The Governance Structure of the International Franchise Firm -
An Integrative Approach on Organisational Mode Determinants

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Introduction

The international trade statistics 2011 of the World Trade Organization (WTO) confirm an increasing importance of the service sector on world trade, accumulating in a 9% growth rate in 2010. Around 41.2% of the ‘world receipts of royalties and licence fees’ were generated by the European Union, followed by the North American markets with 40.7%. Despite the growing importance of the service industry for world trade as well as for franchising, the literature on foreign market entry has mainly focused on the manufacturing sector and on multinational companies (MNCs) (for example Anderson and Gatignon, 1986; Gatignon and Anderson, 1988; Erramilli, 1990; Hill et al., 1990; Hennart, 1991b; Kim and Hwang, 1992). So far, little attention has been paid to investigate those factors that determine cross-border governance mode decisions of the service sector (Erramilli and Rao, 1990, 1993; Sarkar and Cavusgil, 1996) and particularly franchise firms.

Scientific research on international franchising is still scarce and lacking theoretical explanation, and studies that particularly focus on explaining the various franchise forms of organising operations in host countries are almost non existent. The current work attempts to fill this research gap by developing a comprehensive unified framework anchored in a multi-theoretical perspective and determining the international franchise firm’s governance structure. The choice among the various franchise modes is related to the firm’s desired level of control which is anchored in the two main rationales of cost savings and value creation with the transfer of the business format to host countries and increasing from master franchising, area development franchising and joint venture franchising to the establishment of a wholly-owned subsidiary. Within the integrative framework, the influences of the following variables on the selected governance structure of the international franchise firm are investigated:

- Environmental uncertainty, behavioural uncertainty and transaction-specific investments anchored in transaction costs analysis and agency theory, and
- System-specific assets, local market assets and financial assets anchored in resource-based view, organisational capabilities view and property rights view.

The article continues with providing an overview of the international franchise literature. Addressing the inherent literature deficits, an integrative research model grounded in the major theoretical views is proposed. Therefore the concept of control and the various governance modes of the international franchise firm are explained and hypotheses are elaborated on those factors that influence the governance structure of the international franchise firm. Finally, suggestions are made for future research and testing the conceptual framework.

International Franchise Literature Overview

In the past two decades, researchers have tried to explain international franchising from different theoretical angles and in the light of different research interests. This allows for a classification into five main streams of research interests.¹ One research interest differentiated between franchisors who exclusively have operations in domestic markets and those ones who also operate internationally. In contrast to comparing the firm’s competitive national operations with its international ones, a second research field focused exclusively on the firms’ internationalisation choices with franchising in general compared to company-owned operations in foreign markets. However, these studies did not differentiate between the various cross-border franchise modes. Further advancement in the international franchising research was contributed by studies which addressed the franchisors’ options of choosing

¹ Compare with Table 2 on the classification of studies according to specific research interest, and in the Annex.
among different franchise modes when expanding to host countries such as direct single-unit franchising, area development franchising, master franchising and joint venture franchising. A fourth stream of researchers observed specific characteristics of the cross-border franchisor-franchisee relationship and the management challenges for international franchisors. Finally, researchers summarised the global status of international franchising and country-specific characteristics by analysing different economies and policies, such as developing and transitional economies and restrictive and open trade policies, and the costs and benefits of franchising for stakeholders.

Apart from classifying the studies into specific research interests, studies may also be differentiated on the basis of theoretical background and applied research method. Among the relevant literature reviewed in this work, around 46% of researchers grounded their argumentation in mostly unilateral theoretical concepts while around 54% did not apply any theory but instead examined the impact of specific factors on the franchisors’ internationalisation strategies. Furthermore, approximately half of the studies (around 46%) included in this review used quantitative methods to measure the effect of specific variables on the international franchisor’s governance mode choices. Besides the application of quantitative analyses, around 31% of the research work conducted single or multiple case studies to investigate the international franchise phenomena. The remaining studies (around 23%) did not offer any empirical validation but provided theoretical explanations and/or conceptual frameworks. Table 1 summarises the classification of international franchise literature according to research streams and applied theories and methods.

<table>
<thead>
<tr>
<th>Research stream</th>
<th>Number of studies</th>
<th>%</th>
<th>Theoretical background</th>
<th>Number of studies</th>
<th>%</th>
<th>Method</th>
<th>Number of studies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic vs. International franchising</td>
<td>9</td>
<td>17</td>
<td>Theory applied</td>
<td>24</td>
<td>46</td>
<td>Quantitative</td>
<td>24</td>
<td>46</td>
</tr>
<tr>
<td>Propensity to franchise internationally</td>
<td>9</td>
<td>17</td>
<td>No theory</td>
<td>28</td>
<td>54</td>
<td>Qualitative</td>
<td>16</td>
<td>31</td>
</tr>
<tr>
<td>Different international franchise modes</td>
<td>16</td>
<td>31</td>
<td>Conceptual</td>
<td>12</td>
<td>23</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International franchisor-franchisee relationship</td>
<td>10</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Host country conditions for international franchising</td>
<td>8</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100</td>
<td></td>
<td>52</td>
<td>100</td>
<td></td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

Table1: Classification of the international franchise literature

**Literature Discussion and Deficits**

From the conducted literature analysis on international franchising, three critical issues are found to be relevant to explaining the need and purpose of this current research work on the international franchisors’ governance mode choices. First, the amount of researchers who specifically engaged in the analysis of different international franchise mode choices can be narrowed down to a selected number of a few empirical investigations. Second, the heterogeneous operationalisation and measurement of variables and concepts pose a problem to validity and generalisability of results and conclusions. Third, the research questions and problems were investigated from different theoretical perspectives. Table 2 provides an overview on the relevant international franchise studies based on research stream/question, applied methodology, theoretical background and investigated samples.

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2 For the purpose of this study, the terminology of quantitative methods refers to survey data that were elaborated with either descriptive statistics or inferential statistics. Studies that applied descriptive statistics provided simple summaries about the sample and the measures in order to present quantitative descriptions on the research question. Studies that applied inferential statistics further analysed the data trying to reach conclusions that extend beyond the immediate data alone (Trochim, 2006).
Table 2: Characteristics of international franchise literature classification

Notwithstanding the fact that international franchising was analysed from different angles by investigating different research questions, only a few researchers focused on the analysis of factors that affected cross-border governance mode choices with various franchise types such as the establishment of wholly-owned subsidiaries, direct single-unit franchising, area development franchising, master franchising and joint venture franchising. In total, only sixteen studies explained the different options for the cross-border franchise governance structure. Among these studies, three were conceptual papers (Konigsberg and Rosenstein, 1991; Alon, 2006; Garg and Rasheed, 2006), seven applied case study designs (Chan and...
As highlighted by previous researchers (for example Lafontaine, 1992: p.271), quantifying specific variables is a major challenge as the applied proxies must well represent the relationship between predictor variable and concept or research question and thus, the objectiveness of outcome interpretation can be at risk. The applied proxy variables to measure specific relationships and constructs, such as the firm’s monitoring costs and brand name, have been subject to criticism in the domestic franchise literature (Bergen et al., 1992: p.15). Furthermore, the use of proxies and objective measures were often derived from secondary data sources which make them less reliable and results less comparable. This criticism is also applicable to the international franchise literature where it is observed that the measurement for the same predictor or proxy variables differed significantly with studies. In addition, researchers applied the same proxy variables to explain different relationships and assumptions which shows in controversial hypotheses and propositions. This leads to problems of validity and generalisability of results. The different theoretical concepts applied in individual studies may be a reason for the inconsistencies in the definitions, operationalisation and measurement of variables and development of hypotheses and the subsequently differing results.

**Justification for the Research**

The application of different theoretical approaches and the differing (significant) empirical results with quantitative and qualitative studies lead to the conclusion that not only one theoretical perspective and model is valid and relevant in explaining different governance mode choices in international franchising. As several authors have argued in the past, applying multiple perspectives can contribute to the robustness (Eisenhardt, 1988: p.490) and yield a more realistic view (Eisenhardt, 1989: p.71) in explaining a phenomenon. In order to meet the complexity of the research question on the governance mode choices of the international franchise firm, multiple theoretical perspectives need to be developed and integrated into a comprehensive framework. Table 3 summarises the most commonly applied theories of the international franchise literature, i.e. the transaction costs analysis (TCA), Agency Theory, resource-based view (RBV) and organisational capabilities view (OCV).

<table>
<thead>
<tr>
<th>TCA</th>
<th>Agency Theory</th>
<th>RBV / OCV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractor and Kundu (1998a,b)</td>
<td>Contractor and Kundu (1998a,b)</td>
<td>Contractor and Kundu (1998a,b)</td>
</tr>
</tbody>
</table>

* complemented by resource scarcity view, ** complemented by knowledge-based view, *** complemented by signalling theory

Despite the incidence of agency problems in an international setting, only few researchers addressed agency problems together with firm internationalisation (Doherty and
Quinn, 1999: p.224ff) and respectively tried to explain research questions such as the firm’s propensity to franchise internationally compared to company-owned operations (Fladmoe-Lindquist and Jacque, 1995; Contractor and Kundu, 1998a,b; Sashi and Karuppur, 2002; Castrogiovanni et al., 2006), international franchise relationship-specific characteristics (Dant and Nasr; 1998; Quinn and Doherty, 2000; Pizanti and Lerner, 2003; Choo, 2005; Paik and Choi, 2007; Grewal et al., 2011) and the relative efficiency of international multi-unit franchising compared to international single-unit franchising (Garg and Rasheed, 2006; Chen, 2010). Further theoretical background in explaining cross-border governance modes with franchising was provided by TCA and applied in the conceptual works of Sashi and Karuppur (2002) and Grewal et al. (2011) and empirically tested with studies using different regression models developed by Fladmoe-Lindquist and Jacque (1995), Contractor and Kundu (1998a,b) and Burton et al. (2000). A major part of theoretical explanations to international franchising stems from RBV and OCV (complemented by resource scarcity view and knowledge-based view). In this respect, several authors explored the importance of specific resources, skills and capabilities and factors, such as transferability, codifiability and imitability, on governance mode choices in international franchising (Fladmoe-Lindquist, 1996; Contractor and Kundu, 1998a,b; Erramilli et al., 2002; Pak, 2002; Hoffman and Preble, 2003; Castrogiovanni et al., 2006; Szulanski and Jensen, 2006, 2008; Choo et al., 2007; Paik and Choi, 2007; Dunning et al., 2007; Grewal et al., 2011).

Research studies on domestic franchising argued that Agency Theory and TCA have similar perspectives (Williamson, 1975; Eisenhardt, 1989) and should be complementarily treated (Anderson and Oliver, 1987; Bergen et al., 1992: p.8). Furthermore, despite the application of the property rights view (PRV) in describing international franchising has not occurred yet, RBV, OCV and PRV act on similar assumptions such as the challenge of transferability and contractibility of specific, tacit knowledge, resources, skills and capabilities across the organisational boundaries of the firm. It therefore stands to reason that the concepts of TCA, Agency Theory, RBV, OCV and PRV complement each other and shall be combined into an integrative framework to explain the different organisational mode choices of the international franchise firm.

It is the aim of this research study to develop an integrated approach of the organisation of the international franchise firm by deriving hypotheses from TCA, Agency Theory, RBV, OCV and PRV. The various organisational forms of the international franchise firm are differentiated according to the degree of control, i.e. the distribution of ownership rights, residual income rights and residual decision rights between the franchisor on the one hand, and his partners (joint venture partner, area developer, master franchisor including sub-franchisees at the foreign markets) on the other hand. In the following, the concept of control is analysed and the different international franchise modes are explained. Thereupon, an integrative theoretical approach is developed and those factors will be explored which directly or indirectly impact on the international franchisor’s organisational mode choice and level of control.

**Control in International Franchising**

Following the view of Anderson and Gatignon (1986), control determines the level of risk (through the level of resource commitment), return and flexibility and therefore, it offers a germane approach to explaining the international franchisor’s decision on market entry and organisational mode. The international franchisor can organise the foreign operations via higher control modes, such as the establishment of a wholly-owned subsidiary, and lower control modes such as area development franchising and master franchising. Different organisational forms may vary dramatically in the degree of control the firm has over the resources, decision-making and rents associated with business expansion into host markets.
(Domke-Damonte, 2000). Therefore, in the integrative framework, the various organisational forms of the international franchise firm are differentiated according to the degree of control which is operationalised by the distribution of ownership rights, residual income rights and residual decision rights between the franchisor on the one hand, and his partners (joint venture partners, area developers, master franchisors including sub-franchisees at the foreign markets) on the other hand.

Ownership rights refer to the level of equity investment (resource commitment) into non-redeployable, tangible and intangible assets of the foreign operation. According to Grossman and Hart (1986) and Hart and Moore (1990), ownership determines residual rights of control over how the firm’s assets are to be used under conditions of unspecified contract terms. Therefore, if an agent’s (either the franchisor or his partner) actions are indispensable for the generation of the residual surplus, he should also obtain a larger share of ownership rights which consequently will be reflected in the agent’s higher share of control over the foreign venture.

Residual decision rights depend on the distribution of intangible knowledge assets, such as the system-specific assets of the franchisor and the market-specific assets of the franchisee (Windsperger, 2003; Windsperger and Yurdakul, 2007), which are indispensable to generating the residual surplus (Grossman and Hart, 1986; Hart and Moore, 1990; Barzel, 1997; Baker et al., 2004, 2008). Given the existence of knowledge transfer costs (Malone, 1997), the agent who owns the intangible knowledge assets that generate the residual surplus should also be the holder of the residual decision rights (Rajan and Zingales, 2000; Windsperger, 2009). The importance of intangible knowledge assets for the generation of residual surplus will determine the agent’s (franchisor or franchisee) level of residual rights of control and authority over operational and strategic decision-making of the foreign venture (Kim and Hwang, 1992).

Similarly, residual income rights are determined by the distribution of intangible assets between the franchisor and franchisee (Windsperger, 2001). If the agent’s intangible assets, such as the franchisor’s system-specific knowhow and the franchisee’s market-specific knowhow, are indispensable for the generation of the residual surplus in the foreign country, then the agent should obtain a higher fraction of the residual income. Control is positively correlated with a higher return on investment (Grosse, 1985; Ekeledo and Sivakumar, 1998) and therefore, depending on the allocation of intangible assets between the contracting parties, higher levels of residual income rights will result in an increased control. For the franchisor, higher residual income rights will reflect in the payment of higher initial fees and royalties by franchisees (Windsperger, 2001). Whereas in case of the indispensability of the franchisee’s intangible assets for the generation of residual surplus, the franchisor’s level of control and residual income rights will decrease in favour of the franchisee paying a lower share of his gross sales on royalty payments to the franchisor.

In sum, the franchisor’s control refers to the proportion of ownership rights, residual income rights and residual decision rights which is increasing from master franchising, area development franchising and joint venture franchising to wholly-owned subsidiaries. In the following, the various international franchise types are explained according to the different levels of control exercised by the franchisor and his partners.

Organisational Forms in International Franchising Differentiated by the Level of Control

This research study distinguishes between the different international governance forms of the establishment of a wholly-owned subsidiary, joint venture franchising, area
development franchising and master franchising\(^3\) which can be differentiated according to the level of control for the franchisor and franchisees. With the establishment of a wholly-owned subsidiary (henceforth WOS), the franchisor invests financial and human capital resources to expand franchise operations on a large scale with franchisees and employee-managers in the host country. Since the WOS is located in the foreign country, it equips the franchisor with more market-specific knowhow and assets than under any other cross-border organisational form needed for the adaptation of the franchise package to the realities of the host country. Furthermore, the franchisor will still be able to exercise full control over system knowhow and how the franchise system, trademarks, products and services are being used by franchisees as no third party is involved in the direct relationship between franchisor and foreign franchisees and employees. The indispensability of the franchisor’s tangible and intangible assets for the success of the foreign venture will be compensated by higher control, i.e. ownership, decision and income rights, for the franchisor.

As with the establishment of a wholly-owned subsidiary, area development franchising (henceforth ADF) or multi-unit franchising\(^4\) is a direct franchise agreement where the franchisor (or foreign subsidiary) is granting the developer, a national of the host country, the right to own franchise outlets within an exclusive territory, in compensation for a substantial (one-time) development (territory) fee and initial fees and ongoing royalty payments for each established franchise outlet in the host country. The franchisor may grant only one ADF agreement for the whole country or enter into several ADF agreements with more than one developer per country. The bigger the developer’s exclusive territory is, the more financial and managerial resources he must commit to the local franchise network expansion and the more control rights must be granted to him.

Alternatively of being in a direct relationship with franchisees in the host country, the franchisor may grant a third party the right and duty to establish the franchise system in the foreign country by opening own outlets as well as granting franchises to foreign sub-franchisees. With master franchising (henceforth MF), the franchisor gives up control to a large extent over the franchise system in the foreign country. The master franchisor will exclusively be responsible to develop, administer and operate the franchise system in the foreign market by investing in offices and training facilities, carrying out market research, adapting the franchise system to local market requirements, finding real estate locations, hiring local employees, soliciting and choosing sub-franchisees, providing training and supervising the activities of the sub-franchisees and the managers of own outlets, identifying local suppliers of goods and services and local advertising, among others.

In-between high control modes with the establishment of a WOS and low control modes with ADF and MF lies joint venture franchising (henceforth JVF) where the franchisor enters into a partnership with a national or a corporation controlled by a national of the foreign country to set up a joint venture company in the foreign country. In order to expand the franchise system to the host market, the franchisor then enters into either a development agreement or, more typically, a master franchise agreement with the joint venture company which will be granted the exclusive right to develop the franchise system as a developer or master franchisor in the foreign country. Thus, it is the joint venture company in its role as master franchisor (or area developer) who enters into a relationship directly with the foreign sub-franchisees under unit sub-franchise agreements. The franchisor can still maintain a relationship to the foreign sub-franchisees through his equity participation and voting rights in

\(^3\) A well-elaborated discussion on the organisational forms in cross-border franchising is provided in Konigsberg (2008).

\(^4\) Multi-unit franchising is analysed, for example, in Burton et al. (2000), Hofmann and Preble (2003), Garg and Rasheed (2006), Chen (2010) and Grewal et al. (2011)
the joint venture company. However, he has to share these rights with his foreign venture partner.

Depending on the franchisor, area developer, master franchisor and joint venture partner’s resource commitment, financial risk and indispensability of specific knowledge and assets to implement and operate the franchise network in the host market, they are provided with a larger fraction of ownership rights, residual income rights and residual decision rights and thus, with a higher level of operational and strategic control over the local franchise network. Table 4 summarises the franchisor’s level of control exercised with the various organisational forms, determined by the distribution of ownership rights, residual income rights and residual decision rights.

<table>
<thead>
<tr>
<th>International Franchise Mode</th>
<th>Franchisor Ownership Rights</th>
<th>Franchisor Residual Decision Rights</th>
<th>Franchisor Residual Income Rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholly-owned subsidiary (WOS)</td>
<td>high</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Area development franchising (ADF)</td>
<td>low</td>
<td>low</td>
<td>medium</td>
</tr>
<tr>
<td>Master franchising (MF)</td>
<td>minimal</td>
<td>minimal</td>
<td>low</td>
</tr>
</tbody>
</table>

Table 4: Control rights of the international franchisor with different franchise modes

**Research model**

The firm’s governance structure and level of control is determined by both rationales of cost savings and value creation and anchored in the integrative framework of TCA, Agency Theory, RBV, OCV and PRV. Costs include all expenditures resulting from transferring the franchise business format to host countries characterised by environmental and behavioural distance such as transaction-specific investments in partner search, evaluation, recruitment, contract negotiation and safeguarding, monitoring, training, support and adaptation. Value creation stems from the generation of competitive advantage for the local franchise network through the franchisor’s specific system knowhow and assets and the franchisee’s specific market knowhow and assets. In this context, the impacts of environmental and behavioural uncertainty, transaction-specific investments, system-specific assets, local market assets, financial assets and the (non-) contractibility of specific assets on the organisational mode choice of the international franchise firm are explored. The different organisational modes of the international franchise firm are related to the franchisor’s level of control which is operationalised by the proportion of ownership rights, residual income rights and residual decision rights and which is increasing from MF, ADF and JVF to the establishment of WOS.
Figure 1 illustrates the research model based on TCA, Agency Theory, RBV, OCV and PRV and the factors which directly and/or indirectly impact on the international franchise firm’s governance structure.

Variables and Hypotheses of the Transaction Cost Analysis and Agency Theory

Originally derived by Coase (1937) and further developed by Williamson (1975, 1979, 1981a,b, 1985), the original TCA literature distinguishes uncertainty on two dimensions, i.e. environmental uncertainty and behavioural uncertainty, and as such entails two different sets of transaction costs: adaptation costs and monitoring costs (Rindfleisch and Heide, 1997). Environmental uncertainty is defined as “…unanticipated changes in circumstances surrounding an exchange…” (Noordewier et al., 1990: p.82) and results in the firm’s need to adapt to changes in the external environment (Rindfleisch and Heide, 1997) and maladaptation of transactions may place substantial burdens on the parties (Williamson, 1991b). Behavioural uncertainty causes ex ante and ex post opportunism to emerge in the form of deliberate nondisclosure of information or the strategic misrepresentation of information by exchange partners (Sutcliffe and Zaheer, 1998) and demands for increased monitoring efforts by the firm. If bounded rationality, i.e. the firm’s inability to write complete contracts, and uncertainty do not constitute a problem for economic transactions per se, transactions are organised more efficiently outside the firm (using markets or hybrids) due to the high-powered incentives created by competitive market pressures and elastic contract mechanisms while simultaneously decreasing bureaucratic costs inherent to vertical integration.

Bounded rationality and uncertainty result in high transactions costs only under the condition of asset specificity. Transaction-specific investments are considered as the core dimension of TCA and relate to investments whose productive values are limited outside the focal exchange relationship and which cannot be redeployed to alternative uses and by alternative users (Williamson, 1975, 1979; Klein et al., 1978; Grossman and Hart, 1986). Transaction-specific investments pose a dilemma to the firm’s governance structure as they have the potential to both promote and reduce transactionagency costs (Rokkan et al., 2003) and also have important value-creating properties to achieving the synergistic combination of firm–specific assets and thus, realising competitive advantage (Ghosh and John, 1999). Transaction-specific investments reduce the number of potential suppliers in the market and...
hence, create bilateral dependency as they request coordinated adaptation to unanticipated disturbances. Considering the threat of opportunism, transaction-specific investments may give space to self-interested ex post re-bargaining and hold-up and pose a safeguarding and appropriation risk.

In sum, TCA and Agency Theory explain the firm’s organisational mode choice by its superior ability to minimise transaction costs. Considering the research results from TCA and Agency Theory, the effectiveness of the international franchise firm’s governance structure in host countries strongly depends on environmental and behavioural conditions and the extent of transaction-specific investments. In the following, the respective hypotheses on environmental and behavioural uncertainty and transaction-specific investments relating to the concepts of TCA and Agency Theory are developed.

**Environmental Uncertainty Hypothesis**

Environmental uncertainty addresses the unpredictable and volatile nature of the host market and results in the franchisors’ preference of less integrated organisational forms, such as ADF and MF, to outsource ex post transaction costs. In this study, environmental uncertainty is distinguished on three major dimensions, i.e. the institutional dimension (for example Williamson, 1991b; Alon, 2006), the economic dimension (Sanchez-Peinado and Pla-Barber, 2006; Alon, 2006; Kor et al., 2008) and the cultural dimension (for example Kedia et al, 1995; Julian and Castrogiovanni, 1995; Fladmoe-Lindquist and Jacque, 1995; Contractor and Kundu 1998a,b; Quinn, 1999; Sashi and Karuppur, 2002; Erramilli et al., 2002; Alon, 2006).

Countries with institutional and political systems that show a high degree of government interference are often subject to high corruption and frequently changing rules and policies. Economic uncertainty refers to the level of economic development such as the unpredictability of the future state of demand and competition in the host country. It also includes the level of currency uncertainty in the host market which arises from volatile exchange rates between the franchisor’s home country currency and the host country currency and may induce the franchisor to charge alternative franchise fee structures (Fladmoe-Lindquist and Jacque, 1995; Sashi and Karuppur, 2002). Cultural uncertainty is defined by unknown values, mind-sets and norms (Ralston et al., 1993) and results from a lack of knowledge of the local customs and culture (Miller, 1992, 1993) such as language, business practices, social structure such as income, education and gender role, ideology, religion, work ethic and consumer preferences (Hennart et al., 1998). Cultural distance affects managerial and operational business practices, communication and performance evaluation as well as the provision of attractive products and services to local customers (for example Eroglu, 1992) as it is difficult for firms to know what local customers want, need, wish or expect from goods and services and to win their confidence.

Under conditions of cultural, economic and institutional uncertainty, franchisors may be assumed to adopt a positive attitude towards international expansion with lower control modes, such as ADF and MF, due to the local partners’ capabilities of efficiently dealing with local labour, suppliers, customers, competitors and regulatory authorities (for example Fladmoe-Lindquist and Jacque, 1995; Contractor and Kundu, 1998a,b; Burton et al., 2000) and their increased affinity to foreseeing and flexibility to reacting, switching and adapting to environmental changes. Environmental uncertainty requests monitoring political changes and economic developments on a continuous basis (Reardon et al., 1996; Sashi and Karuppur, 2002) and adaptation of the standardised franchise business format, administrative and operational techniques and strategic actions which, due to the franchisor’s bounded rationality
and lack of information to evaluate the sociocultural, economic and institutional peculiarities of host countries, may not be achievable with the franchisor’s knowledge base. Franchisors can effectively reduce the challenges of environmental distance in host countries by reducing the level of organisational control and shifting the burden of transaction costs to franchisees. Environmental uncertainty due to cultural, economic and institutional differences between home and host countries decreases franchise system performance with higher control modes due to the franchisor’s increased transaction costs and subsequently positively impacts on international governance structures with lower levels of control as summarised in the following hypothesis (H1):

The higher the transaction costs due to environmental uncertainty, the more ownership rights, residual income rights and residual decision rights must be transferred to the local partners, and the higher is the tendency to expand via lower control modes.

**Behavioural Uncertainty Hypothesis**

The agency problem arises in situations of uncertainty when market conditions are not predictable and information asymmetry is high (Bergen et al., 1992; Doherty and Quinn, 1999) and from the separation of ownership from control (Jensen and Meckling, 1976) and results in the firm’s subsequent challenge of monitoring tasks and performance outputs of employees. Two types of agency problems can be identified: adverse selection and moral hazard (for example Alchian and Demsetz, 1972; Jensen and Meckling, 1976; Prescott and Visscher, 1980; Jensen 1983; Eisenhardt, 1988). Adverse selection is referred to pre-contractual problems (Bergen et al., 1992) and occurs with the agent’s incentive to intentionally misrepresent skills and abilities (Eisenhardt, 1988). Moral hazard is referred to post-contractual problems (Bergen et al., 1992) and occurs when employees have low-powered incentives to perform agreed-upon standards because they receive a fixed salary independent of unit performance.

In an international setting, agency costs due to behavioural uncertainty are exacerbated by geographic distance. Several research studies used geographic proximity and concentration of retail outlets to the headquarters’ home base as a proxy for the ease of monitoring costs (Caves and Murphy, 1976; Rubin, 1978; Mathewson and Winter, 1985; Brickley and Dark, 1987; Martin, 1988; Norton, 1988a,b; Lal, 1990; Minkler, 1990; Brickley et al. 1991; Lafontaine, 1992; Thompson, 1992; Sen, 1993; Combs and Castrogiovanni, 1994; Castrogiovanni and Justis, 1998; Hopkinson and Hogarth-Scott, 1999). The prevalent assumption is that greater distance between headquarter and outlet location results in higher monitoring costs due to the need for frequent travelling to dispersed, rural areas (Alon and McKee, 1999a; Fladmoe-Lindquist and Jacque, 1995; Fladmoe-Lindquist, 1996).

Investing in information and monitoring systems to conduct adverse selection and moral hazard (Minkler, 1990) causes administrative inefficiencies and an entrepreneurial capacity problem (Norton, 1988b) of coordinating centralised operations with company ownership and hence, the financial benefits of integration, such as transaction cost savings through scale advantages, shift towards lower control modes such as franchising (Bergen et al., 1992). Franchising contributes to goal alignment between franchisor and franchisees. By making franchisees bear the financial risk of their outlets and the costs of shirking through the reduction in net income (Fladmoe-Lindquist and Jacque, 1995) franchising is an effective screening tool to attract requisite human capital (Norton, 1988a; Sen, 1998). The value-decreasing effect of behavioural uncertainty on monitoring costs and consequently firm performance shifts a firm’s preference for higher control modes to lower ones such as ADF and MF. The following hypothesis (H2) on behavioural uncertainty is postulated:

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The higher the monitoring costs due to behavioural uncertainty, the more ownership rights, residual income rights and residual decision rights must be transferred to the local partners, and the higher is the tendency to expand via lower control modes.

Interaction between environmental uncertainty and behavioural uncertainty

In heterogeneous host countries the franchisor may find it difficult to evaluate whether differences in performance are due to the agents’ behaviour or to unforeseen changes in environmental conditions such as local demand variations (Mathewson and Winter, 1985). Firms face challenges of monitoring the performance of geographically dispersed units and ensuring adaptation of the business concept to unfamiliar, local market requirements. In volatile environments, behavioural uncertainty increases the difficulty for the firm to monitor employees and maintain working relationships characterised by different cultural values (Huszagh et al., 1992; Alon and McKee, 1999a; Doherty and Quinn, 1999), economic conditions and/or institutional systems. Environmental uncertainty increases the value-decreasing impact of behavioural uncertainty on franchise system performance and thus, increases the franchisor’s risk perception toward behavioural uncertainty in host countries and his preference for lower control modes to mitigate monitoring problems (i.e. moral hazard and adverse selection). The following interaction effect (H2-1) of environmental uncertainty on the relationship between behavioural uncertainty and the selected franchise governance and control mode is postulated:

Environmental uncertainty positively moderates the impact of behavioural uncertainty on the tendency to expand via lower control modes.

Transaction-specific Investments Hypothesis

Transaction-specific assets include tangible assets, such as equipment and facilities, as well as intangible assets, such as training and experience (Anderson and Weitz, 1986), which are uniquely dedicated to another firm in order to support the combination and realisation of the rent-generating firm-specific assets in the partnership (Madhok and Tallman, 1998) and have little or no value outside the focal exchange relationship (Williamson, 1985). Transaction-specific investments narrow an initially large number of potential partners in the market down to a small number, request bilateral coordination (adaptation) and create inflexibility to switching due to high sunk costs. Due to information asymmetry and contractual incompleteness, transaction-specific investments result in a safeguarding problem as exchange partners may behave opportunistically by trying to appropriate quasi-rents and/or holding-up transactions through self-interested renegotiation and bargaining (Williamson, 1991b; Shelanski and Klein, 1995; Rindfleisch and Heide, 1997).

Under conditions of high system specificity, the franchisor must commit substantial financial and human resources in dedicated activities, such as codification, standardisation, advertising, training and quality control, to prevent value erosion and performance loss with the transfer of the franchise package across firm boundaries which may expose him to a safeguarding risk and franchisee moral hazard, such as free riding and under-investment, and dissuade him from cross-border governance structures with lower levels of control. On the other hand, bilateral transaction-specific investments lock the franchisees in a relationship with the franchisor in the host market (Anderson and Gatignon, 1986; Rokkan et al., 2003), create mutual dependency and shall result in cooperative opposed to opportunistic behaviour (for example Brown et al., 2000; Rokkan et al., 2003). The governance structure of the international franchise firm therefore depends on the extent of transaction-specific investments required by each party, i.e. the franchisor on the one hand, and the franchisees on
the other hand. The following hypotheses (H3) on transaction-specific investments are postulated:

1. The higher the franchisor’s transaction-specific investments relative to the franchisees’ ones, the more ownership rights, residual income rights and residual decision rights must be transferred to him, and the higher is the tendency to expand via higher control modes.

2. The higher the franchisees’ transaction-specific investments relative to the franchisor’s ones, the more ownership rights, residual income rights and residual decision rights must be transferred to them, and the higher is the tendency to expand via lower control modes.

**Interaction between (non-) contractibility of specific assets and transaction-specific investments**

In comparison with TCA which favours integration due to ex post contractual incompleteness and the risk of opportunistic behaviour and quasi-rent appropriation with transaction-specific investments of exchange partners, the PRV distinguishes between different ‘types of specificity’ (Whinston, 2003: p.4), i.e. ‘contractible’ and ‘non-contractible’ assets, which in turn, result in different ownership structures and control modes (Whinston, 2001, 2003). Madhok and Tallman (1998: p.327) argued that the nature and extent of transaction-specific investments depend on the nature and extent of firm-specific resources to be exchanged, i.e. the franchisor’s system-specific assets and the franchisees’ local market assets. Therefore, under the PRV, the franchisor and franchisees’ hold-up and appropriation risks due to transaction-specific investments depend on the contractibility of system-specific and/or market-specific assets.

Under conditions of high tacit system specificity and/or market specificity, the franchisor and franchisees must commit substantial financial and human resources in dedicated, transaction-specific activities to prevent value erosion and performance loss with the transfer and implementation of the franchise business format across firm boundaries. According to Madhok and Tallman (1998: p.332), high tacit system specificity and/or market specificity require increased transaction-specific investments which are non-contractible. A decreased standardisation of the franchise business format results in a decreased power of contractual enforcement mechanisms and hence, exposes trading partners to self-interested behaviour and greater transaction costs such as to safeguard against opportunism.

In case system specificity and/or market specificity are less complex and codifiable, mutual transaction-specific investments and terms and conditions of the exchange relationship become (ex ante) contractible and performance benchmarks applicable and the problem of (ex post) opportunistic behaviour is reduced. Strict contract terms of non-performance penalties and unilateral franchise cancellation concede the franchisor the right of contract termination in case of non-compliance with stipulated terms and regulations (Fladmoe-Lindquist, 1991). Consequently, high transaction-specific investments result in higher control modes when they are non-contractible. Conversely, firms favour lower control modes even under conditions of high transaction-specific investments, when contractibility is high (Whinston, 2003: p.8). The governance structure of the international franchise firm therefore depends on the degree of (non-) contractibility of transaction-specific investments by the franchisor and franchisees. The following interaction effect (H3-7) of (non-) contractibility of specific assets on the relationship between transaction-specific investments and the selected franchise governance and control mode is postulated:

The (non-) contractibility of specific assets moderates the impact of transaction-specific investments on control modes. Specifically, the more contractible specific assets and hence transaction-specific investments are, the stronger is the impact of transaction-specific investments on the tendency to expand via lower control modes.
Interaction between environmental uncertainty and transaction-specific investments

Without the existence of asset-specific transactions, the firms’ flexibility to adapt to the changed environment is guaranteed most efficiently by autonomous actors in the market who have high-powered incentives to cooperate. Asset-specific transactions create bilateral dependency and request coordinated adaptation to unanticipated disturbances. Under high environmental uncertainty, the transaction-specific investments carry the potential for hold-up and quasi-rent appropriation, increase the opportunistic tendency to renegotiate contract terms and result in sunk costs in case of contract termination. Situations of mutual distrust due to opportunistic risk discourage the efficient investment in viable relationship-specific assets and may result in sub-optimal allocation of funds (under-investment) and the elaboration of costly safeguards (Williamson, 1991b; Parkhe, 1993a; Shelanski and Klein, 1995; Rindfleisch and Heide, 1997; Madhok and Tallman, 1998). Hence, under high environmental uncertainty, transaction costs, such as renegotiation, (mal-) adaptation, haggling and safeguarding costs, will increase with transaction-specific investments which in turn, will increase the impact of transaction-specific investments on control modes.

Franchise relationships consist of a strong bonding mechanism due to mutual commitment of financial, human and strategic resources and mutual dependence on outlet profits and hence may even create a desirable framework for lock-in among trading partners due to transaction-specific investments (compare with Whinston, 2001, 2003). Cooperative attitudes may reduce the threat of opportunistic actions, such as hold-up and re-bargaining, after environmental, ex ante contractually unspecified changes occurred. In franchising, the interaction effect of environmental uncertainty on the relationship between transaction-specific investments and the international franchise firm’s choice of governance mode depends on the extent of transaction-specific investments by the franchisor and franchisees. The following interaction effects (H3-1) of environmental uncertainty on the relationship between transaction-specific investments and the selected franchise governance and control mode are postulated:

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Depending on the extent of transaction-specific investments by the franchisor and foreign franchisees, environmental uncertainty moderates the impact of transaction-specific investments on control mode. Specifically:

a) Under high transaction-specific investments of the franchisor relative to the franchisees’ ones, environmental uncertainty positively moderates the impact of transaction-specific investments on the tendency to expand via higher control modes.

b) Under high transaction-specific investments of the franchisees relative to the franchisor’s ones, environmental uncertainty positively moderates the impact of transaction-specific investments on the tendency to expand via lower control modes.
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Variables and Hypotheses of the Resource-based View, Organisational Capabilities View and Property Rights View

In contrast to the cost-economising approaches of TCA and Agency Theory, the RBV and OCV look at the rent-generating potential of firm-specific knowhow, assets, resources and capabilities whose efficient exploitation and exploration with a superior organisational mode results in the firm’s competitive advantage (Madhok, 1997). The importance of specific resources to firm performance was first acknowledged by Penrose (1955) who quoted that “…failure to grow is often incorrectly attributed to demand conditions rather than to the limited nature of entrepreneurial resources” (p. 540). Firm-specific assets are characterised by valuable, rare, inimitable and non-substitutable (VRIN-) attributes (Barney, 1991). Due to the non-tradability and immobility of idiosyncratic, rent-generating (VRIN-) resources and capabilities, the communication and transfer of them across firm boundaries is constrained
Particularly when expanding internationally, a firm’s long-term profit maximisation is traceable to its ability of efficiently deploying superior resources such as brand names, in-house knowledge of technology, skilled personnel, trade contracts, machinery, efficient procedures and capital (Wernerfelt, 1984), which are woven together through and embedded in organisational routines (Nelson and Winter, 1982) and at the same time, constantly exploring new resources and capabilities in order to match the demanding requirements of the changing environment and heterogeneous host country (Teece et al., 1997). Since knowledge exploitation and exploration are motivated by different factors, the firm must account for an efficient control and governance structure to incentivise employees and/or external partners, such as franchisees, to provide the critical tangible and intangible knowhow, assets, resources and capabilities (March, 1991; Bradach, 1998; Sorenson and Sorenson, 2001).

Pioneered by Grossman, Hart and Moore (GHM) (Grossman and Hart, 1986; Hart and Moore, 1990), the PRV further augments the results of RBV and OCV by introducing the concept of non-contractibility of specific assets. Due to the problem of incomplete contracts, residual rights of ownership and control over assets should be allocated with the party who is responsible for the generation of residual surplus in order to generate the necessary incentive mechanisms to providing the rent-generating activities (Brynjolfsson, 1994). Hart and Moore (1990) define residual rights of control over tangible assets, such as machines, factories and customer lists which are alienable as they can be bought, sold and change ownership, as the right of how these assets are to be used except to the extent that usage has been specified in a contract. Brynjolfsson (1994) further develops on the GHM-approach by analysing the effect of non-contractibility and ownership of intangible assets such as information, knowledge and skills of individuals. In contrast to physical capital, intellectual capital usually is not alienable and is owned by the agent who ‘knows the information’ (exceptions from inalienability result from the codification of knowledge into tradable commodities such as software or patents). Conversely to Hart and Moore’s (1990) assumption, ownership of inalienable, intangible assets therefore determines ownership of other assets such as physical assets. Applied to the ownership structure of international franchising, the contractual mix between company-owned outlets and franchise outlets and the franchise fee structure therefore depend on the distribution of intangible assets between the franchisor and the franchisees (Maness, 1996; Windsperger, 2001; Hennessy, 2003; Windsperger, 2004; Windsperger and Dant, 2006).

For the current research on the applied governance structure of the international franchise firm this means that higher rent-yielding and competitive advantage is achieved with the exploitation of relevant system-specific assets of the franchisor on the one hand, and the exploration of and combination with local market assets and the financial assets of the franchisees on the other hand. In the following, the respective hypotheses on system-specific assets, local market assets and financial assets relating to the concepts of RBV, OCV and PRV are developed.

**System-specific Assets Hypothesis**

System-specific knowhow, assets, resources and capabilities (subsequently summarised under the generic term of ‘system-specific assets’) are accumulated through long-term organisational learning processes and achieved through the interaction of individuals/employees by developing complex knowhow and procedures embedded in organisational routines and structures. System-specific assets are converted into final products and services which comprise all features of the competitive franchise business format, such as
technological or proprietary knowhow, communication systems, accounting systems, software, store layout, customer competence, sales and marketing strategies, R&D, advertising and promotion and monitoring techniques, and materialise in the franchisor’s profit. In international service franchising, brand name and reputation contribute to the most important system-specific assets (Martin, 1988) as they demonstrate franchise concept values to potential partners and customers such as quality, fairness, trust and performance. Successful brand names and a strong reputation can transcend national boundaries and their positive promotion in one market can be extended to several global markets (Sashi and Karuppur, 2002).

Trading competitive products and services with a strong brand name through market-based transactions is difficult as communication of proprietary knowhow and tacit routines across firm boundaries would most probably result in value erosion and performance loss. A firm’s proprietary knowhow is expressed by factors, such as technological content of the product and service, innovation, information and operational knowledge (Anderson and Gatignon, 1986; Hill et al., 1990; Buckley et al., 1992; Kim and Hwang, 1992; Ekeledo and Sivakumar, 1998), and is often ill codified and difficult to transfer across firm boundaries (Sarkar and Cavusgil, 1996). In respect thereof, Erramilli et al.’s (2002) research study on the entry mode choices of international franchisors of the hotel industry confirmed that the greater the competitive advantage generated by imperfectly imitable capabilities, such as the franchisor’s organisational competence and quality competence, the higher is the firm’s probability of choosing higher control modes such as management service contracts relative to franchising.

The transfer of tacit system-specific assets across firm boundaries results in brand name and reputation degradation as consumers who relate a certain quality standard to a firm’s product and service will be disappointed by receiving a product and service of inferior quality due to the market’s inability of providing the original value-generating routines, procedures and assets needed to maintain system quality standard (for example Erramilli and Rao, 1993; Contractor and Kundu, 1998b). Considering the problems of value erosion due to non-transferability and performance loss due to the high costs with transferring system-specific routines and procedures to local partners such as franchisees, RBV and OCV suggest that higher control modes, such as company-owned operations with the establishment of a WOS, should be the preferred organisational form when performance and income generation are highly depending on system-specific, inimitable assets. Therefore, the more monitoring and knowledge transfer capabilities are required to ensure efficient implementation and operation of the franchise system in host countries, the higher is the tendency toward expansion with higher control modes. The following hypothesis (H4) on the effect of system-specific assets on control mode is postulated:

The more important the franchisor’s system-specific assets for value creation, the more ownership rights, residual income rights and residual decision rights must be transferred to the franchisor, and the higher is the tendency to expand via higher control modes.

Interaction between (non-) contractibility of system-specific assets and system-specific assets

According to Bradach (1998) and Sorenson and Sorenson’s (2001) view on knowledge exploitation within firm boundaries it follows that the more important the system-specific assets for the generation of residual income and competitive advantage are, the more important is also the refinement (exploitation) of existing system-specific routines to staying competitive. System-specific knowledge exploitation results in high knowledge transfer costs and hence, increases the tendency toward higher control modes. This is not only due to the
value erosion caused by communication challenges of highly tacit system-specific assets argued by RBV and OCV but also because the refinement of system-specific assets across firm boundaries is constrained by the missing incentive mechanism provided by performance-based contracts with external partners such as franchisees. Franchisees might face a moral hazard problem (under-investment) to investing in the refinement and development of system-specific assets as the benefits of these innovations do not fully accrue to them but instead will have high spillover effects to the franchise system as a whole. Without costly safeguarding mechanisms, this under-investment by franchisees results in performance loss for the franchisor (Rindfleisch and Heide, 1997). According to PRV, due to the problems of non-contractibility and missing incentive mechanisms to providing tacit knowhow and the subsequent performance loss, residual income and decision rights of firm-specific assets should stay with the party who is the owner of and can contribute the tacit, rent-generating activities to creating the residual surplus and competitive advantage in the host market.

However, the concept of non-transferability and immobility of firm-specific resources and capabilities has been relaxed. Specific resources and capabilities are tradable through networks of firms (Hansen et al., 1997; Lorenzoni and Lippiari, 1999) and not all idiosyncratic resources which are the basis for competitive advantage are inimitable (Erramilli et al., 2002). If intangible, rent-generating assets can be articulated and become alienable and contractible (for example through patents, laws, licences, procedures manual and software), there are no residual rights of control and no hold-up risk and the performance-based incentive mechanisms promoted by Agency Theory are sufficient to guarantee an optimum performance level. As a consequence, codification of assets makes new ownership structures feasible. There are many options to protect a resource, capability or core competence from imitation (Newbert, 2007) and the critical task for firms is to identify whether imitable or non-imitable resources and capabilities are the basis of competitive advantage and consequently choose the appropriate cross-border governance mode (Erramilli et al., 2002). Therefore, the following interaction effect (H4-7) of (non-) contractibility of system-specific assets on the relationship between system-specific assets and the selected franchise governance and control mode is postulated:

The (non-) contractibility of system-specific assets moderates the impact of system-specific assets on control mode. Specifically, the less contractible system-specific assets are, the stronger is the impact of system-specific assets on the tendency to expand via higher control modes.

Local Market Assets Hypothesis

For the attainment of success and the generation of profits with operations in foreign markets, not only the franchisor’s system-specific, rent-generating, valuable assets converted into the competitive product, service and procedures but also new knowhow creation, innovation and adaptation of existing routines, procedures and product features is essential to meet the local market demand (knowledge exploration) (Sorenson and Sorenson, 2001). In cross-border franchising, a franchise package may only be successfully implemented and result in a competitive advantage if it fits the requirements and standards of the local market such as different local tastes, habits, preferences, income, media habits and cultural values. In the service industry where inseparability of production and consumption of services suggests close buyer-seller interactions the need for sensitive local market knowledge is specifically important (Erramilli and Rao, 1993).

The specific external (market-based) assets are valuable, rare, imperfectly imitable and non-substitutable on their own, and thus, according to the assumptions of RBV and OCV, difficult to acquire unless franchisors get involved in a long-term learning process characterised by history and path dependency in the host market. The franchisee’s intangible
market assets refer to “…knowledge of the particular circumstances of time and place…” (Hayek, 1945: p.521) and result in efficient location-specific knowhow such as advertising, public relations, marketing, sales, customer relations, quality control, human resource management and product innovation. Several empirical research studies in international franchising acknowledged the importance of specific franchisee resources, skills and capabilities for the franchise system’s local value addition with physical, service and image characteristics (Sashi and Karuppur, 2002) and successful operation in unfamiliar, foreign markets. Chan and Justis (1990), Preble et al. (2000) and Jones (2003) analysed the market knowledge of franchisees needed to successfully implement the franchise network and adapt products and services to suit host markets and respectively explained the entry decisions via different franchise modes, such as single-unit franchising, MF and JVF, into the markets of East Asia, Israel and the Middle East. Similarly, Choo et al. (2007) observed that local franchisee skills and resources, such as financial strength of launching and developing the foreign brand, the capacity to access prime real-estate sites and specific market knowledge in adapting the foreign brand to suit local market tastes, were crucial for the performance of U.S. fast-food retail systems in the East Asian market. Hoffman and Preble (2003) examined international franchising in the light of conversion franchising and proved that specific resources, skills and capabilities of local firms drove global franchisors to add (convert) existing independent entrepreneurs or competing franchisees into the franchise network.

Globalisation and the increased complexity of markets suggests that creating long-term partnerships, such as joint ventures or franchising, will provide (resource scarce) firms with access to local market knowhow and assets to enhance their existing resources and capabilities or to develop new ones (for example Ghoshal, 1987; Kogut, 1988). Integrating relevant local market assets of franchisees into the original franchise business format will increase the franchise firm’s performance and competitive advantage in the particular host country and in some cases also systemwide. The following hypothesis (H5) on the value-increasing effect of local market assets can be postulated:

The more important franchisee skills and local market assets for successful implementation of the franchise concept, the more ownership rights, residual income rights and residual decision rights must be transferred to the local partners, and the higher is the tendency to expand via lower control modes.

Interaction between (non-) contractibility of local market assets and local market assets

Within the context of the knowledge-based view, Polanyi (1966, p.4) argued that individuals know more than they can explain or put differently according to Kogut and Zander (1992, p.383), “…organizations know more than what their contracts can say.” Business expansion into culturally distant markets requests firms to acquire specialised, tacit market knowhow. Tacit market knowledge is anchored in action, commitment and involvement and embedded in routines and principles by which individuals and groups cooperate within organisations which makes it non-codifyable at least for short-run transactions. The tacit nature of market-specific knowhow makes it difficult to determine and contract its value and advantage-generating local knowhow and organisational processes can only be traded within long-term relationships such as franchising (for example Kogut and Zander, 1992; Nonaka, 1994). Trading it through pure market-based transactions will be suppressed as autonomous actors will be reluctant to disclose their specific information to the franchisor. The non-contractibility of tacit knowhow therefore increases the franchisor’s dependence on the franchisee’s local market assets.

The contractibility problem of local market assets may be effectively mitigated by granting a higher proportion of ownership rights, residual income rights and residual decision
rights to franchisees such as area developers and master franchisors. Lower franchisor control will create high-powered incentives for franchisees to explore and provide the rent-generating market knowhow, such as developing new offerings, modifying existing routines and finding solutions to system-wide problems (Kaufmann and Eroglu, 1998), which acts as a transfer and implementation tool of the system-specific knowhow and assets to fit into the host country’s ‘business landscape’ and to adapt some of the product and service deliverables to suit the host market. In contrast, the salary-based income structure of employment contracts with higher control modes, such as company ownership, provides lower incentives for exploring new market knowledge as the outcome of innovation is uncertain and benefits may only materialise in the long-run (March, 1991). The following interaction effect (H5-7) of (non-) contractibility of specific assets on the relationship between local market assets and the selected franchise governance and control mode is postulated:

| The (non-) contractibility of local market assets moderates the impact of local market assets on control mode. Specifically, the less contractible local market assets are, the stronger is the impact of local market assets on the tendency to expand via lower control modes. |

Interaction between environmental uncertainty and local market assets

The more heterogeneous countries are in terms of cultural values, economic standard or institutional systems, the more important are innovation of existing routines and procedures and adaptation of the franchise business concept to the local market and the more essential are the location-specific assets. Expanding to foreign countries often requires sensitive knowledge of how to assess the sociocultural environment and economic and political fluctuations in unstable markets. The higher the degree of cultural, economic and political distance is, the more important is the local market knowledge to guarantee the flexibility of the local franchise network to adapting to the (sometimes rapid) changes in the environment. Hence, environmental uncertainty increases the rent-generating potential of local market assets for successful business format implementation and competitive advantage in the host country. The interaction effect (H5-1) of environmental uncertainty on the relationship between local market assets and the selected franchise governance and control mode is summarised as follows:

| The environmental uncertainty positively moderates the impact of local market knowhow and assets on the tendency to expand via lower control modes. |

Financial Assets Hypothesis

Especially for resource-scarce firms or firms with high levels of capital intensity, resource commitments due to high start-up costs signify a constraint for international operations (Erramilli and Rao, 1993) and are reason enough to adopting lower control modes by which franchisees, area developers and master franchisors provide the necessary monetary and human resources to operate the business in the host country (for example Erramilli, 1992). In order to implement the rent-generating system-specific assets in the host country, not only the franchisees’ local market assets and knowhow but also his financial assets to overcoming the franchisor’s managerial and financial constraints are important (Oxenfeldt and Thompson, 1968-69; Ozanne and Hunt, 1971; Caves and Murphy, 1976). International franchise firms can implement their franchise business format with the franchisees’ financial assets which, to a great part, are needed for opening new outlets such as investments in inventories, equipment, buildings, signs or real estate, recruiting and training staff as well as creating awareness of a relatively unknown brand in foreign countries (Huszagh et al., 1992;
From a resource-based perspective, firms that are constrained by financial resources to successfully implement the franchise business format in the host market will favour lower control modes such as ADF and MF. This view was also confirmed for capital-intensive industries like the global hotel sector where Erramilli et al. (2002) empirically proved that managerial perceptions on the importance of capital provision plays an important role in the choice of cross-border franchise mode. Under conditions of resource scarcity, the partners’ financial assets are assumed to support the rent-yielding implementation and operation of the franchise business format in the host country. The following hypothesis (H6) on financial assets is postulated:

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\text{The higher the franchisees’ financial assets for implementation of the franchise concept, the more ownership rights, residual income rights and residual decision rights must be transferred to the local partners, and the higher is the tendency to expand via lower control modes.}
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Interaction between (non-) contractibility of local market assets and financial assets

Even if the franchisor could obtain finance for his investment project through the capital market (Rubin, 1978), franchisees are in a better position to circumvent information asymmetry faced by external suppliers of capital (Martin and Justis, 1993). As long as the franchisee’s local market assets show a high degree of intangibility and non-contractibility, it is difficult to determine and communicate the franchise concept’s value and profitability to prospective conventional lenders (Windsperger and Dant, 2006). Franchisees may evaluate the investment risk associated with the franchisor’s business concept more accurately as they are also in possession of the local market assets which guarantee the franchise business format’s successful implementation in the host market. Under conditions of asset intangibility, the non-contractibility of assets therefore determines the importance of the franchisee’s financial assets for the franchise business’ rent-generating potential in the host country. Therefore, the non-contractibility of local market assets positively moderates the importance of financial assets on the tendency toward lower control modes. The interaction effect (H6-7) of (non-) contractibility of local market assets on the relationship between financial assets and the selected franchise governance and control mode is summarised as follows:

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\text{The (non-) contractibility of local market assets moderates the impact of financial assets on control mode. Specifically, the less contractible local market assets are, the stronger is the impact of financial assets on the tendency to expand via lower control modes.}
\]

Interaction between environmental uncertainty and financial assets

Considering the franchisor’s financial risk in host countries, various case studies confirmed the advantage of cross-border expansion via different franchise modes, such as SF, MF or JVF, over company-owned operations when entering unfamiliar and volatile markets (Chan and Justis, 1990, 1992; Petersen and Welch, 2000). An increased environmental distance, such as cultural, political and economic differences between home and host countries, will lead to higher information asymmetry between the franchisor and the external supplier of capital resulting in an increased importance of the local partners' financial assets for implementation of the franchise system in the host country. The interaction effect (H6-1) of environmental uncertainty on the relationship between financial assets and the selected franchise governance and control mode is summarised as follows:
The environmental uncertainty positively moderates the impact of financial assets on the tendency to expand via lower control modes.

Summary

While previous research failed to consider a complete picture of the international franchise firm’s organisational mode choices and mainly applied a unilateral theoretical perspective, the current research study developed a multiple theory-driven framework by identifying the relevant organisational economic and management theories and relating to the interconnected research results from TCA, Agency Theory, RBV, OCV and PRV. Several research hypotheses have been postulated to explain the international franchise firm’s governance structure as an outcome of theory-driven considerations on environmental and behavioural uncertainty, transaction-specific investments, system-specific assets, local market assets, financial assets and (non-) contractibility of specific assets and resulting in different levels of control determined by the distribution of ownership rights, residual income rights and residual decision rights between the franchisor and his partners in host markets, i.e. JV partners, area developers and master franchisors.

Though previous franchise literature applied research concepts grounded in TCA, Agency Theory and/or RBV and OCV, integrating the research results from PRV into the current research model provides a breakthrough to analysing the international franchise firm’s governance structure. In this context, the contractibility of specific assets, achieved with the standardisation of the franchise business format, conceptualisation of system-specific procedures and standards and definition of unilateral coercive contract terms, moderated the effects of transaction-specific investments, system-specific assets, local market assets and financial assets on the level of control and franchise mode choice. Grounded in the GHM approach (1986, 1990) and congruent with Whinston’s (2001, 2003) discussions, the integration of PRV complemented RBV and OCV regarding the contractibility and transferability of specific assets and also mitigated the TCA-related risk of hold-up and quasi-rent appropriation with transaction-specific investments.

Suggestions for Future Research

Due to the complexity of research question, the application of multiple theories contributes to more robust explanations on the governance structure of the international franchise firm. However, the large set of contextual variables anchored in multiple theories that must be considered with the international franchise firm’s mode choice poses a challenge to the operationalisation and measurement of constructs with statistical methods. Analysing the international franchise literature revealed a missing uniformity of operationalisation and measurement of variables and concepts, hence resulting in controversial predictions and outcomes on the international franchise firm’s selected control modes. Table 5 illustrates the heterogeneous measurement and predictions of selected variables tested with quantitative studies.
Table 5: Operationalisation and measurement of selected variables and concepts in international franchising

Case studies are known to support the analysis of large amounts of variables anchored in multiple (competing) theories (Biketine, 2008) which is particularly important if the phenomenon of interest is not yet well-understood (Bonomo, 1985), i.e. the different organisational mode choices of the international franchise firm, and the initial concept might be subject to refinements when new insights evolved during the process of data analysis (Meredith, 1998). Table 6 contains suggestions for the operationalisation of main variables/concepts relating to environmental and behavioural uncertainty, transaction-specific investments, system-specific assets, local market assets and financial assets. In a first step, the relevance of specific variables and concepts may be investigated with a theory-testing case study design by purposely selecting multiple cases with analytical or theoretical sampling relying on a variety of different sources of evidence. In a second step, the respective concepts of the integrative framework shall be replicated, operationalised, measured and validated by utilising statistical sampling logic on data collected from a broader pool of survey respondents in order to enhance generalisability of the findings (Parkhe, 1993).

Table 6: Suggestions for the operationalisation and testing of factors affecting international franchise mode choices
References


Brynjolfsson, E., 1994, Information assets, technology, and organisation, Management Science, 40(12), 1645-1662.


Choo, S., 2005, Determinants of monitoring capabilities in international franchising: Foodservice firms within East Asia, Asia Pacific Journal of Management, 22, 159-177.


Domke-Damonte, D., 2000, Interactive effects of international strategy and throughput technology on entry mode for service firms, Management International Review, 40(1), 41-59.


Hennart, J. F., 1991b, Control in multinational firms: The role of price and hierarchy, Management International Review, 31(Special Issue), 71-96.


Norton, S.W., 1988b, Franchising, brand name capital, and entrepreneurial capacity problem, Strategic Management Journal, 9 (Summer Special Issue), 105-114.


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Windsperger, J., 2009, Allocation of decision rights in joint ventures, Managerial and Decision Economics, 30(8), 491–501


### Table 7: Literature Review on International Franchising

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Publ. year</th>
<th>Study</th>
<th>Journal</th>
<th>Summary</th>
<th>Applied theoretical perspective</th>
<th>Methodological analysis</th>
<th>Dependent variable</th>
<th>Data source</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kedia B.L., D.J. Ackerman, R.T. Justis</td>
<td>1994</td>
<td>Determinants of Internationalization of Franchise Operations by US Franchisors</td>
<td>International Marketing Review</td>
<td>The authors analysed the reasons which differentiated U.S. based international franchisors from those who operated in domestic markets only. The study revealed that firm manager attitudes had more influence on the internationalization decision of U.S. based franchisors than did firm characteristics, such as system size or system age. Two managerial attitudes emerged to be most important in the internationalization decision of U.S. franchisors: the desire to expand and the desire to increase profits.</td>
<td>-</td>
<td>Discriminant analysis and factor analysis.</td>
<td>Internationalization via franchising</td>
<td>P</td>
<td>70 U.S. based international franchisors and 72 U.S. based domestic only franchisors.</td>
</tr>
<tr>
<td>Kedia B.L., D.J. Ackerman, R.T. Justis</td>
<td>1995</td>
<td>Changing Barriers to the Internationalization of Franchising Operations: Perceptions of Domestic and International Franchisors</td>
<td>International Executive</td>
<td>The study examined the differences in the perceptions of international and domestic franchisors in regard to barriers or inhibitors to expand internationally via franchising. The study revealed that the factors of the protection of intellectual property and trade marks and the difficulty of knowing how to do business in foreign countries (i.e. location of good and reliable franchisees) were perceived to be more important by international franchisors than by domestic ones.</td>
<td>-</td>
<td>Descriptive statistics</td>
<td>-</td>
<td>P</td>
<td>70 U.S. based international franchisors and 72 U.S. based domestic only franchisors.</td>
</tr>
<tr>
<td>Julian S.D., G.J. Castrogiovanni</td>
<td>1995</td>
<td>Franchisor Geographic Expansion</td>
<td>Journal of Small Business Management</td>
<td>The authors examined the influence of environmental (market) conditions and firm characteristics on U.S. based franchisors' geographic expansion efforts. Among others, the study revealed that franchisors older in age were considered to seek expansion in more geographic areas due to their accumulated knowledge on the selection and management process of franchisees and franchisors' brand name recognition and successful track record offered to prospective franchisees. Larger franchise systems were considered to seek more geographic expansion due to their increased availability of tangible and intangible resources.</td>
<td>-</td>
<td>Multiple regression analysis, univariate F test, and chi-square test.</td>
<td>Breadth of geographic expansion</td>
<td>S</td>
<td>1,005 U.S. franchisors.</td>
</tr>
<tr>
<td>Shane Scott A.</td>
<td>1996</td>
<td>Why Franchise Companies Expand Overseas</td>
<td>Journal of Business Venturing</td>
<td>The author analysed the motivating factors behind U.S. franchisors international expansion strategy by drawing on the international franchisors' superior capabilities in incentivizing and monitoring foreign franchisees to reduce franchisee opportunism. The author empirically proved that franchisors who intended to expand internationally possessed superior capabilities in ex-ante bonding and monitoring in order to incentivize foreign franchisees to reduce opportunism.</td>
<td>RBV and OC</td>
<td>Regression analysis</td>
<td>Indication of seeking foreign franchisees.</td>
<td>S</td>
<td>815 largest U.S. franchisors.</td>
</tr>
<tr>
<td>Fladmoe-Lindquist K.</td>
<td>1996</td>
<td>International Franchising: Capability and Development</td>
<td>Journal of Business Venturing</td>
<td>Applying constructs of administrative efficiency theory and risk management theory, the author identified franchisors' critical capabilities required for franchise internationalization and developed a two-dimensional framework of four international franchise types, using the existing set of franchising capabilities and the dynamic capacity for the development of new international capabilities as the two dimensions.</td>
<td>RBV and OC</td>
<td>Conceptual approach</td>
<td>-</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Publ. year</td>
<td>Study</td>
<td>Journal</td>
<td>Summary</td>
<td>Applied theoretical perspective</td>
<td>Methodological analysis</td>
<td>Dependent variable</td>
<td>Data source</td>
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<tr>
<td>Quinn B., N. Alexander</td>
<td>2002</td>
<td>International Retail Franchising: A Conceptual Framework</td>
<td>International Journal of Retail &amp; Distribution Management</td>
<td>The paper attempted to conceptualize franchising in the international retail context. The authors assumed that international franchising was applied to the expansion into geographically and culturally close markets. Furthermore, initial domestic franchising experience was assumed to be crucial for successful international franchise expansion.</td>
<td>-</td>
<td>Conceptual paper</td>
<td>N.A.</td>
<td>N.A</td>
<td>N.A</td>
</tr>
<tr>
<td>Elango B.</td>
<td>2007</td>
<td>Are Franchisors with International Operations Different from Those Who Are Domestic Market Oriented?</td>
<td>Journal of Small Business Management</td>
<td>The study compared U.S. international franchisors with U.S. domestic franchisors. The authors assumed that international franchising allowed for easier growth in less saturated, required less entry capital in emerging markets, and provided for efficient knowledge transfer and business practices from developed nations to emerging markets. International franchising was expected to face declining domestic market growth, and to have strong monitoring capabilities and reputation. Contract terms, such as franchising fees and royalties, were expected to be the same for international franchisors and domestic oriented ones.</td>
<td>-</td>
<td>Linear logistic regression</td>
<td>Internationalization via franchising</td>
<td>S</td>
<td>500 leading U.S. franchisors</td>
</tr>
</tbody>
</table>

### PROPENSITY TO FRANCHISE INTERNATIONALLY

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Publ. year</th>
<th>Study</th>
<th>Journal</th>
<th>Summary</th>
<th>Applied theoretical perspective</th>
<th>Methodological analysis</th>
<th>Dependent variable</th>
<th>Data source</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fladmoe-Lindquist K., L.L. Jacque</td>
<td>1995</td>
<td>Control Modes in International Service Operations: The Propensity to Franchise</td>
<td>Management Science</td>
<td>The authors explained the internationalization decision of U.S. based service franchisors via franchising and company ownership (corporate-owned outlets) by applying both agency theory and transaction cost theory. The authors predicted that monitoring costs, firm’s international experience and environmental uncertainty would positively impact on the propensity to franchise, whereas brand name asset specificity would favour international expansion via wholly owned subsidiaries (corporate-owned outlets).</td>
<td>AT and TCA</td>
<td>Linear regression</td>
<td>Propensity to franchise internationally compared to wholly owned operations</td>
<td>P</td>
<td>12 U.S. franchisors</td>
</tr>
<tr>
<td>Contractor F.J., S.K. Kundu</td>
<td>1998a</td>
<td>Franchising versus Company-run Operations: Modal Choice in the Global Hotel Sector</td>
<td>Journal of International Marketing</td>
<td>The authors examined the influence of external (environmental/country characteristics) and internal (firm-specific and strategic) factors on the global hotel firm’s modal decision of foreign market entry, i.e. the choice between company ownership and franchising by combining concepts of transaction costs theory, agency theory, strategic behaviour literature and organizational capabilities view into one unified or eclectic approach.</td>
<td>AT, TCA, OC</td>
<td>Binary logistic regression</td>
<td>Propensity to franchise internationally compared to wholly owned operations</td>
<td>P</td>
<td>723 global hotel properties</td>
</tr>
<tr>
<td>Contractor F.J., S.K. Kundu</td>
<td>1998b</td>
<td>Modal Choice in a World of Alliances: Analyzing Organizational Forms in the International Hotel Sector</td>
<td>Journal of International Business Studies</td>
<td>The authors applied a syncretic theory combining concepts of several economic theories and analysed how host country-specific (environmental) variables and firm strategy variables influenced an international hotel’s entry mode choice. Depending on the level of property ownership, a hotel firm differentiates between different entry modes which enabled the firm to exercise different levels of control.</td>
<td>International market entry literature, TCA, AT, RBV, OC</td>
<td>Canonical discriminant analysis, and logistical regression</td>
<td>Rising levels of equity commitment/ control</td>
<td>P</td>
<td>720 global hotel properties</td>
</tr>
<tr>
<td>Petersen B., L.S. Welch</td>
<td>2000</td>
<td>International Retailing Operations: Downstream Entry and Expansion via Franchising</td>
<td>International Business Review</td>
<td>The comparative case study in the Danish clothing and footwear industry illustrated franchise internationalization as an outcome of a shift from upstream wholesaling and subcontracting activities to downstream involvement in retailing activities. Only after having developed a strong background of operational experience in the international market, retailers involved into franchising as an international expansion strategy.</td>
<td>-</td>
<td>Multiple case study</td>
<td>Propensity to franchise internationally compared to company-owned operations</td>
<td>P</td>
<td>60 Danish companies in the clothing and footwear industry</td>
</tr>
<tr>
<td>Erramilli M.K., S. Agarwal, C.S. Dev</td>
<td>2002</td>
<td>Choice between Non-equity Entry Modes: An Organizational Capability Perspective</td>
<td>Journal of International Business Studies</td>
<td>The study examined the peculiarity of non-equity market entry modes via franchising and management service contracts (MSCs) in the multinational hotel industry by focusing on the effectiveness of capability transfer. Whereas franchising allowed the franchisor little operational control and required transfer of resources across firm boundaries, MSC allowed the foreign entrant extensive onsite technical and management support on a daily basis and involved transfer of capabilities within firm boundaries.</td>
<td>RBV and OC</td>
<td>Regression analysis</td>
<td>Propensity to franchise internationally compared to MSC</td>
<td>P</td>
<td>139 franchising and MSC entry modes</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Publ. year</td>
<td>Study</td>
<td>Journal</td>
<td>Summary</td>
<td>Applied theoretical perspective</td>
<td>Methodological analysis</td>
<td>Dependent variable</td>
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<tr>
<td>Pak Y.S.</td>
<td>2002</td>
<td>The Effect of Strategic Motives on the Choice of Entry Modes: An Empirical Test of International Franchisers</td>
<td>Multinational Business Review</td>
<td>The author applied the dynamic approach of knowledge-based theory and analysed the different strategic motives influencing the cross-border market entry mode decisions of international franchisors. The author differentiated international entry modes according to the franchisors’ level of equity investment and control in the foreign market. In this respect, different strategic motives, i.e., static or dynamic ones influenced a franchisor’s entry mode choice and drew the franchisor in the light of either a (static) market seeker or a (dynamic) market learner.</td>
<td>RBV and OC</td>
<td>Binary logistic regression</td>
<td>Market entry mode choice between equity investment and contractual mode</td>
<td>P</td>
<td>160 U.S. and 28 U.K. international franchisors</td>
</tr>
<tr>
<td>Sashi C.M., D.P. Kanuppur</td>
<td>2002</td>
<td>Franchising in Global Markets: Towards a Conceptual Framework</td>
<td>International Marketing Review</td>
<td>The authors descriptively analysed factors that motivated market entry via international franchising and influenced the different incentive structures of initial fees and royalties in franchise agreements. A conceptual framework with several propositions (including two propositions on master international franchising) for an integrated multidisciplinary approach for franchising was developed.</td>
<td>AT and TCA</td>
<td>Conceptual approach</td>
<td>Propensity to franchise internationally</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Castrogiovanni G.J., J.G. Combs, R.T. Justis</td>
<td>2006</td>
<td>Resource Scarcity and Agency Theory Predictions Concerning the Continued Use of Franchising in Multi-Outlet Networks</td>
<td>Journal of Small Business Management</td>
<td>The study examined the factors that influenced the change in a firm’s mix of franchised and company-owned outlets over time. Agency theory arguments were confirmed, i.e., franchisors with wide multinational scope increased their proportion of franchised outlets and franchisers with large outlets emphasized company-owned outlets. Consistent with resource scarcity view, franchisors decreased their proportion of franchised outlets as they grew in size. In contrast to resource scarcity view, franchisors increased their propensity to franchise over time.</td>
<td>Resource scarcity view and AT</td>
<td>Hierarchical regression analysis with three models</td>
<td>Propensity to franchise internationally compared to company owned outlets</td>
<td>S</td>
<td>439 U.S. franchisors</td>
</tr>
<tr>
<td>Dunning J.H., Y.S. Pak, S. Beedona</td>
<td>2007</td>
<td>Foreign Ownership Strategies of UK and US International Franchisors: An Exploratory Application of Dunning’s Envelope Paradigm</td>
<td>International Business Review</td>
<td>The authors developed eight hypotheses, testing the influence of static and dynamic ownership, location and internalization (OLI) variables on U.S. and U.K. franchisors’ choice of foreign market entry via equity ownership or franchising. The basic assumption of the research was based on international franchisors’ strategic intent of both resource exploitation and exploration when expanding into new markets. In particular, nationality of the firm (U.S. or U.K. franchise system), recognition of applicants’ role and acknowledgement of foreign locations as a source of learning were found to play a role in international entry mode decisions of franchisors.</td>
<td>RBV</td>
<td>Binary logistic regression</td>
<td>Propensity to franchise internationally compared to (equity ownership (company owned operations)</td>
<td>P</td>
<td>12 international U.K. franchisors and 60 international U.S. franchisors</td>
</tr>
</tbody>
</table>

**DIFFERENT INTERNATIONAL FRANCHISE MODES**

<p>| Walker B.J., M.J. Etzel | 1973 | The Internationalization of U.S. Franchise Systems | Journal of Marketing                       | The authors illustrated the entry strategies applied by U.S. international franchisors, such as with single-unit franchises, master (area) franchises or company owned outlets. Foreign entry usually initiated in Canada, followed by Mexico, Australia, England and Japan. Foreign franchisees were recruited by using trade magazines, or business and local newspapers, and franchisees received a “standardized” training package, consisting of training manual, classroom training and/or on-the-job training. The study also summarized the most frequently quoted problems encountered in establishing franchises in foreign countries. | -                                | Descriptive statistics          | N.A.                                 | P                          | 343 U.S. franchise systems (43.4% response rate) |
| Hackett D.W.            | 1976 | The International Expansion of U.S. Franchise Systems: Status and Strategies | Journal of International Business Studies   | The author summarized the general characteristics of U.S. international franchise systems and illustrated the most frequently used ownership policies, i.e. single-unit franchising to individual entrepreneurs (47%), master or area franchising (21%), company ownership (17%), and majority or minority joint venture franchising (15%). The five highest ranking motivational factors and the five highest ranking problems encountered with franchise internationalization were summarized. Strikingly, the majority of franchise systems was found not to change/adapt the franchise strategy/concept when expanding into host markets. | -                                | Descriptive statistics and Kendall's coefficient of concordance | N.A.                                 | P                          | 719 U.S. franchising firms (49 % response rate) |</p>
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Year</th>
<th>Study</th>
<th>Journal</th>
<th>Summary</th>
<th>Applied theoretical perspective</th>
<th>Methodological analysis</th>
<th>Dependent variable</th>
<th>Data source</th>
<th>Sample size</th>
</tr>
</thead>
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<tr>
<td>Chan P.S., R.T. Justis</td>
<td>1990</td>
<td>Franchise Management in East Asia</td>
<td>Academy of Management Executive</td>
<td>The authors explored the impact of specific factors on the entry mode choice of international U.S. franchisors to expand into the East Asian market. In this respect, different entry modes such as establishment of a wholly-owned subsidiary, direct single-unit franchising, master franchising, joint venture franchising or franchising with the foreign government of well-known international franchise systems were analyzed.</td>
<td>-</td>
<td>Case study</td>
<td>International entry mode choices into East Asian market</td>
<td>S</td>
<td>N.A.</td>
</tr>
<tr>
<td>Konigsberg A.S., L. Rosenann</td>
<td>1991</td>
<td>Analyzing the International Franchise Opportunity</td>
<td>?</td>
<td>Based on a detailed analysis of firm-internal factors and environmental conditions, the authors described the advantages and disadvantages of direct franchising (i.e. single-unit franchising), area development franchising, and franchising through the establishment of a wholly-owned subsidiary, indirect franchising (i.e. master franchising) and joint venture franchising in an international setting.</td>
<td>-</td>
<td>Conceptual approach</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Chan P.S., R.T. Justis</td>
<td>1992</td>
<td>Franchising in the EC: 1992 and Beyond</td>
<td>Journal of Small Business Management</td>
<td>The authors explored the impact of specific factors on the entry mode choice applied by international U.S. franchisors to expand into the European Community. Particular attention was given to well-known U.S. franchise systems’ market entry modes via master franchising, joint venture franchising or wholly-owned subsidiaries and corporate outlets.</td>
<td>-</td>
<td>Case study</td>
<td>International entry mode choices into the market of the European Community</td>
<td>S</td>
<td>N.A.</td>
</tr>
<tr>
<td>Zietlow D.S.</td>
<td>1995</td>
<td>wholesalers in International Franchising</td>
<td>Illinois Business Review</td>
<td>The author statistically summarized the different global entry modes, such as direct single-unit franchising, corporate outlets, area development franchising, master franchising, joint venture franchising, and establishment of a wholly-owned subsidiary applied by international U.S. franchisors in the food service, motel/hotel and business services industries. The author related the predominance of international master franchising among the respondents to franchisors’ little international business experience and fewer financial resources.</td>
<td>-</td>
<td>Descriptive statistics</td>
<td>N.A.</td>
<td>P</td>
<td>U.S. franchisors (40 % response rate)</td>
</tr>
<tr>
<td>Ryans J.K., S. Lotz, R. Kramf</td>
<td>1999</td>
<td>Do Master Franchisors Drive Global Franchising</td>
<td>Marketing Management</td>
<td>The authors explained the increase in the use of master franchising as a cross-border strategy to expand into foreign countries and surveyed the advantages and disadvantages of this international entry strategy in the light of U.S. international franchisors.</td>
<td>-</td>
<td>Descriptive statistics</td>
<td>N.A.</td>
<td>P</td>
<td>200 leading U.S. international franchisors (with a 19.5% response rate)</td>
</tr>
<tr>
<td>Burton F., A.R. Cross, M. Rhodes</td>
<td>2000</td>
<td>Foreign Market Servicing Strategies of UK Franchisors: An Empirical Enquiry from a Transaction Cost Perspective</td>
<td>Management International Review</td>
<td>The author conducted one of the first quantitative studies on the influences of firm-specific and location-specific factors on U.K. cross-border market entry mode choice via direct franchising or franchising with an intermediary, such as with a master franchisor or an area developer by employing a transaction costs framework and representing transaction costs by monitoring costs, search costs, servicing costs, property rights protection costs, and intermediary-related costs.</td>
<td>TCA</td>
<td>Multinomial probit model and binomial probit model</td>
<td>Direct franchising versus master and area development franchising</td>
<td>P</td>
<td>15 international U.K. franchise systems</td>
</tr>
<tr>
<td>Preble J.F., A. Reichel, R.C. Hoffman</td>
<td>2000</td>
<td>Strategic Alliances for Competitive Advantage: Evidence from Israel’s Hospitality and Tourism Industry</td>
<td>International Journal of Hospitality Management</td>
<td>The paper outlined the advantages and disadvantages of strategic alliances in the Israeli hospitality and restaurant industry. Popular examples included Days Inns, Meridian Hotels, Domino’s Pizza and McDonald’s which used conversion franchising, master franchising and direct franchising as successful entry modes into the Israeli market.</td>
<td>-</td>
<td>Multiple case study</td>
<td>N.A.</td>
<td>S</td>
<td>3 international hotel chains and 2 fast food chains</td>
</tr>
<tr>
<td>Hoffman R.C., J.F. Preble</td>
<td>2003</td>
<td>Convert to Compete: Competitive Advantage through Conversion Franchising</td>
<td>Journal of Small Business Management</td>
<td>The study examined domestic and international growth strategies of U.S. franchisors via conversion franchising. The authors applied resource-based and organizational capabilities explanations to develop propositions and test the influence of specific factors, such as increased levels of experience, economic resources, and skills/knowledge of partners on growth via conversion franchising compared to conventional franchising by recruiting new franchisees.</td>
<td>RBV and OC</td>
<td>Discriminant analysis</td>
<td>Decision to use conversion franchising</td>
<td>P</td>
<td>72 North American franchisors</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Publ. year</td>
<td>Study</td>
<td>Journal</td>
<td>Summary</td>
<td>Applied theoretical perspective</td>
<td>Methodological analysis</td>
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<td>Data source</td>
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<tr>
<td>Jones G.</td>
<td>2003</td>
<td>Middle East Expansion - The Case of Debenhams</td>
<td>International Journal of Retail &amp; Distribution Management</td>
<td>Due to policy restrictions on foreign direct investments in the Middle East countries, franchising proved to be a prospective strategy in entering these dynamic, emerging markets. In this respect, the author described the case of U.K. department store Debenhams which established an agreement with franchise partner M&amp;H Alshaya to successfully enter the Middle East market.</td>
<td>Single case study</td>
<td>N.A.</td>
<td>P</td>
<td>One international U.K. department store</td>
<td></td>
</tr>
<tr>
<td>Frazer L.</td>
<td>2003</td>
<td>Exporting Retail Franchises to China</td>
<td>Journal of Asia Pacific Marketing</td>
<td>The paper analysed the incentives for Australian fast-food franchisors to expand into the huge, emerging market of China and highlighted the benefits from foreign investments to the Chinese economy. The entry modes of observed cases included master franchising, joint venture franchising, direct franchising, and establishment of wholly-owned subsidiaries. The challenges and main problems of foreign franchisors were seen in product adaptations to local consumer taste preferences and finding reliable partners.</td>
<td>-</td>
<td>Multiple case study</td>
<td>International entry mode choice into the Chinese market</td>
<td>P</td>
<td>9 Australian fast-food franchise systems</td>
</tr>
<tr>
<td>Alon I.</td>
<td>2006</td>
<td>Market Conditions Favoring Master International Franchising</td>
<td>Multinational Business Review</td>
<td>The author developed nine propositions based on environmental considerations and impacting on master international franchising. The conceptual framework included three economic variables (market size, intensity of competition, and demand variability), three social considerations (franchising acceptance/knowledge, entrepreneurial culture, and geographical and cultural distance) and three political/legal considerations (country risk, corruption, and legal framework) that influenced a franchisor's entry decision via master international franchising.</td>
<td>-</td>
<td>Conceptual approach</td>
<td>Propensity to use master international franchising</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Gang V.K., A.A. Rasheed</td>
<td>2006</td>
<td>An Explanation of International Franchisors’ Preference for Multi-Unit Franchising</td>
<td>International Journal of Entrepreneurship</td>
<td>The authors explained the advantages of international multi-unit franchising (IMUF) compared to international single-unit franchising (ISUF). Since agency costs were higher when operating in culturally and geographically distant and unfamiliar markets and expansion via IMUF was more prevalent than ISUF, the authors argued that IMUF must be more efficient than ISUF in solving agency problems.</td>
<td>AT</td>
<td>Conceptual approach</td>
<td>Propensity to use international multi-unit franchising compared to international single-unit franchising</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Choo S., T.Mazzarol, G.Soutar</td>
<td>2007</td>
<td>The Selection of International Retail Franchisees in East Asia</td>
<td>Asia Pacific Journal of Marketing and Logistics</td>
<td>The authors employed resource scarcity view and identified franchisee key resources needed by U.S. fast-food franchisors when expanding into the Singaporean market. U.S. fast-food retailers lacked international franchise experience in Singapore and subsequently were demanding local franchisee resources, such as financial strength, access to prime retail sites, and local market know-how when entering the Singaporean market. Based on their empirical findings, the authors integrated four propositions into a descriptive framework on the influence of franchisees' key resources for franchise system performance.</td>
<td>Resource scarcity view</td>
<td>Multiple case study</td>
<td>Importance of franchisee resources for franchise system performance</td>
<td>P</td>
<td>Five U.S. headquartered fast-food franchise systems</td>
</tr>
<tr>
<td>Chen H.</td>
<td>2010</td>
<td>The Explanations of Agency Theory on International Multi-unit Franchising in the Taiwanese Marketplace</td>
<td>International Journal of Organizational Innovation</td>
<td>The author provided insights in the preference of American food franchise systems to enter Taiwanese markets via multi-unit area development franchising compared to single-unit and sequential multi-unit franchising and based his agency-theoretic arguments on the criteria of selection of area developer, franchisee opportunism, agency cost minimisation, system uniformity and Taiwanese culture.</td>
<td>AT</td>
<td>Multiple case study</td>
<td>Market entry via (multi-unit) area development franchising</td>
<td>P</td>
<td>Four U.S. headquartered Taiwanese food franchise systems</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Publ. year</td>
<td>Study Description</td>
<td>Journal</td>
<td>Summary</td>
<td>Applied theoretical perspective</td>
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<tr>
<td>Dant R.P., N.I. Nasr</td>
<td>1998</td>
<td>Control Techniques and Upward Flow of Information in Franchising in Distant Markets: Conceptualization and Preliminary Evidence</td>
<td>Journal of Business Venturing</td>
<td>By building on agency theoretic considerations, the authors discussed the control techniques in international franchisor-franchisee relationships to make up for information asymmetry and examined the factors that influence an efficient upward information flow from the franchisees located in the Middle East and Africa to U.S.-based franchisors. The authors tested the franchisees' willingness of upward knowledge sharing on four hypotheses about the effects of repeat purchase customers, age of franchisee-franchisor relationship, level of competition, and multi-unit franchising.</td>
<td>AT</td>
<td>Multiple Indicators and Multiple Causes (MIMIC) model</td>
<td>Franchisors' perception of international franchisees' willingness to provide information</td>
<td>P</td>
<td>20 U.S. based international franchisors</td>
</tr>
<tr>
<td>Quinn B.</td>
<td>1999</td>
<td>Control and Support in an International Franchise Network</td>
<td>International Marketing Review</td>
<td>The author analysed the control mechanism of one international U.K. retail franchise system and showed that non-coercive sources of power, i.e., franchisor's provision of support activities to franchisees, guaranteed a higher degree of control over international franchisees and their collaboration than did coercive sources of power. The latter were described as a set of monitoring systems that were exercised through the franchise contract and ensured adherence to the franchise agreement and protection of the franchise trademark.</td>
<td>-</td>
<td>Single case study</td>
<td>Franchisor coercive versus non-coercive means of control over local franchisees</td>
<td>P</td>
<td>One British retail franchise system operating in the natural-based body care market</td>
</tr>
<tr>
<td>Quinn B., A.M. Doherty</td>
<td>2000</td>
<td>Power and Control in International Retail Franchising - Evidence from Theory and Practice</td>
<td>International Marketing Review</td>
<td>The authors analysed the application of franchisors' coercive (punishment) and non-coercive (reward) means of control and power over franchisees in an international setting. The marketing channel literature recognised both sources of power, but gave equal preference to non-coercive means of control, i.e., franchisor support functions due to their motivational characteristic. With growing cultural and geographic distance faced with global expansion activities, support activities became more costly and according to agency theory, coercive sources of power, exercised through stipulated franchise contract terms became more efficient.</td>
<td>AT and Marketing Channel Literature</td>
<td>Single case study</td>
<td>Franchisor coercive and non-coercive control mechanisms over local franchisees</td>
<td>P</td>
<td>One British retail franchise system operating in the natural-based body care market</td>
</tr>
<tr>
<td>Pizanti M., B. Lerner</td>
<td>2003</td>
<td>Examining Control and Autonomy in the Franchisor-Franchisee Relationship</td>
<td>International Small Business Journal</td>
<td>The authors combined static and dynamic aspects on the balance of control and autonomy in franchising relations. Well-defined franchise concepts provided franchise system standardization and enabled tight control by the franchisor, whereas adaption to local market needs required autonomy for the franchisees. Based on the case study findings, the authors developed a conceptual model on the balance of control and autonomy in the franchisees' relationship.</td>
<td>AT and Exchange Theory</td>
<td>Multiple case study</td>
<td>Control versus autonomy in the international franchisor-franchisee relationship</td>
<td>P</td>
<td>One domestic, Israel fast-food chain and two international U.S. fast-food chains</td>
</tr>
<tr>
<td>Doherty A.M., N. Alexander</td>
<td>2004</td>
<td>Relationship Development in International Retail Franchising: Case Study Evidence from the UK Fashion Sector</td>
<td>European Journal of Marketing</td>
<td>The authors investigated the influence of the relationship marketing paradigm and the marriage analogy on the franchisor-franchisee (business-to-business) relationship in the U.K. international fashion retail franchise business. In particular, four stages characterising the international franchisor-franchisee relationship were identified, i.e., recognition of relationship need, partner search process, evaluation of potential partners, and stabilising role of partnership.</td>
<td>Relational View</td>
<td>Multiple case study</td>
<td>Different stages of the franchisor-franchisee relationship</td>
<td>P</td>
<td>Six U.K.-based international fashion retailers</td>
</tr>
<tr>
<td>Choo Stephen</td>
<td>2005</td>
<td>Determinants of Monitoring Capabilities in International Franchising: Foodservice Firms within East Asia</td>
<td>Asia Pacific Journal of Management</td>
<td>The author used agency theory to analyse the mechanisms applied and capabilities needed by U.S. and Australian fast-food franchisees in order to prevent franchisee opportunism in East Asia. Franchisee opportunism could be monitored through the application of mechanisms, such as ex-ante bonding, restrictive performance schedules and formal controls in brand management. In order to guarantee the efficient application of such monitoring mechanisms, international franchisees entering the East Asian market were required to possess capabilities in negotiating large initial fees, selecting the appropriate franchisees, and having local market knowledge.</td>
<td>AT</td>
<td>Multiple case study</td>
<td>Franchisor capability to monitor franchisee opportunism</td>
<td>P</td>
<td>One U.S. and two Australian fast-food chains</td>
</tr>
<tr>
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<tr>
<td>Szulanski G., R.J., Jensen</td>
<td>2006</td>
<td>Presumptive Adaptation and the Effectiveness of Knowledge Transfer</td>
<td>Strategic Management Journal</td>
<td>The authors analysed the effectiveness for cross-border franchise network growth and performance under the light of system knowledge transfer and adaptation to host market environments. The study illustrated the knowledge transfer of U.S.-headquartered Mail Boxes Etc. (MBE) to its Israeli master franchisor and the counterproductive influence of presumptive adaptation compared to gradual, cautious adaptation that copies/preserves the original as closely as possible, on network growth and performance in the host market.</td>
<td>-</td>
<td>Single case study</td>
<td>The level of system knowledge adaptation for efficient network growth and performance</td>
<td>P</td>
<td>One single case: Mail Boxes Etc. (MBE)</td>
</tr>
<tr>
<td>Paik Y., D.Y., Choi</td>
<td>2007</td>
<td>Control, Autonomy and Collaboration in the Fast Food Industry</td>
<td>International Small Business Journal</td>
<td>The authors analysed the degree of control and autonomy of U.S. franchisors over their domestic (U.S.) and international franchisees in the fast-food sector. The multiple case study revealed that for specific franchise operations which demanded local market knowledge, franchisors exercised lower levels of control and provided more autonomy to international franchisees. Based on these findings, propositions addressing the effect of franchisee success, competition, franchise experience, franchise ownership format and market growth stage on the level of control and autonomy in franchisor relationships with international franchisees compared to domestic franchisees were developed.</td>
<td>AT, marketing channel theory, and resource-dependency theory.</td>
<td>Multiple case study</td>
<td>Franchisor control versus franchisee autonomy</td>
<td>P</td>
<td>5 international fast-food chains</td>
</tr>
<tr>
<td>Szulanski G., R.J., Jensen</td>
<td>2008</td>
<td>Growing Through Copying: The Negative Consequence of Innovation on Franchise Network Growth</td>
<td>Research Policy</td>
<td>The authors focused on franchise system knowledge transfer to master franchisors in twenty three countries by conducting a quantitative case study analysis on MBE's cross-border franchising activities and the impact of system knowledge modification (innovation) to local environments on system growth and performance. The study proved a positive effect of copying more exactly and, inversely, a negative effect of local innovation (adaptation).</td>
<td>-</td>
<td>Single case study</td>
<td>The level of system knowledge adaptation for efficient network growth and performance</td>
<td>P</td>
<td>One single case: Mail Boxes Etc. (MBE)</td>
</tr>
<tr>
<td>Grewal D., G.R. Iyer, R.G. Javalgi, L. Radulovich</td>
<td>2011</td>
<td>Franchise Partnership and International Expansion: A Conceptual Framework and Research Propositions</td>
<td>Entrepreneurship Theory and Practice</td>
<td>The authors explored the ‘entrepreneurial orientation’ of franchisor and franchisees, its independence in the franchise partnership and the positive impact on franchise expansion in terms of speed, scale and scope and strategic and financial system performance. The conceptual framework further explained the increasing moderating effects of franchise resources, such as local market knowledge, marketing capability and relationship-specific investments, business/market conditions and environmental uncertainty.</td>
<td>AT, TCA, RBV, resource scarcity view, signaling theory</td>
<td>Conceptual Approach</td>
<td>N.A.</td>
<td>N.A.</td>
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**GLOBAL FRANCHISE STATUS & MACRO-ECONOMIC FRAMEWORK**

<table>
<thead>
<tr>
<th>Author(s)</th>
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<th>Study</th>
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<th>Methodological analysis</th>
<th>Dependent variable</th>
<th>Data source</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sanghavi N.</td>
<td>1998</td>
<td>Franchising as a Tool for Small Medium Sized Enterprises (SME) Development in Transitional Economies - The Case of Central European Countries</td>
<td>Management Research News</td>
<td>The author explained the positive impact of international franchising for the development of local small and medium sized enterprises (SMEs) and the challenges for international franchisors in expanding to transitional economies of Central European countries.</td>
<td>-</td>
<td>Conceptual approach</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Alon I., M. Banai</td>
<td>2000</td>
<td>Executive Insights: Franchising Opportunities and Threats in Russia</td>
<td>Journal of International Marketing</td>
<td>The authors described the environmental conditions for international U.S. franchisors entering the Russian market. Based on the challenges of the environmental environment, the authors proposed a normative framework of market entry via franchising into Russia.</td>
<td>-</td>
<td>Conceptual approach</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
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<tr>
<td>Author(s)</td>
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<tr>
<td>Castrogiovanni G.J., G.S. Vozikis</td>
<td>2000</td>
<td>Foreign Franchisors Entry into Developing Countries: Influences on Entry Choices and Economic Growth</td>
<td>New England Journal of Entrepreneurship</td>
<td>The authors described the factors faced by international franchisors when entering into the markets of developing countries. These factors impacted the foreign entry modes on three levels, i.e. the environmental level, the network level, and the individual level. Based on the specific influencing factors drawn from the three levels, propositions on international franchising in developing countries are developed and policy implications were provided.</td>
<td>-</td>
<td>Conceptual approach</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Hoffman R.C., J.F. Preble</td>
<td>2001</td>
<td>Global Diffusion of Franchising: A Country Level Examination</td>
<td>Multinational Business Review</td>
<td>The study confirmed an existent direct and positive influence of firm strategic and country-specific (environmental) factors on the diffusion of cross-border franchise systems in twenty four nations. Contrary to the authors' assumption, firm strategic factors were more strongly related to cross border franchise diffusion than country-specific factors.</td>
<td>-</td>
<td>Partial correlations and hierarchical regression analysis</td>
<td>Global diffusion of franchising</td>
<td>P</td>
<td>24 local international Franchise associations</td>
</tr>
<tr>
<td>Hoffman R.C., J.F. Preble</td>
<td>2004</td>
<td>Global Franchising: Current Status and Future Challenges</td>
<td>Journal of Services Marketing</td>
<td>The study provided an overview on the status of global franchise diffusion in the six continents of North America, South America, Europe, Asia, Africa and Oceania, the dominating franchise products and services and its leading geographic markets, and the key operational issues determining franchise expansion. The study concluded with examining opportunities and future challenges for franchisors.</td>
<td>-</td>
<td>Descriptive statistics</td>
<td>N.A.</td>
<td>S</td>
<td>Franchise associations in 40 countries in six continents (equal to 75 % of the known population of countries with organized franchise sectors).</td>
</tr>
<tr>
<td>Alon I.</td>
<td>2006</td>
<td>Executive Insight: Evaluating the Market Size for Service Franchising in Emerging Markets</td>
<td>International Journal of Emerging Markets</td>
<td>The author illustrated the opportunities for international franchising in emerging market and proposed a framework by ranking twenty emerging countries according to their population, GDP per capita, urbanization and income distribution.</td>
<td>-</td>
<td>Descriptive statistics</td>
<td>N.A.</td>
<td>S</td>
<td>20 emerging markets</td>
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<tr>
<td>Welsh D.H.B., I. Alon, C.M. Falbe</td>
<td>2006</td>
<td>An Examination of International Retail Franchising in Emerging Markets</td>
<td>Journal of Small Business Management</td>
<td>Conceptual paper summarizing the existing research in the area of emerging franchise markets and discussing stakeholder advantages and disadvantages of international franchising in emerging and developing countries, such as Central and Eastern Europe, Mexico and South America, Asia, and other areas (India, Kuwait, South-Africa).</td>
<td>-</td>
<td>Conceptual approach</td>
<td>N.A.</td>
<td>N.A.</td>
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