Multi-unit Franchising: A Case Study Analysis

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Abstract

The objective of this study is to explain the franchisor's choice between single-unit and multi-unit franchising. In this article we give an overview of the development of literature on multi-unit franchising, and develop a set of propositions to explain franchisor's choice between single unit and multi-unit franchising strategies. We employ single case analysis method to compare theoretical predictions to the practical world. We chose Choffeeshop Company, an Austrian franchise network operating in more than 14 countries, for our study. Our findings suggest that franchisor's multi-unit franchising strategy can be explained by monitoring costs, franchisee's specific investments, environmental uncertainty, franchisor's financial resources scarcity, franchisor's specific assets and contractibility of franchisor's specific knowledge.

Key words: Multi-unit franchising, Agency theory, Transaction cost economics, Resource-based and organizational capabilities view, Case study analysis, Coffeeshop Company

1. Introduction

The role of franchising in national economies is becoming more important (Kaufmann and Dant 1996) by creating employment opportunities and service prevision (Spinelli et al. 2004). Franchising is the fastest growing from of retailing (Dant et al. 2007) and a major portion of this recent growth can be attributed to the emergence of multi-unit franchising (Gruenhagen and Dorsch 2003, Kaufmann 1992). Multi-unit franchising (MUF) refers to an organizational arrangement where one franchisee operates two or more franchised outlets in the same franchise system (Kalnins & Mayer 2004). In USA 20% franchisees operate more than half of the franchised outlets (Wardsworth and Morgan 2003). The multi-unit franchising phenomenon can be divided into two categories i.e. sequential multi-unit franchising and area development multi-unit franchising (Kaufmann and Dant 1996). In the first type one of the existing franchisees is granted a right to open additional outlets and each of the outlets is governed by separate franchising contract (Gruenhagen and Mittelstaedt 2005). On the other hand in second type of arrangement, the franchisee is selected as an area developer and he is obliged to open a certain number of outlets in a particular geographical area during a specific time period as stipulated in the franchise contract. The area developers often get exclusivity in that particular area (Kaufmann and Kim 1995).

Single-unit franchising has been the major focus of franchising research in past. Franchising researcher (for example Kaufmann 1996) emphasized that multi-unit franchising and single-unit franchising are two different types of organizational arrangements hence cannot be seen using the same lens. They need to studied separately and most of the previous research on franchising misses this important point. Multi-unit franchising has caught the attention of franchising researchers since 1990s. Although several empirical studies were published on multi-unit franchising in the last decade, the research deficit primarily results from the lack of theoretical foundation of this ownership strategy in franchising networks (Hussain and Windsperger 2010).

This research paper has been organized in six sections. In section two we present a brief overview of literature on multi-unit franchising, in section three we develop a theoretical background to explain franchisor's choice between single unit and multi-unit franchising. We use case study analysis to compare the theoretical predictions with actual practices being used by the franchisors; the details of research methodology are given in section four. Section five contains findings and discussion part of the study and in the end we summarize our findings and conclude the paper with directions for future research.

2. Review of Multi-unit Franchising Literature

Multi-unit franchising is an under-researcher topic and only few studies are available on this important organizational format issue that is used to distribute almost one fourth of total retail goods in USA alone and it is one of the most popular business formats in the rest of the world as well. A significant proportion of these studies are theoretical in nature. In this section we give a review of important empirical studies on multi-unit franchising.

Majority of studies on multi-unit franchising has been conducted in United States and they investigate the density, advantages and disadvantages, and use of different forms of multi-unit franchising. Wadsworth and Morgan (2003) found that in USA approximately 20% franchisees are multi-unit franchisees holding two or more units, they operate more than half of total outlets. Some industries use multi-unit franchising more extensively as compared to others, these include fast food, automotive, restaurant, and retail food etc. Zeller *et al* (1980) found that multi-unit franchising results in reduced management problems as franchisor has to deal with fewer multi-unit franchisees compared to large number of single-unit franchisees. Robicheaux, Dant and Kaufmann (1994) showed that use of area development agreements varies among various sectors of fast food industry and that the franchisors, who expect management problems with multi-unit operations, have a relatively lower proportion of area development agreements. The findings by Kaufmann (1992) revealed that area development had lower performance among all four strategies simulated in his study and that the sequential allocation strategies may perform better as compared to single unit strategy. A study by Kaufmann & Kim (1995) found a positive relationship between use of multi-unit franchising and system growth rate. Kaufmann and Dant (1996) also confirmed the positive the relationship between multi-unit franchising and growth rate.

The significant relationships between multi-unit franchising and franchise system characteristics for example system growth rate, age of the system, and system termination rates have also been evidenced. Bradach (1995) found that franchisors believe that they are exposed to a lower degree of risk when allocating new units to existing franchisee rather than experimenting new and untested franchise partners. The author found after analyzing the responses of the top executives that multi-unit franchising can address certain issues in a more effective way as compared to single-unit franchising, particularly the issues related to unit growth and system wide adaptation. Kaufmann and Dant (1998) argued that franchisor are reluctant to place their business concept in the hands of new and untested franchisees, therefore they look towards existing franchisees to grant new units. It has also been empirically supported that the new units that are allotted to existing franchisees have lower risk of failure (Bates 1998). Franchisors use multi-unit franchising as a measure to mitigate the risk of opportunistic behavior of the franchisee (Bercovitz 2003). The results supported propositions that multi-unit franchising reduces the system terminations and system litigations rate.

Kalnins & Lafontaine (2004) investigated the question about how new units are allocated to franchisees. They found that the franchisors prefer existing franchisors to allocate new units and particularly to the franchisees who presently operate unit(s) close to the proposed location of the new unit. Kalnins & Mayer (2004) investigated that local knowledge gathered by the franchisee plays an important role for the success of subsequent units opened in the same geographical area. Garg et al. (2005) investigated the factors that influence the franchisor's choice of adoption of multi-unit franchising and area development agreements. The data indicate that the franchisors planning for expansions are more likely to use multi-unit franchising. The results also suggested that the franchisors those place more emphasis on uniformity, are more likely to use relatively higher proportion of area development agreements rather than sequential multi-unit franchising.

The multi-unit franchisees have different motivations to enter into the franchise contract compared to those of single-unit franchisees. According to the results of a study by Gruenhagen and Mittlestaedt (2005), the area developer multi-unit franchisees reported that they considered (at the time of taking up franchise agreement) their venture as an investment. On the other hand sequential multi-unit franchisees reported that they were mainly motivated by their entrepreneurial ambitions. Weaven & Frazer (2006) also investigated the motivational factors of single unit and multi-unit franchisees. The findings suggest that single-unit franchisees consider marketing strength of the franchisor brand, potential to employ family members, initial training days, and the level of operational freedom to assess the franchise offer. On the other hand multi-unit franchisees place more emphasis on the importance of business vision and concept, potential for expansion, ongoing training, involvement in decision making process and governance structure. Dant et al (2009) compare the motivations of single unit and multi-unit franchisees and found significant difference among the two groups. They also investigate the change in the motivational factors when single unit franchisees become multi-unit owner.

Weaven and Frazer (2004) empirically verified a positive relationship between multi-unit franchising and system maturity by investigating Australian franchise sector. The authors proposed a negative relationship between multi-unit franchising and level of conflict in franchise system. But the analysis of data revealed that there is significant positive relationship between level of conflict and multi-unit franchising. These results contradict the findings by Bercovitz (2003) from US market, where she found negative relationship between multi-unit franchising and litigation and system termination rates. The contradiction of results could be attributed to the fact that both studies were carried out in different markets and different context.

Weaven and Frazer (2007a) found that the franchisor who perceive higher agency costs in future tend to use higher proportion of multi-unit franchising. The relationship between adoption of multi-unit franchising and (1) system uniformity and (2) higher brand value was also found significant. Furthermore, Weaven & Frazer (2007b) found a positive relationship between multi-unit franchising and age and size of franchise system, system corporatisation and use of plural forms of distribution. A negative relationship between level of conflict and multi-unit franchising was also evidenced empirically. A study of Spanish franchise sector showed that multi-unit franchising is positively related to franchise system density (Sanchez et al. 2006). Moreover the results revealed that larger franchise system and franchise systems operating in service sectors make relatively extensive use of multi-unit franchising. The findings by Weaven & Herington (2007) suggest that less mature and relatively small franchise systems are more likely to use single-unit franchising and less sophisticated HRM policies and, on the other hand, large and mature franchise systems generally use multi-unit franchising and more sophisticated HRM policies. It was also argued that multi-unit franchising networks share information more effectively and are more likely to adopt system wide adaptations as compared to single unit franchisees. The franchisors use economic rents to self-enforce behavior of the franchisees (Lopez-Bayon and Lopez-Fernandez 2008). Moreover the authors found that ex-post rents are higher in case of multi-unit franchising as compared to single unit franchising.

3. Theoretical Background

In this section we develop a theoretical background for this study. Based upon agency theory, transaction cost economy, and resource based and organizational capabilities view we develop a set of propositions to explain the use of multi-unit franchising and franchisor's choice between single-unit and multi-unit franchising.

Multi-unit franchisees are better motivated to reduce the monitoring cost and increase the demand. It has been shown that franchisors are motivated by agency cost minimization, system wide uniformity, reward strategies, and geographically proximity to adopt multi-unit franchising (Weaven & Frazer 2007a). Shirking on quality would affect the multi-unit franchisee's business in the local network and ultimately his profitability (Fladmoe and Jacque 1995). Sequential multi-unit franchising can be used as an incentive device to franchisees for higher performance. The franchise systems with a higher number of geographically contiguous units are more likely to use higher proportion of multi-unit franchising (Kalnins and Lafontaine 2004; Kalnins & Mayer 2004; Weaven & Frazer 2007a). According to the agency theory (e.g. Brickley et al. 1991, Lafontaine 1992) agency costs result from behavioral uncertainty, due to shirking and free-riding of the network partners. The incentive effect of multi-unit franchising may mitigate these agency problems. Higher motivation of the franchisees at the local outlets results in lower shirking and free-riding under multi-unit franchising compared to single-unit franchising.

Proposition 1: *The franchisor's higher expectation of shirking and free riding would result in his higher tendency towards multi-unit franchising.*

System-specific investments increase the risk of shirking on the part of beneficiary of such investments (Klein 1980). As per bonding effect of specific investments ((Williamson 1983, Klein 1995) multi-unit franchisees are more motivated to show cooperative behavior. On the other hand, the additional investment costs are decreasing with the number of local units. Hence he can realize a given level of quasi rents with lower costs for specific investments. The impact of specific investment on the choice of ownership strategy between single and multi-unit franchising has not between examined in the franchise literature.

Proposition 2: *The higher specific investments by the franchisee increase franchisor's likelihood to use multi-unit franchising due to bonding effect, higher economic rents, and screening effect.*

The role of uncertainty/complexity for the choice of organization form has been extensively discussed by Williamson (1975, 1985), recent research on the choice of governance mechanism does not investigate the influence of this determinant on the governance form. The higher environmental uncertainty, the more relevant is the local market knowledge of the single-unit franchisee for the success of the local outlet.

Proposition 3: *In a highly uncertain environment the franchisor is likely use higher proposition of single unit franchising compared to multi-unit franchising.*

As per resource-based view argument, the firm-specific resources result in long-term higher performance and hence in a competitive advantage. The firm achieves competitive advantage if its resources and capabilities are rare, difficult to imitate and substitute (Barney 1991). The resource scarcity theory explains that franchisors use franchising to overcome the scarcity of resources i.e. capital, managerial resources and local market assets. If we investigate the capital acquisition perspective, multi-unit franchising has a relative advantage over single-unit franchising for the franchisor (Kaufmann and Dant 1996). The multi-unit franchisees are larger partners and have better access to capital that enables a higher rate of system growth. Empirical studies show that multi-unit franchising and system growth are positively related (Bradach 1995, Kaufmann & Kim 1995, Kaufmann & Dant 1996). According to the resource-scarcity view the franchisor has not enough local market information and financial resources at the beginning of the life-cycle of the franchise system (e.g. Dant and Kaufmann 1996, Oxenfeldt and Kelly 1969). Franchising enables him to overcome this scarcity problem. The question to ask is: Does multi-unit franchising additionally mitigate this scarcity problem for the franchisor and hence contribute to explain the tendency toward franchising? Local market knowledge can be more efficiently acquired by single-unit franchisees compared to employees of the multi-unit network because the single-unit entrepreneur (as residual claimant) has higher entrepreneurial capabilities and is more motivated to exploit the profit opportunities at the local market environment than the multi-unit employee.

Proposition 4: *The importance of local market knowledge is negatively related to franchisor's tendency towards multi-unit franchising.*

Furthermore, financial resource scarcity of the franchisor may result in higher franchising to support the expansion of the system. Multi-unit franchising offers additional growth opportunities for the franchisor compared to the single-unit franchising strategy because multi-unit franchisees are often less constraint to finance the local outlets compared to the single-unit franchisees.

Proposition 5: *Higher financial resources scarcity at the franchisor's end would result in his higher tendency towards multi-unit franchising.*

Organizational capabilities can be defined as a bundle of resources that create synergies and sustainable competitive advantage (Madhok 1997). Multi-unit franchising increases the organizational capabilities and hence the competitive position of the system. System uniformity, system wide adaptations and system corporatisation are examples of organizational capabilities. The franchisors that place greater emphasis on system uniformity and corporatisation and consider system wide adaptations important for the success of the business are more likely to use multi-unit franchising (Weaven & Frazer 2007a,b). In addition, multi-unit franchising increases the knowledge transfer capability of the system because the franchisors delegate some knowledge transfer tasks to the local networks. Firm-specific resources and organizational capabilities of the franchising firm increase the residual income of the network. Multi-unit franchising results in higher monitoring capabilities for the network compared to a system with single-unit franchising because the franchisor can delegate the monitoring task to the franchisee that has special market knowledge and realizes economies of monitoring. Simultaneously additional agency-problems between the local franchisees and its outlet managers are mitigated because of the higher incentive effect of the multi-unit franchising compared to single-unit franchising. In addition, the knowledge transfer capacity is higher under multi-unit franchising compared to single-unit franchising because the franchisor may delegate some knowledge transfer task to the mini-networks. Multi-unit franchising improves the capabilities of the system to achieve growth and excel in innovation. Especially the test of new ideas in the mini-networks and the transfer to the whole system results in higher dynamic capabilities of the system. These capabilities enable a permanent increase of the brand name value.

Proposition 6: *The franchisor is more likely to use higher proportion of multi-unit franchising if the system-specific knowledge is very important for the success of business.*

According to the property rights theory, the contractibility of assets determines the ownership structure of the firm (Hart and Moore 1990, Hart 1995, Windsperger 2001, Windsperger and Dant 2006). Contractibility of assets refers to the extent to which the franchisor's and franchisee's assets can be easily codified and transferred to other partner. The impact of contractibility of assets on the choice of SU- and MU-ownership strategy in franchising has not been examined in the literature. The lower the contractibility of system-specific know-how requires more knowledge transfer capabilities to efficiently and effectively transfer the system know-how to the local outlets.

Proposition 7: *In case of less contractible system-specific knowledge the franchisor is likely to use higher proportion of multi-unit franchising.*

3. Research Design

The objective of our study is to link the theoretical patterns in use of multi-unit franchising to those observed in practice. Case study methods are appropriate for the emerging research topics those have not been researched enough yet (Eisenhardt 1989) We use a single case study method for this investigation. Some researcher may regard case study methods as relatively less important however that is merely a misunderstanding or an underestimation of this research strategy (Eisenhardt & Graebner 2007). Single cases can be valuable and a suitable research strategy for theory testing (Yin 2003) and they can extract rich and in depth data regarding a particular phenomenon (Siggelkow 2007). Pattern matching may not always s simple process of agreement or disagreement, the analysis may take new directions and something novel may also come out (Dubois & Gadde 2002).

4.1. Case Selection

The selection of case is also very important and it should be taken into consideration while selecting the case that which case could be the best informant for a particular study being under taken (Halinen & Törnroos 2005). The study focuses on large scale franchise networks that employ both single unit and multi-unit franchising strategies. The authors conducted a desk research to select an appropriate case for the study from a population of 266 franchise system in Austria. We selected Coffeshop Company keeping in our minds that it could provide us with some best insights about the phenomenon being investigated.

4.2. Data Collection and Analysis

The data were collected from interviews, documents, and online resources. Multiple resources of data strengthen the positive point of qualitative data and contribute towards validity and reliability of the findings (Yin 1989). The authors conducted three in depth personal interviews with director marketing and communications and director franchising of the company in June-July 2009. The interviews were loosely structured and lasted for 30-120 minutes. The questions concerned the general franchising strategy, the factors that influence franchisor’s choice between single unit and multi-unit franchising, and finally the some of the unanswered postpositions were presented for comments and discussion. One interview (with director franchising) was conducted in English and was recorded with the permission of the interviewee. Remaining two interviews were conducted in German and the interviewer took notes and subsequently translated and transcribed these interviews. The interview with director franchising was very informative, he has gathered rich experience in franchising operations while working at McDonald's, Pizza Hut, Burger King, finally at Coffeeshop Company. The documents included articles and information about the company available on its own website and third party websites. The data were transcribed and codified for analysis and then the observed patterns were compared to the theoretical predictions.

4.3. Coffeeshop Company

Coffeeshop Company is a part of family enterprise "Schärf Group" with its headquarters in Neusiedl am See, Austria. The Schärf Groups brings along almost 60 years of experience in manufacturing high quality coffee making machines and roasting and selling coffee. They founded Coffeeshop Company in 1999 and opened first coffee shop in Vienna. One of the executives mentioned during the interview.

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

As of June 2009, Coffeeshop Company has 196 units in 14 countries in four continents and they are continuously growing in existing markets and penetrating to new ones. They had only 20 units in 2004 and the networks grew to 196 units in last five years. Coffeeshop Company uses both sequential and area development multi-unit franchising. In culturally and geographically distant markets like Russia and Saudi Arabia, they use area development agreements while in relatively close and similar markets for example Germany they employ sequential format.

5. Findings and Discussion

Generally, the franchise networks use multi-unit franchising to accelerate growth, most of the franchise networks do not have enough money to finance growth and look for the partners with financial resources. Similar results have been reported by previous research (Kaufmann and Kim 1995, Kaufmann and Dant 1996, Weaven and Frazer 2007a). Coffeeshop Company started with single unit franchising and after sometime realized that it could be difficult for them to have efficient control over the franchisees and also that they may not achieve the targeted growth rate, so they came to the point to consider multi-unit franchising. Additionally, it becomes difficult to control the individual franchisees particularly in far flung markets like Australia, China, Pakistan or India etc. where the franchisors do not want to investment directly. Now we analyze our propositions one by one in the light of our findings.

Table 1: Propositions

Sr. No.	Variable	Predicted Effect on MUF	Observed Effect on MUF	Status
1	*Monitoring costs and franchisor expectation of shirking and free riding*	+	+	Supported
2	*Franchisee's specific investments*	+	+	Partially Supported
3	*Environmental uncertainty*	-	+	Not Supported
4	*Local market knowledge*	-	No effect	Not Supported

5	*Franchisor's financial resources scarcity*	+	+	Supported
6	*System-specific knowledge*	+	+	Supported
7	*Non-contractibility of system-specific assets*	+	+	Supported

5.1. Proposition 1

The results support our proposition regarding positive effect of monitoring cost on use of multi-unit franchising.

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

Hence we conclude that higher monitoring costs encourage the franchisors to use multi-unit franchising for two reasons i.e. reducing monitoring costs and enhancing effectiveness. On the other the franchisor's expectations about shirking or free-riding by the franchisee have both a positive and a negative effect on use of multi-unit franchising. Sometimes the franchisors fear that very large franchisees will not be easy to control and they may create problems for them in future.

"This is a matter of how good is the relationship between partners, how much pressure I am able to put in him……..that's why McDonalds never did master franchising very much. They had joint ventures in Japan as they feared lack of control over a local partner."

5.2. Proposition 2

The findings partially support this proposition. We predicted a three dimensional effect of initial specific investments on franchisor's strategy.

(1) Decreased marginal cost for opening additional outlets and increased franchisee's economic rents due to economies of scale and splitting operational costs result in higher motivation of the franchisee.

(2) The franchisee's motivation is increased due to bonding effect of higher initial investments. In addition to supporting the effect of bonding effect the findings reveal that the bonding effect is strongly dependent upon two factors i.e. (a) whether the investment used in outlet opening is franchisee's own wealth or bank financed and (b) the size of investment in proportion to franchisee's total wealth.

(3) The responses does not support screening effect (that franchisors can screen partners with higher entrepreneurial capabilities) of initial investment. One of the respondents said,

"I thought like that as well when I started the business but it did not turn out to be right always. There are people with more money but incapable to run units and people with lesser money but capable to run the business successfully."

At Coffeeshop Company, they look for a right mix of financial and entrepreneurial capabilities. The director franchising in his interview mentioned that they are least interested to recruit investors as franchise partners but they prefer entrepreneurs. As mentioned above

Findings by Gruengahen and Mittelstaedt (2005) revealed that area developers generally see franchising options as investment opportunities while sequential multi unit franchisee are more on entrepreneurial side. The findings of their study can be linked to those of our study as Coffeeshop Company mainly focuses entrepreneurial capabilities of the franchisees and consequently employ a higher proportion of sequential multi unit franchising.

5.3. Proposition 3

This proposition is not supported by the results. At Coffeeshop Company, they prefer to recruit area developers as multi-unit franchisees in markets with relatively higher level of uncertainty. The respondents agreed to the effect of environmental uncertainty on the ownership structure of the franchise network; however, the predicted effect could not be confirmed. The findings suggest an opposite effect of uncertainty compared to that we predicted.

"I mean first multi-unit franchising decisions are very rare……environmental uncertainty is something which has an influence in the way of what kind of partner do you look for. n most of the markets with higher uncertainty, most of the people coming to you are master/multi-unit franchising interested partners, because I would never do individual franchising in Romania for example. I would never do individual franchising in China because I could not control that."

The analysis of responses reveals that the management of Coffeeshop Company opines that single-unit franchisee is not always better than multi-unit franchisees with regard to performance in uncertain environment. They do not employ single-unit franchising to develop a market with relatively higher level of environmental uncertainty. The basic thesis behind this strategy is their forecast of a higher level of monitoring problems in a market with higher degree of uncertainty. Additionally, the multi-unit franchisees any have better ability to survive and penetrate the local uncertain markets compared to small single-unit franchisees with a lot of financial and managerial constraints. The larger partners have their own strategies and managerial capabilities to deal with any unexpected situations in the local market. They are in a better position to work together with franchisor to resolve unexpected difficulties those could arise in uncertain markets.

5.4. Proposition 4

This proposition is also not supported by the data. The findings do not suggest a significant effect of local knowledge on the choice of franchising strategy. The single unit franchisee may not always be better than multi-unit franchisees with regard to local market knowledge, particularly with respect to coordination and local adoption activities. Multi-unit franchisees have better organizational and management capabilities to standardize the products in the local market. The people at Coffeeshop Company do consider that local knowledge has a significant influence on choice of franchising strategy rather they consider other factors i.e. environmental uncertainty, monitoring, and system specific assets more important for the choice between single-unit and multi-unit franchising.

5.5. Proposition 5

The respondents strongly supported our proposition that franchisor’s financial resources scarcity prompts him to use higher proportion of multi-unit franchising.

"The franchisors often decide to do multi-unit franchising or master franchising because they need money. That's not always the right solution but it is very often the reason behind multi-unit franchising. I tell you out of experience that as a strategy this is very risky."

At Coofffeshop Company, they try to develop a right mix of entrepreneurial capabilities and financial resources so that franchisee can support the system growth and run the business successfully. They do not put the financial resources of franchisee at first preference. In past, they have been providing financial assistance to the franchisees by helping them in getting financing from banks and other financial institutions. However, they have discontinued this practice as they consider it as an unnecessary responsibility. The findings are in agreement to our predications as Coffeeshop Company is not facing serious scarcity of financial recourses so they do not have major focus on the franchisee's financial resources.

5.6. Proposition 6

This proposition is supported by the analysis of the responses. Coffeeshop Company transfers the coffee making equipment in addition to their USP i.e. "Viennese Coffee Culture". They regard these system specific assets as very important for the success of their business. Multi-unit franchising increases the organizational capabilities of the system including innovation and monitoring capabilities. Coffeeshop Company uses multi-unit franchising to transfer their their USP to the local outlet level.

"Vienna has history, you know it's romantic, it's music, it's theatre, Vienna has a coffeehouse tradition since 1684 after 2nd Turkish invasion, it's some thing you can sell to people in every part of the world. So we took that part stronger into our concept. We are able to put two cultures together and create symbiotic approach to the customer that's why we are

there in Saudi Arabia, Bahrain, Egypt, and even America with Carnival Cruise Line Ships……We have our own equipment, our own coffee machines, our own coffee, our own technology, and our own know, we have a different strategic approach than that in other companies."

5.7. Proposition 7

One of the respondents described the overall concept of Coffeeshop Company as following.

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

Transferring the concept of Coffeeshop Company is something very complicated and rather non contractible. The lower degree of contractibility of their system specific assets is among other important factors those prompt them to use higher proportion of multi-unit franchising, particularly in the international markets. Multi-unit franchising helps Coffeeshop Company transfer knowledge to franchisee and ultimately successfully transferring the "*Viennese coffee concept*" to the local outlet level.

6. Conclusion

This research focuses on explaining use of multi-unit franchising by using a single case analysis. We analyze the franchising strategy at Coffeeshop Company, a multi-national franchise network based in Austria. In agreement to our predictions franchisee's initial investments, franchisor's financial resources scarcity, franchisor's system specific assets, and non-contractibility of franchisor's knowledge have significant positive effect on franchisor's tendency towards multi-unit franchising. The predicted negative effect of local knowledge of franchisee could not be confirmed. We predicted the negative relationship between uncertainty and use of multi-unit franchising, however the findings suggest a positive one.

The study provides a detailed insight of franchising strategy of Coffeeshop Company by comparing theoretical predictions to practices in real world. The study has managerial and academic implications. For the academicians it presents testing of theories in specific context of multi-unit franchising and the franchising mangers can get guidelines from practices at a successful franchising network. The further research may be directed to quarry further insights to explain the use of multi-unit franchising. Large scale quantitative surveys resulting in statistical analyses can be employed to obtain more reliable and generalizable results.

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