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RISK AND INCENTIVES IN FRANCHISING CONTRACTING

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RISK AND INCENTIVES IN FRANCHISING CONTRACTING
SUMMARY

Franchising represents an important part of the global economy. Although overall global figures are not available, this expansion mode has been constantly increasing in terms of turnover and number of franchised businesses. A similar situation is found in Europe, where franchising is growing year by year, as shown by statistics of the European Franchise Federation (European Franchise Federation, Franchise statistics for Europe, 2015). Accordingly, franchising has triggered a large number of scientific studies in the past decades, analysing a number of issues.

One of the major research areas has focused on the franchisor-franchisee relationship and the formal and informal regulation of this cooperation. Nested in this area of research, the purpose of this dissertation is to analyse the franchise relationship, focusing on risk and incentives in franchise contracts through the lens of agency theory. The previous empirical results regarding the relationship between risk and incentives have been rather inconsistent, providing empirical evidence of both a positive and a negative relationship between these variables. Consequently, the dissertation explores this relationship by also using the theoretical approaches of property rights theory and delegation theory. This combined approach enables an in-depth insight into the allocation of control and autonomy perceived by franchisors. Both theories are applied with the franchisor's valuable intangible assets being described as system-specific knowledge and brand assets. As suggested by Lafontaine & Slade (2002, 2007) and Maruyama & Yamashita (2010, 2012), intangibility influences the relationship between the risk and incentives. We use for the first time in franchising a definition of intangible assets taken from the IT sector. We incorporate the franchisors' insight of uncertainty with a comparative case study approach, which enables us to discover the missing link causing the inconsistency between the observed theories.

Our methodological approach begins with an in-depth qualitative analysis of risk from the franchisor's perspective used in the study of trade-off between risk and incentives, with the additional quantitative measurement of local market uncertainty. In both cases of research, we execute the research with retail and service franchise companies. This enables us to imply a tendency towards incentives in both types of franchise companies. Furthermore, we signify the risk relation to incentives, where we find differences between retail and service firms. In line with property rights theory, we explain the positive relationship of risk and incentives as well as differences in intangible assets. In addition to property rights theory, the delegation view is proposed as an alternative solution. The "delegation view" implies that if there is greater uncertainty about what a franchisee should be doing, the agent should be given more discretion – i.e., unrestricted choice over his actions. Higher discretion represents an incentive to the agent, because the agent has more authority to use the available information and influence the outcome. Based on the delegation view, the relationship between risk and performance-based incentives will be positive. Under high uncertainty the relationship

between incentives and risk is expected to be positive. The application of property rights theory extends the argument concerning the value and importance of the franchisor's inputs and efforts. Furthermore, the alternative solution proposed by property rights theory confirms the importance of intangibility.

Empirical data reveal the difference between retail and franchise companies according to intangibility level, which indicates that intangibility level affects the time for transferring of know-how. In particular, we find that intangibility in retail and service companies has a different degree of negative relationship to the level of incentives. Namely, the negative relationship between risk and incentives is higher for franchise systems with higher intangibility of assets. In other words, the negative relationship between risk and incentives is stronger for service franchise firms.

In accordance with property rights theory, franchisees' intangible assets generate the residual income and pay lower incentives. This means that they operate with a higher motivation. Intangible assets represent "tacit knowledge", which plays an important role when franchisors determine incentives in service companies. However, this is not the case for franchisees. Furthermore, service franchisors also define the extent to which local intangible assets are allowed to be used by the franchisees. We argue that the decision about the royalties is best explained by the delegation view. As the name suggests, in delegation theory incentives in service companies are based on a governance mechanism giving franchisees the right to exercise their discretion.

Our major contribution is an extension of the existing literature investigating this matter and addressing the inconsistency between risk and incentives. The differences in intangibility levels of retail and service companies lead us to conclude that they structure royalty levels in different ways, paying attention not only to uncertainty (internal or external) but also to intangible assets relevant to the franchise's expansion. We argue that companies change their determinants of incentives as industries and markets evolve, and for that reason the results of the relationship between risk and incentives based on agency theory may not be consistent. With the rise of new theories, the discrepancies of agency theory can be additionally explained.

Keywords: franchising, incentives, risk, uncertainty, royalty

TVEGANJA IN SPODBUDE V FRANŠIZNIH POGODBAH

POVZETEK

Franšizing predstavlja pomemben del trgovine svetovnega gospodarstva. Čeprav skupnih globalnih statističnih podatkov nimamo na voljo, se zdi, da ta poslovni model širjenja podjetij konstantno narašča, kar se lahko razpozna iz ustvarjenega prometa prodaje in števila franšiznih enot po vsem svetu. Podoben razcvet franšiznega poslovnega modela lahko zasledimo tudi v Evropi, kjer franšizing raste iz leta v leto, kar kažejo statistični podatki Evropske franšizne federacije (European Franchise Federation, Franchise statistics for Europe, 2015). Ta način širjenja podjetij je v zadnjih desetletjih spodbudil številne znanstvene raziskave, ki so analizirale mnoge izzive tega poslovnega modela.

Eno od najbolj raziskanih področij v franšizingu se je osredotočalo na odnos med franšizojemalcem in franšizodajalcem – predvsem na formalno in neformalno regulacijo tega poslovnega odnosa. Glavni namen te disertacije je s pomočjo teorije principala in agenta preučiti franšizni odnos s stališča tveganj in spodbud v franšiznih pogodbah. Ta teorija je namreč v vseh preteklih raziskavah tveganj in spodbud v franšiznih pogodbah pokazala nekonsistentnost končnih rezultatov, saj je predvidevala negativen odnos med tveganji in spodbudami, medtem ko so raziskave pokazale negativne in pozitivne medsebojne korelacije. Disertacija proučuje odnos franšizojemalca in franšizodajalca s teorijo principala in agenta, kjer nekonsistentnost odnosa raziskujemo s pomočjo teorije lastninskih pravic in teorije delegiranja pooblastil s stališča spodbud. Kombinacija teh pristopov nam omogoča poglobljen vpogled v zaznano alokacijo kontrole in avtonomije franšizojemalca. Obe alternativni teoriji sta uporabljeni v obliki neopredmetenih sredstev, ki jih definiramo kot opredeljeno znanje in blagovno znamko franšizodajalca. Iz teoretičnih raziskav je razvidno, da neopredmetena sredstva kažejo vpliv na odnos med tveganji in spodbudami. Prav tu smo prvič uporabili aplikacijo preučevanja neopredmetenih sredstev iz sektorja IT. Nadalje smo merili evalvacijo franšizodajalca z vidika negotovosti iz okolja in negotovosti lokalnega trga, da bi odkrili manjkajoči člen, ki povzroča nekonsistentnost v teoriji principala in agenta.

Raziskave odnosa med tveganji in spodbudami smo se lotili s poglobljeno kvalitativno analizo negotovosti iz okolja z vidika franšizodajalca, ki je bila uporabljena v študiji primera med tveganji in spodbudami, z dodatnim kvantitativnim merjenjem negotovosti lokalnega trga. To nam je omogočilo, da smo z istimi intervjuvanimi franšiznimi podjetji nakazali tendenco odnosa negotovosti in spodbud. Nato smo z istimi franšiznimi podjetji izvedli kvantitativno merjenje negotovosti lokalnega trga. To nam je omogočilo primerjavo tendence odnosa različnih podjetij do negotovosti in nadalje do spodbud, kjer smo našli razliko med maloprodajnimi, trgovinskimi in storitvenimi podjetji. V skladu s teorijo lastninskih pravic smo uspeli razložiti pozitiven odnos med tveganji in spodbudami. Poleg teorije lastninskih pravic je bila kot alternativa predlagana tudi teorija delegiranja pooblastil s stališča spodbud. Teorija lastninskih pravic nakazuje, da bi bilo treba tam, kjer je franšizojemalčeva negotovost o svojem početju večja, agentu dati večje spodbude. Večja

pooblastila pa predstavljajo spodbudo za agenta, saj bo imel ta več avtoritete (pooblastil), da uporabi razpoložljive informacije in vpliva na uspešnost poslovanja. Tako teorija delegiranja pooblastil s stališča spodbud definira pozitiven odnos med tveganji in spodbudami. Teorija lastninskih pravic s pomočjo vrednosti in pomembnosti znanja ter informacij, ki jih ima franšizojemalec na svojem trgu, pojasni, da je odnos med tveganji in spodbudami v franšizingu pozitiven. V skladu s teorijo lastninskih pravic ima odnos med tveganji in spodbudami pozitivno tendenco. Trdimo, da ima odnos med tveganji in spodbudami v franšiznih pogodbah, ki imajo višjo stopnjo neopredmetenih sredstev, bolj pozitivno tendenco. Aplikacija teorije lastninskih pravic razširi argument, ki se nanaša na vrednost in pomen franšizodajalčevega vložka in truda. Poleg tega alternativna rešitev, ki jo predlagata teorija lastninskih pravic in teorija delegiranja pooblastil s stališča spodbud, potrjuje pomen neopredmetenih sredstev.

Empirični podatki so pokazali razliko med maloprodajnimi in storitvenimi franšiznimi podjetji glede na neopredmetenost sredstev, kar je nakazalo, da raven neopredmetenih sredstev vpliva na čas, ki je potreben za prenos znanja. Ugotovili smo, da imajo neopredmetena sredstva v maloprodajnih, trgovinskih in storitvenih podjetjih različno stopnjo negativnega padanja v odnosu do spodbud. Negativen odnos med tveganji in spodbudami je namreč večji v franšiznem sistemu z višjo stopnjo neopredmetenih sredstev. Z drugimi besedami, negativen odnos med tveganji in spodbudami je intenzivnejši v storitvenih franšiznih podjetjih.

V skladu s teorijo lastninskih pravic franšizojemalčeva neopredmetena sredstva ustvarjajo pravico do višjega prihodka, iz česar sledi, da plačajo nižje spodbude. To pomeni, da so bolje motivirani kot zaposleni. Neopredmetena sredstva predstavljajo eksplicitno znanje, ki ima pomembno vlogo, ko franšizodajalci določajo spodbude v storitvenih podjetjih. Nadalje storitvena podjetja določijo stopnjo neopredmetenih sredstev, do katere je franšizojemalec pooblaščen, da samostojno upravlja s svojo franšizno enoto. Glede na končne rezultate menimo, da v pričujoči disertaciji teorija delegiranja pooblastil s stališča spodbud najbolje pojasnjuje nekonsistentnost odnosa med franšizodajalcem in franšizojemalcem. Kot že ime izraža, gre za teorijo delegiranja pooblastil s stališča spodbud v storitvenih podjetjih, ki temeljijo na mehanizmih vodenja, ki glede na storitveni poslovni model franšizne enote dovolijo franšizojemalcu samostojno prilagoditev lokalnemu trgu.

Teorija lastninskih pravic predvideva, da se razmerje med tveganji in spodbudami spremeni v trenutku, ko imamo opravka z višjo stopnjo pomembnosti neopredmetenih sredstev z lokalnega trga, ki jih ima v našem primeru v lasti franšizojemalec. Teorija delegiranja pooblastil s stališča spodbud trdi, da prenos pravic odločanja (v obliki pooblastil) na agenta, kot je franšizojemalec, pozitivno vpliva na njegove spodbude, če prevzame višjo stopnjo tveganja. Pričujoča disertacija predstavlja prvi prispevek k znanosti na področju proučevanja neopredmetenih sredstev kot ene od glavnih determinant, ki vpliva na odnos med tveganji in spodbudami v franšizingu. Raziskava ponuja sklep, da se storitvena podjetja odločajo za

vzpostavitev strukture spodbud drugače kot maloprodajna podjetja.

Glavni prispevek pričujoče disertacije je razširitev obstoječe literature z raziskavo nekonsistentnosti tveganj in spodbud. Razlike v ravni neopredmetenih sredstev v maloprodajnih, trgovinskih in storitvenih podjetjih nas vodijo k sklepu, da maloprodajna in storitvena podjetja določajo spodbude v podjetju na različne načine. Sklepamo namreč, da franšizna podjetja določajo spodbude na podlagi stopnje neopredmetenih sredstev in z manjšo mero stopnje tveganj. Trdimo, da franšizna podjetja spreminjajo svoje spodbude za franšizojemalce na podlagi evolucije dejavnosti in trgov. Prav to vpliva na nekonsistenten odnos med tveganji in spodbudami v franšiznih pogodbah. Namreč, teorija principala in agenta bo z nastankom novejših teorij to nekonsistentnost bolje pojasnila in samo teorijo nadgradila.

Ključne besede: franšizing, tveganja, negotovost, spodbude, mesečni upravljavski strošek

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INTRODUCTION

In today's global economy we are witnessing the rise of franchising as a mode of building business relationships. The relationship consists of two independent sides, franchisor and franchisee, and is regulated by the franchise contract. The content of the franchise contract strongly depends on the type of franchising relationship. There exist two main types of franchising: product and trade name (P&T) franchising, and business format franchising. This dissertation focuses mainly on the latter type, because it is most widely accepted.

Slovenia is witnessing very slow growth in the number of franchise brands. The reasons for this can be found in several country-specific factors. The first is the simplest: that in general Slovenian business organizations lack general knowledge of franchising. The second reason is associated with the size of Slovenia, which is one of the smallest countries in the EU. Consequently, it can be inferred that many business organizations lack the opportunity to consider franchising as a business form. Specifically, smaller markets cope with global franchise brands with difficulty because the capacity of smaller markets lacks huge investments and the ability to bring a faster return on investment. This can further influence the lack of interest in franchising among Slovenian business organizations.

In contrast to Slovenia, worldwide statistics show that in the United States of America (USA) franchise turnover is close to USD 740 billion (Alon, 2012) and in the European Union (EU) the turnover per year reached EUR 518 million in 2015. Global franchise statistics are rising, although global figures are not available. Fortunately, the franchise statistics are available for the EU countries (see Table 1).

Table 1: Franchise statistics for Europe 2015

Country	# franchise brands								% domestic brands	# franchise outlets/points of sale							
EUROPE	2007	2008	2009	2010	2011	2012	2013	2014 Est.	2013	2007	2008	2009	2010	2011	2012	2013	2014 Est.
AT-Austria	390	411	435	420	440	445		445	51%	6.900	7.200	7.753	8.000		8.720		8.720
BE-Belgium	200	240	320	360	350			350	60%				11.000	11.000			11.000
HR-Croatia	120	145	150	168	175	180	180	180	13%	900		1.000	940				1.000
CZ-Czech Rep	131	137		150	168	200	219	219	60%				3.476	4.366	5.299		5.299
DK-Denmark	180	185	188	188	188			188		7.200	7.307	7.520	7.500				7.500
FI-Finland	220	255	265	270	270	275	277	294	75%	3.500	4.200	4.400	4.500	4.500	4.500	4.700	4.700
FR-France	1.137	1.229	1.369	1.477	1.569	1.658	1.719	1.796	85%	47.291	50.127	53.101	58.351	62.041	65.059	65.133	69.735
DE-Germany	910	950	960	980	990			990		55.700	57.000	61.000	65.500	66.900	65.059		65.059
EL-Greece	544	560	563	450	456			456		11.650	12.796	12.048	12.084	11.113			11.113
HU-Hungary	330	350	350	361	361			361	60%	17.000	18.000	19.000	20.000	20.000			20.000
IT-Italy	847	852	869	883	878	938	939	939		52.725	53.434	53.313	54.013	52.484	52.189	51.110	51.110
NL-Netherlands	676	687	692	714	739	769		769		28.219	28.466	29.021	29.509	29.781	29.919		29.919
PL-Poland	402	512	618	739	805	864	930	930	75%	22.784	27.229	34.047	40.760	48.201	51.209	54.750	54.750
PT-Portugal	501	521	524	570	578			578		11.271	12.206	13.000	12.016	11.760			11.760
SK-Slovakia					80			80									
SI-Slovenia	103	106	107	103	106	108		108	43%	1.213	1.525	1.527	1.532	1.540	1.580		1.580
ES-Spain	850	875	919	934	947			1.199									44.619
SE-Sweden	350	400	550	640	700			700		10.000	15.000	18.000	24.000	26.000			26.000
CH-Switzerland			275	275	275			275									
TR-Turkey				1.669	1.708	1.860	1.840	1.840	64%				50.000		51.000		55.000
UK	809	838	845	900	929		930	930		36.200	36.600	36.500	38.600	40.100		39.000	39.000
TOTAL				12.251	12.712			13.627					433.781				517.864
UA-Ukraine	290	250	190	230	320					28.570	25.000	20.000	24.000	32.000			
RU-Russia			485	595								8.615	22.800				

Source: European Franchise Federation, Franchise statistics for Europe 2015, 2015.

As shown in Table 1, franchising in European countries is growing annually, and in 2014 there were 13,627 brands. This number should be reduced because some brands exist in several countries; in this respect, a 15% reduction is appropriate, which gives us a total of 11,582 unique brands in 21 European countries. Although one might expect that the clear majority of brands would be foreign (e.g., from the USA or Canada), this is not the case. In fact, European brands account for 70% of the franchises within the EU.

European entrepreneurs have recognised the rising power of franchising their businesses. In particular, they have realized that if they follow the best-case studies made by a business format franchise, they can expect success in expansion. According to Table 1, it is clear that some of the countries (e.g., Germany, Poland, and Romania) perceive the benefits of the franchising business model more than others, which leads to higher sales rates and new job opportunities. Furthermore, these exemplary countries are also trying to promote the Franchise Code of Ethics, because their Franchise Associations frequently update their web pages and organise many annual seminars aimed at franchisors.

On the other hand, there also exist European countries in which the growth is considerably slower. For example, in Slovenia and Croatia the number of franchise brands is much lower than in other European countries. The reason may lie in the fact that both countries are small and consequently more susceptible to environmental influences. For example, the recent economic crisis has shown that the potential of a small country for large franchise brands (such as McDonalds or Burger King) is impacted and also limited. When looking at the development of franchise companies out of EU countries, Russia and Ukraine are steadily growing. However, Turkey seems to have made fast progress since 2010. Compared with other EU countries, it has the highest number of franchise brands. The statistics for other countries are provided in Table 1.

The franchise business model is developing in different industries as well as in different markets. The development is followed by an increase in global growth rates. The expansion (including overseas expansion) started with the US retail companies, followed by service companies (Alon, 2001, 2004; Alon & McKee, 1999b, 1999b; Welsh, Alon, & Falbe, 2006). It is clear that business format franchising has become one of the most attractive ways for companies to expand internationally. In line with the rising number of US international franchisors, the interest in franchising research has also occurred. Consequently, much research has already been done to observe the development of US franchisors internationally in the last three decades (Aydin & Kacker, 1990; Huszagh, McIntyre, & Huszagh, 1992; Julian & Castrogiovanni, 1995; Kedia & Ackerman, 1994; Preble, 1992; Shane, 1996; Walker & Etzel, 1973; Welch, 1989; Alon, 2001, 2004; Alon & McKee, 1999b, 1999b; Welsh, Alon, & Falbe, 2006).

Furthermore, the scientific research of franchising domain analyses other issues as well. In the context of the present work, we are mainly interested in studies dealing with the franchisor-franchisee relationship, including the formal and informal regulation of this cooperation.

Therefore it is not surprising that franchising has also became an important study field for researchers. These studies analyse several issues, among which primary interest is given to the franchisor-franchisee relationship and the formal and informal regulation of this cooperation. The basis for a franchise relationship is a franchise contract, which aims at building a franchise relationship where parties work for profitability based on performance standards and outcomes, brand equity, and mutual outcomes. Although each party has its interests, rights, and obligations, they both strive to achieve sustainable and successful performance value of the franchise system. In other words, both parties grant each other a certain value for an ongoing satisfaction (Harmon & Griffiths, 2008; Lewin, Harmon, & Griffiths, 2008).

Description of the research field

The franchise relationship consists of two independent sides, franchisor and franchisee, which are related by the franchise agreement. This is a form of franchise contract which refers to the regulation of the franchise relationship complexity (Lafontaine, 1992, p. 264).

The content of the franchise contract strongly depends on the type of franchising relationship. There exist two main types of franchising: product and trade name (P&T) franchising, and business format franchising. P&T franchising represents a so-called traditional form of franchising, which originates from the independent sales relationship between suppliers and dealers. Here, the franchisors extract revenues according to the transfer-price mechanism (Sen, 1993).

Business format franchising has occurred more recently and is therefore referred to as a newer franchising model. In this type of franchise relationship, franchisors extract revenues by charging fees and royalties. Hence the literature often classifies it as a contractual channel. Today, business format franchising is most widely accepted in the USA as well as in Australia and the EU (Sen, 1993; Stern, El-Ansary & Brown, 1988).

The US Department of Commerce (1988) defines business format franchising as an ongoing business relationship between a franchisor and franchisee that includes not only the product, service, and trademark, but the entire business concept. Although the definition was formed in the USA, it has been adopted in the EU as well. The European Franchise Federation[1] and The Code of Ethics in EU countries define franchising "as a system of marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separated and independent businesses: the franchisor and its

[1] The European Franchise Federation was established in 1972.

individual franchisees, whereby the franchisor grants its individual franchisee the right, and imposes the obligation to conduct a business in accordance with the franchisor's concept" (European Franchise Federation, www.eff-franchise.com/101/franchising-definition-description.html, 2013).

The given definition essentially relates to business format franchising. The main feature of business format franchising is that the franchisor transfers the entire business concept to the franchisee. This means that the franchisor provides to the franchisee various activities such as assistance in finding and evaluating a potential site; sales and marketing strategy; corporate-identity package; store layout; advertising techniques; and operating procedures, manuals, and standardisation instruments (Fladmoe-Lindquist & Jacque, 1995; Lafontaine, 1992). Furthermore, the franchisor provides continuous, centralised support and guidance to the franchisee such as training, quality control and monitoring, research and development of products, services, and procedures together with coordination of international advertising activities. It is obvious that the franchise relationship is a crucial part of franchise agreement. Therefore in the next section we present the franchise relationship within the definition of a business format franchise.

The business format franchising relationship functions as an interrelationship where parties work for profitability based on performance standards and outcomes, brand equity, and mutual outcomes. One of the challenging issues is the desire for independence together with "non-uniformity" outlined by Dada and Watson (2012) and Fulop (2000). Each party has its interests, rights, and obligations specified in the franchise contract in order to achieve sustainable and successful performance value of the franchise system, and both parties grant each other certain value for ongoing satisfaction (Harmon & Griffiths, 2008; Lewin, Harmon, & Griffiths, 2008). Therefore their mutual collaboration demands a prompt resolution of conflicts (Altinay, Brookes, Yeung, & Aktas, 2014).

The interrelationship between the franchisor and the franchisee is presented in Table 2. Focusing on the franchisor's side, the franchisor develops a business system which is growing with a franchise-proven business model. Therefore, the franchisor protects his/her interests by setting up a one-sided and proportionally complete contract (Antia, Zheng, & Frazier, 2013). In most cases, the franchisee finds himself/herself in a "take it or leave it" situation, depending on his/her reputation.

The franchisor strives for an operationally effective and successful franchisee. Consequently, the franchisor provides know-how with education, mentorship, and coaching (Rubin, 1978). On the other hand, he/she also aims at making a system attractive and capable of growing. Therefore, the franchisor supports the development of franchisees in order to perform successfully. The franchisor also constantly develops and makes innovations to the franchise business concept.

Table 2: Interrelation between franchisor and franchisee leading to a win-win relationship

FRANCHISOR	FRANCHISEE
Business idea	Loyality
Trade name / power of the brand	Regional adaptation of the business concept
Marketing	Local Know How
Equipment with products (suppliers) and services	Entrepreunerial engagement
Package of Know How	Financial Capital, new customers
Proven business model	Implementation of business
Constant development of business model including Management and Organization support	Confrontation with conditions (not changing the business model)
Education, Mentorship, Couching	Teamplayer & openess
R&D	Royality

Source: Franchise-Ratgeber 2011/12, Deustche Franchise Verband, p. 12.

Let us now focus on the franchisee's side of the relationship. The franchisee pays an initial franchise initial fee (also called the franchise entry fee) and develops the outlet-specific know-how in local advertising, customer service, quality control, human resource management, and product innovation (Sorenson & Sørenson, 2001, p. 716). After opening a franchise business in the local market, the franchisee starts paying to the franchisor a management service fee (or royalty).

All these factors influence the entry-mode choice (Alon, 2001; Alon & McKee, 1999a; Doherty, 2009; Doherty & Quinn, 1999; Marie Doherty, Chen, & Alexander, 2014). The franchisee in this way accepts the local risk with her investment and starts working on performance. The franchisor provides the franchisee with intangible assets to reduce risk and benefits from her experience that are integrated into the franchise business. In the aspect of the principal-agent relationship, which is the focus of our research, agents are "owner-managers" who execute the investment in the franchise unit and bear the local risk. Principals are the franchisors who shape the costs of control in order to obtain standardisation of the franchise business (Shane, 1996).

In this sense, the most common approach to franchise relationship research relates to the principal-agent model. It originates from agency theory, which is one of the most prominent theoretical frameworks in economic organization and management. The central idea of the principal-agent model arises from the employment relationship of a company-owned outlet manager. This means that the principals incur monitoring costs to monitor the behaviour of agents. As applied to franchising, the franchisors incur monitoring costs to monitor the behaviour of franchisees. This idea represents a good starting point, but its biggest drawback is that the franchisors finds it much harder to monitor franchisees' efforts. Therefore both the franchisor and the franchisee share risk and incentives.

To assure the best possible franchise relationship, the relation between risk and incentives should have a known direction. Consequently, researchers have conducted various studies addressing this topic. Following the original agency theory, studies have shown that risk-averse employees (agents) do not accept payment based on their performance when the perceived risk is high. This means that the relationship between risk and incentives is negative, because the agent's incentives are lower in more uncertain environments.

Although this logic holds for the employer-employee relationship, the presented negative relation fails when the franchisor-franchisee relationship is taken into consideration. Many studies (e.g. Holmstrom & Milgrom, 1987) have pointed out the inconsistency of the principal-agent model when applied to franchising. In franchising, the relationship between risk and incentives has often turned out to be positive, which leads us to reconsider the determinants of the risk and incentives in franchising.

Accordingly, there is a need to expand the horizons of franchise relationship research. Specifically, the measurements should be redefined to assess the potential trade-off between risks and incentives in franchising. Other factors which may influence this relationship should also be considered, especially those involving different types of franchise companies entering into this relationship and their perceptions of risk, which influences the content of the franchise contract.

Aims of the dissertation

The main purpose of this dissertation is to offer a plausible investigation into the agency theory trade-off between risk and incentives. The negative relationship between the principal and the agent predicted by agency theory has shown inconsistent empirical results (Holmstrom & Milgrom, 1987). In particular, studies of the relationship of risk and incentives in franchising constantly suggest a positive relationship between these two. Accordingly, our goal is to extrapolate the franchisor's perception of risk and how it determines incentives. Here we follow the established approach where the incentives are measured in terms of royalties and margins.

At the beginning of the 1970s and 1980s, agency theory outlined the inconsistency of the trade-off between the company and employee. We catalogue the latest research studies about risk and incentives applied to executives as well as crucial research studies applied to employees (DeVaro & Kurtulus, 2010, He & Li, 2013; Chen, Li, Yan, & Yin, 2016). With the prosperity of franchising, agency theory has been applied to the study of franchise relationships as well. In the latest research studies, risk and incentives in franchising showed inconsistency. We outline and summarise evident distinctions in the end results (Vazquez, 2005; Maruyama & Yamashita 2012, 2014). However, all previous research studies still lack an explanation of the scientific puzzle regarding franchise risk and incentives. The relationship between these two elements still signals a positive relationship rather than the negative relationship predicted by agency theory.

Note, however, that we do not explore the franchisor's decision-making process surrounding the interplay between opening a company-owned unit or a franchise unit (Alon, 2001; Castrogiovanni, Combs, & Justis, 2006; Combs & Castrogiovanni, 1993; Combs & Ketchen, 1999a; Dant & Paswan, 1996; Oxenfeldt & Kelly, 1968; Pizanti & Lerner, 2003). Rather, we present the incentives as the main motivator for franchisors to expand their businesses through franchise units rather than company-owned units. Focusing on the relationship between franchisor and franchisee, there exist many determinants of incentives which are mainly descriptive and implemented through the regulations in franchising contracts. Consequently, many authors have paid considerable attention to finding some measurable determinants of incentives. Some of them have found the answer in arguing that when measuring incentives, financial resources play an important role (Combs & Ketchen, 1999b; Norton, 1988a; Oxenfeldt & Kelly, 1968).

When examining financial resources, which may influence the incentives, earlier studies focussed on royalties (e.g., Lafontaine, 1992; Sen, 1993; Wimmer & Garen, 1997; Lafontaine & Show, 1999; Lafontaine & Slade, 2002). The focus of the studies was later extended to the role of margins, which may in combination with royalties influence the incentives from the franchisor's point of view (Vasquez, 2005; Maruyama & Yamashita, 2010, 2012, 2014). Following the above thinking, this dissertation measures the incentives through royalties and margins. According to the identified lack of research explaining the relationship between franchise risk and incentives, our proposed approach contributes to new discoveries concerning the trade-off between risk and incentives by observing risk as a determinant of royalties and margins. More specifically, this dissertation focuses on the way in which risk influences the incentives in franchising. Therefore the correlation between risk and incentives is measured with the royalty level applied in franchise contracts as an ongoing fee (or management service fee). Additionally, as proposed by Wimmer & Garen (2001) and Vaquez (2005), we also include the margins of products as an important incentive in the franchise relationship.

Having stated the model for quantifying the incentives through royalties and margins, we still have not yet resolved the inconsistencies when applying agency theory to franchising. Thus, when reviewing the literature, we have raised another question regarding the application of agency theory in franchising. When studying franchising we have to consider the fact that there exist discrepancies between the types of contracts between company-owned units and franchise units. Contrary to authors who emphasise the paradox between control and autonomy in Felstead's terms (1991), the franchisee seems to be viewed by franchise companies as a "controlled self-employee" (Birkeland, 1995; Davidson, 1994; Dnes, 1993). The inconsistent empirical results clearly arise from this distinction.

Specifically, monitoring costs are present in both relationships but these costs are higher in the franchise relationship. The reason lies in the fact that the franchisor is unable to effectively measure the franchisee's performance, because the franchisee has private information. Therefore the franchisee is called a "controlled self-employee". Another crucial difference between these two relationships is that the franchisee for a certain period of time owns the franchise unit for which the investment as a payment was made to the franchisor (we also sometimes use the term "renting the business model"). Consequently, franchisees are more motivated than employee managers to do whatever it takes to make their units successful (Castrogiovanni & Kidwell, 2010; Shane, 1998). In the case of franchising we see how control (or monitoring) complements autonomy.

To overcome these discrepancies, we should also reconsider the deviation between franchise and "traditional" relationships and, consequently, between risk and incentives. We find the solution in the premises of property rights theory and delegation view theory, which can play a crucial role when investigating the trade-off between risk and incentives. Following property rights theory, Lafontaine (Lafontaine, 1992; Lafontaine & Slade, 2002) introduced intangibility as a factor influencing the change of the relationship between risk and incentives when applied to franchising. Here, intangibility refers to the franchisee's local market assets, for which it is argued that more intangible assets most likely result in a positive relationship between risk and incentives.

On the other hand, as proposed by Prendergast (2000, 2002, 2011), the delegation view introduces uncertainty as another factor influencing the inconsistent study results on the relationship between risk and incentives. It is argued that greater uncertainty regarding what an agent should be doing leads to higher discretion of his actions (i.e., unrestricted choice over his actions). Hence higher discretion represents an incentive to an agent in the form of higher autonomy when using available information and influencing the outcome. Accordingly, it is argued that higher uncertainty most likely leads to a positive relationship between risk and incentives.

Consequently, the purpose of this dissertation is also to explore the franchise relationship through the theoretical lens of property rights theory and delegation view theory. Application of these two theories enables an in-depth insight into the allocation of control and autonomy perceived by franchisors as well. Both theories are applied with the franchisor's valuable intangible assets being described as system-specific knowledge and brand assets (Klein & Leffler, 1981; Norton, 1988b; Windsperger & Dant, 2006). According to Lafontaine & Slade (2002, 2007) and Maruyama & Yamashita (2010, 2012), intangibility influences the relationship between risk and incentives. Here we should highlight the fact that our proposed approach is the first attempt to introduce the definition of intangible assets from the IT sector into franchising. Furthermore, we incorporate the franchisor's insight of uncertainty with a comparative case study approach. In this way, we intend to discover the missing link causing the inconsistency between the two observed theories (Lafontaine, 1992; Lafontaine & Bhattacharyya, 2002, 2007; Lafontaine & Kosova, 2010).

The methodological approach undertaken in this dissertation represents the first in-depth analysis of risk from the franchisor's perspective used in the study of the trade-off between risk and incentives in franchising. To measure risk, we use environmental uncertainty as well as local market uncertainty. This enables us to signify the relationship between risk and incentives, where we found ubiquitous differences between retail and service firms. Following that, we present Lafontaine & Slade's (2002) outline of a positive relationship according to property rights theory. We choose to execute the comparison of retail and service companies based on intangibility and incentives.

Following the background presented above, the aims of the present dissertation are:

- further improvement in the research of risk and incentives in franchising using a qualitative approach investigating the franchisor's determinants of risk and incentives;
- a re-emphasis on the missing piece of the puzzle in the research of deficits with the agency model focused on the trade-off between risk and incentives in franchising;
- development of a model combining solutions, which we currently lack, in order to explain agency theory in combination with other theories such as property rights theory and the delegation of authority to diminish the flaws in the conclusion;
- an evaluation of the model that will be used to show a positive or negative tendency between the chosen variables; and
- to obtain in-depth insight after three decades of research into the trade-off between risk and incentives extended by the influence of intangibility.

Potential scientific contribution of the dissertation

Agency theory belongs to one of the dominant theoretical frameworks in economic organisation and management. The theory has faced many challenges in recent decades struggling with ubiquitous issues (Dalton, Daily, Certo, & Roengpitya, 2003; Ghoshal, 2005; Hill & Jones, 1992). One of the issues certainly is the trade-off between risk and incentives. Firstly, we conducted a review of literature on executives where inconsistency of the end results reveals different risk measures and conceptual models. All end results illustrate suggestive rather than conclusive assumptions about the inconsistency. Their conclusion is simply suggesting the inconsistency. We are indicating a conclusive research.

Secondly, we attempt to answer the question of the inconsistency of end results by applying the proposed solutions to aid in explaining the research phenomenon. According to our assumptions, intangibility influences the relationship between the risk and incentives in franchise contracts. Because the franchise contract belongs to the field of incomplete contracts, we employ intangibility in hours spent on the transfer of know-how between the franchisor and the franchisee. Basically, we test intangibility in terms of residual rights and the delegation of authority in a franchise relationship. No previous study executed its research on this level. The residual decision rights are always allocated according to the distribution of intangible knowledge assets between the franchisor and the franchisee. A case study of a company Getifix argues how strategic decisions increase the tangibility of system-specific know-how. It seems that intangibility defines the network dynamics due to organisational learning and strategy change (Leitmannslehner & Windsperger, 2012).

Thirdly, we contemplate the basic agency model, focusing on the contract design tool to set up an efficient relationship between risk sharing and incentives in franchising. This enables us to build and test a new theoretical conceptual framework. The developed framework serves as the basis for development of the research. The comparative case analysis for comparing the end results uses environmental uncertainty as a measurement of risk. A questionnaire approach uses local market uncertainty as a measurement of risk.

Fourthly, we combine franchisors with another group of interviews – franchise consultants. They are used for the first time among all research franchise studies on the global level. We plan to triangulate our research using this group of franchise consultants from different countries, who illustrate basic grounds for a successful franchise business. Our study is the first on the global level including the franchise consultants. This group of franchise experts were included in comparison to the franchisor's evaluation of the risk.

Fifthly, our research is conceived as a contribution to agency theory's missing puzzle of the last three decades. Our analytical scheme is based on proposals and assumptions from the property rights theory and the delegation view of incentives. More precisely, we assume that intangible assets determine the structure of incentives such as royalties and margins in a different manner. We have explored the trade-off between risk and incentives with two different types of uncertainties evaluated by two different types of franchise companies.

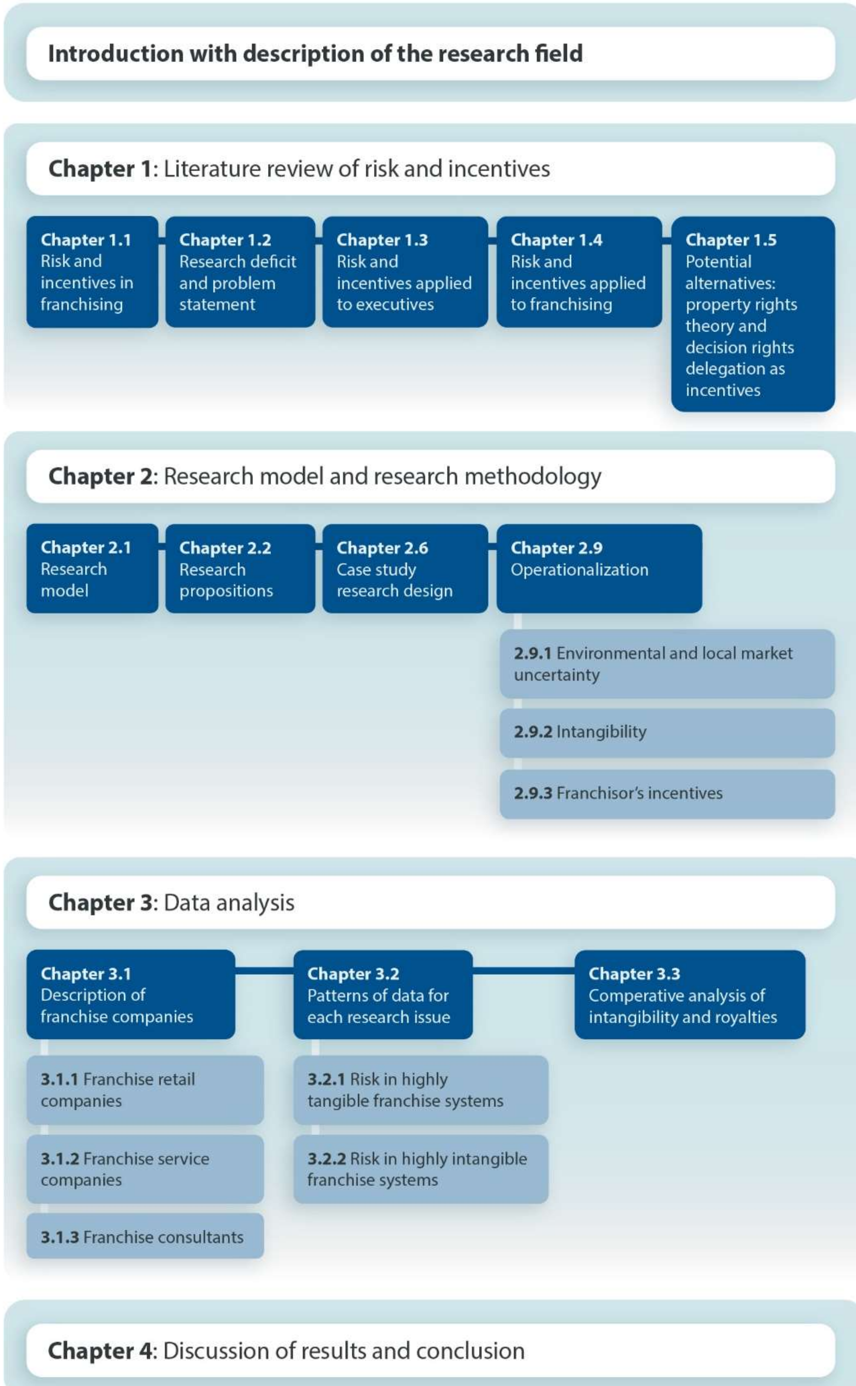
Sixthly, our multiple case analysis collects data from globally presented franchise firms which have been taking care of their own and franchise units for more than 10 years established in the EU, the USA, or Australia. They are either retail or service companies. For this research these criteria play an important role because these companies use two channels for their expansion within their countries or across borders. Franchise companies that have been in franchising for many years (we call them mature franchise companies) have during that period developed their own know-how, and that is one of the major reasons why they are successful even outside their own countries. In the case of selling the franchise unit, the major characteristic of the franchise sale is that the proven business model is being sold to another business entity. All information necessary for the company's unit manager is needed by the franchisee, and the franchisor receives from their franchisees managerial, financial, and informational resources in return. We analyse this approach in order to discover the distinctions or similarities.

This dissertation is written in the form of presenting a structured trial of agency theory challenges in consistent form. After a long, insightful literature review, we apply the alternatives proposed by some authors. Throughout, we also present the solution assumptions offered through the intangibility overview.

Structure of the dissertation

The framework which we used to prepare our thesis is presented in Figure 1. After a brief introduction into franchising, Section 1 presents the literature review on risk and incentives research, which we bring together to form our problem statement. We conclude Section 1 by outlining the potential solutions offered by other theoretical perspectives. In Section 2 we specify our research model, research propositions, and the methodology employed. Section 3 provides a detailed description of the data analysis process and offers an overview of the end results, and Section 4 discusses the results, concludes the thesis, points out the scientific contribution of the thesis, and lays out directions for future research.

Figure 1: Framework of the study



1 LITERATURE REVIEW OF RISK AND INCENTIVES

In franchise research, we are often confronted with the application of principal agent theory. The central idea of the principal-agent model in franchising is that franchisors incur monitoring costs to monitor the behaviour of franchisees. As opposed to an employment relationship of a company-owned outlet manager, it is more difficult for franchisors to monitor franchisees' efforts. Therefore both the franchisor and the franchisee share risk and incentives.

According to agency theory, franchising provides higher incentives than an employment contract, because the franchisee's compensation is performance-based and directly depends on the franchisee's efforts. However, the franchisee also bears more risk because he/she fully bears the higher risk of outlet failure, which is more likely as environmental risk increases. Based on agency theory, there is a trade-off between transferring risk and incentives to franchisees. It is proposed that risk-averse employees (agents) do not accept pay based on performance when the perceived risk is high. Consequently, the agent's incentives (often formulated as performance-based pay) are lower in more uncertain environments. This negative relationship in the context of the employer-employee relationship has been confirmed by many studies.

However, the negative relationship does not always hold, especially in franchising, where the relationship was often found to be positive. This fact has also triggered an important scientific question which has already been addressed by numerous authors. Their empirical studies found mixed results, but they all have clearly proven the contrary to the prediction of agency theory. In order to outline the problem, Figure 2 applies principal-agent theory to franchising between the franchisor and his employed manager of the outlet (from the employee's point of view). Figure 3 applies principal-agent theory to franchising between the franchisor and franchisee (from the franchisee's point of view). Both figures show a delegated worker referred to as the manager of the unit and as the franchisee, because they both have to face uncertainty. However, the company-owned unit manager is protected even when uncertainty rises because she receives a fixed income every month. The franchisee accepts uncertainty as the owner of the franchise unit for a limited period and with the support of the franchisor works to return the investment with higher turnover every month. Therefore, the profit and almost the whole turnover belong to the franchisee (residual-ownership rights).

Figure 2 shows the situation in which the headquarters and an outlet manager with more intangible assets are related by an employment contract. From the employee's view, it is more likely that the relationship between the risk and performance-based incentives is negative. In this case the franchise company can more easily monitor the behaviour and the outcomes, resulting in more monitoring and fewer incentives under increasing risk due to environmental uncertainty.

Figure 2: Relationship between the franchisor and an outlet manager (employee's view)

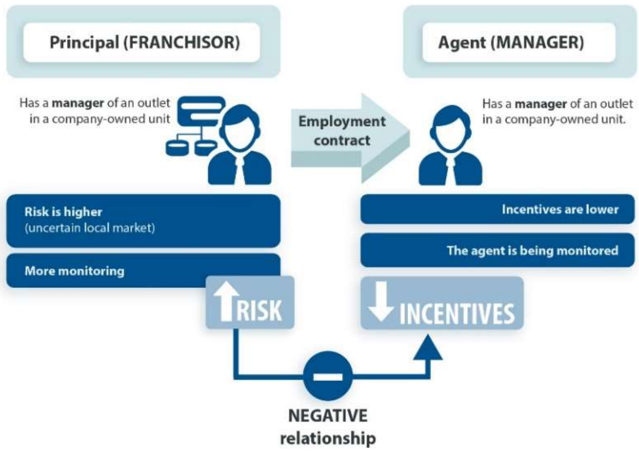
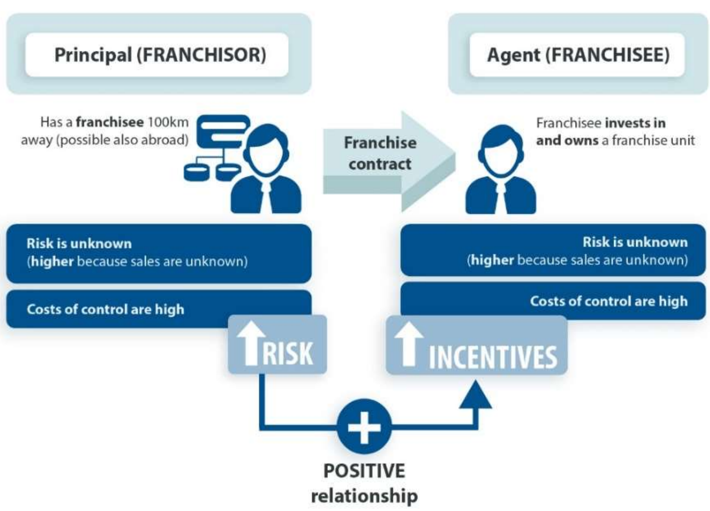


Figure 3 shows the application of risk and incentives from agency theory to franchising (franchisee's point of view). In this case, the employee turns into an investor. This important difference motivates the franchisee to invest more effort compared with the employed outlet manager, showing greater operational efficiency with acceptance of the risk. According to agency theory, the relationship between the risk and incentives should be negative. Following the fact that the majority of the research studies show a positive relationship between risk and incentives in franchising (see Figure 3), this inconsistency of end results in all research studies of risk and incentives in the normal employment relationship with franchising has been an interesting scientific puzzle or phenomenon for almost the last three decades.

Figure 3: Relationship between the franchisor and the franchisee (franchisee's view)



This inconsistency of the theoretical prediction and the results motivated us to conduct the empirical research to seek an explanation for the difference in the relationship between the risk and incentives due to intangibility. When we compare the research of risk and incentives for executives and in franchising, we can see many research studies have examined different industries and jobs in order to find the explanation. Prendergast (2002, 2011) contributed to the latest research studies by proposing that the delegation of authority changes the relationship between the risk and incentives,. The positive results due to the delegation of authority were confirmed by Foss & Laursen (2005) and by DeVaro & Kurtulus (2010) using Danish companies and British survey data.

The phenomenon was brought to the attention of Lafontaine (1992), who tried to understand the relationship between the risk and incentives. Her proposed explanation was found in property rights theory by using intangibility as an explanation for the change of relationship between risk and incentives when applied to franchising. Our literature review applied to executives found great inconsistency. Although almost all research studies confirmed the positive relationship between risk and incentives, uncertainty concerning risk and incentives remains. The evidence in some research studies strongly rejects the agency theory predictions, saying instead that risk and incentives are positively correlated. When risk and incentives were observed in franchise relationships, the end results instead showed a positive relationship. The crucial difference between those two relationships is that the franchisee owns for a certain period the franchise unit for which the investment as a payment was made to the franchisor (we also sometimes use the term “renting the business model”). The employed manager of the outlet works for monthly income, where the franchisor can more easily monitor the behaviour and the outcomes, which results in more monitoring and fewer incentives under increasing risk due to environmental uncertainty (see Figure 2).

Under a franchise contract the relationship between the risk and incentives is likely positive due to the franchisee’s local market assets (and more intangible assets of the franchisor), which are very important for generating the residual income (see Figure 3). Consequently, franchisees are more motivated than employee managers to do whatever it takes to make their units successful (Castrogiovanni & Kidwell, 2010; Shane, 1998).

In the case of franchising, this means that if the franchisee’s local market assets are very important for generating the residual income, the franchisee should receive a higher proportion of the residual income and hence pay lower royalties. In addition, we expect that the importance of the local market assets increases with local operation amid higher uncertainty. Theoretical and empirical literature in franchising and agency theory served as a basis for conducting our research propositions with semi-structured explanatory interviews. Additional overview of the risk and incentives applied to executives and franchising was additionally made to give us even more in-depth research about the relationship of risk and incentives. The inconsistency of the results made us even more curious to discover the arguments for explaining and understanding our research questions.

Based on these previous findings and the agency theory assumptions, it is generally expected that in a franchising context the risk also will negatively be related to incentives – i.e., the level of the royalty rate (incentives in franchise contracts) increases with risk, providing more incentives to the franchisor. Royalties represent one of the most relevant incentives in the franchise context for the franchisor aside from margins and initial franchise fees (Lal, 1990; Bhattcharyya & Lafontaine, 1995; Blair & Lafontaine, 2005). Attention was first brought to this phenomenon in the franchise context by Lafontaine (1992), who tried to understand the relationship between the risk and incentives in how franchise contracts are designed and in what affects the level of fees and royalties. In franchising research, several other authors have also examined the determinants of royalty rates in franchise contracts by applying agency theory, including Sen (1993), Wimmer and Garen (1997), Lafontaine and Shaw (1999), Lafontaine and Slade (2002), Vazquez (2005), and Maruyama and Yamashita (2012). These studies analyse the compensation structure both in terms of of the one-sided moral hazard problem – a principal-agent problem where one party bears the external risk – and in terms of the two-sided moral hazard problem, where both parties share the risk – i.e., where both contractual parties could act opportunistically. Also, in the double-sided moral-hazard context, both parties (franchisor and franchisee) have difficulties in assessing the behaviour of the other, thus both parties need incentives (Rubin, 1978). Lal (1990) suggested that ongoing royalty payments give the franchisor a continuous interest in the success of the franchise system. Stern and El-Ansary (1988) pointed out that royalties and fees represent up to 50% of the total turnover of franchise systems.

The next question which occurs is how intangibility could be related to the risk that franchisees face. Scholars (Lal, 1990; Lafontaine, 1992; Maruyama & Yamashita, 2012, 2014) have suggested that the higher the importance of the franchisor's input, the higher should be the royalty rates as an incentive. On the other hand, when the importance of the franchisees' inputs rises, the royalty rate should decrease because a lower royalty rate represents an incentive for franchisees. This notion, which is in line with the double-sided moral hazard, is also supported by Mathewson and Winter (1985), who found that in a principal-agent framework of the franchise contract, fees are structured in such a way that rents are left downstream, which leaves sufficient rents – i.e., incentives – to franchisees. Hence we can expect, in line with the agency theory perspective, that when franchisees face higher risk, the performance-based incentives should decrease.

The next point addressed in our research model refers to the intangibility of the franchisors' and franchisees' assets. We propose that the level of intangibility of assets in franchise companies influences the relationship between risk and incentives. We used a framework from the IT sector, where the complexity of assets is mostly used in order to distinguish both types of assets. Highly tangible assets such as computer software or architecture and other types of services are frequently included as a part of the know-how transferred to franchisees in retail franchise industries (such as the clothing or cosmetic industries). Less tangible assets, on the other hand, are often inherent in service industries such as education, consulting, communications, etc.

In our theoretical model (see Figure 4), franchisors in retail franchise systems are expected to react to higher uncertainty (environmental uncertainty) in the local market with lower incentives – i.e., higher royalty rates due to a franchisee's inability to adapt the franchise business with local knowledge. In this type of industry, risk and incentives therefore have a negative relationship. Franchisees' local market assets in retail industries are less relevant for the generation of the residual income and hence they receive a lower proportion of the residual income – i.e., the royalties are higher. Conversely, we can expect that franchisors in service franchise companies react to higher risk by requiring higher royalty rates (which is a disincentive for franchisees). In this type of industry, risk and incentives have a positive relationship due to a high level of intangibility. In service industries it is also assumed that the local market knowledge and know-how of franchisees is more important for success and for adaption and development of the franchise business model, and consequently for the generation of the residual income. Therefore, the franchisee should receive a higher proportion of the residual income through lower royalties. Lafontaine (1992) pointed out that the importance of partners' inputs, both the franchisor's and franchisee's, can affect the royalty level. If the franchisor's inputs are very important, the franchisor should also receive incentives in the form of higher royalties. On the other hand, when the franchisee's inputs become more important, the franchisee should receive incentives in the form of lower royalties. There is evidence for this notion in the literature, as pointed out by Lafontaine (1992): when the success of franchise systems increasingly depends on the performance of the franchisees (which especially becomes the case as franchise systems mature), the royalty rates should go down.

Furthermore, franchisees' inputs become more important in the case of an uncertain local environment, when their knowledge of the local market as well as their managerial skills are required. Rubin (1978) and Sen (1993) also showed that when higher downstream managerial discretion – i.e., the franchisee's managerial responsibility – is necessary, franchisors should provide more incentives through decreased royalties. Even though this notion is not directly related to the discussion of the risk-incentives relationship, it can become relevant when discussing the difference between franchise systems based on the intangibility of assets.

This dissertation attempts to investigate the discussed issues by conducting an in-depth qualitative analysis with a short questionnaire analysis, which may shed more light on the focal relationship and the conditions, which affect it. This leads us now to the next section, which states and thoroughly describes the research questions of the thesis.

1.1 Risk and incentives applied to executive contracts

The agency model, analysed by Arrow (1969), understands it as a view into a relationship between a principal and an agent, dealing with information systems, outcome uncertainty, incentives, and risk between the principal and agent (Arrow, 1969; Eisenhardt, 1989). Marschak proved in 1955 there is a problem with the delegation of tasks (Marschak, 1955), while Arrow (1969) asserted that “by definition the agent has been selected for his specialised knowledge and the principal can never hope to completely check the agent’s performance”.

When analysing the relationship between risk and incentives in particular, the most interesting empirical results come from studies applied to executive employment contracts. Four articles in 2016 (see Table 3) offer only conceptual solutions directing the whole research into alternatives borrowed from other modern theories. Furthermore, most of the research studies in this area provide inconsistent results: From the franchisee’s point of view, the relationship between incentives and risk is negative; however, some studies also reported positive results when observing the relationship between risk and royalties.

Studies in other contexts, and in franchising in particular, have shown mixed results regarding this relationship. This phenomenon still remains underexplored and not sufficiently explained, so further research is needed. Despite the differences in the contexts between franchise relationships and executive employment contracts, the results of this body of literature can provide some valuable insights and implications for our research in franchising. Therefore, we provide a review of the literature on risk and incentives in executive contracts in this dissertation. The summary of the relevant studies is provided from employer’s point of view in Table 3.

One of the first studies by Lambert and Larcker (1987) analysed the structure of the sensitivity of CEO compensation to performance measures in a sample of 370 large US companies. The study found a negative relationship consistent with agency theory. The authors explained that the influence of factors other than the agent’s action (i.e., intangible factors) on a performance measure can decrease the relative weight that the agent receives in the compensation contract. The study used a model with two signals of managerial effort – accounting returns and stock market returns – because they found weak evidence using salary and bonus. Their measure was weak, but they discovered that incentives were not strongly influenced by variance of the returns.

Garen (1994) found that pay-for-performance sensitivity varies inversely with the firm’s idiosyncratic risk. This is the basic prediction of a simple principal-agent model; however, the statistical significance was not always high. In addition, little evidence was found of the use of relative performance pay as one might expect in a principal agent setting. Even though it showed that the agency relationship between both parties has a large influence on compensation of executive employed managers, many issues still exist. One issue is how to determine the CEO payments (Garen, 1994, p. 1198). When incentives come in the form of stock options the compensation is significant in highly regulated industries. Instead of payments in cash, the CEOs get bonuses or other stock options (Ittner, Larcker, & Rajan, 1997; Yermack, 1995).

In contrast, research by Bushman et al. (1996) provides strong evidence that a majority of sampled companies have no incentives based on their CEO's individual performance. Moreover, Bushman et al. suggested that the bonuses are regulated by corporate performance measures. The rest of the sample companies have strong annual bonuses and incentive plans for their CEOs. In a study by Ittner et al. (1997) a positive relationship was discovered between the rewards, both financial and non-financial, and the performance level of CEOs of companies which operate a more innovation-oriented strategy. Annual non-financial bonuses show strong influences in regulated companies with a more competitive and long-term strategy, and an even a stronger positive relationship was found within growing companies and companies practicing management quality standards (Ittner & Larcker, 1995; Ittner et al., 1997). The companies with a more defensive and short-term strategic approach presented a lower incentive to use bonuses in annual contracts.

Aggarwal and Samwick (1999a) found strong support for the agency theory model in their empirical results showing a significant negative correlation between risk and incentives. Pay for performance is much more affected when sales are low than when the sales are high. The differences in incentives are economically large. A primary reason is because the CEOs of less risky companies have bigger holdings in their own firms. One interesting discovery was that in companies with lower variance the executive's payments were much more influenced than were those of executives in higher variance situations even though their variance of return is much higher. A comparison of Garen's econometric specification to that of Aggarwal and Samwick (1999b) shows two important differences. Garen used a sample that was approximately three times smaller. Aggarwal and Samwick used a specification that allows changes of the interaction term, which brings separate observations of compensations, performance, and variance in the sample of CEOs. Unlike Aggarwal and Samwick, Garen did not include the variance of performance, and for this reason the effect of variance in performance on the pay-performance sensitivity is more consistently negative.

Core and Guay (1999) analysed how firms use the equity incentives and stock options in relationship to economic determinants and optimal contracts. The empirical results showed that the coefficients on all of the explanatory variables are statistically significant and of the predicted sign with the exception of free-cash-flow. The positive coefficients on equity and risk were significantly less than one, indicating that CEO incentives increase at a decreasing rate with firm size and with the operating environment. Based on the results, there is a positive connection between portfolio equity incentives and growth opportunities.

Table 3: Previous studies on risk and incentives in executive contracts

Author	Year	Title of the Article	Theory	Data Source	Sample size	Measure of Risk	Result
Lambert and Larcker	1987	An analysis of the use of the accounting and market measures of performance in executive compensation contracts	AT	S	188 industrial companies	Volatility of Returns	-
Garen	1994	Executive compensation and the principal-agent theory	AT	P and S	430 corporations and Compustat	Volatility of Returns	0
Yermack	1995	Do corporations award CEO stock options effectively?	AT	S	792 US Public corporations	Variance of returns	0
Bushman et al.	1996	CEO compensation: The role of individual performance evaluation	AT	S	396 companies	Volatility of returns	0
Ittner et all.	1997	The choice of performance measures in annual bonus contracts	AT	S	317 companies	Correlation of financial and accounting returns	0
Aggarwall and Samwick	1999	The other side of the trade-off: The impact on risk on executive compensation	AT	S	1,500 publicly traded companies	Volatility of returns	-
Core and Guay	1999	The use of equity grants to manage optimal equity incentive levels	AT	S	5,352 CEOs	Idiosyncratic risk	+
Conyon and Murphy	2000	The prince and the pauper? CEO pay in the United States and United Kingdom	AT	S	Top CEOs in 500 UK and US companies	Volatility of returns	+
Choe & Yin	2000	Contract management responsibility system and profit incentives in China's state-owned enterprises	AT	S	Statistical Bureau, China Stat. Yearbook	Idiosyncratic risk	-

(table continues)

(continued)

Author	Year	Title of the Article	Theory	Data Source	Sample size	Measure of Risk	Result
Oyer and Shaefer	2002	Why do some firms give stock options to all employees? An empirical examination of alternative theories	AT	S	Cross-section of 1,000 publicly traded US firms	Firm stock volatility; Industry stock volatility.	+
Wulf	2007	Authority, risk and performance incentives: Evidence from division manager positions inside firms	AT	S	250 publicly traded firms in US	Volatility of division, performance; interaction between risk and performance	-
Fung	2013	A trade-off between non-fundamental risk and incentives	AT	P	2,300 firms	Fundamental risk Non-fundamental risk	+/0 -
He at al.	2013	Uncertainty, risk and incentives: Theory and evidence	AT	S	2,441 companies	Profitability uncertainty Stock return volatility Rank of dollar return volatility	+ - -
Pepper & Gore	2015	Behavioural agency theory: New foundations for theorising about executive compensation	AT	n.a.	n.a.	Conceptual article	n.a.
Tebourbi	2016	Trade-off between risk and incentives: Evidence from new and old-economy firms	AT	S	562 old-economy's firms and 143 new-economy firms	Variance of dollar return	Old economies – New economies +
Benedickson et al.	2016	Agency theory: The times, they are a changin'	AT	n.a.	n.a.	Conceptual article	n.a.
Chen et al.	2016	Moral hazard innovation: The relationship between risk aversion and performance pay	AT	n.a.	n.a.	Conceptual article	Development of a model
Bosse & Phillips	2016	Agency theory and bounded self-interest	AT	n.a.	n.a.	Conceptual article	n.a.

Legend: AT agency theory
S secondary data
P primary data
n.a. not available

According to Demsetz and Lehn (1985), Morck et al. (1988), Jensen and Murphy (1999), and Yermack (1995), ownership measures can be used as incentives. In addition, they found that equity as a proxy for CEO incentives shows positive results and that it can be used to lead to better firm performance (Core & Guay, 1999; Morck et al., 1988).

Conyon and Murphy (2000) showed in their empirical study of executive compensation how company size and industry are the two most important factors in determining levels of CEO pay. In addition, research studies routinely include additional controls for risk (because CEOs will demand higher at-risk expected pay levels if compensation is risky), investment opportunities (because firms with growth options need better managers), and human capital. The control for risk is insignificant in the cash compensation regression, but it is significant for total compensation, while the control for investment options is insignificant. The human capital controls are significant and suggest that CEO age-earnings profiles for cash pay (total) compensation turn downward after age 55. Unfortunately, agency theory offers no explanation when they compare US and UK CEOs. Even when they try to incorporate the agency model to explain differences in ability and in the marginal productivity of CEO effort, they get only additional assumptions that executives are more able and productive in the US, which is hard to generalise. But CEOs in the US may have more decision rights and influence over corporate results than UK executives. As seen in this country-to-country comparison regarding agency theory, little explanation is given to explain why career paths, production function, or hierarchical structures vary across international boundaries (Conyon & Murphy, 2000).

Choe & Yin (2000) showed that there are different reactions by CEOs that depend on different effects of the firm's risk and the market risk. They demonstrated that incentives decrease with increasing company risk, but can either increase or decrease with market risk (they develop the terms systematic and non-systematic risk). There is a claim that incentives positively influence the CEO's effort, especially when risk is positively associated with CEO discretion. This means the more valuable the effort, the greater the incentives should (everything else being equal). This suggestion was proposed by Prendergast (2002), claiming risk positively relates to the value of the CEO's discretion. Results confirm an association between firm-specific risk and incentives; however, there is no connection between a firm's systematic risk and incentives.

Wulf (2007) analysed the data from 250 publicly traded US. firms. The results showed that control over one's project or job is more important to employees (such as presidents, CFOs, or VPs). The trade-off between risk and managerial incentives is stronger when the control is omitted. This result is consistent with the prediction of agency theory. Fung (2012) very clearly depicted the trade-off between risk and incentives in a way we aim to analyse in this dissertation. It tests the implications of the principal-agent theory by analysing the relationship between fundamental and non-fundamental risk and compensation (i.e., performance incentives) of CEOs. Risk (related to a CEO's performance uncertainty) refers to factors such as market demand for company's products or production costs, which are directly related to the company's performance, as well as the factors of a wider environment such as noise, investor sentiment, or feedback trading. A firm's fundamental risks were taken as factors determined by the CEO's actions, including the development of new products and technologies and decisions to expand to new markets. The non-fundamental risks were defined as investor sentiment, feedback trading, irrational expectation, and over-reaction to news. One of the research propositions of the study is that risk (both fundamental and non-fundamental) is negatively related to pay-performance sensitivity. The proposition is based on standard principal-agent theory, which postulates that an agent has to be rewarded for bearing risk. Furthermore, risk will be negatively related to the compensation which is based on aggregate performance. The results revealed a weak positive relationship or even an insignificant relationship to fundamental risk and a strong negative relationship to non-fundamental risk. Wulf explains that CEOs are more motivated and feel more responsible when it comes to fundamental risks. Their risk-averse determination does not connect directly to non-fundamental risks because they see these as risks they cannot keep under control.

He et al. (2013) focused on analysis of executives with separated uncertainty and risk. Profitability uncertainty was employed in terms of multiplicative managerial effort. The research studied the isolated case of separation between the risks and uncertainty. The tested model suggests a "learning-by-doing" approach by managers and gives them motivation. Risk was measured with stock return volatility and dollar return volatility. Both confirmed agency theory's predictions. While profitability uncertainty correlated with firm age, the earnings response coefficient, market-to-book ratio, and tangibility showed quite positive results. The authors admit separation improves the long-term challenge of agency theory's inconsistent results. However, the results are merely suggestive and inconclusive.

An executive's compensation was observed in new micro-foundations by Pepper and Gore (2015). The use of behavioural agency theory with realistic behavioural predictions revealed how agents can achieve best motivation. This is confirmed if the principal's interests and the agents interests are aligned. Many authors have tested a model of an executive based on risk preferences (Finkelstein, Hambrick, & Cannella, 2009; Rebitzer & Taylor, 2011; Wiseman & Gomez-Mejia, 1998). This enables authors to explore the trade-off between intrinsic and extrinsic motivation as a proposal for better understanding an executive's motivation in relation to stakeholder interests. They discuss motivation, risk, time discounting, and inequity aversion along with goal setting. Pepper and Gore (2015) claimed the distinction between traditional agency theory and behavioural agency theory lies in understanding the complex pay-effort function. The function could be understood in terms of loss, risk, and trade-off between the intrinsic and extrinsic motivation. Traditional agency theory understands the relationship between risk and incentives with a less sophisticated model using a linear relationship between the pay and motivation.

Tebourbi (2016) applied the trade-off theory to new and old economies, claiming agency theory is consistent as long as it is tested on different industries. The agency theory prediction of trade-off holds for old traditional firms. However, if we test it on new high-tech firms doing business within more uncertain environments, the relationship between risk and incentives turns positive. The turnover reaction follows as a consequence of compensation between the CEO's incentives in relation to too-high or non-executed monitoring costs. Consequently, this motivates the CEO's sensitivity and changes principal's sensitivity. The prediction follows Prendergast's delegation view. In particular, during the high-tech crash between 2000 and 2002, companies offered executive officers higher level of incentives. The study confirms agency theory in traditional firms, a positive relationship between risk and incentives was found in medium and large high-tech companies described as new economies, and small new companies confirmed the trade-off theory.

The changes over eras were outlined in an exploration of agency theory and its lacks of explanation in modern times (Bendickson, Muldoon, Liguori, & Davis, 2016). The authors observed agency theory from a number of economic and social developments, such as strategic entrepreneurship, family business, social entrepreneurship, and evolving stakeholders. In all four applications from a view of economic and social developments, agency theory failed to explain relationships. The argument of failure might lie in reflection of changes such as separation of ownership and control. The separation reflects changes in the interests of principal and the agent's. Therefore agency theory is limited in its explanatory power, but other modern theories perfectly manage to explain new business events. One of the last studies based on the trade-off focused on self-interest claims that fairness might be the variable that influences the relationship. Supposedly, it affects the relationship between principal and agent in terms of different deviations. Basically, the conceptual proposal relates to the construct of fairness being exceeded by both sides' expectations. Therefore, the proposal of borrowing the construct of fairness from labour economics, organisation of justice, and corporate governance applicable to a CEO's effect of fairness could be one reason for the turning of a trade-off into a positive effect (Bosse & Phillips, 2016).

Studies on risk and incentives applied to executives show quite inconsistent results in terms of agency theory's assumptions. Even though some evidence was very clearly in favour of agency theory, other studies failed to confirm the predictions of agency theory. One of the reasons is that the use of performance-based pay is much less than expected in the principal-agent relationship applied to executives. There is also the issue of the type of incentive, which could have an effect on the relationship between risk and incentives. Compensation can range from financial compensation to stock options and non-financial benefits. It is therefore quite difficult to capture the pattern as predicted by the agency theory. Furthermore, the agency theory pattern can also be influenced by many external factors, such as size of firms, and other market conditions, which affect firms, executive pay regulations, as well as internal factors such as hierarchy and organisation structure, internal regulations, etc. Interestingly, because agency theory with its claim of trade-off is still unresolved after almost three decades, in 2016 we find four new conceptual articles analysing and reframing agency theory. There is clearly a need for further investigation of this phenomenon and for involving other theoretical perspectives as complementary explanations to extend our understanding.

1.2 Risk and incentives applied to franchising

The relationship between franchisor and franchisee is regulated by the franchise contract. Among other provisions, which regulate rights and obligations, a conventional franchise contract includes several compensation provisions by which the franchisee is obligated to compensate the franchisor for the right to operate under the latter's brand name and the provided operational support. Such a contract should provide incentives for both the franchisor and the franchisee, and one of the most important elements of the compensation and incentive structure is royalties. Royalties represent an ongoing payment throughout the duration of contract and an economic incentive for the franchisor to exert effort in terms of maintaining the value of the brand in terms of advertising and promotion (Maruyama & Yamashita, 2012) and in terms of maintaining the retail demand (Lal, 1990). These efforts therefore have an important influence on the profit of franchisees and of the franchise system in general (Bhattacharyya & Lafontaine, 1995, 1995; Lal, 1990; Mathewson & Winter, 1985).

The important factor emphasised by agency theory is the control system design, which tries to accomplish convergence of the franchisees' (agents) and the franchisor's (principal) goals. The agency model as explained by Arrow (1969) is a view into a relationship between the principal and an agent, dealing with information systems, outcome uncertainty, incentives, and risk between principal and agent (Arrow, 1969; Eisenhardt, 1989). Even though the franchise relationship is not an employment relationship but a contract-based relationship between two independent companies, the rules and assumptions of agency theory can certainly be applied to understand the dynamics. The specific issue of the franchisor-franchisee relationship examined by this thesis is the relationship between the risk that franchisees face as perceived by franchisors and incentives in terms of royalties and margins. The summary of all relevant past studies from the franchisor's point of view is provided in Table 4 as the studies from franchisee's point of view are non-existent.

Table 4: Studies of risk and incentives in franchising

Author	Year	Title of the Article	Theory	Data Source	Sample size	Measure of Risk	Result
Lafontaine	1992	Agency theory and franchising: Some empirical results	AT	US Department of Commerce	548 franchise systems in US	Proportion of discontinued outlets	+
Sen	1993	The use of initial fees and royalties in business-format franchising	AT	Source Book of Franchise Opportunities & US Department of Commerce	996 franchise systems in US and Canada	Environmental risk (Chain specific risk, Industry specific risk)	0
Wimmer and Garen	1997	Moral hazard, asset specificity, implicit bonding, and compensation: The case of franchising	AT	Source Book of Franchise Opportunities & The Bond Data Set	528 observations of UFOC document and 196 franchisors	Variation of sales	+
Lafontaine and Shaw	1999	Company-ownership over the life cycle: What can we learn from panel data	AT	Entrepreneur's magazine's "Annual Franchise 500" surveys	11,749 observations	n.a.	/
Lafontaine and Slade	2002	Incentive contracting and the franchise decision	AT	No Data used.	Overview of parameters and research studies	n.a.	/
Vazquez	2005	Up-front franchise fees and ongoing variable payments as substitutes: An agency perspective	AT	Spanish Register of Franchisors and 145 questionnaires	145 franchise companies	Sales volatility for each sector and average proportion of discontinued outlets annually	Sales Volatility (-) Proportion of discontinued outlets (+)
Maruyama and Yamashita	2010	The logic of franchise contracts: Empirical results of Japan	AT	Japanese Franchise Chains (Shogyokai 2003)	278 franchise companies	Chain-specific coefficient of variation of sales per outlet	-
Maruyama and Yamashita	2012	Franchise fees and royalties: Theory and empirical results	AT	Japanese Franchise Chains (Shogyokai 2003)	118 franchise brands	Chain-specific coefficient of variation of sales per outlet	+
Maruyama and Yamashita	2014	Incentive and strategic contracting: Implications for the franchise decision	AT	Japanese Franchise Chains (Shogyokai 2003)	118 franchise brands	Chain-specific coefficient of variation of sales per outlet	+

Legend: AT agency theory
n.a. not available

In the field of franchising research, several authors have examined the determinants of the level of the royalty rate in franchise contracts in the context of agency theory (Lafontaine, 1992; Sen, 1993; Wimmer & Garen, 1997; Lafontaine & Shaw, 1999; Brickley, 2002; Maruyama & Yamashita, 2012, 2014; and Vazquez 2005). These studies have primarily focused on the structure of royalties and fees in franchise contracts, because these instruments make up over 50% of the total franchisor profit (Stern & El-Ansary, 1988). In general, there are few studies which analyse the variations in fee structure in franchise contracts from the agency theory perspective. Table 4 shows a summary of these studies. The studies use the franchisee's view of agency theory. This means if there is a negative result, the agency theory prediction is confirmed. If not, then the result does not support agency theory prediction. The zero (0) end result describes that there is no connection between risk and royalties. All studies observe the end results based on franchisee's view. However, all the data are collected from franchisors. Since, there are no data available from franchisee's view.

Relying on agency theory, Lafontaine (1992) analysed why franchisors choose to franchise outlets (i.e., to have share contracts) instead of having a company-owned business, as well as the design of franchise contractual arrangements, particularly royalty rates and franchise fees. In the theoretical analysis, Lafontaine discussed three theoretical models to explain the emergence of share contracts (propensity to franchise) and the level of optimal royalty rates within franchise arrangements. These models – the pure risk-sharing model, the one-sided moral-hazard model, and the two-sided moral hazard model – define the risk attitudes of contractual parties to explain the implications for contract design. Moral hazard thus represents the level of riskiness. Following the findings by Stiglitz (1974), Lafontaine argued that in the one-sided moral-hazard model (in this case, hazard on the franchisee's side) the royalty rate will decrease as the importance of the franchisee's local inputs increases, or the more difficult it becomes to monitor the franchisee's effort. A lower royalty rate is in this vein seen as an incentive for the franchisee because he/she bears all the risk. On the other hand, the two-sided moral-hazard model sees both parties as risk-averse, and thus an incentive is necessary for both parties. Consequently, the royalty rate (as an incentive mechanism for both parties) varies based on the importance of one party's inputs. It decreases if the franchisee's inputs are more important and increases if the franchisee's inputs are less important. The data for the empirical analysis were collected from a cross section of 548 US franchisors. The franchisee's risk was operationalised as a proportion of discontinued franchise outlets – i.e., failure rate. Despite some support for the agency theory expectation, results imply that franchisors react to risk by changing the share of franchised outlets rather than, as suggested by the agency theory, by adjusting the contractual terms.

Sen (1993) analysed the franchising fee structure drawing on principal-agency theory and the labour economics literature. Specifically, among other determinants of the contractual payment structure, the author also investigated the effect of environmental risk faced by franchisees and the payment design in terms of royalties and initial fees. This hypothesis was based on the findings of Lafontaine (1992) and Stiglitz (1974). Based on the data of 996 franchise systems from the US and Canada, the relevant hypothesis could not be supported. None of the variables within the construct of environmental uncertainty had the predicted effect on royalties and fees. However, the measure of environmental risk in this study is quite limited, which could have an effect on the result and the information we can infer from this variable. Specifically, the author only created a dummy representing a franchise chain's membership in the International Franchise Association, arguing that chain-specific risk could decrease if the franchisor is a member of the Association. Another measure of risk is the percentage of discontinued outlets within a particular industry. The author concluded that the franchisor can use the payment design to provide appropriate incentives to channel members.

Lafontaine and Slade (2002) analysed the incentives and risk relationship through risk, the franchisor's effort, and asset specificity. They argue that it is difficult to measure the uncertainty because it shows inconsistent results in relation to incentives. Royalty rates have different levels across the franchise companies due to different industries, monitoring, and quality support. The argument from their research is found in the assessment of royalty rate reflecting substitutes between royalty rates and a company's different franchise terms. Past research studies on retailing concluded that different indicators determine franchise contract. Contract terms in the form of royalties are reflected in the franchisor's attributed importance of effort, which lowers the franchisee's effort. Factors such as risk and agent's effort tend to increase the franchisee's effort (Erramilli & Rao, 1993; Lafontaine, 1992; Wimmer & Garen, 1997).

Vazquez (2005) analysed the determinants of the compensation arrangements in franchise agreements, namely royalty rates and up-front franchise fees, and the determinants which affect their extent and relationship. This study expands the analysis of royalties and confirms the effect of the franchisor's effort with a goal to cover the costs the franchise company invests into franchise system. Vazquez confirms the existence of incentives in the form of royalties and margins by taking the percentage of sales spent on advertising and training, and confirms the positive relationship between risk and royalties.

In an empirical study of 278 franchise companies in Japan, Maruyama and Yamashita (2012) investigated the structure of franchise contracts in terms of royalties and fees and analysed what determines them. The study applied the standard principal-agent model of the franchise contract for the formulation of hypotheses. Their hypotheses were also based on the premise of the one-sided and two-sided moral hazard models discussed by Lafontaine (1992). The authors formulated the hypotheses regarding the level of royalties based on the importance and value of the franchisors' or franchisees' effort. Because royalties are seen as an incentive for franchisors, they are expected to be higher when the franchisor's effort is more important.

Conversely, royalties are expected to be lower, as an incentive for franchisees, when the franchisees' effort is more important and valuable. Furthermore, the study also predicts the likelihood of royalties based on the risk on the outlet level. The outlet risk is operationalised by the variability in the local sales – i.e., the coefficient of variation of annual sales per outlet. A similar measurement was used by other authors (Lafontaine, 1992; Martin, 1988; Norton, 1988a; Vazquez, 2005). The empirical results indicate that royalties are more likely when the franchisor's effort is more valuable, and that the franchisor's incentives are more important than other factors in determining the extent of royalty rate or franchise fees (Maruyama & Yamashita, 2014).

The findings from the previous empirical studies represent the cornerstones for the theoretical design of our study. On the one hand, we aim to extend the literature on the relationship between risk and incentives in general. On the other hand, we explore the franchising literature on this topic in particular. The contribution of this study is twofold. First, by drawing upon agency theory and the two-sided moral-hazard model (of the principal-agent relationship), this study further expands the understanding of the relationship between risk and incentives in franchise contracts. It adds some additional explanation of the relationship between risk and incentives with mixed results in a cross-sectional context of 12 franchise companies from various industries. Furthermore, this study goes beyond the understanding of the trade-off between risk and incentives presented in the existing literature by taking into consideration the franchisor's intangible assets as a possible determinant of the relationship. This extension of the analysis by considering the intangibility of the assets is nested in the argument regarding the value and importance of the franchisor's inputs and efforts (Lafontaine, 1992; Sen, 1993; Vazquez, 2005) as well as asset specificity of intangibility (Wimmer & Garen, 1997).

Second, due to the contradictory results so far, we tackle the issue by designing a comparative case study which provides rich in-depth information, thus enabling us to see beyond the surface and quantitative data. As discussed, the previous literature has provided quite contradictory results, and much of the empirical evidence contradicts the agency theory prediction of a negative relationship. Some explanation comes from the "delegation view" proposed by Prendergast (2000, 2002), which proposes the relationship between risk and performance-based incentives to be positive. According to this view, the effect of delegation (as incentive) might be the force which cancels out the risk-incentive trade-off and thus the negative relationship between risk and incentives becomes positive.

1.3 Research deficit and problem statement

As previously pointed out, empirical findings show inconsistencies regarding the relationship between risk and incentives. For example, in the studies where agency theory was applied to analyse the relationship between risk and incentives in executive contracts there is evidence that riskier environments do not proportionally align with the incentives of executives. When the studies are conducted internationally, the complexity of the results increased. The fact that previous studies found both positive and negative relationships (despite the prediction of agency theory) represents an interesting research challenge, which is addressed in this dissertation.

More specifically, the issue analysed in this dissertation is the relationship between the franchisor's perception of the environmental and local market uncertainty which franchisees are facing (representing risk) and the royalties and margins (representing the incentive mechanism). As previously explained, in the classic risk-incentive trade-off model proposed by agency theory, the focus is on optimal payment incentives in the principal-agent relationship. That model indicates that the agent's reaction to higher risk is to value more highly security rather than becoming motivated (Figure 2). In vertical integration for an agent (employee) the higher uncertainty means lower-powered incentives to protect the agent from the changes of uncertainty of the market (Lafontaine et al., 2005; Lafontaine & Slade, 2002). In case of franchising (see Figure 3) the agent takes over the risk of the local market and places her whole effort into the business, which means higher risk does not demotivate the agent but gives her more motivation. In line with the reasoning of the franchise relationship studied by Lafontaine & Slade (2002, 2007) that models the previous literature, our attention is focused on the relationship between risk and incentives as studied in franchise relationships. Previous studies have pointed to this phenomenon as an unsolved scientific puzzle. We test whether the predicted negative relationship between risk and incentives holds in the setting of 12 retail and service franchise firms. We thus formulate the following research questions (RQ):

RQ 1: What is the relationship between risk and incentives in the context of the franchise relationship?

To analyse this issue, we include a variable which represents the level of intangibility of the franchisors' assets and analyse whether the focal relationship changes across different levels of intangibility. Specifically, the research model explores whether intangibility plays a role in how the franchisor's perception of uncertainty affects incentives and whether the strength of the negative relationship changes, or even becomes positive. This leads us to the second research question:

RQ 2: What is the difference in the relationship between risk and incentives based on the level of intangibility of the franchisor's assets?

As explained in the previous studies, there is a trade-off between risk and incentives. This key characteristic of the principal-agent model has received a great deal of scholarly attention since the original papers published by Holmstrom (1979) and Shavell (1979). After analysing the above research questions, we attempt to further explain the relationship between risk and incentives in franchising by applying the additional views of property rights theory and the delegation view, which provide an alternative explanation of the risk and incentive relationship.

The qualitative design of the study provides a rare opportunity to analyse this complex issue. We conducted a comparative case study of 12 franchise companies and the results of the case study were additionally triangulated with franchise consultants and with the quantitative data collected via short questionnaire. The comparative multiple-case study analysis enables collection of rich data to address the complexity of the issue and measurement of risk and incentives. The study compares the relationship between risk and incentives in the following two types of relationships: retail franchise companies and service franchise companies.

We argue that retail and service franchise companies have different levels of tangibility of assets. Thus the distinction between these two groups of companies in our research enables us to operationalise this construct. We decided to use intangibility as a measure in our research because this construct can assure better success through observation in interviews comparing franchise companies in retail or service franchise industries. Both types of franchise companies have a minimum 10 or 15 years of franchise experience – i.e., they have been selling franchises for more than 10 years, which means this is not the same as the year of establishment. We compare retail franchise companies with highly complex service franchise companies in order to evaluate how intangibility influences the relationship between risk and incentives.

1.4 Potential alternatives: Property rights theory and the delegation view of incentives

Critical comments on agency theory reveal many unanswered questions which influenced the development of further empirical studies (Caves & Ii, 1976; Eisenhardt, 1989; Perrow, Charles, 1986; Putterman, 1993; Tosi, Katz, & Gomez-Mejia, 1997). Therefore agency theory should be combined with other theoretical perspectives to overcome the limitations (Eisenhardt, 1989; Sharma, 1997; Sharma & Erramilli, 2004) and to try to explain this interesting phenomenon. Comparisons of success and failure in different countries confirmed that agency theory in combination with other theoretical views can provide better understanding of the franchise phenomena. Therefore we propose alternatives such as property rights theory and the delegation view of incentives as potential solutions.

1.4.1 Property rights theory perspective

The reasoning based on property rights theory is based on the intangibility of assets as an explanation for the inverse relationship between the risk and incentives when applied to franchising. Under a franchise contract the relationship between the risk and incentives is likely positive due to the franchisee's local market assets (more intangible assets of the franchisee), which are very important for generating the residual income. Consequently, franchisees are more motivated than employee managers to do whatever it takes to make their units successful (Castrogiovanni & Kidwell, 2010; S. Shane, 1998). A basis of every franchise relationship is the franchise contract. In this document both parties contractually specify which party has control over tangible and intangible assets. According to this view, ownership of assets also implies ownership of contractually unspecified rights, called residual rights of control. These residual rights of control generate for the owner the residual income (Grossman & Hart, 1986). Residual decision rights enable franchisees in their local markets to make better use of their entrepreneurial skills and increase their residual claim because they bring their important skills into the relationship.

The franchisor's intangible assets refer to system-specific know-how and brand-name assets (Klein & Leffler, 1981; Norton, 1988a; Windsperger & Dant, 2006). The definition includes knowledge and skills in site selection, store layout, product development, and procurement (Kacker, 1988). The franchisee develops quality control, human resource management, outlet-specific know-how, local advertising, customer service, and product innovation (Sorenson & Sørensen, 2001, p. 716). The use of some of these intangible assets is specified in franchise contract, but many of them are only mentioned or even not specified. The franchisee's assets are informational, and managerial capabilities can be both tangible – i.e., financial assets invested in total by the franchisee for opening a franchise unit – and intangible assets such as managerial skills or knowledge of the local market.

In franchising, the franchisor faces a problem of how to maximise its returns when they depend on the local intangible assets of the franchisee. This intangibility of assets plays an important role in determining the allocation of residual income and ownership rights (Windsperger, 2002). If the agent's intangible assets are more important, according to property rights theory that agent should receive a larger proportion of the residual income and ownership rights. Specifically, if we assume that the franchisor's system-specific assets are more important than the franchisee's local market assets for the generation of residual income, the franchisor should receive a higher proportion of residual income rights such as higher royalties. Therefore incentives in franchise relationships are provided by ownership and residual income rights – the payment of royalties and margins.

In a franchise contract with more intangible assets of the franchisee (intangible assets on the franchisee's side), it is likely that the relationship between risk and incentives will be positive. In other words, if the franchisee's local market assets are very important for generating the residual income, the franchisee should receive a higher proportion of the residual income and hence pay a lower or even no royalty fee. In addition, we can expect that the importance of the local market assets increases when local outlets are operating with higher uncertainty in the market. When it comes to an explanation of intangible assets in franchising, we find very useful definition by Teece (1980). The franchisor teaches a franchisee the know-how necessary for a franchisee to work and manage the franchise unit. However, the franchisee also brings some knowledge, namely financial, informational, and managerial resources. If a market that a franchisor wants to enter is very different from the home market, the uncertainty for the franchisor rises. Under these circumstances, the above-mentioned resources brought by the franchisee are all the more important. This study considers the difference in intangible assets by including both product and service franchise systems in the analysis. Service franchises are considered to have a higher share of intangible assets than retail franchises.

So what solution does property rights theory offer to the problem of the relationship between risk and incentive in the franchising context? The relationship between risk and incentives in contractual relations depends on the underlying governance mechanism (i.e., internal governance versus market or network governance). Under employment contracts between headquarters and outlet managers with less intangible assets, it is more likely that the relationship between risk and performance-based incentives is negative. In the case of an employment contract (Figure 2), the principal can more easily monitor the behaviour and the outcomes than in the case of franchising. In the case of franchising, when intangible assets of franchisees are more important, it is likely that the relationship between risk and incentives becomes positive (Figure 3). More specifically, in accordance with the property rights theory view, if franchisees' intangible assets become more important for generating the residual income, franchisees should receive a higher proportion of the residual income and hence pay lower royalties (Figure 3).

1.4.2 Decision rights' delegation as incentives

The "delegation view" as explained by Prendergast (2000, 2002, 2011) implies that if there is a greater uncertainty about what an agent should be doing, the agent should be given more discretion – i.e., unrestricted choice over his actions. Higher discretion represents an incentive to an agent, because the agent has more authority to use the available information and influence the outcome. Based on the delegation view, the relationship between risk and performance-based incentives will be positive. Therefore, Prendergast argues that under high uncertainty the relationship between incentives and risk might be positive. Prendergast (2002) provided an explanation of the positive relationship between risk and incentives in agency relationships using a comparison of executives, franchising, and sharecropping. According to this view incentives are differently based in governance mechanisms. In the case of franchising every franchisee is an entrepreneur and this fundamentally changes the design of incentive contracts. Franchisees as entrepreneurs gain profits under uncertainty, but employees (with risk aversion) prefer contracts with less incentive under high uncertainty.

Prendergast's idea was also tested by Devaro and Kurtulus (2010), where the delegation of authority influenced the relationship between principals and employees (agents). This research confirms the positive effect of the delegation of authority on the relationship of risk and incentives. Another study by Devaro and Prasad (2013), where the delegation of authority and incentives were measured by the classification of jobs into simple and complex, showed positive results between the delegation of authority and incentives. In simple jobs the relationship was positive, whereas in complex jobs the relationship became negative. Their explanation claims that a certain theoretical framework applies differently to different roles/jobs of agents. Similarly, Foss and Laursen (2005) confirmed the predictions by Prendergast on a sample of Danish companies, and Devaro and Kurtulus (2010) used British survey data to confirm the positive relationship between the authority and incentives.

This effect was pointed out in a study by Fung (2012) on a sample of executives. The study showed mixed results regarding the expected negative relationship between risk and incentives. For a non-fundamental risk, incentives are negatively related, whereas for the fundamental risk, the delegation effect prevails and the relationship between risk and incentives is either insignificant or positive. The author argues that the "delegation effect" might be the force which cancels out the risk-incentive trade-off that predicts the relationship between risk and incentives to be negative.

However, because Prendergast focussed on incentive contracts in employment relationships, this may not explain the roles of incentive contracts under different governance mechanisms such as franchising. Franchise contracts are inter-firm contracts concluded between the franchisor (as principal) and the franchisee (as agent). Franchisees as entrepreneurs gain profits due to uncertainty and risk, but employees (with risk aversion) prefer contracts with less incentives under high uncertainty. To summarise, the explanation of the positive relationship between risk and incentives which was offered by Prendergast (2002) is an interesting solution. We try to address the latter issue and incorporate this view in this study and address the challenge of complex franchise phenomenon described by Lafontaine (1992) and Lafontaine & Slade (2002).

2 RESEARCH MODEL AND METHODOLOGY

2.1 Overview

When agency theory is applied to franchising, according to Lafontaine (1992) and Lafontaine & Slade (2002), we find some challenges associated with issues of risk and incentives. When we compare the relationship between risk and incentives, the literature review shows a clear deviation in end results. However, other theoretical views such as property rights theory and the incentive view of delegation explain the opposite relationship of the agency theory prediction. That is why this research also includes these complementary views in the research framework. Moreover, it also considers the level of intangibility of assets and their influence on the relationship between risk and incentives in franchising.

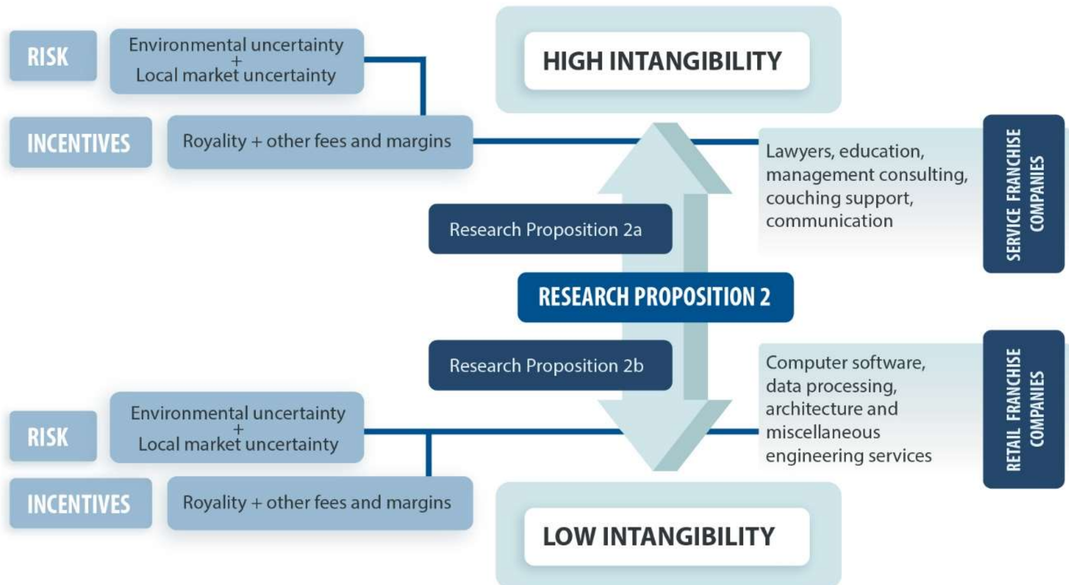
In an international context, the differences between the markets are due to complex regulatory, economic, social, cultural, and retail structural boundaries. When we couple the aforementioned differences with specific intangible assets this results in a complicated information transfer process between the franchisor and the franchisees. These circumstances therefore lead to the information asymmetry problem in many forms (Doherty & Quinn, 1999, p. 228). Lafontaine and Slade (2002), using Prendergast's (2002) predictions, found an interesting change of relationship which manifests with positive or negative correlation between risk and incentives, particularly when it comes to franchising. We found many different examples where managers are being paid with low-powered incentives because they are employed and receive only salary. On the other hand, franchisees as the owners of the units receive high-powered incentives by paying only the royalty and some others fees every month (Figure 2 and Figure 3). Still, the franchisee represents a residual claimant, because due to his/her entrepreneurial skills he/she is given a business opportunity. Faced with risk, the franchisee works independently and receives the appropriate proportion of turnover which affects the relationship between risk and incentives in agency theory framework.

Due to the inconsistent results and opposite theoretical explanations, the research propositions are formulated using both agency theory and property rights theory with the delegation view. In Figure 4 we illustrate our research model of the trade-off between risk and incentives in franchising, considering the franchisor's view. This research model considers different levels of intangibility of assets. We propose that the level of intangibility of assets in franchise companies influences the relationship between risk and incentives. We used a framework from the IT sector, where the complexity of assets is mostly used in order to distinguish both types of assets. Low-intangiblity assets such as computer software or architecture and other types of services are included as transfer of know-how mostly in retail franchise industries (such as clothing and fashion or cosmetic industries). High-intangiblity assets, on the other hand, are often inherent in industries such as services, education, consulting, communication, etc.

In our theoretical model we can see that franchisors in retail franchise systems are expected to react to higher uncertainty (environmental uncertainty) at the local market with lower incentives, i.e. higher royalty rates. This means that when retail franchisors sell their products as a franchise system, the risk and incentives are negative (franchisees' view) – the higher the uncertainty, the lower is the incentive for franchisees due to higher security covered or accepted by franchisor. Furthermore, this means franchisors' royalties and margins are higher and the bonuses received by franchisees are lower.

This result is expected due to a franchisee's inability to adapt the franchise business with local knowledge. In this type of industry, risk and incentives therefore have a negative relationship due to the high level of tangibility, which also refers to managers of a company-owned unit. Franchisees' local market assets in retail industries are less relevant for generating the residual income, and hence they receive a lower proportion of the residual income – i.e. the royalties are higher.

Figure 4: Relationship between risk and incentives and intangibility in franchise companies



A high level of intangible assets can be found in franchise industries where service represents the major substance of franchise business. Highly intangible assets such as education management, consulting, or coaching are included as the transfer of know-how. The franchisee reacts to a higher level of uncertainty with a requirement for higher incentives, which translates into lower royalties. We can expect that franchisees in service franchise companies react to higher risk with higher incentives – i.e., by requiring lower royalty rates. In this type of industry risk and royalties together with margins have a positive relationship due to a high level of intangibility, which refers to executives or franchisees. In service franchise industries it is also assumed that local market knowledge and know-how of the franchisees is more important for adaption and development of the franchise business model and consequently for the generation of the residual income. Therefore the franchisee should receive a higher proportion of the residual income and hence should pay lower royalties.

Agency theory predicts that when risk increases, the incentives for agents decrease because the market is too uncertain. Employed managers (agents) are paid with less incentives to perform efficiently. The lack of effort on the agent's side is called a moral hazard, and the franchisor's inability to monitor the employed manager competently forces the outlet manager not to perform efficiently. So when risk is higher, the incentives go down and intangible assets have no impact (see Figure 2).

When the market is riskier (higher uncertainty), franchise companies use franchise contracts as performance-based contracts. Franchisors are confronted with the challenge of maximisation of returns when the risk is higher and the franchisee owns the local intangible assets (financial, informational, and managerial resources). According to property rights theory, the holder of the intangible assets should receive higher residual income and ownership rights. The franchisee receives the residual income in terms of lower royalties. With their entrepreneurial skills they are motivated to maximise the profits. The franchisor's monitoring costs are still high, but they additionally charge franchisees with royalties (see Figure 3).

When we look at Prendergast's proposal (2002) we see that an uncertain environment requires the delegation of responsibilities which, in turn, operate as incentives. Franchise companies offer their outlet managers lower-powered incentives because they do not perform complex work tasks with higher authority on riskier markets. However, when we look at the franchisee's complexity of tasks and the delegation of authority, we can see that franchising in its nature provides higher-powered incentives to franchisees. Companies (principals) offer higher pay-for-performance arrangements to their executives in more uncertain markets because they have higher costs of controlling them (agents). Simultaneously, to lower the costs of control, companies delegate authority and transfer more residual income rights to the agents in riskier environments (Prendergast, 2000; 2002).

2.2 Research propositions

Based on the previously presented arguments, the proposition of this dissertation refers to the relationship between risk and incentives in franchise contracting and to the outlet managers of company-owned units. We propose that the relationship between risk and incentives in franchise contracting depends on the intangibility of assets.

Since the Research Proposition 1 has been omitted. We only present Research Propositions 2, 2a and 2b. According to, two experts excluded Research Proposition 1 as a proposition since risk and incentives based on the intangibility level of assets cannot be different in the same company and its relationship to company-owned units and franchise units. The argument lies within franchise contract, where company-owned units do not differ in their offer of products or services in comparison to franchise units.

Under an employment contract between the headquarters and outlet managers with more tangible assets, it is more likely that the relationship between risk and performance-based incentives is negative. In this case, the employer or the franchisor has the possibility to easily monitor the behaviour and the outcomes (see Figure 2). Consequently, this results in more monitoring costs and fewer incentives under increasing risk due to environmental uncertainty. According to the research question, we developed the following research propositions:

Research Proposition 2: If the assets are highly intangible, the relationship between risk and incentives is positive (considering the franchisee's view). This refers to incentive contracts between a franchisor and franchisees as outlet managers. It implies that the relationship between royalties and risk is negative (considering the franchisor's view).

In contrast, under a franchise contract with more intangible assets of franchisees it is likely that the relationship between risk and incentives is positive (considering the franchisee's view; see Figure 3). This means that if the franchisee's local market assets are very important for generating the residual income, the franchisee should receive a higher proportion of the residual income and hence pay lower royalties (which means franchisors receive lower payments of the royalties - disincentives). This implies royalties and risk have a negative relationship in franchise system with higher intangible assets if we look at it from the franchisor's point of view. In addition, we expect that the importance of the local market assets increases with local outlets operating amid higher uncertainty.

A second research proposition can be specified for empirical testing as follows: If we differentiate the franchise systems according to the intangibility of the assets involved and observe it from the franchisee's point of view. We can expect that the negative relationship between risk and incentives (royalties) is stronger for franchise systems with more intangible assets compared to franchise systems with less intangible assets. Therefore, we developed two additional sub-propositions:

Sub-proposition 2a: The negative relationship between risk and royalties is stronger for franchise systems with more intangible assets.

Sub-proposition 2b: The negative relationship between risk and royalties is weaker for franchise systems with less intangible assets.

Overall, we can summarise our research model that focuses on the relationship between risk and royalties from franchisee's point of view under two franchise systems: (a) systems with low intangibility (less intangible assets); and (b) systems with high intangibility (more intangible assets) (see Figure 5).

From the relationship between risk and royalties in Figure 5, we can see that they move in the same direction as intangibility increases in franchise companies. Here we cannot forget that we are considering the franchisee's point of view. In order to better understand, agency theory predicts that higher uncertainty, results in lower incentives for the franchisee (franchisee rather accepts lower salary in order to be secured from the company's side against the market's uncertainty). Lower incentives for the franchisee mean higher royalties for the franchisor. Therefore, we find a positive relationship between the uncertainty and royalties from the franchisor's point of view.

Figure 5: Relation between risk and incentives considering the franchisee's point of view

If we apply the framework in Figure 4 to international franchise relationships, the franchisor is less able to evaluate the environmental uncertainty than under domestic franchising. Furthermore, in an international setting environmental uncertainty and hence monitoring costs are increased due to the geographical and cultural distance involved (Fladmoe-Lindquist & Jacque, 1995; Kogut & Singh, 1988; Alon & McKee, 1999a, 1999b; Alon, 2004, 2012). In particular, exchange-rate fluctuations, political instability, legal uncertainty, and high cultural distance increase the uncertainty for the franchisor, which will impact the relationship between risk and incentives.

2.3 Research methodology

The qualitative study mostly employs means with a purpose to understand the nature of the research. The major goal is to focus on understanding and the quantity of observed characteristics (Strauss & Corbin, 1994). Case studies are suggested as an holistic view of the research problem (Baxter & Jack, 2008; Tellis, 1997a, 1997b). Although the qualitative view of the research strategy is not well understood, we executed the case studies in order to gain a deeper holistic view. As suggested by some authors, it seems interesting to investigate how risk and incentives relate to each other by applying their measurements to different companies. In order to follow all research demands necessary for an optimal research design, many possibilities were investigated to determine the missing piece of the puzzle responsible for the inconsistency of the relationship between risk and incentives in franchising.

On the other side, when agency theory is applied to franchising, according to Lafontaine & Slade (2007, 2002) we find some challenges associated with risk and incentives issues. When we compare the relationship between risk and incentives, it can be seen from the literature review that results show some inconsistencies. However, other theoretical views such as property rights theory and the incentive view of delegation explain the relationship being opposite to the prediction of agency theory. That is why this research also includes these complementary views in the research framework. Moreover, it also considers the level of intangibility of the assets and their influence on the relationship between risk and incentives in franchising.

The simple model of agency theory assumes goal conflict between the principal and the agent (in this case the franchisor and franchisee), an easily measured outcome, and an agent that is more risk-averse than a principal (Eisenhardt, 1988, p. 61; Holmstrom, 1979; Jensen & Meckling, 1976). Even though there are many models and ways to interpret and apply agency theory, according to Eisenhardt (1989) the heart of agency theory is the trade-off between control costs measuring the behaviour of the agent (franchisee) and the cost of measuring the outcomes together with transferring risk (Eisenhardt, 1989). According to agency theory it is expected that a more risk-averse franchisor will pass the risk on to the franchisee, which means that there is a positive relationship with behaviour-based contracts and a negative relationship with outcome-based contracts (Eisenhardt, 1989, p. 62). Due to the inconsistent results and opposite theoretical explanations, the research propositions are formulated by using both agency theory and property rights theory with the delegation view.

Yin (2009) and other authors propose the case study as the most useful qualitative strategy when applied to broad and highly complex environments. It is also useful when there is not a lot of theory available and when the context is very important. Furthermore, the case study is preferred when examining contemporary events. In business research, authors advance these three arguments for using case study approach (Dul & Hak, 2008, p. 24). Moreover, the case study's unique strength lies in its access to well-grounded data, which allow us to gain a complete picture and detailed understanding of complex phenomenon (Bonoma, 1985; Miles & Huberman, 1984; Yin, 1994). A case study is better for the present study, according to Dul & Hak (2008, p. 9), because using an experiment to investigate how intangibility affects the relationship between the risk and incentives would be a manipulated way of collecting the data.

Our research focusses on franchise retail and service companies which have a distinct level of intangible know-how transferred to the franchise network. In order to explore the intangibility present and the differences in intangibility reflected in franchise firms, we studied global franchise companies. In our case, an important distinction was mature franchise firms that have developed their know-how in the last 10 years and through successful cloning have managed to lead and support franchise networks. Because we are trying to test and contribute to the development of agency theory, we chose theory-based research (Dul & Hak, 2008, p. 38). The plan for the research consisted of two activities: the formulation of propositions, and testing whether they can be supported.

We decided on an extensive multiple-case study design because we are trying to answer issues of risk and incentives in agency theory applied to franchising. In cases like this, Eriksson & Kovalainen (2008, p. 122) suggest using four to ten cases according to theoretical sampling, not statistical sampling, and making theoretically interesting comparisons to describe, crystallise, and explain the dynamics. Therefore, our decision was to compare intangibility in retail and service franchise companies due to risk and incentives in franchising.

Because this research challenges agency theory, we take the approach of theory-oriented research by Dul and Hak (2008, p. 31). Specifically, theory-oriented research is research where the objective is to contribute to theory development, meaning that the theory also can be used for practice in general (Dul & Huk, 2008, p. 31). The epistemological grounding of conclusions drawn from a small number of observations cannot be generated by statistical means, and for this reason this research is qualitative; however, this distinction still implies no difference in epistemological grounding (Dul & Hak, 2008, p. 41).

A series of replications is necessary to test propositions to contribute to development of theory because the conclusions drawn from a small sample cannot be generated by statistical means and can be characterised as "qualitative". Because the results could have an erroneous impact and a group of instances may not be representative of the domain (Dul & Hak, 2008, p. 41), research results have to be replicated, even those that are highly statistically significant (Dul & Hak, 2008, p. 41). In our case study research we triangulate multiple data resources (Farquhar, 2012). We start with the literature review, followed by semi-structured interviews and the questionnaire.

Differences in replication habits between the survey and experiment are one of the differences between the chosen approaches. Many authors (e.g., Yin 2003) who explicitly support the idea of replication recommend a multiple case study, which is consistent with our decision to use the comparative case study. Dul & Hak (2008) call a multiple study a "serial study" because they believe this term makes explicit that every single replication is a further test in a series of replications. Each replication starts with an evaluation of the results of previous studies, and a study is designed so that it maximally contributes to the current theoretical debate about robustness of the propositions and the domain to which it applies. In our case studies the franchise companies are to be compared with another source of data – our research franchise consultants. This replication approach proposes that another replication should be made with another carefully chosen case or cases in a multiple study (Dul & Hak, 2008, p. 44). Dul & Hak call this kind of case study a comparative case study, meaning using a small number of cases in their real life context with scores analysed in a qualitative manner. We conduct the analysis with a pattern-matching analytical technique

(Dul & Hak, 2008, p. 95; Yin, 2003, p. 95).

Case study outlines the strengths of a case study methodology in business network research, which is executed in different spatial, social, political, technological and market structures. Franchise networks in international franchising are complex business networks where the franchisor and the franchisees work under the same brand and with the same business. Therefore we see great suitability in using a case study in a trial to understand a complex relationship (Halinen & Törnroos, 2005).

A case study was conducted to show how franchising impacts the relationship between risk and incentives because researched companies differ in intangibility. We analysed retail and service companies with long-term franchise experience. Data collection was executed through semi-structured interviews of retail service franchise companies, with additional interviews of franchise consultants with a minimum 20 years of franchise consultancy experience in the United Kingdom, Germany, Australia, and the US. Semi-structured interviews with open-ended questions are mostly used to give the interviewee encouragement and opportunity for discussion about their feelings and attitudes as well as facts. In addition, semi-structured interviews are appropriate to gain in-depth exploration of ideas and relationships (Jennerich & Jennerich, 1997). The qualitative approach enabled us to explore the franchise relationship. However, the pattern-matching analysis of interviews revealed repeating patterns. Therefore our research needed to be upgraded to follow the research propositions that have presented a scientific puzzle for so many years. This led us to conduct an additional small survey. The multi-strategy approach permitted us to execute analytical "cuts" as the nature of our research problem and research strategy led us to further explore research into the trade-off between risk and incentives (Layder, 1993). The data collected in the case study comparative analysis encouraged us to further investigate the nature of our research gap. In this way we allowed the agency theory trade-off to emerge from the data itself. On the other hand, this "openness" of the approach led us to apply our survey to the same franchise companies so that they could be viewed as complementary to each other. Although the sample size of our additional survey is quite small, the use of a survey with local measurement of uncertainty enabled us to indicate the tendency of the end results in our research.

According to Bonoma (1985) we can now find an increased number of research studies from economics and organisational behaviour choosing qualitative rather than quantitative methodologies to investigate the complex phenomena. The measurement or operationalisation is not easy to do, and even when it is done the observed variables are hard to measure in their natural context. Our example indicates how substantive data might emerge out of the intersection of qualitative and quantitative data. This allows a greater scope to our field research for the development of agency theory. The literature review shows how qualitative measures are very often executed to further understand the franchise phenomenon. It confirms the need for an in-depth analysis to expose the insight into issues of risk and incentives in franchising contracting.

2.4 Description of the context

The current economic crisis has strongly influenced the development of franchising. Franchising increased significantly from 1999 to 2004. After 2008 the crisis had an impact all over the world, slowing down or even stopping investment activities. In some countries the number of franchise systems decreased (for example, according to European statistics, in Slovenia and Croatia). Franchising mostly depends on banking system activity and some recent research studies have tried to determine a correlation between interest rate and economic growth in franchising (Lafontaine & Shaw, 2005; Diaz& Rodriguez, 2012; El Akremi, Perrigot, & Piot-Lepetit, 2015).

Franchise systems change their strategies due to changes in the business environment. They increase the number of franchise units by offering better conditions to franchisees who assume the risk in local markets, and franchisors then get to enter another market. Franchisors intend to enter many markets, but with a local franchisee's resources rather than their company-owned units. As shown by the latest research, there are contextual tracks where research is influenced by contextual happenings, meaning the global crisis did not completely stop some investments but it did slow the pace (Diaz & Rodriguez, 2012).

All these contextual characteristics were examined during our research, and they are important for future research. When cyclical trends mark the peak of "golden ages" again, franchise companies might increase the number of company-owned units, showing an impact of the relationship between risk and incentives. However, we also believe some franchisors would raise the number of franchise units in order to increase invested capital in franchise units where the franchisee takes over the local market risk. This change would crucially affect the results, showing inconsistency once again.

2.5 Case study research design

The purpose of the study demands a research design with a qualitative approach expanded with a small survey. Because our research question concerns the franchise relationship, we want to find out how franchisors understand the franchise relationship in terms of risk and incentives. We include perspectives of other participants such as franchise consultants to obtain a wider complementary perspective from different sources.

The study tries to understand franchising from the agency theory view framework of the relationships. For a long time there have been questions regarding risk and incentives, creating confusion among research studies. Although case studies have often been criticised, we believe the inconsistency of the end results could be resolved with a qualitative in-depth approach. In order to achieve better research we tried to produce a research design that increases the reliability and validity of a case study (Voss, Tsikriktsis, & Frohlich, 2002; Yin, 1994). The development of a good case study protocol was systematically created based on our case study design. Yin (1994) highlights the case-study protocol as the development of a study project to use as a guide for the case study report.

Case studies are also considered to be biased because the results of the research cannot be generalised and create many documents or reports, which are hard to read and to understand, making them less useful for getting the whole picture as in quantitative studies (Yin, 1994). Therefore case studies are performed by following the case study protocol. The better we understand the case study protocol, the more differences we find with quantitative methodology. The protocol has procedures and general rules to be followed and is recommended for conducting a multiple-case study because it maintains focus on the topic of the case study (Yin, 2009, p. 79). Research design enables us to consider the quality criteria of validity and reliability (Dul & Hak, 2008; Huberman & Miles, 1983; Miles & Huberman, 1984; Yin, 1994, 2009). All instruments of our methodology approach are described and specified within the next chapters. All data collection procedures relate to our research model (see Figure 4).

2.5.1 Case study quality criteria

Every case study has four main characteristics that have to be followed to assure a good case study. Validity and robustness are assured by construct validity, internal validity, external validity, and reliability of data and findings. As suggested very carefully by one of the studies about case studies, researchers have to strive very hard to publish case studies in top magazines (Gibbert, Ruigrok, & Wicki, 2008). That is why in case studies the external validity is often developed at the expense of the two more fundamental quality measures (internal and construct validity). Authors instead focus on developing external validity (generalisability) more in order to be published in top magazines (see Table 3). As is mentioned by many authors, qualitative studies imply major four characteristics which establish the quality of any empirical social research study. Each of those characteristics deserves explicit attention (Bonoma, 1985; Dul & Hak, 2008; Gibbert et al., 2008; Hirschman, 1986; Johnston, Leach, & Liu, 1999; Meredith, 1998; Parkhe, 1993; Voss et al., 2002).

Construct validity enables the researcher to assess the quality of the conceptualisation with appropriate operational measures for the concepts being studied (Dul & Hak, 2008; Gibbert et al., 2008). Internal validity seeks to establish a causal relationship and refers to the reality which is being interpreted. This characteristic appears in the process of research when we are in the phase of data analysis and our framework is put to the test in order to clarify the understanding of the relationship between the results and the topic of the study. In our case, the analytical technique of pattern matching is used to reveal the relationships and we additionally triangulate the sources of data to achieve higher internal validity.

There are many discussions regarding the generalizability of case studies. In every aspect of our research we tried to think about this important aspect of the qualitative methodology. Understanding patterns in reality makes it difficult to achieve generalizability in the findings. By collecting a certain number of cases and going beyond the application of the findings to other studies or situations, we achieve a certain level of generalizability. However, with a single or multiple case study approach we cannot achieve statistical generalisation, but this does not mean we cannot achieve analytical generalisation. With this process we move away from statistical generalisation and get involved with generalisation from empirical observations to theory, rather than a population. It is a two-step process. In the first step we connect the findings from the literature review and theoretical constructs to hypothesised events. In second step we show the application to other similar situations for an improved understanding of particular concepts – in this case the relationship between risk and incentives in franchise contracting (Gibbert et al., 2008; Yin, 2009, p. 98). According to Eisenhardt (1989) case studies are a good starting point in theory development, so the cross-case analysis should involve four to ten cases as a good basis for analytical generalisation, a recommendation we followed in our research.

Going beyond application of the findings means involving the last quality criterion called reliability of case study findings. This refers to replicating the results of one case study by studying another case. The goal of reliability is to minimise the errors and biases in the study. Careful documentation and following the case study research procedures avoids the suspicion of sloppiness in the case study research. Replication demands the use of a case study protocol and the development of a case study database.

Yin (1994, 2003, 2009) defines a research design as a logic that links the data to be collected to initial research questions of a research study. Five characteristics will be considered in the research design: the study question, the propositions (hypotheses), the unit of analysis, the logic linking the data to the propositions, and the criteria applied for interpreting the data. We followed all necessary components in our research according to the recommendations of Yin and Dul & Hak.

2.5.2 Unit of analysis

The unit of analysis in this research is the company in order to provide the comparative study. We interviewed retail and service franchise companies working for more than 10 years in the franchising business, which means the companies, established their companies before and proved their business model. Having experience means for those companies not just sales of franchise units but also support of their franchisees in international markets. Most of the franchise companies with a minimum ten or fifteen years in franchise business are also franchising outside their domestic market.

This case study applies a multiple-case design consisting of six retail and six service franchise companies. We include another source to assure the triangulation with additional interviews of four different franchise consultants each with more than 20 years of franchise consultancy experience. Most of them have 30 years of franchise consulting experience. As suggested Yin (1994) and many others, these multiple cases follow the replication logic in analysing our main research question concerning the relationship of risk and incentives due to intangibility. Therefore, the case study will be connected with sampling logic used within procedures for surveying interviewers to estimate the incidence of a phenomenon (Dul & Hak, 2008).

We exclude from this research capital-intensive companies such as hotel, airline, telecommunication, electricity, fast food, and energy companies or restaurants because they additionally demand huge investments into equipment, power plants, etc. Furthermore, they are not just knowledge-based but also capital-intensive investments and the incentives of franchisors in this case are also earnings in machines and other capital. We decided to interview franchise retail companies earning their profit from the margin of their sales products and royalties. In the last few years, these companies do not have any royalties, because they earn their profit just from the margin of sales of their products to the franchise network. Usually, these franchise companies include the royalty into margins together. In order to achieve this criterion, we mostly used retail franchise companies and not fast food franchise companies such as McDonalds or Burger King or hotels such as Marriot or Holiday Inn.

Companies with ten years of franchise experience have demonstrated that their system of cloning units has the complete trust of franchisees. These companies also successfully support the franchisee's local business with the franchisor's support team. This means the franchisor has developed a business system for franchising in order for the franchisee to survive, and after six to nine months, to start getting a return on investment – i.e., to profit from the franchise business. Therefore we picked franchise firms which had passed through any initial development mistakes of the franchise business model that the franchisor needs to take care of in order to develop further and gain trust for its franchise business (Sen, 2001). This is how franchisors start franchising internationally and become involved with institutions such as franchise associations (like Slovene Franchise Association) or become a member of IFA (International Franchise Association). When a company with a franchise concept moves across the border it starts gaining maturity in its franchise business format and the franchise brand starts being globally acknowledged. Therefore the interviewed franchise companies had to have more than ten years of franchise experience because through this period their maturity increases in order to achieve managerial and functional structural differential. As is evident in older franchise systems, this approach gains the attention of present and future franchisees (Castrogiovanni, Bennett, & Combs, 1995; Giles & Young, 2001; Weaven & Frazer, 2007b).

The literature review clearly indicates that previous research studies are inconsistent. Therefore we decided to analyse the scientific phenomenon differently in order to gain an in-depth perspective of the risk-and-incentive relationship in franchise companies. We decided to execute a qualitative approach encouraged inquiry on a global basis with a small additional survey because no previous research studies had investigated the international view of the issues of risk and incentives. We employed a global view of two types of franchise firms. Moreover, the scientific challenge surrounding the trade-off between the risk and incentives has lasted for almost three decades. The latest four articles on the trade-off, published in 2016 (Table 3), indicate a flexible component which will enable the reorganisation and reformulation of agency theory. Therefore the relevance of these global companies leads us to the analysis of risk and incentive issues in franchise systems which successfully support their franchise networks and the incentives suited to the franchisor's motivation to further develop the franchise business model.

2.5.3 Logic linking the data to the theory and criteria applied for data interpretation

We executed a series of semi-structured interviews designed to investigate the relationship between the risk and incentives due to intangibility. The interview guide started with several introductory questions leading to questions regarding the major concepts including second-level questions as a closed targeted question to determine the final reply (see Appendix 1). In this respect, Miles & Huberman (1984) referred to the deduction of a substantive research question and conceptualisation task as an anticipatory data-reduction process. Furthermore, we developed the interview guide together with the case study protocol to improve the reliability of our case study findings. The data collection phase started with interviews, first with retail companies and then with service companies.

In addition, during those interviews we gained access to franchise consultants. The franchise consultants were interviewed to corroborate and increase the reliability of our study. Other sources could not be used in our research because there was no appropriate way of showing the relationship between the risk and incentives. All materials that franchise companies have – such as franchise brochures, franchise disclosure documents (these are according to franchise law obligatory to all franchise companies in the US; called also FDD), PowerPoint presentations of the business model, video clips in YouTube – do not have the ability to show us the company's decisions in international franchising made due to risk and incentives. In accordance with Miles and Huberman (1994), interim data reduction was conducted by connecting the data to operationalised constructions generating the explanatory response patterns. Pattern matching is a research strategy within comparative case analysis and contributes to internal validity (Yin, 1994, 2009).

2.5.4 Case study protocol

A qualitative study needs a case study protocol to achieve better results. It should include five components, which enables the researcher to achieve higher reliability and validity (Voss et al., 2002; Yin, 1994, 2009). The case study protocol enables the research overview to be systematically divided into sections such as case study questions, description, and the purpose of the study. The evidence from a multiple-case study is often considered more compelling than single-case designs. The evidence from multiple cases is an overall study and therefore more robust (Herriott & Firestone, 1983; Yin, 2009). In our case study research we have a unit of analysis, selected cases, data collection, and analytical technique together with a basic outline.

Our study is based on the theoretical framework of agency theory (Jensen & Meckling, 1976; Lafontaine & Slade, 2007, 2002; Prendergast, 2002). In the third chapter we reveal our variables which, according to agency theory, influence international expansion. According to Prendergast (2002), the trade-off between risk and incentives in franchising happens due to different arguments. The delegation of authority is used to reduce monitoring costs when faced with the higher uncertainty present in foreign markets. The important variables from the franchisor's point of view are environmental uncertainty, the intangibility of specific assets, and incentives. Table 5 describes our major research propositions and two sub-propositions. The relationships between the independent variable and the dependent variables are illustrated in a research model (see Figure 4).

Franchise companies expand internationally and accept different uncertainties (environmental uncertainty, demand uncertainty, behavioural uncertainty, etc.). All uncertainties rise with higher physical distance. When uncertainty is so high that it seems unacceptable for the franchisor, the decision is made to sell a franchise licence rather than to open a company-owned unit, due to the high control costs for the franchise company. If we apply this framework to international franchise relationships, the franchisor is less able to evaluate the environmental uncertainty than under domestic franchising.

Therefore, in an international setting environmental uncertainty and hence monitoring costs are increased due to the geographical and cultural distance involved (Fladmoe-Lindquist & Jacque, 1995; Kogut & Singh, 1988). In particular, exchange-rate fluctuations, political instability, legal uncertainty, and high cultural distance increase the uncertainty for the franchisor, which impacts the relationship between risk and incentives (Figure 2 and Figure 3). We believe the risk is higher for retail companies – in our case highly tangible companies – because they sell the goods to the franchisee, and these products are then sold in the franchise unit. Furthermore, it is difficult to adapt these products to environmental uncertainties, and therefore the risk is unacceptable for the company.

Predominantly service franchise systems or complex franchise systems face a higher level of uncertainty, and because of their high degree of non-specified assets such as know-how and support such as coaching and mentoring they are fragile, and can easily be copied by personnel employed in franchise units. The uncertainty rises here to a much greater degree. On the other hand, the franchisee takes on more responsibility by buying a franchise system with more intangible assets and the success of the franchisee and franchisor depends on transfer of intangible assets which leads to the franchisee's success on the local market. In Table 5 we summarise the previously outlined research propositions.

Table 5: Research propositions on risk and incentives in franchising contracting

Intangibility	**RP2**	**If the assets are highly intangible, the relationship between risk and incentive is positive.**
Incentives Risk • Qualitative (Environmental uncertainty) • Additional questionnaire (Local market uncertainty)	**RP2a** **RP2b**	**The negative relationship between risk and royalties is stronger for franchise systems with more intangible assets.** **The negative relationship between risk and royalties is weaker for franchise systems with less intangible assets.**

2.6 Criteria for case selection and number of cases

The complete research design embodies our "agency theory" framework in order to study the trade-off between risk and incentives in franchising. This framework serves to explain how this relationship changes after many decades and the influence of intangibility on international expansion. By selecting a multiple-case design due to different criteria, which provide us with our research results, we studied our research challenge by setting the boundaries and then we carefully connected directly to the propositions.

Thereafter we created the sample framework to help us uncover and qualify the basic construct that underpins our study (Voss et al., 2002). We were careful not to avoid the negative cases, which led us to a comparative case study analysis (see Table 6). Data collection with multiple cases enables us rich support for the research problem and suggestions for refinement of the theory. Therefore the selection criteria for case studies should follow replication logic rather than sampling (Yin, 1994; 2009).

Generalisation creates problems in qualitative methodology; however, according to Yin (1994, 2003) and Dul & Hak (2009) this is solvable and theories can be tested or developed according to analytical generalisation. Generalisation is an important obstacle in qualitative research, but some authors consider case study research to be a useful strategy when the topic is broad and highly complex and when there is not a lot of theory available. In our case the context is very important because agency theory with risk and incentives serves as a theoretical framework that is tested (Eisenhardt, 1989; Dul & Hak, 2008).

The main goal of our screening process for candidates was based on operational criteria whereby candidates serve as cases that fit our replication design. We conducted a clear and in-depth literature review, and based on potential suggestions for understating and explaining the risk and incentive issues in franchising contracting, the cases were screened to reply to the research question in an appropriate manner to achieve clear ideas about our study. We followed the suggestion of Voss et al. (2002) to set boundaries that define what we can study and that connect to our research questions. Thereafter we created a sample framework to look into the basic processes that influence the relationships in our constructs. Following Miles and Huberman (1984), we tried to find the criteria to define polar types according to the intangibility variable in order to execute the comparative case study. As sample controls we choose the age and experience of franchise companies, which in our study is 10 years of franchise experience for a franchise company and a minimum 20 years for a franchise consultant.

The sampling criteria focused on companies being structured as business format franchises and having developed their franchise networks in an international franchise setting. The decision to include franchise consultants with more than 20 years of franchise experience was to gain multiple sources in order to assure different interpretations (Voss et al., 2002). The domain of our case study represents the potential universe of eligible cases in which it is believed that propositions and theoretical concepts of the object of the study are true (Dul & Hak, 2008, p. 36). We contacted franchise companies working as retail and service firms (Table 6). These retail franchise companies mostly come from Europe, primarily Germany and Austria, and a couple of them come from the USA. The service franchise companies also come from Europe or the USA. Many service franchise companies with a long period of franchise experience were found in the United Kingdom and in the USA. Most of these companies do come originally from the USA, if we observe just the business models, because franchising as a business model started there. These companies have long multinational franchise experience and mostly work with franchise consultants to provide an appropriate measure of support to their franchise network and to develop their international franchising strategy. This is very important in our study, because the extensive support translates into a wealth of intangible assets, which cannot be specified in the franchise contract.

The sampling was conducted according to the sample domain due to the presence of independent variables outlined in the theoretical framework. We had no geographical limitations, because franchise companies were chosen based on their franchise experience, and such systems are not widely found in Europe, so we also contacted American franchise companies with franchise units all over the world. The independent variables therefore describe parameters of environmental uncertainty – specified as institutional uncertainty, economic uncertainty, and cultural uncertainty – and local market uncertainty – specified as demand uncertainty, sales uncertainty, and market development uncertainty. All 16 cases are globally incorporated with their franchise networks and therefore dominate their regional industries. Additionally, 12 companies were questioned regarding an evaluation of local market uncertainty (Table 6). Intangible assets, in service franchise companies, are a focal selection criterion in our research. This variable is the difference between the companies that was used to execute the comparative case analysis. This specific know-how plays a crucial role in the company's decision for cross-border franchising.

Table 6: Case study candidate franchise systems and franchise consultants

	RETAIL COMPANY	COUNTRY	POSITION HELD
1	Retail company 1	Austria	CEO
2	Retail company 2	Austria	Franchise Executive Manager
3	Retail company 3	France	Franchise Executive Manager
4	Retail company 4	Austria	Franchise Executive Manager
5	Retail company 5	Germany	Franchise Executive Manager
6	Retail company 6	USA	Vice President of Franchise Development
	SERVICE COMPANY	**COUNTRY**	**POSITION HELD**
1	Service company 1	United Kingdom	Franchise Expansion Manager
2	Service company 2	USA	Vice President and Co-owner
3	Service company 3	Australia	Vice President and Co-owner
4	Service company 4	USA	Owner of the Franchise System
5	Service company 5	USA	Senior Franchise Manager
6	Service company 6	USA	Franchise Executive Manager
	FRANCHISE CONSULTANTS	**COUNTRY**	**POSITION HELD**
1	Franchise consultant 1	USA	Franchise Consultant & Coach
2	Franchise consultant 2	United Kingdom	Director, International Development
3	Franchise consultant 3	USA	CEO of Franchise Consultancy Company
4	Franchise consultant 4	Australia	Franchise Consultant & Psychologist

2.7 Data measurement procedures

Dul & Hak's (2008) definition of a case study includes measurement but does not include statements on measurement or measurement techniques. However, they point out how important it is for the major concepts to be measured for construct validity and reliability. These concerns come into our research when performing the data collection and data analysis (pattern matching) which is intended to capture the meaningful ideas contained in the concepts for which value is measured. Therefore, we follow the measurement-validity process indicated by Adcock and Collier (2001), which observes the types of evidence for validity. In this way, we achieve measurement validity. The following sections describe the applied processes of data collection, operationalisation, and data analysis.

2.7.1 Data collection

Case studies try to use as many different data sources as possible, such as observations, questionnaires, archives, and interviews, to collect the necessary qualitative research. However, triangulation is one of the most important issues, because it grants stronger validity of constructs and hypotheses. The problem of availability of data on the foreign activities of international franchising was in our case much easier because the investigator has access to many franchisors and consultants through international involvement in different projects. The data sample was selected according to intangibility criteria. Because we are trying to see how intangibility influences the relationship between the risk and incentives, service and retail companies were selected. The firms included in this research are from the textiles, toner, and services industries, with the latter including franchise consultants having more than 20 years of franchise experience.

Service and retail franchises were chosen that have managed through their franchise history experience to develop their franchise systems in terms of their knowledge and the transfer of that knowledge. The longer the history of the franchise system, the longer are the franchise manuals and the more support the system develops. In our case it is the intangibility that is being measured, and this allows us to compare how retail and service franchise companies develop their intangibility support in their franchise networks.

Service companies spend a large amount of resources with the goal of building their reputations in order to gain clients' trust in the professionalism of their work. Huge network systems are usually built or professional business services are set up to form links with clients, which are hard to replicate (Noyelle & Dutka, 1988, p. 48). Service companies have decided to lower their costs through centralisation of the production of their services, including professional communication with their clients, in order to compete globally (Alon & McKee, 1999b).

On the other hand, fashion retailers are amongst the most successful in international franchising. Their international expansion is based on international franchising experience, availability of financial resources, presence of a retail brand, company restructuring, and the influence of key managers (Doherty, 2007, 2009; Doherty & Alexander, 2005). In addition, the learning process and network grow through the decision to expand (Doherty, 2007). The lack of qualitative research encourages more research to execute the studies, even though it is quantitative research that is desired (Lafontaine & Oxley, 2004). The theoretical development of international franchising is much less advanced, with only agency theory as a definition or explanation for this business model used for international expansion (Doherty & Quinn, 1999).

Our case study comparative analysis revealed data only in a descriptive way. Consequently, we needed another approach in order to indicate the positive or negative relationship between risk and incentives. Our incentives were measured with royalties and margins. Without an additional short questionnaire, there would be no possibility to analyse our research propositions. In order to indicate the relationship, we measured the risk evaluation of franchise global companies when faced with uncertainty because we had already analysed environmental uncertainty as a risk construct. Our data showed many similarities between retail and service companies. Therefore, we decided to measure risk with local market uncertainty in the form of demand, sales, and predictability of future developments (see Appendix 2). In this way we presented the similarity of data collected in terms of risk and explored the local market uncertainty in global franchise companies.

2.7.2 Interviews

Interviews were set up with contacts who play a major role in decision-making for international expansion. Most of them are Franchise Development Managers, CEOs, or owners of franchise companies. Managers in charge were approached by using the European Franchise Federation network or the Franadria network. The first contact was made by via email and telephone describing the relevance of the research, the required time for the interview, and an outline of the confidentiality of the study including the right to withdraw. The first few interviews were conducted in Europe with the retail industry observed in our research. All service franchise companies were from the US or Australia because we could not find appropriate service franchise companies in Europe. Because we wanted to include a global view in our research of retail franchise companies, we also included franchise companies from the USA.

Most of the complex service franchise companies were from the USA. Franchise consultants were mostly from the UK and the USA. The first contact via email was described as an invitation, and the document attached outlined the purpose of the research. The semi-structured interview was conducted by Skype or phone. All interviews lasted approximately 40 minutes and were recorded with prior consent of the participants, and verbatim transcriptions were produced for data analysis. The interview guide provided topic or subject areas within which the researcher explored, probed, and asked questions to elucidate and illuminate the subject area. In other words, the researcher in all interviews remained free to build a conversation within the research area (Merriam, 2002). Because this research was qualitative rather than quantitative, it did not seek to make generalisations, but we often made efforts to achieve different forms of generalisability or transferability. Opportunistic sampling strategy was not appropriate; rather, we related our research to the manner in which franchise companies are connected to the phenomena that our study investigates.

We shortlisted 20 global franchise companies with a presence in the EU market and with a minimum 10 years of franchise experience and a minimum 150 franchise units. Twelve companies agreed to participate, six retail companies and six service companies (Bernard 2011). Eight franchise consultants were shortlisted based on a minimum 20 years of franchise experience from the UK, the USA, and Australia. Four of them accepted the invitation. The interviews with franchise consultants served to fulfil the triangulation conditions, and lasted approximately 70 minutes (Creswell 2013). Franchise companies were randomly contacted at franchise exhibitions or different franchise events all over the world. They were all willing to cooperate without using their names or company's titles. The approach might indicate some concern about selection bias in the sample. However, it was unavoidable under the circumstances. All phases of this study were subject to scrutiny by an external auditor who is experienced with qualitative research methods. The interview guideline included 25 questions, 12 of which were based on variables measured in the model.

Having decided to execute a qualitative study, other sources of data were in our case out of the question. Other documents such as franchise brochures or web pages could not be used to determine the relationship of risk and incentives in franchise contracts. In accordance with Rorty et al. (1980), we wanted to determine the knowledge about the phenomenon through conversation and social practice. We achieved this by conducting the qualitative research through interviews, and in this way we became increasingly aware of the constructive nature of social interaction and the part played by active subjects in making sense of their experience.

Because all of the companies had different methods of expansion, we always tried to help them answer the questions by giving them an example from real situations these companies face almost every day. Usually the problem entered by means of comparing entry to two different host markets, one market very close (usually a neighbouring country) and one market which was farther away (for example, if the franchise company was from Germany, we compared host markets such as Croatia and Albania or Ukraine). Even though we tried to state "how" and "what" questions, we also focussed on the meaning and experience of the interviewees.

2.7.3 Other sources

The literature review reveals all relevant studies; we did not use older studies from before 1988. We used this backdrop for the problem of our research as it applied to risk and incentives in franchising. Issues about contradicting results led us to an urgent need for in-depth qualitative research. The inductive approach challenged us to seek reflections of risk and incentives in interviews. The framing of the research problem demanded execution of an additional short questionnaires. This enabled us clearer measurement of stronger and weaker effects due to descriptive results of our interviews. Therefore we could call our study partially a mixed-methods approach because we executed a smaller quantitative approach to follow reflections of the replies in the interviews also in figures. According to Eisenhardt (1989), semi-structured interviews are quite commonly used together with a small questionnaire where different data collection sources are used. The questionnaire was replied to by the same companies (six retail and six service franchise firms). We saw the opportunity to advance our research questions by showing the effect of the franchisor's understanding of risk and incentives in the same companies.

The fieldworker wanted to show the non-existence of previous in-depth studies of our franchise relationship when focused on risk and incentives. In order to be sensitive to our implications for revealing another point of understanding the relationship between risk and incentives as it applies to franchising, we wanted to use the qualitative approach to understand the franchisor's perception of risk and evaluation of royalties (Layder, 1992). Additional research revealed interesting results showing how retail and service companies perceive risk with a similar description but with different royalty levels. The information needed could only be collected through interviews with people working in the franchising business for a long time. Franchise consultants seemed a very good option because of their long-term experience with different companies such as Pizza Hut, McDonald's, KFC, Cartridge World, Fast Signs, etc. An overview of some research studies of the retail franchise business was also considered to improve the study.

2.8 Operationalisation

The indicators that we used as a measurement tool for our concept were decided upon as the best way to capture the theoretical patterns outlined by our overview of the literature articles (Adcock & Collier, 2001). The systematisation process of our research covers formulating the systematised concept through argumentation of the literature review and exploration of broader issues of the literature review. We tried to gain insight into the scores and indicators from past studies. In order to advance the process, the systematisation of the concepts had to be applied to indicators. Indicators represent systematic scoring procedures which can range from simple measures to complex aggregated indexes (Adcock & Collier, 2001, p. 530). In our multiple-case study we tried to capture the whole intangibility measure using the framework from Blomstermo and Sharma (2006) for soft and hard services. Based on the operationalised indicators of the theoretical concepts, we developed the interview questions for data collection. We matched repeating patterns in the collected data, and through the linkage to theoretical patterns in the process of hypotheses-testing (pattern-matching) we obtained the scores. During the data analysis phase of our research we compared our empirically collected patterns of intangibility and tangibility, additionally evaluating their influence on the relationship between risk and incentives in franchise contracting with the questionnaire. The interactions were observed to explain the change of the independent variables based on the choice of high or low incentives (dependent variable).

Our research model operationalises risk as environmental uncertainty measured though different aspects of uncertainty; incentives measured by royalty rates and average margins, which are seen as incentives from the franchisors' perspective; and the tangibility of knowledge assets, operationalised as the number of hours of support necessary to set up a new franchisee outlet. The operationalisation of these constructs is explained more precisely in the next sections.

2.8.1 Environmental and local market uncertainty

In this study, we have a twofold operationalisation of risk. First of all, risk is operationalised as environmental uncertainty as perceived by franchisors, but the dimensions of the uncertainty differ between the qualitative part of the study and the quantitative part, where we attempted to more precisely measure the franchisors' perception of risk. Previous studies use two general measures of risk. One measure is variation of sales per outlet (Lafontaine, 1992, 1993, Lafontaine & Slade, 2007, 2002, 2014; Martin, 1988; Maruyama & Yamashita, 2010; Norton, 1988a) (see also Table 4). Another measure is a failure of rates (Lafontaine 1992). Several studies used the notion of geographic dispersion of outlets (Lafontaine, 1992; Scott Jr, 1995). Generally, the construct of uncertainty has been researched many times using different theories in order to explain and understand the external influence on organisations.

Some studies distinguish risk from uncertainty. As defined by Knight (2012), risk and uncertainty should be distinguished. According to Knight, risk arises from repeated calculable events, which we are able to factor into decisions, whereas uncertainty arises from unpredictable events. We followed Knight's definition of risk, which franchisors are able to predict, and left the separation of the two concepts out of our scope. Furthermore, none of the latest researchers in franchise application of the trade-off between risk and incentives included the separation framework. This encouraged us to simplify the risk variable and focus on it as a determinant of royalties and margins. Our study outlines an empirical test using environmental uncertainty as an external explanation according to Alon (2012). Additionally, we test local market uncertainty as a determinant of incentives being applied as an internal explanation of organisation (Alon, 2012). This means, we incorporated the unknown assessment of risk in franchisor's experience (since franchising is a proven business model being cloned to different markets). This is one of the reasons, why we took only franchise global companies with minimum 10 years of franchise experience. Moreover, our decision to join the risk and uncertainty assessment was made partially due to literature review. As all previous studies used a risk assessment generally applied for franchising (see Table 4).

We decided in the qualitative part of the study to explore the uncertainties as concepts for business format franchise companies due to cultural, legal, and economic differences. Most of the explanations of uncertainty describe it as a behaviour or a certain reaction an organisation executes when facing different environments (Burns & Stalker, 1961; Dill, 1962; Lawrence & Lorsch, 1967; March & Simon, 1958; Salancik & Pfeffer, 1978; Thompson, 1967). In particular, strategic decisions are affected by uncertainty as one of the major indicators (Porter, 1997). Events as unexplained relationships which lead to unpredictability of consequences are defined as environmental uncertainty by Milliken (1987). Another explanation of environmental uncertainty is uncertainty that attempts to foresee events and a host's market or country's different segments (Dess & Beard, 1984). In addition, different research studies define environmental uncertainty as demand volatility and ambiguity (Rindfleisch & Heide, 1997).

This operationalisation of risk as local market uncertainty is complementary to the qualitative part of the research and its operationalisation of environmental uncertainty. Table 7 summarises the measurement items. Environmental uncertainty in the qualitative part of the study was discussed with interviewees through the following dimensions: institutional uncertainty, economic uncertainty, and cultural uncertainty. The measure of the perception of local market uncertainty in a quantitative way was as an addition to the qualitative research (Table 7). It was conducted by sending a short self-administered questionnaire to all participating companies (i.e., the interviewees). The interviewees were asked to assess several items of uncertainty. The items, extracted from the existing literature and adapted to the analysis context, are primarily based on studies of environmental uncertainty by Celly and Frasier (1996) and John and Weitz (1989). Local market uncertainty was measured with demand uncertainty (Bernstein and Federgruen, 2005), competitive uncertainty (Carter, 1990; Emery and Trist, 1965; Thompson, 1965), and future market development uncertainty (Song and Montoya-Weiss, 2001). Respondents were asked to assess the items described in Table 7 as local market uncertainty.

Table 7: Operationalisation of uncertainty

Variable	Operationalisation
Environmental uncertainty	• Institutional uncertainty • Economic uncertainty • Cultural uncertainty
Local market uncertainty	• Predictability of demand fluctuation in the local market • Predictability of sales in the local market • Predictability of the future market developments

2.8.2 Intangibility

Franchise companies with developed business format franchise systems develop a certain package of documents (in the US, regulations demand a franchise disclosure document [FDD]). These documents refer to the franchisee's right to use a franchise system for a certain period of time. Companies using franchising as a business strategy work hard to standardise their franchise network and therefore develop certain know-how using different tools to transfer the knowledge. All franchise business format systems try to put their knowledge in franchise operational manuals to make the transfer easier and faster. The tangible assets, such as sales of different products (for example textiles, clothing, food supplements, etc.), can be highly specified in franchise contracts and are easy to transfer, although the products demand good transport logistics from the franchisor and a good location from the franchisee.

Intangible assets refer to specific knowledge, resources, and capabilities. The franchisor's and the franchisee's intangible assets refer to system-specific assets, usually demanding a great deal of time and financial cost (Sorenson & Sørensen, 2001). Most of the knowledge necessary for a franchisee to open a franchise unit is written and described in the franchise manual. High intangibility within the franchise system prevents franchisors from specifying the entire know-how in written forms such as the manual or contract. Therefore more time is required for the transfer of the necessary know-how. According to the latest research about the trade-off between the risk and incentives applied to executives, another parameter is learning of executives, which was confirmed as an overturning of the expected negative risk-incentive relationship (He, Li, Wei, & Yu, 2013). In our case, we decided to use the intangibility in franchising rather than the learning process of executives in order to determine the effects of a complete level of intangibility in the franchise relationship.

According to Duckett (2008), when setting up a franchise there are rules to be followed regarding what kind of business model can be set up as business format franchise. The more complex or creative the business model is, the longer the knowledge transfer will take. In particular, standardisation within a franchise network demands from every franchise system effective ways of knowledge transfer (e.g., coaching, mentoring, or support through different IT channels) including also system-wide adaptation, distance management support, innovation, and control (Duckett, 2008).

When a franchise company starts opening franchise units globally, the standardisation of the franchise network must be provided with system-specific assets in equal measure to all franchise partners. As a consequence, franchise systems with tangible assets do not have the same adaptability as services type of franchise companies, because franchise service companies are able to adapt their business model to a certain extent to the host market. We took retail franchise companies such as in the fashion or cosmetics industries as companies with highly tangible assets – i.e., with low intangibility levels of assets. Their simple learning process demands less time to transfer the whole know-how to the franchisee. This know-how transference implies the transfer of knowledge related to intangible assets such as computer software, data processing, architecture, and miscellaneous engineering services. These intangible assets are often clearly specified in every franchise contract, or at least in the franchise operational manual. Most of them are important when products such as clothing or cosmetics are the major franchise business. The services connected to them, such as computer software, data processing, and architecture services, closely relate to the tangible assets being transferred onto franchisees. The operationalisation of these assets focuses in franchise companies on the transfer of know-how.

The higher the intangibility within the franchise system, the more support, coaching, mentoring, and training is needed to effectively transfer the know-how to all franchise partners. In Table 8 we illustrate the variable of intangibility. This variable describes the assets such as coaching, support, communication, meetings, and Skype and telephone calls. These assets are strongly present in franchise systems where services are a large part of the franchise business model. These companies are in coaching, networking, or headhunting industries, where tangible assets such as equipment or lighting do not play a crucial role in the transfer of the know-how to the franchisee. The complex learning process ends after many months of lectures and training programs using different communication channels in order to effectively and systematically transfer the knowledge the franchisee needs to start and develop the business.

Table 8: Operationalisation of intangibility

Variable	Operationalisation
High intangibility **(services and retail franchise companies)**	Total number of hours. It can include: coaching, support, days with communication, visits, meetings, and Skype and telephone calls lawyers, accounting, education, and management consulting local market assets as adaptability of the complex franchise concept
Low intangibility **(services and retail franchise companies)**	Total number of hours. It can include: computer software, data processing, architecture, and miscellaneous engineering services

For the most part, the intangible assets developed within companies increase sales using technological or proprietary know-how, software, the layout of the outlet or franchise unit, sales and marketing strategies, coaching, and communication systems. These key resources are for system-specific assets even more important in knowledge-intensive companies and are often referred to as human capital or the intellectual material. However, the key resource in capital-intensive firms is often referred to as physical or financial capital (Swart & Kinnie, 2003).

These brands have their know-how mostly valued in their high global marketing. The franchisee has to pay the initial franchise fee and open the franchise unit. If we compare the retail franchise industry to the service franchise industry, the opening and education of a service franchise, we predict, lasts longer. One reason is that the franchisor has to transfer the knowledge and obligatory know-how to secure the work of the franchisee with the franchise brand.

Retail industries such as fashion import products (e.g., clothing) to culturally different countries. This brings a lower level of adaptability compared with services. Services can be more flexibly adapted together with all local knowledge of the franchisee to make the franchise concept successful even in culturally different markets. Past research in services show the allowance to outlet managers to use their know-how and modify the services, even though the research on internationalisation of the service sector remains notably sparse

(Clark & Rajaratnam, 1999; Coviello & Martin, 1999; Ekeledo & Sivakumar, 2004).

The transfer of knowledge-intensive services requires a large amount of education, support, coaching, daily communication, etc. These are all investments into human resources, given that such services depend on the skills, talent, and knowledge necessary to satisfy the needs and expectations of the consumers (Erramilli & Rao, 1993). All investments are made by the franchisee, who also develops and adapts the franchise business model. Therefore we included the intangible assets invested by the franchisee and executed by the franchisor's support team. These assets are described as intangible because they are not specified in the contract or the franchise manual.

We assume the transfer of knowledge in retail franchise industries is less complex and does not require a higher or longer level of support in the knowledge-transfer phase. Most of the tangible assets are related to equipment or architecture and miscellaneous services which are transferred to franchisees in order to set up the franchise unit according to the strong image standardisation of their outlets or shops. Therefore, we included only the intangible assets in the form of computer software, data processing, architecture, and miscellaneous engineering services.

In our study we decided to use the measure of intangibility because it is considered a more complex transfer of assets. The process requires a definition of intangibility at a higher level of understanding and therefore also measurement. The easiest way to measure such intangible assets nowadays is found in Blomstermo, Sharma & Sallis (2006). They used a tool used by other researchers to achieve the necessary level of generalisability because they knew service companies need to measure intangible assets in a more sophisticated way. Therefore, our measurement of intangibility comes from the IT sector because it is more applicable to our observed complex franchise systems (see Table 8). No others provided an appropriate framework to measure intangibility within franchise companies. Because it involves not just the franchise brand but all other know-how transferred to the franchise during the time of setting up the unit and after starting the franchise business, this process does not stop. Therefore it is not specified in franchise contracts. It is partially specified or described in operational franchise manuals, which also use video materials or, more often, webinars.

2.8.3 The franchisor's incentives

Franchising seems to be a response to problems the principal and agent face within the relationship when we look at problems of monitoring and motivation of agents. Franchisees work for themselves but not by themselves, and are highly motivated compared with company managers. The franchisor receives payment for the whole process of setting up the franchise unit (initial franchise fee or lump sum fee). They also receive payment of royalties on a monthly basis for the support (royalty and different additional fees such as marketing or IT) and margins calculated by purchased products from franchisors. In this way franchisors avoid most of the problems of moral hazard or adverse selection.

Franchisee incentives are the gaining of the valuable tangible and intangible assets in order to develop the franchise concept in the domestic market. After paying the monthly obligations such as royalty and other fees, franchisees are left with their monthly turnover. The greater their success with sales, the more motivated is the franchisee (Scott & Lorelle, 2007; Weaven & Frazer, 2007a). When the franchise company contains many intangible assets, the franchisee takes the opportunity to develop and adapt the franchise business model in order to gain lower royalties. The franchisee is a valuable information and managerial source for the franchisor, and when the risk for the franchisor is high in a highly intangible franchise system, the lower should be the royalty. We can see also from the equation $s(q) = (1 - \rho)q - F$, where F is the franchise fee and ρ is the royalty rate, that the franchisee wants low royalties in order to reach high earnings at the end of each month (Lafontaine & Slade, 2007, 2002, 2014).

When franchise companies transfer only products with relatively lower intangibility of assets, this refers to products that cannot be adapted to the local markets. The franchisee acquires goods with a brand name and assumes the risk in his/her local market. Highly intangible or highly tangible business franchise systems therefore have different incentives in terms of risk. A highly tangible franchise system recognises a higher risk because the goods or inventory cannot be adapted to riskier markets. These franchise systems tend to have low incentives when markets are highly uncertain, due to their tangibility of the franchise system. Table 9 illustrates the operationalisation of the incentives.

The trade-off between risk and incentives has been researched and discussed many times in order to understand the relationship between them. Inconsistencies in results have generated even more interest in determining an explanation for the change of the relationship between the risk and incentives. When franchise companies expand, the risk of the host market increases. Companies which do not expand through franchising enter uncertain markets with great sensitivity to managerial opportunism. Therefore they have a different interest in pursuing their own economic interests, which is mostly at the expense of the company.

The incentives of franchisors are described as motivation and interest for expanding their business through franchise units rather than company-owned units. Many research studies have defined the role of financial resources as incentives from the franchisor's point of view (Combs & Ketchen, 1999b; Norton, 1988a; Oxenfeldt & Kelly, 1968). Agency theory, among other theories, is used as a framework to explain the form of a franchise as an important response to monitoring and motivational problems due to geographically dispersed units (Dant, 1995; Dant & Paswan, 1996; Krueger, 1991; McNulty, 1967).
The degree of expansion with company units creates sales development in distant markets which consequently creates higher monitoring costs. Therefore some franchisors use

contracts with low incentives for their managers (in company-owned units) and give low royalties to franchise candidates. Furthermore, using commission-based salaries for company managers creates higher risk for the franchisor, because the manager might or might not be motivated to work hard and efficiently (Bai & Tao, 2001). Therefore franchising seems to be a very good business opportunity for potential entrepreneurs and one that works well for franchisors, because it balances incentives for a strong brand and with high sales with low incentive costs (Bürkle & Posselt, 2008, p. 41).

In our study the incentives are used according to the main research question (RQ1) and research proposition (RP2) as a variable measured with the franchisors' interview replies, descriptively given with their relation to higher risk when expanding as a franchise unit. In order to gain additional data from franchisors, we included questions which imply how and why they refer to higher risk when expanding with franchising. We measure incentives with royalties including marketing fees or any other types of fees charged by franchisor every month (for example, margins on their products). Table 9 describes the operationalisation of incentives.

In sum, the developed framework constitutes the concepts connected through agency theory focusing on the trade-off between risk and incentives and their complex relationship. Intangibility is incorporated within the measurement in order to cover the parts which are not covered or specified in the franchise contract or franchise manuals. These supportive communication tools are used on a daily basis without being specified in any documents which we try to measure in our research. We interviewed both types of companies (retail and service) to determine their approach to expansion when facing more environmental uncertainty as a company-owned unit and how they refer to higher environmental uncertainty when franchising.

Table 9: Operationalisation of incentives

Variable	**Operationalisation**
Financial resources (INCENTIVES)	FRANCHISOR's view: Charging royalties and other fees (for example, marketing, IT, etc.). Receiving payment of margins in case of sales of products. Both payments come from franchisees.

In our research, we collected data with semi-structured interviews, which were transcribed in order to put the data into pattern codes. Pattern codes are explanatory or inferential codes used to identify an emergent theme or explanation (Huberman & Miles, 1994, p. 69). We outlined the replies of the interviewees according to observed variables in the interview guide. Thereafter we built the concepts with the help of ideas, events, incidents in the sentences, and finding the meaning and properties. The process of categorisation eventually resulted in new or different concepts in order to lead us to refinement of the initial codes scheme. Our research process was guided by detailed procedures, by having a clear selection of participants, and by identifying categories. Thereafter we analysed the relationships among the concepts. These conceptual relationships were formulated and tested by re-examining each interview through a comparative method to test these relationships with a pattern-matching technique (Merriam, 2002).

2.9 Data analysis procedures

Multiple cases encourage the researcher to trace the negative cases in order to question the theory, which is done through examination of similarities and differences across cases. They also pin down the specific conditions under which we might in generate common categories and their relationsships. In our study, the data analysis procedure reflected the patterns from our interviews, which led us to theoretical categories that explained the participant's replies based on developed operationalisation.

We conducted the analysis through categorising and tabulating the data, recombining the evidence to outline the patterns (Yin, 1994). Then we assessed each case to prove internal validity with research propositions across the multiple cases and to converge the support of the triangulation. Therefore, for each question in this case study, only cases that demonstrated adequate triangulation were evaluated when generalising across the two cases (Johnston et al., 1999). With pattern matching we solved the internal validity challenge by comparing scores (explanatory pattern construct) to determine if they match the patterns predicted in the research propositions (theoretical concept).

In order to reach the external validity challenge we applied a multiple-case study design to solve validity (generalisability) of propositions and theoretical model. With the development of the case study protocol and case study database, case studies may be replicated and the reliability of the findings can be enhanced. Finally, the "credibility" problem of data and findings due to subjective research bias may was eliminated by reconfirming the findings by two external auditors. Following Eisenhardt (1989), we found the patterns within each case and then we executed the cross-case data analysis to list the similarities and eventual differences joining them together within groups.

In our study, the pattern-matching analytical technique was chosen, according to instructions of Dul & Hak (2008). A multiple-case study was chosen due to comparative case study analysis to strengthen the theory and its development. We tried to build this perspective through examination of similarities and differences across cases. Under specific conditions we could discover general common categories and their relationships.

Using pattern matching, one of the analytical methods most often used in qualitative research, we executed the development of constructs based on operationalisation in empirical research (or even with several alternatives). We tried to reveal repeating and coinciding patterns in order to increase the construct validity of the research (Yin, 1994, 2009). According to Trochim (1989), pattern matching is the general framework which guides the use of the theoretical patterns together with observed one, where the possibility of matching arises. In addition, the logic of this analytical technique enables production of more complex theoretical patterns, and if corroborated, the stronger basis of valid inference is assured. That is why triangulation with the same data enhances external validity and generalizability of findings (Yin, 1994, 2009).

The disadvantage of the pattern-matching technique is that it includes no precise comparison, because there exists a probability that no actual pattern (as quantitative or statistical criteria) between predicted and actual pattern will be found (Yin, 2009). We outlined the patterns by executing the descriptive analysis of interviewees. However, due to research propositions, we indicate a relationship between the risk and incentives based on intangibility. Because descriptive analysis could not reveal the relations, we additionally executed a small survey with all interviewed franchise firms. A short questionnaire was sent by email to franchise companies in order to obtain their evaluation of the local market uncertainty. Their replies (on a Likert scale from 1 - 7) helped us to evaluate more precisely their perspectives of uncertainty when dealing with distant markets. With the help of more precise measurements we were able to illustrate the results graphically.

This multiple-case study replication was done by conducting same semi-structured interviews with six retail and six service franchise companies and a control group with four franchise consultants. The replication logic enables us to compare the data and explanatory pattern codes across cases (Johnston et al., 1999). Data display followed the instructions in order to execute the process analysis with data reduction, data display, and drawing and verifying conclusions (see Figure 6, Figure 7, and Figure 8). The data reduction was begun by organising and assembling our data into summary diagrammatic and visual displays to reveal the “extended text” (Miles & Huberman, 2009, p. 507). Therefore we used the matrix of observed variables to see and define the incentives in order to understand the relationship between the risk and incentives.

2.10 Limitations of case study research

Limitations are always the most crucial concern of every study. In this research our main goal was to understand the problem that was outlined in order to achieve effective results that would lead us to further research. The scientific challenge we examined has existed for almost three decades. The following shortcomings are a result of choosing the qualitative approach. The in-depth approach with the pattern-matching technique produced end results with only descriptive labels. Due to intangibility in our franchise companies, we decided to also use a case study strategy. A larger sample was out of question, and a comparative case study enabled us at least a first trial approach to the problem. A guideline by Dul & Hak (2009) showed a very effective impact in some research studies, so we made a final decision for a theory-testing method of developing the agency theory focusing on the relationship between risk and incentives. Shortcomings occur in our study from choosing to use a qualitative study. Hence, our results are modesfrat and suggested way. In particular in cases where phenomenon plays a strong part of the research.

The criteria for a qualitative study may not fully fulfil the conditions, so the replications of the cases encouraged us to improve the reliability and validity. Our proposed model refers to theory-testing research. We decided to use the case study approach, which tests a probabilistic relation. This explanatory study with proposed research propositions does not give us the possibility to collect data from a large sample because of the time necessary to access globally known franchise brands such as McDonald's or KFC in order to find appropriate intangibility in franchise companies with minimum 10 years of franchise experience.

Academic theories in business and management are in fact deterministic with their conditions and relations. We used a probabilistic relationship because we believe this enables us to gain more insight into the description of reality Dul & Hak (2009). In order to achieve a comparative case study, we used interviews as the source of data. This gave us the possibility to use the pattern-matching measurement technique. This seems to be particularly important when the subject addresses a complex phenomenon, such as risk and incentive issues of the international franchise companies, that requires comprehension of an interrelated set of environmental and intangible factors.

3 DATA ANALYSIS

The content of this phase of the research involves examining, categorising, tabulating, testing, or otherwise recombining the evidence (Yin, 1994, 2009). In our case we did not use computer software for data analysis due to the small sample of franchise firms. We used the interviews conducted with a group of franchise consultants as the control group. According to Johnston et al. (1999), qualitative data analysis is a process which determines whether the evidence within each case is internally valid. We attained internal validity through appropriate converged evidence that also support the triangulation.

The pattern-matching technique guarantees internal validity. Furthermore, it assesses whether the research propositions are supported. We added the group of franchise consultants to assure the triangulation in order to increase the level of internal validity. Multiple-case sampling gives additional confidence to a qualitative study. Similar and contrasting cases explain the how and why in order to see the grounding distinctions. Consequently, we strengthen the precision, validity, and stability of the findings (Yin, 1991; Miles & Huberman, 1994). If a finding is repeated in a comparative case but not in a contrasting case, the finding is more robust.

In addition to the qualitative analysis, we also conducted a short quantitative study (of a very small sample, which was inadequate for a full quantitative analysis) to try to complement and corroborate the qualitative findings. After conducting interviews, we sent short self-administered questionnaires to the interviewees. The questionnaires contained questions measuring different aspects of uncertainty as an operationalisation of risk. These results were then put into relation with the data on royalty rates and margins to test the relationship between risk and incentives.

Cases were selected to assure sufficient evidence and to test our research model framework (Johnston et al., 1999). We continued with analysis to search for within-group similarities and/or differences (patterns) (Eisenhardt, 1988; Voss et al., 2002). The franchise companies in this multiple-case study are described only to outline their major characteristics in order to better understand the tangibility of their franchise systems. We tried to research different retail/service franchise companies with different levels of tangibility in order to understand the relationship between the risk and incentives due to intangibility.

Data collection started with semi-structured interviews, where the interview was opened with a few questions to become familiar with each franchise system (Eisenhardt, 1988). Then we conducted the cross-case analysis of the observed variables that influence a change in the relationship between risk and incentives to gain evidence supporting the research propositions from each case (Johnston et al., 1999, p. 209). Yin recommends that the written format to present the results of this multiple-case study analysis consist entirely of an "assembled" cross-case analysis apart from overviews of all companies and franchise consultants. No summary analysis description is given of the individual cases (Yin, 1994, 2009).

In the following chapter we present short descriptions of the franchise companies and consultants, the empirical part continues with data analysis of the franchise companies and the analysis of the results collected via short questionnaires. We do not identify the companies by name. Instead we describe retail franchise companies using identifiers R1 to R6. For service companies we use identifiers S1 to S6. For franchise consultants we use identifiers FRA1 to FRA4.

3.1 Brief description of franchise companies

3.1.1 Franchise retail companies

Franchise company R1 is an Austrian company, in business since 1988. Bio-products are the major basis for their business. Their business idea is based on the concept of supporting small rural structures, which have a long-standing tradition in the Austrian district. To date, this business model has been the foundation of the ongoing success of the brand. For the continuous and consistent social and environmental commitment to regional suppliers, the company got a TRIGOS award in 2008. With a 50 percent market share in the specialised organic trade (tea and spices, not including food trade), they are recognised as a market leader in Austria. Currently, the company holds a 25 percent market share in Germany and ranks in the top 3. When they started out in 1988 there were three organic farmers who supplied organic herbs for the company. Today, the Austrian family firm has grown to over 150 farmers, who grow high-quality raw materials for the organic herb and spice specialist. Moreover, the company also consistently applies their philosophy of sustainable regional development on farming projects in the Czech Republic, Romania, and Albania. In 1992 the company founded a subsidiary in the Czech Republic, and a cultivation project, which started in Romania in 1999, was then supplemented by a marketing partnership in 2006. For their communicative activities in Eastern Europe, they received an ecoplus International award. They sell their products wholesale to different countries, and have approximately 200 stores in Austria and are exporting to more than 40 countries around the world. They have 20 company-owned stores, and the rest of their outlets are franchised. They currently have 10 franchise units in Germany and they are opening new stores in Germany and Switzerland. Their yearly turnover is approximately €23 million. They started franchising in 2003, and total capital investment per store is approximately €160,000.

Franchise company R2 is an Austrian high-fashion clothing company for women. Their goal is to act as a leader in their segment, through flexibility, a keen feel for market developments, and consistent brand management. To do this, the business builds on the loyalty of its customers and customer care is taken very seriously. This Austrian fashion firm offers several models of cooperation to retailers, including a soft franchise option and a business format franchise. The details of each can be customised to suit each individual operation. Their first official store was opened in the heart of Vienna in 1997. Within a year more stores were opened. The success of these pilot projects ultimately grew the business further and led to the beginnings of the their franchise system. They saw that they had a good product, but the lack of financial capital was a great obstacle. The first franchise stores were opened in Dornbirn and Salzburg in 1999. With this new approach to the business, the beginnings of further success were achieved for the small family business. They now have 85 stores, of which 33 are company owned and 52 are franchised. They are present in Austria, Germany, Switzerland, Lichtenstein, Russia, Slovenia, Bosnia & Herzegovina, and Lithuania.

Franchise company R3 is a French company that has been selling beauty products since 1980. That same year they started franchising. They have 50 company-owned units, Their products are sold in more than 1000 stores all over the world, including in North and South America and Asia. The company is present in 88 countries on five continents and employs 13,500 personnel, excluding more than 215,000 additional indirect jobs. The No. 1 cosmetic brand in France, they just opened their first store in Nigeria. Their brand is based on the philosophy of botanical beauty and offers a range of skincare products and fragrances composed of natural and botanical ingredients for both men and women. Passionate about the vegetal world, the ambition of the company has always been to work in harmony with the environment, as each tree and each plant does in nature. The brand's commitment to botanical beauty ensures that every ingredient and formula is guaranteed to be safe. They currently have franchises in 35 countries and are exporting to even more countries. Most of the time when entering a single market, they sell master franchise licenses.

Franchise company R4 is an Austrian company working with underwear textiles together with additional textiles clothing for men and women. Due to their entrepreneurial spirit and openness to new developments they have remained not only a modern company but also a likeable, lifelike, and extremely popular brand. The company strives repeatedly to set new trends and standards and thereby to establish itself as a leading international brand. In franchising, the pioneering character of their success manifested. In 1936 the first stores were opened. Today the company owns more than 300 locations in 18 countries with its own outlets, shop-in-shop, and franchise areas across Europe. Since 1995 they have been present in Germany, the most important European market. They are in nearly all metropolitan areas, with a significant network of representative sites. Due to their exceptional image, they have brand management which has achieved a respectable brand awareness. Besides expanding its own stores in Germany, the franchise as shop-in-shop partnerships with various partners were continuously expanded in 2008. Mainly in Central and Eastern Europe and the Commonwealth of Independent States, the company expanded through franchise network. Today they are in Bosnia and Herzegovina, Bulgaria, Germany, Estonia, Georgia, Greece, Italy, Kenya, Croatia, Liechtenstein, Moldova, Nigeria, Austria, Qatar, Slovakia, Slovenia, Turkmenistan, and Cyprus. There are 112 stores in Austria and 34 stores and shop-in-shop locations in Germany. They have 103 franchises in Austria and 42 international franchise units. They employ approximately 900 people; 619 are employed in Austria. Because they are selling franchises, they do not need outlet managers to work in the units. That is one of reasons they chose franchising as a business model, and they have been franchising since 1930.

Franchise company R5 is a German company in the retail bakery business. They sell products to bake, coffee, and machines for baking half-baked bread and pastries. The first store was opened in 2001 and they started franchising in 2003. The company invented self-service bakeries and built their brand into one of the leading franchise systems in this industry. They strive to constantly supply the bakery-products industry with freshly baked pastries and bread. Each bakery offers a range of 100 products. They sell crispy rolls, crispy fresh bread, pastries, savoury snacks, and drinks. Since the first prototype in 2001 revolutionised the baking industry, they have expanded from baked goods to internalisation. Meanwhile they have established themselves as a solid brand in the franchise business, and were No. 1 on the list of 100 best franchise systems in 2011 chosen by Impulse magazine, against companies such as McDonalds, Fressnapf, and Town and Country. Also in 2011 they were rewarded as franchisor of the year. Furthermore, in 2013 they received an award in Austria as the best franchise system in Austria. They have more than 220 franchisees, some of whom own up to 4 franchise units. Their units can be found in Germany, Austria, the Netherlands, the United Kingdom, Switzerland, and Slovenia. Net external sales in 2014 were €192 million, up from €174 million in 2013. The number of employees at the headquarters of the company is 2,400.

Franchise company R6 is an American retail company working as a franchise system since 1983. They are the first and the largest franchise system of backyard bird-feeding and nature-appreciation retail stores in North America, with nearly 300 locations in the US and Canada. Their stores offer the backyard enthusiast everything they need to attract and enjoy their regional bird population and interact with nature. Owners of the company are passionate about self-employment, building their own business, and controlling their own destiny. They are enthusiastic about the hobby of bird feeding and the enjoyment of nature, and they love sharing their enthusiasm about both with their customers. Most franchise store owners are backyard bird-feeding specialists within their local communities and a premiere source for quality products as well as local nature information. within addition to building birdhouses, they sell birdfeeders, birdseed, and nature-related gifts. Their system provides through unlimited stores in North America, and their Certified Bird Feeding Specialists are trained to show how to turn a yard into a bird-feeding hobby. Based on more than 30 years of research and experience, these bird supplies are designed to be the highest-quality bird feeders and bird-feeding equipment. They currently have 280 franchise stores, and five more are opening in the next two months. They are present in Canada, and because the American and Canadian market is not overcrowded they are not thinking of entering other markets. They have non-company-owned units because they are convinced that franchise managers are much more motivated than employee-managers of the stores.

3.1.2 Franchise service companies

Franchise company S1 is part of the UK's largest independent recruitment business. It has been operating since 1995. The company offers executive search services to secure for other companies top-performing talent for a diverse range of leadership and senior management positions plus other hard-to-fill roles. With proven capability across many sectors and disciplines, they work very discretely to deliver culture-fit as well as capability-fit. Their philosophy outlines their commitment to achieving successful outcomes every time. The company looks for the best people and in this way allows companies to choose their best competitive advantage. Their motto is "If you don't hire the best people, your competitors will." This UK company has proved its recruitment abilities across many sectors and disciplines. They have developed special methodologies for combining executive search processes with unique additionally developed methodology. They have two company-owned units and 45 franchise units in the UK; 20 franchise units elsewhere across Europe, including the Netherlands, Austria, Slovenia, Croatia, Slovakia, and the Czech Republic; and one franchise unit in Tel Aviv. At the moment they are strongly looking to expand to Germany.

Franchise company S2 is an American brand and the world's largest franchise system providing advisory board and coaching services for small and mid-size businesses. They are a family run business and are present in seven countries. This company helps forward-thinking business owners grow their businesses, increase profitability, and improve their lives by leveraging advisory boards of local business owner, private business coaching, and proprietary strategy services. They offer not just theories, but practical, real-world, tried-and-tested solutions and invaluable hands-on experience. They own an online business-assessment tool designed to address ten key areas of performance that affect practically every business. This enables them to assess businesses with tough questions in order to best identify performance gaps and critical success factors. Another recognised service they offer addresses closing the performance gaps and achieving those success factors. They help small and large companies to identify challenges which the companies might not perceive or unidentified gaps in the companies' talent or execution plans. The resulting business-assessment data creates a program in different phases to equip their clients with the information critical to drive a company's future success. The company strongly encourages partners and key employees to participate as well. Based on their studies of thousands of companies in dozens of industries, and the similarities in the challenges they faced, their programs help to assess businesses and identify gaps and focus on priorities to boost the performance of the company. They have one company-owned unit in Denver, Colorado, and all other units are franchised. They are present in Europe in the UK and Germany, with more 50 franchise units, and are attracting franchise candidates from other European countries.

Franchise company S3 is the biggest coaching franchise system from Australia. The company started with coaching services in 1992, developing different tools for business coaching. They are ranked as the No. 1 business coaching franchise in the world by *Entrepreneur* magazine. They have taught more than 1,000,000 people to be successful in business and life. With more than 1,000 offices in 59 countries, this company delivers its proven business-development systems to tens of thousands of business owners every week, owners who turn to business coaching to get the freedom and lifestyle they sought when they first went into business for themselves. Since their inception, they have successfully coached more clients, won more awards, gained more recognition, and produced more profits than any other coaching company of its kind in the world. Their simple and systemised approach to business has benefited business owners around the world with more time, better teams within their companies, and most importantly, more money. Their franchise network consists of 12,000 franchise units in 49 countries all over the world. They have non-company-owned franchises because they believe they develop their system thorough their franchise network.

Franchise company S4 was established in 1985 and began franchising in 1991. Over 30 years ago, the founder of the company, was a business consultant looking for referrals. He approached a few trusted friends for the favour and suggested that he in turn could help them. The group of professional colleagues began to meet and share business referrals, augmenting each other's marketing efforts by introducing their clients and friends to other trusted professionals. The seed for this successful network had been sown. The founder's small group picked up steam. Soon the founder of the company was being asked if he could help others establish their own groups. Initially, he was wary of straying from his career path as a business consultant. Then it dawned on him that running referral networks was itself a powerful kind of business consulting. Upon reflection, the company's owner realised he had something of value on his hands – a way of driving sales that wasn't routinely taught in schools. The networking company was officially formed. With that start thirty years ago, growth has been organic and global. Today, the company serves over 200,000 members through 797 regions in 65 countries around the world. In 2015 alone they registered 7.7 million referrals worldwide and generated $9.3 billion in business. They are now present in 49 countries throughout the world and have shown year-on-year growth in subscriptions. Their franchise opportunity offers a low-cost/low-risk proposition, and the franchisee can even try the opportunity before buying their franchise. This means a franchise can run for up to 18 months before the franchisee buys it.

Franchise company S5 is an American company which started their business in 1984. The two owners had decades of experience integrating technology into education. These two educators started implementing programs using technology before the current mouse device was invented. Since 1984 the company has evolved a proprietary technology curriculum serving the education needs of preschools, elementary schools, after-school centres and summer camps. They offer children courses in digital arts, math, and scientific training such as "CSI: Beginner and Intermediate". There are n company-owned units. The franchisees offer technology education programs to children in pre-schools, childcare centres, public and private schools, and recreation and community centres. They believe technology education is vital to children's futures and the ability to coordinate a successful business. This service franchise company has more than 100 franchise units all over the USA, Australia, Kuwait, Malaysia, Ireland, China, and the UK.

Franchise company S6 is the world's largest maintenance company for print services. It does not have any company-owned units in the refill business. They are committed to providing great value, and top-quality refilled and remanufactured printer cartridges that are backed by a 100% satisfaction guarantee. This firm is the winner of the 2016 Global Brand award by RT Media. It is a global leader in selling eco-friendly ink and toner printer cartridges. They launched print machines and refill services more than 20 years ago and now own 1,000 stores in more than 50 countries. As an industry leader delivering high-performance printing products, they save companies time, money, and print ink. As a global leader they offer also expert advice for all units on site. In February 2016, they were named to Franchise Direct's 2016 Top-100 Global Franchise Award. In 2016 they achieved first place in an $80 billion industry, serving millions of business and residential customers annually. They have over 560 stores in the US and Canada and 1,400 franchise stores in 52 other countries.

3.1.3 Franchise consultants

Franchise consultant FRA1 comes from US and has been in franchising for more than 35 years. She began by buying a single franchise of Sir Speedy and after eight years decided to change and work for the franchise automotive industry. She worked there as a support and training manager. Then she decided to start as a franchise consultant. For some years she worked closely with the author of a book called *Franchise Bible*, then she agreed to return to Sir Speedy as a franchise development manager for the eastern US. After 7 years she decided to work as a franchise consultant and coach, She currently works as a franchise consultant for Matchpoint and works as a franchise coach.

Franchise consultant FRA2 comes from the UK and has been in the franchising business for more than 35 years. She worked for Pizza Hut, KFC, and McDonalds. For more than 20 years she has been active in international franchising, taking care of franchisors entering the UK market and expanding outside the UK market. She has also worked with non-UK franchisors expanding to non-UK markets.

Franchise consultant FRA3 comes from the USA and is a 25-year franchising veteran and founding partner of a strong franchise-consultancy company. He considers himself a student of franchising and self-proclaimed “Franchise Junkie”. He has worked with franchise systems such as Subway, Blimpies, Motophoto, and Entrepreneur’s Source. He specialises in the areas of franchisee recruitment, sales, and franchisee performance, and is a regular presenter at IFA conferences and an instructor with the ICFE (Institute of Certified Franchise Executives).

Franchise consultant FRA4 is from Australia and has been in franchising for more than 30 years. He specialises in franchise relationships and has established an institute in Australia which regularly conducts yearly research for a better understanding of complex franchise relationships. He is widely recognised as an international thought leader on human resources issues in franchising. He is a registered psychologist and is regularly invited to deliver keynote addresses at franchise-sector conferences around the globe. This franchise consultant started life in franchising as a multi-unit franchisee and later worked as Head of Marketing and Operations for the Brumby’s franchisor, today a public company owned by Retail Food Group from Australia. He is the author of five popular franchising books, including Profitable Partnerships, that have sold over 100,000 copies. He has also developed a number of ground-breaking models such as The Franchise E-Factor. In 2003 the Franchise Council of Australia (FCA) presented him with the inaugural National Contribution to Franchising Award in recognition of his pioneering work in franchise education and research. In 2014 he was inducted into the FCA Franchising Hall of Fame.

3.2 Patterns of data for each research issue

As described in the previous sections, we investigated the change of the relationship between risk (environmental and local market uncertainty) and incentives (royalties and margins) across different levels of intangibility of assets when the agency theory model is applied.

In the qualitative part of the study, the risk variable (e.g., environmental uncertainty) is operationalised as economic, institutional, and cultural uncertainty. The quantitative part relied on scales by Celly and Frazier (1996) and John and Weitz (1988) which measured market uncertainty as inability to predict local demand, sales, and market developments. Measurement of intangibility of assets is determined by the sector to which the analysed franchise companies belong – retail or service franchise – and the level of incentives is operationalised by royalty rates and average margins. We try to understand the franchisors' point of view by pattern matching through their international expansion decisions for entering known (described in the interviews as riskier) markets compared with unknown or much riskier markets (exotic or distant markets). The franchisor's point of view using pattern matching is shown in Figure 6 and Figure 7 and in Table 10 and Table 11.

We assume in our research that a change in the intangibility of assets changes the relationship between risk and incentives, meaning a high level of intangibility determines low incentives in riskier environments, and a low level of intangibility determines high incentives in riskier environments. We used comparative case analysis to obtain information (i.e., empirical observed patterns) in order to classify the results. In our study we used pattern matching and a short questionnaire because we were unable to measure the degree of environmental uncertainty in interviews according to a franchisor's level of incentives. The intangible assets we examined are managed through tools of knowledge transfer and communication channels that manifest as support ensured by a franchise company to increase the standardisation of and control over the franchise network. We used both techniques in order to determine the change of incentives (royalties and margins) according to level of risk in both types of franchise companies. Using both types of franchise companies enabled us to examine how the intangibility of assets influences the change between risk and incentives.

In the following chapters we present the results of data analysis relating to six retail and six service franchise companies, as well as the results from the group of franchise consultants. In particular, we focussed on the intangible assets discussed by franchise companies in order to develop comprehensive descriptions to measure the level of intangibility.

3.2.1 Risk in highly tangible franchise systems

Highly tangible assets are found mostly in retail franchise companies. Therefore we decided to analyse retail companies which primarily earn their profits through margins on selling their products rather than by earning high royalties or any additional fees. All retail franchise companies studied have a minimum 10 years of franchise experience. This means franchise companies were established a minimum of one year before the first unit or outlet has been tested and proven due to financial projections and business plan given to a potential franchisee.

As shown in Figure 6, all retail franchise systems opened their company-owned units at the strategic markets. Austrian franchise companies later started selling single units to Germany because their brands were well known there and the German market is the closest market in terms of uncertainty and language barriers. The same was true with the retail franchise selling cosmetic products, even though they started in France; they later moved their headquarters to Germany and also sold franchise licenses in the Austrian market. Almost all analysed brands come from EU area; only one comes from US. The oldest brand comes from Austria, and at the moment is present in 18 countries. The retail company from the US has the least international expansion, with they only have four units in Canada and have no intention for now to open franchise units in other countries.

The purpose of requesting the environmental evaluation from the franchisors was to determine the different aspects in the eyes of a franchisor. Not all franchise companies recognised that they share risk with the franchisee, but rather that the franchisee is the one who takes the whole risk (see Figure 6). After retail franchisors described their business models, we asked them their biggest issues concerning international expansion. Most replied that it is the process of researching the franchisee's local market in cooperation with the franchisee (Table 10). In this way, they ensure from their side the legitimacy and feasibility of their business model. When franchise retail companies were asked about the risk in the franchisee's market, they replied that the risk is always assumed by the franchisee. In this way, they discovered how the recognition of sharing in our study reveals in retail franchising that it is the franchisee's responsibility to face the risk in the local market. All companies during the period before signing the contract conduct research of the franchisee's local market to find out if the local market accepts the business model. They also evaluate whether the figures provide a feasible income. Another issue retail franchisors outline is the supply and logistics that follow their expansion to another market. In this way, their industry has to be followed with additional support. If these activities cannot be followed by the franchisor, the franchisee is not allowed to open the franchise unit. Furthermore, the franchisee's informational, managerial, and financial resources play a crucial role in making a decision about opening a franchise business in the local market. All franchise companies claim they leave to their franchisee the decision whether the turnovers and other data indicate that the business unit invested could succeed in the local market.

Figure 6: Observed patterns in retail franchise companies (highly tangible franchise systems)

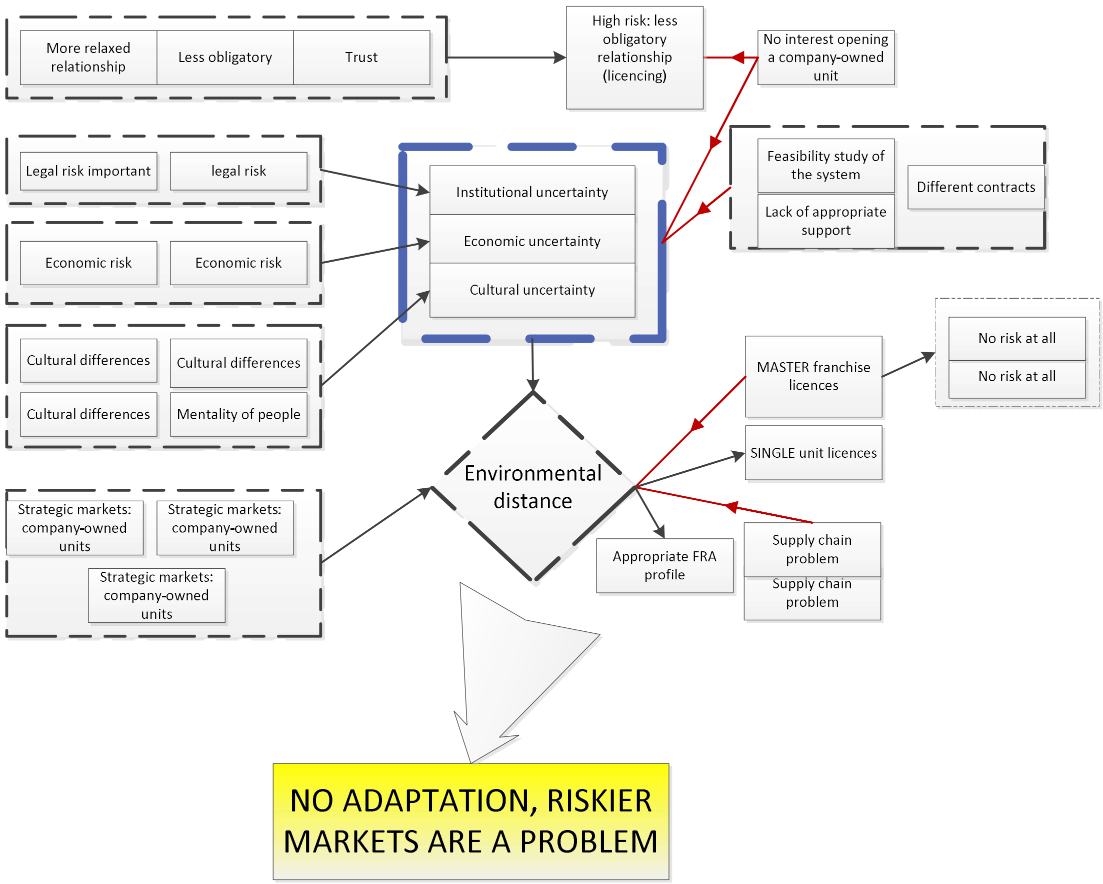


Table 10 describes the evaluation of all retail franchisors. Most of them describe cultural uncertainty or economic uncertainty as important and challenging. Only the tea company from Austria sees no issue in it. Some companies view cultural uncertainty as most important and some view economic uncertainty as most important. Cultural issues were addressed in order to discover if the franchise business matches the local society in terms of habits or hobbies. These issues were mostly solved by the franchisee. In particular, they outlined the cultural differences that cannot be solved when it comes to their products. The Austrian lingerie company and German bakery company outlined the adaptability of their products as crucial to their businesses. Economic uncertainty demanded cooperation in order to determine if the local market suits the financial needs that the franchisor's business demands in order to assure profit for the franchisee. All companies viewed the legal form of the institution as the least important aspect.

After getting the results we realised retail franchise companies have two different approaches in more uncertain markets. Either they decide for a less obligatory relationship such as licensing or they offer an ordinary form of business cooperation such as wholesale export (Table 10). The reason may be a lack of trust including an unacceptably high level of uncertainty. None of the companies confirmed they would open a company-owned unit in risker markets. Only two franchise companies confirmed that in cases in which a candidate for a master franchise licence approaches, the franchise company executes a feasibility study including the analysis of necessary support and the protection of intellectual property (indicating institutional uncertainty).

Table 10: Statements by retail franchise companies

Franchise company	Industry	Relationship to risk	Evaluation of environmental uncertainty
R1	Tea selling	"We check them as emerging markets and we offer then normally licensing or master franchising. We do not really check out the market so much as we have the franchisee who takes over the responsibility."	"A feasibility study is done together with our franchise candidate. We would evaluate together if the market was appropriate for us. The culture does not play important role and neither do legal issues. Therefore, it is up to the franchisee how he will succeed"
R2	Clothing	"We do not execute any risk assessments. If the franchisee liked the franchise, we would sell the license. If the market was too risky in terms of getting our payment for clothing, we would sell a license or we would just execute the export to the market, demanding advance payment."	"We try to evaluate the cultural fashion styles, which is also in our case important not so much in Europe, but also in China, Russia, or the Middle East."
R3	Selling cosmetic	"We do not really check out the market so much as we have the franchisee who takes over the responsibility."	"Yes, legal risk is important. Also the cultural risk is being researched. Usually, we pay attention to economic risk. Although, our products can be sold even in the markets with lower purchasing power."
R4	Lingerie	"We check the competitors, frequency of the potential buyers, rent level, incomes."	"Usually, the institutional issues are not a problem. We could deal with some issues just when it comes to different body measures in terms of other nations such as Chinese or Japanese market."
R4	Lingerie		"We see no legal issues and the most important is the economic uncertainty for us."
R5	Bakery	"For us as a company, we do not have risk – as we deal with one person."	"If someone from Albania came to us to buy our franchise, we would believe that there are too many cultural issues and this would not be acceptable for our system." "Cultural habits of eating play a significant role in making a decision, if we can be successful with our bakery."

(table continues)

(continued)

Franchise company	Industry	Relationship to risk	Evaluation of environmental uncertainty
R6	Bird Feeding	"We have to do as much as possible to predict the problems our franchisee might have. Of course, it is the franchisee who takes the whole risk."	"The most challenging is predicting their turnover. We start with the most important one. This is usually the GDP or income level… As we are a very unique system, we specifically check first the bird feeding habit at the market."

The remaining four retail franchise companies replied that an appropriate franchise profile is the biggest problem in international expansion. The profile of the master franchisee for them plays a very important role because this person or company will work in the name of their brand. Furthermore, the growth of franchise units depends on the franchisee's successful performance. Most companies when asked about certain entry modes – for example, a master licence – replied that they do not offer master franchise licences because it is too risky for them to give to one candidate the whole territory of one country.

When we described risk with economic, institutional, and cultural uncertainty, they started listing GDP, purchasing power, the economic state of the host market, competition, feasibility studies, supply chain problems, lack of appropriate support, ways of control, and demographics (Table 10). All companies agree that economic uncertainty plays the most important role in setting up a new franchise or master franchise license. When companies were asked about institutional and cultural differences, most of them stated the cultural difference is more important than the institutional difference due to their strong legal departments or lawyers, because they can adapt their franchise contracts according to different laws or legal differences in the host market. However, they cannot adapt their products according to cultural differences, because the measures do not fit all nations globally. The same relates to colours, food tastes, or drinking habits of tea or coffee. Figure 6 illustrates the pattern reduction with the final pattern scheme and observed patterns regarding environmental uncertainty. Table 10 outlines the interviews through the replies of the interviewees.

3.2.2 Risk in highly intangible franchise systems

Franchise companies with a higher level of intangible assets showed an opposite relationship to risk when asked about riskier markets. They argue that when expanding to distant markets, risk – i.e., environmental uncertainty – does not present such a big issue. Moreover, to ensure success when entering the market they offer training called modules or phases, which is performed with weeks or months of pauses. In general, they plan their transfer of specific knowledge over a longer period of 9 or 12 months and they keep their know-how in online form (called an intranet) so the education process can be assured every day.

When first asked about the biggest issues with riskier markets, they admit this mostly depends on their franchisees, confirming that the adaptation of their business model is a cooperative effort with their franchisee candidates. They admit everything depends on franchisee's profile (who they are discussing with to enter the targeted market). When companies were asked about risk they replied in almost the same way as they had the first question about the biggest problem when expanding abroad (Figure 7).

To gather their assessments of the uncertainties, we provided them with descriptions of different types of uncertainties observed in our study. In their replies they assessed institutional uncertainty (Figure 7) as a less important issue, suggesting that they have strong legal support from an international franchise of lawyers.

Furthermore, economic risk seemed not to be a big issue because they chose franchising as an entry mode. They explained that the franchisee knows the local market very well and before adapting the business model they both work hand-in-hand to check the figures for the "win-win relationship". If the business plans works well and if the franchisee has all the financial assets worked out, they do not have the problem with signing the franchise contract. Although a master franchise contract is not a single-unit contract, they mostly see no problem with uncertainty. Most of them emphasise entering a market with a master franchise or even area development contracts.

Figure 7: Observed pattern codes in service franchise companies (highly intangible franchise systems)

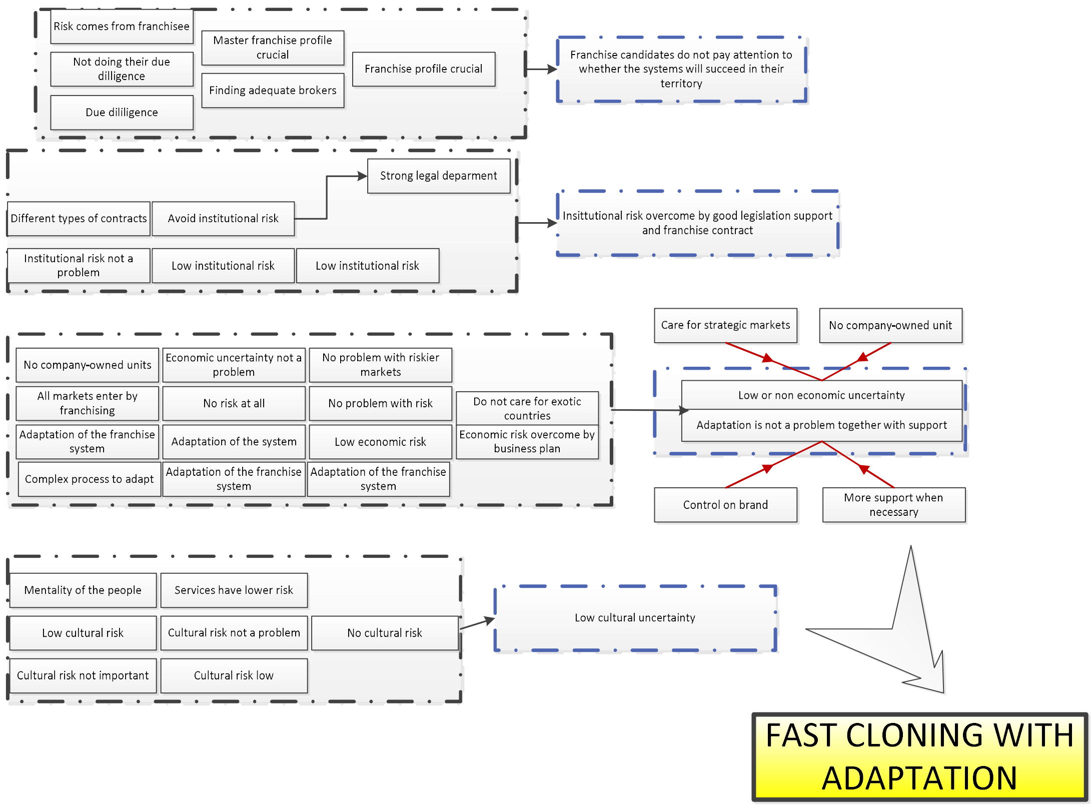


Table 11 presents the results related to their replies. From the viewpoint of retail franchisors, the biggest challenge in international franchising is the process of determining how their business could be adapted to succeed at the local market. All service franchisors claim that the services of their system are adaptable, and how these services are valued depends mostly on economic issues and also on the franchisee's profile (Figure 7 and Table 11). Most of the service companies perceive legal uncertainty as the least important for their franchise systems. It is considered for a protection of their know-how, but is not of major concern. Most of the companies explained that they have a good attorney to take care of their legal uncertainties. Economic and cultural uncertainties are evaluated during the recruitment process in cooperation with the franchisees. Both of these types of risk have feasible opportunities in the local market. Therefore, this enables service companies to perceive the risk in the franchisee's local market at a lower level.

Table 11: Statements by service franchise companies

Franchise company	Industry	Relationship to risk	Evaluation of environmental uncertainty
S1	Headhunting	"Our richest market at the moment is taken care of with someone locally so we do not have any problems regarding cultural issues."	"It is in some areas absolutely fine. In Europe we can sue someone. In many EU countries we have a good chance to actually win the case. We are very concerned about the USA. Big areas are the emerging markers. China, Africa, Middle East. Do we have interest in Africa? Maybe, South Africa… It is always going down to Commonwealth countries due to legislation as it is very similar."
S2	Business consultancy	"They need to determine if this is the risk they want to be exposed to. However, we have found that whenever the franchisee follows the protocols in our system, they do wonderfully."	"First of all, we look at a country's economic system and then we pay attention to the government and last but not least we consider the political system. We try to evaluate the characteristics of the banking system. Based upon these risks we would negotiate with our franchisee."
S3	Business coaching	"We have learned in the past from our mistakes and talking to a lot of people about the research of a single market how to approach an unknown market in a best way possible. How to overcome huge problems in these phases."	"The most important factors are GDP, existing franchisees or similar franchises developed. We check if there are any other coaching businesses or other similar business companies. This could be quite a huge problem for us."
S4	Networking	"The biggest challenge: different mentality – everybody starts with it. Everybody including US companies have this kind of problem. It is harder to sell a franchise outside of L.A. The closest a franchise unit is, the more likely it will be successful. The biggest hurdle is getting past this claim of being different."	"Economic uncertainty is not a problem and institutional just in terms of franchise laws… However, it is possible to overcome these problems. We have the biggest problem regarding cultural terms."
S5	Computer education	"We do this to make sure that the economy is still going. The calculations of risk had been executed before the contract was signed."	"So we turn our attention to economic uncertainty and not so much to legal, institutional, or cultural. The franchisee must only take care that we are not releasing the info".
S5	Printing services	"The real risk comes from people who cannot follow the system. There is a risk that a franchisee has not done its job with due diligence and overviewed the whole risk situations in his business plan. There is a certain risk if you do not have the independent experience."	"In the past we avoided areas where the most important risks are legal… Let's take China, for example. In our industry there are many companies which come with their own solutions and they will copy the cartridges. We do not have any legal rights due to the legal system. Similar applies to the trademarks in India and China. Therefore, potential franchisees can't be very successful."

Franchise service companies indicated cultural uncertainty as one of the most important concerns (Figure 7). The replies given by service franchise companies outline how the risk is the franchisee's responsibility. The franchisors help their franchisees determine the feasibility of the franchise business. They argue that environmental uncertainty when expanding to distant markets risk does not present such a big issue. They tend to use very extended and thorough training plans called modules or phases. During the training, they solve the challenges they have regarding adaptability of the services. In general, they plan their transfer of specific knowledge over a longer period of 9 or 12 months. They all keep their know-how in an online intranet form. Therefore the education process can be assured. The more distant the market is, the longer the period of training in order to overcome all of the differences.

All service companies agree that economic uncertainty plays the most important role in setting up a new franchise. When companies were asked about institutional and cultural differences, most of them stated that the cultural difference is more important than the institutional difference due to their strong legal departments or lawyers. They are able to adapt their franchise contract according to different laws applied in host market.

To summarise, retail franchise companies are aware of higher a level of environmental uncertainty. It limits with their ability to sell franchise licences because it interferes with trust, appropriate support, and supply. Another option for them is to conduct simple wholesale export activity, which means no franchise relationship. All retail franchise companies see problems with franchising in the adaptation of their business systems in distant markets. Despite careful decision-making when it comes to riskier markets, they almost all outlined how in the end it is the franchisee that carries the whole risk. Service companies are mostly worried about the cultural uncertainty. They don't perceive significant problems with overcoming the economic or institutional differences. Mostly they adapt the business franchise model to the local market. Their biggest concern is mostly the selection of the franchisee as the suitable person who takes care of his investment.

3.2.3 Comparative analysis of intangibility

Here we included the meaningful intangible assets for each type to see how the intangible assets differ between these two types of franchise companies. The aim is to establish how a company's intangibility of assets relates to riskier markets when we pay attention to pattern matching in Figure 6 and Figure 7. We claim that the relationship of risk and incentives changes according to the intangibility level of assets. Therefore we included the measurement of the variable from IT companies used by Blomstermo et al. (2006) in order to indicate the intangible assets used in both types of franchise companies.

Table 12: Retail franchise companies (comparison of intangible and tangible assets described in hours)

Company	Intangible assets	∑Hours transferring intangible assets	Tangible assets
R1	14 days training at HQ*, 1 month 30 min a day, 2 months 30 min a week, 2 days convention.	152	Construction, software, equipment, first stock
R2	2 weeks in HQ*, 8 days online support, 6 days a year support on site.	200	Construction, software, equipment, first stock
R3	10 days training at HQ*, every second month support for 5 hours, phone calls support first 2 months for 30 min a week.	106	Construction, software, equipment, first stock
R4	7 days training at HQ*, 2 visits a month (for the first 6 months (4 days x 8 hours), 1 day convention	104	Construction, software, equipment, first stock
R5	4 weeks training at HQ*, 1 week in the unit, continuing support, every week 4 hours for 2 months, 1.5 days convention	220	Construction, software, equipment, first stock
R6	5 days at HQ*, 5 days in the unit support, 5 days after opening, 2 days IT support, visit every second month (3 x 8 hours), support 1x month for 30 minutes.	160	Construction, software, equipment, first stock
R1-R6	On average, intangible assets for the independence of the franchisee	188	

*HQ means Headquarters of the franchise company.

Table 12 describes all retail franchise companies with their description of intangible (no-contractible) assets and tangible (contractible) assets. In the column for intangible assets we included all days and hours a franchisor's team spends to make their franchisee independent in order to run the franchise unit independently. The franchisor has, after signing the franchise contract, an average of 5 – 10 days of training for the franchisee. The training takes place first in the headquarters and later in the franchisee's outlet. Most of them have one franchise manual, which is between 100 pages to 800 pages. Only the company from the US has an intranet platform, where all data about the business is available online (Table 12). The next column sums the number of hours a franchise company spends training a franchisee in order to transfer the intangible assets. The fourth column describes the tangible assets, which are mostly the same and according to the franchisors require one to three visits to the franchisee's location.

They all begin with theoretical training and then practical training in the franchisor's outlet, and later proceed to training in the franchisee's own unit with a mentor (a training manager or field/area manager). After the initial training, support is usually provided over Skype or phone. On a regular basis franchisees also receive visits, which decrease if the unit operates with positive turnover each month. A lot of franchisors mentioned that if there are no problems in the unit, in particular concerning monthly turnover, their visits are not necessary. Most franchisees call when they face problems. When there no problems, they do not call. Usually, franchisors see franchisees at the yearly conventions.

The longest training time is in the company franchising the self-service bakery system (Table 12), because franchisees must learn about baking and working with all the machines in order for the business to run according to their best practice. The bakery company (R5) transfers the highest level of intangible assets by providing the longest training among all interviewed companies. Their training includes learning about the products, machines, sales, and running the business successfully, as opposed to running an outlet where different clothing is being sold.

On average, the number of hours necessary to set up a retail business and make a franchisee independent is 188 (see Table 12). Almost all companies are united regarding transferring the tangible assets, which are clearly specified in the franchise contract. This includes the construction conditions and equipment and uploading and translating the software. The connection of the store's cashier to the headquarters' monitoring tool is done with the goal of measuring the store's performance. In addition, the first stock is sold and paid for with an initial franchise fee.

Table 13 describes all service franchise companies with their specifications of intangible and tangible assets. The highest number of hours necessary for a franchisee to become independent agent is 914. Their system of support is based on an intranet including weeks of training. As with the retail franchise systems, franchisees all begin with theoretical training and then start learning in their own local markets. Once training is over, support is usually provided over Skype or phone. Most of the service companies have two weeks of training, and then a franchisee starts on his/her own. After a certain period of time they have another two weeks of additional training. This is done so franchisees can learn by experience and then ask questions about anything which may still be unclear. Franchisors in service franchise systems believe the transfer of knowledge is better when the franchisees have periodic training with a certain time gap, and not all at once. Most of the service franchise systems place great importance on learning at the conventions or by monthly Skype discussions, where they mostly use a mentoring style to educate and train their franchisees.

Table 13: Franchise service companies (comparison of intangible and tangible assets described in hours)

Company	Intangible assets	∑Hours transferring intangible assets	Tangible assets
S1	15 different manuals (online intranet) 5 weeks training, 5 hours a week first 2.5 months (in average weeks), annual convention 3 days	914	Construction, software, equipment, first stock
S2	15 different manuals (online intranet) 1 week training in HQ, 7 weeks training online (Skype, Google+) 5 hours a day, each month 30 minutes online support, 2 days convention, first 6 months coaching (1 hour a month).	202.5	Just software
S3	Minimum 15 different manuals (online intranet) 12-month training programme – 20 hours a week for 8 weeks, 6 days intensive training in HQ, weekly Skype calls with online training for 6 months, each day in 6 months for 2 hours, 2 weeks support in domestic market, advanced training 6 days and additional support on site, 4.5 days conferences.	757	Just software
S4	1 short franchise manual 5 days training at HQ, 2 visits a month (for the first 6 months (4 days x 8hours), 1 day convention	204	Just software
S5	1 franchise manual over 810 pages, additional intranet for downloading documents. 5 days training at HQ, 7 days advanced training, 3 months an hour a day, personal coaching 30 hours a week for 3 months	480	Just software
S6	10 days at HQ as pre-training, 5 days in the unit days additional training, support, 5 days after opening, 2 days IT support, visit every second week one-on-one coaching 1 hour per day, online tools and videos, yearly conventions month (3 x 8hours), support 1x month for 30 minute days, regional conventions 3 days, yearly convention 2 days.	360	Just software
S1-S6	On average, intangible assets for the independence of the franchisee	486.25	

When we compare the average number of hours between retail and service companies necessary to set up a franchisee, we see that highly complex service franchise companies need 2.58 times as long to make their franchisee independent. A franchisee can be defined as independent when he/she is not demanding help or support on a weekly or even monthly basis.

486.25 average hours per service / 188 average hours per retail = 2.58

To conclude, we see strong differences in the final calculation (see above) when comparing the average number of hours necessary to set up a franchisee between service and retail franchise companies (Table 12 and Table 13). The intangibility of assets between our franchise companies, even though they all have more than 10 years of franchise experience, showed great difference. It seems that franchisors of highly complex services work with a higher level of intangibility. In order to effectively transfer all intangible assets, they develop different channels of communication to make sure all franchisees are competent to run their businesses according to the uniformity in a franchise system. The time necessary to make service franchisees independent is almost three times longer than for retail franchise companies. The complex specific know-how with additional adaptability takes time, and it takes even longer for the franchisee to learn and understand how to appropriately adapt to the local market their franchise business model.

The retail companies have less training or support and their manuals are shorter. Transferring the tangible assets mostly refers to construction, software, equipment, etc. Their trainings are shorter compared with the observed service companies. This is partially due to the fact that retail franchise companies use their field managers or training managers who with "face-to-face" support assure franchise network support on a regular basis. Franchise products cannot be completely adapted to other riskier markets because of a higher level of cultural differences. In service franchise companies they mostly use IT tools such as intranet or Google+ or Skype to enable faster communication.

In accordance with our research questions and prepositions, the data in Figure 6 and Figure 7 as well as in Table 10 and Table 11 do not reveal franchise company names or any royalties or margins being affected by environmental uncertainty. We only determine that local risk is being managed by using different entry modes such as master license. It seems that none of the companies change their royalty levels. However, during the interviews we managed to discover in which specific situations franchisors do change the royalty levels (Table 14 on p. 88). Furthermore, we also wanted to know if franchisors receive any additional payments from franchisees for additional support or help. This question was asked in order to find out if franchise companies receive extra incentives from their franchise networks. Table 14 reveals that environmental uncertainty has no relation to incentives. Franchisors do help franchisees. Because the franchisee assumes the local uncertainty, the franchisor adapts the level of incentives for a certain period of time in order to help the franchisee. These end results directed us to research the scientific puzzle of the negative trade-off by focusing on local market uncertainty.

Table 14: Statements about incentives by some retail and services franchise companies

Retail companies	Change of royalties and additional incentives for franchisors	Service companies	Change of royalties and additional incentives for franchisors
R1 **Tea selling**	"We really want to help them to realise their dreams. Since our system is pretty much organised and prepared for analysing the host market, we offer them any help they need and we do not charge them. We believe they deserve and need our help at the beginning therefore they've stepped into a franchise system."	**S5** **Computer education**	"Well, these things also happen and if we really see and find out certain things are not working for a franchisee, we agree to lower the royalty level for a certain period of time. In this way we help them and additionally with our support on local market to make their business recover."
R2 **Clothing**	"We do a lot of support. Also not standardised support. When the franchisee needs support or advice they turn to us. We advise them according to how we do business in our company units. Just our experience that we transfer to them is valuable for them."	**S3** **Business coaching**	"We would give them extra coaching, review of their marketing plans. Our CEO will talk to them to see what works for them and what does not work. We certainly adapt to their markets with their ideas."
R3 **Selling cosmetics**	"We are in particular paying attention at the beginning of our relationship. If the local market has been shown to have some particular issues we did not succeed to predict in our recruitment phase. We do help our franchisee with additional support, our help by being present in the unit more often locally. We even lower or not charge them the royalty for a certain period of time."	**S6** **Printing**	"We do not charge our franchisee additionally if we help him or her to find out if our system is at their market scalable and profitable. We really want to make sure at the beginning of our relationship if the franchise system will work and if it is profitable."

3.2.4 Data analysis of franchise consultants

Franchise consultants represent a very important group in our research. As already mentioned, we included them to assure different perspectives of the same phenomenon (triangulation). Different resources in collecting the data increase the internal validity. We collaborated with franchise consultants from different continents, so the results additionally revealed different perspectives in a global manner. Our group of franchise consultants comes from UK, US, Australia and they all have more than 20 years of franchise experience.

We adapted our questionnaire guide to a control group of consultants to gather data connected with observed risks and incentives. On average these interviews took longer than 45 minutes and the discussion was very active, with lots of additional information. Again we realised how broad and complex is the issue of international franchising. In particular, we wanted to know the challenges of and frequent mistakes made during cross-border franchising expansion. In Table 15 we summarise some of the replies from franchise consultants in relation to uncertainty in franchising.

Table 15: Statements by franchise consultants

Franchise Consultant	Statements about the franchisor's risk perceptions
Franchise Consultant from the USA.	"The average franchisor knows no sophistication, they follow the lead/franchisee candidate and they do not care so much if the franchisee fails. Why? Because it is not mostly their strategic market. It is not in this case the United Kingdom, Canada, China, Japan, and Australia. It is one of those things we call opportunistic behaviour franchisors often do. "They do not put a lot of resources into other smaller not strategic markets, which are today also Middle East countries." "Franchisors are often arrogant when they get approached by master franchise candidates, they do not worry about the feasibility of the business model due to the fact it is their proven business model. Mostly they take the money and if it does not succeed – no worries, it is the franchisee who takes care of the risks."
Franchise Consultant from U.K.	"On the other side when risk is being evaluated, it is the franchisee and the franchisor that decide together. It depends on some economic and cultural characteristics of the market. It depends also how committed and strong is the franchisor helping to a franchisee. Of course, each franchise system learns and grows through time…it comes down to personal drive behind the franchise team and their leader. All franchisors need to be prepared appropriately for their cross-border expansion. Many of them firstly make mistakes and then do it right."
Franchise Consultant from Australia	"Every franchise company spent a lot of money and time and dealt with a lot of risk along the way and finally came up with the "fine tuning" that their franchise works. But it's true, it is up to the candidate to do their due diligence and talk to enough people to know what they are getting into."

All of the franchise consultants were asked how they see international perceptions of franchise companies when evaluating risk. Our data point towards the franchisor's evaluation being too confident of risk. Franchisors understand their franchise model as already proven and their perception of risk as an opportunistic tendency. This occurs by sales of their franchises to distant markets, particularly to those which are not strategic. In their opportunistic behaviour in order to sell their franchise they sell even more territories. With bigger territories, franchisees have higher motivation to buy the master franchise license.

Franchise consultants do not consider that the institutional uncertainty has a major role in influencing the royalties. Mostly they see how companies gain good legal advice. In addition to economic uncertainties, cultural differences also were mentioned as crucial. As described in Table 15, the cultural issue showed greater importance than did institutional challenges. Economic uncertainty was not repeated as a pattern. However, it was mentioned that franchisors and franchisees have to work strongly together to make the decision of setting up a franchise unit. In addition, localisation adaptability was mentioned with mistakes by global companies like McDonalds or Starbucks. Mistakes were described in one interview when these companies were entering the territories like India and Australia with a company-owned unit (subsidiary). No localisation was made to adapt to local market uncertainties. All franchise consultants mention that franchisors learn in their process of franchise experiences and usually do not repeat same mistake twice.

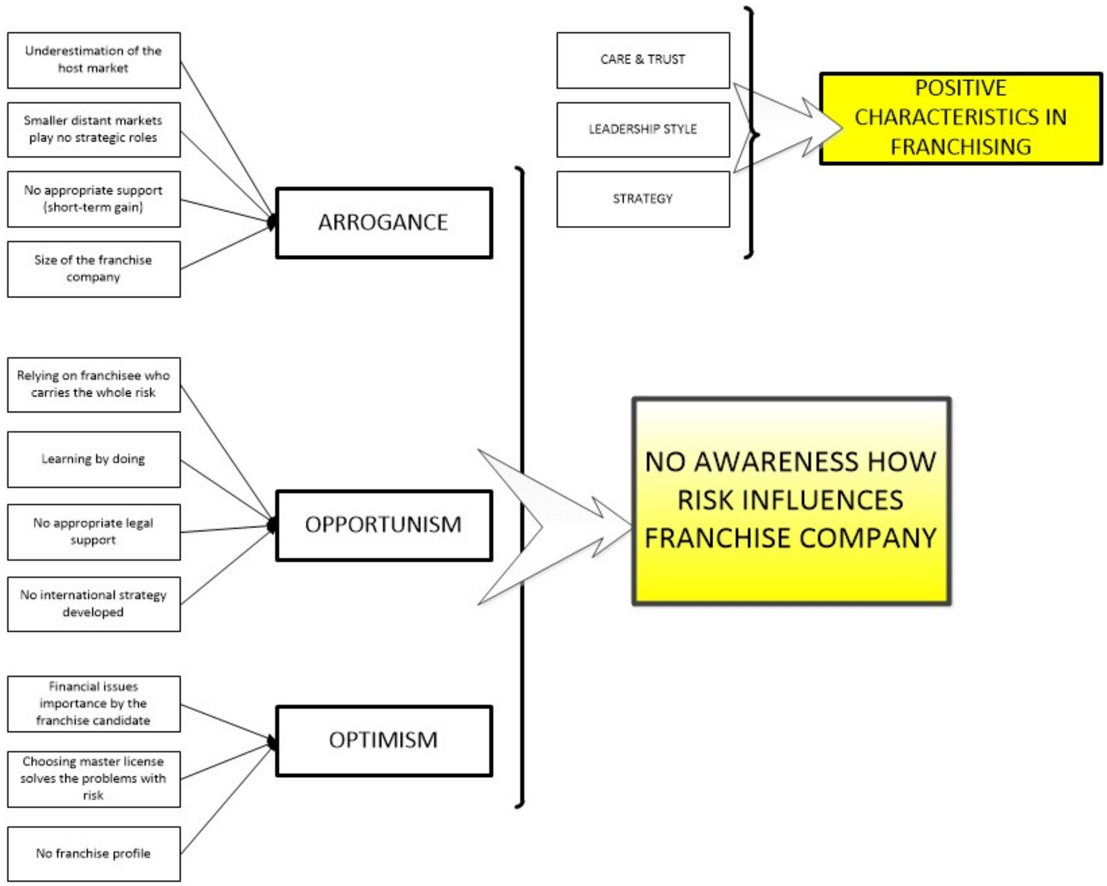
All franchise consultants additionally accentuated that care and trust play an important role. The franchise consultants outline how the franchisee's effort plays an important role. The goal and strategy of franchise chains were many times mentioned as being crucial in the process of international expansion. We found that these two descriptions are important when environmental uncertainty was observed. The franchisors as owners and their drive behind their company and their franchise team contributes strongly to success of the franchise network.

According to the franchise consultants, franchise companies expand abroad by relying mostly on resources invested and provided by franchise candidates. In particular, when they have a potential franchisee with large financial resources, even though the franchise profile might not fit, the franchisor will rely on the franchisee to set up the whole franchise unit structure in one market. When offering a master franchise licence, they give lower importance to the franchise profile that is because they do not even have one. Many franchise consultants saw many mistakes made by franchisors, mostly the same mistakes as in the initial phase of their franchise. They also witnessed behaviour that they described as arrogant and opportunistic behaviour engaged in by franchisors. It is important to describe one franchise consultant's opinion: "When talking about franchisors, that is not just one person. We talk here about whole teams of people from marketing to IT departments. The decision made by CEOs or Executive Directors is sometimes astonishing."

The research showed that franchisors are unaware of their risks when entering another market (Table 15). They mostly think riskier markets do not actually mean greater risk for them. They avoid risk or share the risk by selling the master franchise licence. This occurs through sales of their franchise to distant markets which are not strategic. In their opportunistic behaviour, in order to sell their franchise they sell even more territories. With bigger territories, franchisees have higher motivation to buy the master franchise license.

Institutional uncertainty did not show a big impact on franchisors' decision to sell their franchise licences to riskier markets. Mostly they are convinced that good legal advice is gained through their legal support, which according to the franchise consultants is a common mistake in international franchising. Underestimation of the institutional risk has led to many international franchising failures and consequently the closure of territories. Cultural uncertainty was mentioned by only two franchise consultants. As shown by the results, cultural uncertainty proves to be more important than institutional uncertainty. Economic uncertainty was not repeated as a pattern.

Figure 8: Observed pattern codes by franchise consultants



In addition, localisation adaptability was mentioned with mistakes by global companies like McDonalds or Starbucks, which were described in one interview when these companies were entering the territories like India and Australia with a company-owned unit (subsidiary) where no localisation was made due to arrogance. All franchise consultants additionally accentuated that care and trust play an important role which depends on the business model and leadership style the franchise companies develop. We summarised these as positive characteristics in franchising, where companies are advised by franchise consultants. Goals and strategy were mentioned many times, including the importance of strategy. We found these two descriptions important even though environmental uncertainty was observed.

3.2.5 Comparative case analysis

With all cases, we performed the first-level pattern analysis to summarise the segments of data. We then executed the pattern coding for each group to create smaller sets to reduce the amount of description of the data collected into a smaller number of analytic units. To execute the comparison between the companies, we summarised the meaning of the companies' and franchise consultants' replies to gain the ranking of the answers with their attitudes to host markets. In multiple-case studies we ranked the level of risk by comparing two different markets. Descriptions of neighbouring-country markets were perceived as lower-risk markets, whereas exotic markets (such as China) were perceived as higher-risk markets.

In addition, we conducted a short questionnaire survey to evaluated local market uncertainty with several uncertainty items. Dividing the companies into two groups of companies was crucial to analyse them according to their level of intangibility. Table 16 describes all results we collected with interviews and questionnaire. It is the major comparison between figures and serves as a major table to compare all results from our 12 franchise global companies. Figure 9 illustrates the results based on expected weaker or stronger negative tendency between the risk, royalties, and average margins.

Table 16: Comparison of the level of incentives according to risk and non-contractibility

Company	Industry/Country	Average assessment of risk (local market uncertainty)	Level of intangibility (hours of training)	Incentives (Royalty in %)	Incentives (Average margin %)
R1	Sales of herbal teas/Austria	2.33	**152**	3	50
R2	Clothing/Austria	4.33	**200**	2	60
R3	Cosmetics/France	2.67	**106**	4	45
R4	Underwear/Austria	2.00	**104**	0	65
R5	Bakery/Germany	2.00	**220**	5.2	55
R6	Animal food supplies/US	2.67	**160**	2	40
R1-R6	**Average**	**2.66**		**3.24**	**44.16**
S1	Headhunting/UK	4.33	**914**	6	20
S2	Consulting/US	4.67	**203**	15	25
S3	Coaching/US	6.00	**757**	17	15
S4	Networking/US	2.33	**204**	30	30
S5	Education/US	3.00	**480**	15	25
S6	Printing/US	4.33	**360**	6	15
S1-S6	**Average**	**4.11**		**14.83**	**21.67**

*Risk, i.e. local market uncertainty, was assessed with demand uncertainty, unpredictable market volume and future market developments. The 7-point Likert scale was used (1=very low uncertainty; 7=very high uncertainty).

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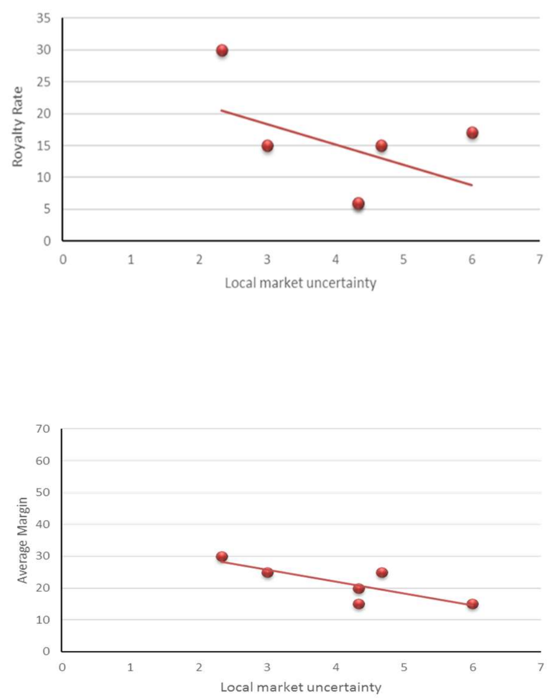
Figure 9: Royalties, average margin, and uncertainty - comparison of retail and service companies Royalty rate and average margin in service companies

Royalty rate and average margin in service companies



Royalty rate and average margin in retail companies

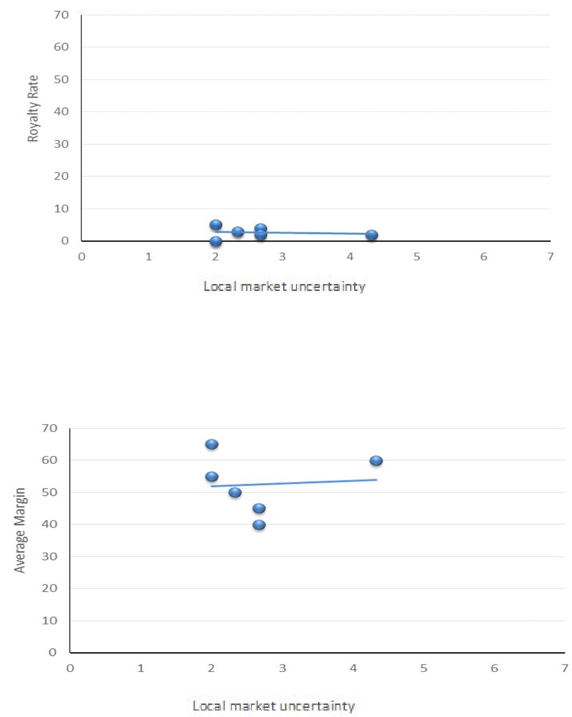
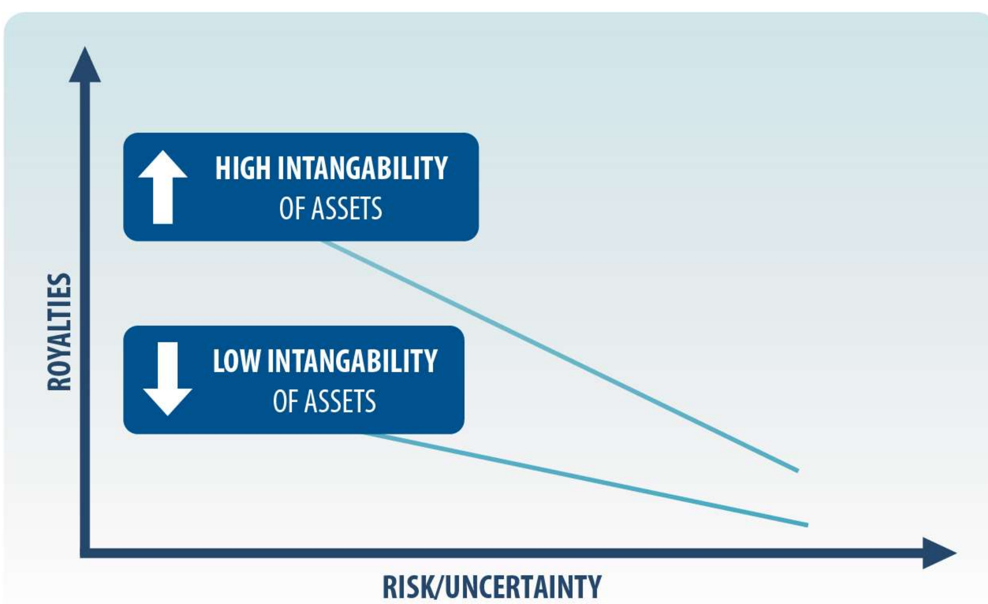


Table 16 illustrates the comparison of royalty levels. We can see that royalty levels in companies with lower intangibility of local market assets – retail companies – are, according to expected results, lower, and they decrease with weaker tendency. However, the results from the service franchise companies (higher intangibility of local market assets) are partially opposite from the expected direction. We see a stronger tendency of decrease as predicted, but the tendency starts rising with a higher uncertainty. This is quite unpredicted by agency theory and shows that explanations are needed for service franchise companies, which might be responsible for the inconsistency of empirical results over the last decades.

Figure 9 provides information about whether the strength of negative relationship differs based on the intangibility of assets. The comparison of trend lines between the service and retail companies provides support for both research propositions RP2a and RP2b. Namely, the negative relationship between risk and incentives is higher for franchise systems with higher intangibility of assets. In other words, the negative relationship between risk and incentives is stronger for service franchise firms. This result is summarised in the Figure 10.

The results regarding royalties also reveal how royalties in service companies are almost five times higher than in retail franchise companies (see also Table 16). Higher intangible assets in service franchise companies were in our research also predicted (see Figure 10). In addition, we can see that the perception of the uncertainty is lower in retail companies than in service franchise companies. Specifically, the average assessment of local market risk of retail companies is 2.67 (on a scale from 1 to 7), whereas for service franchise companies the average risk is 4.11. One reason for this may be the higher level of intangibility of assets in service companies. Uncertainty may represent a higher threat in such companies.

Figure 10: Risk and royalties according to the RP2a and RP2b

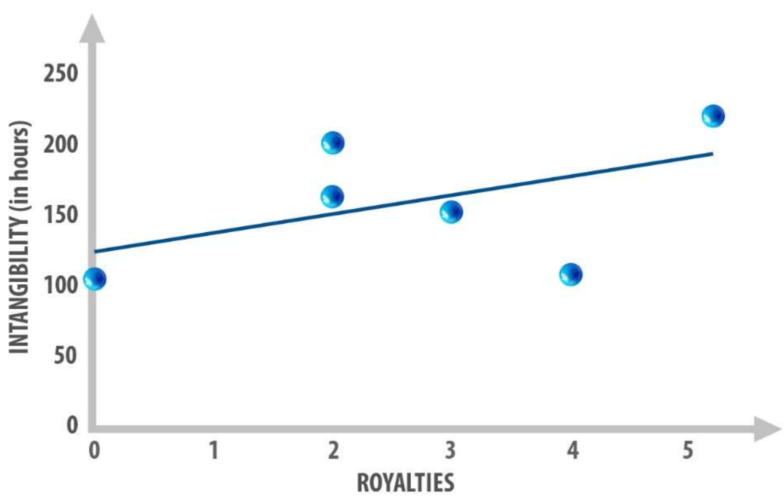


3.3 Comparative analysis of intangibility and royalties

Based on our results, we conducted a post hoc test to examine whether the relationship between intangible assets and royalty rates as incentives follows the assumptions of some previous studies (e.g., Lafontaine, 1992; Maruyama & Yamashita, 2012). We test these assumptions by using the number of training hours provided by the franchisors to the franchisees. We find that retail franchise companies increase royalty level with higher intangibility level. This means the relationship of intangibility and royalties in retail companies has a positive tendency, whereas royalties in service franchise companies this relationship shows a negative tendency.

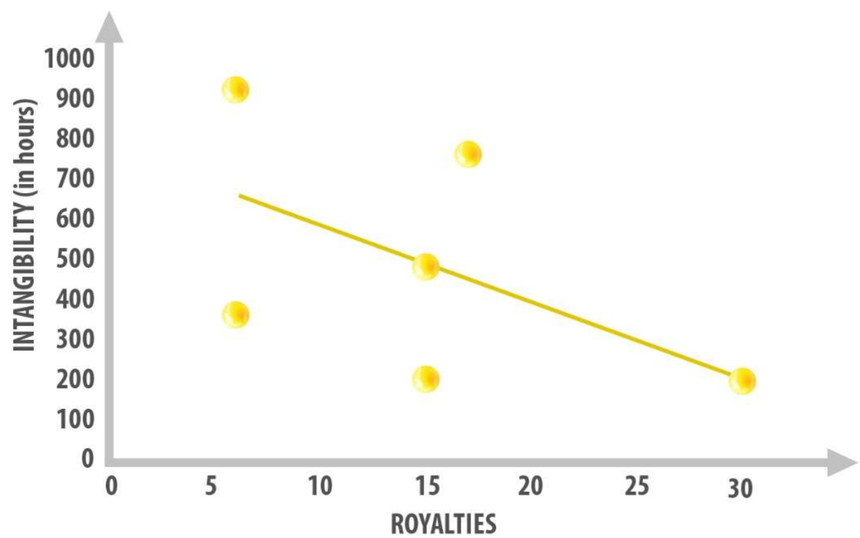
Lafontaine (1992) points out that the importance of a partner's inputs for the residual income, both the franchisor's and the franchisee's, can affect the royalty level. If the franchisor's inputs are very important, the franchisor should also receive incentives in the form of higher royalties. On the other hand, when the franchisee's inputs become more important, then the franchisee should receive incentives in the form of lower royalties. We operationalised the importance of the franchisors' inputs (as well as the intangibility level) as the number of required initial training hours. Even though this notion is not directly related to the discussion of the risk-incentives relationship, we believe that risk and incentives issue may be related to the intangibility of assets of franchise firms. The results are shown in the Figure 11 as the relationship between training hours and royalty rates in retail companies.

Figure 11: The relationship between intangibility and royalties in retail franchise companies



The results for retail companies seem to support the prediction that the franchisors' intangible assets are positively related to the royalty rate – i.e., as the importance rises, the incentives for the franchisors rise as well. Figure 12 depicts the results for the service companies.

Figure 122: The relationship between intangibility and royalties in service franchise companies



In the service sector, there seems to be exactly the opposite effect. One explanation could be that the importance of the franchisee's inputs and local intangible assets is higher in the service sector, because services are provided locally. In the service sector, the necessary support and monitoring provided by franchisors could also be higher due to the very nature of the service business. However, if franchisees receive less training in the beginning, the need for monitoring is higher, thus generating higher costs for franchisors. This could be reflected in the higher royalty rates described in Table 16.

3.4 Chapter summary

The data analysis section starts with an introduction of the retail and service franchise companies and the results of the qualitative study based on interviews with franchise managers. The section also introduces franchise consultants and their results are pictured with a pattern-matching analysis of the collected data. In this way we outline the data collection results which with another source of data gave a complementary insight into franchise international expansion.

The second part of the analysis starts with an analysis of the descriptive data called pattern analysis of the additional results from a short questionnaire. Our interviewees were asked to assess local market uncertainty dimensions on a 7-point Likert scale. In this way we were able to measure risk in a quantitative way, because the pattern codes did not enable us to clearly measure a high or low perception of local market uncertainty by franchise companies. Quantitative measurement of risk by franchise companies also provided the possibility to more clearly test the research propositions (RP2a) and (RP2b).

This important step revealed the franchisor's perspectives, and by comparing them with the franchise consultants' interview replies we see how franchise companies underestimate environmental uncertainty relative to consultants. We discovered a huge difference between retail and franchise companies according to intangibility level, which indicates how intangibility level effects the time spent on the transferring of know-how. In particular, we determine that intangibility in retail and service companies has a different relationship to the royalty level. Furthermore, this indicates how different types of franchise systems determine their incentives in a different manner.

4 GENERAL DISCUSSION

In the last decade, a form of business relationship franchising has been gaining importance. This form brings together franchisors and franchisees according to the franchise contract which regulates their mutual relationship. In franchising, the relationship can relate to product and trade name franchising as well as business format franchising. The latter, where franchisors extract revenues by charging fees and royalties, has been more widely favoured.

This type of franchising was most widely accepted first in the USA, and has later also been adopted in the EU and Australia. In 2015 annual turnover reached EUR 515 million in the EU. This comes as no surprise, because franchising in European countries is growing annually, and in 2014 there were already 11,582 unique brands. The situation in Slovenia is quite different, because we are witnessing only a slow growth in the number of franchise brands. This fact has encouraged us to prepare the thesis which focusses on franchising and can bring franchising closer to Slovenian companies as well. But merely describing the franchise mode of doing business is not enough. We took multiple steps onwards and delved into the very relationship between franchisors and franchisees so that the preparation of regulations in franchise contracts would be a win-win situation for both contracting parties.

In this sense, we have put a lot of effort into studying various scientific literature which would help us to reconsider the franchisor-franchisee relationship. We have encountered studies referring to several issues in franchising, among which we have found that most of them view the franchising relationship according to the principal-agent model. This approach has been used since 1970s. It was first applied to studies of executive contract relations, and has been later applied to the franchise domain as well. In this sense, we have prepared an exhaustive overview of the studies using principal-agent theory both in executive and franchise contract relationships.

When reviewing the literature, we encountered the problem of inconsistency in the results when applying agency theory to the study of risk and incentives in franchising. Whereas in the case of executive contracts the relationship between risk and incentives turned out to be negative, in the case of franchise relationship authors have found mixed results, although tending towards a positive relationship between risk and incentives. We attribute the inconsistency of the study results to the fact that the studies lack an understanding of the factors which play a crucial role when analysing the relationship between risk and incentives in franchising. On one hand, there is the need to reconsider the determinants of incentives. Because it has already been shown that financial resources play an important role when measuring incentives, we decided to measure incentives through royalties (as proposed by Lafontaine, 1992; Sen, 1993; Wimmer & Garen, 1997; Lafontaine & Show, 1999; and Lafontaine & Slade, 2002) and margins (as proposed by Wimmer & Garen, 2001; and Vaquez, 2005). Therefore we operationalized the incentives through the variable "Financial resources", which captures information about royalties, other fees, and product margins to which the franchisor is entitled by the franchise contract.

On the other hand, we also considered other possible factors that determine the franchise relationship. Thus, when building our risk-incentives relationship model, we also applied the property rights theory perspective. According to Lafontaine (Lafontaine, 1992; Lafontaine & Slade, 2002), intangibility turned out to be another factor influencing the change in the relationship between the risk and incentives when applied to franchising. For this reason, we decided to measure intangibility as well.

Finally, to define our model at the highest possible level, we also included the delegation view proposed by Prendergast (2000, 2002, 2011). This view introduces uncertainty as another factor influencing the inconsistent study results on the risk and incentives relationship. In this sense, we used uncertainty to measure risk. At first glance, uncertainty might not be a proper tool for measuring the studied relationship. Ultimately, we cannot even say that the uncertainty equals risk. According to Knight (in Langlois & Cosgel, 1993), uncertainty arises from the "partial knowledge" or even the "impossibility of exhaustive classification of states" (Langlois & Cosgel, 1993, p. 459). On the other hand, risk measures the unknown, but how can we say that somehow after 10 years of successful franchising a company is still facing risk rather than uncertainty? Following these thoughts, we operationalized risk as uncertainty, which we divided into environmental uncertainty and local market uncertainty.

Once we had established the measures, we faced another challenge – determining the units of our research. Following the literature review, we noticed that there is a need to make a distinction between service and retail companies, even when it comes to franchising. So we determined our research units as the representatives of both service and retail franchise companies.

4.1 Summary of the main findings

The scientific challenge of the risk and incentives relationship from the agency perspective has left many authors with questionable conclusions. Because the past results showed inconsistent results, we tried to bring together all of the insights and research studies in order to gain a clearer picture to help solve the puzzle in our research study. When risk and incentives were compared between executives and franchisees, we systematically presented all research studies to gain an overview of all the results. During the literature review potential solutions were selected. The delegation-as-incentives view proposed by Prendergast was presented, as well as the property rights view.

The qualitative research conducted was demanding – we interviewed 12 global franchise companies using interviews with top or executive management or owners. The descriptive results indicated no distinct perception of environmental uncertainty. When comparing these descriptive results with those of four franchise consultants, we found that franchisors very often underestimated environmental uncertainty, particularly cultural uncertainty. According to these replies, we conclude that franchisors do not pay much attention in general to local market uncertainty due to their successful cloning of the franchise or company-owned units. All franchise consultants accentuated in first place that care and trust in the franchise relationship are the basis of this relationship. When this basis is developed with a good business model, strategy, and leadership style, then the best franchise story appears. We describe this further in Figure 13 (Chapter 7.5 Implications for practical use, on p. 107).

In order to gain a more insightful view of local market uncertainty, an additional questionnaire revealed a higher perception of local market uncertainty in service franchise companies than in retail companies. The graphs with royalties and risk (Figure 9) indicate that retail companies confirm agency theory's indication that the relationship between risk and royalties is negative. However, service firms reveal a decline followed by an interesting turn into a positive direction. We strongly believe that the argument of inconsistency could rest here. It seems that above a certain threshold of risk evaluation, service companies start charging royalty levels differently. There might be a conclusion that royalties are affected by another parameter playing a bigger determination in the franchise relationship. Even though service companies evaluated local market risk as higher, they also indicated (see
and Table 16) higher royalties – more than five times higher than retail companies, which strongly implies that service companies charge higher incentives based on a determinant or determinants other than risk. Our research showed that one such determinant could be intangibility.

Interesting values were discovered when focusing on margins. Retail firms charge double the margins of service firms. Retail companies have a strong negative tendency of margins if the outlying Germany bakery is excluded. The service margin tendency indication is weaker. We conclude the end results of royalties are actually the opposite of margins, because retail companies show a very strong negative tendency and service companies a weaker one. End results when focusing on margins confirm agency theory's predictions of negative incentives (Figure 9 and Figure 10).

The delegation view was proposed as an alternative solution to explain the data. In order to better understand franchising, we saw that retail companies basically follow incentives according to agency theory, implying that not much is being left to the franchisee's discretion – i.e., unrestricted choice of action. Service companies partially indicate a positive relationship between risk and royalties. According to previous research based on Prendergast's suggestions, with an additional comparison between intangibility and royalties in service companies we confirm the prediction of the delegation of authority. Moreover, the delegation of authority cancels out the trade-off between risk and incentives.

According to our suggestions with property rights theory, we assume that risk determines the royalties with a smaller effect. We consider that at some point of higher risk the franchisor's intangible assets much more strongly determine the royalty level. The value of the franchisor's inputs and efforts are so developed that a smaller degree of adaptability is allowed to the franchisee. In this way, ownership controls belong completely to the franchisor, which determines that the residual income belongs to the franchisor. We see how intangible assets in service companies play a bigger role. Therefore, to analyse it further we allowed for a comparison of the intangibles of all franchise companies with their royalty levels in order to analyse the influence of the level of intangibles in both companies on royalties.

4.2 Shifting focus in franchising called intangibility

4.2.1 The property rights view

There is evidence for this notion in the literature, as pointed out by Lafontaine (1992): when the success of franchise systems increasingly depends on the performance of the franchisees (which is especially the case as franchise systems mature), royalty rates should go down. Similarly, Rubin (1978) and Sen (1993) suggest that when higher downstream managerial discretion – i.e., the franchisee's managerial responsibility – is necessary and important, franchisors should provide more incentives through decreased royalties. In the case of franchising, when the intangible assets of franchisees are more important it is likely that the relationship between risk and incentives becomes positive. More specifically, in accordance with property rights theory, if franchisees' intangible assets become more important for generating the residual income, franchisees should receive a higher proportion of the residual income and hence pay lower royalties.

However, in the service sector exactly the opposite effect seems to be in place. One explanation could be that the importance of franchisees' inputs and local intangible assets is higher in the service sector because services are provided locally. In the service sector, the necessary support and monitoring provided by franchisors could also be higher. If franchisees receive less training in the beginning, the need for monitoring is higher, thus generating higher costs for franchisors reflected in higher royalty rates. Therefore we see that service franchise companies build their business systems with adaptability to local markets, as developed by the franchisee (using financial, managerial and informational sources). On the other hand, the need to control support demands higher royalties.

Figure 9 is very important for understanding our puzzle concerning the risk and incentives relationship in franchising. The inconsistency seems to have been there for a long time. Despite many quantitative research studies, our qualitative results reveal how franchisors estimate uncertainty not by completely focusing on it but by pushing the burden onto franchisees. Retail companies seem to build other ways of business collaboration (licensing or export) in order to avoid uncertainty. On the other hand, the retail companies in our research on average charge a royalty of 3.24, with one company even charging no royalty. We see here that when accepting higher intangibility, retail franchisors determine a higher royalty. We must not forget that their royalties are almost five times lower than those of service companies. Consequently, by enlarging the intangibility, retail franchisors demand higher royalties and still enable a 'win-win' franchise relationship.

It seems that intangibility influences both types of companies. According to property rights theory, we believe intangibility makes the service franchisor determine their royalties in a different way than a retail company. Retail franchisors face a problem of maximising the return if the local assets on the franchisee's side are important. We assume that franchise retailers with higher intangible assets increase royalties due to intangibility and leave no decision rights to the franchisee. This type of company sells products and intangible assets, leaving less residual income to the franchisee. Therefore the franchisee's intangible assets in retail companies seem to play a less important role for generating the residual income (see Figure 11). Franchisees buying these kinds of systems in retail companies receive a smaller proportion of residual income when faced with a high intangibility level.

If we analyse service franchisors according to Figure 12, we see their higher intangibility results in lower royalties. Property rights theory frames this relationship between intangibility and royalties whereby the franchisee's local intangible assets play a greater role, and franchisees therefore receive knowledge and apply this knowledge to the local market as well as authority. In accordance with property rights theory, franchisees' intangible assets generate the residual income and therefore the franchisees pay lower royalties. Following our understanding of intangible assets, we see here that "tacit knowledge" (Nonaka & Takeuchi, 1995) plays an important role in decisions by determining royalties in service companies. However, this does not apply on the side of the franchisee. Furthermore, service franchisors decide on the development of tacit knowledge and the extent to which local intangible assets are allowed to be used by the franchisees. We believe the whole determination of royalties is then offered by the delegation view theory.

4.2.2 The delegation rights view

According to Lafontaine (1992), there is a certain degree of both partners' inputs that plays a crucial role in each franchise relationship. Therefore the importance of the franchisee's and the franchisor's effort determines the royalty level. In our case, we see how retail companies find their inputs more important than service franchise companies – we expect franchise retailers to determine royalties based on their products' characteristics and the possibility of adaptability. Figure 11 shows a graph revealing how the intangibility level of business in the retail industry increases the royalty level. This graph shows that higher intangibility also means higher complexity, whereas retail franchisors do not allow the franchisee's choices of action in the franchise unit because the franchisor has already developed the whole system. Our sample of retail franchisors implies that the franchisee is not expected or allowed to adapt the business franchise system. The actions based on informational sources in the local market are not usually approved by franchisors. This mainly means their products are sold explicitly using the guidelines specified in franchise operational manuals. Higher discretion gives incentives to franchisees to use their local market knowledge and influence the outcome. In the case of retail companies, the royalties get higher, thereby influencing franchisees with higher disincentives, which means not allowing the franchisee their own unrestricted choices of action.

Our results for service companies (see Figure 12) indicate that the higher the intangibility, the lower the royalty. Yet it is the opposite with retailers. We assume that the delegation of authority is involved. In service franchise systems, the adaptability of the franchise system is allowed due to the higher intangibility involved. Service franchise systems where the franchisee's "tacit knowledge" is obligatory and respected by franchisors do not charge higher royalties. In service franchise systems, we see how implicit and explicit intangible assets meet in local markets, working hand-in-hand for success. A higher level of discretion gives incentives to franchisees to use their local market knowledge and influence the outcome. As suggested by Prendergast (2002), incentives in service companies are based on a governance mechanism giving franchisees rights to exercise their discretion. As indicated by Prendergast (2002), incentives in service companies are based on a governance mechanism where the adaptability of the franchise system is allowed. It seems that retail companies more strongly follow property rights theory because service companies determine their royalties more by following the delegation-of-authority view.

Lafontaine and Slade (2002, 2007, 2010) concluded that royalties vary across firms. The authors show that heterogeneity of franchise companies from different sectors is observed. Different types of franchise companies develop and determine their franchise system differently, especially if we focus on processes of production and monitoring technologies. The authors show that differences in contracts demonstrate various possible relationships between royalty rates and franchise fees. The fact that all these parameters were observed in our research points to our major findings. Differences between companies in industry, production with monitoring technologies including quality differences do influence the determinants of the royalty level. We discovered how retail and service companies follow agency theory's predictions with their negative tendency of margins. Retail companies partially determine royalties following agency theory's predictions, rather than property rights theory's predictions, due to higher royalties based on intangibility. However, as is the case in services, they follow property rights theory's predictions including the delegation view on incentives.

According to the latest statistics, in the last few decades the share of service franchise firms has constantly been increasing (Alon, 1999b; 2012). If we look at the knowledge development over the decades, it seems that in some organisations new knowledge – i.e., the share of intangible assets – was rising. This tendency could also be one of the reasons that the results related to risk and incentives are inconsistent when compared to executive and franchising agreements. With new service companies, knowledge is becoming a far greater determinant, particularly if we examiner the four latest conceptual articles about the trade-off between risk and incentives applied to executives (Table 3). All of them seek explanations and provide alternatives to complement agency theory tools in order to explain the inconsistency of the end results. We assume intangibility is one of the important determinants which we find in the property rights theory and the delegation view of incentives.

Intangible assets refer to specific knowledge, resources, and capabilities (Sorenson & Sørensen, 2001) – i.e., the intellectual capital – of a firm. According to Teece (1996), companies have experienced a transformation from raw material and manufacturing to process development of new know-how. Consequently, this implies changes in management focus and issues – a phenomenon also present in franchise companies. Teece (1998) outlines how all of these changes affect management, where firms need to keep pace with constant transformation and retransformation. All these issues were also used as a complementary explanation of risk and incentives in previous studies applied to executives (Table 3). This largely affects franchise firms, in particular their incentive system (royalties, margins, franchise entry fees, etc.)

We believe that this shift in paradigms has pushed franchise companies to structure their royalty levels in a different way, paying attention not only to uncertainty (internal or external) but also to intangible assets relevant to the franchise's expansion. This is clearly evident in the conceptual articles presented in Table 3. All articles published in 2016 (Tebourbi, 2016; Bendickson et al., 2016; Bosse & Phillips, 2016; Chen et al., 2016) try to explain the trade-off inconsistency due to innovation, the differences between old and new economies, or high-tech companies. We argue that through the evolution of industries around the world companies are changing their determinants of incentives, and for that reason the results on the relationship between risk and incentives based on agency theory may not be consistent. With the rise of new theories, the discrepancies of agency theory need to be additionally explained.

4.3 Scientific contribution

All previous studies focusing on the issues of risk and incentives according to agency theory collected and evaluated empirical data by applying a quantitative approach. The literature review encouraged us to choose a new approach to gathering data to enable a more in-depth analysis. We conducted a qualitative study of the risk and incentives in franchising, which is a novel approach in this research field. We followed the suggestions of Lafontaine (1992), Lafontaine & Slade (2002), Lafontaine et al. (2005), and Lafontaine & Bhattacharya (1995) with different moral hazard models to determine how royalties are structured to leave franchisees with sufficient rents (Mathewson & Winter, 1985). We found that franchisors basically build royalty levels with different determinants, which we understand through various theoretical frameworks.

We used an IT framework to measure the intangibility level in companies. By differentiation, we find that companies basically use lower intangibility. However, our results indicated a positive relationship between risk and royalties. When differentiating types of companies – i.e., service and product franchises – we find the relationship to risk and royalties is partially negative and positive (Figure 9). Our research adds to previous studies showing how service and retail franchisors differ in their level of intangibility. Because we obtained end results twice from both types of companies, we evaluated their perceptions of uncertainty with environmental and local market uncertainty and outlined a possible explanation for the inconsistency in the final results.

Our qualitative approach describes the risk-and-incentives relationship from the franchisor's view in a descriptive way. Comparison analysis found many similarities in the perception of environmental uncertainty, outlining the cultural dimension. Therefore retail companies build other ways of collaboration such as licensing or even ordinary export. It seems that franchisors manage uncertainty with other modes of entry to host markets. Service companies accentuated the adaptability of their businesses to lead the perception of environmental uncertainty because services are provided in the local market directly. Furthermore, no company in its responses described the connection of environmental uncertainty with royalties or margins. All companies claim that royalties change only where franchisees find themselves in situations of not having achieved the predicted monthly turnover (Table 14).

The franchisee and the franchisor, in the process of setting up the franchise unit, adapt the franchise business to the local market. Both types of companies develop in order to avoid risk levels in the local markets. Lafontaine (1992) and many other authors indicate that the interesting results might arise as a result of incentives in franchise contracts. Basically, we confirmed their doubt concerning how results were interpreted in previous research studies. We followed the implications of previous research studies and took a qualitative approach to interpreting the different types of risk. With our additional questionnaire measuring local market uncertainty, we discovered that in service companies the trade-off is only partially confirmed, by determining that service companies with higher risk increase their royalties. Our scientific achievement shows that agency theory lacks an explanation of incentives. The comparison of intangibility and royalties indicates different attitudes to royalties which cannot be fully explained by agency theory.

This application of property rights theory extends the argument concerning the value and importance of the franchisor's inputs and efforts as proposed by Lafontaine (1992), Sen (1993), and Vazquez (2005). Both types of companies view the importance of intangibility in different ways. Retail franchisors with a higher intangibility level increase royalties due to the intangibility, leaving no decision rights to franchisees. The importance of the franchisee's informational and managerial sources in the form of "tacit knowledge" (Nonaka & Takeuchi, 1995) is not valued. The alternative solution proposed by property rights theory confirms the importance of intangibility, but only on the side of the franchisor. Service franchisors obviously determine royalties based on the franchisee's effort, and they need the local market knowledge to develop the business in local markets. We also confirm that the franchisee's discretion of action is empowered more in service franchise companies. Our final results reveal how retail franchise companies' decisions on incentives can be explained by property rights theory to a greater extent than by the delegation of incentives. The value of the franchisee's knowledge plays a bigger role in service franchise companies. Therefore the delegation view seems to be a potential complementary solution to explain the relationship between risk and incentives (Alon, 2001; Grunhagen & Mittelstaed, 2002). As indicated, in this relationship the importance of intangibility established by both parties drives the risk-and-incentives relationship in different directions.

According to the franchisors interviewed in our study, it is the franchisees who carry the highest level of uncertainty. The franchisees develop their knowledge through effective training provided by the franchisor's team together with their own resources concerning the local market. That is why they can be called "knowledge practitioners" (Nonaka & Takeuchi, 1995). Tacit knowledge, being personal and context-specific, is quite challenging to transmit. Very good communication and formalisation must be systematised. Explicit knowledge refers to knowledge which uses easier channels for transfer. Polanyi (1958, 1966) maintains that human beings attain knowledge by actively creating and organising their experiences. The traditional epistemology deduces knowledge from separation of the subject and the object's perception. It actually means that individuals/franchisees create knowledge through their perception and analysis of external objects together with franchisors (Nonaka & Takeuchi, 1995; Polanyi, 1958, 1966). Through their experiences, franchisees tend to learn about the franchise system, incorporating their explicit knowledge together with their own formulation of tacit knowledge to create an adaptable version of the business system in their own local market (also called by Nonanka & Takeuchi a knowledge conversion or social process between individuals). However, in our study we did not see a decrease in royalty levels with higher risk ending in lower royalties despite there being some cases where we could see an increase in royalties.

According to our research, retail franchisors combine company-owned and franchise businesses in order to increase the franchisor's chain profit. Our results strongly confirm the research by Bradach (1997), who found that "each structure has its strengths and weaknesses of the other, than overall organization, and if an organization can use each leverage the strengths and ameliorate the weaknesses of the other, then overall organization will be stronger than either structure operates alone" (p. 298). Ehrmann & Spranger (2006) also showed that franchise service firms support the franchise unit, where we believe the strengths of the franchisee are being valued and pushed by the franchisee's managerial talent and capital, using the entrepreneurial and innovative spirit within the franchise business. The greatest scientific implication of our research is this distinction between retail and service companies. Retail companies increase royalties gradually due to intangibility and reduce the franchisees' importance, thereby failing to successfully integrate the multiple strengths of franchisees. The delegation view offered as a potential solution implies that service franchisors combine the strengths and weaknesses and organise using the multiple advantages of franchisees.

Teece (1996) outlines the importance of replication transfer in knowledge-based firms. He accentuates how knowledge is an embodied process of replication which cannot be successfully transferred by simply transmitting the information. The importance of replication in knowledge-based companies in franchising demands that all relevant knowledge be codified and well understood. This is especially the case when franchise networks due to uniformity in geographically dispersed units have to transfer the knowledge. Our research strongly shows the different replication strategies retail and service franchisors use (see figures with a comparison of the intangibility level to royalty). We show how, due to higher intangibility, service companies develop a deeper process of understanding. Therefore their process is highly tacit. It is mostly in retail companies where the decision about the franchise support is based on intangibility.

Franchising in the USA started developing in the 1850s. Different types of franchising evolved from "product trade name" to "business format franchising" (Baker & Dant, 2008). These differences lie in the complexity of the franchise system, as demonstrated by the analysis of intangible assets in our research. Franchising is still on the rise, presenting us with remarkable numbers of new franchise systems not just in the USA, but also in Europe, India, and China (Dant, Grünhagen, & Windsperger, 2011). Based on our results, we assume that retail companies charge higher royalties with the development of new intangible assets, leaving franchisees with higher disincentives. Service franchise companies decrease their incentives and leave the adaptability up to the franchisee. Otherwise, the franchise business model might not be feasible. Furthermore, franchise companies globally might develop by specifying their incentives not just with royalties but also with other fees to provide transparency in the franchise relationship. We grasped the scientific challenge with different theoretical frameworks, each explaining in a complementary way the franchise phenomenon in the trade-off between risk and incentives in contracting. We believe our results indicate a shift in franchising over the past decades where a different form of franchising developed, including new industries using franchising as a new system development. As franchise companies needed to consider innovative ways to react to market changes, they developed their incentive models outlining the value of knowledge.

4.4 Business implications

"The reality of the everyday manager's business life does not lie in a classroom," said J. C. Spender. He admits that we cannot change this, and theoretical work never completely satisfies the manager's individual needs. Therefore we decided to aim for a research study due to the lack of global franchise research. In order to answer this need, we carried out case studies with interviews to obtain franchisors' and franchisees' perceptions of uncertainty and risk. Uncertainty and risk seem to be lower in franchising, but franchise companies still make mistakes. We believe the interviews reveal some mistakes made by global franchise companies when heading to markets where environmental uncertainty was not outlined. Useful insights by the franchise consultants point to the franchisors' arrogance, optimism, and opportunism. The evaluation of the franchisor's perspectives of local markets lacks limits of cultural uncertainties. This shows how McDonald's, one of the biggest and oldest franchise systems in the world, has failed to successfully enter the Indian market due to not respecting the cultural diversification.

We advise franchisors to follow the indication of intangibility and valuable knowledge. The level of intangibility in each franchise company is based on their industries or uniqueness. Therefore the intangible assets provided by franchisees in local markets are important. Service companies obviously show a need for the franchisee's intangible assets, confirming the delegation of authority. Therefore retail companies will be very much challenged in the future in choosing a level of their royalty that still bears the intangibility level. On the other hand, while services are adaptable, one might question the limit of the adaptability in the franchisee's local market due to the uniformity.

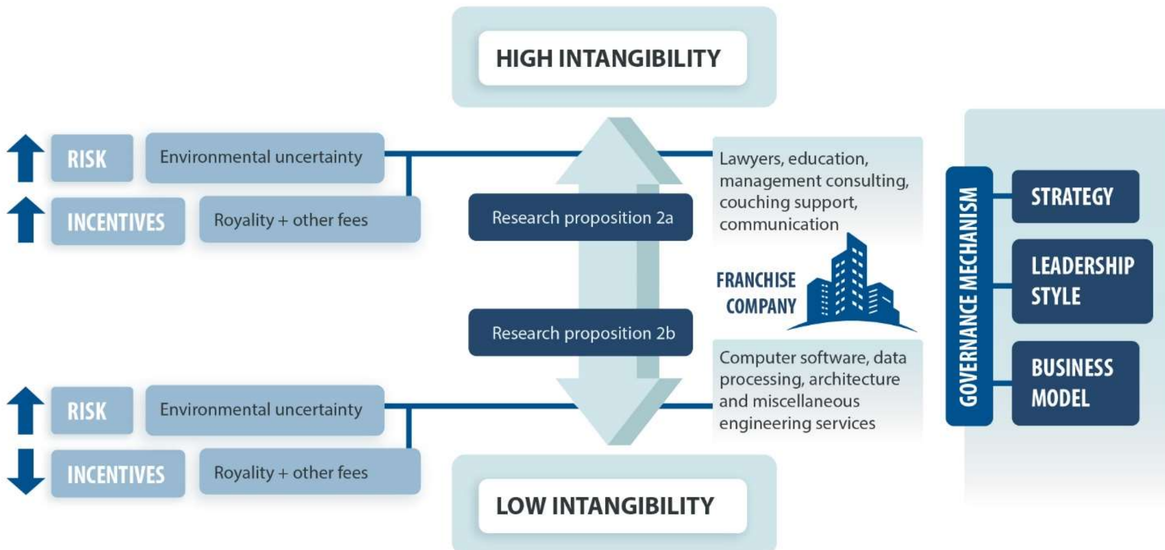
The discovered change in the risk-and-incentives relationship in franchising revealed that one of the determinants causing the change in risk and incentives seems to be the intangibility of assets, specifically knowledge assets. Argote & Ingram (2000) use the term "knowledge reservoirs" to define the knowledge transfer. The authors outline how the creation and transfer of knowledge influences the competitiveness of each company. Knowledge transfer in franchising is quite important due to replication based on cloning the franchise units. Furthermore, it strongly affects the performance-based approach to measuring knowledge because the franchise brand demands standard procedures and uniformity. In Figure 13, we present an overview of the results focusing on how our theoretical model is adapted for practical uses. Many franchise companies fail to transfer knowledge successfully because the complexity of the business model hinders the process of the transfer of knowledge. Our measured intangibility reveals strong differences in the two observed types of companies.

Our research also provides some insights into new potential franchisees, or franchise system owners. The better understanding of franchising leads small-business owners to reconsider franchising as a business option. We indicate through the observed intangibility level, how in the service franchise system adaptability becomes a necessity in order for the franchise unit to be feasible in local markets (Baucus, Baucus, & Human, 1996; Pilling, Henson, & Yoo, 1995; Shane & Hoy, 1996; El Akremi, Mignonac, & Perrigot, 2011; Mumdžiev & Windsperger, 2011).

We strongly believe our findings will stimulate franchisors to improve their work in franchise relationships. This is particularly so in industries such as fast food, because their level of tangible and intangible assets is very high. Due to the intangibility level present in each franchise company, these assets should be specified fully in franchise agreements or franchise operating manuals. The complexity of the franchise system demands a higher level of control, which again creates higher costs for the franchisors. We believe the control determinant should be connected to trust and care, as outlined by the franchise consultants. The strong implication for the leadership style is to follow how the support of the franchise network influences the success of franchise systems. Dnes (1993) showed how support and maintenance within the franchise network equates to blood and is ranked highly on the list of factors that enable the survival of the franchise system. Here, leadership style strongly wins by showing major mistakes committed by some franchise systems. We believe franchisees do make mistakes. However, in franchising we firmly believe that franchisors are the ones who should know their limits.

Since the results regarding royalties reveal how royalties in service companies are almost five times higher than in retail franchise companies (see also Table 16). Higher intangible assets in service franchise companies were in our research also confirmed (see Figure 9 and 10). Retail franchise companies were confirmed to have lower level of intangibility. In addition, service franchise companies evaluate average local market uncertainty with higher level. However, their level or royalties decrease faster, achieve the bottom and start rising (see Figure 9). One reason for this may be the higher level of intangibility of assets in service companies due to adaptability of the business model. As it seems, local market uncertainty may represent a higher threat in such companies. This might mean, in service franchise companies the higher the level of local market uncertainty, the lower the level of intangibility. If this leads to adaptation of the business model, then the intangibility is rising as well as royalty level. The business model was strongly outlined in interviews with franchise consultants. In addition, it seems that also a leadership style and strategy play a significant role in both types of franchise companies (see Figure 10 and Figure 13).

Figure 13: Overview of the modified theoretical framework applied to practical implications (modifications are highlighted as a governance mechanism)



All franchise companies have challenges in this area. It is mostly arrogance and overly optimistic assessments that hinder them in their decision making on which markets to enter and how, as strongly indicated in the responses of the franchise consultants (see Figure 13). We suggest that further studies include franchise consultants' opinions, because they proved to be very important for the end results of our theoretical framework. We feel future research should conduct a quantitative study based on the presented findings.

Overall, our theoretical model contributes to the franchise and organisational economics literature by arguing that incentive contracts cannot be evaluated without considering the impact of the underlying governance mechanism on the contract design. In other words, the design of an incentive contract depends on the governance mechanism under which an incentive contract is introduced.

4.5 Limitations of the study and further research

Although the present thesis contributes tremendously to the study of risk and incentives in franchising, there are still some limitations to be considered. One of the limitations refers to the focus of our study. In the dissertation, we analyze franchise relationships in order to present franchisors' views on the local markets and the role of the franchisee. We do not deny the importance of franchisees' views in the study of franchise relations. But since the majority of previous studies focus on the franchisor's view, we have decided to do the same thing for several reasons. The first one is to provide comparable study which would serve as a progress or an advancement of what has already been known. The second one is the fact, that the franchise contracts are still one-sided, since the franchisors are the creators of their franchise business model. Consequently, contracts are mainly form in the way to protect mainly franchisor's rights and are offered to franchisees as "take or leave it" contracts (Antia, Zheng & Frazier, 2013).

However, the franchisee's evaluation remains unexplored, which is one of the paths on which we will focus our future research. Research employing both views (the franchisor's and franchisee's risk and incentives) would enable us to gain more knowledge and insight into risk and incentives from franchisors and franchisees. Furthermore, it could also reveal to compare the claim about "take it or leave it" offer by franchisors with franchisee's view of collaboration through the negotiation in franchise sales process (we call it usually the recruitment process). In addition, by including franchisees into our research we would be able to reveal if franchisees according to local market specificity are enabled to include the adaptations of the business model into the franchise contract. Another additional discovery might reveal the level of flexibility franchisors still allow franchisees to execute at the beginning of franchise relationship as a part of negotiations (we imply other changes in the franchise contract beside the royalty and margins). Still, franchise contract might not be the only document where adaptations are specified. According to additional documents such as franchise operational manuals, which are part of the franchise agreement. These documents are meant to include additional changes to business model. Still, business model needs to be sometimes adapted to franchisee's local market in order to justify the franchisee's investment. This enables support to franchisees and their employees with the goal to still respect the uniformity of franchise business model.

Another limitation refers to the methodology used to collect the data for this study. The method lacks the ability to present the evaluation of variables such as environmental uncertainty. Therefore, our results are presented with a pattern-matching method in order to show repeating patterns. The limits were indicated with our test of the risk and incentives relationship applied to company-owned units and to franchise units. Two experts excluded research proposition 1 as a proposition since risk and incentives based on the intangibility level of assets cannot be different in the same company and its relationship to company-owned units and franchise units.

When preparing the study design, our aim was to present our study with an in-depth approach implying the inconsistencies acknowledged in the previous research studies. In this sense, we have built our research model to measure the relationship between the risk and incentives based on the intangibility level. We are aware that there exist some other variables which might count as determinants of the royalty level, which we were unable to include due to the selected methodological approach. Here, we specifically refer to the descriptive responses of the franchise consultants, where it has turned out that a different methodology should be applied to capture the in-depth dynamics of the relationship between risk and incentives. On the other hand, the collected data also limits us to a descriptive form of comparison between the qualitatively measured constructs. Furthermore, we have conducted short questionnaires in order to perceive additional measurement of risk through local market uncertainty. These questionnaires have been completed by interviewed companies, which in turn also limits our research since the sample of included franchise companies is rather small (12 global franchise companies). The end results of our study only indicate the relationship between risk and incentives in different types of franchise companies. To add a value to our findings, we have used the difference in intangibility level to clarify the influence of intangible assets due to the proposal of the property rights theory.

Furthermore, we should also consider the proposed factors which influence the uncertainty in franchise relations. We have focused one of the aspects of our research to the assumption that environmental uncertainty influences the royalties and margin. However, the results show that environmental uncertainty does not affect the royalties and margins to the extent that it should be considered as a part of changes in the franchise agreement. Even in the cases where this occurs, it is only provisional mostly due to arguments where franchisee's (if approved by franchisor) business investment is jeopardized.

Despite this, some franchise systems enable a different allocation of power to their franchise network (Chiou, Hsieh, & Yang, 2004; Chirico, Ireland, & Sirmon, 2011). Thus, our final results show that franchisors in retail and service companies have different attitudes to incentives, intangibility and risk. But all three indicators mutually interplay in various types of franchise companies. Although we were unable to additionally show the contracting part of franchising, we believe that everyday franchise operations are significantly changing along with the development of franchise systems. Therefore, the contracts do not change and the same applies to royalties. Basically, franchising contracting remains largely the same. The franchise operational manuals change in order for the franchisor to develop the business franchise system. As the franchise operational manuals are part of franchise contracts, shedding some more light on these issues would show the transformations franchise systems are forced to follow in order to achieve the uniqueness and standardization of the franchise concept.

Following some old and new approaches of data collection, we see an important lack of new methods for gathering data in franchising. Most of the previous studies rely on the data gathered through surveys or use secondary data (Dant et al., 2011). We believe that the approach used in this dissertation presents one of the missing methodological approaches in the previous studies of risk and incentives applied to franchising. Therefore, we recommend to start making use of new strategies of data collection, which enables to present different aspects of franchising and in turn enables to link the discoveries to already gathered secondary data. Furthermore, we also suggest further research in agency theory applied to franchising which would engage property rights theory and the delegation view as well. Our study is one of the few that uses a different approach and therefore presents the basis for the extended study of agency theory in franchising. We believe future studies should use an experimental approach as a methodology in order to investigate all three theories.

5 CONCLUSION

Franchising presents one of the most interesting and wanted expansion business models in the last decades. Statistics on franchising from US, Europe, China and India show an important growth and consequently increasing role in global economy. Entrepreneurs seem to be very attracted to this business model in order accelerate the expansion of their business. In the European Union (EU), the cover organization for »business format franchise« is the European Franchise Federation which, among others, also regulates the field due to non-existence of franchise law in many European countries. In the year of 2015, the whole European area achieved 518 million EUR of turnover (European Franchise Federation, 2015). Furthermore, figures also show a constant growth in the number of franchising companies not only in retail, but also in other industries, especially service. Therefore, the franchise business model seems to pick the needs of entrepreneurs and open the channel of business possibilities cross the border (Alon, 2001, 2004; Alon & McKee, 1999b, 1999b; Welsh, Alon, & Falbe, 2006). We conclude the franchise model is one of the most attracted business models. Its uniqueness is the flexibility of business model to global markets using foreign investment made by the franchisee (Alon, 2012; El Akremi, Perrigot. Piot-Lepetit, 2015).

In the beginning of our dissertation, we have pointed out several aims. In order to achieve them, we have divided our doctoral dissertation into four chapters. The chapters cover the main theoretical assumptions, which complement the content in the franchise research and then serve as the basis to complement the methodology as well. Hence, in the introduction, we have provided the theoretical background of franchising in general, describing the most widespread franchise form, the business format franchising, as well as the main characteristics regarding franchise relationship established in it.

We have shown that, in order to enter the franchise system, after signing franchise contract, franchisee pays to franchisor the franchise initial fee for license to use the business model with a brand for a limited period of time as well as for initial training, merchandising material and opening marketing package (Sorenson & Sorenson 2001). After franchisee opens the franchise units, he starts to pay franchisor the royalties and margins each month (Alon, 2001, Alon & McKee, 1999a; Doherty, 2009; Doherty & Quinn, 1999; Marie Doherty, Chen, in Alexander, 2014). When entering the franchise chain, franchisor grants to a franchisee the availability of all intangible assets, and the whole support in form of intangible assets is being transferred to franchisee. We describe intangible assets in franchise relationship as the know-how, experience and guidelines with mentoring and coaching provided by a franchisor. This support provides a higher level of survival to a local partner, which means lower level of uncertainty at the local market (Shane, 1996).

Our better understanding of risk and incentives aspects in franchising has enabled us to increase the knowledge about the franchising business model which is gaining in the attraction in the last decades. Since previous researches outline the inconsistency of empirical results (Castrogiovanni & Kidwell, 2010; Shane, 1998), the business model of franchising empowers franchisors to deploy the local knowledge, as well as managerial and financial resources of a franchisee. The franchisee makes the decision to invest into the franchise business based on feasibility of the franchise business model at the local market. The motivation behind franchisee's investment is hidden within payment of low royalties and margins. The lower the level of royalties and margins, the higher is the earning left for the franchisee. One of the major advantages franchising offers is a common work both parties have in franchise relationship. As compared to an employee, franchisee owns a higher level of motivation due to his investment into the franchise business.

This has led us to the first chapter, where we have introduced the agency theory with a focus on risk and incentives in franchising. Firstly, we have presented the relationship of risk and incentives applied to employer-employee relationship. In this type of relationship the agency theory predicts a negative relation between the risk and incentives. We have then also presented the acceptance of risk and incentives by the franchisor and franchisee in franchise relationship. Reviewing the previous studies, we have found that there exists a missing puzzle in franchise relationship that has not yet been firmly explained. Furthermore, we have also noticed that the number of studies showing a positive relationship between the risk and incentives in franchising is rising. Therefore, we have implied the research deficit with problem statement. We have elaborated similar issues on risk and incentives where risk relates to incentives in executive contracts. If applied to employment relationship, it seems that the application of agency theory leads to inconsistency. The latter can mainly be detected in various recently conducted studies on employment relationship, where higher level of intangible assets is involved, which consequently leads to ambiguous end results. This had led us to offer alternative theories to be applied to contribute to the development of the risk and incentives aspect of franchising.

For a franchisor, the efficiency of business model leads to decrease of business uncertainty. Therefore, this dissertation contributes to new insights about the relationship between the risk and incentives in franchising contracting. In 1992, Lafontaine followed by Prendergast (2002) have already shown, how risk and incentives issues in franchising need to be provided using new and different approaches. Furthermore, the additional research by Vazquez (2005), Maruyama and Yamashita (2010, 2012, 2014) has outlined that there is a need for a new way of thinking about the dynamic of risk and incentives in franchising. All these issues have lead us to intrigue a scientific challenge to find and place distinct methodology and additional alternative theories to the research field.

Some studies distinguish risk from uncertainty. We followed Knight's definition of risk, which franchisors are able to predict, and left the separation of the two concepts out of our scope. Furthermore, none of the latest researchers in franchise application of the trade-off between risk and incentives included the separation framework. This encouraged us to simplify the risk variable and focus on it as a determinant of royalties and margins. In franchise business model, the franchisor and the franchisee decide together, before the franchise contract is signed, if the business franchise model is feasible or not at the franchisee's local market, and then proceed with the opening of a franchise unit. This local unit is highly affected by the local market uncertainty, here conceptualized as demand uncertainty, sales prediction's uncertainty as well as future development uncertainty, which may in the future result in various business risks. Therefore, we measured the franchisor's assessment of uncertainty caused by a local market. Our purpose, was to approach the measurement of risk uniquely by employing known parameters usually determined as environmental uncertainty or local marker uncertainty. Another argument lies in growing franchise statistics on a global level. This means, with the higher level of cloning in franchise chains, the risk of franchise business is lower due to the successful number of already opened franchise units on a global scale. We conclude, franchisors have the ability to develop after a certain number of already opened franchise units, a business intuition about cloning the franchise units. We are aware that unknown uncertainty does exist, but by taking into the sample only the franchisors who successfully operated in the market for more than 10 years, we were able to eliminate the businesses that have a high proportion of "unknown" parameters of risk.

The distinction of previous studies are empirical results offering us both, negative as well as positive relationship between the risk and incentives. This is rather the opposite as predicted by the agency theory. This phenomenon of theoretical prediction and inconsistency of results motivated us to execute the empirical research to seek the explanation for the difference in the relationship between the risk and incentives due to intangibility. When comparing the research of risk and incentives for executives and in franchising, we have observed that many research studies were executed taking different industries and jobs in order to find the explanation. After making his proposal that the delegation of authority changes the relationship between the risk and incentives, Prendergast (2002, 2011) contributed to the latest research studies. The positive results due to the delegation of authority were confirmed by Foss & Laursen (2005) and by DeVaro & Kurtulus (2010) using Danish companies and British survey data.

The point of studying of risk and incentives has given us a deliberate motivation to analyse the relationship in order to take further steps in applying the agency theory to franchising. Since we tend to be conscious of our research, it seems preferable to conceptualize the research with further distinctions of our phenomenon. The main motivating factor that has led our research was the tendency to analyze the franchise relationship on a global level, since franchise figures show a constant growth in the number of companies which decide to expand their business with franchise model. We have seen the necessity to apply the challenge of risk and incentives in order to practically guide franchise companies to avoid previous mistakes of franchise failures.

Reviewing the literature, we have found that authors try to find the argument of positive relationship between the risk and incentives. The authors have often pointed out how intangible assets transfer implies its effect on the relationship between the risk and royalties as well as margins. Therefore, alternative theories have arisen in the previous studies, such as property right theory and delegation view theory. Property right theory has been implied by Lafontaine (1992) and Lafontaine & Slade (2002), and the delegation view of incentives has been implied by Prendergast in 2002. The reasoning based on property rights theory is based on intangibility of assets as explanation for the inverse of relationship between the risk and incentives when applied to franchising. The franchisor's intangible assets refer to system-specific know-how and brand name assets (Klein & Leffler, 1981; Norton, 1988a; Windsperger & Dant, 2006). The definition includes knowledge and skills in site selection, store layout, product development, procurement (Kacker, 1988). The franchisee develops quality control, human resource management, the outlet specific know-how, local advertising, customer service, product innovation (Sorenson & Sorensen, 2001). In the franchise contract, the use is determined only for a small part of the above mentioned intangible assets, whereas the use of most intangible assets is only mentioned, or even not at all specified. Therefore, the property rights theory seems to offer the alternative. If the intangible assets of franchisees are more important, it is likely that the relationship between risk and royalties becomes positive. More specifically, according to the property rights theory view, if franchisees' intangible assets become more important for generating the residual income, franchisees should receive a higher proportion of the residual income and hence pay lower royalties.

On the other hand, the "delegation view" as explained by Prendergast (2000, 2002, 2011) implies that if there is a greater uncertainty about what an agent should be doing, the agent should be given more discretion, i.e. unrestricted choice over his actions. Higher discretion represents an incentive to agent, since agent has more authority to use the available information and influence the outcome. Based on the delegation view, the relationship between risk and performance-based incentives will be positive. Therefore, Prendergast argues that under high uncertainty the relationship between incentives and risk might be positive. In case of franchising, every franchisee is an entrepreneur with the investment into franchise unit. He gains higher level of intangible assets in form of authority. Since he owns the unit and faces the uncertainty at the local market, he is also entitled to higher incentives, such as lower royalties and margins.

The second chapter has therefore presented our theoretical model, which includes both, qualitative research approach as well as the additional survey. This has enabled us to obtain different view on the risk and incentives in franchise contracting as compared to other researches. Firstly, our goal has been to explore the franchise relationship in order to find out the missing factors regarding uncertainty and its effect on royalties and margins. Furthermore, the deviant approach of methodology has lead us to inquire the franchisor's environmental and local market uncertainty peculiarities. Note however, that we have focused our research merely on franchisor's view, while the franchisee's view has not been considered. The main reason is the fact, that the franchise contracts are still one-sided, formed mainly by franchisors themselves, and offered to franchisees as "take it or leave it" contracts.

On the other hand, our theoretical model describes the division of two types of observed global franchise companies. One type of companies are retail companies, working mostly in fashion. Another type of franchise global companies are service companies working mostly in consultancy. We predict with our theoretical model that the level of intangible assets affects the relationship between the uncertainty and royalties as well as margins. We indicate that franchisors in retail franchise systems are expected to react to higher uncertainty (environmental uncertainty) at the local market with lower incentives for franchisee, i.e. higher royalty rates. This means, when retail franchisors sell their products as a franchise system, the risk and incentives are negative (franchisee's view). Whereas the higher the uncertainty, the lower is the incentive for franchisees due to higher security covered or accepted by franchisor. Furthermore, this means franchisor's royalties and margins are higher, and the bonuses received for franchisee are lower.

Our research propositions predict that the level of intangibility influences the relationship between the risk and royalties. In order to follow the relationship between the risk and royalties, our methodology with qualitative approach revealed, how franchisor's in general despite lower level of considered uncertainty, imply no influence to royalties. The franchise companies included in our research have different level of intangible assets. Therefore, the comparative case study revealed that other types of franchise industries do not determine royalties on environmental uncertainty, as the environmental uncertainty reveals no connection to royalties.

The third chapter has presented the results of the comparative case study analysis. Here, we have outlined the interviews which has led us to reveal the perception of franchisor's environmental uncertainty. Furthermore, we have also executed the additional survey, where franchisors implied another perception of local market uncertainty.

In accordance to achieve an in-depth study, we have undertaken a multiple case studies in order to explore different cases with tendency of comparison. (Yin, 2003). Since Lafontaine (1992) outlined the differences in levels of incentives based on industry sector, we have decided to choose two types of franchise companies – retail franchise companies and service franchise companies. Our results derive from 12 case studies of global franchise companies and 4 franchise consultants. Therefore, our study is not limited to a country or territory and it is the first global study executed in terms of risk and incentive issues. Within each case study, we have contacted the franchise management in the company or franchise consultants directly. Franchise companies have been contacted by phone. We did not demand to have a copy of franchise agreement since we are focusing on evaluation of franchisor's view of the risk with relation to incentives in form of royalties. Franchise companies have been also randomly contacted at franchise exhibitions or different franchise events all over the world. Our target respondents have been top managers or owners. They have all been willing to cooperate without using their names or company's titles. The approach might indicate some concern about the selection bias in the sample. However, it has been unavoidable under the circumstances. All phases of this study have been subjected to scrutiny by an external auditor who is experienced with qualitative research methods.

Our multiple case analysis has collected the data from globally presented franchise firms, which are taking care of their own and franchise units for more than ten years and have been established in the European Union, the USA or Australia. They are either retail or service company. For the research undertaken here, these criteria play an important role as these companies use two channels by their expansion within their country or cross the border. Franchise companies being in franchising for many years (we call them also mature franchise companies), have already developed their own know-how and that is one of the major matters, why they are successful even outside their own country. In case of selling the franchise business, the major characteristic of the franchise sales is the proven business model is being sold to another business entity. All information necessary for the company's unit manager; the franchisee needs the same support and the franchisor gets from their franchisees managerial, financial and informational resources in return. We analyse this approach in order to discover the distinctions or similarities.

The necessity of the results has lead our investigation on uncertainty from the franchisor's view further in the direction to evaluate local market uncertainty. An additional questionnaire has revealed the higher perception of local market uncertainty in service franchise companies as compared to retail companies. The end results of short survey have indicated that retail companies confirm agency theory's indication: the relationship between risk and royalties is negative. But on the other hand, in case of service firms the results have revealed a negative fall, followed by an interesting turn into a positive direction. We strongly believe that the argument of inconsistency rests here. It seems that above a certain threshold of risk evaluation, service companies start charging royalty levels differently. There might be a conclusion that royalties are affected by another parameter playing a bigger determinant in the franchise relationship. Even though service companies evaluate local market risk as higher, they also indicated higher royalties, which strongly implies that service companies charge higher incentives based on another determinant(s) besides uncertainty. Our research has showed that one of them could be intangibility.

Our research is conceived as a contribution to agency theory's missing puzzle of the last three decades. Our analytical scheme is based on proposals and assumptions from the property rights theory and the delegation view of incentives. More precisely, we assume that intangible assets determine the structure of incentives such as royalties and margins in a different manner. We have explored the trade-off between risk and incentives with two different types of uncertainties evaluated by two different types of franchise companies. In addition to our conclusion drawn from the research, there are certain conclusions we would like to sum up at the end. First, our research is the first comparative case study analysis in the area of risk and incentives in the last three decades. The key findings of the interviews indicate that franchise firms turn over all the uncertainty to franchisees. In addition, the incentives are not managed directly by environmental uncertainty. It seems franchisors manage it through different franchise contracts. This is a crucial finding of our research.
Additionally, for the first time in uncertainty and royalties research, we have included a group, which is very important in franchise industry. These are franchise consultants, who have strongly accentuated that care and trust play an important role in franchise relationship. They have also implied how franchisee's effort plays an important role. The goal and strategy of franchise chains have often been mentioned as being crucial in the process of international expansion. We have found these two descriptions as important even when environmental uncertainty was observed. The franchisors as owners and their drive behind their company and their franchise team contributes strongly to success of the franchise network. As franchisors do not undertake any responsibility or risk, franchise companies expand abroad relying mostly on resources invested and provided by franchise candidates. In particular, when they have a potential franchisee with lots of financial resources, they rely on them to set up the whole franchise unit structure in one market, even though the franchise profile might not fit. When offering master franchise licence, they give lower importance to the franchise profile that is because they do not even have one. Many franchise consultants have seen many mistakes done by franchisors, mostly the same mistakes as in the phase of their franchise start. They have also witnessed arrogant and opportunistic behaviour committed by franchisors.

Further, our short questionnaire has indicated how retail and service companies evaluate uncertainty in the local market differently. This understanding has pushed the discussion after three decades into the area of the potential new reality of uncertainty being managed by service firms since this type of companies shows the opposite tendency concerning uncertainty and royalties as well as margins as predicted by the agency theory. This is our next key finding. The results of questionnaire analysis show a negative tendency in both types of firms, as indicated by our research propositions. However, service companies understand the determinants of royalties and margins differently as compared to retail companies. We call this a shift in paradigm. Apparently, as indicated by the latest studies on risk and incentives applied to executives, new types of companies such as high-tech firms might be the cause of inconsistency in the predicted trade-off. Service franchise companies develop their way of incentives in this direction.

Finally, the key indication of a shift in paradigms confirmed our conclusion by the latest conceptual studies applied to executives. Since we have found no such study applied to franchising in the last few years, our study contributes to that area of research. We find that our set of results supports the proposals indicated by the property rights theory and the delegation view of incentives. Further, it seems that intangibility also frames other types of business models. Therefore, the future realities of business such as franchising might lead their business to high-tech platforms within the company. Apparently, agency theory needs to be developed with complementary tools in order to define intangible assets in new types of future companies. One of them seems to be franchising. Therefore, further research should focus on adopting additional determinants. Clearly, there is need to embrace new approaches of analysis with integration of “new paradigms”. New forms of future research could reveal us further issues being present in relationship between the risk and incentives in franchising.

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APPENDICES

LIST OF APPENDICES

Appendix A: Measurement of key variables

Variables	Franchisor interview question(s)*	Measurement
Background variables	Several introductory open questions to sketch the context of the non-contractibility in terms of: length of franchise relationship in years, number of franchise and company-owned units, reasons for buying a franchise, how the franchisees are supported before and after the opening of franchise unit.	
(Excluded questions)	How do you evaluate risk for your company owned units?	RP1(excluded)
	What incentives are offered to your managers of the outlet? Are there any differences in incentives according to locations of the outlet?	RP1(excluded)
Initial Response	Open question about risk and incentives when opening in a very well-known market and a distant market, where it was completely unknown for them: As you first learned about risk and incentives issues, how would you describe your reaction regarding opening the unit in the very well-known market, which means you have the actual statistics about the planned or opening location in comparison to a far distant or in this case just riskier location for the unit? What do you think is the biggest problem in international expansion?	RP2 RP2
Preceding and subsequent responses	What role does the risk play? Closed target questions to position the response: Does risk play an important role? Example question to resolve the known and unknown market, and their reply and entrance incentives from franchisors? Closed target questions to position the response **: Does opening cause a big burden by setting up the franchise unit also with transference of knowledge (such as coaching, mentoring, training days)? *Questions repeated for preceding and subsequent responses.*	
Intangibility	What are your support activities before and after opening a franchise unit?	RP2a, RP2b
	When a market is riskier, do you need to give more support?	RP2a, RP2b
	How does a franchisee's profile plays an important role? Why?	RP2a, RP2b
Risk	What role does your brand play by your sales? Do you pay more attention to your services or to sales of your products?	RP2a, RP2b
	How do you increase your value within franchise system?	RP2a, RP2b
	How do you plan opening of company-owned unit and a franchise unit in your company?	RP2a, RP2b RP2a, RP2b
	Which risk, according to your experience, influences the most your decision to franchise? Which risk is still acceptable for you to enter as a franchise?	RP2a, RP2b RP2a, RP2b
Incentives	How do financial projections influence the setting up franchise unit? Why?	RP2a, RP2b RP2a, RP2b
	How do legal or political issues influence the setting up of franchise unit? Why?	RP2a, RP2b
	How do cultural differences impact the setting up of franchise unit? Why?	RP2a, RP2b
	(Why questions posed to determine dimensions of incentives according to risk and non-contractibility	RP2a, RP2b

Variables	Franchisor interview question(s)*	Measurement
	Closed target questions to position the response: Did you plan in the past to open a company-owned unit in a country with higher risk in comparison to territories with lower risk? Why not? If there would be too much risk, but still the franchisee would be there with great management and resource skills, would you open a franchise unit? Why or why not? Would you dare to open a company-owned unit? Why not? If you had a potential franchisee there, how and why would you decide to open a franchise unit there? What kind of incentives do you give to your franchisees besides monthly turnover? Why do you think your franchisees decided to buy your franchise? How does these reasons change among themselves when we compare close or known market and distant or unknown market? Why do you think it is a difference or is there no difference? *(Why questions posed to determine dimensions of incentives according to risk and non-contractibility)*	

* To get the feedback about their picture, how they consider or define themselves

** Following Miles and Huberman (1994), the researchers check-coded these codes to increase internal consistency.

Appendix B: Short questionnaire

RISK & INCENTIVES IN FRANCHISING CONTRACTING

FRANADRIA D.O.O. **EDITA BEČIĆ** Ljubljanska cesta 12f, Trzin, Slovenija E-mail: edita.becic@franadria.si	**FACULTY OF ECONOMICS,** **UNIVERSITY OF LJUBLJANA** Prof. dr. Matej Lahovnik Kardeljeva ploščad 17, 1000 Ljubljana, Slovenia

Dear Sir or Madam,

The University of Ljubljana is for the first time conducting a global research study in franchising. This project is supported by **Univ. Prof. Dr. Ilan Alon from the University of Agdir**, who is specialised in franchising research. The whole project is being financially supported by **SPIRIT SLOVENIA with their EU-funding programme for Young Researchers in the Economy** of Slovenia.

In this research, the major goal of the project is to research the relationship between the risk and incentives in franchising contracting. We investigate how uncertainty at the local and host markets influences the level of incentives (royalty rate, mark-up) for the franchise partners.

Thank you very much for your help and time invested.

Edita Bečić
FranAdria d.o.o.

1. Please complete/cross the gaps below!
What kind of the franchise company is your system? Retail Services
Our franchise system comes from: ______________________________________(Country). Our Initial Franchise Fee for a Single unit ______________________ (€). Or Area Development Agreement is: __________________________(€) Royalty level (ongoing fee): ____________________ (%).
Contact person: E-mail address:

Below you can find statements about different types of uncertainties regarding demand, competition and product at the local markets.
Please evaluate from 1 to 7 according to your/company's opinion (1 – strongly disagree; 7 – strongly agree).

In case you have any additional questions, please do not hesitate to call or contact me on my email address: edita.becic@franadria.si or my phone number: 00 386 31 528 457.

Thank you once again for your time and effort,
Edita Bečić

2. Please indicate your opinion regarding the uncertainties in the local markets:	**Strongly disagree**		**Strongly agree**
Sales in local markets are very unpredictable.	1 2 3 4 5 6 7		
Demand is strongly fluctuating in the local markets.	1 2 3 4 5 6 7		
It is very difficult to forecast the market development of the local markets.	1 2 3 4 5 6 7		
The economic environment is changing quickly in the local markets.	1 2 3 4 5 6 7		
There are many competitors in the local market.	1 2 3 4 5 6 7		
The number of competitors in the local markets has strongly increased in the last years.	1 2 3 4 5 6 7		
Many new products or services have been introduced in the local markets in the last years.	1 2 3 4 5 6 7		
The products/services are subject to strong technological changes.	1 2 3 4 5 6 7		
The institutional environment (legal, political, regulative) in the local markets is constantly changing.	1 2 3 4 5 6 7		

Our lowest margin on products: ___________________ in %.

Our highest margin on products: ___________________ in %.

Please send the completed questionnaire in SCAN or E-VERSION to:

EDITA BEČIĆ, E-mail: edita.becic@franadria.si

Appendix C: Summary in the Slovenian language/Daljši povzetek disertacije v slovenskem jeziku

Uvod

Franšizing predstavlja velik del svetovnega gospodarstva in ga uspešno uporabljajo na različnih trgih. Leta 2015 je bilo v Evropi ustvarjenih 518 milijonov EUR prometa (European Franchise Federation, 2015), ki pa iz leta v leto še narašča. Poslovni model franšize povečuje stopnjo rasti v različnih panogah, začenši z ameriškimi podjetji, ki širijo prodajo na drobno in storitve (Alon, 2001, 2004; Alon in McKee, 1999b; Welsh, Alon, in Falbe, 2006). Noben od poslovnih modelov ni enak franšizingu, ki je edinstven v svoji prožnosti pri implementaciji v prakso, in sicer ne glede na dejavnost poslovanja (Alon, 2012; El Akremi, Perrigot in Piot-Lepetit, 2015).

Za franšizodajalca predstavlja učinkovit model, saj z njim zmanjšuje poslovna tveganja, zato z raziskovanjem franšizinga z vidika tveganj in spodbud doprinašamo k novim spoznanjem in poglobljenemu razumevanju tega področja. Že Lafontainova je leta 1992 izpostavila pomembnost poznavanja razmerja med tveganji in spodbudami, kar opredeli kot znanstveni izziv, potreben raziskav za celovito poznavanje tega odnosa. Raziskave Vazqueza (2005), Maruyama in Yamashita (2012, 2014) kažejo na neskladje v razmerju med tveganji in spodbudami, posledice pa pripisujejo pomanjkanju celovitih znanstvenih spoznanj.

Poznavanje tveganj in spodbud je v franšizingu ključnega pomena, da bi bolje razumeli odnos med franšizodajalcem in franšizojemalcem, za katerega smo našli nekonsistentnost v empiričnih rezultatih (Castrogiovanni & Kidwell, 2010; Shane, 1998). Poslovni model franšize omogoča izkoristek lokalnega znanja, kapitala in informacij, ki jih ima v lasti franšizojemalec na lokalnem trgu. Franšizojemalec se z lastnim razumevanjem lokalnega trga odloči investirati in se spopasti s tveganjem in za to dobiti določene spodbude. Skupaj s franšizodajalcem oceni stopnjo tveganj, ki jih prevzame, za to pa prejme odstotek mesečnega prometa, zmanjšan za mesečni upravljalski strošek franšize. To pomeni, da je bolj motiviran kot zaposleni.

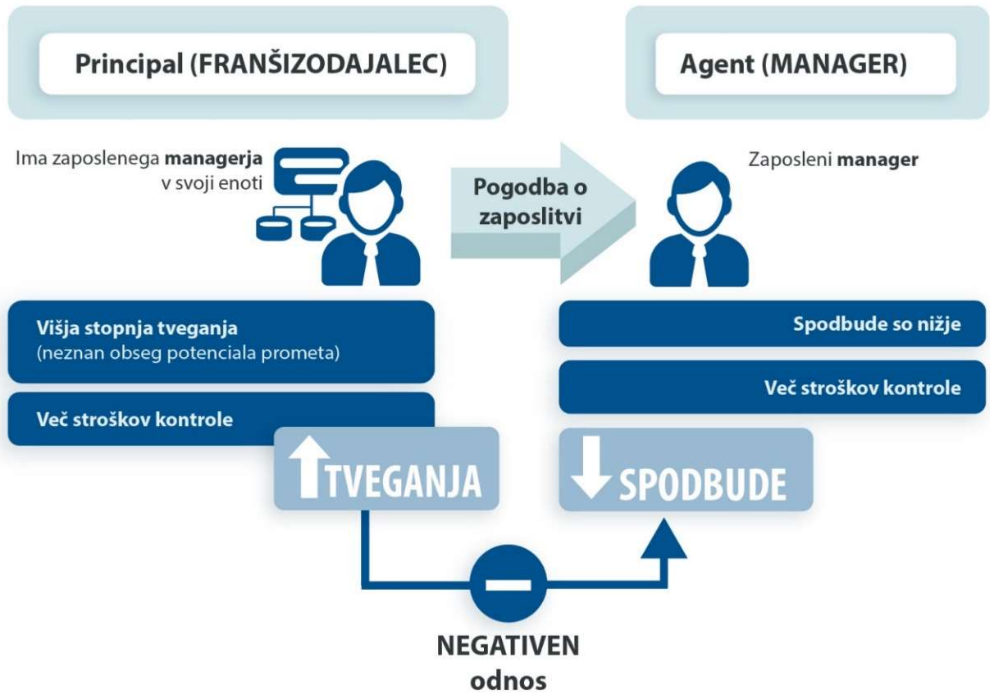
Za vstop v franšizni sistem franšizojemalec po pogodbi plača franšizodajalcu vstopno pristojbino za razvoj, znanje, oglaševanje ter inovacije izdelkov ali storitev in nadzor kakovosti (Sorenson in Sorenson, 2001). Po začetku poslovanja pa je franšizojemalec obvezan franšizodajalcu plačevati mesečno strošek upravljanja franšize (Alon, 2001; Alon in McKee, 1999a; Doherty, 2009; Doherty in Quinn, 1999; Doherty, Chen, in Alexander, 2014). Franšizojemalec z vstopom v franšizni sistem sprejema lokalno negotovost za naložbo v franšizni sistem, zato je pri svojem delu s spodbudami franšizodajalca ciljno usmerjen v doseganje uspešnosti poslovanja. Franšizodajalec z vstopom v franšizni sistem zagotavlja franšizojemalcu neopredmetena sredstva. Franšizodajalec ima v poslovni model integrirana neopredmetena sredstva (znanje, izkušnje), na ta način pa zmanjšuje tveganja in dviguje koristi za franšizojemalca (Shane, 1996).

Raznolikost preteklih raziskav, ki poleg negativnih vplivov tveganja in spodbud kažejo tudi pozitivne, nas je motivirala k empirični raziskavi in odkrivanju novih spoznanj, saj se vedno več podjetij odloča za poslovni model franšize. V doktorski disertaciji smo z raziskavo ciljno osredotočeni na pridobitev novih dognanj glede tveganj in spodbud, ki jih poslovni model franšize prinaša franšizodajalcu in franšizojemalcu.

Uvodoma smo izpostavili opredelitev franšizinga s strani Evropske franšizne federacije, ki je krovna organizacija v Evropski uniji. S proučitvijo statističnih podatkov Evropske unije smo podali ključne ugotovitve, ki jih koncept franšizinga prinaša. Tako Fladmoe-Lindquist (1995) kot tudi Lafontainova (1992) poslovni koncept franšizinga opredeljujejo kot celovit poslovni koncept, ki franšizojemalcu zagotavlja aktivnosti podpore, iskanja potencialne lokacije, prodajne in marketinške strategije, vključno z operativnimi postopki dela. V nadaljevanju predstavimo franšizing kot fenomen poslovnih odnosov med franšizodajalcem in franšizojemalcem. Prav tako obrazložimo, katere pravice in obveznosti imata v medsebojnem odnosu obe strani. Torej, iz uvodnega poglavja je mogoče spoznati odnos tveganja in spodbud v franšiznem podjetju, kjer se franšizodajalec ukvarja z lastno enoto, v kateri ima zaposlenega menedžerja enote. V tem odnosu teorija principala in agenta predvidi negativen odnos med tveganji in spodbudami. Prav tako predstavimo odnos med franšizojemalcem in franšizodajalcem, kjer pa se v zadnjih raziskavah vedno bolj kaže pozitiven odnos med tveganjem in spodbudami, čeprav teorija principala in agenta predvideva negativen odnos. Namen doktorske disertacije sporoča nujnost raziskav teorije principala in agenta, in sicer na področju tveganja in spodbud. V preteklih raziskavah so predvideni negativni vplivi tveganja na spodbude, zadnje raziskave pa so pokazale tudi pozitivne vplive. Presenetljivo pa so rezultati nekaterih raziskav pokazali celo to, da ni nikakršnega vpliva ali povezave tveganja s spodbudami. Zanimivi rezultati zadnjih raziskav poudarjajo izzive teorije principala in agenta, ki očitno po treh desetletjih še vedno nima konsistentnega pojasnila v odnosu med tveganjem in spodbudami. Še posebej se razlike v empiričnih rezultatih pokažejo v franšiznem odnosu.

Doktorsko delo torej preučuje odnos med franšizodajalcem v vlogi principala in franšizojemalcem v vlogi agenta. Prav tako v raziskavi preučujemo odnos med tveganji in spodbudami na osnovi spreminjajoče se stopnje neopredmetenih sredstev v franšiznem odnosu. Predpostavljamo, da stopnja neopredmetenih sredstev vpliva na spremembo odnosa med tveganji in spodbudami iz negativnega v pozitiven odnos. Na Sliki 1 predstavljamo zasnovo negativnega odnosa med tveganji in spodbudami med franšizodajalcem in zaposlenim kot vodjo enote franšizodajalca, ker teorija principala in agenta predvideva negativen odnos.

Slika 1: Zasnova negativnega odnosa med franšizodajalcem in vodjo enote



Na Sliki 1 vidimo, kako se v franšiznem podjetju med franšizodajalcem in zaposlenim vodjo ali menedžerjem enote vzpostavi predviden odnos teorije principala in agenta, ki je negativen. Če se stopnja tveganja na trgu poveča, se znižajo spodbude (bonusi, nagrade itd.). Zaposleni namreč veliko bolj spoštujejo varnost pred tveganji trga in zato sprejmejo nižje nagrade v zameno za varnost.

S Sliko 2 orišemo koncept odnosa med franšizodajalcem in franšizojemalcem, ki je hkrati lastnik in vodja franšizne enote, s katerim prikažemo pozitiven odnos.

Slika 2: Zasnova pozitivnega odnosa med franšizodajalcem in franšizojemalcem

Slika 2 opisuje odnos med franšizodajalcem in franšizojemalcem, ki je hkrati lastnik in vodja franšizne enote. Torej, enota ni v lasti franšizodajalca, ampak je v lasti franšizojemalca. V tem primeru pa zadnje študije na področju tveganja in spodbud v franšizingu (Lafontaine, 1992; Lafontaine in Slade, 2002; Vazquez, 2005; Maruyama in Yamashita, 2010, 2012, 2014) kažejo, da je razmerje ravno obratno, torej pogosto pozitivno. To pomeni, da kljub višji stopnji tveganja na lokalnem trgu franšizojemalca le-ta prevzame tveganja in ima tako pravico do višjih spodbud. Torej, od mesečnega zaslužka v svoji enoti plačuje franšizodajalcu mesečni strošek upravljanja franšize (angl. *royalty*) ter ustrezne dobave proizvodov s strani franšizodajalca. Razmerje med tveganji in spodbudami očitno kaže na nekonsistentnost v odnosu.

1. Pregled literature najnovejših raziskav o odnosu med tveganji in spodbudami

Pregled literature zadnjih raziskav o odnosu med tveganji in spodbudami kaže, da se ta meri z odnosom med podjetjem in izvršnimi menedžerji. Pri tovrstnem razmerju se je največkrat pokazalo, kako je odnos med tveganji in spodbudami nekonsistenten (Prendergast, 2002; He et al., 2013; Pepper in Gore, 2015; Tebourbi, 2016; Bosse in Philips, 2016). Vse raziskave poskušajo najti pojasnilo za nekonsistenten odnos med tveganji in spodbudami v podjetju, zato smo se tudi v naši raziskavi osredotočili na odnos med tveganji in spodbudami med podjetjem in izvršnimi menedžerji. Nadalje smo preučili vse zadnje raziskave s področja tveganja in spodbud v franšizingu, še posebej tiste, kjer se je pokazala močnejša pozitivna korelacija med tveganjem in spodbudami v franšizingu (Lafontaine, 1992; Lafontaine in

Slade, 2002; Vazquez, 2005; Maruyama in Yamashita, 2010, 2012, 2014). Tako nas je pregled literature vodil do še dveh temeljnih teorij, teorije lastninskih pravic in teorije delegiranja pooblastil s stališča spodbud (Lafontaine, 1992; Lafontaine in Slade, 2002; Prendergast, 2002), ki pojasnjujeta razlike v odnosu med tveganji in spodbudami v franšizingu.

Teorija lastninskih pravic temelji na neopredmetenih sredstvih kot razlagi za inverzno razmerje med tveganji in spodbudami. Ta teorija predvideva, da se razmerje med tveganji in spodbudami spremeni v trenutku, ko imamo opravka z višjo stopnjo pomembnosti neopredmetenih sredstev z lokalnega trga, ki jih ima v lasti v našem primeru franšizojemalec. Neopredmetena sredstva po obeh alternativnih teorijah opredeljujejo razdelitev prihodka v pogodbenem razmerju (Lafontaine, 1992; Lafontaine in Slade, 2002, 2007). V našem primeru je to franšizna pogodba, ki je z vidika opredelitve neopredmetenih sredstev necelovit dokument, saj vseh neopredmetenih sredstev zaradi kompleksnosti poslovanja ni mogoče opredelitvi v njej, temveč v franšiznem priročniku. Neopredmetena sredstva so znanje in kompetence poslovnega modela franšize. Po mnenju Windspergerja (2002) ter Windspergerja in Danta (2006) neopredmetena sredstva obsegajo znanje franšizodajalca kot lastnika poslovnega modela franšize, ki ga uspešno klonira na različnih trgih. Poleg znanja franšizodajalec razvije tudi učinkovit način vodenja in prilagajanja poslovnega modela, na ta način pa razvija blagovno znamko. Uporaba le neopredmetenih sredstev je deloma specificirana v franšizni pogodbi, deloma pa nikjer. To so neopredmetena sredstva pri franšizodajalcu, medtem ko franšizojemalec preda franšizodajalcu vsa svoja znanja kot vodja franšizne enote, finančni kapital in informacije z lokalnega trga. Teorija lastninskih pravic pravi, da je v franšiznem odnosu, kjer so neopredmetena sredstva bolj pomembna od neopredmetenih sredstev, stran z višjo pomembnostjo svojih neopredmetenih sredstev upravičena do višjega deleža zaslužka.

Avtor teorije delegiranja pooblastil s stališča spodbud je Prendergast (2000, 2002), ki definira, da je agent v primeru, ko prevzame od principala višjo stopnjo tveganja, poleg nagrad in bonusov upravičen tudi do višje stopnje spodbud in pooblastil. Ta višja stopnja delegiranja pooblastil s stališča spodbud predstavlja agentu spodbude, da lahko opravlja svoje delo samostojno in z odločanjem ter vplivom nad opravljanjem svojega dela. Torej, Prendergast (2002) trdi, da prenos pravic odločanja (v obliki pooblastil) na agenta, kot je franšizojemalec, pozitivno vpliva na njegove spodbude, če prevzame višjo stopnjo tveganja.

Teorija lastninskih pravic in teorija delegiranja pooblastil s stališča spodbud ponujata obrazložitev nekonsistentnosti, ki se pojavlja pri proučevanju odnosa med tveganji in spodbudami v teoriji principala in agenta. Ti dve teoriji sta bili po pregledu literature z vidika neopredmetenih sredstev v franšizingu najpogosteje omenjeni kot utemeljitev pozitivnega odnosa med tveganji in spodbudami. Poslovni model franšize določa dva načina vodenja neopredmetenih sredstev, in sicer preko lastnih enot podjetja (franšizodajalca) ali preko franšizne enote franšizojemalca. Kadar franšizodajalec vodi svoje lastne enote, to izvaja na trgu preko menedžerja, ki je zaposlen pri franšizodajalcu. Pri slednjem načinu vodenja teorija principala in agenta kaže na to, da je odnos med tveganji in spodbudami negativen (glej Sliko 1). Kadar pa franšizodajalec vodi neopredmetena sredstva preko franšizojemalca, obstaja možnost, da je razmerje med tveganji in spodbudami pozitivno (glej Sliko 2).

Na podlagi pregleda literature in teorije lastninskih pravic ter teorije delegiranja pooblastil s stališča spodbud v naši raziskavi uporabimo ti dve teoriji kot orodji za obrazložitev nekonsistentnosti odnosa tveganj in spodbud v teoriji principala in agenta. Trdimo, da ima v franšiznih pogodbah, ki imajo višjo stopnjo neopredmetenih vsebin, odnos med tveganji in spodbudami bolj pozitivno tendenco. Tako je postal osnovni cilj doktorske disertacije raziskati, kako se spreminja odnos med tveganji in spodbudami, ko je v franšiznem razmerju prisotna višja stopnja neopredmetenih sredstev. Posledično to pomeni, da je franšizojemalec, ki ima lastno franšizno enoto, bolj motiviran kot zaposleni v enoti.

V tretjem poglavju postavimo teoretični model, ki temelji na opazovanju tveganja in spodbud v franšiznih odnosih, kjer je stopnja neopredmetenih sredstev lahko visoka ali nizka. Lafontainova (1992) izpostavi dognanja raziskav, ki kažejo, da se v trenutku, ko postane znanje o lokalnem trgu franšizojemalca pomembnejše kot znanje franšizodajalca, stopnja spodbud za franšizojemalca zviša. To pomeni, da franšizojemalec plačuje franšizodajalcu nižjo stopnjo mesečnih upravljalskih stroškov franšize, posledično torej franšizojemalec prejme višji zaslužek.

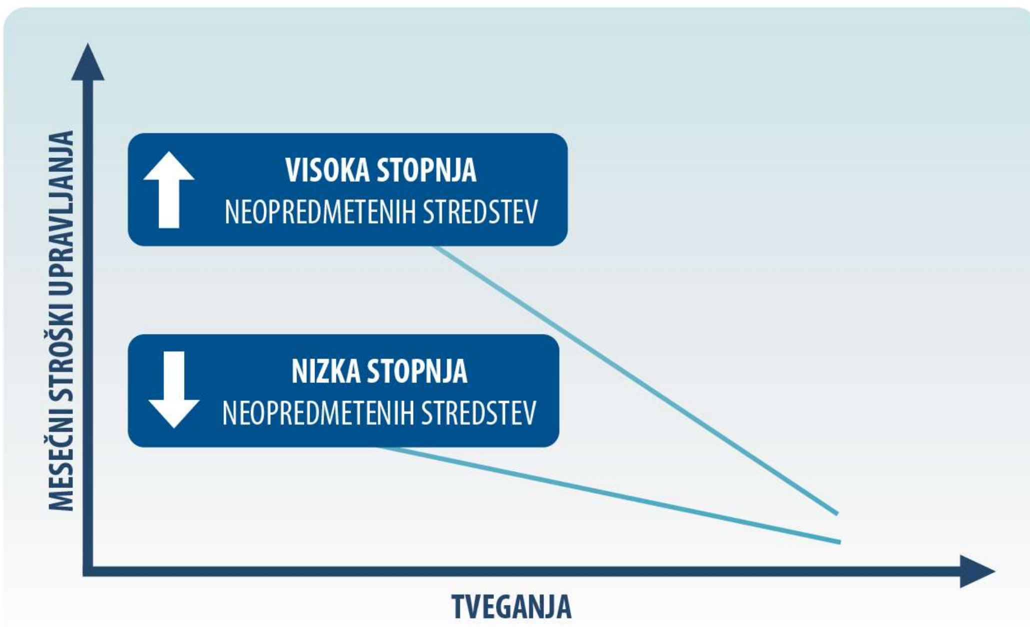
Pogosto se v raziskavah franšizinga tveganje meri s stopnjo variacije prodaje po franšiznih enotah (Wimmer & Garen, 1997; Vazquez, 2005) ali pa s stopnjo ukinjenih ali zaprtih enot na celoto franšizne mreže (Lafontaine, 1992; Vazquez, 2005; Maruyama & Yamashita, 2010, 2012, 2014). Lafontainova izpostavlja (1995), da je težava z merjenjem tveganja v franšizingu še neraziskana. Vse predhodne raziskave na področju tveganja in spodbud v franšizingu kažejo, da je tveganje v franšizingu pomembno. Prav tako izpostavlja še vprašanje, kakšen je vpliv tveganja na mesečne stroške upravljanja franšize in marže v franšizingu. Na podlagi predhodnih raziskav smo se v raziskavi odločili, da tveganje na lokalnem trgu franšizojemalca izmerimo na dva načina, odločili smo se za negotovosti iz okolja in negotovosti lokalnega trga (Celly in Frasier, 1996; John in Weitz, 1989). Teoretični model raziskovanja odnosa dveh različnih negotovosti in spodbud v franšizingu predstavljamo na Sliki 3.

Slika 3: Teoretični model raziskovanja odnosa tveganja in spodbud v franšizingu

Na Sliki 3 prikažemo zasnovan teoretični model na osnovi pregleda literature. Teoretični model raziskuje, v kakšni meri tveganja vplivajo na spodbude v franšiznem odnosu franšizodajalec-franšizojemalec, ko je stopnja neopredmetenih sredstev visoka in nizka. V raziskavi smo spodbude merili z višino mesečnih upravljalskih stroškov, dodali smo merjenje povprečne marže, ki so jo v svojih raziskavah uporabili Vazquez (2005) ter Maruyama in Yamashita (2010, 2012). Konstrukt neopredmetenih sredstev se v naši raziskavi razlikuje tudi od vseh predhodnih raziskav v tem, da smo kot instrument za merjenje neopredmetenih sredstev izhajali iz študij na področju sektorja informacijskih tehnologij (IT) (Blostermo, Sharma in Sallis, 2006). Neopredmetena sredstva opredelimo glede na specifikacijo teh sredstev v franšizni pogodbi. To pomeni, da smo skozi njihov okvir opisali opredelitev nizke stopnje neopredmetenih sredstev v obliki softverskih programov ali procesnega zaznavanja baz podatkov in storitve arhitektov v obliki adaptacij enot glede na poslovni model franšize in v obliki tehničnih adaptacij. Visoka stopnja neopredmetenih sredstev se nanaša na svetovanja v obliki pravnih, izobraževalnih ali poslovnih svetovanj. Podpora franšizodajalca poteka kot prenos znanja v obliki treningov, seminarjev ali svetovanja na sami lokaciji ali preko spletnih komunikacijskih kanalov (E-mail, Viber, Whatsapp ali Skype). Prenos neopredmetenih sredstev smo merili s številom ur prenosa znanja franšizodajalca na franšizojemalca. Naše raziskovalne predpostavke domnevajo, da je, če ima franšizno podjetje visoko stopnjo neopredmetenih sredstev, razmerje med tveganjem in spodbudami pozitivno. Ko je v podjetju prisotna nizka stopnja neopredmetenih sredstev, sklepamo, da je razmerje med tveganji in spodbudami negativno.

Raziskovalni predpostavki (Slika 4), ki ju v pričujočem delu preverjamo, se nanašata na negativno razmerje med tveganji in mesečnimi stroški upravljanja, ki je močnejše ali šibkejše glede na višino neopredmetenih sredstev. Obe vodita do sklepanja, da negativno razmerje med tveganjem in spodbudami pada močneje, in sicer z večjim negativnim naklonom v tistih franšiznih podjetjih, v katerih je stopnja neopredmetenih sredstev višja. V podjetjih z nižjo stopnjo neopredmetenih sredstev je negativni naklon odnosa med tveganjem in spodbudami šibkejši in pada z nižjim negativnim naklonom. Tendenca padanja negativnega naklona je orisana na Sliki 4.

Slika 4: Opis, kako tveganja in spodbude kažejo enako smer,
takoj ko začne stopnja neopredmetenih sredstev padati (z vidika franšizojemalca)



Lafontainova (1992) izpostavi pozitiven odnos in z naslednjo študijo nakaže, kje bi lahko bilo pojasnilo za vedno pogostejši pozitiven odnos med tveganjem in spodbudami. Pojasnilo sledi sklepanju, da nižji mesečni upravljavski strošek temelji na višji stopnji tveganja na lokalnem trgu franšizojemalca. Namreč, višje kot je tveganje, ki ga prevzame franšizojemalec, do večjega zaslužka je upravičen. Posledično sledi, da se mehanizem spodbud v franšiznem razmerju spreminja na podlagi pomembnosti vložka obeh strani.

Lafontainova in Slade (2002) ugotovita, da se stopnja spodbud spreminja glede na dejavnost podjetja in glede na različne načine kontroliranja in podpore, ki jo nudi franšizodajalec. To pomeni, da različni indikatorji determinirajo stopnje mesečnih upravljavskih stroškov. Prav tako tudi Vazquez (2005) ter Maruyama in Yamashita (2010, 2012, 2014) ugotovijo, da je podpora ključnega pomena v franšiznem odnosu. Tako je glavni namen pričujoče doktorske disertacije pojasniti nekonsistentnost teorije principala in agenta s pomočjo teorije lastninskih pravic (Lafontaine, 1992; Lafontaine & Slade, 2002) in teorije delegiranja pooblastil s stališča spodbud, ki jo je v zadnjih raziskavah izpostavil Prendergast (2000, 2002). Cilj doktorske disertacije je tako zapolniti vrzel v raziskovanju odnosa med tveganjem in spodbudami v franšizni pogodbi, ki je temeljni dokument franšiznega odnosa, ter dokazati, da so neopredmetena sredstva tista, ki obrnejo predviden negativen odnos med tveganjem in spodbudami v pozitiven odnos.

V doktorskem delu smo gradili na raznolikosti razumevanja in meritvah tveganja v franšizingu. Prav tako smo s pomočjo dveh predlogov teorij na podlagi Lafontainove (1992) ugotovili, da za merjenje odnosa med tveganji in spodbudami lahko uporabimo različna tveganja. Glede na to, da v predhodnih raziskavah nihče ni uporabil negotovosti iz okolja in negotovosti lokalnega trga, ki pa se sicer uporabijo za merjenje tveganj v drugih poslovnih modelih, smo le-te uporabili v naši raziskavi, kar predstavlja prispevek k znanosti na področju poslovnega modela franšize.

2. Raziskovalna metoda

Pregled literature je podal različne metode, uporabljene za opazovanje odnosa med tveganjem in spodbudami. To so predvsem kvantitativne metode, ki večinoma uporabljajo podatkovne baze. Težava, ki jo glede merjenja tveganj v franšizingu z uporabo kvantitativnih metod izpostavlja Lafontainova (1995), nas je vodila k uporabi raziskovalne metodologije, ki bi se razlikovala od predhodnih. Prav tako smo se na podlagi nekonsistentnosti rezultatov zadnjih empiričnih raziskav odločili, da najprej raziščemo franšizni odnos na način, da ugotovimo odnos franšizodajalca do tveganj s pomočjo intervjujev. Metoda, ki omogoči takšen poglobljen vpogled v franšizodajalčev odnos do tveganj na lokalnem trgu franšizojemalca, je kvalitativna metoda študija primerov. Nihče namreč ni v predhodnih raziskavah poglobljeno raziskoval franšiznega odnosa. V intervjuje so bila vključena podjetja glede na dejavnost poslovanja, in sicer maloprodajna in trgovinska ter storitvena podjetja. Na ta način smo jih ločili glede na višino stopnje neopredmetenih sredstev. Poleg intervjujev v okviru študije primerov smo zaradi potrebe po kvantificiranju podatkov za merjenje tveganj uporabili tudi anketo. Z njeno pomočjo smo dobili oceno tveganj na lokalnem trgu tistih franšizodajalcev, ki so bili predhodno intervjuvani. Na ta način smo ugotovili tendenco odnosa med tveganjem in spodbudami v franšizingu na podlagi stopnje neopredmetenih sredstev v podjetju.

3. Celotna razprava in zaključki

Pričujoča disertacija predstavlja prvi prispevek k znanosti na področju proučevanja franšiznega odnosa. Odkriva, da stopnja neopredmetenih sredstev, kot ena izmed determinant, vpliva na odnos med tveganji in spodbudami v franšizingu. Raziskava ponuja zaključek, da se storitvena podjetja odločajo za vzpostavitev strukture spodbud drugače kot maloprodajna podjetja.

Prispevek doktorske disertacije temelji na izsledkih raziskave, ki nam je omogočila globlji vpogled v sam franšizni odnos med tveganji na trgu in prenosom poslovnega modela. Prav tako so pomembne temeljne razlike v odnosu do tveganj med podjetji, ki se ločijo po stopnji neopredmetenih sredstev. Na ta način smo ugotovili, da franšizodajalec v primeru prodaje franšize ne nosi negotovosti lokalnega trga, saj to prepusti franšizojemalcu. Poleg tega smo pri podjetjih zaznali, da se spodbude ne spreminjajo glede na stopnjo tveganj v franšiznih pogodbah. Spodbude se lahko spremenijo samo v primeru, ko je ogrožena investicija franšizojemalca, in to le za določeno omejeno obdobje.

Drugi prispevek disertacije se kaže v ugotovitvi, da franšizodajalci tveganja, poleg tega, da jih prenesejo na franšizojemalca, odpravijo na način uporabe drugih načinov prodaje, kot sta izvoz ali licenčni način sodelovanja, ki velja za maloprodajna podjetja, medtem ko storitvena podjetja prodajajo poslovni model franšize z master licenco poslovnega modela franšize. Podjetja v intervjujih niso poudarjala svojih stališč glede tveganja v povezavi s spodbudami (mesečni strošek upravljanja in marže). Posledično to lahko pomeni, da so vplivi tveganj pri prenosu poslovnega modela franšize za franšizodajalca manj pomembni kot neopredmetena sredstva.

Tretji prispevek disertacije se nanaša na ugotovitve anketiranih oseb iz podjetij, s katerimi smo predhodno opravili intervjuje. Ta ista podjetja so izpolnila anketni vprašalnik in rezultati so potrdili močnejšo povezavo med tveganji in spodbudami v maloprodajnih podjetjih kot pri storitvenih podjetjih. Storitvena podjetja z višjo stopnjo neopredmetenih sredstev imajo manjša odstopanja pri predvidevanju negativnega odnosa med tveganji in spodbudami. Rezultati sicer zaradi manjšega števila podjetij nakažejo negativno smer, hkrati pa se kaže tudi pozitivna. Pozitivna tendenca odnosa med tveganji in spodbudami v storitvenih podjetjih potrdi negativen odnos le parcialno. Z raziskavo smo doprinesli k razumevanju neskladja med tveganji in spodbudami na podlagi različnih tipov podjetij, ki imajo različne stopnje neopredmetenih sredstev.

Četrti prispevek je uporaba načina merjenja neopredmetenih sredstev iz industrije informacijskih tehnologij (Blostermo, Sharma in Sallis, 2006). Ta način merjenja nam je omogočil izmeriti stopnjo neopredmetenih sredstev na način, ki nam je podal vpogled v vpliv neopredmetenih sredstev na odnos med tveganji in spodbudami. Zaznali smo, da sredstva, prenesena v franšizni odnos skupaj s podporo franšizodajalca, vplivajo v franšiznem podjetju na višino spodbud, kar je bilo zaradi izziva glede merjenja neopredmetenih sredstev v naši raziskavi prvič uporabljeno v primerjavi z dosedanjimi raziskavami. Uporaba neopredmetenih sredstev v raziskavi odnosa med tveganji in spodbudami nam je izostrila sklepanje glede pomembnosti vpliva neopredmetenih sredstev na tveganja in spodbude. V naši raziskavi smo ugotovili, da imajo maloprodajna podjetja nižjo stopnjo neopredmetenih sredstev. To nam je dalo uvid v teorijo, da neopredmetena sredstva v maloprodajnih podjetjih zaradi nizke stopnje ne vplivajo na odnos, ki je posledično negativen.

Peti prispevek disertacije je prispevek k predhodnim raziskavam, ki trdijo, da sta teorija lastninskih pravic in teorija delegiranja pooblastil s stališča spodbud pojasnili nekonsistentnost na podlagi neopredmetenih sredstev. Z ugotovitvami naše raziskave podkrepimo predhodne raziskave: Lafontaine (1992), Lafontaine in Bhattacharry (2002) ter Prendergast (2002). Z izpostavitvijo neopredmetenih sredstev podkrepimo raziskave Maruyama in Yamashita na Japonskem (2010, 2012, 2014), ki navedeta kot razlog za pozitiven odnos med tveganji in spodbudami podporo in prenos neopredmetenih sredstev s strani franšizodajalca.

Šesti prispevek disertacije je identifikacija razlik med franšiznimi podjetji, ki se ukvarjajo z maloprodajo ali trgovino, v primerjavi s storitvenimi franšiznimi podjetji. Ugotavljamo, da se maloprodajna in trgovinska podjetja ločijo po postavitvi višine spodbud v primerjavi s storitvenimi, saj so spodbude v maloprodajnih in trgovinskih podjetjih v povprečju petkrat nižje kot v storitvenih. Razlike v višini neopredmetenih sredstev se tudi razlikujejo med obema tipoma podjetij. To pomeni, da očitno neopredmetena sredstva v storitvenih podjetjih sprožajo preskok v določanju višine spodbud, oziroma, to lahko pomeni tudi, da storitvena podjetja določajo spodbude s pomočjo višine neopredmetenih sredstev in v manjšem delu na podlagi tveganj. Razlog najdemo v tem, da storitvena podjetja lažje prilagajajo svoj poslovni model franšize, saj se storitev lahko na trgu izvajanja spremeni. Proizvod prodaje pa ne vključuje spremembe proizvoda, saj ga prodamo takega, kot nam ga je prodal franšizodajalec. Očitno storitvena podjetja tveganja ocenijo bolj previdno ob zavedanju, da je prilagajanje storitve sestavni del poslovnega modela franšize. V storitvenih podjetjih torej tveganja v manjši meri odločajo o višini spodbud, medtem ko v večji meri o spodbudah odloča višina prenosa neopredmetenih sredstev s franšizodajalca na franšizojemalca. Ker v zadnjih letih vedno bolj narašča število franšiznih storitvenih podjetij (Alon, 2012), lahko govorimo o spremembi paradigme franšizne industrije, ki očitno širi poslovni model franšize v smeri razvoja novih storitev.