coffee and consider the “Viennese Coffee Culture” as an integral part of their system-specific assets that is difficult to transfer to local outlets.

“We transfer culture, history and a feeling, something that did not work for last 2000 years. ... We have a handbook that includes the important knowledge to be transferred to the franchisee but the most of the knowledge transfer is done personally.”

Furthermore, *B-COM* considers its system-specific assets as highly non-transferable; however, contrary to the predictions, they do not use multi-unit franchising. The in-depth analysis of the detailed case write-up revealed that they are facing severe problems in transferring their system-specific know-how. Hence their ownership strategy might not be efficient, due to the importance of system-specific assets.

To conclude, the analysis of the *A-COM* data supports the hypothesis H4.3 that predicted positive effect of system-specific assets on the use of MUF. On the other hand, I found a misfit between theoretical and empirical patterns in the case of *B-COM*.

4.4.4 Local Market Assets (H4.4)

The main product (i.e., coffee) and local service of *A-COM* do not vary with local market characteristics. Hence the franchisee's know-how is less responsible for the success of the system. The data from *A-COM* provide a weak support for this hypothesis. *B-COM* completely adapts to the local market. Although most of their raw material is supplied by the franchisor, the product line at the local outlets is adapted to the local requirements.

Therefore, the local market knowledge of the franchisee is very important. Hence the findings are compatible with Hypothesis 4.4.

4.4.5 Financial Resources (H4.5)

Financial resources scarcity is one of the major factors behind shifting from a single-unit to a multi-unit dominated strategy. *A-COM* started initially with SUF; however, they realized soon that system expansion is limited by the available financial resources. *A-COM* strongly supports the hypothesis that franchisor's financial resources scarcity leads to use a higher proportion of MUF. On the other hand, *B-COM* does not see any additional financial benefit from multi-unit franchisees. Hence I conclude that findings are compatible with Hypothesis 4.5.

4.5 Discussion and Conclusion

This chapter focuses on explaining the franchisor's use of MUF by using a comparative case analysis. I analyze the franchising strategies at *A-COM* and *B-COM*, two multinational franchise networks based in Austria. Franchisor's expectation of higher monitoring costs leads them to use a higher proportion of multi-unit franchised outlets. The franchisors may realize economies of monitoring by delegating some monitoring tasks to the multi-unit owners. However, sometimes the franchisors (for example, *B-COM*) fear that very large franchisees will not be easy to control and they may create problems for

them in future, such franchisors tend to use higher proportion of SUF. The multi-unit franchisees have to undertake higher transaction-specific investments compared to single-unit franchisees. The franchisee's transaction-specific investments have a dual effect on the franchising strategy. They increase the franchisees motivation to act cooperatively, due to the bonding effect and scale efficiencies. Grünhagen and Mittelstaedt (2002) also confirmed the scale efficiencies of multi-unit franchisees. The cost of higher transaction-specific investments can be mitigated by achieving scale efficiencies.

The data from the interviews suggest that transferring the system-specific assets to the local outlets is rather difficult because both *A-COM* and *B-COM* system-specific assets show a high degree of non-transferability. *A-COM*'s low degree of transferability of system-specific assets is an important factor for using a higher proportion of MUF, particularly in the international markets. MUF helps *A-COM* transfer knowledge to their franchisees and ultimately results in successful transfer of the "*Viennese coffee concept*" to the local market outlets. Inconsistent with our prediction, *B-COM* applies a SUF strategy despite of having highly non-transferable system-specific assets. However, *B-COM* faces serious problems in transferring their system-specific know-how. Hence their ownership strategy might not be efficient. The use of MUF increases the franchisor's control by supporting the transfer of system-specific assets to the local outlets and enabling the standardization of administrative procedures and routines at the local market.

On the other hand, the local adaptation capabilities under MUF are lower than under SUF. The findings also suggest a significant effect of local market knowledge on the choice of franchising strategy. However, single-unit franchisees may not always have an advantage compared to multi-unit franchisees with regard to local market adaptation. *A-COM* argues that there are no significant differences between the local market knowledge advantages of single-unit and multi-unit franchisees. The reason behind this could be that the brand name of the *A-COM* is so important for the success of the system that local market adaptations do not generate additional residual income for the partners.

Although the study provides a detailed insight of the ownership strategies of *A-COM* and *B-COM* by comparing theoretical predictions with empirical patterns regarding the choice of ownership strategy in franchising, the findings of this study are subject to the standard limitations of case study research methodology. First, the major limitation of case study research is that the findings are rarely generalizable. Second, there is a lot data for analysis that sometimes leads to omission of some important information as it is difficult to use all the data at one time.

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Chapter 5

MUF: Organizational Capabilities and Transaction Cost Explanations¹

5.1 Introduction

Franchising is an increasingly popular form of organization and its role in market economies is becoming more and more important. A major portion of recent growth in franchising business can be attributed to the emergence of multi-unit franchising (Dant et al., 2007; Grünhagen & Dorsch, 2003; Kaufmann, 1993). Multi-unit franchising (MUF) refers to an organizational arrangement where one franchisee owns two or more outlets at multiple geographical locations in the same franchise system. This study applies the organizational capabilities (OC) view and transaction cost (TC) theory to explain franchisor's use of MUF. The organizational capabilities view argues that the firm can achieve competitive advantage by development and exploitation of firm-specific resources and capabilities (Helfat, Finkelstein, & Mitchell, 2007; Jacobides, 2006; Teece, Pisano, & Shuen, 1997). Hence, the OC perspective regards the firm as a bundle of resources which are transformed into organizational capabilities through interactive firm-specific processes to gain strategic rents (Amit & Schoemaker, 1993; Madhok, 1997; Rumelt, 1984). According the OC view, multi-unit franchising increases the

¹ This chapter is under review for presentation at an international research conference and for publication in a peer-reviewed international journal.

franchise's firms organizational capabilities, especially the knowledge transfer and monitoring capabilities, and hence its competitive advantage compared to a single-unit franchising (SUF) system. Therefore, the ownership decision is primarily determined by the franchising firm's ability to transfer its key resources (brand name and system-specific assets) to the local market. On the other hand, the transaction cost perspective regards the firm as an incentive and adaptation mechanism. It is primarily oriented toward the selection of an ownership strategy which minimizes transaction costs. According to the TC view multi-unit franchising reduces the franchisor's opportunism risk due to the stronger bonding effect of transaction-specific investments compared to SUF. On the other hand, higher environmental uncertainty decreases the tendency toward MUF due to the lower local responsiveness of multi-unit franchisees. Hence MUF may result in higher search and information costs at the local market under high environmental uncertainty.

Previous research primarily focuses on resource-scarcity and agency cost perspectives to explain MUF. According to the resource-scarcity view, the franchisors do not possess enough financial and managerial resources at the beginning of the franchise life-cycle (e.g., Kaufmann & Dant, 1996). Financial resources scarcity of the franchisor may result in higher tendency toward MUF to finance the expansion of the system. MUF offers additional growth opportunities for the franchisor compared to the SUF, because the multi-unit franchisees are less constrained in financing the local investments

compared to the single-unit franchisees. However, contrary to the predictions of resource scarcity theory, the use of MUF increases with size and maturity of the franchise system (Gomez, et al., 2010; Vázquez, 2008; Weaven & Frazer, 2007b; Weaven & Herington, 2007). This may be explained by the fact that size and maturity are indicators of greater organizational capabilities of the MUF-system (Baker & Dant, 2008; Bradach, 1995; 1998). In addition, Bradach (1995; 1998) and Weaven and Frazer (2007a; 2007b) examine the impact of system uniformity, system corporatization and system wide adaptations on the use of MUF. Although these researchers have not explicitly applied an OC-perspective, system uniformity, system wide adaptations, and system corporatization are examples of organizational capabilities.

Agency cost explanations focus mainly on moral hazard and free-riding problems that can be mitigated by using MUF. The findings of these studies suggest that MUF can address number of agency problems in a more effective way compared to SUF (Bercovitz, 2004; Garg & Rasheed, 2003; Garg et al., 2005; Kalnins & Lafontaine, 2004; Kalnins & Mayer, 2004; Vázquez, 2008; Weaven & Frazer, 2007a). Especially, multi-unit franchisees are better motivated to reduce the monitoring costs. The franchisors use MUF to shift the burden (in terms of monitoring) to the multi-unit franchisees (Jindal, 2006). Geographical contiguity of franchised units is one of the important factors that play role in adoption of MUF. The franchise systems with a higher number of geographically contiguous units are more likely to use a higher

proportion of MUF. When the franchisor has a strong brand name, there is a higher risk of free-riding by the single-unit franchisees. The franchisors prefer MUF as compared to SUF to reduce the risk of free-riding at the outlet level (Bercovitz, 2004; Brickely, 1999; Kalnins & Lafontaine, 2004; Vázquez, 2008). The use of MUF better aligns the goals of franchisee with those of franchisor which results in a reduced conflict in the franchise system (Zeller et al., 1980).

Although several empirical studies were published on MUF in the last two decades, the research deficit primarily results from the lack of theoretical foundation of this ownership strategy (Hussain & Windsperger, 2010). The majority of previous studies on MUF derive hypotheses from an agency theoretical framework. Only Bercovitz (2003) applies transaction cost reasoning to explain the use of MUF. However, she does not investigate the major transaction cost determinants of the ownership strategy, such as transaction-specific investments and uncertainty. Furthermore, there is no study that develops an organizational capabilities explanation for the franchisor's use of MUF. Starting from this deficit, there is a need to apply transaction cost and organizational capabilities theory to explain this ownership strategy (Castrogiovanni et al., 2006a; 2006b). Hence the objective of this study is to explain the multi-unit ownership strategy of the franchise firm by developing hypotheses based on the organizational capabilities and transaction cost perspectives.

My main contribution to the literature is first to complement the existing agency theoretical explanations by developing organizational capabilities and transaction cost explanations for the choice of multi-unit ownership strategy in franchising networks. While the TC- theory explains the use of MUF primarily in terms of minimization of transaction costs, the OC-theory takes the position that preserving and increasing a firm's competitive advantage is the primary explanation for the positive relationship between firm-specific assets and capabilities and the use of multi-unit ownership strategy. Second, this study utilizes primary data from the German franchise systems that enables me to estimate the factors which the theory considers important to affect the choice of ownership strategy. We present the first empirical evidence that firm-specific assets, such as brand name assets and system-specific know-how, and transaction-specific investments of the franchisee are positively related to the use of MUF and environmental uncertainty is negatively related to the use of MUF.

The chapter is organized as follows: In section two, I develop the theory and the hypotheses. Section three explains the methodology, and sections four and five present and discuss the empirical results from the German franchise sector.

5.2 Theory and Hypotheses

5.2.1 Organizational Capabilities View

A firm's resources bear the key importance in creating and maintaining competitive advantage and these resources include specific assets and capabilities available to the firm. According to the OC-view, ownership decisions are made under a calculus governed by considerations related to the exploration (development) and exploitation of a firm's resources (Ekeledo & Sivakumar, 2004; Erramilli, Agarwal, & Dev, 2002; Helfat et al., 2007; Madhok, 1997; March, 1991). The question to ask is: Can the franchising network realize higher exploitation and exploration capabilities by using MUF compared to SUF? In other words, can MUF better circumvent the managerial constraints to system growth compared to SUF, due to the Penrose effect of franchising (Thompson, 1994)?

Exploitation capabilities refer to monitoring capabilities, knowledge transfer capabilities, and human resource management capabilities. MUF results in higher monitoring capabilities of the network compared to a system with single-unit franchisees, because the franchisor can decentralize some of the coordination tasks to the franchisees who are able to realize economies of monitoring and coordination in their mini-chains. This is compatible with Bradach's (1997) view. In addition, since multi-unit franchisees are more likely to replicate the organizational routines and procedures of the franchisor in their mini-chains compared to single-unit franchisees, the monitoring

capabilities of the network may increase due to the similarity of performance measurement systems of multi-unit outlets and company-owned outlets of the franchisor (Bradach, 1997). Furthermore, MUF increases the knowledge transfer capability of the system because the franchisor can delegate some knowledge transfer tasks to the mini-chains. If the system-specific know-how of the franchisor is important for the success of the network, then it should be efficiently transferred to the other partner, i.e., the franchisee should be able to replicate it at the local markets (Erramilli et al., 2002). Moreover, MUF systems are characterized by higher human resources capabilities, due to economies of training and recruiting of the mini-chains, compared to SUF systems (Weaven & Herington, 2007). On the other hand, exploration or dynamic capabilities primarily refer to the higher innovation and site-developing capabilities of the networks (Bradach, 1995). MUF improves the capabilities of the system to grow and innovate. Especially, testing and evaluating new ideas in the mini-chains and implementing them in the whole system is more efficient under MUF compared to SUF networks.

Consequently, the greater organizational capabilities of the multi-unit system better enable both the creation of firm-specific assets (system-specific know how and brand name assets) and their more efficient deployment through transfer, monitoring, recruiting and training than under a SUF setting. The higher the system-specific know-how and brand name assets, the more important are its greater monitoring, knowledge transfer, and human resource capabilities for the creation of the system's competitive advantage.

Brand Name Capital

The franchisor's strategic assets refer to brand name capital and the system-specific know-how (Hall, 1993; Klein & Leffler, 1981). The brand name capital results from investments in system marketing and promotion to achieve competitive advantage. The firm-specific assets are the source of sustainable competitive advantage for the franchising firm and need to be protected from misuse. Therefore, in order address this challenge, the franchisor are prompted to use an ownership strategy that supports the transfer and control of brand name. Hence, under a strong brand name capital, multi-unit ownership strategy enables the franchisor to exercise a higher degree of control than single-unit ownership strategy, due to its higher monitoring and human resources capabilities. MUF results in higher monitoring capabilities for the network compared to a system with SUF because the franchisor can delegate some monitoring tasks to the franchisee that has special market knowledge and realizes economies of monitoring. MUF improves the human resource capabilities due to more effective training at the mini-chains. These organizational capabilities enable a franchise system to maintain a sustainable increase in its brand name value.

Hypothesis 5.1: Brand name capital is positively related to the franchisor's tendency toward MUF.

Transferability of System-specific Know-how

System-specific know-how includes knowledge and skills in site selection, store layout, product development, buying and merchandising (Kacker, 1988). System-specific assets result from capabilities of a franchise firm that drive the firm's competitive advantage but are difficult to articulate and transfer to other units of the system. They refer to tacit know-how that is usually embedded in the firm's employees and organizational routines (Madhok, 1997). Successful franchising requires that the franchisor's specific know-how be efficiently and effectively transferred to the outlet level. The task of transferring know-how becomes difficult if the assets are non-transferable or not easily codifiable. MUF can help franchisors cope with the downstream knowledge transfer challenges in the network as they can delegate some know-how/knowledge transfer tasks to the multi-unit franchisees that can effectively further transfer system-specific know-how to the outlets in their mini-chains. In addition, the effectiveness of knowledge transfer increases as multi-unit franchisees are more likely to replicate the organizational routines and procedures of the franchisor in their mini-chains compared to single-unit franchisees (Bradach, 1995; Weaven & Frazer, 2007a). Therefore, the lower the transferability of system-specific know-how, the more knowledge transfer capabilities are necessary to efficiently transfer the system know-how to the local outlets, and the higher is the tendency toward MUF.

Hypothesis 5.2: The non-transferability of system-specific assets is positively related to the franchisor's tendency toward MUF.

5.2.2 Transaction Cost Theory

While the OC-theory takes the position that gaining strategic rents and hence increasing a firm's competitive advantage is the primary explanation for the positive relationship between firm-specific assets (brand name capital and system-specific know-how) and the use of multi-unit ownership strategy, TC-theory explains the use of MUF primarily in terms of minimization of transaction costs. Therefore, the main difference between TC-theory and OC-theory is that TC focuses primarily on the impact of governance form on transaction costs, due to bounded rationality and opportunism, and the OC-theory addresses the impact of governance form on the rent-generating potential of firm-specific resources and capabilities. According to Williamson (1975; 1983; 1985), transaction-specific investments and uncertainty are the major determinants of ownership mode decision.

Transaction-specific Investments

Transaction-specific investments (as selfish investments) of the franchisee have the following effect on the governance structure: If the franchisee is a multi-unit owner, he has to undertake higher transaction-specific investments to open up the local network compared to SUF. On the other hand, the additional investment costs are decreasing with the number of units in the

mini-chain. This bonding effect increases the franchisee's dependency and hence his motivation to act cooperatively. In addition, franchisee's transaction-specific investments also increase the franchisor's dependency, if these investments have both a selfish and cooperative element (Che & Hausch, 1999). The cooperative effect results from synergies between franchisee's and franchisor's transaction-specific investments that increase the self-enforcing range of franchise contracts (Klein, 1995). Consequently, I can derive the following proposition: The higher the bonding effect of the franchisee's transaction-specific investments under MUF compared to SUF, the higher is the tendency toward MUF.

Hypothesis 5.3: Franchisee's transaction-specific investments are positively related to the franchisor's tendency toward MUF.

Environmental Uncertainty

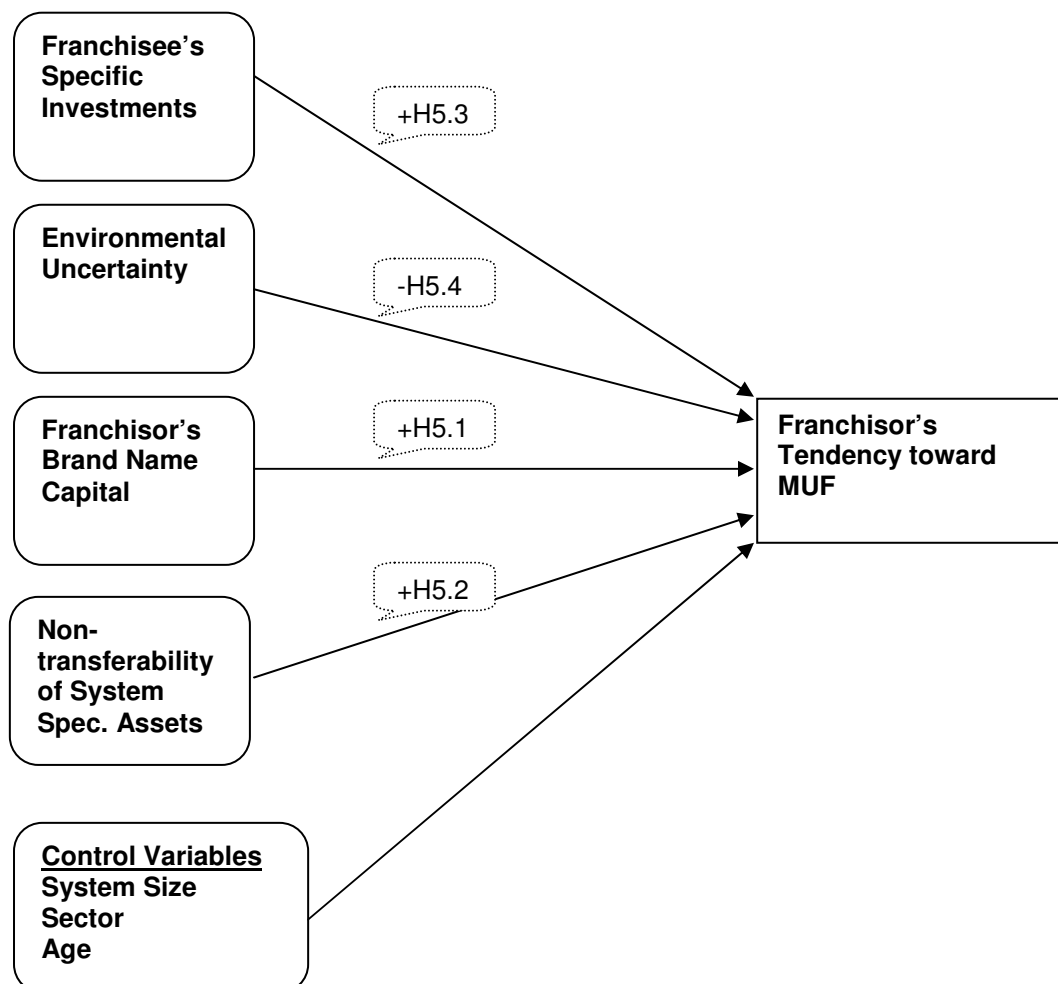
Although Williamson (1975) extensively discussed the role of uncertainty/complexity for the choice of organizational form, few studies investigate the influence of this factor on the choice of governance mechanism (Anderson, 1985; Klein et al., 1990; Noordewier et al., 1990; Rindfleisch & Heide, 1997). Based on Simon's (1947) information processing view of organization, higher environmental uncertainty requires more local information processing capacity by delegating coordination tasks to the local entrepreneurs (Prendergast, 2002). Applied to franchising, the higher the environmental uncertainty at the local market, the more local entrepreneurial capabilities are required to acquire and process the relevant local market

knowledge (Campbell et al., 2009), and the lower is the tendency toward MUF.

Hypothesis 5.4: Environmental uncertainty is negatively related to the franchisor's tendency toward MUF.

Figure 5.1 appended below summarizes the proposed model.

Figure 5.1: Theoretical Model – I



5.3 Methodology

5.3.1 Data Collection

Empirical data to test the hypotheses were collected from the German franchise sector. The directory of the German Franchise Federation (DFV) and “Franchise Wirtschaft” (a Bond’s Franchise Guide type directory published in Germany) list all franchise systems operating in the country. Some demographic data (i.e., year system was established, number of outlets, business sector, etc.) are also listed against each system in the Franchise Wirtschaft. These directories list 837 franchise systems operating in Germany and served as the sampling frame for this study. The judgmental sampling was employed and the sample was drawn on the basis of the following two-point criterion.

1. The system should have at least five outlets in Germany
2. If the data about the outlets is not listed in the directory, the system should have started franchising in Germany before year 2008.

These sampling criteria enabled us to filter the franchisors so that we could contact only those who were relevant for the study. I do not regard very small franchisors (having below 5 outlets) or very new systems (below the age of 2 years) relevant for this study on MUF. The final sample consisted of 491 franchise systems.

The data were collected via self-administered questionnaire which was developed in several steps. After several preliminary refinements, we conducted in-depth interviews with franchise professionals from the Austrian and German franchise associations and a pre-test with 20 franchisors in Austria. The respondents are selected on their expertise and relevance to the subject under investigation. Therefore, we use the key informant (McKendall & Wagner III, 1997) approach for data collection. Accordingly, the informants for this study were senior managers who are mainly responsible for the franchise expansion. The information about the key informants was retrieved from the Franchise Wirtschaft. The personally addressed questionnaires were mailed to the key informants of all 491 relevant franchise systems in Germany. We received back 137 filled questionnaires with a response rate of 28%. However, due to missing value, only all responses could not be used for the regression analysis.

To check for the non-response bias, I use two methods. First, non-response bias was estimated by comparing early versus late respondents (Armstrong & Overton, 1977), where late respondents serve as proxies for non-respondents. Second, the respondents were compared to non-respondents in terms of age, size, advertising fee, and royalties to determine whether non-response was a serious problem for the data. These variables are available in the Franchise Wirtschaft for the entire listed systems. I used these data to run independent sample t-test in order to check whether the

sample is representative. I found no significant difference between the respondents and the non-respondents (see Table 5.1).

Table 5.1: Estimate of Non-Response Bias² - I

	Means, (SD), and Counts ³			
	Population	Respondents	t-value	p-value
Age of Franchise System (Years)	10.102 (8.122) N = 449	11.190 (8.391) N = 121	-1.298	0.195
System Size (total outlets)	112.718 (431.444) N = 337	155.949 (328.376) N = 118	0.992	0.322
Advertising Fee (% of Sales)	1.002 (1.497) N = 326	0.930 (1.342) N=127	-0.478	0.633
Royalties (% of Sales)	4.473 (6.282) N = 446	5.442 (7.452) N = 117	1.408	0.16

² The measures of, Initial Franchise Fee, Advertising Fee, and Royalties were first tested by a MANOVA to ensure independence of these variables.

³ Counts differ across different measures because of item non-response.

5.3.2 Measurement

The measures of the relevant variables are summarized in the Appendix 5.1.

Dependent Variable

The dependent variable, *proportion of multi-unit outlets (PropMUF)*, is measured as a ratio of franchised outlet to the number of franchisees. A similar ratio has been used in previous studies (Bercovitz, 2003; Gomez et al., 2010; Weaven & Frazer, 2004) as an indicator for MUF. However, some studies use dichotomous measures for the use of MUF (Bradach, 1995; Grünhagen & Mittelstaedt, 2005; Lopez-Bayon & Lopez-Fernandez, 2008; Robicheaux et al., 1994) .

Independent Variables

Non-transferability of system-specific know-how (TRF): Franchisor's know-how refers to system-specific intangible assets. This know-how is transferred to the other franchise partners (i.e., franchisees) to replicate it in the local market to achieve the targeted goals. In this study, the franchisors were asked to rate the transferability of their system-specific assets. I argue that the lower transferability requires a higher level of franchisor's know-how transfer capabilities. A seven-item Likert-type scale is employed to measure non-transferability of system-specific know-how (see Appendix 5.1 for detail of the items employed).

Brand name capital (BRAND): A four-item Likert-type scale is used to measure the franchisor's brand name capital, Franchisors were asked to rate their systems on brand strength compared to competitors, brand recognition compared to competitors, reputation for quality, and importance of brand name for achieving competitive advantage. The items have been adapted from Combs and Ketchen (2004) and Barthélemy (2008).

Franchisee's transaction-specific investments (INV): They refer to the total amount (in thousand €) required to start up a new franchised outlet. Initial investments (excluding initial fees) are an indicator for franchisees' transaction-specific investments which function as a bonding device.

Environmental uncertainty (ENV): Based on measures used by Celly & Frazier (1996) and John & Weitz (1988), this construct has been measured using a three-item liker-type scale. The franchisors were asked to provide their perception regarding fluctuation in the outlet level sales, unpredictability of the market, and volatility of local economic situation. The fourth item regarding the accuracy of sales forecasts was dropped due to low item-total correlation and scale reliability concerns.

Control Variables

System size (SIZE): The size of the system is measured by the total of franchised and company-owned outlets. The larger franchise systems signal a higher level of strength and success of the system and are more attractive for the prospect multi-unit franchisees. The existing research also suggests a

positive effect of system size on its use of MUF (Gomez et al., 2010; Vázquez, 2008; Weaven & Frazer, 2007b; Weaven & Herington, 2007).

Sector (SECT): 1 refers to services franchising and 0 to product franchising. Previous studies (e.g., Wadsworth & Morgan, 2003) suggest that MUF varies with the industry and the business sector. Since services franchising firms are characterized by more intangible assets compared to product franchising firms, they require more local knowledge transfer and monitoring capabilities. Hence services firms may have a higher tendency toward MUF.

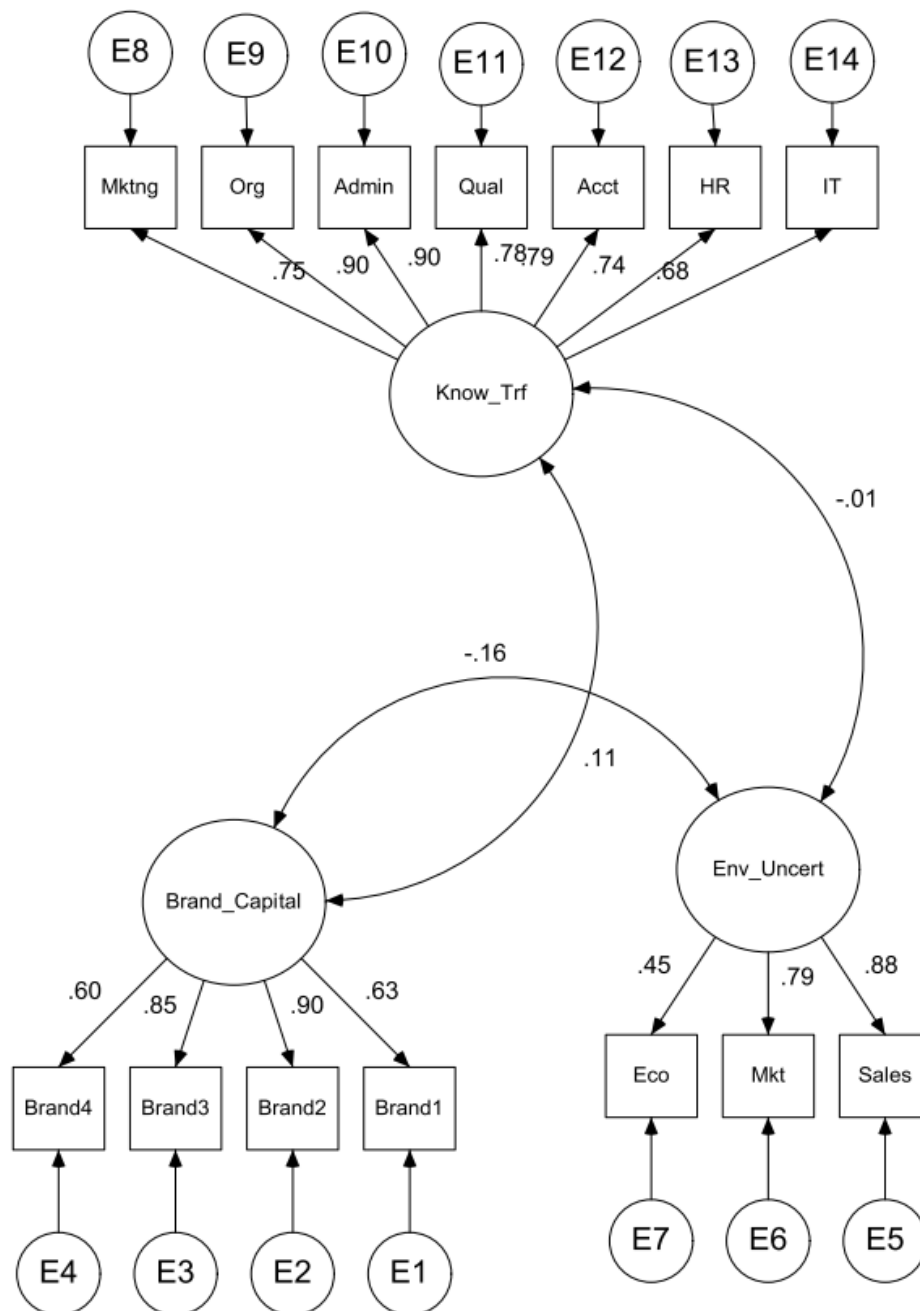
Age (AGE): Due to the signalling effect of the established reputation and brand name, experienced franchisors are more likely to attract multi-unit franchisees compared to franchise systems in the early stages of the organizational life cycle. The existing research shows that the age of system may have a positive impact on the use of MUF (Weaven, 2009; Weaven & Frazer, 2007b; Weaven & Herington, 2007). AGE is measured by the number of years since the firm started franchising in Germany.

5.3.3 Construct Validity and Reliability

During the process of instrument development, the content validity was ensured by extensive literature review. Franchising professionals provided a very valuable feedback to improve the questionnaire. As mentioned earlier, franchisors and officials from the franchise associations were actively involved in the pre-test phase. Some items were dropped from the initial version of the

questionnaire due to possible ambiguity as suggested by the pre-test. As detailed in the earlier sub-section, I use multi-item scales for measuring transferability of system-specific assets, brand name capital, and environmental uncertainty.

I also conducted confirmatory factor analysis (CFA) using AMOS 17.0 to check the validity and goodness of fit of the factors measuring underlying latent constructs. Figure 5.2 (appended on the next page) presents the results for confirmatory factor analysis. One item from each of transferability and environmental uncertainty was deleted due to low item-total correlations and low factor loadings. In consistency with theoretical constructs, the factor analysis produced a clear three-factor solution with good CFA fitness ($\chi^2=135.416$, $df=74$, $p=0.000$, $RMSEA=0.078$, $CFI=0.939$). I also employed Kaiser-Meyer-Olkin (KMO) and Bartlett tests ($KMO=0.835$, $\chi^2=900.278$, $df=91$, $p=0.000$) to detect outliers and to establish normality and sampling adequacy of the data. Cronbach's Alpha has also been calculated to test the scale reliability and the analysis of the constructs reported all three factors having values well above the recommended cut-off value of 0.70 (Cronbach, 1951; Nunnally, Bernstein, & Berge, 1994).

Figure 5.2: Confirmatory Factor Analysis

5.4 Data Analysis

Descriptive statistics are reported in Table 5.2 appended below.

Table 5.2: Descriptive Statistics – I

Variable	Mean	S.D	Correlations						
			1	2	3	4	5	6	7
1. PropMUF	1.504	1.010	1						
2. ENV	3.372	1.360	-0.338	1					
3. TRF	3.372	1.375	0.260	-0.005	1				
4. BRAND	5.677	1.053	0.206	-0.070	0.078	1			
5. INV	452.264	3571.217	0.409	-0.169	-0.111	0.127	1		
6. SIZE	155.949	328.376	0.097	0.040	0.016	-0.212	-0.025	1	
7. AGE	11.190	8.391	0.286	0.053	0.129	0.116	0.126	0.453	1

I use OLS regression analysis to test the proposed model (see figure 5.1). The dependent variable “*proportion of multi-unit franchising*” (PropMUF) is modeled as number of units per franchisee. Brand name capital (BRAND), non-transferability of franchisor’s system-specific know-how (TRF), franchisee’s transaction-specific investments (INV), and environmental uncertainty (ENV) are used as predictor variables. System size measured by the total number of outlets (SIZE), sector (SECT), and age of the system (AGE) are also included in the model as control variables. Hence, we estimate the following regression equation:

$$\text{PropMUF} = \alpha_0 + \alpha_1 \text{BRAND} + \alpha_2 \text{TRF} + \alpha_3 \text{INV} + \alpha_4 \text{ENV} + \alpha_5 \text{SIZE} + \alpha_6 \text{SECT} + \alpha_7 \text{AGE} + \varepsilon$$

According to the organizational capabilities view, I propose positive effects of brand name capital (BRAND) and non-transferability of franchisor’s specific know-how (TRF) of the franchisor’s use of MUF. Based on transaction cost theory, I hypothesize a negative effect of environmental uncertainty (ENV) and a positive effect of franchisee’s transaction-specific investments (INV) on the franchisor’s tendency toward MUF.

All four Hypotheses (5.1, 5.2, 5.3, and 5.4) proposed in this paper are supported by the analysis of the empirical data. Tables 5.3, 5.4, and 5.5 present results of the regression analysis.

Table 5.3: OLS Regression – OC

	Model 1	Model 2
Variable		
Constant	1.473*** (0.090)	1.410*** (0.151)
TRF	0.253*** (0.090)	0.257*** (0.090)
BRAND	0.194** (0.090)	0.172* (0.096)
SIZE	----	0.028 (0.104)
SECT	----	0.080 (0.190)
AGE	----	0.239** (0.103)
Model Summary		
N [†]	115	111
Model F	6.605***	4.462***
R ²	0.105	0.174
Adjusted R ²	0.089	0.135
Dependent Variable = PropMUF		
Values in parentheses represent Standard Errors		
*** p < 0.01; ** p < 0.05; *p < 0.1		
† Counts across models differ due to item non-response		

Table 5.4: OLS Regression – TC

	Model 3	Model 4
Variable		
Constant	1.489*** (0.080)	1.578*** (0.133)
INV	0.333*** (0.079)	0.304*** (0.079)
ENV	-0.251*** (0.080)	-0.265*** (0.080)
SIZE	----	-0.013 (0.088)
SECT	----	-0.121 (0.167)
AGE	----	0.256*** (0.090)
Model Summary		
N [†]	108	106
Model F	16.515***	8.983***
R ²	0.238	0.308
Adjusted R ²	0.223	0.274
Dependent Variable = PropMUF		
Values in parentheses represent Standard Errors		
*** p < 0.01; ** p < 0.05; *p < 0.1		
[†] Counts across models differ due to item non-response		

Table 5.5: OLS Regression – OC & TC

	Model 5	Model 6
Variable		
Constant	1.439*** (0.073)	1.499*** (0.122)
TRF	0.323*** (0.073)	0.304*** (0.073)
BRAND	0.205*** (0.075)	0.220*** (0.079)
INV	0.352*** (0.072)	0.332*** (0.072)
ENV	-0.217*** (0.073)	-0.240*** (0.073)
SIZE	----	0.071 (0.082)
SECT	----	-0.097 (0.151)
AGE	----	0.154* (0.084)
Model Summary		
N [†]	106	104
Model F	17.933***	11.916***
R ²	0.413	0.462
Adjusted R ²	0.390	0.424
Dependent Variable = PropMUF		
Values in parentheses represent Standard Errors		
*** p < 0.01; ** p < 0.05; *p < 0.1		
[†] Counts across models differ due to item non-response		

5.5 Discussion and Conclusion

In this chapter, I develop and test organizational capabilities and transaction cost explanations for the franchisor's use of MUF in the German franchise sector. The empirical data support all four hypotheses proposed in this study.

While the OC-theory takes the position that increasing a firm's competitive advantage is the primary explanation for the positive relationship between firm-specific assets and capabilities and the use of multi-unit ownership strategy, the TC- theory explains the use of MUF primarily in terms of minimization of transaction costs. According to the organizational capabilities view, the franchisors are more likely to use a higher proportion of MUF if the system has highly firm-specific assets, such as brand name and system-specific know-how that generate competitive advantage. High brand name and system-specific assets require higher monitoring and knowledge transfer capabilities to efficiently exploit the rent-generating potential of these assets. The multi-unit franchisees are larger partners and possess higher monitoring and human resources capabilities to implement franchisor's specific know-how in the local market. Additionally, franchisors can delegate some of the knowledge transfer tasks to the mini-chain owners that ultimately results in system's higher know-how transfer capabilities. Therefore, under a strong brand name and high system-specific assets, multi-unit ownership strategy enables the franchisor to exercise a higher degree of control than

single-unit ownership strategy, due to its higher monitoring and knowledge transfer capabilities.

According to the TC theory, transaction-specific investments and environmental uncertainty determine the ownership mode decision. First, the amount of franchisee's investments required for opening up a new outlet has a positive influence on the use of MUF. The higher required investments tend to enhance franchisor's likelihood to use MUF due to the stronger bonding effect. Multi-unit franchisees have higher motivations to behave cooperatively as they have a higher stake involved (compared to single-unit franchisees) in the franchise relationship. Second, environmental uncertainty is an important determinant of the governance mode (Sutcliffe & Zaheer, 1998). High uncertainty in the local market environment has a negative impact on the franchisor's use of MUF. In a highly uncertain environment, more local responsiveness is required to adapt to environmental changes. The single-unit franchisees are better able to respond more quickly to any environmental changes as compared to larger multi-unit franchisees. Therefore, the results suggest that franchisors are likely to prefer SUF over MUF in the case of highly uncertain local market environment. Additionally, I also found a positive relationship between age and the franchisor's use of MUF. This result is consistent with the previous studies conducted in this context (Weaven, 2009; Weaven & Frazer, 2007b; Weaven & Herington, 2007). Older franchise systems generally signal higher brand reputation and hence are more attractive for the multi-unit franchisees.

What is my contribution to the franchise literature? The main contribution of this study is to present complementary perspectives to the agency-theoretical explanations by developing organizational capabilities and transaction cost explanations for the choice of multi-unit ownership strategy in the franchising networks. The OC-theory suggests that a franchising firm's specific assets and capabilities positively influence its use of MUF because this organizational form increases franchising firm's competitive advantage. The organizational capabilities view explains MUF as a governance mode that enables the development and deployment of firm-specific assets to gain strategic rents. The multi-unit franchise systems' higher monitoring and knowledge transfer capabilities result in higher residual income compared to single-unit franchise systems, especially when the system-specific know-how is non-transferable and the brand name assets have a high rent-generating potential. On the other hand, the transaction cost perspective regards the firm as an incentive and adaptation mechanism to minimize transaction costs. According to the transaction cost theory, transaction-specific investments have a positive and environmental uncertainty a negative impact on the use of multi-unit ownership strategy. Furthermore, this study utilizes primary data from the German franchise systems that enables me to estimate the factors which the theory considers important to affect the choice of ownership strategy. I present the first empirical evidence that firm-specific assets, such as brand name assets and system-specific know-how, and transaction-

specific investments of the franchisee are positively related to the use of MUF and environmental uncertainty is negatively related to the use of MUF.

This study also bears important managerial implications for the franchisor's choice of ownership strategy. Since a MUF-system have has higher knowledge transfer and monitoring capabilities compared to a SUF-system, it enables the franchisor to better develop and exploit its brand name capital and system-specific know-how. Hence if the brand name and the system-specific know-how are very important for the success of the franchise system, a higher proportion of MUF increases the rent-generating potential of the franchise network. Second, on the other hand, in the case of a highly uncertain environment, the franchisor should consider using a higher proportion of SUF as the single-unit franchisees possess higher entrepreneurial capabilities and they can cope with the local market changes in a more effective manner compared to the local mini-chains. Third, the franchisor can reduce the ex-post transaction costs due to the stronger bonding effect of higher transaction-specific investments under multi-unit contracts.

Despite having presented a set of new explanations for the franchisor's use of MUF, this study has some limitations. First, I could not use all the responses for regression analysis due to the missing values. This might have resulted in a significant loss of information. Second, although, based on an extensive review of the relevant literature, I attempt to use the most

appropriate measures for the latent constructs; some may raise questions about the measurement issue.

The future research may be directed to find alternative theoretical explanations for the franchisor's use of various ownership strategies within the franchising setting. Additionally, it would also be a very important research question to investigate the franchisor's simultaneous decision problem about the choice between the proportion of company-ownership and multi-unit franchising. MUF increases the franchisee's control over the local markets which can be at least partly compensated by a higher proportion of company-owned outlets.

Chapter 6

MUF: A Property Rights View¹

6.1 Introduction

The expansion of franchising networks by opening up franchised outlets can be based on two ownership strategies: single-unit franchising (SUF) and multi-unit franchising (MUF). Under SUF a franchisee operates only one outlet while in the case of MUF arrangement a franchisee operates two or more outlets at multiple geographical locations in the same franchise system. The phenomenon of MUF can be further divided into two types, i.e., area development multi-unit strategy and sequential multi-unit strategy (Kaufmann, 1993; Kaufmann & Dant, 1996). In the first case, the franchisee has the right to open a certain number of outlets in a particular geographical area during a specified time period, and in the second case, the existing franchisee is granted the right to sequentially open up additional outlets (Grünhagen & Mittelstaedt, 2005). The present study focuses on a property rights explanation of the multi-unit ownership strategy in franchising networks by emphasizing the role of non-contractible (intangible) assets as determinant of ownership structure.

¹ An earlier version of this chapter was presented at the 24th Annual International Society of Franchising (ISoF) Conference held at the University of New South Wales (Sydney, Australia) on June 07-09, 2010. The present version is under review for publication in a peer-reviewed international journal.

Although several theoretical and empirical studies dealing with MUF have been published in recent years, no study tests a property rights approach to explain MUF. MUF has been examined from agency cost, transaction costs and resource-based perspectives. First, MUF can address a number of agency problems in a more effective way compared to SUF (Bercovitz, 2004; Brickely, 1999; Garg & Rasheed, 2003; Garg et al., 2005; Jindal, 2006; Kalnins & Lafontaine, 2004; Kalnins & Mayer, 2004; Weaven & Frazer, 2007a). Especially, multi-unit franchisees are better motivated to reduce monitoring costs. Geographical contiguity of franchised units positively influences the use of MUF (Gomez et al., 2010). The franchisors prefer MUF compared to SUF to reduce the risk of free-riding at the local outlets (Bercovitz, 2004; Brickely, 1999; Kalnins & Lafontaine, 2004). Fladmoe-Lindquist and Jacque (1995) argue that multi-unit franchisees provide better quality of goods/services than single-unit franchisees because shirking on quality would affect the multi-unit franchisee's business in the local network and ultimately his profitability.

Second, Bercovitz (2003) applies transaction cost reasoning to explain MUF. She argues that MUF increases the franchisee's quasi-rents based on higher outlet-specific investments and thereby increases the self-enforcing range of the franchise contract (Klein, 1995). If the self-enforcing range is higher under MUF compared to SUF, the opportunism risk is lower, and the franchisor less frequently uses disciplinary measures (litigation and

termination) for contract enforcement. Consequently, MUF reduces the hold-up risk, due to the stronger incentive effect compared to SUF.

Third, under the resource scarcity view, MUF systems have a relative advantage over SUF systems (Kaufmann & Dant, 1996). Empirical studies show that MUF and system growth are positively related (Bradach, 1995; Gomez et al., 2010; Kaufmann & Dant, 1996; Kaufmann & Kim, 1995; Vázquez, 2008). Kaufmann & Kim (1995) also argue that franchise systems with higher growth rate are in a better position to attract high-quality partners as multi-unit franchisees. In addition, MUF increases the organizational capabilities and, consequently, strengthens the competitive position of the system. Examples of organizational capabilities are system uniformity, system-wide adaptations and system corporatization (Bradach, 1995; 1998; Weaven & Frazer, 2007a; 2007b).

Starting from the existing literature that primarily focuses on agency cost, transaction cost, and resource scarcity perspectives to explain the multi-unit ownership strategy, I extend the literature by developing a property rights explanation of the multi-unit ownership strategy of the franchise firm. According to the property rights theory, the allocation of ownership rights between the franchisor and the single-unit and multi-unit franchisees depends on the contractibility of assets, i.e., system-specific assets, local market assets and financial assets. First, I hypothesize that MUF is negatively related to the franchisee's intangible local market assets and positively with the

franchisor's intangible system-specific assets. Second, I argue that the impact of financial assets on the franchisor's tendency toward MUF increases with non-contractibility of local market assets.

What does the property rights approach contribute to the existing literature, and what answers do the property rights perspective provide that other perspectives cannot? When setting up a franchising network the franchisor has to assign residual income and ownership rights between the network partners. Hence designing MUF vs. SUF contracts is a question of allocating residual income rights and ownership rights between the network partners. Compared to the agency theory that explains the allocation of residual income by incentive contracts between the franchisor and single-unit and multi-unit franchisees, property rights theory explains the allocation of ownership rights between the franchisor and franchisees. Agency theory cannot distinguish between performance incentives and ownership incentives because it implicitly assumes that "a contract that provides full incentives to an individual is fundamentally the same as selling the firm to this individual" (Hubbard, 2008, p. 349). Therefore, in a strictly methodological sense, agency theory cannot explain the allocation of ownership rights as residual rights of control, due to the complete contracting assumption (Hart, 1995; 2003). Compared to the transaction cost theory that focuses on transaction-specific assets as determinant of the ownership structure without differentiating between contractible and non-contractible specific assets (Bakos & Brynjolfsson, 1993; Whinston, 2003), property rights theory explains the

choice of ownership structure (SUF, MUF) by focusing on non-contractible assets. Similarly, the resource scarcity view, which focuses on the franchisor's resource advantages (information, managerial and financial advantages) by using franchised outlets, does not differentiate between contractible and non-contractible resources either (Windsperger & Dant, 2006).

To summarize, compared to the agency theory that provides an explanation of performance incentives by allocating residual income rights without explaining the ownership structure, property rights theory provides an explanation of the structure of ownership rights. In addition to the transaction cost and resource scarcity perspectives property rights theory focuses on the impact of contractibility of assets/resources on the structure of ownership pattern. Only non-contractible assets influence the structure of ownership rights (Baker & Hubbard, 2004; Hart, 1995).

The chapter is organized as follows: In section two, I develop the theory and the hypotheses. Sections three explains the methodology and sections four and five present and discuss the empirical results from the German franchise sector.

6.2 A Property Rights View on Multi-unit Ownership

Strategy

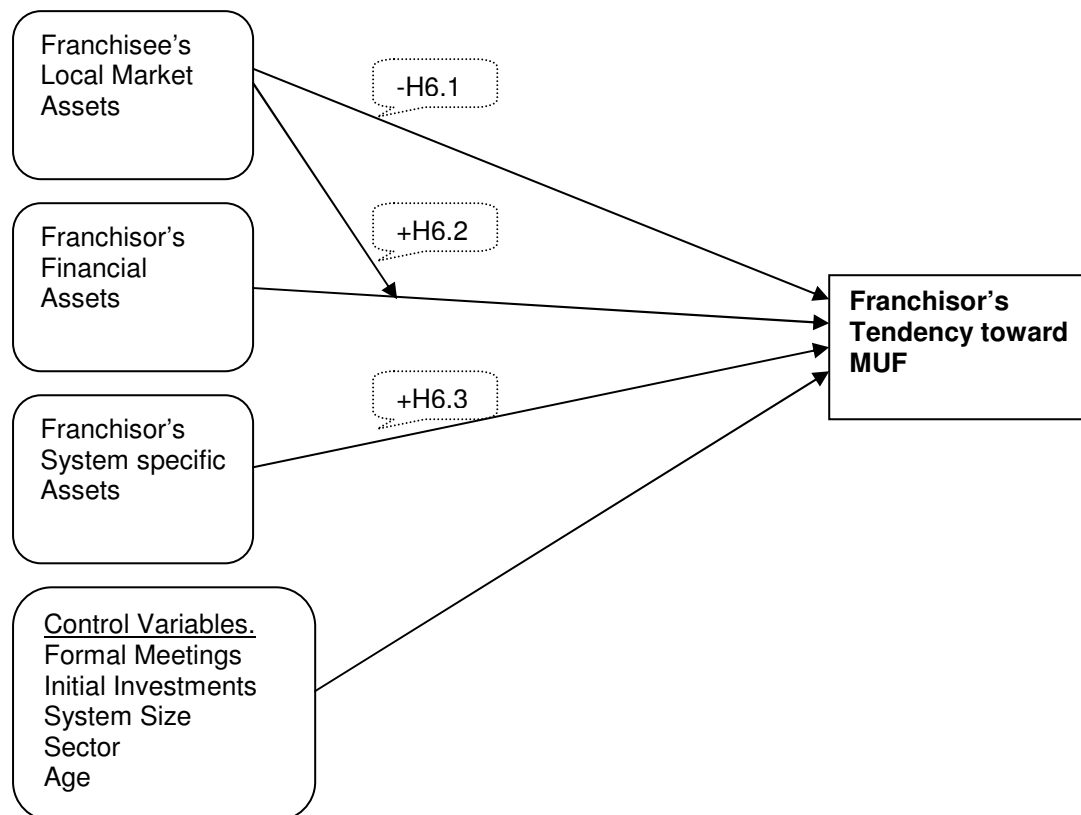
6.2.1 Intangible Assets as Determinant of the Allocation of Ownership Rights

According to the property rights theory, the asset characteristic relevant for the allocation of ownership rights is the degree of intangibility (Brynjolfsson, 1994; Hart & Moore, 1990). Intangible assets refer to knowledge and skills that cannot be codified and easily transferred to other agents since they have an important tacit component (Nelson & Winter, 1982). What are the intangible assets in franchising? The franchisee's intangible assets refer to the local market know-how in local advertising and customer service, quality control, human resource management and product innovation (Wicking, 1995). The franchisor's intangible assets refer to the system-specific know-how and brand name capital (Hall, 1993; Klein & Leffler, 1981). The system-specific know-how includes knowledge and skills in site selection, store layout, product development, buying and merchandising (Kacker, 1988). The brand name assets refer to intangible investments in system marketing and promotion.

How are the ownership rights allocated between the franchisor and the franchisee? According to the property rights theory, contractibility of assets determines the ownership structure of the firm (Hart, 1995; Hart & Moore, 1990). Contractibility of assets refers to the extent to which the franchisor's

system-specific assets and franchisee's local market assets can be easily codified and transferred to the other partner. The impact of contractibility of assets on the choice of single-unit and multi-unit ownership strategy in franchising has not been examined in the literature. In this study, I develop the following property rights hypotheses (see figure 6.1):

- (1) The lower the contractibility of local market assets, the more important is the local responsiveness and outlet-specific knowledge of the local entrepreneur for the generation of residual income, and the lower is the tendency to use MUF compared to SUF.
- (2) The lower the contractibility of local market assets, the larger is the positive impact of financial resources on the tendency toward using MUF because the franchisor is less able to acquire the financial resources at the external capital market.
- (3) The lower the contractibility of the system-specific assets, the more knowledge transfer capabilities are required to transfer the system know-how to the local outlets, and the greater is the positive effect of system-specific assets on the tendency toward MUF. Figure 6.1 appended on the next page presents an overview of the theoretical model. In the following section, the hypotheses are developed in detail.

Figure 6.1: Theoretical Model – II

6.2.2 Hypotheses

Contractibility and Local Market Assets

Local market knowledge can be more efficiently acquired by single-unit franchisees compared to the employees of multi-unit networks because single-unit franchisees (as residual claimants) have higher entrepreneurial capabilities (Bradach, 1995; 1997) and are more motivated to exploit the profit opportunities at the local market than the multi-unit franchisee's employees. Franchisee's intangible assets refer to the franchisee's local market know-how consisting of 'exploration' assets and 'exploitation' (or managerial) assets

(Sorenson & Sørensen, 2001). The former include local market knowledge and innovation capabilities, and the latter include quality control, human resource management and administrative capabilities. The lower the contractibility of local market assets, the more important is the outlet-specific knowledge of the local entrepreneur for the generation of residual income, and the lower is the tendency toward MUF. I derive the following hypothesis:

Hypothesis 6.1: Franchisees' non-contractible local market assets are negatively related to the franchisor's tendency to use multi-unit franchising.

Contractibility and Financial Resources Advantage

Financial resource scarcity of the franchisor is a major reason to use franchising for financing the growth of the system. First, the question to ask is under which conditions the franchisor may realize an advantage by using the franchisee's financial resources. The reason lies in the low contractibility of assets, especially in the early phase of the organizational life cycle. The franchisor may be quite constrained by the information asymmetry between the external lender and him/her concerning the profitability of investment projects. This information asymmetry can be reduced by setting-up a franchising network. The franchisee may be more likely able to evaluate the investment risk because he/she is not only the supplier of financial assets but also of the local market assets that show a low degree of contractibility resulting in high financial transaction costs for the lender (Long & Malitz,

1985). Therefore, contractibility of local market assets influences the impact of financial resources on the ownership structure. For instance, if the local market assets are non-contractible, high information asymmetry exists between the external supplier of capital and the franchisor, which leads to difficulties in acquiring financial resources from external suppliers to finance the growth of the system. Consequently, the higher the non-contractibility of local market assets, the higher is the positive impact of financial assets on the tendency toward franchising, because the franchisor's ability to acquire financial resources from the external capital market decreases with more non-contractible local market assets.

Second, the question to ask is: Can MUF additionally mitigate the financial resource scarcity problem of the franchisor? MUF offers additional growth opportunities for the franchisor compared to SUF, because multi-unit franchisees are less constrained in financing local investments compared to the single-unit franchisees. Multi-unit franchisees have easier and less costly access to financial resources, because external suppliers of capital may charge lower risk premiums for lending due to the portfolio effect of a larger number of outlets, and multi-unit franchisees have a higher self-financing capacity than single-unit franchisees. As a result I can derive the following hypotheses:

Hypothesis 6.2: The positive impact of financial assets on the franchisor's tendency toward MUF increases with non-contractible local market assets.

Contractibility and System-specific Assets

The franchisor's intangible assets refer to the system-specific know-how and brand name assets as reputation capital (Hall, 1993; Kacker, 1988; Klein & Leffler, 1981) that are characterized by a low degree of contractibility. Compared to SUF systems, MUF systems have an advantage to efficiently exploit the system-specific know-how. MUF results in higher monitoring capabilities of the network compared to a system with SUF because the franchisor can delegate some monitoring tasks to the franchisees that have special market knowledge and realize economies of monitoring. In addition, the knowledge transfer capacity is higher under MUF compared to SUF because the franchisor may transfer some knowledge transfer tasks to the mini-networks. We conclude: The higher the degree of intangibility of system-specific assets, the more important are the MUF system's greater monitoring and knowledge transfer capabilities for the generation of the residual surplus of the network, and the higher is the tendency toward MUF. I derive the following hypothesis:

Hypothesis 6.3: Franchisor's non-contractible system-specific assets are positively related to franchisor's use of multi-unit franchising.

6.3 *Empirical Analysis*

6.3.1 Data Collection

Empirical data to test the hypotheses were collected from the German franchise sector. The directory of the German Franchise Federation (DFV) lists all franchise systems operating in Germany that are registered members of the DFV. The data were collected via self-administered questionnaire which was developed in several steps. After several preliminary refinements, I conducted in-depth interviews with franchise professionals from the Austrian and German Franchise Association as well as franchise consultants and a pre-test with 10 franchisors in Vienna. The questionnaire was mailed to 485 franchise systems in Germany. The response rate was 32%, providing me a sample of 153 franchise systems. Table 6.1 presents the sector-wise distribution of the sample.

Table 6.1: Sector-wise Distribution of the Sample and the Population

Sector	Population		Sample (Respondents)	
	No. of Systems	Percentage	No. of Systems	Percentage
Retail Business	163	33.61	46	30.07
Personal & Business Services	149	30.72	50	32.68
Manufacturing & Others	62	12.68	18	11.76
Hotel & Restaurant	44	9.07	22	14.38
Building, Construction, & Real Estate	41	8.45	8	5.23
Cleaning & Maintenance	26	5.36	9	5.88
Total	485	100	153	100

Due to missing values, only 90 responses could be used for the regression analysis. Non-response bias was estimated by comparing early versus late respondents (Armstrong & Overton, 1977), where late respondents serve as proxies for non-respondents. Additionally, I was able to retrieve data on five variables (i.e., age, initial franchise fee, advertising fee, contract length, and royalties) for the entire population. I used this data to check whether the sample is representative. No significant differences

emerged between the two groups of respondents (see Table 6.2 appended below).

Table 6.2: Estimate of Non-Response Bias² - II

	Means, (SD), and Counts ³			
	Population	Respondents	t-value	p-value
Age of Franchise System (Years)	16.420 (20.796) N = 467	15.032 (20.016) N = 153	-0.722	0.470
Initial Franchise Fee (Thousand €)	10.536 (19.984) N = 387	11.548 (10.274) N = 126	0.545	0.586
Advertising Fee (% of Sales)	1.161 (1.617) N = 387	1.082 (1.858) N=145	-0.482	0.630
Contract Length (Years)	7.550 (3.487) N = 420	7.810 (3.731) N = 149	0.774	0.439
Royalties (% of Sales)	4.141 (3.997) N = 360	4.078 (3.118) N = 140	-0.166	0.868

² The measures of, Initial Franchise Fee, Advertising Fee, and Royalties were first tested by a MANOVA to ensure independence of these variables. MANOVA was non-significant (Wilks' Lambda = 1.000, p = 0.984).

³ Counts differ across different measures because of item non-response.

6.3.2 Measurement

The measures of the relevant variables are summarized in the Appendix 6.1.

Dependent Variable

The dependent variable, *proportion of multi-unit outlets (PropMUF)*, is measured as a ratio of franchised outlet to the number of franchisees. A similar ratio has been used in previous studies (Bercovitz, 2003; Gomez et al., 2010; Weaven & Frazer, 2004) as an indicator for MUF. However, some studies use dichotomous measures for the use of MUF (Bradach, 1995; Grünhagen & Mittelstaedt, 2005; Lopez-Bayon & Lopez-Fernandez, 2008; Robicheaux et al., 1994).

Independent Variables

Franchisee's Intangible Local Market Assets (LMA): Intangible local market assets refer to the franchisee's local market know how (LMA). The higher the degree of intangibility of franchisee's know-how, the larger is the local market knowledge advantage of the franchisee. Therefore, I use the local market knowledge advantage of the franchisee as an indicator of the degree of intangibility of franchisee's outlet-specific assets. In the questionnaire the franchisors were asked to rate on a five-point scale to evaluate franchisee's intangible local market assets. Consistent with previous studies (Cliquet, 2000b; Windsperger, 2004), I used a three-item scale to measure the local know-how advantage of the franchisee (see Appendix 6.1).

Franchisor's Intangible System-specific Assets: They refer to franchisor's specific know how and brand name capital. Based on indicators used in earlier studies (Argote, 2000; Darr et al., 1995; Fladmoe-Lindquist & Jacque, 1995), I use annual training days (ANTD) as a proxy for the franchisor's intangible system-specific assets. The number of training days is an indicator of the importance of the franchisor's intangible system-specific know-how to generate the residual income of the network. The assumption behind this measure is that as intangibility of system-specific assets increases, so does the number of days of face-to-face interaction. As argued by Simonin (1999), the higher the degree of intangibility, the more personal (face-to-face) knowledge transfer methods are used, such as meetings, coaching and training. The indicator for brand name assets is advertising fee (ADV) that represents the intangible investments in the brand name capital (Lafontaine & Shaw, 2005; Windsperger, 2004).

Franchisor's Financial Resources Advantages (FIN): Consistent with previous studies (Dant & Kaufmann, 2003; Windsperger & Dant, 2006), the financial resources advantage of the franchisor is measured by using a single-item five-point Likert-type scale, where the franchisors were asked to rate their financial advantage through franchising. The measurement is based on the argument that the franchisors who do not possess enough financial resources to finance the system growth generally perceive a higher financial advantage through franchising.

Control Variables

Formal Meetings (MEET): Under MUF the franchisees have more operational decision rights compared to SUF. In this case, the franchisor's dilution of decision rights may be compensated by an increase of headquarters' control. I use the annual number of formal meetings between the franchisor and the franchisees (MEET) as a proxy for control (e. g. meetings of the different commissions).

Initial Investments (INV): They refer to the total amount (in thousand €) required to start up a new franchised outlet. Initial investments (including initial fees) are an indicator for franchisees' transaction-specific investments which function as bonding and screening device (Dnes, 1992; Klein, 1996; Williamson, 1983). They reduce the opportunism risk for the franchisor and simultaneously decrease the information asymmetry between the franchisor and the potential franchisees. A higher amount of initial investments may be compensated by allotting the franchisees additional units in the network.

System Size (OUT): The size of the system is measured by the total of franchised and company-owned outlets. The larger franchise systems signal a higher level of strength and success of the system and are more attractive for the prospect multi-unit franchisees. The existing research also suggests a positive effect of system size on its use of MUF (Gomez et al., 2010; Vázquez, 2008; Weaven & Frazer, 2007b; Weaven & Herington, 2007)..

Sector (SECT): 1 refers to services franchising and 0 to product franchising. Previous studies (Wadsworth & Morgan, 2003) suggest that MUF varies with the industry and the business sector. Since services franchising firms are characterized by more intangible assets compared to product franchising firms, they require more local knowledge transfer and monitoring capabilities. Hence, services firms may have a higher tendency toward MUF.

Age (AGE): Due to the signaling effect of the established reputation and brand name, experienced franchisors are more likely to attract multi-unit franchisees compared to franchise systems in the early stages of the organizational life cycle. The existing research shows that the age of system may have a positive impact on the use of MUF (Weaven, 2009; Weaven & Herington, 2007). AGE is measured by the number of years since the franchise system was established.

6.4 Empirical Results

Descriptive statistics are reported in Table 6.3 appended on the next page.

Table 6.3: Descriptive Statistics – II

Variable	Mean	S.D	Correlations								
			1	2	3	4	5	6	7	8	9
1. PropMUF	1.441	1.357	1								
2. LMA	3.187	0.880	-0.198	1							
3. FIN	4.685	1.997	-0.276	-0.047	1						
4. ANTD	6.023	10.243	0.172	-0.221	-0.113	1					
5. OUT	104.876	207.597	0.090	-0.085	-0.096	0.089	1				
6. MEET	5.753	4.063	0.079	-0.082	0.069	0.251	0.169	1			
7. ADV	1.163	1.804	0.185	-0.027	-0.119	0.247	0.226	-0.018	1		
8. INV	144.136	300.966	0.072	0.153	-0.149	0.297	0.167	0.125	0.073	1	
9. AGE	16.804	20.134	0.028	-0.078	-0.124	0.004	0.264	-0.75	0.061	0.063	1

I use OLS regression analysis to test the proposed model (see figure 6.1). The dependent variable “*proportion of multi-unit franchising*” (PropMUF) is modeled as number of units per franchisee. Franchisee’s intangible local market assets (LMA), franchisor’s financial assets (FIN), and franchisor’s intangible system-specific assets (ANTD, ADV) are used as predictor variables. I also model the interaction effect of franchisee’s local market assets and franchisor’s financial assets (LMA*FIN). Formal meeting days (MEET), initial investment (INV), number of outlets (OUT), sector (SECT), and age of the system (AGE) are also included in the model as control variables. Hence, I estimate the following regression equation:

$$\text{PropMUF} = \alpha_0 + \alpha_1 \text{FIN} + \alpha_2 \text{LMA} + \alpha_3 \text{ANTD} + \alpha_4 \text{LMA*FIN} + \alpha_5 \text{ADV} + \alpha_6 \text{MEET} + \alpha_7 \text{INV} + \alpha_8 \text{OUT} + \alpha_9 \text{SECT} + \alpha_{10} \text{AGE} + \varepsilon$$

According to the property rights theory, I propose a negative effect of intangible local market assets (LMA) and a positive effect of intangible system-specific and brand name assets (ANTD, ADV) on MUF; the impact of financial assets on the ownership strategy will be evaluated by $(\alpha_1 + \alpha_4 \text{LMA})$. Financial assets (FIN) have a positive impact on the tendency toward MUF when the local market assets are more non-contractible. Table 6.4 presents results of the regression analysis.

Table 6.4: OLS Regression – Property Rights View (PRV)

	Model 1	Model 2
Variable		
Constant	1.459*** (0.123)	1.46*** (0.122)
LMA	-0.320** (0.131)	-0.366*** (0.135)
FIN	-0.390*** (0.123)	-0.403*** (0.124)
ANTD	-0.028 (0.130)	-0.173 (0.144)
ADV	0.125 (0.128)	0.126 (0.131)
LMA*FIN	0.498*** (0.116)	0.556*** (0.124)
MEET	----	0.259* (0.134)
OUT	----	-0.021 (0.131)
SECT	----	-0.153 (0.132)
INV	----	0.188 (0.131)
AGE	----	-0.038 (0.129)
Model Summary		
N	90	90
Model F	7.632***	4.412***
R2	0.310	0.366
Adjusted R2	0.269***	0.287***
*** p < 0.01; ** p < 0.05; *p < 0.1; Values in parentheses represent Standard Errors		

Hypothesis 6.1 is supported by the data. LMA are negatively related to the franchisor's use of MUF. Hypothesis 6.2 is also supported. As shown in table 6.5, LMA is a significant moderator of the impact of financial assets (FIN) on MUF. The slope analysis of the interaction term also supports the hypothesis. With an increasing level of intangible local market knowledge ($LMA \geq 4$), FIN has a positive effect on MUF (see table 6.5). In addition, I proposed a positive effect of franchisor's system-specific assets (ANTD and ADV) on the use of MUF but the data do not support Hypothesis 6.3. Furthermore, the data show that MUF is positively related to the franchisor's formal meetings days (MEET) indicating that the dilution of the franchisor's decision rights by MUF is compensated by an increase of control. The results also show that initial investments, age and sector do not have a significant impact on the use of MUF.

Table 6.5: Interaction analysis

LMA	$\alpha_1 + \alpha_4 * LMA$	95% Confidence interval	
0	-1.11	-1.24328	-0.97672
1	-0.823	-0.95628	-0.68972
2	-0.536	-0.66928	-0.40272
3	-0.249	-0.38228	-0.11572
4	0.038	-0.09528	0.17128
5	0.325	0.19172	0.45828

6.5 Discussion and Conclusion

This study develops a property rights explanation of MUF and presents empirical results on the franchisor's use of MUF in the German franchise sector. First, the empirical data suggest that franchisee's local market assets and franchisor's financial assets significantly influence franchisor's tendency toward using MUF. The results of regression analysis support the hypothesis that intangible local market assets have a negative impact on the tendency toward MUF. The franchisors are less likely to use MUF if local responsiveness and outlet-specific knowledge of the local partners is very important for the success of the business. Local market assets also show a significant moderating effect on the influence of financial resources on MUF. The more intangible local market assets are used at the outlets, the greater is the positive impact of financial resources on the tendency toward MUF. Due to the less costly access to the external capital market and the higher self-financing capabilities, multi-unit franchisees are less constrained in financing local investments compared to single-unit franchisees. In addition, a positive influence of intangible system-specific assets on the use of MUF was proposed. However, the data do not support this hypothesis. Furthermore, the data provide some support of the positive relationship between the franchisor's use of formal meetings and the tendency toward MUF. This may suggest that the dilution of franchisor's decision rights under MUF is at least partly compensated by an increase of headquarters' control.

How does this study extend the results in the literature? This research contributes to the franchising and organizational economics literature by providing a property rights explanation for the franchisor's use of MUF. The empirical study from the German franchise sector provides some support that contractibility of assets determines franchisor's choice between SUF and MUF. This study extends the literature on MUF beyond existing explanations that are mainly based on agency cost and transaction cost theory as well as resource scarcity perspectives. Compared to the agency theory that provides an explanation of the allocation of residual income rights under different incentive contracts, property rights theory provides an explanation of the allocation of ownership rights between the franchisor and single-unit and multi-unit franchisees. As stated by Hart (1995; 2003), agency theory cannot explain the allocation of ownership rights as residual rights of control, due to the complete contracting assumption. This assumption is critical for the explanation of asset ownership (Baker & Hubbard, 2004; Hubbard, 2008). In addition to the transaction cost theory property rights theory focuses on contractibility of assets as determinants of ownership structure. Only when the specific assets are non-contractible they influence the structure of ownership rights between the franchisor and the franchisees. Whinston (2003) criticized the asset specificity theory developed by Williamson (1979) and Klein, Crawford, & Alchian (1978), because it does not differentiate between contractible and non-contractible specific assets. Furthermore, compared to the resource scarcity view (Baker & Dant, 2008; Dant, Paswan, & Kaufmann,

1996), property rights theory argues that informational, financial and managerial resources are only relevant for the allocation of ownership rights if they are non-contractible (Windsperger & Dant, 2006).

How can property rights theory advance franchising research in future? One promising area of application is a comparative institutional analysis of the allocation of residual income and ownership rights in international franchising, such as master franchising, area development franchising and company-owned subsidiaries. Agency-theoretical frameworks can explain the different incentive contracts between the headquarters and the international network partners, but they are unable to explain the different ownership patterns, such as master franchising and area development franchising. A second area of application in international franchising is the investigation of the structure of residual decision rights between franchisor and franchisees, and the relationship between ownership rights and residual decision rights under the different international governance modes, such as multi-unit franchising and master franchising.

The study may have important limitations. First, I measure all of the constructs from the franchisor's point of view. Particularly, I use franchisor's perception to measure local market assets. This issue may be addressed in the future research by collecting data from the franchisees as well. Second, although Bergkvist and Rossiter (2007) and Drolet and Morrison (2001) argue that the use of single-item scales can be justified by different reasons (e. g.,

simplicity, convenience, and time savings for both the respondent and researcher), additional indicators have to be included in the empirical analysis to test the impact of financial resources on MUF.

The study also has practical implications for the franchisors: If the local market knowledge of the network partners is of key importance, the franchisors should consider using a higher proportion of SUF to efficiently exploit the local profit opportunities. Single-unit franchisees have higher entrepreneurial capabilities to respond to changes in the local market environment. On the other hand, more multi-unit franchisees should be chosen to mitigate the financial scarcity problems of the franchisor because they have easier access to financial resources. This is especially important when the local market assets are non-contractible which makes it more difficult for the franchisor to expand by acquiring financial resources from external capital market.

In the next chapter, I conclude the dissertation by discussing the contribution and limitations of this research and presenting some directions for the future research.

Chapter 7

Conclusion

The objective of this research is to explain multi-unit ownership strategy of a franchising firm using organizational economics and strategic management theories. In this dissertation, I present a detailed review of literature on MUF and develop an integrative model based on transaction cost theory, agency theory, resource scarcity and organizational capabilities views, property rights theory, and screening theory. The empirical part partly tests the integrative model. The hypotheses concerning agency theory, resource-based and organizational capabilities views, transactions cost theory, and property rights theory are empirically tested using primary data from the German and the Austrian franchise sectors.

First, the franchisors are more likely to use higher proportion of MUF if the system has highly specific assets. Brand name capital is one of the most important system-specific assets and needs to be protected from misuse by the network partners (i.e., franchisees). MUF increases the monitoring capabilities of the franchise system and enables the franchisor to exercise a higher degree of control. Hence brand name positively affects the franchisor's tendency toward adoption of MUF. Non-transferability of system-specific know-how also has a positive relationship with the franchisor's use of MUF. If the system-specific know-how is highly non-transferable, the franchisors use MUF to effectively and efficiently transfer it to the local outlet level. The multi-

unit franchisees are larger partners and possess higher organizational capabilities to implement franchisor's specific know-how in the local market. Additionally, franchisors can delegate some know-how transfer tasks to the mini-chain owners that ultimately results in system's higher know-how transfer capabilities. The amount of investments required for opening up a new outlet has also a positive effect on the use of MUF. The higher required investments tend to enhance franchisor's likelihood to use MUF due to the increased bonding effect. The multi-unit franchisees have higher motivations to behave cooperatively as they have a higher stake involved (compared to single-unit franchisees) in the franchise relationship. On the other hand, they can also earn higher economic rents by achieving economies of scales and centralizing some operational activities (e.g., procurement of raw materials, advertising and promotion, recruitment and training) within their mini-chains. Environmental uncertainty is an important determinant of ownership strategy (Sutcliffe & Zaheer, 1998). High uncertainty in the local market environment has a negative relationship with the franchisor's use of MUF. In a highly uncertain environment, more local market knowledge is required to respond to the environmental changes. The single-unit franchisees are better equipped with local market knowledge and they can respond more quickly to any environmental changes as compared to larger multi-unit franchisees. Therefore, the results suggest that franchisors are likely to prefer SUF over MUF in case of a highly uncertain local environment. In consistency with the findings of the previous research (Weaven, 2009; Weaven & Frazer, 2007b), I

also evidence a positive relationship between the age of the franchise system and its use of MUF.

Second, the empirical data suggest that franchisee's intangible local market assets and franchisor's financial assets significantly influence franchisor's tendency toward using MUF. The results of regression analysis support the hypothesis that intangible local market assets have a negative impact on the franchisor's tendency toward MUF. The franchisors are less likely to use MUF if the intangible and outlet-specific knowledge of the local partners is very important for the success of the business. Local market assets also show a significant moderating effect on the influence of financial resources on MUF. The more intangible local market assets are used at the outlets, the greater is the positive impact of financial resources on the tendency toward MUF. Due to the less costly access to the external capital market and the higher self-financing capabilities, multi-unit franchisees are less constrained in financing local investments compared to single-unit franchisees. In addition, a positive influence of intangible system-specific assets on the use of MUF was proposed. However, the data do not support this hypothesis. Furthermore, the data provide some support for the positive relationship between the franchisor's use of formal meetings and the tendency toward MUF. This may suggest that the dilution of franchisor's decision rights under MUF is at least partly compensated by an increase of headquarters' control.

7.1 Contribution to the Literature

This study makes the following contribution to the franchising literature:

- This research is the first of its kind to extensively review the existing literature on MUF and to analyze its theoretical foundations.
- A systematic theoretical approach is applied to build the foundations for this research and to develop an integrative model from the organizational economics and strategic management theories. The integrative model presents the possible extensions in the existing literature by developing hypotheses based on transactions cost theory, agency theory, resource-based and organizational capabilities views, property rights theory, and screening theory.
- I use primary data from the German franchise sector and case study data from the Austrian franchise sector for empirical evaluation of the hypotheses based on agency theory, resource-based and organizational capabilities views, transaction cost theory, and property rights theory. The data from the German franchise sector enable me to present some generalizable findings regarding the franchisor's use of MUF.
- The application of organizational capabilities view and transaction cost theory offers unique and valuable explanations for the franchisor's use of MUF. This attempts to address the need to apply multiple theoretical frameworks to explain a firm's use of franchising (Castrogiovanni et al.,

2006b; 2006a; Combs & Ketchen, 1999). Complementary to the agency-theoretical explanations, I develop organizational capabilities and transaction cost explanations for the choice of multi-unit ownership strategy in franchising networks. While the TC- theory explains the use of MUF primarily in terms of cost minimization, the OC-theory takes the position that preserving and increasing a firm's competitive advantage is the primary explanation for the positive relationship between firm-specific assets and capabilities and the use of multi-unit ownership strategy. I present the first empirical evidence that firm-specific assets, such as brand name assets and system-specific know-how, and transaction-specific investments of the franchisee are positively related to the use of MUF and environmental uncertainty is negatively related to the use of MUF.

- Furthermore, I develop a property rights explanation of the use of MUF. The empirical data provide support that contractibility of assets determines franchisor's choice between SUF and MUF. Compared to the agency theory that provides an explanation of the allocation of residual income rights under different incentive contracts, property rights theory provides an explanation of the allocation of ownership rights between the franchisor and single-unit and multi-unit franchisees. In addition to the transaction cost theory property rights theory focuses on contractibility of specific assets as determinants of ownership structure (Whinston, 2003).

7.2 Managerial Implications

The choice of ownership strategy can have far-reaching implications for the survival and performance of a franchise system. A wrong decision in this regard may result in substantial financial and reputational loss for the system. This research has practical implications for the franchisors and franchisee as well, both partners can benefit from the findings of this research to cope with the management and environmental challenges.

If the local market knowledge of the network partners is of the key importance, the franchisors should consider using a higher proportion of SUF to efficiently exploit the local profit opportunities. Additionally, SUF may prove to be more successful if the environment is highly uncertain as the single-unit franchisees have higher entrepreneurial capabilities to respond to the changes in the local market environment. On the other hand, more multi-unit franchisees should be chosen to mitigate the financial scarcity problems of the franchisor because they have easier access to financial resources. This is especially important when the local market assets are non-contractible, which makes it more difficult for the franchisor to expand by acquiring financial resources from external capital market. The franchisors should consider using a higher portion of MUF if their system-specific know-how is highly non-transferable. A higher brand name capital requires a higher level of monitoring and the franchisors can increase their monitoring capabilities by employing a higher proportion of MUF. Multi-unit franchisee can realize the economies of

scale in monitoring and can efficiently and effectively monitor their mini-chains. The amount of initial investment requirement to open a new outlet also influences the franchisor's choice of ownership strategy. The franchisors should use a higher proportion of MUF if a large amount of investments is required to startup a new outlet.

In addition to franchisors, the franchisees may also learn some useful lessons from the results of this research. The findings may prove helpful in finding the best match between their own and franchisor's preferences, priorities, capabilities, and resources. The franchisee that want to grow rapidly should consider entering into a franchise relationship with franchisors that have a strong brand as these franchisors are more likely to employ a higher proportion of MUF. On the other hand, the franchisee should not expect a rapid growth in terms of units if the franchisor places more emphasis on local market knowledge and local responsiveness. In such a case, the franchisor is likely to dominantly pursue a single-unit strategy.

7.3 Directions for the Future Research

The future research in franchising should focus on the following issues:

- Employing time series data to investigate the franchisors' motivations behind their choice of franchising ownership strategy may result in more valid and more generalizable findings.

- Since the franchisor's objective of the choice of governance structure is to maximize the residual surplus, future research has to investigate the extent to which franchisor's choice of franchising ownership strategy affects the performance of the franchise system.
- The franchise systems applying a plural form strategy (employing both company ownership and franchising simultaneously) perform better than predominately franchised or predominately company-owned systems (Perrigot, Cliquet, & Piot-Lepetit, 2009; Ehrmann & Spranger, 2004). The plural ownership strategy helps franchise systems to implement both control and incentives within the network (Cliquet & Croizean, 2002). On the other hand, MUF increases the bargaining power of the mini-chain owners. Thus, the use of company-owned outlets and MUF is a simultaneous decision problem for the franchisor. Future research has to investigate the relationship between the different ownership strategies of franchise firms.

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Appendix 1: Abstract

Multi-unit Ownership Strategy in Franchising

Franchising is a popular organizational form and its role in national economies has been well recognized by the researchers. Many franchising researchers attribute the recent growth in franchising to the emergence of multi-unit franchising (an organizational arrangement where one franchisee owns two or more outlets in the same franchise system). The objective of this research is to explain franchisor's choice between multi-unit franchising and single-unit franchising (traditional one-franchisee one-outlet format) using organizational economics and strategic management theories. This dissertation is divided into two main parts.

The first part comprises of two studies that present a detailed literature review and develop an integrative model to explain franchisor's use of MUF. The findings of the literature review suggest that the previous studies mainly use agency theoretical framework to explain this ownership strategy in franchising. Although some studies also apply resource-based view but the primary research deficit results from the lack of systematic application of these theories. As an attempt to address this research gap, I develop an integrative model based on transaction cost theory, agency theory, resource-based and organizational capabilities views, property rights theory, and screening theory.

The second part of the dissertation presents three studies to empirically test some parts of the proposed integrative model. In the first study, I employ a comparative case analysis method to test the predictions concerning agency theory, resource-based and organizational capabilities views, and transaction cost theory. The findings suggest that franchisor's multi-unit franchising strategy can be explained by franchisee's transaction-specific investments, franchisor's system-specific assets, and franchisor's financial resources scarcity. The second study uses quantitative data from the German franchise sector to empirically test the hypotheses concerning organizational capabilities view and transaction cost theory. The findings support hypotheses proposing positive effects of brand name capital, knowledge transfer capabilities, and franchisee's transaction-specific investments on the use of multi-unit franchising. The negative influence of environmental uncertainty on the franchisor's multi-unit ownership strategy is also supported. The third empirical study develops a property rights explanation of the multi-unit ownership strategy of a franchise firm. According to the property rights theory, the structure of ownership rights depends on the contractibility of assets. Empirical results from the German franchise sector provide support of the hypotheses predicting negative effect of non-contractibility of local market assets on the use of multi-unit franchising. In addition, the positive impact of financial assets on the tendency toward multi-unit franchising increases with non-contractibility of local market assets. Compared to the agency theory, which focuses on (complete) incentive

contracts that specify residual income rights between the franchisor and franchisee, property rights theory focuses on incomplete contracts that allocate ownership rights between the franchisor and network partners. Furthermore, compared to the transaction and resource-based theory, property rights theory examines the impact of contractibility of resources/assets on the ownership structure. Only non-contractible resources/assets determine the structure of ownership rights.

This research contributes to the existing literature on multi-unit franchising by presenting an extensive literature review, developing an integrative model, and providing some new explanations for the franchisor's use of multi-unit franchising. This research also bears practical implications for the franchising practitioners (franchisors and franchisees). The future research may be directed to find alternative theoretical explanations for the use of multi-unit franchising. In addition, it may also be interesting to integrate the performance of the franchise networks into the theoretical explanations behind the use of different ownership strategies within the franchising setting.

Key words: Organizational structure; multi-unit franchising; organizational capabilities view; transaction cost theory; property rights theory; comparative case analysis; empirical analysis

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Appendix 2: Abstract in Deutsch

Multi-unit Franchising als Eigentumsstrategie

Die Expansion von Franchise-Unternehmen wurde in den letzten Jahren sehr stark durch Multi-unit Franchising (d.h. ein Franchisenehmer hat mehrere Outlets) unterstützt. Ziel der vorliegenden Studie ist die Wahl zwischen Multi-unit Franchising und Single-unit Franchising (d.h. der Franchisenehmer hat nur einen Outlet) mit Hilfe von organisationsökonomischen und strategischen Ansätzen zu erklären. Die Dissertation ist in zwei Teilen aufgebaut:

Der erste Teil der Arbeit besteht aus zwei Studien. Erstens wird ein Überblick über die relevante Literatur gegeben. Es wird aufgezeigt, dass die meisten Untersuchungen auf agency-theoretischen Ansätzen basieren. Einige Studien leiten auch Hypothesen vom ressourcen-orientierten Ansatz ab. Die Forschungslücke besteht darin, dass es keine umfassende theoretische Erklärung von Multi-unit Franchising gibt, die sowohl organisationsökonomische und strategische Ansätze integriert. Um diese Forschungslücke zu schließen, wurde ein integratives Modell basierend auf Transaktionskostentheorie, Agencytheorie, Property Rights-Theorie, Screeningtheorie sowie ressourcenorientierte und ‚Organizational Capabilities‘- Ansätze entwickelt.

Der zweite Teil der Arbeit besteht aus drei Studien, die Property Rights-, Transaktionskosten-, Agencykosten - und Organizational

Capabilities-Hypothesen entwickeln und testen In der ersten Arbeit wird eine komparative Fallstudienanalyse durchgeführt. Die empirischen Befunde der beiden Franchiseunternehmen (Coffeeshop Company und Testa Rossa) sind mit den von Agencytheorie, Transaktionskostentheorie und ressourcenorientierten Theorie abgeleiteten Hypothesen weitgehend kompatibel. In der zweiten Studie werden Transaktionskosten- und Organizational Capabilities-Hypothesen mit Hilfe von Daten deutscher Franchise-Unternehmen getestet. Die Ergebnisse bestätigen die Transaktionskosten- und die Organizational Capabilities-Hypothesen. Die dritte Studie präsentiert eine Property Rights-Erklärung von Multi-unit Franchising. Nach der Property Rights-Theorie hängt die Struktur der Eigentumsrechte von der Kontrahierbarkeit des systemspezifischen Know-how und der lokalen Marktknow-how ab. Die empirische Ergebnisse bestätigen den negativen Zusammenhang zwischen intangiblem Marktknow-how und der Tendenz zu Multi-unit Franchising. Ferner bestätigen die Ergebnisse, dass die finanziellen Ressourcen des Multi-unit-Franchisenehmers nur dann die Tendenz zu Multi-unit Franchising beeinflussen, wenn die Informationsasymmetrie zwischen Franchisenehmer und potentiellen Fremdkapitalgebern aufgrund des intangiblen lokalen Marktwissens sehr groß ist.

Die vorliegende Arbeit liefert folgenden Beitrag zur Forschung: Erstens wird ein umfassender Überblick über die relevante Literatur zum Multi-unit Franchising in den letzten 30 Jahren gegeben. Es wird aufgezeigt, dass die

Forschungslücke in der unzureichenden theoretischen Fundierung der bisherigen empirischen Befunde besteht. Ausgehend von diesem Defizit wird ein integratives Modell zur Erklärung von Multi-unit Franchising abgeleitet. Zweitens wird Multi-unit Franchising mit Hilfe von Hypothesen aus der Transaktionskostentheorie, ‚Organizational Capabilities‘-Theorie und Property Rightstheorie zu erklären versucht. Die empirischen Befunde vom deutschen Franchisesektor bestätigen die Transaktionskosten-, ‚Organizational Capabilities‘ und teilweise die Property Rights-Hypothesen.

Key words: Multi-unit Franchising, ‚Organizational Capabilities‘, Transaktionskosten, Property Rights-Theorie, Fallstudienanalyse, empirische Analyse, Franchisesektor in Deutschland.

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Appendix 3: Abbreviations

(Sorted in alphabetical order)

AT	Agency theory
CEO	Chief executive officer
CFA	Confirmatory factor analysis
DFV	Deutsche Franchise-Verband (German Franchise Federation)
EFF	European Franchise Federation
HRM	Human resource management
MU	Multi-unit
MUF	Multi-unit franchising
OC	Organizational capabilities
OLS	Ordinary least squares
PRV	Property rights view
RB	Resource-based
SD	Standard deviation
SU	Single-unit
SUF	Single-unit franchising
TC	Transaction cost
UFOC	Uniform franchise offering circular
USA	United States of America
USP	Unique selling proposition
WFC	World Franchise Council

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Appendix 5.1: Measurement of Variables-I

Multi-unit Franchising (PropMUF): Number of franchised outlets/number of franchisees

Franchisee's Transaction-specific Investments (INV): Initial investments (excluding initial fees) required to start a new franchised outlet.

Environmental Uncertainty (ENV):

Three items, measured on a 7 point Likert-type scale (1 strongly disagree – 7 strongly agree), Cronbach's alpha = 0.738

1. The sales at the outlet level are very fluctuating.
2. It is very difficult to predict the market development at the outlet level.
3. The economic environment in the local market changes frequently.

Brand (BRAND):

Four items, measured on a 7 point Likert-type scale (1 strongly disagree – 7 strongly agree), Cronbach's alpha = 0.815

1. Our brand is very strong compared to our competitors.
2. Our franchise system enjoys higher brand recognition compared to our competitors.
3. Our franchise system enjoys a good reputation for quality.
4. Our brand name is very important for us for achieving competitive advantage.

Transferability of System-specific Know-how (TRF):

Seven items, measured on a 7 point rating scale (1 not at all difficult – 7 very difficult), Cronbach's alpha = 0.924. The franchisors were asked to rate that how difficult it is to transferto the franchisees:

1. Marketing know-how
2. Organizational know-how
3. Administrative know-how
4. Quality management know-how
5. Accounting know-how
6. Human resource know-how
7. IT know-how

Sector (SECT): 0 = Product franchising firms; 1 = Services firms

System Size (SIZE): Total number of outlets in the franchise system
(franchised + company owned)

Age (AGE): Number of years since opening up the first franchised outlet in Germany.

Appendix 6.1: Measures of Variables-II

Proportion of Multi-unit Franchising (PropMUF): Number of franchised outlets/number of franchisees

Annual Training Days (ANTD): Number of franchisee's training days a year

Advertising Fee (ADV): Advertising fee as percentage of the sales

Franchisee's Intangible Local Market Assets (LMA):

(Three items; Cronbach's alpha = 0.624): Franchisee's know-how advantage evaluated by the franchisor (no advantage 1 – 5 very large advantage) regarding

4. Innovation
5. Local market knowledge
6. Quality control

Financial Resources Advantages (FIN): Franchisor's financial resources advantage through franchising (no advantage 1 – 5 very large advantage).

Formal Meetings (MEET): Number of formal meeting days a year

Outlets (OUT): Total number of outlets in the franchise system (franchised + company owned)

Initial Investments (INV): Sum of initial investments and initial fees

Sector (SECT): 1 = Services firms; 0 = Product franchising firms

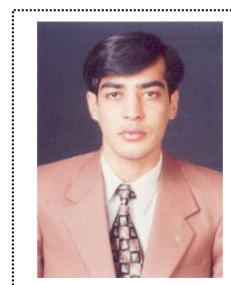
Age (AGE): The number of year since opening up the first franchised outlet in Germany.

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Appendix 7: Curriculum Vitae

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Research Interests

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- (02/2007–to date) Doctor of Philosophy (PhD) in Management, University of Vienna, Austria (Dissertation: “*Multi-unit Ownership Strategy in Franchising*”), Expected completion: December 2010.
- (06/2002–06/2004) Diplomaed Associate of Institute of Bankers Pakistan (DAIBP).
- (05/1998–11/2000) Master of Business Administration (MBA), Hamdard University, Pakistan. (passed with distinction).
- (09/1995–08/1997) Bachelor of Commerce (B.Com), University of the Punjab, Pakistan.

Work Experience

- (06/2004–01/2006) Operations Manager at **Faysal Bank Limited**, Lahore, Pakistan.
- (11/2002–06/2004) Officer at **Askari Bank Limited**, Lahore, Pakistan.
- (10/2001–11/2002) Officer at **First Standard Investment Bank Limited**, Lahore, Pakistan.

Journal Publications

- 1*. **Hussain, D.**, & Windsperger, J. (2011). Multi-unit franchising: Organizational capabilities and transaction cost explanations. (under review for publication in a peer-reviewed international journal)

* Articles/presentations marked with asterisk are based on the work included in this dissertation.

- 2*. **Hussain, D.**, & Windsperger, J. (2011). Multi-unit franchising: A property rights view. (under review for publication in a peer-reviewed international journal)
- 3*. **Hussain, D.**, & Windsperger, J. (2011). Multi-unit franchising: A comparative case analysis. *Journal of Applied Business Research*, 27(1). (forthcoming)
4. **Hussain, D.**, & Yaqub, M. Z. (2010). Micro-entrepreneurs: Motivations, success factors, and challenges. *International Research Journal of Finance and Economics*, 56, 22-28.
- 5*. **Hussain, D.**, & Windsperger, J. (2010). Multi-unit ownership strategy in franchising: Development of an integrative model. *Journal of Marketing Channels*, 17(1), 3-31.
6. Yaqub, M. Z., **Hussain, D.**, & Yaqub, R. M. S. (2009). Making strategic networks pluralistic neighborhoods. *The International Journal of Knowledge, Culture, and Change Management*, 9(2), 113-128.
7. Yaqub, M. Z., Saz, G., & **Hussain, D.** (2009). A meta-analysis of the empirical evidence on expected utility theory. *European Journal of Economics, Finance, and Administrative Sciences*, 15, 117-133.

Conference Presentations

- 1*. **Hussain, D.**, & Windsperger, J. (2011). Multi-unit franchising: Organizational capabilities and transaction cost explanations. (paper under review for presentation at an international research conference).
- 2*. **Hussain, D.**, & Windsperger, J. (2010). Multi-unit franchising: A property rights view. Paper presented at the 2^{4th} Annual International Society of Franchising (ISoF) Conference. Sydney: Australia.
3. **Hussain, D.** (2009). What makes small business a success or a failure? Paper presented at the *Business and Management Conference (BMC)*. Durban: South Africa.
- 4*. **Hussain, D.**, & Schromm, C. (2009). Multi-unit franchising: A case study analysis. Paper presented at the 4th International Conference on Economics and Management of Networks (EMNet). Sarajevo: Bosnia & Herzegovina.
- 5*. **Hussain, D.** (2009). Franchisor's tendency to use multi-unit franchising: A conceptual model. Paper presented at the *Academy of Marketing Science (AMS) 2009 World Congress*. Oslo: Norway.
- 6*. Windsperger, J., & **Hussain, D.** (2009). Multi-unit ownership strategy in franchising: Evolution of the multi-unit franchising research and development of an integrative model. Paper presented at the 23rd

Annual International Society of Franchising (ISoF) Conference. San Diego: California, USA.

Seminar Presentations

- 1*. (2010) Presented the final results of PhD project at the “*PhD Research Seminar*” held at the University of Vienna, Austria.
- 2*. (2009) Presented PhD dissertation work-in-progress at the “*1st Biennial AMS Doctoral Consortium*” held in Oslo, Norway.
- 3*. (2008) Presented conceptual model of PhD project at the “*PhD Research Seminar*” held at the University of Vienna, Austria.

Professional Memberships

1. International Society of Franchising (2009 – to date)
2. Institute of Bankers Pakistan (2002 – to date)
3. Academy of Marketing Science (2009 – 2010)

Computer Skills

Proficient user of MS Windows, MS Office, and Internet; basic know-how of networking and data communication; and good operating knowledge of SPSS, LISREL, AMOS, STATA.

Scholarship, Grants, and Awards

1. (06/2010) **Travel Scholarship** by the Austrian Research Association for participation in the 24th ISoF Conference held in Sydney, Australia.
2. (07/2009) **Travel Scholarship** and **Letter of Appreciation** by Academy of Marketing Science for participation in the AMS Doctoral Consortium held in Oslo, Norway.
3. (02/2007 – to date) Fully funded scholarship by **Higher Education Commission (HEC) Pakistan** for PhD studies in Austria.
4. (06/2005) **Letter of Appreciation** and **Cash Award** from Faysal Bank on passing stage–III of DAIBP
5. (11/2000) **Chancellor’s Medal** in MBA
6. (05/1998–11/2000) **Deans Merit Award** thrice during MBA

Personal Information

Date of Birth	January 02, 1978
Marital status	Married, Two Children
Languages	English (fluent), German (basic), Urdu (MT), Punjabi (MT)

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