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Abstract

Background: Franchising systems have become increasingly important in economies all over the world. Nevertheless, the special form of cooperation between legal independent actors not only has advantages for the partners, but also bears risks for a fruitful long-term cooperation. The franchise contract helps to align the intentions of the system partners and helps to mitigate divergent objectives by providing incentives for a system beneficial behaviour. The research in franchise gained even more intention in the past, still there is much room for empirical findings in franchise contract theory.

Aim: The aim of the thesis is to develop hypothesis based on theories on franchise contracts and to test them empirically in order to have a deeper understanding of the fruitful composition and content of franchise contracts.

Method: A deep text analysis of a representative sample of Austrian franchise contracts is done and a database is established. The database can be used for quantitative analysis purposes regarding the composition and content of franchise contracts in Austria.

Results: The data proves that specific investments of a franchisee, the degree of centralization, the level of the royalties and the ownership surrogates in favour of the franchisor are positively related with the completeness of a franchise contract. In addition, systems that require the franchisee to make specific investments differ regarding the distribution of decision rights and ownership surrogates, but not according the royalty.

1. Introduction

Franchising systems have become an important economic factor in many countries. Also in Austria they contribute greatly to the Austrian economy and they offer a high potential for fast expanding companies. This successful form of distribution is nearly present in all important industries and it is gaining more and more importance in Europe.

The success of a franchising system as a special form of cooperation between legally independent partners in the long run is greatly dependent on the franchise contract that sets the legal and economic basis for the cooperation. It helps to align the interests of the partners which are apriori divergent in many fields. Therefore, the analysis of the franchise contract gives a good overview of the distribution of duties and rights of the contractual parties.

1.1 Aim and method of the thesis

The aim of the thesis is to get a deeper and representative insight into the composition of franchise contracts of the Austrian market regarding the most important contract terms and the completeness of franchise contracts in various circumstances.

Moreover, hypothesis are developed and empirically tested based on the present theories about franchise contracts from the property rights theory and the contract theory point of view.

In order to test the theory-based hypothesis, a representative sample of franchise contracts in Austria is used and a comprehensive database through text analysis established. The database can be used by scholars for further research about franchise contracts in Austria.

1.2 Structure of the thesis

The first part of this thesis focuses on the term “franchising” and its definition. Further, the various types, advantages, disadvantages and risks are highlighted, and vehicles for a successful cooperation between the system partners in a franchising network are presented. In addition, the theoretical framework for the thesis is set up and an overview of the research directions in franchising is given, while focusing on contract theory and property rights theory. Finally, the first part also includes an explanation of the components of a franchise contract and discusses them from a theoretical point of view.

The second part of the thesis concentrates on a quantitative analysis of Austrian franchise contracts based on a representative sample. The data collection process and the used measurement are also explained. In chapter 5.1 hypotheses are developed and tested with the data of the sample based on the theoretical framework of the first part of the thesis. The last chapter of the thesis deals with the results of the investigation, presents a conclusion and gives an outlook on further possible investigations.

2. Franchising

The notion of “franchising” describes a “vertical marketing relationship” (Grünhagen and Dorsch, 2003, p. 366) between companies and is a “form of cooperation between legally independent economic actors” (Picot et al., 2002, p. 202). The actors are situated along the value chain on different levels, compared to relationships of horizontal or conglomerate concentrations. (Picot et al., 2002, p. 81)

Therefore, franchising can be seen as a third organizational form besides markets and firms, since it combines elements of both into a “hybrid” form. (Norton, 1988, p. 197)

This relationship is named as a “franchising system” in which the actors are named as franchisor and franchisee (Rubin, 1978, p. 22) and which usually consists of only one franchisor and one (or more) franchisee(s).

At the beginning of the relationship, the franchisor offers the franchisee a proven “business concept” for a product or service. Through the “franchise contract”, the franchisee pays the franchisor an initial and ongoing fee for the use right of a certain business system, a proprietary brand name, “know-how” etc. “under adherence of defined rules” (Picot et al., 2002, p. 202) in order to sell the “concept” to customers. The contract and therefore the relationship is characterized by a “long-term” duration. (Müller-Graff, 1988, p. 122)

In the following course of the business relationship the franchisor is responsible to create, build and guard the franchising system through professional management and operation (Kaufmann/Eroglu, 1998, p. 69). On the one hand, his duties are, for example, to invest into marketing and strategic planning, to guide the franchisee and to provide professional training. (Rubin, 1978, p. 224) On the other hand, the franchisee is mainly responsible for “managing the day-to-day operations of the business” (Klein, 1978, p. 231), securing confidentiality, and exchanging knowledge (Caves and Murphy, 1976; Lafontaine, 1992; Combs/Ketchen, 2003)

Franchising is especially suitable for businesses with “service and people intensive economic activities” that require “a large number of geographically dispersed outlets serving local markets” and for markets with strong self-employment interests. (Hollensen, 2011, p. 361)

In Europe, franchising is a “new” phenomenon and its activity started in the beginning of the 1970s. (Hollensen, 2011, p. 361) In Austria, franchising is growing in popularity. According to a recent study of Hajek and Siegl (2013, p. 3) in the year 2013, there were 445 franchise systems in Austria present. 43% of the systems stem from the trade sector, 40% from the service, 11% from the food service and the remaining 6% from the manufacturing sector. In total, those franchise systems employed 66.000 people, with a proportion of women of 51%.

In 2010, the franchise systems generated a net-turnover of 7,9 billion euros in Austria. Thereof around 61% of the profit was earned by the trade sector, 24% by the service sector, 10% by the food service sector and around 5% of the turnover was generated by franchise systems in the manufacturing sector. (Gittenberger et al., 2010, p. 5)

2.1 Types of franchising systems

Franchising systems can be described on many dimensions; however, the most important ones will be listed in this chapter. The classification of franchising systems is not always definite, since in practice many franchising systems combine characteristics of different dimensions (e.g. product and service characteristics), but the various types give a deeper understanding of franchising systems.

2.1.1 Characterization based on the system objectives

One of the most common characterizations of franchising systems is according the franchise system´s objectives, meaning the intensity of the cooperation in terms of the number of operational management sectors between the franchisor and the franchisee. The most important distinction is if “only” a product/service or a complete “business concept” is franchised.

Although according to Martinek (1999, p. 9), a distinction based on this criterion is not necessary in the European language area, since those systems that are structured as product franchising systems are per se not considered as a form of “franchising” due to the low intensity of cooperation, shall anyway an overview of the types be given, because it is widely used in literature.

Product and Trade Name Franchising

The main focus of this group of franchising systems is to set up a fast and efficient distribution of goods or services and compromises of the subtypes production franchising and distribution franchising. (Tietz, 1991, p. 29; Martinek, 1987, p. 7)

A **production franchising** system or "industrial franchise" focuses in general on the production and sales of a good. Furthermore, the system provides no or little services. (Vortmann, 1996, p. 15; Mohr, 1999, p. 7) As an example of this system, "Coca Cola" can be highlighted because in this company the franchisee's main part is to act as a bottler. (Hollensen, 2011, p. 361) Additionally, "licensing" can be seen as a very basic form of production franchising. (Justis and Judd, 1989)

A **distribution franchising** system on the other hand concentrates the competences of the franchisee on sales activities. The franchisor or certified suppliers provide the franchisee with the goods. (Vortmann, 1996, p. 16; Mohr, 1999, p. 6)

Business Format Franchising

Unlike product and trade name franchising systems, **business format franchising** systems encompass additional managerial guidelines like marketing and marketing processing strategies, standards and the transfer of know-how to the franchisee. (Preble, 1992, p. 187) In addition, to sell the product or service the franchisee gets the right to copy the entire business operation model of the franchisor. (Justis and Judd, 1989) Business format franchising is a very popular form nowadays. It is often used in the internal business as a market entry mode. (Hollensen, 2011, p. 361)

In this type of a franchising system, the franchisor determines the package transferred to the franchisee, regulates and controls it. According to Hollensen (2011, p. 363), the package can contain the following parts:

- Trademarks/trade names
- Copyright
- Designs
- Patents
- Trade secrets
- Business know-how
- Geographical exclusivity
- Design of the store
- Market research for the area location selection

The ongoing business relationship therefore also encompasses a distribution of value chain activities across the franchising partners. Also the franchisor supports the franchisee managerially and helps setting and running up the local operations of the franchisee (Hollensen, 2011, p. 363)

What is more, a very important subtype of business format franchising is a **service franchising** system. Here the franchisee provides services of the franchisor to customers like services in the gastronomy or hotel business, consulting services, cleaning and maintenance, or construction services. (Tietz, 1991, p. 31; Skaupy, 1995, p. 33) This type of franchising is also called “know-how franchising” since the franchisee obtains the right to use the knowledge of the franchisor to provide the service.

In a recent study of the Austrian Franchise Association (ÖFV, 2015), 51% of the franchising systems in Austria were set up as a service franchising system, 43% as a distribution franchising system and 6% as a production franchising system.

2.1.2 Characterization based on the power distribution

According to Tietz (1991, p. 34), franchising systems can be systematized based on the dominance of the franchisor in the whole system. He argues that the party that possesses the "necessary" knowledge should possess the power in the franchising system. Hence, the franchise contract should stipulate favourable terms for the franchisee in terms of power, if the franchisee highly contributes to the production process with his knowledge. On the other hand, if the franchisor is the centre of knowledge, power should be concentrated on his side.

Therefore, three possible subtypes can be highlighted (Tietz, 1991, p. 34):

- System head dominated, where the franchisor dominates
- System partner dominated, where the franchisee dominates
- Power balanced groups, where power is equally distributed.

2.2 Advantages of franchising

Franchising is seen to be a "unique organization form" with many advantages. (Hollensen, 2011, p. 365) It is especially reasonable in markets where high competition is present and where the tastes and preferences of customers change rapidly. As examples can be mentioned fast-food restaurants as well as convenience stores. Moreover, franchising can often be found in markets with high wages, economic risks and high levels of technical know-how. However, franchising is not common in well-segmented local markets. (Kotabe, 2009)

What is more, franchising provides advantages over vertical integration due to incentive advantages. The relative autonomy of the franchisee reduces the monitoring costs at the level of adherence to brand-specific quality standards and turnover targets. (Picot et al., 2002, p. 204) Simultaneously, the market-based incentive advantages are connected with a partial integration, because the franchisor is able to rule in explicitly defined decision domains of the franchisee. Nevertheless, it is important–especially in the course of the business–to adapt the franchising system (e.g. product line, strategic positioning) in order to hold up economies of scale due to consistent appearance of the system and to set up an efficient configuration of the internal relationship of a franchise system. (Picot et al., 2002, p. 202)

2.2.1 Advantages for the franchisor

The advantages of a franchising system for a franchisor are manifold, but stem especially from strategic advantages, economies of scale, financial and risk reduction advantages and they provide access to local capabilities and resources.

From a strategic point of view, a firm can use franchising to expand its business and use the opportunity to expand the reach of the brand fast. (Kotabe, 2009) In general, when a company chooses for a growth path, it needs to decide whether to franchise or open own outlets through subsidiaries and branches. For instance, if a company wants to develop "new and distant international markets relatively quickly on a large scale" (Hollensen, 2011, p. 377) and if the distance between the company and its customers or the spread of customers is high, franchising is more efficient besides other organizational forms. (Lafontaine, 1992, p. 268) One reason is that the regional distance between a location and the headquarter hinders direct supervision. Besides, franchisees' operations are in general smaller than branches of franchisors. (Lafontaine, 1992, p. 278, Klein et al. , 1978, p. 226) What is more, franchising can be used in a step-wise approach, while entering in markets through franchising and later increasing commitment through direct investments. (Hollensen, 2011, p. 377)

Firms can gain from economies of scale and scope (Kotabe, 2009) by choosing to franchise in various value chain activities. For example, they gain in purchasing activities, by bundling of purchasing volumes and reaching better prices and conditions for the whole system (Klein, 1978, p. 231) and in sales and marketing activities by providing products and services to international customers. (Hollensen, 2011, p. 377) Also substantial economies arise in management functions by utilizing and distributing operating manuals, provisioning of trainings and giving ongoing managerial assistance to the franchise system. (Klein, 1978, p. 231)

When fast growth is part of the strategy of the firm, the company is able to overcome financing problems due to capital provided by the franchisee through initial fees, royalty fees and investments of the franchisee directly into his business. (Hollensen, 2011, p. 365) Franchising is also seen as a low-risk and low-cost entry mode, since the franchisees

provides the necessary investments into local know-how and equipment. (Hollensen, 2011, p. 377)

Through franchising a company can get access to local capabilities and resources, because it can use highly motivated franchisees that bring in local market knowledge and experience (Hollensen, 2011, p. 377) and may also be entrepreneurial talents. (Hollensen, 2011, p. 365) The advantage is that, compared to in-house managers, entrepreneurial franchisees usually have a higher and different motivation due to special incentive structures. (Holmstrom/Milgrom, 1994, p. 988) Besides, Lafontaine (1992, p. 270) provides empirical evidence that franchising is preferred if local success risks are high when a decentralised know-how is of critical relevance to the business.

2.2.2 Advantages for the franchisee

The most important motivation and advantage for a franchisee is to operate an "independent successful business" (Hollensen, 2011, p. 365) and to be self-monitored. (Picot et al., 2002, p. 202) In addition, a franchisee benefits from the proven product or service developed by a franchisor and his investment into the brand, reputation and advertisement campaigns. (Picot et al., 2002, p. 202)

In addition, the franchisee profits from the initial and ongoing support of the franchisor. At the beginning, the franchisor helps the franchisee by providing pre-opening assistance with the site selection, which reduces the costs for the franchisee and gives him access to the franchisor´s knowledge. Later on, the franchisee benefits from the ongoing support like trainings, operating procedures, supervision and support in management practises, etc. (Norton, 1988, p. 199)

What is more, along the value chain, the franchisee benefits form advantages of economies of scale and scope provided by the franchisor, which stem from the size of the franchising system as a whole. (Hollensen, 2011, p. 365)

Being part of the franchising system and not starting a business independently is also considered to be a low-risk investment for the franchisee, since the he uses an already proven business opportunity in the market. (Kotabe, 2009)

2.3 Risks for franchising systems

Besides the important advantages, franchising systems are also confronted with different sources of success risks that can hinder a fruitful partnership. This chapter will give an overview of the basic specialities in the franchising context and closes with solutions for overcoming the obstacles.

2.3.1 Specific investments

An important source of risks for the franchise partners originates from the need to invest into their businesses. Respectively those investments, which are "specific" in nature, because they cannot be "redeployed to a second-best use … without a significant … loss in value" (Bercovitz, 2000, p. 11) are of special concern when the risks of the business is evaluated. Both, franchisees and franchisors can make specific investments.

From a franchisor´s point of view, besides the most obvious specific investments, he is obliged to supply the franchisees with training and assistance. He gives them advice on the selection of the best location of the outlet and supports in hiring decisions. (Solis-Rodriguez/Gonzalez-Diaz, 2012, p. 6)

On the other hand, the franchisee makes specific investments through the initial fee to be part in the franchising system. Further, he invests into the business outlet according to the guidelines of the franchisor, which is in most cases not transferable to a different business. This comprises, for example, accoutrement for the outlet or trademark equipment which needs to be bought from the franchisor. (Solis-Rodriguez/Gonzalez-Diaz, 2012, p. 6)

The obligation to invest specifically means for the franchisee that he is in danger of a loss of the investment in the case of a termination of the contract which is called sunk costs. (Hadfield, 1990, p. 951) Therefore, with the establishment of specific investment clauses in the franchise contract, the franchisor is able to motivate the franchisee to behave efficiently and to prevent him from opportunistic behaviour. (Dnes, 1991, p. 137f; Klein, 1980, p.358) As an example can be mentioned franchising systems where the franchisor owns land for an outlet and the franchisee pays for the physical factory and the office equipment which

resides on that land. If the franchising agreement ends, the franchisee may face severe problems. (Klein/Saft, 1985, p. 358)

Therefore, due to the need of specific investments, a “hold-up problem” (Williamson, 1975, 1985; Klein et al., 1978) is possible to arise on both sides of the system partners. The problem originates from possible incentives to behave opportunistically, by trying to extract “quasi-rents” from the specialized investments of the other partner by threatening through potential losses. (Solis-Rodriguez/Gonzalez-Diaz, 2012, p. 6f) Firstly, the loss in the case of a termination of the relationship means that the costs of the specific investments for the extracted party are not recovered and therefore sunken. Secondly, a potential capital loss also needs to be taken into account, because the investments would not only recover the costs in the future, but would theoretically also generate yields. Those “quasi-rents” also need to be discounted to the time of termination and added to the total sunk costs. (Klein, 1995, p. 24)

2.3.2 Risks for the franchisor

In the selection phase the franchisor faces the problem of finding a competent franchisee. The search is expensive and time-consuming (Hollensen, 2011, p. 377). The franchisor must guard himself from franchisee candidates who misrepresent their financial and managerial capabilities. Therefore, the franchisor very often includes various requirements in the franchising agreement for being part of the system like bank guaranties and liquid funds in advance. Although the franchisor tries to mitigate choosing the “wrong” franchisee, he also faces an adverse-selection-risk through choosing not the most suitable franchisee et all. (Gómez, et al., 2010, p. 463)

During the contract period, since the franchisor´s responsibility is to create and develop the franchising system through investments in marketing and design a package of products and services, he is to cover his cost dependent on the franchisees success and investments in his business. (Hollensen, 2011, p. 377) Further, the franchisor lacks full control over the franchisee´s operations. This results in problems of cooperation, communication and quality control. (Hollensen, 2011, p. 377) Regarding quality standards in the franchising system, the franchisor faces a moral-hazard-risk after the contract closure, since franchisees try to

operate their business most cost-efficiently and may have an interest to lower the standards. Indeed, the franchisees are interested in system standards to preserve the system at all. (Picot et al., 2002, p. 202) What is more, the franchisor faces the risk of "free riding" by franchisees who underperform and try to benefit from the reputation and brand names of the franchisor. Thus the franchisor faces monitoring efforts to protect the goodwill. (Hollensen, 2011, p. 377) Additionally, in systems with master franchisees the success is especially determined by the capabilities and commitment of the master franchisee. (Hollensen, 2011, p. 361)

Another risk exists after the termination of the contract. Since the franchisee gets access to the internal business knowledge, it is possible that the franchisee will turn into a competitor in the future. (Hollensen, 2011, p. 377)

2.3.3 Risks for the franchisee

Similar to the investment risks of the franchisor, the value of investments of the franchisee are dependent on the performance of the franchisor and the franchise system. The franchisee is therefore dependent "on the strength of the franchisor". (Hollensen, 2011, p. 365) What is more, the franchisee is contingent on the good-will behaviour of the franchisor. He faces a hold-up risk since the franchisor is in a better bargaining position compared to the franchisor, which opens for him the possibility to make pressure in order to extort profits after investments of the franchisee have been taken. (Mathewson/Winter, 1985, p. 503) The franchisor can, for example, withdraw the license or give additional licenses next to the franchisee after the franchisee has made investments in order to get more fees while the franchisee has to share turnover with competing franchisees.

Additionally, due to incomplete contracts (see chapter 3.2.2), the franchisee faces a risk of exploitation of hierarchical decision rights of the franchisor over time. (Picot et al., 2002, p. 203) Nevertheless, this risk is self-restricting because a bad reputation of a franchisor deters other franchisees from business relations with him. Also long-term and intensive relationships between franchisor and franchisee further reduce risks. (Picot et al., 2002, p. 202ff)

Another risk origins from the knowledge position of the franchisee. Without guidance of the franchisor, the franchisee faces the threat of misallocation of efforts & resources. So

franchise contracts and clauses help franchising partners to focus on their responsibilities. (Mouzas/ Blois, 2013, p. 1057)

Moreover, in systems with a master franchisee, a sub franchisee may be hold hostage against the franchisor to compete against him. (Hollensen, 2011, p. 361)

2.3.4 Vehicles for franchising risk reduction

Due to the reciprocal dependence of the system partners, the before mentioned drawbacks need to be overcome. (Picot et al., 2002, p. 203)

According to Hollensen (2011), key success factors are the integrity of the whole business system, the capacity and scope of renewal of the system, and the arrangements to mitigate or structurally solve disagreements. (Hollensen, 2011, p. 365)

Integrity of the system is established through standardized rules in the whole franchising system, meaning that the franchisees are all equally treated and controlled by the franchisor in order not to harm the franchisor´s reputation. Further, the system architecture needs to allow innovation of franchisees and support the diffusion across the whole system. Arising disagreements are often triggered by poor communication between the franchisor and the franchisees or among the franchisees, which leads to different objectives of the partners. (Hollensen, 2011, p. 365f.)

Thus, instruments are needed for the efficient alignment of interests, incentive setting and monitoring in the short and long-term.

At the initial phase of the franchising, the ex-ante disclosure of the need for specific investments of the franchisee serves as a selection criterion for prospective franchisees. Only those franchisees will agree to go into a business relationship with these specific investments, which will be highly successful, because they are only willing to invest if they see a good fit between the requirements and their capabilities. (Dnes, 1993, p. 391)

After a commitment to a franchising relationship has been made, „hostages“ in the form of specific investments in the hands of franchisors and franchisees help to align interests and to settle incentives. Hostages have a positive influence on both partners and motivate them to behave in a system-beneficial way. Therefore, specific investments are not only seen as

disadvantages of franchising but as an incubator. For example, the commitment a franchisee puts into the business stimulates the intention to get it back through successful work.

Additionally, according to Picot et al, (2002, p. 204f), diluted property rights (see 3.3.1) further stabilize the franchising system. Properly distributed earnings through arrangements of the yields achieved at the franchisees point of sale motivate not only the franchisee but also the franchisor to invest in the total system. What is more, the right for alienation or inheritance of the franchise business at contract termination also stimulates the franchisee to behave in an effective and efficient way.

What is more, franchising systems can also establish organized forms of social control in order to monitor each other. Regular meetings, professional trainings, advisory boards and franchisee associations can, for example, are institutionalized methods.

Another form of control are internal benchmarks to stimulate competition. This can be done through screening instruments by comparing different franchisees with outlets held by the franchisor himself.

The following table shows the most important vehicles to overcome the risks of the franchising partnership in order to support long-term success.

Affected contracting party		**Effect of vehicle**
Franchisee	**Franchisor**	
Residual rights of the yield	Residual rights of the yield	Short-term alignment of interests
Alienation rights of company / license rights	-	Long-term alignment of interests
External competition (local)	External competition (as entire system)	Long-term incentive shaping and alignment of interests
Benchmarking, system of internal competition	-	Monitoring and alignment of interests
Monitoring rights of the franchisor	-	Monitoring
Social control by other franchisees	-	Monitoring and alignment of interests
-	Association of franchisees	Monitoring and alignment of interests
Specific investments (hostages)	Specific investments (hostages)	Alignment of interests /settlement of incentives
-	Reputation (hostages)	Alignment of interests /settlement of incentives

Table 1: Elements of a franchising relationship (adapted from Picot et al, 2002, p. 205)

To sum up, besides the many advantages and risks for the system partners, instruments have been developed to establish a successful form of cooperation. A fair balance between all constituent parts of the relationship in respect of the specific conditions of the business and industry are important. The franchise contract which serves as the constitution sets the basis for doing business. (Picot et al., 2002, p. 203)

3. Theoretical framework and franchise contract analysis approaches

In this chapter of the thesis, the theoretical framework is presented. At first an overview of franchising research and the different directions is given, while focusing on research about franchise contracts. Then, contract theory and property rights theory are described and their application on franchising elucidated and the influence of the knowledge distribution between the system partners is elaborated as an important determinant on the degree of decision rights in a franchise system.

3.1 Overview of franchising research

In a recent investigation Combs, et al. (2011, p. 101ff.) showed that four themes of franchising research attracted researchers in fields like economics, entrepreneurship and marketing:

1. Antecedents to franchising
2. Consequences of franchising
3. Potential moderators of franchising relationships, and
4. How franchising evolves and is used in different national contexts

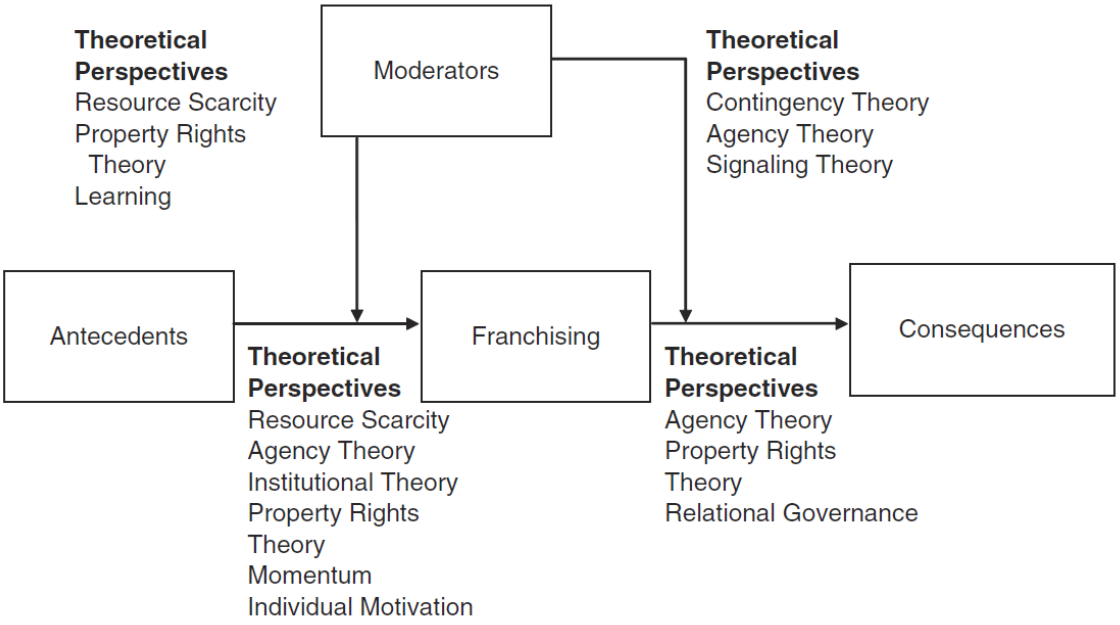

Figure 1: A conceptual map of franchising research (Combs, et al., 2011, p. 102)

As the conceptual map shows, the property rights theory has been applied to many linkages in franchising. The authors identified that one key issue of inquiry in the **antecedents** of franchising dealt with the question of "exploring the implications of different approaches to allocation property rights between franchisors and franchisees for decisions about whether or not to franchise, the survival of franchised systems, and the success or failure of franchisees". (Combs, et al., 2011, p. 105) Besides other theories, the authors highlight that the property right theory was used to explain "how decision-making authority and claims to benefits are allocated among parties involved in a relationship", that residual decision rights (see chapter 3.4.2) are an "important aspect in franchising" and that the manner in which "responsibilities are allocated among parties might be as important as the decision to franchise."

Finally, they conclude that the "property rights theory offers a strong fit for future franchising research", which will be elucidated in chapter 3.3 and will be important for this thesis as well.

What is more, research in the *Consequences of Franchising* showed that assumptions of the alignment of interests of franchisors and franchisees needs to be questioned. (Combs, et al., 2011, p. 115) Also due to the risks (see chapter 2.3) and the target-gap between the

franchising partners, scholars argue for setting up formal contracts to provide "specifications of obligations, rewards and risks, procedures and so forth" in order to build the basis for a mutual and beneficial business relationship. (Solis-Rodriguez/Gonzalez-Diaz, 2012, p. 2)

3.2 Contract theory and its application for franchise contracts

Additional to the classical management theories, the analysis of franchising relationships needs to recognize contract theory, since its views influence the dispensation of justice, a priori the composition of contracts and also the management literature where the views of "relational contract theory", "incomplete contract theory" and "framework contracts" found extensive application. (Mouzas/Blois, 2013, p. 1057) In this fields two main research directions can be highlighted that attempt to: "explain exchange behaviour by taking into account circumstances of continuing relationships" or "investigate efficiency of governance forms of these exchange relationships." (Mouzas/Blois, 2013, p. 1057) In this regard, the analysis of franchise contracts is clearly influenced by contract research, since franchise contracts are the initial cornerstone of an ongoing relationship between the system partners who seek to maximize the efficiency and effectivity of their business also through finding the best governance form.

3.2.1 Relational contract theory

From a relational contract theory point of view, a contract does not represent something that is rigid. Here rights and obligations that are stipulated are not seen to be conclusive, because business partners may need to re-negotiate and adjust previously set contract terms due to new circumstances and difficulties that arise during the course of the business relationship. Therefore, in practice the theory expects the parties not to insist on their contractual rights. Instead the parties are interested "to communicate the ongoing willingness to make the necessary adjustments in order to continue to cooperate" (Kimel, 2007, p. 250). Hence, to enforce a claim resulting from the contract, is not seen as a serious action and according to Mouzas/Blois (2013, p. 1058) relational contract theory is seen as a vital governance mechanism in "long-term highly specific investments", which "fosters inter-firm trust" and helps to "minimize risk of opportunistic behaviour".

Nevertheless, the influence of relational contract theory on management studies received criticism in terms of the applicability in business relationships. As Mouzas and Blois (2013, p. 1057) highlight, the dispensation of justice in the English realm vigorously rejected the view by criticising the "relational argument" (Schwartz, 1992) and further scholars question "the assumptions of relational contract approaches" (Mouzas/Blois, 2013, p. 1057) According to Popo & Zenger (2002) relational governance mechanisms complement formal contracts and cannot be seen as substitutes for each other. But for example trust and social identification can reduce opportunistic behaviour. (Solis-Rodriguez/Gonzalez-Diaz, 2012, p. 2)

3.2.2 Incomplete contracts theory

On the other hand, scholars argue that setting up complex contracts in franchising plays an important role to manage the "interorganizational relationships" (Solis-Rodriguez/Gonzalez-Diaz, 2012, p. 3) and that the importance of formal contracts to manage franchising relationships has found broad recognition in the literature.

In contrast to relational contract theory, incomplete contracts theory considers contracts to be incomplete. The theory argues that the lack between a fully complete contract and an incomplete contract is mainly motivated by three reasons that lead to an optimum level of completeness. Firstly, based on transaction cost theory of contracting, transaction costs may make it expensive or effectively unfeasible to measure some types of contractual performance. Secondly, contingencies exist and to specify responses in a contract to all possible events that may occur in the future might be too costly or impracticable (Maskin/Tirole, 1999). The contractual hazards are especially seen to be influenced by the level of asset specificity (see chapter of 2.3.1). Thirdly, specifying contract terms is dependent on the design capabilities and the bounded rationality of a firm. (Argyres/Mayer, 2007, p. 1062)

The contractual incompleteness is not seen as a drawback, but as an expression of flexibility (Hadfield, G.K., 1990, p. 927) that is necessary for a long-term relationship. On the other hand, the degree of contractual completeness can be measured according to Mesquita &

Brush (2008, p. 791) by all contingencies like relevant terms and clauses that are specified in the contract, and the more contingencies are included, the more complete the contract is.

According to the theory relevant terms and clauses are naturally self-enforcing. They provide incentives which mitigate negative externalities that are possible due to the opened room for manoeuvre by the incompleteness. (Scott, 2003, p. 1644f)

Additionally, Solis-Rodriguez and Gonzalez-Diaz (2012, p. 3) claim that the completeness of contracts is dependent on "the presence of investments in assets, both physical and intangible (reputational capital)". In order to mitigate the risk of expropriation of "quasi-rents" contracts show a higher completeness.

Shavell (2006, p. 292) criticized the applicability of the incomplete contract theory and its self-enforcing power. He argues that compared to the inner affairs, which may lead to an uncertain incentive structure, the impact of the incentive devices is different in the context of judicial application and interpretation at court if a conflict arises.

3.2.3 Umbrella or framework contracts

Franchise contracts can also be understood as framework contracts or umbrella contracts, because they define the "fundamental principles upon which companies wish to work together". (Mouzas/Blois, 2013, p. 1057) Such contract types occur in business contexts where the environment is of rapid change and where they are able to ease the whole process of the exchange relationships, which leads to several benefits. Firstly, costs can be reduced that would occur at each single exchange stemming from the "time and effort to select, manage and oversee" them.

Secondly, they "provide certainty regarding the conditions under which exchanges may take place" and they "reduce the information asymmetry by providing a platform for continuing interaction and coordination". (Mouzas/Blois, 2013, p. 1057) Therefore, Mouzas/Furmston (2008, p. 38) understand framework contracts as a "constitution of contracts" and in the context of franchising, umbrella contracts regulate the transfer of property rights. (Mouzas, Blois, 2013, p. 1059)

3.3 Property rights theory

The property rights theory is part of the "new institutional economics" and integrates evolutionistic and constructivistic ideas. (Picot et al., 2002, p. 56) It understands the economic world as a system comprised of imperfect actors and humans with bounded rationality or morals, who are dependent on each other in economic action. Further, the actors are influenced by "institutions" (e.g. contracts, organizational structures) that alter human behaviour. (Picot et al., 2002, p. 54f.) In addition, the main streams in the new institutional economics are transaction cost theory and principal-agent theory.

From the property rights theory point of view, contracts aim at distributing property rights between economic actors in order to ensure an effective and efficient organization structure. (Picot et al., 2002, p. 55)

3.3.1 Value of a good & diluted property rights

The theory states that the value of a good is based on all legal and economical possibilities to use a good. The property rights of tangible and intangible goods determine the value of the good and can be understood as a bundle (Alchian/Demsetz, 1972, p, 783), which comprises of four main components:

- The right, to use a good (usus)
- The right, to alter a good (absus)
- The right, to enjoy the fruits of a good (usus fructus)
- The right, to transfer control of the good to another party.

The first two components can be classified as decision rights and the other two components as ownership rights. (Pejovich, 1990, p. 28) Other names for the ownership rights "usus fructus" and the "right to transfer control" are according to Windsperger (2000, p. 1447) for the former "income right" and for the latter "alienation right".

What is more, the components of the bundle can be transferred and split up into different parties through contracts leading to so called "diluted property rights". (Picot et al., 2002, p. 55) Although, in order to gain from organizational efficiency in a franchising system, they more or less have to be attributed to the party who is able to best influence the residual income (see chapter 3.4.2). (Barzel, 1997, 78ff)

Also it needs to be highlighted that the value of a good or service depends not only on the distribution of the property right components, but also on the comprising legal system and other institutions interacting with the property rights in question. (Picot et al., 2002, p. 56)

3.3.2 External effects

The theory of property rights also incorporates concepts of external effects.

External effects in the property rights theory are used to understand and predict the behaviour of economic actors seen as individuals that want to maximize their benefit. External effects capture the impacts of action of economic subjects on the part of society. The effects can be distinguished in positive and negative effects. Negative external effects arise if social costs of an action are higher than the private costs for the actor, which means that as long as the marginal utility of the action is positive the actor will not change his behaviour. (Picot et al., 2002, p. 57)

On the other hand, positive effects are seen to harm the actor to behave in the respective way if the social benefits of the action exceed the private benefits.

The property rights theory therefore offers a way to identify optimal distributions of property rights and their components over various actors in order to minimize deadweight losses due to wrong incentives. Thus, it is important to interconnect one´s own action with the benefits or losses that arise from it in order to maximize the efficiency in society and the use of resources. (Picot et al., 2002, p. 57f)

3.3.3 Team production and free-riding

Besides external effects, in the case of team production like in a franchising system, the problem of shirking or free-riding exists. It arises if the level of output is not only the additive sum of team member's inputs and therefore it is not easily or at low costs possible to determine the various input levels of team members derived from their common level of output. In such a situation it makes sense for an individual team member to reduce his level of input although he might get the full benefit of the joint action on the distributed costs of the other members. (Picot et al., 2002, p. 60f.)

3.3.4 Ownership surrogates

In addition to the efficient distribution of property rights, the theory offers ownership surrogates as a possible solution to minimize deadweight losses and shirking.

Ownership surrogates are all factors that may have the same impact on the individual's behaviour in the form of property rights. Such factors include cultural factors in friendships or fairness norms in other religious or social groups. (Picot et al., 2002, p. 61f.)

The possibility of the distribution of property rights on the yield, for example, is able to reduce the incentives for free riding, missuses of resources, etc., if the results of one´s actions can be attributed to him. (Alchian, 1972, p. 785)

Further examples and the used ownership surrogates in franchise contracts will be explained in chapter 4.2.

3.4 The impact of knowledge on franchise contracts

This chapter will focus on the influence of knowledge on the distribution of property rights (decision and ownership rights) in a franchise system.

At first, the nature of "knowledge" will be explained and then its application in the theory of property rights in the context of franchising.

It needs to be highlighted, that knowledge can have different forms.

Firstly, knowledge of individuals can be classified in terms of its codifiability. Knowledge that is easily transferrable through messages and information is called *explicit knowledge*. Here, the costs of codifying are relatively low and other individuals can obtain the knowledge through studying. On the other hand, *tacit knowledge* consists of skills and capabilities that an individual has learned over time through practice and experience. In this case, the knowledge cannot easily be made explicit or it is even impossible to codify it. A possible knowledge transfer method is therefore personal training, where the knowledge receiver learns the knowledge directly from the knowledge owner over time. Both forms are difficult to isolate from each other and they most often occur simultaneously (Dietl 1993, p. 173f), but the ratio is important for a transfer between individuals.

Another possibility to classify human knowledge is to differentiate it in terms of its applicability. If knowledge is able to be used on a broader scale it is called *generalizable knowledge* and if it is dependent on personal or local knowledge like cultural practice it is called *specific knowledge*. (Dietl 1993, p. 175)

3.4.1 Knowledge in a franchising system

These classifications of knowledge can be used to determine the most efficient distribution of competences in a franchise system through the definition of vertical and horizontal boundaries of the specialization of parties. (Dietl, 1993, p. 174)

To determine the vertical boundary it is argued that as long as a knowledge has no "knowledge-economic maturity", investments (tangible and intangible) should stay within ones unified decision sovereignty. Products or services of a production stage reach knowledge-economic maturity if the next production stage is able to use the previous output with the minimum of tacit knowledge of the previous production stage. (Dietl, 1993, p. 174ff)

The horizontal boundary is based on the second classification and helps to determine the distribution of decisions between the parties of the franchise system. Decisions should be centralized if the required knowledge for the decision can be generalized. If a decision is based on knowledge that is non-generalizable (e.g. local knowledge), decision rights should be decentralized. Centrally-made decisions require, that the deciding party makes that knowledge available for the executing party, which is needed to conduct the order. (Dietl, 1993, p. 177f)

As examples of explicit-made knowledge can be named handbooks for running a franchise outlet and recipes for producing products and providing services, which are written when the knowledge of the franchisor is able to be used by the franchisee without special knowledge of its knowledge production. The franchisor therefore needs to have the capabilities to generalize the knowledge and transfer to the franchisee. On the other hand, the franchisee generates local knowledge and learns how to understand recipes, operate necessary machines etc. (Dietl, 1993, p. 177ff)

3.4.2 The influence of knowledge on the property rights structure in a franchising system

According to Windsperger (2000), the distribution of knowledge between the franchising partners determines the property rights structure (decision and ownership rights) in the franchising system. Based on the property rights theory, transaction costs and incomplete contracts theory, Windsperger (2000) argues that the owner of knowledge assets that have a "high degree of intangibility" Windsperger (2000, p. 1449) and contribute important to the residual income stream (yields that cannot made explicit through contracting) in a franchising system needs incentives to invest if the property rights are diluted.

He elucidates that transaction costs influence the completeness of a franchise contract. In cases of positive transaction costs, the tangibility of knowledge impacts the costs of specification in the contract, which leads to incomplete contracts. Thus, incomplete contracts leave room for residual rights of control over not defined knowledge assets. Moreover, it is argued by scholars that surpluses generated by those assets accrue to the holder. (Fama/Jensen, 1983, p. 334ff) The residual surplus can be explained as the yield that every party in the franchising system achieves as a legal entity; for this reason, the residual surplus is not explicitly distributed in the franchising agreement. Therefore, holding residual rights of control like residual surplus impacts the ex post bargaining power between franchisor and franchisee in their business relationship and their motivation to invest into assets. (Moore, 1992, p. 495) For example, there exists lack of motivation if a party has to invest in an intangible asset and the other one has the residual ownership right. (Windsperger, 2002b, p. 139)

Therefore, in order to overcome this underinvestment and incentive problem due to diluted property rights, decision rights and ownership rights need to be distributed according to the distribution of knowledge assets in the franchising system while taking into account the tangibility and impact of investments on the residual surplus stream for the franchising system. This means, the holder of the important and specific knowledge asset should get assigned the decision right over the knowledge and at the same time the ownership rights in order to provide an efficient property rights structure that motivates the parties to invest into the assets and to maximize the "ex-post surplus stream". (Windsperger, 2002, p. 1448)

Additionally, Windsperger (2002b) argues for a distribution of knowledge assets according to the tangibility of the knowledge. In cases where the franchisor provides intangible assets like patents, investments in the brand, and the franchisee also provides intangible assets like local marketing knowledge, the efficient distribution of ownership is to distribute the ownership to the party(ies) that have(has) to take important intangible investments. This approach encourages investments in the assets to maximize the benefits for the whole system. Important intangible assets are in this case those that generate a large fraction of the residual income (Alchain, 1987; Pagano, 1991). In other cases the holder of the intangible assets should own all of the assets. (Windsperger, 2002b, p. 135)

To this end, if the knowledge assets are not easily transferred, ownership surrogates are able to provide the same incentives as a transfer of an ownership right. Additionally, it needs to be highlighted, that an interaction between residual income rights and ownership surrogates (both components are explained in detail in chapter 4.) is expected to exist, since they complement each other (Windsperger, 2003, p. 299)

4. Contract clauses in franchise contracts

In this chapter contractual clauses for ownership rights (residual income rights and ownership surrogates), decision rights and other constituent parts of a franchise contract will be discussed taking into account the various theoretical underpinnings provided in the previous chapters.

4.1 Ownership rights: Franchise fees

Franchise fees are normally paid by the franchisee to the franchisor. They comprise of initial fees and an ongoing royalty payment and are stipulated in the franchise contract. They are part of the distribution of the residual income stream in combination with ownership surrogates. (Windsperger, 2003, p. 299)

4.1.1 Initial fees

In order to be part of a franchising network, a franchisee may pay an initial fee to the franchisor. The payment is mainly influenced by the franchisor´s "upfront-costs", but it is also interconnected with other components of the franchise contract and expectations of the business relationship.

According to Skaupy (1987, p. 116) the initial fee paid to the franchisor makes up an adequate share of the costs. It is charged for the planning and setting up of the franchise system and serves as a recompense for the use of the franchise rights. Therefore, the franchisee pays for the investments of the franchisor in an initial stock of assets like system-specific know-how and its transfer to the franchisee. (Windsperger, 2003, p. 296) Additionally, the initial fee serves as a self-selection criterion, because only those franchisees will initiate a business relationship if they think that they are capable of generating enough surplus in the future for recompense. (Caves/Murphy, 1976, p. 576)

The level of initial fees is dependent on various factors. Firstly, it must be connected to the rents generated by the transferred rights like the know-how at the beginning of the contract period. (Windsperger, 2003, p. 296) Secondly, besides only taking into account the investments and sunk costs of the franchisor, hostages situations influence the value. A possible hostage situation arises if the fee is set too low. In this case the franchisee may

threaten the franchisor to terminate the contract if he will not accept lower ongoing royalties. (Dnes, 1993, p. 383f) Nevertheless, Tietz (1987, p. 516) argues that the effect only occurs if the sum does not have to be repaid when the franchise relation is terminated. On the other hand, Klein (1980, p. 359) mentions that the amount should also include "expected benefits" generated by a franchisee if he behaves in an opportunistic way in the short term.

4.1.2 Royalties and advertising fees

Through an ongoing royalty the franchisor is able to gain from further growth of the franchisee´s business. From a Property Rights view this residual right motivates the franchisor to further invest into system-wide marketing and controlling duties in the future.

Since bilateral moral hazards in distribution networks (e.g.: like in business-format franchising, where the reputation of the network represents the main contribution of the franchisor) exist, the franchisee cannot fully observe the efforts made by the franchisor into the franchising network, but suffers from its consequences. Therefore, the franchise contract has to have an incentive mechanism for the franchisor to promote ongoing investments in the network reputation. (Fadairo, 2013, p. 568)

As a basis for the calculation of the variable fees, the turnover of the franchisee´s business is normally used, because it cannot easily be manipulated by the franchisee. (Brickley/Dark, 1987, p. 410; Dnes, 1993, p. 382) Also it is possible in cases where the franchisor provides the franchisee with goods to be sold, that the franchisor sets a mark-up in terms of a percentage on the annual turnover of the goods supplied. (Hollensen, 2011, p. 363)

Additionally, the amount of the royalties is among other factors dependent on the division of investments into marketing activities between the partners. Since the franchisee gains from the residual surplus after paying the initial fees and the royalty, he should pay lower royalties if he invests more into marketing activities. On the other hand, if the franchisor is obliged to invest a bigger stake into system-wide marketing activities, the royalty should be higher. (Windsperger, 1996, p. 139)

Moreover, the relative importance of intangible investments of the partners on the residual income stream is further expected to impact the level of royalties, since the level has to motivate the party through a higher fraction of the residual income. Thus, the royalty can be used to regulate the incentive of the partners to invest either positively or negatively from

a property rights view. (Windsperger, 2003, p. 295) What is more, in a recent empirical analysis of Fadairo (2013) it is argued for a justification of royalties because of the transmission of know-how, concepts and promotion in the franchising network. In the case of logistics provisions of the franchisor for the network, the probability of having royalties in contracts was negatively influenced. This might be due to direct payments for services provided by the franchisor which were compensated externally by the franchise contract. Another reason might be that the perceived level of moral hazard risk is reduced if the franchisor gets more information while providing logistics. On the other hand, the study showed that the presence of royalties is positively related to the franchisor´s contribution of the band-name value. (Fadairo, 2013, p. 580)

4.2 Ownership rights: Ownership surrogates

In this chapter, the most important ownership surrogates are discussed, that were investigated in the empirical analysis.

4.2.1 Tying arrangement

The tying arrangement clause obliges a franchisee to buy inputs like raw materials, semi-finished or finished products from the franchisor or from a certified supplier. (Klein/Saft, 1985, p. 345)

In situations where price maintenance for all franchisees is established a franchisee has an incentive to maximize its profits through reducing the costs of input factors. A way of reduction is to use resources that are cheaper and maybe therefore have a lower quality. In order to ensure a needed quality level of the product all over the system that does not harm the reputation of the end product, a franchisor can reduce the problem of monitoring costs through dictating the sources of input factors. (Klein/Saft, 1985, p. 349)

Especially, through tying agreements the franchisors is able to ensure the quality of the end products in situations where quality requirements are difficult to specify or not possible to make explicate in contracts. This is true for situations where the franchisor´s brand name assets are important to create the residual surplus and the quality of the franchisee´s output affect the intangible investments made into the franchise network. (Windsperger, 2003, p. 297) Further, by defining the input sources, problems concerning monitoring and

implementation of quality requirements, problems concerning efficiency and costs of monitoring are greatly reduced in the whole franchise network. (Klein/Saft, 1985, p. 349)

Therefore, from a property rights view, the clause provides an incentive for the franchisor to invest into the franchise network since a minimum quality standard in all franchised outlets is established (Windsperger, 2003, p. 297), which ensures that the investments are protected from adverse actions of franchisees.

What is more, the franchisor gains the possibility to bring the franchisee in a hostage situation, since he can directly or indirectly - through the approved suppliers – dictate the prices of the input factors. Thus, the franchisor is able to include royalties through tying agreements, which have positive impacts on the incentive for investments on the franchisor`s side, but may harm the motivation of the franchisee. (Windsperger, 2003, p. 297) The clause is a possible moderator of the level of ongoing royalties.

4.2.2 Exclusive dealing clause

An exclusive dealing clause ties the franchisee to the franchisor through the obligation that only products specified by the franchisor are allowed to be sold in the franchisee´s business. The clause is often used in connection with other clauses like the price maintenance clause and the exclusive territory clause. Through the exclusive dealing clause, a franchisor tries to motivate the franchisees to sell products of the franchisor with the highest service and marketing efforts. The franchisees accept the exclusive dealing clause because they often get exclusive territory rights in compensation. This is due to the fact that the negative competition between franchisees who have had accepted the exclusive dealing can be mitigated. Though the exclusive dealing fosters the incentive for increased service offerings, other combinations of clauses can have similar effects. For example, the exclusive territory and the price maintenance clauses together are seen as instruments to prevent free riding when special services need to be provided and therefore exclusive dealing clauses are not always present. (Tahleri, 2002, p. 65ff)

Another explanation for the exclusive dealing can be found in the efficient-theoretical realm. Through the clause, the franchisor ensures that only his own products benefit from marketing and promotion activities and that he will at the end benefit from the investments.

At first the franchisee will benefit from increased turnover due to the investments of the franchisor, but in a second step the franchisee will pay the franchisor for the costs through higher prices of the products. To secure this residual financial stream, the franchisor needs to protect it from the threat of substitutes in the product line, since those products do not contribute to the marketing and promotion incentives of the franchisor, but he would bear all the costs and would not benefit from it. (Marvel, 1982, p. 1ff) This inter-brand free rider problem is supposed to reduce the motivation of a franchisor to undertake relationship-specific investments, since he is not able to acquire the residual income generated by his investments. For this reason, the exclusive dealing arrangement provides a way to establish a property right over the intangible investments. (Windsperger, 2003, p. 291)

4.2.3 Resale price maintenance

According to Mathewson and Winter (1983, p. 342) the resale price maintenance clause binds all franchisees to a system-wide final retail price or a minimum retail price for the sold products of the franchisee.

An economic reason for the use of a resale price maintenance clause in a franchise contract is that without a resale price maintenance a free rider problem occurs, when offerings are sold which may include additional promotional sales activities. Franchisees who invest into additional promotional activities would have higher prices than franchisees who do not invest and sell only the product itself. Therefore, customers might gain from the promotional activities of a franchisee in the system, but decide to buy the product from a franchisee who did not invest into the activities and is therefore able to offer a lower price, which finally leads to a free-riding problem in the franchise system. (Mathewson/Winter, 1983, p. 367ff; Telser, 1960, p. 89ff)

In order to reduce the incentive for the free riding of franchisees, a franchisor can fix the margin between the franchisors manufacturing costs and the retail prices. Consequently, the franchisees face competition among them and they try to attract customers through additional services. (Telser, 1960, p. 89ff)

Besides criticism that the price maintenance clause is only adequate for products where additional services are possible and where a free riding problem may exist (Marvel/McCafferty, 1984, p. 346ff), the resale price maintenance clause not only prevents

the free riding problem, but provides positive investment effects for the franchisor and the franchisees. For franchisors it creates an incentive to invest into important intangible marketing assets and for franchisees it motivates to invest into intangible local service assets. (Windsperger, 2003, p. 297)

What is more, additionally to a possible lack of incentives for investments and free-riding on the franchisee´s side, franchisors are also affected, because underinvestment affects the franchisor´s brand name through lack of investments into the quality of the product or service. (Goldberg, 1982, p. 461)

4.2.4 Lease control and lease right

Through a **lease control right** the franchisor controls the franchisee´s business premises after termination of the franchise contract. The franchisor is allowed to step into legal agreements that have been made between the franchisee and a third party that may own the premise´s land.

The clause serves as a quality function and builds a hostage situation for the franchisee and gives incentives for specific investments of the franchisor (Klein, 1980; Windsperger, 2003, p. 297f) According to Bercovitz (1999, p. 38) the hostage situation strengthens the motivation for specific investments because opportunistic behaviour of the franchisee is reduced if he cannot expect to extract the gains of the negative behaviour at the termination of the contract, since the franchisor can decide about the utilization in the future.

The argument of Bercovitz (1999) might be true for investments that are not context specific. But specific investments, like modifications of the business site according to the guidelines of the franchisor, are by definition not useable in other contexts. Thus gains from it are only expected in the course of doing business in the franchise system. Furthermore, the hold-up risk of the franchisee especially increases in situation where the premises are valuable to the franchisor. (Dnes, 1993, pp. 373f)

Additionally, it is expected that a franchisee facing a lease control clause is reluctant to invest in such bounded assets, if he cannot expect to gain from his investments through the residual surplus stream. (Adams/Jones, 1997, p. 260)

Therefore, Windsperger (2002b, p. 134) argues to attribute lease rights to the franchisee if the specific investments of the franchisee are very important in relation to the franchisors system-specific investments to generate the residual surplus. This argument is especially important when the investments of the franchisor are dependent on the local efforts of the franchisee to generate the residual surplus and when additional motivation is needed. If the franchise contract stipulates lease control for the franchisor, the threat for the franchisee of losing all the investments at contract termination calls for other ownership surrogates that provide enough incentive for the specific investments.

A franchise contract can also explicitly stipulate a **lease right for the franchisee**. This is important, for example, when the franchisor is the owner of a business premise and the franchisee is the tenant. By the right the franchisee is able to stay in the premise after contract termination and may decide to open a different business at the same place. From a property rights view, the clause motivates a franchisee to invest into premises and the business itself while weakening the franchisor´s position at the same time.

4.2.5 Approval and buy back rights

Through a **buy back right** a party grants the other the right (right of first refusals, ROFR) to buy the stake in the franchise or parts of the business like products in the inventory in the case of an alienation or extension in advance of other claimants. (Skaupy, 1987, p. 121) This pre-emption right can be granted to the franchisee or the franchisor (Tietz, 1987, p. 523).

From a property rights view, in the case of calling the option to pre-empt and to acquire the franchisee´s business, the franchisor integrates the rights and obligations of the franchisee into his company. A priori, if the franchisor expects to acquire the franchisee´s business in the future, the intention to do so takes also effect as a property surrogate. Therefore, the franchisor is able to gain from his system investments into advertisements and know-how development in an efficient way. Additionally, he has an interest to follow his contracted obligations and supports the franchisee accordingly in various fields like law consulting, preventing him from misinvestments, enforcing territory restrictions and other monitoring functions in the whole system. (Vortmann, 1996, p. 18ff)

Without ROFRs, the franchisor loses power in the whole franchise system, because the franchisor would not be able to fully control his brand and company name, if the name was used after an acquisition from another party without his permission. Therefore, the franchisor guarantees total control over an outlet (Dnes, 1993, p. 380) and the ownership structure of the franchise network.

What is more, a franchise contract can stipulate that in the case of alienation of the franchised business, the franchisor possesses the **right to approve the purchaser** (Windsperger, 2003, p. 298) that would enter the business relationship with the franchisor. In the case of a rejection of the prospect, the franchisee is not able to sell the business to him.

As highlighted before, approval and buy back rights ensure the franchisor that the franchisee is not able to capture quasi rents at contract termination that result from investments of the franchisor made into intangible assets that are spread in the whole franchise system. (Windsperger, 2003, p. 298) This means, he is able to take over the franchise, if a contract is not extended after the contract duration while making sure to protect the brand name value of the franchise from any transfer to the franchisee. (Caves/Murphy, 1976, p. 580) As a result, it must be concluded that the existence of such clauses motivate the franchisor, but reduce the motivation of the franchisee, since his ownership position is weakened. (Windsperger, 2003, p. 298) Regarding the extension right of the franchisee, the option right is strongly weakened in combination with short contract durations, since the franchisor is able to threaten the franchisee by asserting not to continue the business relationship, if the franchisee does not behave as desired, which clearly sets aside the mentioned incentives above.

4.2.6 Exclusive territory arrangement

Exclusive territory clauses are used in franchise contracts to grant the franchisee exclusive sales rights in a special territory. This right protects the franchisee from the franchisor´s interest of increasing the density of outlets in a territory. It also fosters, from a property

rights perspective, the interest of the franchisee to make special investments in the outlet and to catch the residual incomes from the investments. (Mathewson/Winter, 1994, p. 182)

The clause can also be stipulated as a “not strictly exclusive territory clause” that does not exclude customers from other territories, when they come to the territory of the franchisee. In addition, the franchisor grants not to take any actions directly or indirectly through other franchisees in the exclusive territory.

The main function of this clause is to protect the franchisee from opportunistic behaviour of the franchisor and “intrabrand free-riding” of other franchisees in cases where the franchisee needs to provide specific investments into the local market. If other franchisees or the franchisor are not allowed to sell in the exclusive territory of a franchisee, they are not able to extract residual income directly from the franchisee´s investments. Hence the clause creates a property right in the intangible assets and the respective residual surplus stream. (Windsperger, 1996, p. 138)

Additionally, to the reluctance of a franchisee to invest into the territory without the exclusive right, he may refuse to pay franchise fees. (Windsperger, 1996, p. 138) Since the franchisor is normally dependent on the royalties as a compensation for his efforts, the clause is expected to be included in contracts, if he does not have other residual streams like margins on the input factors.

Moreover, the clause prevents the franchising partners from a negative and destructive competition between franchisees in a territory and makes them focus on their area. (Taheri, 2002, p. 60)

Further arguments for the existence of exclusive territory clauses are situations where the activities of the franchisee are important for the success of the system like product demonstration, information exchange etc. (Matheson/Winter 1994, p. 189ff.)

Also, the clause is seen to be suitable for motivating the franchisee in sales activities if “the franchisor is interested in increased demand for his product” (Muris et al., 1992, p. 96). The franchisee can therefore be sure to get an increased stake in the residual surplus that compensates him for the efforts in the sales activities that are intangible investments.

If “intrabrand free riding” needs to be prevented, the clause is often stipulated in combination with the resale price maintenance clause and sometimes in combination with other clauses that restrict franchisees in other terms, because the franchisee is then compensated for those cutbacks. (Windsperger, 2002b, p. 133)

However, the possibility to compensate for the measures through exclusive territory clauses can be questioned, because the franchisor gains from the profits of the territory through turnover dependent royalties and therefore is able to get back the advantages of the exclusive territory from the franchisee. Moreover, the restrictive and protection clauses are a result of the profit maximization of the whole system. (Matheson/Winter 1994, p. 191)

4.2.7 Option rights of extensions

Another implementation of ROFR is the extension right for the franchisee. In the case of an extension of the franchise system by the franchisor, an established franchisee would get an offer from the franchisor to operate a new site in the territory and if he neglects to do so, the franchisor is allowed to offer the opportunity to another party. (Tietz, 1987, p. 523) From a property rights view this right motivates the franchisee to comply with the franchise contract in terms of investing in his business through, for example, special investments and advertising, because the franchisee is able to benefit from his actions without the danger of sharing the profits made through increased turnover with other franchisees. Furthermore, he does not fear to lose turnover because of harmful competition from another franchisee.

The transfer of the right for entry control to franchisees is most suitable when local assets are crucial for the success of the system, while weakening the franchisor´s ownership position in local markets, since he “cannot increase the proportion of company-owned outlets”. (Windsperger, 2003, p. 297)

4.2.8 Exclusive customer clause

An exclusive customer clause divides actual and potential customers between the franchisor and the franchisees. The clause may regulate that major clients or key accounts need to be supplied directly from the supplier. The franchisor has the right to deal with the respective client, even if the franchisee has been contacted and an exclusive territory agreement exists for the client’s location. Customers or customer groups with special characteristics are listed

by the franchisor. The exclusive customer list is updated on a regular basis (mostly yearly) and expands the franchise contract. The list is obligatory for all franchisees, unless the franchisor grants special rights to a franchisee. (Kartellgericht, 2006)

An economic explanation for such a clause can be that major clients of a franchising system may demand global purchasing conditions around the globe that are directly negotiated with the franchisor. Economies of scale and scope arise, when dealing only with a responsible purchasing department on the client´s side and one sales department on the franchisor´s side providing a strategic advantage for a franchising system through lower costs and higher service quality compared to various local competitors.

4.2.9 Alienation and inheritance rights

The franchisee is obliged to invest not only in sales but also in marketing activities. Because the capitalization of these efforts are not directly reflected in the sales figures, the franchisee has less incentive to invest. Form a property rights view, the solution for this problem is that the franchisor transfers the residual right of the marketing activities to the franchisee through the possibility to sell his share on the company value. This can be done through the **right of selling the franchisee´s business**. (Picot/Wolff, 1995, p. 232)

The transfer of the residual right has certain benefits for the franchisor because it leads to an increased efficiency of the franchisee, since he knows that he can capitalize his marketing efforts in the case of a sale of the property in the future. Additionally, also the whole franchise system will profit from this increased efficiency. (Taheri, 2002, p. 73f)

Inheritance rights of franchisees further increase their motivation to invest into the franchise business and to lead it efficiently, since in the case of death of the former owner the business is transferred to a beneficiary party. Therefore, the heir is able to benefit during the contract duration from the investments previously taken. On the other hand, the clause reduces the motivation of the franchisor to invest in the franchisee´s operating unit, since he is not able to gain directly from system-specific and local assets. (Windsperger, 2003, p. 298) Nonetheless, the franchisor will benefit from ongoing royalties and in the case of investments he would profit from franchise unit dependent investments which is more important to him. This view can be questioned since franchise contracts and the respective

royalties are standardised across the franchise network, which means that the franchisor is not able to increase the royalties for a special franchisee in connection with special investments. Additionally, the franchisor cannot insulate the franchisee to benefit also from the earnings of the investment, which means that a free-rider problem would arise.

4.2.10 Franchisor is owner or tenant of a premise

In general, it can be said that franchise industries who include clauses in contracts to manage the ownership structure aim at influencing the behaviour of the contract parties. Through these clauses buildings, land and/or fitments should be distributed in order to encourage an efficient behaviour. (Taheri, 2002, p. 71)

Additionally, the respective clauses function as a control instrument that creates more dependence between the contract parties, because the property distribution creates a hostage situation enabling one party to make the other dependent. This dependency further creates a system-efficient behaviour of the dependent party, if it is aware of its dependence. (Taheri, 2002, p. 71)

According to Taheri (2002, p. 72f), in situations where the franchisor owns (in a legal sense) at least the land on which the franchisee invests into a building or into fitments, the fear of losing some or all of his specific investments due to a breach of contract as a result of opportunistic behaviour, leads to a system-efficient behaviour. This is vital since the franchisee does not gain all benefits of his behaviour in total – because if he did, a full attribution in terms of the property rights would be established. (Taheri, 2002, p. 72f)

4.2.11 Competition clause

Franchise contracts can include competition clauses that forbid a franchisee to compete with the franchising system during the contract period or also after contract completion.

A competing situation may arise when the franchisee establishes another business, is self-employed, employed or consults competitors on his own account or as a middleman in the contractual territory. (Kartellgericht Wien, 2006)

The aim of the clause is to protect the franchising system and its assets against the free-riding of a franchisee due to his knowledge advantage gained while being part of the

franchising system. A post-contractual clause is common in almost all franchise contracts in order to protect the assets like the know-how and client base of the franchising system. (Liebscher/Petsche, 2002, p. 156) In addition, the use of a post-contractual competition clause requires a compensation clause in the franchise contract, because the franchisee demands to have the possibility to setup a new existence in an exclusive territory, when a contract is terminated while being not able to continue with the previous profession. (Vortmann, 1996, p. 31)

4.3 Decision rights

As discussed in chapter 4.2, decision rights are seen as an important determinant for the distribution of ownership rights (residual income rights and ownership surrogates) in order to establish an efficient franchising organization. Therefore, the degree of centralization (decision rights are allocated to the franchisors) or decentralization (decision rights are allocated to the franchisee) of decision making in the franchising system is seen from the property rights view as a key influencing factor. (Windsperger, 2002a, p. 1449)

Although the distribution of decision rights is primarily considered to be influenced by the know-how and knowledge distribution in the franchising system, Windsperger (2002a, p. 1449) highlights that **strategic decisions** are "primarily made by the franchisor". On the other hand, operative decisions are divided between the franchisor and franchisee. For that purpose, the franchise contract can stipulate that a decision can be made from each partner alone or that it is made after internal communication between the contract parties.

In general, the following decisions areas have been analysed in the empirical analysis. A short description how they have been approached is given:

- **Marketing decisions –** Marketing decisions are decisions about the products or services offered by the franchising system or the franchisee and the general pricing strategy.
- **Advertising decisions –** Decisions about promotional activities of the franchisee.
- **Human resource decisions**
    - **Recruitment decisions –** Decisions about the hiring of employees in the franchisees company.
    - **Training decisions –** Decisions if, when and how often an employee of a franchisee has to attend trainings from the franchisor or a third party
- **Production decisions –** The franchisee may get guidelines from the franchisor how to produce a product or service. On the contrary, a franchise contract can leave this part open and give the franchisee the freedom to decide about this value chain activity himself.
- **Accounting system decisions –** A franchisor can define that a franchisee needs to use a special accounting system (IT-system) (Windsperger, 2003, p. 302) for his company or the point of sale, which is either provided by the franchisor or a third

party.

The basic explanation in a franchise contract to follow the local accounting standards does not represent a decision right.

- **Investment decisions –** Decisions about investments into the franchisee´s business. For example, a franchise contract may stipulate that a franchisee is not allowed to make investments into his outlet, yet he is obliged to renovate every two years his interior decoration, unless the franchisor does not give any other instructions.
- **Financing decisions –** Decisions about financial funds like the possibility to draw on a credit or repay a loan.
- **Procurement decisions** – This decision goes beyond tying arrangements since the respective decisions include factors like the amount, the value, the frequency of orders and they concern directly the liquidity of the franchisee's business. For this decision area no information was found in the franchise contracts; therefore, it was excluded.

4.4 Other constituent parts in franchise contracts

In addition to ownership rights and decision rights, franchise contracts contain more accompanying information. The following information was collected in the empirical analysis as well:

- **Financial funds** – The franchise contract can require liquid funds like available cash or a bank guarantee from the franchisee at the beginning of the contract agreement in order to ensure the franchisor that the potential franchisee is financially fit.
- **Contract duration –**The duration of the contract stipulates the duration or validity of a franchise contract. It is defined in years or may allow an indefinite period. There is also the possibility to automatically extend the expiration date of the contract.
- **Advisory board** – A franchise contract can allow advisory boards of franchisees. They can serve as an advocacy for the franchisor in different fields and can, for example, get established to decide about advertisement activities and the allocation of marketing budgets in the franchising system. Additionally, they serve as a forum to regulate disputes and act as a monitoring device through social control.

- **Minimum turnover and minimum quantity** – The franchise contract may impose a minimum turnover of sales on the franchisee. It serves as a sales target for the franchisee.

  Also the franchise contract may require the franchisee to buy from the franchisor or from certain supplies as stipulated minimum quantity of goods or services or to produce it himself.
- **Control rights** – The franchisor can include control rights in a franchise contract in order to monitor and control a franchisee´s activities and business performance. The control rights can be differentiated by their scope. For example, a franchisor may be able to enter the franchisee´s branch without approval of the franchisee anytime, or with approval. Also it is possible that a franchisee is required to use the IT-system or point-of-sales systems of the franchisor in his company, which gives the latter the possibility to assess directly the franchisee´s sales performance.

5. Quantitative analysis of franchise contracts

In this part of the master thesis a quantitative analysis of franchise contracts will be presented. The analysis is based on 10 main hypotheses which have been developed on the theoretical framework presented in the previous chapters. The aim is a deeper understanding of the composition of franchise contracts.

5.1 Data collection and research design

In order to draw a sample of franchise contracts for investigation, an already established collection of franchise contracts was used. The collection was provided by Mr. Univ.-Prof. Mag. Dr. Josef Windsperger from the University of Vienna and consisted of 240 Austrian franchise contracts that were effective in the year of 2006. These franchise contracts had been reported to the antitrust court in Vienna (Kartellgericht Wien) in the years before. The respective companies stem from different industries and franchise sectors; their franchise contracts possessed different initial years.

The data gathering process followed three steps. In the first step, all contracts were scanned and checked for completeness. Incomplete contracts (e.g. having missing pages) were excluded from the sample, leading to 208 franchise contracts with nearly 6000 pages left.

In the second step, 42 variables for the data collection based on the franchising literature were developed (see the definition of the variables in the codebook in the appendix for further details), in order to empower researchers for further analysis purposes.

In the third step, the remaining franchise contracts were analysed according to the previously standardized criteria by five students of the University of Vienna to distribute the analysis workload and to generate a common analysis database. Each person examined approximately 42 contracts and 1200 pages. After coding the variables, the data was entered into the statistics and analysis software “SPSS Version 22”. Subsequent analysis of the common database was made on an individual basis by each student.

Statistical interpretation guideline

In order to test the following hypothesis in this chapter, variables needed to be calculated. The variables were tested if their data was normally distributed using the Kolmogorov-Smirnov test. (Field, A., 2009, p. 144f) After discovering that all variables and indices were not normally-distributed, non-parametric tests were used for the different analyses. In addition, as a significance level (p-value) the threshold of 5% was chosen for all tests.

Difference test

For testing whether independent groups differ in certain characteristics, the Mann-Whitney U-test was used instead of a T-test. (McKnight, P. E., & Najab, J., 2010) In case of a difference, the test also provided the information, whether a group had a higher or lower mean in a certain characteristic compared to the other. However, the test did not reveal information on the degree of the difference.

Correlation test

For correlation analysis purposes of two variables, the tests of Kendall's tau B were used.

Following Kraska-Miller, M. (2013, p. 191), the interpretation of the correlation coefficient (τB), which can have a value in the interval between – 1 to +1, can be found in table 2.

Value of correlation coefficient (τB)	**Interpretation of strength of correlation**
$\tau B = 1$	perfect positive correlation
$0,5 < \tau B < 0,99$	strong positive correlation
$0,3 < \tau B < 0,49$	moderate positive correlation
$0,1 < \tau B < 0,29$	weak positive correlation
$\tau B = 0$	statistically uncorrelated
$-0,1 > \tau B > -0,29$	weak negative correlation
$-0,3 > \tau B > -0,49$	moderate negative correlation
$-0,5 > \tau B > -0,99$	strong negative correlation
$\tau B = -1$	perfect negative correlation

Table 2: Interpretation of correlation coefficient Kendall's Tau B

Therefore, if the correlation coefficient of a test statistic has a value between -0,1 and 0,1 a correlation was not ascertained.

5.2 Basic descriptive analysis of the sample

According to the classification scheme presented in chapter 2.1, 5,8 % of the 208 companies investigated could be allocated to production franchising, 50,0% to service franchising and 44,2% to distribution franchising. Comparing this distribution with the recent data from the Austrian Franchise Association (ÖFV , 2015), only a slight difference can be ascertained. Thus, it can be supposed that the data is still representative for the Austrian franchise sector.

What is more, the companies were also allocated to groups of branches following the approach of Hussain and Windsperger (2013, p. 175). In doing so, 41,8% of the franchising systems stem from the branch "retail business", 30,3% from "personal and business services", 11,1% from "building, construction and real estate", 7,7% from "hotel and restaurant", 7,7% from "manufacturing and others", and 3,8% from "cleaning and maintenance". Table 3 provides further details:

		franchise_sector			Total (absolute/ relative)
		distribution franchising	production franchising	service franchising	
branch	retail business	77	3	7	87 / 41,8%
	personal and business services	1	0	62	63 / 30,3%
	building, construction, and real estate	7	4	12	23 / 11,1%
	hotel and restaurant	1	2	13	16 / 7,7%
	manufacturing and others	6	3	2	11 / 5,3%
	cleaning and maintenance	0	0	8	8 / 3,8%
Total (absolute/relative)		92 / 44,2%	12 / 5,8%	104 / 50%	208 / 100%

Table 3: Number of firms according to branch and franchise sector in the sample

In addition to the basic description of the dataset, please consult the appendix or the descriptive analysis parts of the colleagues for further information.

5.3 Variables and measures for testing of hypotheses

In this chapter the most important variables and measurement instruments for the subsequent hypotheses in chapter 5.1 will be presented. The initial collected data of franchise contracts sometimes needed to be recoded in order to generate the appropriate variables and to achieve needed measurement levels (from nominal data to at least ordinal

scaled data), which will be explained in this chapter. Further, indices consisting of several variables have been developed.

(The most important descriptive statistics are provided in this chapter as well, for further data consult the appendix.)

5.3.1 Specific investments of the franchisee

As discussed in various chapters before, specific investments play an important role in franchising systems on different levels. Thus, the data set of Austrian franchise contracts have been analysed regarding investments, which a franchisee needs to make to become part of the franchising network.

From 208 franchise contracts of the data set, 117 include information about "generic" investments that need to be provided by franchisees, while two of those highlight that no investments are needed, though the needed amount is not specified in detail.

However, the information is different for specific investments. Here from 208 contracts, 106 include information about needed specific investments that need to be done by the franchisee, while 12 of those highlight that no specific investments are needed. From the remaining 94 contracts, only 16 specify in detail the needed amount of investment to be made. The other 78 contracts leave the definition of the amount open for further negotiation. The defined amount of specific investments varies from a minimum of EUR 683 to a maximum of EUR 76.306 with a mean of EUR 23.699 and a median of EUR 7276.

Therefore, based on the information in the franchise contracts, the franchising systems have been grouped into two groups, those who require in advance specific investments by a franchisee (ca. 45%) and those who do not require specific investments (ca. 55%).

5.3.2 Ongoing income streams of the franchisor

Franchisors get efforts (primarily royalties and advertising fees) from franchisees in compensation for their ongoing investment. Therefore, in order to estimate the total ongoing income stream of a franchisor, both components need to be considered.

Royalties

In the dataset of 208 Austrian franchise contracts, 131 contracts numeralize a royalty in the contract; 32 require a royalty, but do not define the amount in the franchise contract; 9 contracts mention, that a royalty is not needed, and 36 contracts do not mention a royalty at all. Therefore, 163 out of 208 contracts (ca. 78%) stipulate an ongoing royalty fee in their system.

In 98 out of 131 contracts, the royalty amount is calculated only as a percentage share of annual sales and in 19 contracts the royalty is stipulated only as a fixed amount. Thus in 14 contracts, royalties are calculated through a variable and a fixed component.

Advertising fees

In the dataset of 208 Austrian franchise contracts, 95 contracts numeralize an advertising fee in the contract, 25 require a fee, but do not define the amount in the franchise contract, 6 contracts mention, that a fee is not needed, and 36 contracts do not mention a fee at all. Therefore, 120 out of 208 contracts (ca. 58%) stipulate an ongoing advertising fee in their system.

In 78 out of 95 contracts the advertising fee is calculated only as a percentage share of annual sales and in 12 contracts the fee is stipulated only as a fixed amount. Thus in 5 contracts, royalties are calculated through a variable and a fixed component.

Combination of ongoing income streams

In order to measure the level of a franchisor´s annual income stream, the royalty fee and the advertising fee has been combined to a new variable. To this end, 44 contracts that require but do not stipulate, and 38 contracts that stipulate a fixed annual amount of either a royalty or an advertising fee were excluded from the data set. Those 82 contracts in total are marked in the dataset through "-99" as missing values. Thus, this measure does not contain any franchising systems, where the franchise contract contains any fixed amount or postpones the calculation basis for a later point in time.

At the end of the filtering process, 126 contracts out of 208 remained. For each franchising system the total royalty was calculated:

$$\text{Total royalty percentage} = royalty\ in\ percentage + advertising\ fee\ in\ percentage$$

The resulting variable consists of 96 franchising systems, where the franchisor gets an annual total royalty based on a percentage of annual sales. In 30 franchising systems the franchisor does not get a total royalty. Further, the variable has a maximum of 50% and a minimum value of 0% with a mean of 6,117% and a standard deviation of 6,89%. The variable is not normally distributed (see appendix: Tests for normality)

5.3.3 Ownership surrogates index

The ownership surrogates index represents the distribution of ownership surrogates between the franchisor and the franchisee in a franchise contract.

The following contract clauses are included:

Alienation right, approval and buy back rights, competition clause after termination of the contract, competition clause during the contract, exclusive customer clause, exclusive dealing clause, exclusive territory arrangement, inheritance right, lease control over an outlet after contract closure by the franchisor, lease right of an outlet after contract closure by a franchisee, option right of an extension for franchisee, option right of an extension for the franchisor, franchisor is owner or tenant of a premise, resale price maintenance and the tying arrangement.

In order to calculate the index and to get an ordinal scaled index, a recoding of the ownership surrogates above was necessary. The exact assignment and a short explanation is given in the appendix (8.5).

Based on the new classification, the ownership surrogates index was calculated as follows:

$$Ownership\ surrogates\ index = \frac{\sum_{j=1}^{15} os_j}{15}$$

The interval of the ownership surrogates index reaches from 1 to 3. The higher the value, the more are ownership surrogates assigned to the franchisor, the lower it is the more ownership surrogates are in favour of the franchisee. The index has a minimum of 1,31 and a maximum of 2,56. Its mean is 1,83 and the standard deviation is 0,23. The index is not normally distributed.

5.3.4 Decision rights index

The decision rights index captures the degree of centralization in a franchising system as it is stipulated by the franchise contract. The measure contains the following seven variables: marketing decisions, production decisions, accounting system decisions, advertising decisions, employees training decisions, investment decisions, recruiting decisions.

The values were recoded for every decision variable. If a contract stipulates that a decision right is allocated to the franchisor, it is assumed that the system is centralized (Coded as "3"). On the other hand, if the decision right in the contract is allocated to the franchisee OR the decision right in question is not mentioned at all, it is assumed that the system is decentralized (Coded as "1"). Additionally, in the case that both partners decide "after internal communication", the respective value was newly coded as "2".

Based on this classification the decision index was calculated as follows:

$$Decision\ rights\ index = \frac{\sum_{j=1}^{7} dr_j}{7}$$

The decision rights index is ordinally scaled in the interval from 1 to 3. The higher the value, the more centralized a franchising is, the lower it is the more decentralized the system is. The minimum of the index is 1 and the maximum 2,71, with an average of 1,95 and a standard deviation of 0,37. This index is also not normally distributed.

5.3.5 Contractual completeness indices

This measurement captures the completeness of each franchise contract on every single contract component group (ownership surrogates, decision rights, other constituent parts) and over all groups in total. Completeness for this measure means, that a franchise contract provides information about a relevant aspect. Therefore, all relevant variables have been

recoded into “0”, if a contract does not provide any information about the aspect, and “1” if the franchise contract provides for it. More information can be found in the appendix (“Occurrence of variables”)

Contractual completeness in decision rights:

This index contains the same seven variables as the decision rights index (see above), but in the recoded form:

$$Contractual\ completeness\ in\ decision\ rights = \frac{\sum_{j=1}^{7} dr_j}{7}$$

The index of contractual completeness in decision rights is metrically scaled in the interval from 0 to 7. The higher the value, the more complete a franchising is in this regard, the lower it is, the more incomplete it is. The minimum of the index is 0 and the maximum 7, with an average of 5,16 and a standard deviation of 1,53. This index is also not normally distributed.

Contractual completeness in ownership surrogates:

This measure contains the same fifteen variables as the ownership surrogates index (see above), but in the recoded form:

$$Contractual\ completeness\ in\ ownership\ surrogates = \frac{\sum_{j=1}^{15} os_j}{15}$$

The index of contractual completeness in ownership surrogates is metrically scaled in the interval from 0 to 15. The higher the value, the more complete a franchising is in this regard, the lower it is the more incomplete it is. The minimum of the index is 3 and the maximum 14, having the mean at 8,58 with a standard deviation of 2,43. This index is also not normally distributed.

Contractual completeness in other constituent parts:

This component group consists aspects which are not primarily assigned to the other two component groups in the literature. It consists of the following eight variables: investment requirements, special investment requirements, advisory board, minimum turnover, minimum quantity, control rights, cash requirements, and contract duration information.

Based on the above mentioned recoding method, the index has been calculated as follows:

$$Contractual\ completeness\ in\ other\ constituent\ parts = \frac{\sum_{j=1}^{8} ocp_j}{8}$$

The index of contractual completeness in other constituent parts is metrically scaled in the interval from 0 to 8. The higher the value, the more complete a franchising is in this regard, the lower it is, the more incomplete it is. The minimum of the index is 0 and the maximum 7, with an average of 3,06 and a standard deviation of 1,44. This index is also not normally distributed.

Contractual completeness in total:

In order to assess the contractual completeness over all relevant contract terms, the measure "contractual completeness total" has been calculated. It contains all the 30 variables of the three contract component groups in the recoded form:

$$Contractual\ completeness\ total = \frac{\sum_{j=1}^{30}(variables\ of\ the\ contract\ component\ groups)_j}{30}$$

The index of the contractual completeness total is metrically scaled in the interval from 0 to 30. The higher the value, the more complete a franchising is in total, the lower it is, the more incomplete it is. The minimum of the index is 7 and the maximum 28, with an average of 16,08 and a standard deviation of 4,19. This index is also not normally distributed.

5.1 Hypotheses

In this chapter hypotheses are developed, that are based on the previously presented variables and on the theoretical underpinnings of the previous chapters. Each hypothesis was tested based on the before described dataset through the appropriate statistical method.

5.1.1 Hypothesis 1

According to incomplete contracts theory, formal contracts face obstacles to be complete (see chapter 3.2.2). Contracts lack exact details, when investments (e.g. know-how) need to be made by the franchising partners that are specific, not easily observable and intangible or the process of making them explicit is not worth the costs. On the other hand, the need to make specific investments leads to expectations about future returns that justify the costs. But those investments cannot be made fully explicit in franchise contracts and the returns of them may accrue on the other partner's side, which leads to a motivation deficit. Nevertheless, in order to better define the not stipulated residual income streams a priori and to establish incentives for making the specific investments, more complete contracts (in terms of common ownership rights, ownership surrogates and decision rights) are expected, compared to franchising systems that do not require specific investments of the franchisee.

Therefore, the following main hypothesis has been developed:

Hypothesis 1 (H1):

Franchising systems that require specific investments differ in terms of contractual completeness compared to systems that do not require specific investments.

In order to test the hypothesis, the data set was split up into two groups (specific investments are needed; specific investments are not needed) and the means of the variable "contractual_completeness_total" (see 5.3.5) have been compared using Mann-Whitney U-Test (McKnight, P. E. / Najab, J., 2010), since the variable is not normally distributed.

Mann-Whitney U-Test

RANKS	specific_investments	N	Mean Rank	Sum of Ranks
contractual_completeness_total	specific investment needed	94	127,68	12002,00
	no specific investment needed	114	85,39	9734,00
	Total	208		

TEST STATISTICS	contractual_completeness_total
Mann-Whitney U	3179,000
Asymp. Sig. (2-tailed)	,000

Table 4: Difference test of H1, total contractual completeness and specific investments

In the test 208 cases were considered. Table 4 displays that franchising systems, which require specific investments, have in total more complete franchise contracts than franchising systems, which do not require specific investments. As the test statistics of the Mann-Whitney U-Test shows, the difference in the mean values of the groups is statistically significant ($U=3179$; $p<0,01$). For this reason, it can be concluded that H1 is confirmed.

In addition to the main hypothesis, the following three hypotheses investigate, whether differences exist in the contractual completeness of the various contractual component groups.

Hypothesis 1a (H1a):

Franchising systems that require specific investments differ in terms of contractual completeness in decision rights compared to systems that do not require specific investments.

Other than H1, H1a only compares the means of the variable “contractual completeness in decision rights” of the franchise contracts. Here the Mann-Whitney U-Test was also used, since the variable is not normally distributed.

Mann-Whitney U-Test

RANKS	specific_investments	N	Mean Rank	Sum of Ranks
contractual_completeness_ decision_right	specific investment needed	94	119,43	11226,50
	no specific investment needed	114	92,19	10509,50
	Total	208		

TEST STATISTICS	contractual_completeness_ decision_right
Mann-Whitney U	3954,500
Asymp. Sig. (2-tailed)	,001

Table 5: Difference test of H1a, contractual completeness of DR and specific investments

Also 208 cases were considered in the test. Table 5 displays that franchising systems which require specific investments have in total more complete franchise contracts in terms of decision rights than franchising systems which do not require specific investments. As the test statistics of the Mann-Whitney U-Test shows, the difference in the means of the groups is statistically significant ($U=3154$; $p<0,01$). For this reason, it can be concluded that H1a is confirmed.

Hypothesis 1b (H1b):

Franchising systems that require specific investments differ in terms of contractual completeness in ownership surrogates compared to systems that do not require specific investments.

In contrast to H1, H1b only compares the means of the variable "contractual completeness in ownership surrogates". Also the Mann-Whitney U-Test was used, since the variable is not normally distributed.

Mann-Whitney U-Test

RANKS	specific_investments	N	Mean Rank	Sum of Ranks
contractual_completeness_ ownership_surrogate	specific investment needed	94	118,99	11185,50
	no specific investment needed	114	92,55	10550,50
	Total	208		

TEST STATISTICS	contractual_completeness_ ownership_surrogate
Mann-Whitney U	3995,500
Asymp. Sig. (2-tailed)	,001

Table 6: Difference test of H1b, contractual completeness of OS and specific investments

208 cases were considered in the test. Table 6 displays that franchising systems which require specific investments have in total more complete franchise contracts in terms of ownership surrogates than franchising systems which do not require specific investments. As the test statistics of the Mann-Whitney U-Test shows, the difference in the means of the groups is statistically significant ($U=3995,5$; $p<0,01$). For this reason, it can be concluded that H1b is confirmed.

Hypothesis 1c (H1c):

Franchising systems that require specific investments differ in terms of contractual completeness in other constituent parts compared to systems that do not require specific investments.

In comparison to H1, H1c only compares the means of the variable "contractual completeness in other constituent parts". Also the Mann-Whitney U-Test was used; the dependent variable is not normally distributed.

Mann-Whitney U-Test

RANKS	specific_investments	N	Mean Rank	Sum of Ranks
contractual_completeness_other_constituent_parts	specific investment needed	94	129,32	12156,00
	no specific investment needed	114	84,04	9580,00
	Total	208		

TEST STATISTICS	contractual_completeness_other_constituent_parts
Mann-Whitney U	3025,000
Asymp. Sig. (2-tailed)	,000

Table 7: Difference test of H1c, contractual completeness of OCP and specific investments

208 cases were considered in the test. Table 7 displays that franchising systems which require specific investments have in total more complete franchise contracts in terms of other constituent parts than franchising systems which do not require specific investments. As the test statistics of the Mann-Whitney U-Test displays, the difference in the means of the groups is statistically significant ($U=3025$; $p<0,01$). For this reason, it can be concluded that H1c is confirmed.

To sum up, the data set of Austrian franchise contracts support H1 and the respective sub-hypotheses. It can be concluded that the number of contract clauses in total and in the contract component groups (see chapter x) in franchise contracts are significantly higher if specific investments need to be taken by a franchisee.

5.1.2 Hypothesis 2

As discussed in chapter 3.4.2, property rights theory requires to co-locate decision rights and knowledge assets in a franchising system for maximizing the efficiency of knowledge asset usage and the motivation of the system partners for investments as a first step. Since the franchisor is responsible for contract drawing and establishing a system-wide contractual basis, it is expected that he is interested in a more complete contract, when he is the holder of important knowledge-assets in the franchising system. What is more, the residual income rights in a franchising system are diluted, which requires an adequate

installation and distribution of ownership surrogates. Accordingly, it is expected that a franchising system consists of more contractual clauses and is therefore more complete, when the franchisor wants to earn a return from his assets and therefore "reduces" the dilution.

Therefore, the following main hypothesis has been developed:

Hypothesis 2 (H2):

The degree of centralization of a franchise system and the number of contractual clauses are positively related.

In order to test the hypothesis, the distribution of decision rights coded as "decision index" (see chapter 5.3.4) has been correlated with the "contractual completeness total" using the non-parametric bivariate test Kendall's Tau-b, since the variables are not normally distributed.

Correlation

			decision_ index	contractual_ completeness_total
Kendall's Tau-b	decision_rights_index	Correlation Coefficient	1,000	,220
		Sig. (2-tailed)	.	,000
		N	208	208
	contractual_ completeness_total	Correlation Coefficient	,220	1,000
		Sig. (2-tailed)	,000	.
		N	208	208

Table 8: Correlation test of H2, contractual completeness total and decision index

In the test 208 cases were considered. Table 8 displays that the correlation coefficient between the distribution of decision rights and the "contractual completeness total" is positive (0,220) and that the correlation is significant ($p<0,01$). The correlation strength based on the previously presented assessment method in chapter 5.1 can be described as being "positive weak". For this reason, it can be concluded that H2 is confirmed.

In addition to the main hypothesis, the following two hypotheses investigate, whether differences exist in the contractual completeness of the various contractual component groups. The group of decision rights is not considered, since it would be directly interrelated with the distribution of decision rights caused by the variable design.

Hypothesis 2a (H2a):

The degree of centralization of a franchise system and the number of contractual clauses of ownership surrogates are positively related.

Similar to H2, H2a assumes that in decision centralized franchising systems, more contractual clauses of ownership surrogates are used because the franchisor wants to incorporate residual earnings for his investments and decisions in assets. In comparison to H2, the test of H2a only checks correlations between the distribution of decision rights and the contractual completeness of ownership surrogates of the franchising contracts. Also the bivariate test Kendall's Tau-b was used, since the variable "decision_rights_index" is not normally distributed. (see chapter 8.4)

Correlation

			decision_ index	contractual_completeness _ownership_surrogate
Kendall's Tau-b	decision_rights_index	Correlation Coefficient	1,000	,119
		Sig. (2-tailed)	.	,022
		N	208	208
	contractual_completeness_ ownership_surrogate	Correlation Coefficient	,119	1,000
		Sig. (2-tailed)	,022	.
		N	208	208

Table 9: Correlation test of H2a, contractual completeness of OS and decision index

Again 208 cases were considered in the statistics. Table 9 displays that the correlation coefficient between the distribution of decision rights and the "contractual completeness of ownership surrogates" is positive (0,119) and that the correlation is significant ($p<0,05$). The correlation strength based on the previously presented assessment method in chapter

5.1 can be described as being “positive weak”. For this reason, it can be concluded that H2a is confirmed.

Hypothesis 2b (H2b):

The degree of centralization of a franchise system and the number of contractual clauses of other constituent parts are positively related.

In comparison to H2, the test of H2b only examines the correlations between the distribution of decision rights and the contractual completeness of other constituent parts of the franchising contracts. Also the bivariate test Kendall’s Tau-b was used, since the variable “decision_rights_index” is not normally distributed. (see chapter 8.4)

Correlation

			decision_index	contractual_completeness_other_constituent_parts
Kendall’s Tau-b	decision_rights_index	Correlation Coefficient	1,000	,051
		Sig. (2-tailed)	.	,337
		N	208	208
	contractual_completeness_other_constituent_parts	Correlation Coefficient	,051	1,000
		Sig. (2-tailed)	,337	.
		N	208	208

Table 10: Correlation test of H2b, contractual completeness of OCP and decision index

Likewise, the number of cases was 208. Table 10 displays that the correlation coefficient between the distribution of decision rights and the “contractual completeness of other constituent parts” is positive (0,051) and that the correlation is not significant (p>0,1). For this reason, it can be concluded that H2b is not confirmed!

To sum up, H2 and the sub-hypothesis H2a found support in the data set of Austrian franchising contracts. It can be concluded that the number of contract clauses in total and the number of contract clauses of ownership surrogates is lower in decentralized franchising system. In addition, the data did not provide such a relation regarding contract clauses of other constituent parts of a franchising contract.

5.1.3 Hypothesis 3

Similar to H2, it can be argued that the claim of the property rights theory for co-location of knowledge assets, decision rights and ownership rights calls for more complete franchising contracts, because the franchisor needs to address the different aspects of the contract component groups in order to regain from investments.

Therefore, the following main hypothesis has been developed:

Hypothesis 3 (H3):

The number of ownership surrogates in favour of the franchisor and the number of contractual clauses are positively related.

In order to test the hypothesis, the distribution of ownership surrogates coded as "ownership surrogates index" (see chapter 5.3.3) has been correlated with the "contractual completeness total" using the non-parametric bivariate test Kendall's Tau-b, since the variables are not normally distributed.

Correlation

			ownership_ surrogates_index	contractual_ completeness_total
Kendall's Tau-b	ownership_surrogates_ index	Correlation Coefficient	1,000	,451
		Sig. (2-tailed)	.	,000
		N	208	208
	contractual_ completeness_total	Correlation Coefficient	,451	1,000
		Sig. (2-tailed)	,000	.
		N	208	208

Table 11: Correlation test of H3, contractual completeness total and OS index

In the test 208 cases were considered. Table 11 displays that the correlation coefficient between the distribution of ownership surrogates and the "contractual completeness of ownership surrogates" is positive (0,451) and that the correlation is significant ($p<0,01$). The correlation strength based on the previously presented assessment method in chapter 5.1 can be described as being "positive moderate". For this reason, it can be concluded that H3 is confirmed.

In addition to the main hypothesis, the following three hypotheses investigate, whether differences exist in the contractual completeness of the various contractual component groups.

Hypothesis 3a (H3a):

The number of ownership surrogates in favour of the franchisor and the number of contractual clauses of ownership surrogates are positively related..

Similar to H3, H3a assumes that franchisors who need to protect their investments distribute ownership surrogates to their advantage, which allows them to include more ownership surrogates in the franchising contract. Therefore, H3a only provides evidence for correlations between the distribution of ownership surrogates and the contractual completeness of ownership surrogates of the franchising contracts. Also the bivariate test Kendall's Tau-b was used, since the variables are not normally distributed. (see chapter 8.4)

Correlation

			ownership_ surrogates_index	contractual_completeness_ownership_surrogate
Kendall's Tau-b	ownership_ surrogates_index	Correlation Coefficient	1,000	,506
		Sig. (2-tailed)	.	,000
		N	208	208
	contractual_ completeness_ ownership_surrogate	Correlation Coefficient	,506	1,000
		Sig. (2-tailed)	,000	.
		N	208	208

Table 12: Correlation test of H3a, contractual completeness of OS and OS index

In the test 208 cases were considered. Table 12 displays that the correlation coefficient between the distribution of ownership surrogates and the "contractual completeness of ownership surrogates" is positive (0,506) and that the correlation is significant ($p<0,01$). The correlation strength based on the previously presented assessment method in chapter 5.1 can be described as being "positive strong". For this reason, it can be concluded that H3a is confirmed.

Hypothesis 3b (H3b):

The number of ownership surrogates in favour of the franchisor and the number of contractual clauses of decision rights are positively related.

H3b assumes that franchisors who need to protect their investments distribute ownership surrogates to their advantage while at the same time including more decision rights. Therefore, H3b examines the correlations between the distribution of ownership surrogates and the contractual completeness of decision rights. Also the bivariate test Kendall's Tau-b was used, since the variables are not normally distributed. (see chapter 8.4)

Correlation

			ownership_ surrogates_index	contractual_completeness_decision_right
Kendall's Tau-b	ownership_surrogates_index	Correlation Coefficient	1,000	,171
		Sig. (2-tailed)	.	,001
		N	208	208
	contractual_completeness_decision_right	Correlation Coefficient	,171	1,000
		Sig. (2-tailed)	,001	.
		N	208	208

Table 13: Correlation test of H3b, contractual completeness of DR and OS index

Table 13 illustrates that the correlation coefficient between the distribution of ownership surrogates and the "contractual completeness of decision rights" is positive (0,171) and that the correlation is significant ($p<0,01$; $N=208$). The correlation strength can be described as being "positive weak". For this reason, it can be concluded that H2b is confirmed.

Hypothesis 3c (H3c):

The number of ownership surrogates in favour of the franchisor and the number of contractual clauses of other constituent parts are positively related.

In order to complete the analysis of H3 regarding the different contract component groups, H3c checks the correlations between the distribution of ownership surrogates and the "contractual completeness of other constituent parts". It can be argued that a franchising contract contains more OCP, which demonstrates a more complete contract when the

franchisor requires more compensation for his efforts. Also, the bivariate test Kendall's Tau-b was used, since the variables are not normally distributed. (see chapter 8.4)

Correlation

			ownership_surrogates_index	contractual_completeness_other_constituent_parts
Kendall's Tau-b	ownership_surrogates_index	Correlation Coefficient	1,000	,313
		Sig. (2-tailed)	.	,000
		N	208	208
	contractual_completeness_other_constituent_parts	Correlation Coefficient	,313	1,000
		Sig. (2-tailed)	,000	.
		N	208	208

Table 14: Correlation test of H3c, contractual completeness of OCP and OS index

Similarly, 208 franchising contracts were investigated in the test of H3c. Table 14 demonstrates that the correlation coefficient between the distribution of ownership surrogates and the contractual completeness of OCP is positive (0,313) and that the correlation is significant ($p<0,01$). The correlation can be described as being "positive moderate". For this reason, it can be concluded that H3c is confirmed.

To sum up, the data set of Austrian franchising contracts support H3 and all respective sub-hypotheses. It can be concluded that the number of contract clauses in all component groups is lower in systems where the franchisee is in favour of ownership surrogates. On the contrary, the data shows that franchising contracts are more complete, if the franchisor gets a higher portion of ownership surrogates.

5.1.4 Hypothesis 4

Franchisors benefit in compensation for their efforts besides ownership surrogates primarily through the total royalty (ongoing royalty and advertising fee). If the franchisor holds the most important knowledge assets that generate the important residual income stream, he is in a more powerful negotiation position compared to the franchisee. Therefore, it is expected that he can demand a higher level of the total royalty. In addition, it is assumed that the franchisor is able to enforce more complete contracts, when he has a better negotiation

position in order to benefit from stipulated decisions and ownership rights to compensate for his investments in the knowledge assets.

Therefore, the following main hypothesis has been developed:

Hypothesis 4 (H4):

The total royalty and the number of contractual clauses are positively related.

In order to test the hypothesis, the distribution of the total royalty (see chapter 5.3.4) has been correlated with the "contractual completeness total" (see 5.3.5) using the non-parametric bivariate test Kendall's Tau-b, since the variables are not normally distributed.

Correlation

			total_royalty_ percentage	contractual_completeness_ total
Kendall's Tau-b	total_royalty_ percentage	Correlation Coefficient	1,000	,285
		Sig. (2-tailed)	.	,000
		N	126	126
	contractual_ completeness_total	Correlation Coefficient	,285	1,000
		Sig. (2-tailed)	,000	.
		N	126	208

Table 15: Correlation test of H4, contractual completeness total and total royalty

In the correlation test 126 contacts were considered. Table 15 displays that the correlation coefficient between the total royalty in percentage and the "contractual completeness total" is positive (0,285) and that the correlation is significant ($p<0,01$). The correlation strength based on the previously presented assessment method in chapter 5.1 can be described as being "positive weak". For this reason, it can be concluded that H4 is confirmed.

Hypothesis 4a (H4a):

The total royalty and the number of contractual clauses of ownership surrogates are positively related.

This sub-hypothesis follows the argumentation of H4. Franchisors who can demand a high total royalty are able to negotiate to include more ownership surrogate clauses in a franchising contract, compared to franchisors who do not have this powerful negotiation position.

Correlation

			total_royalty_percentage	contractual_completeness_ownership_surrogate
Kendall's Tau-b	total_royalty_percentage	Correlation Coefficient	1,000	,209
		Sig. (2-tailed)	.	,001
		N	126	126
	contractual_completeness_ownership_surrogate	Correlation Coefficient	,209	1,000
		Sig. (2-tailed)	,001	.
		N	126	126

Table 16: Correlation test of H4a, contractual completeness of OS and total royalty

Table 16 displays that in the remaining 126 franchising contracts of the data set, the correlation coefficient between the total royalty in percentage and the "contractual completeness of ownership surrogates" is positive (0,209) and that the correlation is significant ($p<0,01$). The correlation strength can be described as being "positive weak". For this reason, it can be concluded that H4a is confirmed.

Hypothesis 4b (H4b):

The total royalty and the number of contractual clauses of decision rights are positively related.

This sub-hypothesis also follows the argumentation of H4. Franchisors who can demand a high total royalty are able to negotiate to include more decision right clauses in a franchising contract, compared to franchisors who do not have the powerful negotiation position.

Correlation

			total_royalty_percentage	contractual_completeness_decision_right
Kendall's Tau-b	total_royalty_percentage	Correlation Coefficient	1,000	,231
		Sig. (2-tailed)	.	,001
		N	126	126
	contractual_completeness_decision_right	Correlation Coefficient	,231	1,000
		Sig. (2-tailed)	,001	.
		N	126	126

Table 17: Correlation test of H4b, contractual completeness of DR and total royalty

Table 17 demonstrates that the correlation coefficient between the total royalty in percentage and the "contractual completeness decision rights" is positive (0,231) and that the correlation is significant ($p<0,01$) for the 126 cases. The correlation strength can be described as being "positive weak". For this reason, it can be concluded that H4b is confirmed.

Hypothesis 4c (H4c):

The total royalty and the number of contractual clauses of other constituent parts are positively related.

This sub-hypothesis also follows the argumentation of H4. Franchisors who can demand a high total royalty are able to negotiate to include more remaining clauses in a franchising contract, compared to franchisors who do not have the powerful negotiation position.

Correlation

			total_royalty_percentage	contractual_completeness_other_constituent_parts
Kendall's Tau-b	total_royalty_percentage	Correlation Coefficient	1,000	,262
		Sig. (2-tailed)	.	,000
		N	126	126
	contractual_completeness_other_constituent_parts	Correlation Coefficient	,262	1,000
		Sig. (2-tailed)	,000	.
		N	126	126

Table 18: Correlation test of H4c, contractual completeness of OCP and total royalty

The correlation test included 126 cases. Table 18 displays that the correlation coefficient between the total royalty in percentage and the contractual completeness of OCP is positive (0,262) and that the correlation is significant ($p<0,01$). The correlation strength can be described as being "positive weak". For this reason, it can be concluded that H4c is confirmed.

To sum up, H4 and all respective sub-hypotheses are supported by the data set of Austrian franchising contracts. It can be concluded that the number of contract clauses in all component groups is lower in systems where the franchising contract stipulates lower total royalties in percentage. On the other hand, the data shows that franchising contracts are more complete, if the franchisor demands higher royalties.

5.1.5 Hypothesis 5

Ownership surrogates are used to motivate both franchising parties to invest into their businesses. Thus it can be expected that more ownership surrogates are attributed to the franchisee relative to the franchisor, when the franchisee needs to make specific investments. In contrast, in systems where the franchisee is not required to invest specifically, he cannot demand a high portion of the ownership surrogates. Therefore, the following hypothesis has been developed:

Hypothesis 5 (H5):

Franchising systems that require specific investments differ in terms of the distribution of ownership surrogates from systems that do not require specific investments.

In order to test the hypothesis, the data set was divided into two groups (specific investments are needed; specific investments are not needed) and the means of the variable "ownership surrogates index" (see 5.3.3) have been compared using Mann-Whitney U-Test, since the variable is not normally distributed.

Mann-Whitney U-Test

RANKS	specific_investments	N	Mean Rank	Sum of Ranks
ownership_surrogates_index	specific investment needed	94	121,28	11400,00
	no specific investment needed	114	90,67	10336,00
	Total	208		

TEST STATISTICS	ownership_surrogates_index
Mann-Whitney U	3781,000
Asymp. Sig. (2-tailed)	,000

Table 19: Difference test of H5, OS index and specific investments

The test statistics included all 208 cases from the data set. Table 19 displays that franchising systems which require specific investments of the franchisee assign the franchisee more ownership surrogates, compared to systems which do not require specific investments. As the test statistics of the Mann-Whitney U-Test shows, the difference in the means of the groups is statistically significant ($U=3781$; $p<0,01$). For this reason, it can be concluded that H5 is confirmed.

5.1.6 Hypothesis 6

According to the property rights theory, an efficient asset usage can be established, if the holder of the knowledge assets also holds the property rights. Because of the dilution of the property rights, franchisees lack motivation, if they need to invest into their assets (e.g. human resources) while the franchisor holds the decision rights of asset usage. Thus it can be assumed that franchising contracts align decision making power with the need of making specific investments. Therefore, the following hypothesis has been developed:

Hypothesis 6 (H6):

Franchising systems that require specific investments differ in terms of the distribution of decision rights from systems that do not require specific investments.

In order to test the hypothesis, the data set was split up into two groups (specific investments are needed; specific investments are not needed). The means of the variable "decision rights index" (see 5.3.3) have been compared using Mann-Whitney U-Test, since the variable is not normally distributed.

Mann-Whitney U-Test

RANKS	specific_investments	N	Mean Rank	Sum of Ranks
decision_rights_index	specific investment needed	94	114,14	10729,00
	no specific investment needed	114	96,55	11007,00
	Total	208		

TEST STATISTICS	decision_rights_index
Mann-Whitney U	4452,000
Asymp. Sig. (2-tailed)	,035

Table 20: Difference test of H6, DR index and specific investments

Table 20 displays that franchising systems which require specific investments of the franchisee assign more decision rights to the franchisee, compared to systems which do not require specific investments. As the test statistics of the Mann-Whitney U-Test shows, the difference in the means of the groups is statistically significant ($U=4452$; $p<0,05$; $N=208$). For this reason, it can be concluded that H6 is confirmed.

5.1.7 Hypothesis 7

If a franchisee needs to make specific investments that are not able to be used for a different purpose than the respective franchising business, he is interested in regaining the efforts through sales. Thereby the franchisee can highlight the efforts in the negotiation with the franchisor to lower ongoing payments. The following hypothesis renders the argument:

Hypothesis 7 (H7):

Franchising systems that require specific investments differ in terms of the distribution of the total royalty from systems that do not require specific investments.

In order to test the hypothesis, the data set was separated into two groups (specific investments are needed; specific investments are not needed). The means of the variable "total royalty percentage" (see 5.3.2) have been compared using Mann-Whitney U-Test because the variable is not normally distributed.

Mann-Whitney U-Test

RANKS	specific_investments	N	Mean Rank	Sum of Ranks
total_royalty_percentage	specific investment needed	55	70,06	3853,5
	no specific investment needed	71	58,42	4147,5
	Total	126		

TEST STATISTICS	total_royalty_percentage
Mann-Whitney U	1591,500
Asymp. Sig. (2-tailed)	,074

Table 21: Difference test of H7, total royalty and specific investments

Table 21 displays that all 208 franchising systems of the data set were used and those which require specific investments of the franchisee, require higher royalties by the franchisee, compared to systems which do not require specific investments. As the test statistics of the Mann-Whitney U-Test shows, the difference in the means of the groups is statistically not significant ($U=1591,5$; $0,05<p<0,1$). For this reason, it can be concluded that H7 is not confirmed using the threshold of 5% significance level.

5.1.8 Hypothesis 8

The distribution of the decision rights in a franchising system indicates whether a system is centralized or decentralized. From a property rights theory point of view, a centralized structure is most appropriate, if the local knowledge of a franchisee is not that important for the residual income stream. On the other hand, the decision making should be decentralized, if the franchisee`s knowledge assets are important for the joint benefit. With this in mind, it is expected that the total royalty is higher in centralized franchising systems compared to decentralized systems, because the franchisor may demand a higher portion of the residual income stream in compensation for his decision making efforts, maintenance of knowledge assets and marketing incentives. Thus, the following hypothesis claims:

Hypothesis 8 (H8):

The degree of centralization of a franchise system and the total royalty are positively related.

In order to test the hypothesis, the distribution of the total royalty has been correlated with the distribution of decision rights using the non-parametric bivariate test Kendall's Tau-b, since the variables are not normally distributed.

Correlation

			total_royalty_percentage	decision_rights_index
Kendall's Tau-b	total_royalty_percentage	Correlation Coefficient	1,000	,090
		Sig. (2-tailed)	.	,168
		N	126	126
	decision_rights_index	Correlation Coefficient	,090	1,000
		Sig. (2-tailed)	,168	.
		N	126	126

Table 22: Correlation test of H8, decision rights and total royalty

The statistics of the correlation test is displayed in table 22. The correlation coefficient between the distribution of decision rights and the total royalty in percentage is positive (0,09), but the correlation is not significant (p>0,1). For this reason, it can be concluded that H8 is not confirmed!

5.1.9 Hypothesis 9

According to Windsperger (2002b, p. 129), tying arrangements in connection with exclusive dealing affect investment incentives like royalties. The economic explanation for this statement is that the franchisee is dependent on the products and prices for goods and services offered by the franchisor, since he cannot buy and sell other products and services from suppliers as authorized by the franchisor. Thus, the franchisor is able to set a desired margin in the purchasing prices of the franchisee that has the same effect as a royalty that is based on the turnover of the franchisee. This margin can be seen as a covered royalty that may influence the level of the ongoing royalty and the advertising fee. The next hypothesis states:

Hypothesis (H9):

Franchising systems assigning the tying arrangement and the exclusive dealing rights to the franchisor differ in terms of the total royalty from systems that do not assign both clauses to the franchisor.

In order to test the hypothesis, the data set was divided into two groups (franchisor gets assigned the tying arrangement and the exclusive dealing rights simultaneously; the rights are not simultaneously granted to the franchisor). The means of the variable "total royalty percentage" have been compared using Mann-Whitney U-Test, since the variable is not normally distributed.

Mann-Whitney U-Test

RANKS	franchisor_tying_arrangement_exclusive_dealing	N	Mean Rank	Sum of Ranks
total_royalty_ percentage	does not have both	41	71,62	2936,5
	franchisor has both, tying arrangement and exclusive dealing	85	59,58	5064,5
	Total	126		

TEST STATISTICS	total_royalty_percentage
Mann-Whitney U	1409,500
Asymp. Sig. (2-tailed)	,081

Table 23: Difference test of H9, total royalty and tying arrangement/exclusive dealing

The difference test considered 126 franchising contracts. The result table displays that franchising systems which do not assign the tying arrangement and the exclusive dealing clause simultaneously to the franchisor, require lower total royalties in percentage, compared to systems which assign both clauses to the franchisor. As the test statistics of the Mann-Whitney U-Test shows, the difference in the means of the groups is statistically not significant ($U=5093,5$; $0,05<p<0,1$). For this reason, it can be concluded that H9 is not confirmed.

5.1.10 Hypothesis 10

According to Cochet and Ehrmann (2007, p. 41), franchising systems are more likely to have a "franchisee council" similar to an advisory board when the decision rights are in favour of the franchisor. They argue that the councils serve moral hazard reduction proposes in centralized franchising systems. Similarly, advisory boards are expected to be less present in decentralized franchising systems. Thus:

Hypothesis 10 (H10):

Franchising systems that have an advisory board differ in terms of the distribution of decision rights compared to systems that do not have advisory boards.

In order to test the hypothesis, the data set was split up into two groups (systems that can have an advisory board by contract; systems that do not provide for an advisory board). The means of the variable "decision index" (see 5.3.4) was compared using Mann-Whitney U-Test, since the variable is not normally distributed.

Mann-Whitney U-Test

RANKS	advisory_board	N	Mean Rank	Sum of Ranks
decision_rights_index	yes	56	113,69	6366,50
	not mentioned	152	101,12	15369,50
	Total	208		

TEST STATISTICS	decision_rights_index
Mann-Whitney U	3741,500
Asymp. Sig. (2-tailed)	,178

Table 24: Difference test of H10, decision rights and advisory board

The results display that franchising systems which arrange for an advisory board of franchisees in the franchising contract are more centralized, compared to systems which do not stipulate an advisory board. As the test statistics of the Mann-Whitney U-Test shows, the difference in the means of the groups is statistically not significant (U=3741,5; p>0,1). For this reason, it can be concluded that H10 is not confirmed in the data set of 208 cases.

5.2 Results

The developed hypotheses were tested with a representative sample of Austrian franchise contracts and the results will be presented in this chapter.

The following table summarizes the results of the empirical investigation:

Hypothesis	Result	Correlation
H1	Confirmed	-
H1a	Confirmed	-
H1b	Confirmed	-
H1c	Confirmed	-
H2	Confirmed	Positive weak
H2a	Confirmed	Positive weak
H2b	Not confirmed	No correlation
H3	Confirmed	Positive moderate
H3a	Confirmed	Positive strong
H3b	Confirmed	Positive weak
H3c	Confirmed	Positive moderate
H4	Confirmed	Positive weak
H4a	Confirmed	Positive weak
H4b	Confirmed	Positive weak
H4c	Confirmed	Positive weak
H5	Confirmed	-
H6	Confirmed	-
H7	Not confirmed	-
H8	Not confirmed	No correlation
H9	Not confirmed	-
H10	Not confirmed	-

Table 25: Overview of hypothesis results

The first four hypotheses and their associated sub-hypotheses all investigated influencing factors on the contractual completeness of a franchise contract. Hypothesis 1 investigated if the contractual completeness of franchise contracts is different in franchising systems where the franchisee needs to take specific investments in order to be part of the franchising system, compared to systems where they do not need to take those investments. The analysis of the sample supports the hypothesis. It could be found that this impact exists for the contracts overall and also for all component groups of a franchise contract individually, namely for the groups ownership surrogates, decision rights and other constituent parts. Therefore, it can be stated that franchise contracts are more complete in all facets, when franchisees need to make specific investments.

In addition, it was analysed how the contractual completeness is influenced by the distribution of decision rights between the system partners (H2), respectively the centralization degree of a franchising system. Here the results are mixed. The results support that the more decision rights a franchisee has, compared to the franchisor, the less ownership surrogates are stipulated in the contract. On the other hand, such a correlation could not be found in the data between the distribution of decision rights and other constituent parts. Nevertheless, the data suggests that the more decentralized a franchising systems is, the less complete is the franchise contract, but the correlation is weak.

Hypothesis 3 investigated the influence of the distribution of ownership surrogates between the system partners on the level of contractual completeness. The results strongly support the thesis that the more ownership surrogates are allocated to the franchisee, the less complete the franchise contract is in terms of ownership surrogates. Also a correlation between the respective distribution and the completeness in terms of decision rights could be found, but it is only weak. Moreover, it was found that the correlation between the distribution of ownership surrogates and other constituent parts as well as overall was moderate. It can be concluded that the more ownership surrogates a franchisor demands, the more complete a franchise contract is in every term.

The correlation between the level of the ongoing total royalty and the contractual completeness was tested in hypothesis 4. The findings support the main thesis and all sub-theses as well and shows that a moderate correlation exists: The higher the total royalty in a franchise contract is stipulated, the more complete a contract is.

In addition to investigations, various hypotheses were developed regarding the contractual completeness of a franchise contract:

Hypotheses five to seven analysed differences between franchise contracts that require a franchisee to invest specifically in his business and contracts that do not require this, regarding the distribution of ownership surrogates (H5) and decision rights (H6) between the system partners and the level of the total ongoing royalty (H7). It could be found, if the

franchisee needs to invest specifically, he gets assigned more ownership surrogates in his favour compared to the franchisor and he also gets more decision rights in the system (the system is more decentralized). Nevertheless, such a difference between the franchise systems could not be found for the level of the total royalty.

Furthermore, a correlation between the total royalty and the distribution of the decision rights (H8) was hypothesized. However, such a correlation could not be found in the sample.

The hypothesis that the tying arrangement and the exclusive dealing clause together stipulated in favour of the franchisor may serve as an additional royalty that may influence the total royalty (H9), also found no support at the significance level of 5%. Certainly, if the level was raised to 10%, a difference could be ascertained, when the existence of both clauses in favour of the franchisor lowers the level of the total royalty.

Finally, the data did not provide support that the distribution of decision rights in the franchising system is different in systems that have advisory boards and those who do not have boards. Differently to the findings of Cochet and Ehrmann (2007, p. 41), it must be concluded that the data of Austrian franchise contracts does not support the hypothesis (H10).

6. Conclusion and outlook

The analysis of franchise contracts provides a mutual basis for an investigation because a franchise contract is seen by researchers as a constitution for a franchising system that influences the behaviour of the franchising partners.

Therefore, based on the theoretical framework of research in franchising which was structured in the first half of the thesis, a theory-driven investigation has been conducted using a representative sample of 208 Austrian franchise contracts.

Theoretical part of this thesis provides an extensive overview of the research in franchising suitable for the topic with a focus on property rights theory. It could be elaborated that franchise contracts depend on many influencing factors like, for example, the knowledge distribution in the franchising system which is expected to shape the distribution of decision rights and ownership rights. In addition, the special combination of individual legal partners in franchising further requires contract constituent parts that make a long-term relationship possible and fruitful. Most of all the dilution of property rights, obstacles in the codifiability of asset usage and residual incomes are mentioned showing that require peculiar arrangements compared to simple market transactions.

The results of the developed hypotheses, which were derived from the theoretical framework, support the theory in many aspects. Although the used contracts provided a lot of information, they were not always sufficient without a workaround. For example, not all contracts disclosed the amount of specific investments, royalties or entry fees in the contract, but referred to undisclosed documents. Therefore, direct correlation between variables were not always possible due to lack of information.

What is more, difficulties arose in the measurement of royalties, which may have led to the non-supported hypotheses. Although a combined total royalty consisting of ongoing royalties and advertising fees was used, a general problem could not be solved: In most cases, royalties are calculated on the basis of the turnover of a franchisee which is especially dependent on the goods and services sold and on the industry.

Further investigations would benefit from analysing the distribution of knowledge in the franchising system. The franchise contracts give notice of handbooks and recipes that are especially developed by the franchisor for the franchisee, but they are as well not disclosed. In addition, it is not clear from analysing the franchise contract, how much local knowledge a franchisee has compared to the franchisor. Thus deeper investigations based on franchise contracts in the context of knowledge may lack the possibility to gather enough data. Nevertheless, combining the knowledge distribution in a franchising system with the established database of Austrian franchise systems would give a deeper understanding of the interconnections.

It is suggested to do a deeper matter analysis of the internal structure of the used indices; especially intercorrelations may be fruitful in the future. Also tests simultaneously considering the interdependence between ownership rights and ownership with decision rights should be conducted, since this was beyond the scope of this thesis.

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8. Appendix

8.1 Codebook of data collection and variables for SPSS

franchise_sector

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	production franchising
	2	service franchising
	4	distribution franchising

branch

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	retail business
	2	personal and business services
	3	manufacturing and others
	4	hotel and restaurant
	5	building, construction, and real estate
	6	cleaning and maintenance

entry_fee_required

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1,0	yes
	2,0	no
	3,0	yes, amount not defined/to be negotiated
	9,0	not mentioned

entry_fee_amount

		Value
Standard Attributes	Measure-ment	Scale

entry_fee_percentage

		Value
Standard Attributes	Measure-ment	Scale

royalty_required

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	3	yes, amount not defined/to be negotiated
	9	not mentioned

royalty_amount

		Value
Standard Attributes	Measure-ment	Scale

royalty_percentage

		Value
Standard Attributes	Measure-ment	Scale

advertising_fee_percentage

		Value
Standard Attributes	Measure-ment	Scale

advertising_fee

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	3	yes, amount not defined/to be negotiated
	9	not mentioned

advertising_fee_amount

		Value
Standard Attributes	Measure-ment	Scale

total_royalty_percentage

		Value
Standard Attributes	Measure-ment	Scale

exclusive_territory

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	9	not mentioned

resale_price_maintenance

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	9	not mentioned

tying_arrangement

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	3	mixed, after approval
	9	not mentioned

option_right_extention_franchisor

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	3	yes, after approval
	9	not mentioned

exclusive_dealing

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	3	mixed, after approval
	9	not mentioned

lease_right_outlet_after_franchisee

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	9	not mentioned

approval_and_buy_back_rights

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	9	not mentioned

lease_control_outlet_after_franchisor

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	9	not mentioned

alienation_right

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	3	yes, after approval
	9	not mentioned

exclusive_customer_clause

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes, franchisor defines
	2	no
	3	yes, after internal communication
	9	not mentioned

contract_duration_type

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	3	yes, open-ended
	9	not defined

inheritance

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	3	yes. after approval
	9	not mentioned

contract_duration

		Value
Standard Attributes	Measure-ment	Scale

competition_clause_after_termination

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	3	no, after approval
	9	not mentioned

option_right_extention_franchisee

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	9	not mentioned

competition_clause_during_contract

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	3	no, after approval
	9	not mentioned

marketing_decisions

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	franchisor
	2	franchisee
	3	both, after internal communication
	9	not mentioned

production_decision

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	franchisor
	2	franchisee
	3	both, after internal communication
	9	not mentioned

accounting_system_decision

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	franchisor
	2	franchisee
	3	both, after internal communication
	9	not mentioned

advertising_decision

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	franchisor
	2	franchisee
	3	both, after internal communication
	9	not mentioned

employees_training_decision

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	franchisor
	2	franchisee
	3	both, after internal communication
	9	not mentioned

training_days_annual

		Value
Standard Attributes	Measure-ment	Scale

investment_decision

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	franchisor
	2	franchisee
	3	both, after internal communication
	9	not mentioned

recruiting_decision

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	franchisor
	2	franchisee
	3	both, after internal communication
	9	not mentioned

investment_required

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	3	yes, amount not defined/to be negotiated
	9	not mentioned

investment_amount

		Value
Standard Attributes	Measure-ment	Scale

specific_investment_required

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	3	yes, amount not defined/to be negotiated
	9	not mentioned

specific_investment_amount

		Value
Standard Attributes	Measure-ment	Scale

ownership_rent_facility_franchisor

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	9	not mentioned

advisory_board

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	9	not mentioned

minimum_turnover

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	9	not mentioned

minimum_quantity

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	franchisee must buy minimum quantity from franchisor
	2	franchisee must produce minimum quantity
	3	franchisee must sell minimum quantity to customers
	4	no
	9	not mentioned

control_rights

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes, unheralded
	2	yes, heralded
	3	yes, connected IT
	4	no
	9	not mentioned

cash_required

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	yes
	2	no
	3	yes, amount not defined/to be negotiated
	9	not mentioned

cash_amount

		Value
Standard Attributes	Measure-ment	Scale

dec_marketing_distrib

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	decison fo franchisee
	2	decision of both
	3	decison of franchisor

dec_production_distrib

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	decison fo franchisee
	2	decision of both
	3	decison of franchisor

dec_accounting_distrib

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	decison fo franchisee
	2	decision of both
	3	decison of franchisor

dec_advertising_distrib

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	decison fo franchisee
	2	decision of both
	3	decison of franchisor

dec_employees_training_distrib

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	decison fo franchisee
	2	decision of both
	3	decison of franchisor

dec_investment_distrib

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	decison fo franchisee
	2	decision of both
	3	decison of franchisor

dec_recruiting_distrib

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	decison fo franchisee
	2	decision of both
	3	decison of franchisor

decision_rights_index

		Value
Standard Attributes	Measure-ment	Scale

centralization

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	decentralized
	2	centralized

ownership_surrogates_exclusive_territory

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_option_right_extention_franchisee

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_resale_price_maintenance

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_approval_and_buy_back_rights

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_lease_control_outlet_after_franchisor

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_ownership_rent_facility_franchisor

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_competition_clause_after_termination

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_minimum_turnover

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_tying_arrangement

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_exclusive_dealing

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_option_right_extention_franchisor

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_exclusive_customer_clause

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_competition_clause_during_contract

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_alienation_right

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_inheritance

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_lease_right_outlet_after_franchisee

		Value
Standard Attributes	Measure-ment	Ordinal
Valid Values	1	franchisee
	2	both
	3	franchisor

ownership_surrogates_index

		Value
Standard Attributes	Measure-ment	Scale

specific_investments

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	1	specific investment needed
	2	no specific investment needed

contractual_completeness_total

		Value
Standard Attributes	Measure-ment	Scale

contractual_completeness_ownership_surrogate

		Value
Standard Attributes	Measure-ment	Scale

contractual_completeness_decision_right

		Value
Standard Attributes	Measure-ment	Scale

contractural_completeness_other_constituent_parts

		Value
Standard Attributes	Measure-ment	Scale

franchisor_tying_arrangement_exclusive_dealing

		Value
Standard Attributes	Measure-ment	Nominal
Valid Values	0	does not have both
	1	franchisor has both, tying arrangement and exclusive dealing

8.2 SPSS data: Frequencies

In this part of the appendix the frequency tables of the collected data is summarized. At first, in an alphabetical order, the non-metrical variables are presented. At the end the metric-coded variables are listed.

Non-metric variables:

accounting_system_decision

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisor	85	40,9	40,9	40,9
	franchisee	26	12,5	12,5	53,4
	both, after internal communication	23	11,1	11,1	64,4
	not mentioned	74	35,6	35,6	100,0
	Total	208	100,0	100,0	

advertising_decision

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisor	52	25,0	25,0	25,0
	franchisee	32	15,4	15,4	40,4
	both, after internal communication	94	45,2	45,2	85,6
	not mentioned	30	14,4	14,4	100,0
	Total	208	100,0	100,0	

advertising_fee

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	95	45,7	45,7	45,7
	no	6	2,9	2,9	48,6
	yes, amount not defined/to be negotiated	25	12,0	12,0	60,6
	not mentioned	82	39,4	39,4	100,0
	Total	208	100,0	100,0	

advisory_board

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	56	26,9	26,9	26,9
	not mentioned	152	73,1	73,1	100,0
	Total	208	100,0	100,0	

alienation_right

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	5	2,4	2,4	2,4
	no	25	12,0	12,0	14,4
	yes, after approval	128	61,5	61,5	76,0
	not mentioned	50	24,0	24,0	100,0
	Total	208	100,0	100,0	

approval_and_buy_back_rights

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	127	61,1	61,1	61,1
	no	1	,5	,5	61,5
	not mentioned	80	38,5	38,5	100,0
	Total	208	100,0	100,0	

branch

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	retail business	87	41,8	41,8	41,8
	personal and business services	63	30,3	30,3	72,1
	manufacturing and others	11	5,3	5,3	77,4
	hotel and restaurant	16	7,7	7,7	85,1
	building, construction, and real estate	23	11,1	11,1	96,2
	cleaning and maintenance	8	3,8	3,8	100,0
	Total	208	100,0	100,0	

Cash_required

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	11	5,3	5,3	5,3
	yes, amount not defined/to be negotiated	28	13,5	13,5	18,8
	not mentioned	169	81,3	81,3	100,0
	Total	208	100,0	100,0	

centralization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	decentralized	96	46,2	46,2	46,2
	centralized	112	53,8	53,8	100,0
	Total	208	100,0	100,0	

competition_clause_after_termination

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	98	47,1	47,1	47,1
	no	5	2,4	2,4	49,5
	not mentioned	105	50,5	50,5	100,0
	Total	208	100,0	100,0	

competition_clause_during_contract

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	165	79,3	79,3	79,3
	no	2	1,0	1,0	80,3
	no, after approval	5	2,4	2,4	82,7
	not mentioned	36	17,3	17,3	100,0
	Total	208	100,0	100,0	

contract_duration_type

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	129	62,0	62,0	62,0
	yes, open-ended	62	29,8	29,8	91,8
	not defined	17	8,2	8,2	100,0
	Total	208	100,0	100,0	

control_rights

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes, unheralded	97	46,6	46,6	46,6
	yes, heralded	34	16,3	16,3	63,0
	yes, connected IT	16	7,7	7,7	70,7
	not mentioned	61	29,3	29,3	100,0
	Total	208	100,0	100,0	

Distribution of accounting decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	decison fo franchisee	100	48,1	48,1	48,1
	decision of both	23	11,1	11,1	59,1
	decison of franchisor	85	40,9	40,9	100,0
	Total	208	100,0	100,0	

Distribution of advertising decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	decison fo franchisee	62	29,8	29,8	29,8
	decision of both	94	45,2	45,2	75,0
	decison of franchisor	52	25,0	25,0	100,0
	Total	208	100,0	100,0	

Distribution of employees_training decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	decison fo franchisee	65	31,3	31,3	31,3
	decision of both	40	19,2	19,2	50,5
	decison of franchisor	103	49,5	49,5	100,0
	Total	208	100,0	100,0	

Distribution of investment decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	decison fo franchisee	167	80,3	80,3	80,3
	decision of both	21	10,1	10,1	90,4
	decison of franchisor	20	9,6	9,6	100,0
	Total	208	100,0	100,0	

Distribution of marketing decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	decison fo franchisee	17	8,2	8,2	8,2
	decision of both	25	12,0	12,0	20,2
	decison of franchisor	166	79,8	79,8	100,0
	Total	208	100,0	100,0	

Distribution of production decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	decison fo franchisee	57	27,4	27,4	27,4
	decision of both	2	1,0	1,0	28,4
	decison of franchisor	149	71,6	71,6	100,0
	Total	208	100,0	100,0	

Distribution of recruiting decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	decison fo franchisee	178	85,6	85,6	85,6
	decision of both	27	13,0	13,0	98,6
	decison of franchisor	3	1,4	1,4	100,0
	Total	208	100,0	100,0	

employees_training_decision

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisor	103	49,5	49,5	49,5
	franchisee	39	18,8	18,8	68,3
	both, after internal communication	40	19,2	19,2	87,5
	not mentioned	26	12,5	12,5	100,0
	Total	208	100,0	100,0	

entry_fee_required

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	102	49,0	49,0	49,0
	no	13	6,3	6,3	55,3
	yes, amount not defined/to be negotiated	49	23,6	23,6	78,8
	not mentioned	44	21,2	21,2	100,0
	Total	208	100,0	100,0	

exclusive_customer_clause

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes, franchisor defines	43	20,7	20,7	20,7
	no	18	8,7	8,7	29,3
	yes, after internal communication	6	2,9	2,9	32,2
	not mentioned	141	67,8	67,8	100,0
	Total	208	100,0	100,0	

exclusive_dealing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	113	54,3	54,3	54,3
	no	17	8,2	8,2	62,5
	mixed, after approval	32	15,4	15,4	77,9
	not mentioned	46	22,1	22,1	100,0
	Total	208	100,0	100,0	

exclusive_territory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	149	71,6	71,6	71,6
	no	26	12,5	12,5	84,1
	not mentioned	33	15,9	15,9	100,0
	Total	208	100,0	100,0	

franchise_sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	production franchising	12	5,8	5,8	5,8
	service franchising	104	50,0	50,0	55,8
	distribution franchising	92	44,2	44,2	100,0
	Total	208	100,0	100,0	

franchisor_tying_arrangement_exclusive_dealing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	does not have both	80	38,5	38,5	38,5
	franchisor has both, tying arrangement and exclusive dealing	128	61,5	61,5	100,0
	Total	208	100,0	100,0	

inheritance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	32	15,4	15,4	15,4
	no	20	9,6	9,6	25,0
	yes. after approval	44	21,2	21,2	46,2
	not mentioned	112	53,8	53,8	100,0
	Total	208	100,0	100,0	

investment_decision

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisor	20	9,6	9,6	9,6
	franchisee	34	16,3	16,3	26,0
	both, after internal communication	21	10,1	10,1	36,1
	not mentioned	133	63,9	63,9	100,0
	Total	208	100,0	100,0	

Investment_required

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	no	2	1,0	1,0	1,0
	yes, amount not defined/to be negotiated	115	55,3	55,3	56,3
	not mentioned	91	43,8	43,8	100,0
	Total	208	100,0	100,0	

lease_control_after_franchisor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	43	20,7	20,7	20,7
	no	1	,5	,5	21,2
	not mentioned	164	78,8	78,8	100,0
	Total	208	100,0	100,0	

lease_right_after_franchisee

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	32	15,4	15,4	15,4
	no	15	7,2	7,2	22,6
	not mentioned	161	77,4	77,4	100,0
	Total	208	100,0	100,0	

marketing_decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisor	166	79,8	79,8	79,8
	franchisee	3	1,4	1,4	81,3
	both, after internal communication	25	12,0	12,0	93,3
	not mentioned	14	6,7	6,7	100,0
	Total	208	100,0	100,0	

minimum_quantity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee must buy minimum quantity from franchisor	19	9,1	9,1	9,1
	franchisee must produce minimum quantity	3	1,4	1,4	10,6
	franchisee must sell minimum quantity to customers	4	1,9	1,9	12,5
	not mentioned	182	87,5	87,5	100,0
	Total	208	100,0	100,0	

minimum_turnover

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	69	33,2	33,2	33,2
	no	2	1,0	1,0	34,1
	not mentioned	137	65,9	65,9	100,0
	Total	208	100,0	100,0	

option_right_extention_franchisee

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	29	13,9	13,9	13,9
	no	6	2,9	2,9	16,8
	not mentioned	173	83,2	83,2	100,0
	Total	208	100,0	100,0	

option_right_extention_franchisor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	23	11,1	11,1	11,1
	no	33	15,9	15,9	26,9
	yes, after approval	28	13,5	13,5	40,4
	not mentioned	124	59,6	59,6	100,0
	Total	208	100,0	100,0	

ownership_facility

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	19	9,1	9,1	9,1
	no	56	26,9	26,9	36,1
	not mentioned	133	63,9	63,9	100,0
	Total	208	100,0	100,0	

ownership_surrogates_alienation_right

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	55	26,4	26,4	26,4
	both	128	61,5	61,5	88,0
	franchisor	25	12,0	12,0	100,0
	Total	208	100,0	100,0	

ownership_surrogates_approval_and_buy_back_rights

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	81	38,9	38,9	38,9
	franchisor	127	61,1	61,1	100,0
	Total	208	100,0	100,0	

ownership_surrogates_competition_clause_after_termination

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	110	52,9	52,9	52,9
	franchisor	98	47,1	47,1	100,0
	Total	208	100,0	100,0	

ownership_surrogates_competition_clause_during_contract

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	38	18,3	18,3	18,3
	both	5	2,4	2,4	20,7
	franchisor	165	79,3	79,3	100,0
	Total	208	100,0	100,0	

ownership_surrogates_exclusive_customer_clause

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	159	76,4	76,4	76,4
	both	6	2,9	2,9	79,3
	franchisor	43	20,7	20,7	100,0
	Total	208	100,0	100,0	

ownership_surrogates_exclusive_dealing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	63	30,3	30,3	30,3
	both	32	15,4	15,4	45,7
	franchisor	113	54,3	54,3	100,0
	Total	208	100,0	100,0	

ownership_surrogates_exclusive_territory

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	149	71,6	71,6	71,6
	franchisor	59	28,4	28,4	100,0
	Total	208	100,0	100,0	

ownership_surrogates_inheritance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	144	69,2	69,2	69,2
	both	44	21,2	21,2	90,4
	franchisor	20	9,6	9,6	100,0
	Total	208	100,0	100,0	

ownership_surrogates_lease_control_outlet_after_franchisor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	165	79,3	79,3	79,3
	franchisor	43	20,7	20,7	100,0
	Total	208	100,0	100,0	

ownership_surrogates_lease_right_outlet_after_franchisee

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	32	15,4	15,4	15,4
	both	161	77,4	77,4	92,8
	franchisor	15	7,2	7,2	100,0
	Total	208	100,0	100,0	

ownership_surrogates_option_right_extention_franchisee

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	29	13,9	13,9	13,9
	franchisor	179	86,1	86,1	100,0
	Total	208	100,0	100,0	

ownership_surrogates_option_right_extention_franchisor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	157	75,5	75,5	75,5
	both	28	13,5	13,5	88,9
	franchisor	23	11,1	11,1	100,0
	Total	208	100,0	100,0	

ownership_surrogates_ownership_rent_facility_franchisor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	189	90,9	90,9	90,9
	franchisor	19	9,1	9,1	100,0
	Total	208	100,0	100,0	

ownership_surrogates_resale_price_maintenance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	185	88,9	88,9	88,9
	franchisor	23	11,1	11,1	100,0
	Total	208	100,0	100,0	

ownership_surrogates_tying_arrangement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisee	50	24,0	24,0	24,0
	both	16	7,7	7,7	31,7
	franchisor	142	68,3	68,3	100,0
	Total	208	100,0	100,0	

production_decision

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisor	149	71,6	71,6	71,6
	franchisee	16	7,7	7,7	79,3
	both, after internal communication	2	1,0	1,0	80,3
	not mentioned	41	19,7	19,7	100,0
	Total	208	100,0	100,0	

recruiting_decision

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	franchisor	3	1,4	1,4	1,4
	franchisee	113	54,3	54,3	55,8
	both, after internal communication	27	13,0	13,0	68,8
	not mentioned	65	31,3	31,3	100,0
	Total	208	100,0	100,0	

resale_price_maintenance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	23	11,1	11,1	11,1
	no	128	61,5	61,5	72,6
	not mentioned	57	27,4	27,4	100,0
	Total	208	100,0	100,0	

royalty_required

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	131	63,0	63,0	63,0
	no	9	4,3	4,3	67,3
	yes, amount not defined/to be negotiated	32	15,4	15,4	82,7
	not mentioned	36	17,3	17,3	100,0
	Total	208	100,0	100,0	

specific_investment_required

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	16	7,7	7,7	7,7
	no	12	5,8	5,8	13,5
	yes, amount not defined/to be negotiated	78	37,5	37,5	51,0
	not mentioned	102	49,0	49,0	100,0
	Total	208	100,0	100,0	

specific_investments

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	specific investment needed	94	45,2	45,2	45,2
	no specific investment needed	114	54,8	54,8	100,0
	Total	208	100,0	100,0	

tying_arrangement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	142	68,3	68,3	68,3
	no	14	6,7	6,7	75,0
	mixed, after approval	16	7,7	7,7	82,7
	not mentioned	36	17,3	17,3	100,0
	Total	208	100,0	100,0	

Metric variables:

Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation	Variance
advertising_fee_amount	17	1	6000	1613,9	1819,53	3310696
advertising_fee_percentage	83	0,5	17,5	3,88	2,73	7,43
Cash_amount	9	2556	726728	94325	237399,92	56358723359
contract_duration	128	1	30	7,91	4,68	21,94
contractual_completeness_ total	208	7	28	16,8	4,19	17,55
contractual_completeness_ other_constituent_parts	208	0	7	3,06	1,44	2,08
contractual_completeness_ decision_right	208	0	7	5,16	1,53	2,33
contractual_completeness_ ownership_surrogate	208	3	14	8,58	2,43	5,9
decision_rights_index	208	1	2,71	1,95	0,37	0,14
entry_fee_amount	100	254	145345	14005	19720,03	388879433
entry_fee_percentage	3	1	20	8	10,44	109
Investment_amount	0					
ownership_surrogates_index	208	1,31	2,56	1,83	0,23	0,05
royalty_amount	33	85,2	72673	6276,2	13093,2	171431874
royalty_percentage	112	0,04	50	6,23	6,03	36,34
specific_investment_amount	16	683	76306	23599	28367,02	804687582
total_royalty_percentage	126	0	50	6,117	6,89	47,47
training_days_annual	79	1	16	6,11	3,55	12,57

8.3 Occurrence of variables

The following table show the occurrence of contract components (N=208).

Contract component	Mentioned in the contract (absolute)	Mentioned in the contract (relative)	Not mentioned (absolute)
acounting_system_decision	134	64,40%	74
advertising_decision	178	85,60%	30
advertising_fee	125	60,10%	83
advisory_board	56	26,90%	152
alienation_right	158	76,00%	50
approval_and_buy_back_rights	128	61,50%	80
cash_required	39	18,80%	169
competition_clause_after_termination	103	49,50%	105
competition_clause_during_contract	172	82,70%	36
control_rights	147	70,70%	61

employees_training_decision	182	87,50%	26
entry_fee_required	164	78,80%	44
exclusive_customer_clause	67	32,20%	141
exclusive_dealing	162	77,90%	46
exclusive_territory	175	84,50%	32
extention_right_franchisee	84	40,40%	124
inheritance	96	46,20%	112
investment_decision	75	36,10%	133
investment_required	117	56,30%	91
lease_control_outlet_after_franchisor	44	21,20%	164
lease_right_outlet_after_franchisee	47	22,60%	161
marketing_decisions	194	93,30%	14
minimum_quantity	26	12,50%	182
minimum_turnover	71	34,10%	137
option_right_extention_franchisee	35	16,80%	173
ownership_rent_facility_franchisor	75	36,10%	133
production_decision	167	80,30%	41
recruiting_decision	143	68,80%	65
resale_price_maintenance	151	72,60%	57
royalty_required	172	82,70%	36
special_investment_required	106	51,00%	102
training_days_annual	79	38,00%	129
tying_arrangement	172	82,70%	36

8.4 Normality tests of variables

In order to determine if the data of variables are normally distributed the Kolmogorov-Smirnov test was used.

Tests of Normality

	Kolmogorov-Smirnov (Lilliefors Significance Correction)		
	Statistic	df	Sig.
total_royalty_percentage	0,187	126	0
ownership_surrogates_index	0,104	208	0
decision_rights_index	0,123	208	0
contractual_completeness_decision_right	0,205	208	0
contractual_completeness_ownership_surrogate	0,102	208	0
contractual_completeness_other_constituent_parts	0,154	208	0
contractual_completeness_total	0,084	208	0,001

Table 26: Tests of Normality

8.5 Recoding of ownership surrogates for the ownership surrogates index

The following table shows the assignment of each ownership surrogate clause in the franchise contracts by their initial possible implementation whether it represents an ownership surrogate right that is favourable for the franchisee (1), favourable for the franchisor (3), or the clause represents in its implementation an ownership right that is neutral and therefore beneficial for both parties (2).

	Initial contract implementation			
	yes, gives the right	no, mentions the clause and does not give it to the franchisee	not defined, does not mention the clause at all	mixed, after approval, stipulates that the right is given, but after approval of the franchisor; does
alienation_right	1	3	1	2
inheritance	1	3	1	2
lease_right_outlet_after_franchisee	1	3	2	-
exclusive_territory	1	3	3	-
option_right_extention_franchisee	1	3	3	-
tying_arrangement	3	1	1	2
exclusive_dealing	3	1	1	2
option_right_extention_franchisor	3	1	1	2
exclusive_customer_clause	3	1	1	2
competition_clause_during_contract	3	1	1	2
resale_price_maintenance	3	1	1	-
approval_and_buy_back_rights	3	1	1	-
lease_control_outlet_after_franchisor	3	1	1	-
ownership_rent_facility_franchisor	3	1	1	-
competition_clause_after_ termination	3	1	1	-

Table 27: Recoding of ownership surrogates for the ownership surrogates index

8.6 Abstract (German)

Hintergrund: Franchsing Systeme werden immer wichtiger in Volkswirtschaften weltweit. Nichtsdestotrotz hat die spezielle Form der Kooperation zwischen rechtlich unabhängigen Akteuren nicht nur Vorteile für die Partner, sondern trägt auch Risiken für eine fruchtvolle langfristige Kooperation. Der Franchise Vertrag hilft die Bestrebungen der Systempartner abzustimmen und hilft divergierende Ziele zu verhindern durch die Bereitstellung von Anreizen für ein System-nützliches Verhalten. Die Forschung im Bereich Franchising bekam in der Vergangenheit mehr und mehr Aufmerksamkeit, aber nach wie vor gibt e viel Raum für empirische Erkenntnisse in der Franchisevertragstheorie.

Ziel: Das Ziel der vorliegenden Arbeit ist es, Hypothesen basierend auf den Theorien zu Franchiseverträgen zu entwickelnd und diese empirische zu testen, um ein tieferes Verständnis über die fruchtvolle Zusammenstellung und den Inhalt von Franchiseverträten zu haben.

Methode: Eine tiefe Textanalyse einer repräsentativen Stichprobe von Österreichischen Franchiseverträgen wird gemacht und eine Datenbank erstellt. Die Datenbank kann für quantitative Analysen in Hinblick auf die Zusammensetzung und den Inhalt von Franchiseverträgen in Österreich verwendet werden.

Erkenntnisse: Die Daten unterstützen die Annahmen, dass spezifische Investition des Franchisenehmers, der Grad der Zentralisierung, das Niveau der laufenden Franchisegebühren und die für den Franchisegeber vorteilhaften Eigentumssurrogate mit der Vollständigkeit von Franchiseverträgen positiv korrelieren. Außerdem, Systeme, welche vom Franchisenehmer spezifische Investitionen fordern, unterscheiden sich hinsichtlich der Verteilung von Entscheidungsrechten und Eigentumssurrogaten, aber nicht hinsichtlich der laufenden Gebühren.

8.7 Curriculum vitae of the author

Alexander Blüthl

Education

Mar. 2012 – Jun. 2015	**University of Vienna,** Vienna, Austria *Master in International Business Administration* • Core-subject combination: International Marketing • Focus on International Business
Jan. 2013 – Jul. 2013	• ERASMUS – Exchange in Marketing and Business Administration at **ISCTE-IUL in Lisbon/Portugal**
Oct. 2007 – Jul. 2011	**Vienna University of Economics and Business**, Vienna, Austria *Bachelor of Science in Business Administration* • Specialized in Entrepreneurship & Innovation and Information Management • Elective subject: Labour Law
Oct. 2007 – Jul. 2011	**Vienna University of Economics and Business**, Vienna, Austria *Bachelor of Science in Information Systems* • Specialized in Management Information Systems • Bachelor Thesis title: "Comparative analysis of enterprise-resource-planning systems in the field of warehouse management"

Work Experience (most important)

Apr. 2014 - present	**Freelancer**, Vienna, Austria
Aug. 2012 – Mar. 2014	**OMEGA Solutions Software GmbH**, Gleisdorf, Austria
Aug. 2011 – Jun. 2012	**A.T. Kearney Ges.m.b.H.**, Vienna, Austria

Skills & Interests

Languages (CEFR levels indicated)	• German Native Speaker • English C2 • Portuguese B1 • Spanish A1 • Latin
IT Skills	• High level competency of Microsoft Office Software, Microsoft Server Software/Cloud Solutions, and Network Infrastructure • Knowledgeable of C++, VBA and Java • Knowledgeable of SQL and database architecture • Working knowledge of the statistics software SPSS • Working knowledge of Microsoft Dynamics NAV, OpenERP and SAP • Working knowledge of Solid Works, and Cimatron