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Managing a Franchise in the Fully Franchised Form

A Case Study of a Franchise System's Shift from a Plural Form to a Fully Franchised Form

Franchise theorists have failed to explore all possible organizational forms in a franchise system. The plural form has been the dominant topic of interest during the last two decades, while the fully franchised form has been marginalized to an unlikely future outcome. This study aims to bridge this research gap and provide a deep insight in the mechanisms at play in the fully franchised form. Through an in-depth case study of a Nordic multi-unit franchisee and their franchisor, qualitative empirics are provided to a quantitatively dominated research field. The case analysis shows that the fully franchised form has some major implications on how organizational structure, control systems and strategy making are used to manage the key challenges in a franchise system. Important findings are the franchisor's worsened market insight, increased span of control and impaired cooperation with the franchisees.

Keywords: franchising, fully franchised form, plural form, management control systems, proportion of company-owned (PCO)

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1 – Introduction

During the last decades of the 20th century, franchising grew to become a very important organizational form in the global business world. For most people, franchising is synonymous with the fast-food industry, where the most well-known chains include giants such as McDonald's, Burger King and Subway. However, companies around the world, in a multitude of industries, engage in franchising. The growth of franchise chains has far surpassed the growth of the American economy (Bradach, 1998). In the United States alone, franchise chains employ over 18 million people and account for over $1.5 trillion in economic output (Hendrikse and Jiang, 2011). In relation to the total gross domestic product and the total workforce in the United States, franchise chains account for over 10 % in both measures.

Franchise chains have not only experienced rapid growth, but also major change. Initially, the typical franchisee was an entrepreneur who operated one unit: the single-unit franchisee. With that standpoint, early franchise researchers tried to explain why firms franchise and why franchise contracts are constructed the way they are. However, as franchisors and franchisees expanded and revenue in the system increased, the franchisees grew into large organizations that operated more than one unit: the multi-unit franchisee. Moreover, as many franchise theorists were beginning to notice, franchisors had a highly important organizational choice to make; which proportion of company-owned units versus franchised units should be used.

The organizational mix of company-owned and franchised units, or the plural form, remains a topic of debate both among franchisors and franchise theorists. Bradach and Eccles (1989) laid out the foundations for the plural form, which Bradach (1997; 1998) further developed. His contributions have proven to be highly important and are among the most cited works in franchise literature. Given the increased globalization in today's society and the trend towards outsourcing strategies, we question whether the only development actually is towards varying plural forms. Further, we find it strange that the franchise literature lacks a thorough exploration of one of the three organizational archetypes in franchising: the fully franchised form. Admittedly, the wholly-owned form has not been given much room in recent franchise literature either. The plural form has, without exception, dominated the researched topics. As one of the consequences of globalization is an increased delegation to third parties, the fully franchised form seems like a logical development.

In this thesis we present the story about a multi-unit franchisee in the fast-food industry that started their business when acquiring all of the franchisor's company-owned units in the Nordic market. In relation to the current state of the franchise literature, our case company represents an interesting phenomenon. To our knowledge, no attempts have been made to qualitatively study the effects of a franchise system which shifts from a plural form towards a fully franchised form. Using an abductive approach and a theoretical framework derived from Bradach (1997; 1998), we wish to fill the identified gap in the franchise literature and highlight interesting management control issues. With this profound single-case study we examine and illustrate the implications of shifting from a plural form to a fully franchised form, using the following research question:

How are organizational structure, control systems and strategy making used to manage unit growth, uniformity, local responsiveness and system-wide adaptation in the fully franchised form?

The franchise research field has failed to capture both the fully franchised form as a realistic alternative to the plural form and the franchisee's point of view. Moreover, all recent studies relating to the plural form use a quantitative approach. We wish to bridge the identified research gap and inspire others to further investigate the fully franchised form. The in-depth understanding reached through our case study enables us to accomplish this. In addition to our case company, we have incorporated the franchisor, as well as another franchisee, in order to get a more comprehensive view. Due to the nature of our research question and our limited scope, we have not included any reasoning about the plural form or the wholly-owned form. From our case analysis, we conclude that the fully franchised form has some major implications on how key challenges are managed in the franchise system. Our most important findings are that the franchisor's market insight worsens while the span of control increases and the cooperation with the franchisee is considerably impaired.

The following section details previous research and aims to give a thorough understanding of early franchising theory and the chronological development from there. Latter parts in the previous research section explain the concept of multi-unit franchising, elaborate on the plural form and conclude with our operationalization. The third section outlines our research design, data collection and data analysis. We hope this section sheds light on our research process, and validates our findings. The fourth section contains our case analysis, which has been constructed with the following logic. First, we give a brief review of our case company and the franchise system they operate in. Thereafter, the case analysis is categorized after the theoretical framework we have used. Thus, the sections analyze how organizational structure, control systems and strategy making are used to manage key challenges in franchise chains. Each of these three sections concludes with a discussion of the main findings. The fifth section contains our conclusions and our suggestions for further research. Since we believe the fully franchised form will become a more common organizational form in the future, we have chosen to include a sixth section, which contains some practical suggestions derived from our findings.

2 – Previous Research

Franchising has been present in the world of business since the dark ages where a franchise contract from the king or church gave the right to establish a marketplace, construct roads and collect taxes. Those who held the exclusive privilege to perform these tasks in turn paid a fee to the issuing entity. Modern franchising grew rapidly as an organizational form during the 1950's, when successful fast-food restaurants expanded and found themselves in need of additional capital and entrepreneurial restaurant managers. The franchise agreement is made up of a contract between two legal entities, the franchisor and the franchisee.

The franchisor is the creator or owner of a product or business concept and gives the franchisee the right (or obligation) to market and sell the product in return for a certain sum of money. The contract consists of various duties and obligations for both the franchisor and the franchisee and usually includes some standard clauses. There are two characteristics that separate franchising from other business formats such as joint ventures or strategic alliances. Firstly, it typically occurs in service industries where the product or service is performed close to the customer. Secondly, the franchise contract reflects an allocation of responsibility between a principal (the franchisor) and an agent (the franchisee). The franchisee must pay the franchisor a fee in order to access the trademark. This fee is denominated royalty and usually consists of a percentage of sales. In addition, the franchisee generally has to pay a percentage of sales to an advertising fund which is managed by the franchisor and used for region-wide marketing activities. There might also be obligations to buy certain inputs from the franchisor. The franchisee must also agree to run the business in a manner acceptable to the franchisor, usually outlined in an operations manual or handbook, and the franchisor often agrees to provide managerial assistance to the franchisee. Finally, the contact will have a termination clause that constitutes under what conditions the contract can be terminated (Rubin, 1978).

2.1 – The Two Explanations for Franchising

There are two major theory areas that explain why franchising came into existence and still thrives: the capital market explanation and agency theory explanation. Paul Rubin gives an introductory description of both fields of thought in his article from 1987. The capital market explanation of franchising is pretty straightforward. Rather than expanding through company-owned units the firm uses franchising as a way to raise financial and managerial capital for expansion. When firms are young and small, financial capital can be difficult to acquire through conventional capital markets or from existing operations (Oxenfeldt and Kelly, 1969). Thus, companies seek out franchisees that can provide capital and managerial resources. This way, franchisors can expand much faster than would usually be the case.

The other major explanation for franchising which Rubin (1978) was one of the first to argue for is derived from earlier works on monitoring and control within companies (Alchian and Demsetz, 1972; Jensen and Meckling, 1976). As the franchisee is often physically removed from the franchisor, monitoring of performance and behavior can be difficult. It is thus beneficial to construct control mechanisms that give the franchisees incentives to avoid shirking and inefficient behavior. One of the easiest ways to align the franchisor and franchisees incentives is to give the franchisees a share of the profits. As the franchisees now experiences the true cost of leisure they will work at their maximum capacity. However, the contract favors the franchisor since it usually gets a share of the revenue, not the bottom-line profit, which protects the franchisor against uncertainty. If the franchisee's sales exceed expectations, the franchisor will obtain some excess revenue while decreasing margins will only affect the franchisee and not the franchisor.

Brickley and Dark (1987) further build on Rubin's theories, stating that the capital raising rationale is not enough to predict the systematic pattern observed between franchised and company-owned units in the franchise system. In their paper they analyze the agency theory problems associated with company-owned versus franchised units and, in particular, the choice of whether to own or to franchise when establishing a new unit. There is a trade-off of agency theory problems between the two organizational forms that help explain how firms choose to expand. In general, companies that franchise have identifiable and well-known brand names and the major problem is controlling the actions of the agent so that the value of the brand is not eroded. Fama and Jensen (1983) suggest that there are two substitutable methods for controlling agents in a company. Control devices, such as monitoring systems and board of directors, and ownership of residual claim, where the agents experience the effects of their efforts as increased profit. Companies with valuable brand names would not be prone to adapt an extreme form of either alternative which makes franchising a suitable hybrid. Some central control is beneficial for maintaining the trademark value but it might be inefficient for the franchisor to operate all units. In regards to shirking, managers of company-owned units do not bear the full cost and thus have more incentive to engage in this type of behavior than franchisees.

Furthermore, both the franchisee and the franchisor may engage in free-riding (Brickley and Dark, 1987). The franchisee is less willing to pay for advertising if part of the benefits fall to other units. Also, if the chance of repeat sales to a customer is low then there are incentives for the franchisee to supply lower quality products, as the cost of damaging the brand is primarily carried by other units. If the manager of the store receives a fixed salary he is less incentivized to use lower quality inputs to increase his margins. Following this argumentation there is also a risk of free-riding by the franchisor as a large portion of the benefits from costly activities, such as monitoring, national advertising, training and managerial assistance, often is capitalized into the value of the franchised unit. Thus, the franchisor might not fulfill all costly activities assuring the brand value, which would be disadvantageous to the franchisee.

The various agency theory problems play an important role for companies when deciding which organizational form to choose: franchising or owning. Brickley and Dark (1987) state that finding the value maximizing form for a given company is a difficult theoretical question, but analysis of the agency theory problems can help shed light on specific factors that favor each of the organizational forms. As franchising alleviates some of the agency theory problems and company-owned units require more monitoring, the authors expect that units with high on-site monitoring costs will be franchised and units with low on-site monitoring costs will be company-owned.

2.2 – The Franchisor's Ownership Mix

Given that the agency theory explanation and the capital market explanation provides two fundamentally different rationales behind the use of franchising, an important area of franchising research has revolved around the ownership mix in franchise systems. That is, the proportion of company-owned units (PCO) compared to franchised units in a franchise system (Anderson, 1984; Lafontaine and Kaufmann, 1994). Analyzing this proportion can shed light on how different forces work within the franchise system. Caves and Murphy (1976) suggest that direct ownership increases as the franchise system matures and the opportunity cost of capital decreases, in line with Oxenfeldt and Kelly's (1969) ownership redirection hypothesis. The hypothesis states that in the growth stages of a franchisors life cycle, franchised units are established in order to penetrate the market as widely and rapidly as possible. The company is not likely to be self-sufficient in all the resources needed and thus finds alternative sources of capital through franchisees. Not only financial capital however, but managerial and informational capital as well. As the firm matures these forms of capital are expected to be available to the firm directly and the franchisor would be more concerned with profitability and managerial control. Thus, the franchise option becomes less attractive and a wholly-owned system would start to formalize. In areas where local entrepreneurs contribute to efficiencies, Caves and Murphy (1976) however found evidence that franchised units are still advocated.

Anderson (1984) conducted a study, between 1969 and 1980, testing the hypothesis that the share of establishments owned by franchisors has systematically increased over time. The study investigated companies in 17 different business areas and found that the franchisors had expanded their share of ownership in 9 of them. The results made it difficult to support previous work and conclusions of growth in company-owned units. However, in the restaurant business the analysis was consistent with previous reports stating that there is a strong tendency towards franchisors owning a larger share of the units. The second hypothesis tested in the study was whether company- owned units performed better than franchised units. Of the 17 business areas studied only 7 showed a better performance for company owned units. The restaurant business was not one of them, indicating that there was no significant correlation that franchised units actually performed better. Moreover, he noted that franchisee establishments might outperform company-owned units because of the combination of ownership and day-to-day contact with the business.

Lafontaine and Kaufmann (1994) used arguments from both the capital market and agency theory explanations in order to test Oxenfeldt and Kelly's (1969) hypothesis. They found that the capital market explanation might hold true to a certain extent; franchisors increased their proportion of company-owned units over time and franchisors that were subsidiaries in a large corporation, which enjoyed greater access to resources, had a higher proportion of company-owned units. However, contrary to Oxenfeldt and Kelly's (1969) hypothesis, they found that no franchisor wanted to become a wholly-owned chain and also that most respondents wanted a low proportion of company-owned units. Thus, Lafontaine and Kaufmann (1994) argued that the agency theory explanation still partly holds and that franchising is the preferred organizational form, even for mature franchisors. However, many franchisors illuminated the synergies and benefits of an organizational mix which might explain why they want to own and operate some units themselves, even though franchising achieves a better incentive structure.

As argued above, two explanations prevail as the reason behind the massive growth of franchise systems: the agency theory explanation (Blair and Kaserman, 1982; Brickley and Dark, 1987; Caves and Murphy, 1976; Lafontaine, 1992; Rubin, 1978) and the capital market explanation (Caves and Murphy, 1976; Oxenfeldt and Kelly, 1969). Even though Caves and Murphy (1976) explained franchising using both arguments, the two explanations offer differing views of the rationale behind a firm's decision to engage in franchising. While the agency theory explanation remains most established in literature, the capital market explanation has increasingly been advocated by franchise theorists as an explanation of an increasingly common phenomenon: multi-unit franchising.

2.3 – Multi-unit Franchising

Brickley and Dark (1987) were among the first to discuss the phenomenon, multi-unit franchising, which they at the time named multiple ownership. They touched upon the subject briefly and proposed that multiple ownership might be a solution for the franchisor to control free-riding problems with the franchisees. The authors argue that if one franchisee owns multiple units, the franchisee's decisions will be carried out in multiple units, saving the franchisor time and resources. However, Brickley and Dark (1987) also acknowledge potential cons with multiple ownership. Issues that arise are that inefficient risk-bearing increases and that the agency problems eased by franchising will reappear when the multiple franchise owners has to employ managers for their units.

Kaufmann and Dant (1996) outlined the three most common types of multi-unit franchisees: master franchisee, area developer and sequential multi-unit franchisee. Master franchising gives the franchisee exclusive right over an area, requires the franchisee to commit to a development plan and allows sub-franchising. Area development is similar; it gives the franchisee exclusive right over an area, though typically smaller than the master franchisee's area, and it requires the franchisee to commit to a development plan. However, sub-franchising is not allowed, which is the major difference between the two contracts. This essentially means that the area developer will operate a number of units, but since the area developer cannot sub-franchise, all unit operators will be employed by the area developer. Different from both master franchisees and area developers is the sequential multi-unit franchisee. Instead of contractually agreeing to a pre-determined development plan and in exchange enjoy area exclusiveness, the sequential multi-unit franchisee grows in units by adding separate single-unit franchise contracts to their portfolio. Many successful single-unit franchisees organically open more units and thus become sequential multi-unit franchisees. Another way to become a sequential multi-unit franchisee is to take over other single-unit franchisees in the franchise system. Approval from the franchisor to open more units or acquire other franchisees is often based on historical performance (Garg and Rasheed, 2003; Kaufmann and Dant, 1996).

Even though not much had been written about multi-unit franchisees in the beginning of the nineties, the new franchisee form had been around for some time. For example, between 1980 and 1990, over 60 % of all the restaurants opened in the McDonald's system were opened by existing franchisees (Kaufmann and Dant, 1996). In the same report, Kaufmann and Dant (1996) showed that 88 % of their respondents, 152 franchisors in the US fast-food industry, currently had multi-unit franchisees in their system. As franchise theorists began to pick up on the new development in franchising, an interesting phenomenon was brought to the surface, which since has been a common topic in franchise research. Just as Brickley and Dark (1987) pointed out, there are some important implications from multi-unit franchising which shake the foundation of the relationship between franchisor and franchisee. The study of Kaufmann and Dant (1996) represents the first attempt to thoroughly investigate the implications multi-unit franchising has on the franchise system. They argue that multi-unit franchising is a curious anomaly in the franchise system since it basically goes against the core agency argument for franchising. As discussed above, the prevailing argument for using franchising as an organizational form is the agency problems it solves. In particular, monitoring costs of employed unit managers are reduced when a franchisee operate each unit instead. However, in the multi-unit franchisee's organization, there are once again employed managers operating the units. Thus, the same agency problems reappears, but in the multi-unit franchisee organization instead. Another important theoretical contribution has been given by Bradach (1995). He expresses his surprise over the fact that franchise theorists consistently describe franchisees as individual entrepreneurs, and not as the large multi-unit franchisees that they in reality are. Through an in-depth field study he shows with rich empirical data that chain organizations that utilize large multi-unit franchisees achieve higher growth in units and increased system-wide adaptation.

Kaufmann and Dant (1996) argue that the existence and increasing use of multi-unit franchisees means that the agency theory explanation of franchising is insufficient. Instead, the capital market explanation might be the primary reason. They show that a larger proportion of multi-unit franchisees in a franchise system contribute to the system's growth rate. This strengthens their argument of the importance of the capital market explanation. However, the authors found that as the number of units in a multi-unit franchisee grows and as the franchisor acquires more capital, the franchisor's commitment to franchising declines. Thus, they reach the conclusion that given the existence of multi-unit franchising, the capital market and the agency theory arguments work in conjunction to explain franchising. Kaufmann and Dant (1996) also raise a concern for a potential third factor that might help explain franchising. They question the efficiency of the market for franchises and propose that franchisors might use franchising to acquire capital because of the asymmetric information between the potential franchisee and the franchisor. A potential franchisee is probably less equipped to assess the risks associated with a business concept than an experienced investor. Thus, franchisors would prefer to acquire capital from franchisees, over which they hold an asymmetrical information advantage.

2.4 – Introduction to the Plural Form

Dant and Kaufmann (2003) compare two contradictory explanations for the development of franchise systems: signaling theory and the resource acquisition theory. These two explanations provide diametrically opposite outcomes for the PCO in the franchise system. Signaling theory predicts an initial preference for company-owned units with a development towards a fully franchised system. The resource acquisition theory predicts that the franchise system will ultimately be completely company-owned. Furthermore, Dant and Kaufmann (2003) investigate circumstances in which a system would neither show tendencies towards a fully franchised nor a wholly-owned system, but seek to maintain a mix of franchised and company-owned outlets.

Resource acquisition theory was formulated by Oxenfeldt and Kelly (1969), originally denominated as the ownership redirection hypothesis, and is explained more thoroughly above. The hypothesis assumes that franchisors will always prefer to have company-owned units to franchised units in the long run and that franchising is only preferred during growth. When the company has matured, the franchised units will be bought back in line with the assumption that the franchisees have a natural desire to eventually sell their investment and retire.

Signaling theory focuses on information asymmetries and market imperfections to explain the organizational choice. Potential franchisees are faced with the problem of not knowing whether or not the business concept is worth investing in. Bad franchisors have incentives to misrepresent the quality of the concept, so the franchisee must figure out how good franchisors signal quality. One way for franchisors to credibly signal quality is to invest in units themselves. Like the resource acquisition theory, the signaling theory has an imbedded assumption of franchisor ownership preference and relies on agency theory to assume that franchising is preferred. Once the system has established reliable quality, the direction of the franchisor would be towards franchised units. This is described as getting over a credibility hurdle and then being able to grow in a preferred manner (Dant and Kaufmann, 2003).

The third organizational form in a franchise system is referred to as a plural form, which is a mix of company-owned and franchised units. A combination of control mechanisms could make the system more dynamic and make it possible to realize synergies unavailable to the company if only one form of ownership existed. Through the use of the plural form, synergies are expected to occur as alternative forms of management can be compared and provide more informational insights (Dant and Kaufmann, 2003).

To test their hypotheses, Dant and Kaufman (2003) conducted a survey in the US fast-food industry to test which form of ownership franchise systems tend to develop towards: a wholly-owned, a fully franchised or a plural form. The data showed support for the resource acquisition theory, thus confirming the wholly-owned form as the preferred ownership form. The older, larger and more resource abundant systems seem more likely to develop towards a larger proportion of company-owned units, at least in the North American fast-food industry. The results also showed that the strategic insights and control benefits of the plural form is recognized though no steady state PCO was found.

As mentioned above, early franchising literature discussed the basic motivations for franchising: the agency theory explanation and capital market explanation. These were used as a foundation in later works discussing the reasoning behind the franchisor's decision whether to own or to franchise in certain contexts. The mix of small franchisees, multi-unit franchisees and company-owned units led researchers to study the interactions between them. Bradach and Eccles (1989) touched upon the simultaneous use of company-owned units and franchised units, which they termed the plural form, and requested that future research investigate the topic further. This led to perhaps the most acclaimed contribution on the mechanisms present in franchise systems: Bradach's (1997) model of the plural form.

2.5 – Bradach's Model of the Plural Form

From 1989 to 1991 Bradach (1997) conducted interviews in five plural form franchise organizations all active in the US fast-food industry. The vast empirical data he collected later resulted in his much acknowledged article "*Using the Plural Form in Management of Restaurant Chains*" (Bradach 1997), which presents the plural form. The research paper was later extended to give a more comprehensive explanation of the model in his book, "*Franchise Organizations*" (Bradach 1998). The model of the plural form identifies four basic management challenges that chain organizations try to accomplish: unit growth, uniformity, local responsiveness and system-wide adaptation.

Unit Growth

Unit growth is the overarching challenge and the reason that franchising came into existence and still prospers. It is closely tied to the franchisor's success and provides the franchisor with more fees and royalties. Moreover, it strengthens the market presence and increases the funds available for marketing. In the plural form, the franchisor faces a decision whether to acquire a new unit themselves or to grow through a franchisee, thus producing the complex architecture of relationships in the franchise system.

Uniformity

Maintaining uniformity was mentioned as a key success factor by many of Bradach's respondents. In the fast-food sector it is especially important as one of the selling points is that the customers can expect the same service and product whichever restaurant they choose to visit. Uniformity also lowers the franchisors cost as it facilitates control and provides scale benefits. It also enables more efficient performance comparison between units.

Local Responsiveness

Local responsiveness has become increasingly more important as chains grow and compete in diverse local markets. In the plural form, the franchise arrangement was much more efficient in adapting to the local context. The company-owned units produced local responses from a central unit while the franchisee response was created locally by the franchised unit. Bradach argues that bureaucracy and inertia in information sharing were the reasons for the company-owned units' inferior local responsiveness.

System-wide Adaptation

System-wide adaption is considered the most complex of the challenges. Potential conflicts between the franchisor and franchisee, particularities of diverse local markets and implementation of a new strategy in thousands of units are some of the difficulties mentioned. As markets saturate, system-wide adaptation has become the key to growth as it determines the chains capacity to compete effectively and adapt to threats and opportunities.

The organizations Bradach (1997) investigated operated more than 500 units and had been active in the industry for more than ten years. He talked to employees in the franchisor organizations as well as the franchisees themselves. The initial objective was to study the reasoning behind the organizational choice, but early observations shifted it towards constructing a descriptive model of how chains are organized and managed in order to achieve their key challenges. He found that franchisors use their plural form to achieve their key challenges. More specifically, Bradach (1997) argues that the plural form consists of four means that enable chains to achieve their challenges: organizational structure, control systems, career paths and strategy making.

Organizational Structure

The organizational structure in the plural form is the hierarchies in both the franchisor and the franchisee organizations, and the organizational mechanisms used to govern their contractual relationship.

Control Systems

Control system is the umbrella term used to incorporate the bureaucratic, market and social mechanisms (Ouchi, 1980) used to monitor performance and exercise power.

Career Paths

Career paths are the possible future employments for franchisor employees within the franchise system. In Bradach (1997), the identified paths were: becoming a franchisee, a franchise consultant, or an employee of a franchisee.

Strategy Making

Strategy making is the generation of a variety of ideas, their selection and retention as defined by Burgelman (1991).

In turn, each construct has a corresponding plural process in which the franchisor and the franchisee interact and synergize the franchise system: the modeling process, the ratcheting process, the socialization process and mutual learning process. These are however unique for the plural form as they require both company-owned and franchised units, and are not elaborated on further in this thesis.

2.6 – Plural Forms in Franchise Literature

Since Bradach (1997) published his acknowledged model of the plural form, the PCO and the franchisor's rationale behind the PCO has dominated the franchise research field. As discussed above, Dant and Kaufmann (2003) found evidence that resource acquisition theory is a better predictor of franchise systems' development than signaling theory and that the PCO will increase over time. However, they also found that franchisors will continue to use franchising and thus a plural form will be maintained.

Lewin-Solomons (2000) conducted a study using quantitative data from five US fast-food chains and constructed a mathematical model to investigate how synergies from collaboration between company-owned and franchised units were affected by the PCO. Her findings were that as the PCO decreases franchisors focus more on revenue increasing changes and the franchisees has to take initiative in efficiency increasing innovations. This will lead to disagreements over potential changes in practice and efficient changes may not occur while inefficient changes may occur. Furthermore, when the franchised sector becomes very large more conflicts will occur and power will be more polarized.

Michael (2000) used data from 99 franchisors in the US restaurant industry in a negative binomial regression model to investigate how investments by the franchisor can reduce litigation and termination of the franchise contract. By investing in tapered integration (plural form), training franchisees and selecting inexperienced franchisees, the franchisor can increase their bargaining power and reduce conflict. It will also increase franchisee compliance to franchisor standards.

Lafontaine and Shaw (2005) gathered a considerable amount of data from more than 1 000 franchisors, approximately 19 000 observations, with information about the number of company-owned and franchised units, the years of franchise experience, royalty rates and other variables describing the franchisor. The data was used in a regression to investigate if franchising firms change the extent to which they control outlets over time, as they learn more about the underlying factors that influence the value of franchising. The authors conclude that most franchisors achieve a target rate of PCO that is kept stable over time. Brand name value is the primary determinant of PCO target level and franchisors with high brand name value target a higher PCO. They argue that firms with higher brand value must prevent free-riding by franchisees through the use of more managerial control which is achieved through owning units themselves.

Botti et al (2009) used a statistical model to investigate if hotels in plural form networks are more efficient than hotels in fully franchised systems or wholly-owned chains. Quantitative data was gathered from 16 hotels operating in France. The results were however inconclusive on whether an organizational form was more efficient than another. To follow up on Botti et al's (2009) research, Perrigot et al (2009) did a data envelopment analysis on French hotel chains in order to assess the efficiency of hotel chains in the French market. They found that hotels operating in a plural form system received higher efficiency scores than predominately franchised or wholly-owned chains.

Another important contribution is the article by Baker and Dant (2008), where they review nearly forty years of research relating to the ownership redirection hypothesis proposed by Oxenfeldt and Kelly (1969) and the plural form. They found that the evolution of ownership in the franchise chain is towards stable plural forms, where a chain will retain a mix of franchised and company-owned units. This is in line with the thoughts of Dant and Kaufmann (2003). Further, they illuminate some key advantages for franchisors engaging in the plural form which will allow them to, for example: better negotiate with their franchisees from a position of knowledge, use the ratcheting strategy of synergistically building from the alternative experiences gained in both types of outlets and have suitable outlets for experimenting, improving and evaluating the feasibility of new ideas and concepts before their rollout.

An interesting study written by Cliquet and Pénard (2011) test Bradach's (1998) model where the relationship between Bradach's four basic management challenges and the PCO was examined. A questionnaire was sent out to 101 French franchisors and they received complete data from 66 of them. The answers were then used to construct a multiple regression model using PCO as the dependent variable. They found that there are strong links between the PCO and Bradach's model, and that the PCO actually is driven by the four challenges. In particular, they find that innovation primarily originates from the franchisor and illuminate the importance of having company-owned units in the chain in order to implement new products. Cliquet and Pénard (2011) also incorporate multi-unit franchisees to some extent in their test. They note as the number of multi-unit franchisees increases in a system, more operational decision rights transfers to the multi-unit franchisees and their bargaining power increases. Thus, the franchisor may increase the PCO in order to maintain control. The results show that franchisors are incentivized to increase their PCO when multi-unit franchising is present in the chain. The increase happens either to counter the multi-unit franchisees increased power or to avoid free-riding from franchisees.

2.7 – Operationalization

The recent franchising literature mainly focuses on the processes between company-owned and franchised units, and the reasoning behind the franchisor's choice whether to franchise or to own when establishing new units. Common to all previous research is that the investigated franchise systems are characterized by the plural form. To our knowledge however, there is no research conducted on a franchise system that is in a fully franchised form. The fully franchised form could become a more common phenomenon in the future and the reality for other markets and industries, apart from the one researched in this thesis. Thus, we deem it important that the fully franchised form is researched. Also, previous research constantly takes the franchisor's point of view. Hence, we try to add empirical insight to the research field by capturing the multi-unit franchisee's perspective in a fully franchised form. Furthermore, nearly all the previous researchers use a quantitative approach and we believe that our qualitative case study will contribute with a deeper understanding of how and why certain processes emerge in the fully franchised form. This also seems adequate as Bradach's (1997; 1998) model, on which we ground our research, is based on qualitative case studies.

Bradach's model attempts to explain important management control issues that can be extended beyond the scope of franchise organizations. The benefits of the plural form can be seen as the benefits an organization gains when delegating parts of the organization to third parties, and maintaining a mix of delegated and company run departments. In that aspect, the shift towards a fully franchised form can respectively be compared with, for example, organizations moving away from production, with many of their previous functions outsourced. Thus, we hope that our theoretical contribution, where we combine the theoretical framework derived from Bradach's model with the empirical insight obtained from our case company, will be generalizable to a certain extent. One scenario could be organizations facing difficult management control issues like outsourcing. In an early stage in our case study, we found that the career paths that Bradach (1997) discussed were virtually non-existent for our case company and the franchise system, as a result of the shift towards a fully franchised form. Thus, we have chosen not to include career paths in our theoretical framework. Hence, our theoretical framework consists of: organizational structure, control systems, strategy making, unit growth, uniformity, local responsiveness and system-wide adaptation. We have chosen to use Bradach's definitions of these, as detailed above. As our case company's situation is not previously described in the literature we find it appropriate to work with a research question that aim to both describe the actual processes that has emerged and also analyze how they are a product of the fully franchised form. Thus, the question that is present throughout our thesis is:

How are organizational structure, control systems and strategy making used to manage unit growth, uniformity, local responsiveness and system-wide adaptation in the fully franchised form?

By answering this question we hope to bridge the identified research gap and inspire others to further investigate the fully franchised form. We also hope that our conclusions can be generalized to other organizational forms and contexts as well as mitigate the potential problems a fully franchised form might face.

3 – Methodology

This part of the thesis aims to describe the choices we made regarding our research design, data collection and data analysis. As argued above, we have identified a gap in previous research regarding how a franchise system functions when the franchisor does not own any units themselves. Not only is there a gap relating to that specific topic, but the methodology of previous research consistently take on a quantitative and hypothesis testing approach. Moreover, with few exceptions, previous franchise literature revolves around the franchisor. Little attention is paid to the franchisees themselves, except as a mere result of the franchisor's organizational strategies and choices. Thus, we have conducted a qualitative case study in order to bridge the theoretical gap identified, but also to contribute with empirical richness via qualitative data to the existing, rather quantitatively dominated, franchise literature.

3.1 – Research Design and Data Collection

The case company that we have chosen to study is a multi-unit franchisee that operates fast-food restaurants in the Nordic market. The franchise chain originates from the United States of America and has a global presence with over 10 000 restaurants, both company-owned and franchised, under the same fast-food brand world-wide. Prior to the start of our study, we were broadly interested in management control aspects found in franchising and wanted to examine the dynamic relationships that exist between franchisor and franchisees. We contacted our case company, and they agreed to set up three informal introductory interviews. We conducted thorough literature research before and in between the interviews. While interviewing, rewarding discussions took place around the topics we had found interesting in the existing franchise research. Afterwards, we discussed our respective impressions of the introductory interviews. We both agreed that the franchise system, in which the case company operates, had experienced a tremendous change as the franchisor shifted from a plural form towards a fully franchised form. After that realization, we became convinced that a qualitative case study about this previously undocumented phenomenon would bring much needed insight in how management control aspects change when a franchise system becomes fully franchised. Since our case company represents a new empirical observation, we aim to develop theoretically informed explanations to the new empirical observation that our case company represents. Hence, our research process can be characterized as abductive (Lukka and Modell, 2010).

We have chosen our case company for two reasons. One is that our case company fits adequately in order to answer our research question (Eisenhardt, 1989). Also, our case company is unusually revelatory and an opportunity for unusual research access, which justifies the choice according to Yin (2008). In line with Dyer and Wilkins (1991), we argue that a single case study is preferable over a multiple in order to achieve deep empirical insight, because with a multiple case study approach you risk only scratching the empirical surface. We believe our single case study approach will aid us in identifying new and interesting theoretical relationships. Siggelkow (2007) adds to the body of arguments in favor of single case studies, and states that it is often favorable to choose a particular organization to study over another, simply because it can offer certain insights that the other organization would not be able to offer.

The other reason why we chose our case company is because one of the authors has personal ties to one employee at the case company. That is what granted us the unusual research access that Yin (2008) argues justifies the choice of a single case. Moreover, Eisenhardt and Graebner (2007) argues that single case studies often exploits opportunities to explore a significant phenomenon under rare circumstances, and exemplifies this with an acknowledged study which was made possible by unusual access through friends. Irvine and Gaffikin (2006) also argue that ease of access is a contributing factor in choosing a research site. Moreover, the situation that our case company has experienced – the franchisor's shift from a plural form to a fully franchised form – is a very rare circumstance that to our knowledge never has been documented in research. Thus, we believe our choice of case company not only is justified, but necessary in order to gain the empirical insight that is needed to answer our research question.

The primary sources for our empirical investigation were the interviews we conducted. Our interview data was enriched with data from other sources, which included: public documentation, budget reports, management reports, contracts, internal protocols and e-mail correspondence. We were also given the opportunity to observe internal meetings and strongly believe that those meetings contributed to our understanding of the underlying processes in the fully franchised form. Moreover, these observations often stimulated new ideas for future interview questions. We were supplied with a list of employees at the case company, from which we choose our interviewees. The specific interviewees were chosen because they occupied different key positions within the company, which we deemed a necessity in order to get the wide empirical insight needed to answer our research question. We also interviewed the regional managers at the franchisor's organization, in order to get a more comprehensive view of the franchise system. In addition, we also conducted an interview with another franchisee. Our usage of multiple data sources enhanced the reliability and validity of our findings (Jick, 1979). The total number of interviews we conducted amounts to 20, including the introductory interviews mentioned above. In case study research, researchers often iterate between theory and empirics as new discoveries are made (Eisenhardt, 1989). We have adopted the same research practice, and thus some of our interviews have been conducted at a later state, in order to clarify identified empirical gaps. Excluding the three introductory interviews, we conducted 17 interviews in total (see Table 1).

Table 1 – List of Conducted Interviews		
Company[1]	Job description	Number of interviews
Nordicfood	Chief Executive Officer	5
Nordicfood	Chief Financial Officer	2
Nordicfood	Chief Operating Officer	2
Nordicfood	Head of Marketing	1
Nordicfood	Head of Human Resources	1
Nordicfood	Head of IT	1
Nordicfood	Controller	1
Worldfood	Regional Operations Manager	1
Worldfood	Regional Development Manager	1
Worldfood	Regional Marketing Manager	1
Localfood	Chief Executive Officer	1

Before the interviews we had prepared a semi-structured interview guide, adjusted for each interviewee and designed around three themes derived from Bradach (1997): organizational structure, control systems and strategy making. The questions prepared for each theme were designed to gain empirical insight about how the four key challenges were managed. During the interviews, we adjusted our questions according to the answers our interviewees gave us within the frame of the themes. In order to adapt the interview to the each interviewee's expertise and avoid missing interesting findings, we primarily used open-ended questions (Irvine and Gaffikin, 2006). Depending on the interviewee, the emphasis of each topic shifted and the level of detail varied, but all interviewees were asked to provide concrete examples to illustrate their responses. In accordance with Jick's (1979) concept of triangulating, we have been studious in increasing the reliability of our thesis, and asked important questions at several different instances at our case company. Thus, we have decreased the amount of errors attributable to social situations while increasing the systematization of the interviews. An important factor in order to gain access to confidential material and get unbiased answers was to ensure the anonymity of the interviewees and organizations (Scapens, 1990). Thus, no information regarding geographical location or actual size of companies has been disclosed. However, we have not changed any information that might impact our analysis or conclusions. We believe the assurance of anonymity made the interviewees feel more at ease, and subsequently their empirical contributions were richer. The data gathered from the interviews was consequently compared with other sources of data when available, and no major contradicting statements were found. The interviews lasted from 40 minutes to 120 minutes, with an average duration of approximately 75 minutes. All interviews were conducted in person, except for the ones with Worldfood, which were conducted by phone due to the geographical distance. Both of us were present for all the interviews conducted in person except for the one with Localfood, due to scheduling difficulties. All interviews conducted in person were tape recorded subsequent to the approval of the interviewees. The

[1] Nordicfood, Worldfood and Localfood are pseudonyms used in this thesis to protect the organizations' identities. Certain information about the organizations has been changed, such as the number of units they operate. Nothing has been changed that impacts our analysis or conclusions.

interviews were thereafter transcribed into written form. All in all, the interviews encompassed over 120 pages of transcribed text.

3.2 – Data Analysis

Since we have collected a large amount of empirical data, a central challenge for us has been to make our research text as convincing as possible (Baxter and Chua, 1998). To overcome this challenge, we began our data analysis as soon as we started the empirical data collection. As suggested by Lukka and Modell (2010), we have simultaneously engaged in data analysis, data collection and theory development. We believe this process has greatly enhanced the structuring of our study. The interview data, as well as data from other sources, was carefully read and discussed. After initially reading all transcribed interviews separately, we categorized the content and analyzed it in relation to our theoretical framework and research question. The model of the plural form was used to form a skeletal framework (Laughlin, 1995), in order to apply parts of the theoretical model to a new context: the fully franchised form. Theoretical models may be incomplete in other contexts than their own, and needs empirical detail which will complement and complete them (Laughlin, 1995). We wish to explain the implications of the fully franchised form, using the skeletal framework derived from Bradach (1997; 1998) coupled with the rich and qualitative empirical data from our case study.

Early in the data collection process we became aware of critical events that illuminated key processes in the fully franchised form. However, we were aware that the memories of our interviewees could be distorted, since the events took place in the past. Thus, we asked the same questions to several interviewees in an effort to avoid hearing a romanticized version of the particular event. We also checked the interview data with other sources to assure the accuracy of the interviewees' statements. Using this method, we did not encounter any contradicting versions of the events. Thus, we feel comfortable that our empirical data is a fair depiction of earlier events.

Our data analysis was carried out in an incremental process. Since we have categorized our research around our skeletal framework, we began our data analysis by analyzing how organizational structure, control systems and strategy making separately contributed to manage the key challenges. Our vast empirical data has been re-read and discussed among us several times. Afterwards, the conclusions we had reached were compared and contrasted to each other, and interesting relationships between them began to emerge. Then, we compared our findings with theoretical themes and wrote drafts of our case analysis, which consequently were improved. We constantly iterated between empirical data, data analysis and our theoretical framework in our data analysis, as proposed by Lukka and Modell (2010). In order to make sure the reader would not just hear our voice throughout the thesis, and instead make it resonate with the many voices from the field, we have included a considerable amount of literal quotes from our interviewees in the case analysis (Baxter and Chua, 1998). At the last visits to the case company, we discussed our preliminary findings with senior management. These discussions added to our understanding of the management control issues in the fully franchised form and its underlying processes.

3.3 – Concluding Methodology Remarks

With our studious preparation for the interviews and our thorough analysis of all data sources, we had a strong foundation that made it possible to successfully answer our research question. In particular, we have had great access to different hierarchical levels and functions of the case company, and we also got the opportunity to hear the franchisor's point of view as well as an additional franchisee. We do wish we had more interviews from the franchisor organization, particularly from higher hierarchical levels. However, due to the scope of our thesis and the geographical distance, we unfortunately did not manage that. As pointed out above, one of us has close personal ties to one of the interviewees in the case company. Thus, we contemplated whether to conduct those particular interviews with only one of us present. However, after some discussion we agreed that the quality of the interviews would be better if both of us were present, and would not be affected by the personal relationship. Whenever we found an interesting empirical aspect, we made sure to ask different people in the organization the same question in order to ensure that the interviews were unbiased. We did not encounter any deviating statements with this method and thus feel comfortable that the empirical data remains unbiased. Again, it is important to point out that the fact that the personal connection to the case company is what made this thesis possible; we would not have gotten the unusual research access that Yin (2008) writes about without close personal ties to the case company.

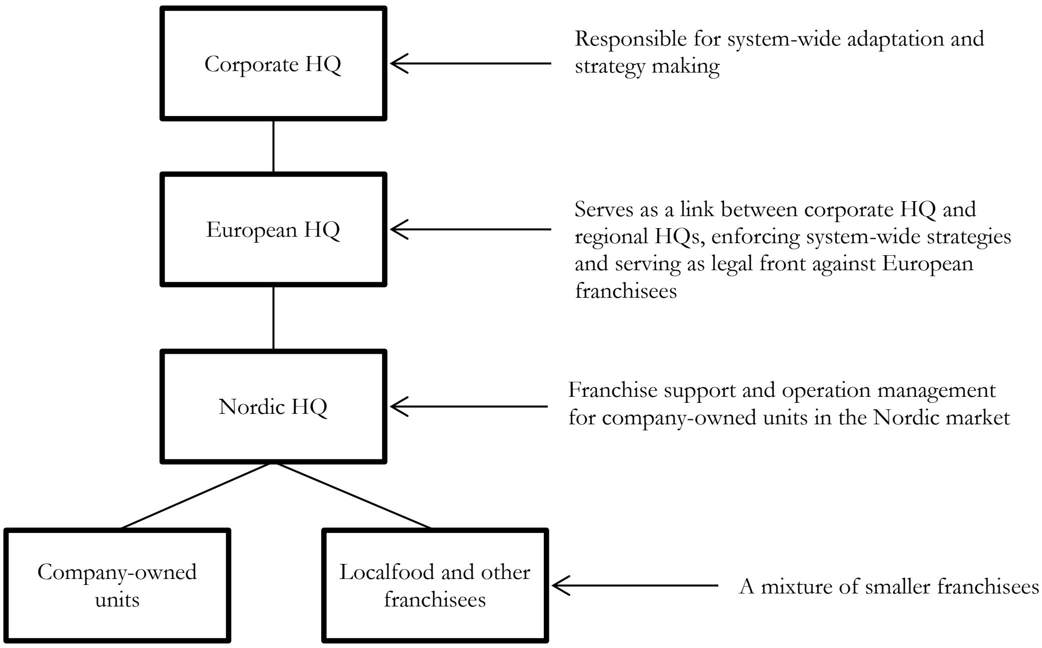
4 – Case Analysis

In this part of the thesis we present the story about a Nordic multi-unit franchisee and how the franchise system has been affected by the franchisor's strategic choice to leave the Nordic market. After an initial presentation about the case company and the franchise system, we build our empirical findings and analysis around the theoretical framework derived from Bradach's (1997; 1998) model of the plural form. We continuously mix our empirical findings with analysis and contribute with our own flesh to the theoretical skeleton.

4.1 – The Story about Nordicfood

To fully comprehend the history of our case company, a brief review of the franchisor's past in the Nordic market is needed. In addition to several franchised units, the franchisor previously owned a number of restaurants in the Nordic region, which they operated as company-owned units. To run the company-owned units and manage the franchisees, an organization with headquarters in Gothenburg was established and it encompassed all basic functions that the franchise system would require. These included: business development, marketing, purchasing, education and operations. All in all, the Nordic headquarters had around 15 persons employed, and they acted as a regional office under the European headquarters in the UK, which in turn was subordinate to the corporate headquarters in the US. Under the Nordic office, a mixture of company-owned and franchised units were organized (see Figure 1).

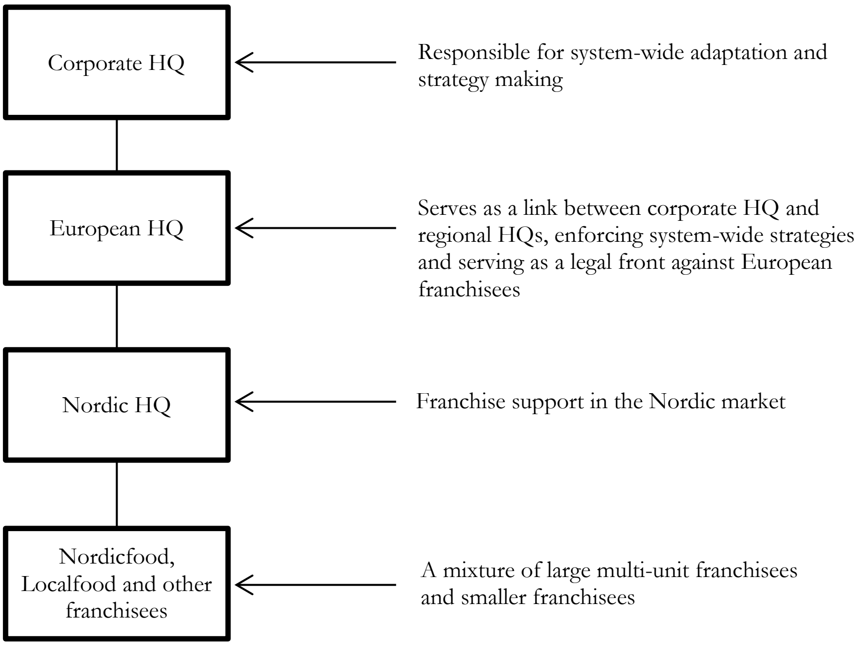
Figure 1 – Simplified organizational chart of the franchise system prior to 2004



In 2004, the franchisor decided to change their strategy and shift from a mix of franchised and company-owned units to a fully franchised form in the Nordic market. The franchisor made this decision because at that point in time the franchisor had a world wide goal to maintain 10 % PCO and wanted to reallocate resources to other growing marktes. This is in line with the capital market explanation that financing decisions are driven by capital allocation choices (Caves and Murphy, 1976; Oxenfeldt and Kelly, 1969). On the other hand, many of our interviewees illuminated the worn-down state of the company-owned restaurants and the incredibly poor performance as the reason behind the decision. As the CFO of Nordicfood pointed out: “They lost a lot of money. I don’t believe any restaurant made any money. So I guess Worldfood decided that the situation was so unbearable that they had to sell the restaurants”. Thus, it seems that Worldfood also reasoned along the agency theory explanation that franchised units perform better than company-owned units due to the economic incentive structure (Blair and Kaserman, 1982; Brickley and Dark, 1987; Caves and Murphy, 1976; Lafontaine, 1992; Rubin, 1978). Worldfood’s behavior of first investing in the Nordic market and then selling their company-owned units to Nordicfood is however in line with the signaling theory explained by Dant and Kaufmann (2003).

The franchisor operated 21 company-owned units in Sweden at the time, and decided to sell them as a package deal on the market. A couple of potential buyers emerged, some of which were existing franchisees, but in the end it was the newly formed Nordicfood that acquired the restauarants. After the acquisition, the franchisor kept their organisation intact as a support function for the now fully franchised Nordic region, where Nordicfood became one of the largest franchisees (see Figure 2).

Figure 2 – Simplified organizational chart of the franchise system after the acquisition



Since the acquisition, a lot has changed in the franchise system. The PCO goal is not 10 % anymore, instead the franchisor has changed their strategy and now aims to become a fully franchised chain. In fact, in a financial report released in the third quarter of 2012, the franchisor states: "Once the company has reached a ~100% franchise mix, Worldfood will be one of the few pure play franchisor/real estate companies in its peer group" (Worldfood, 2012). At the moment of writing this thesis, the franchisor has a PCO of 6% as a result of selling company-owned units to franchisees, like the sale of the Nordic restaurants in 2004. They aim to lower it further, towards zero, in the near future. In the Nordic region however, one can argue that it to a large extent has been a fully franchised system since Nordicfood was founded in 2004. Nordicfood has no contact with the company-owned units left in other regions of the franchise system, and none of the plural processes Bradach (1997) discussed are apparent in the interaction between Worldfood and Nordicfood.

The strategic change towards a fully franchised system has had major implications on the organizational structure of both Worldfood and the franchisees operating in the system. The next section describes the organizational structure challenges Nordicfood have experienced since it was founded, and how they have changed as the franchisor shifts towards a fully franchised system.

4.2 – Organizational Structure

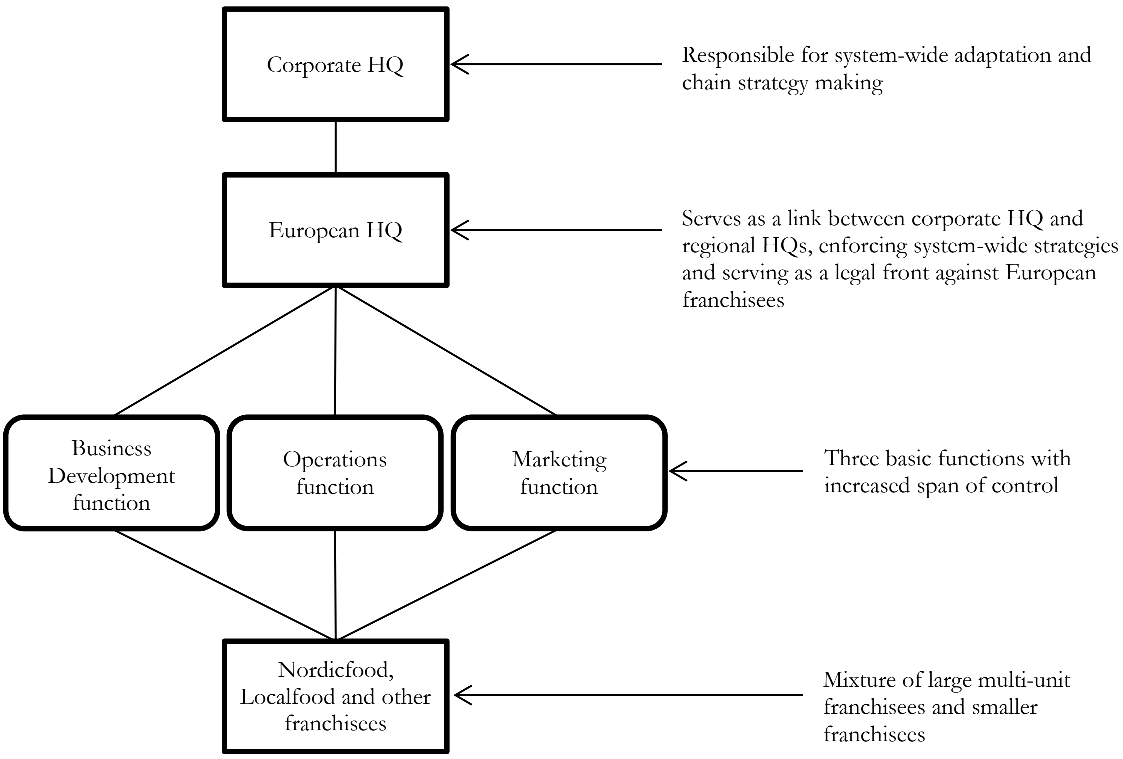
According to Bradach (1997), the consensus of previous franchise theorists is that the franchisees are individual entrepreneurs, operating one restaurant and governed solely by the franchise agreement, which is an incomplete and misleading view. The franchisees he studied were primarily multi-unit franchisees with large and complex organizations. He found that the multi-unit franchisees copied the franchisor's organizational structure, which is an important process in the plural form. This process facilitates maintaining uniformity and also helped the franchisor overcome certain control problems associated with managing franchisees. In the case of Nordicfood, there was no franchisor organization to copy when the company was formed. According to the COO of Nordicfood there was also mistrust towards the previous organization that had managed the company-owned units, since their restaurants performed poorly. Nordicfood could not replicate the franchisor's organizational form from other markets either, because of institutional and regional differences. Instead of replicating the franchisor's organization, Nordicfood employed senior management from a close competitor and replicated their organization.

Since Nordicfood was founded, they have grown considerably by adding new units to their portfolio and currently operate more than 50 restaurants. They have both acquired existing franchisees and grown as a sequential multi-unit franchisee (Kaufmann and Dant, 1996). Nordicfood's current organization is based on five core functions which include: finance, human resources, administration, business development and operations. The operations function is the largest in size and has a clear hierarchy with the COO of Nordicfood, who has several regional managers reporting to him. The regional managers are responsible for a specific region, and each of them has a number of restaurant managers reporting to them. The number of restaurants each regional manager manages varies from two to eleven restaurants, depending on the expertise and seniority of the regional manager.

Worldfood has, to a large extent, not been involved in the organizational design choices of Nordicfood. This is quite contradictory to the picture Bradach painted, where the franchisees often would choose to mimic the franchisor's organization in order to avoid justifying their choices to them. However, when the restaurant units perform badly, Worldfood typically wants to be involved to some extent. The COO of Nordicfood explains: "When a market performs badly, they want our organizational plans regarding operations. When a market performs well, they don't require much information at all". Even if Worldfood wants to be informed in these instances, Nordicfood are free to decide how to best accomplish their performance challenges. Thus, it seems that the franchisees enjoy a greater portion of freedom in the fully franchised form than in the plural form.

Neither Worldfood's nor Nordicfood's organizations has remained intact since the acquisition took place in 2004. Around 50 % of Worldfood's European organization has been laid off in recent years, which has had major implications for the franchisees in the system. The CEO of Nordicfood expresses his frustration: "After all the employees had to quit, we have seen numerous new managers come and go. I don't know how many development managers I have had to deal with. And this often causes previous work we have done to get lost in the process". Compared with the organization prior to Nordicfood's acquisition, the Nordic headquarter has been removed and replaced with separate managers, each responsible for their own function. In addition to this, some of the previous functions that the Nordic headquarter used to provide are no longer provided by the franchisor. For example, the education of restaurant managers used to be handled by Worldfood representatives, which is no longer the case. The Head of Human Resources at Nordicfood explains: "Today they don't provide any education at all, so the education part is gone. It hasn't happened over a day, but it has been an on-going process over the last few years". Instead, she further explains that Nordicfood has developed an education center of their own, where they can educate future restaurant managers and other employees. It appears that Worldfood has decided to pass on many of the activities previously undertaken by themselves to their franchisees. This could be an example of free-riding by the franchisor, as discussed by Brickley and Dark (1987). The shift towards a fully franchised form can thus be seen as a way to reduce overhead costs by relaying responsibilities to the franchisees. One could expect that Nordicfood would demand reductions in royalty or advertising fund payments as they are doing work that should be done by Worldfood, but this is not the case. Nordicfood is enjoying the increased power and chooses increased bargaining power instead of payment reductions. Another aspect is that a lot of the functions that Nordicfood takes over are necessary for the franchise system to function properly, which Worldfood knows. As Nordicfood is a large multi-unit franchisee they have a lot invested in the business and have to manage it properly, otherwise profits would suffer. Thus, Worldfood leverages the franchisee's stake in the business in order to slim their organization and trim costs. However, there is a price for achieving the cost reduction benefits: the franchisees gain greater negotiating power, as latter parts of our thesis will elaborate on. Figure 3 shows the organizational structure after the reorganization of Worldfood.

Figure 3 – Simplified organizational chart after Worldfood's organizational slimming



Another implication from when Worldfood reorganized the Nordic headquarters is the increased span of control for the different managers. Now, the Worldfood managers not only have more restaurants under their supervision, but also an increased number of franchisees. Naturally, the ways in which franchisees are managed have greatly changed with the increased span of control. Much of the communication with franchisees has to be over telephone because of the geographical distance, and the meetings that are conducted in person are less frequent than before. This has resulted in a tendency that larger franchisees like Nordicfood acquire smaller ones, as they face greater difficulty in the more distant franchisor relationship. The CEO of Nordicfood explains: "The small franchisees used to have at least weekly contact with a Swedish representative from Worldfood. Now they have to call in to a conference call and speak English with a new manager they don't have the same kind of personal relationship with. It's a huge difference for them and I think that's part of the reason why many want to sell their business". The effects of the increased span of control are not always met with displeasure among franchisees however. According to the CEO of Nordicfood, many aspects have changed for the better since Worldfood slimmed down their organization. In particular, there is a closer collaboration regarding marketing than before, which will be discussed in latter parts of the thesis. Also, the field audits that are conducted with franchisees to ensure that the operations are up to standards are more professional nowadays according to the CFO of Nordicfood: "The visits are much less frequent than before. The field audits are not conducted that often. However, we do feel that the new system is more business oriented than before. That feels like an improvement compared to the old system, which felt very bureaucratic".

In a sense, the trend towards fewer but larger franchisees in the franchise system helps bridge the increased span of control. According to the Regional Development Manager at Worldfood, he currently manages 40 franchisees divided over four countries. Each franchisee has different amounts of restaurants, ranging from 1 restaurant to over 50. Since Nordicfood has developed a large organization in order to handle their many restaurants, the restaurants are being controlled and checked upon on a regular basis even if the Worldfood manager visits the restaurants less frequently. This is in line with what Bradach (1997) found. In the plural form, area managers controlled the company-owned units and franchise consultants controlled the franchised units. Bradach identified a difference in the span of control between the area managers and the franchise consultants. The area managers typically controlled 6 restaurants and the franchise consultants typically controlled 65 restaurants. However, the franchisees were generally large organizations that had area managers of their own, with an average span of control of 6 restaurants. Thus, he argues that the franchised units operate both within the franchisor's and the franchisee's span of control. This means that the franchised units actually experience more control, contradicting to what one might think by only comparing the area manager's and franchise consultant's span of control ratios 1:6 and 1:65. In the case of Worldfood, the Nordic managers are responsible for almost 200 restaurants, well above the span of control Bradach (1997) found. We argue that this is because the franchisor has decided to shift from the plural form towards the fully franchised form and more responsibilities are put on the franchisees. Nordicfood has managed the increased span of control of the franchisor quite well via their large and well developed operational organization. This is in line with Jindal (2011) who argues that the use of large multi-unit franchisees is a way for the franchisor to reduce their internal hierarchy. The smaller franchisees, that do not have a large operational organization themselves, find less frequent support in running their business professionally. However, interviews with the Regional Development Manager at Worldfood reveals that there is a large difference between smaller and larger franchisees, and that he adjusts his support accordingly: “I need to help some franchisees with their business contacts, visit events, visit landlords and visit the municipality, in order to provide for the franchisee. Some franchisees do that themselves, so then I have more of a strategic and controlling role. I am like a chameleon”. However, even if the Regional Development Manager balances his support functions to help the franchisees in need, there is still an apparent effect of the increased span of control in the system. In particular, many smaller franchisees are hurt by the decreased support which may very well result in them selling their business to larger franchisees. Interestingly, the increased span of control contradicts Lafontaine and Shaw (2005) who argue that more managerial control is needed in order to protect high value brand names, such as Worldfood’s.

Concluding Remarks

We have found that the fully franchised form have large effects in how the organizational structure is used to manage the key challenges. Our case analysis shows that the franchisor introduces the fully franchised form primarily in order to cut cost and reduce their internal hierarchy (Jindal, 2011). The span of control for the franchisor’s regional managers is heavily increased, which impacts the way they manage franchisees, and also impairs the franchisor’s ability to manage local responsiveness themselves. Thus, in the fully franchised form, the franchisor has to rely on their franchisees to a much greater extent in order to effectively respond locally. In addition, many functions previously carried out by the franchisor are no longer provided. As support from the franchisor is less frequent in the fully franchised form, smaller franchisees experience more operational challenges. Large multi-unit franchisees have coped with the increased span of control and decreased operational support by incorporating the missing functions in their own organizations. This could be characterized as free-riding by the franchisor (Brickley and Dark, 1987). We have found that the tougher franchise climate for smaller franchisees will ultimately cause them to leave the system, in favor of large multi-unit franchisees that has the will and resources to grow their business in the fully franchised form. We also found that in today’s harsh financial climate, smaller franchisees do not have the capability to acquire adequate financing. When interviewing the CEO of Localfood he articulated that the difficulties acquiring proper financing for expansions was the main reason he decided to sell his restaurants: “We came to a point where it was very difficult to keep expanding and find funds for new restaurants. The banks showed little faith in the business concept even though Localfood had a strong credit worthiness and solidity”. The multi-unit franchisees however manage this financing challenge with less effort, and thus we believe that the franchise chain in the fully franchised form will have to rely on multi-unit franchising to a larger extent in order to achieve unit growth. Bradach (1995) came to a similar conclusion and stated that franchise chains achieve greater growth in units when relying more on multi-unit franchising. From an organizational structure point of view, system-wide adaptation also seems to be accomplished easier with multi-unit franchisees. When the franchisor persuades a multi-unit franchisee to invest in a system-wide initiative, it will be implemented in numerous units while single-unit franchisees have to be persuaded one by one. To conclude, the organizational structure in the fully franchised form will consist of an uninvolved franchisor and a heavy reliance on multi-unit franchisees, in order to manage the key challenges.

4.3 – Control Systems

In the franchise system there are various ways for the franchisor to exercise control over the franchisee. Bradach (1997) states that the franchisor has three sources of control at their disposal: termination of contract, halting unit growth and persuasion. Significant power to control is given to Worldfood through the franchise agreement signed by both parties. The agreement regulates essential aspects of the relationship between franchisor and franchisee:

- The legal parties are defined
- The terms of the property
- Franchisor obligations
- Franchisee obligations
- Loyalty, support and secrecy
- The operations manual
- Future development
- Marketing
- Royalty, advertising fund and investments
- Assignment of rights
- The case of exiting the contract for both parties
- Rights and regulations after contract expiration
- Time of contract
- Conflict solution

In most franchise systems, and in the case of Nordicfood, the contract is drafted by the franchisor and is advantageously skewed towards the franchisor, giving them considerable power to control the business of the franchisee. The contract is often used by Worldfood as basis for control. The Head of IT at Nordicfood informs us: "When they want certain information from us they don't ask for it. They just point to the contract and tell us to deliver". Most issues are however solved without the contract being mentioned, but in instances where considerable investments are required by the franchisee, the contract is often reviewed in order to determine what can be demanded of the franchisee. One example was when Worldfood wanted to install new coffee machines in all restaurants, a considerable investment, and many franchisees objected. The resistance towards certain investments by the franchisee can be understood as costs are being forced on the franchisees. However, Worldfood pointed to the section for investments in the contract to justify the investments as the franchisor has the right to introduce a new concept every ten years. Using the contract as a mean to exercise power is very definite and does not inspire the development of mutual trust between the parties. Termination of a franchise contract is a potential choice for Worldfood to exert control over franchisees, but it is not likely to be used as closing down a unit would mean a loss of future income. Moreover, since Worldfood does not operate any units in the Nordic market, the overtaking of a restaurant would mean setting up a new operational organization. This would bring extensive additional costs and is thus not a preferred alternative either.

In cases where investments proposed by Worldfood were not mandatory in the franchise agreement, Worldfood used halting unit growth, a bureaucratic and authoritarian control mechanism (Ouchi, 1980). Halting growth is used primarily when franchisees wish to open a new unit, since a new franchise agreement has to be signed and thus there is an opportunity for Worldfood to withhold approval contracts. However, halting growth also occurs when a franchisee with to sell their business to another franchisee. The franchise agreement stipulates that the franchisor has to approve both the seller and the buyer of a franchised unit. This is something Worldfood has made use of in order to force investments and restaurant remodels upon their franchisees. One example of this occurred in 2012 when Nordicfood were in the process of buying Localfood, at the time operating three restaurants. Nordicfood and Localfood had agreed on the terms of the sale and all the papers were in order according to the lawyer in charge of the deal. However, Worldfood opposed the sale and would not approve Localfood as the seller, claiming that they had breached some rules regarding the sale of shares. According to Localfood these were only false accusations. Worldfood would not approve Nordicfood as the buyer either. The reason for this being that Worldfood wanted Nordicfood to make an investment commitment to remodel all of the restaurants in Nordicfood's portfolio. Worldfood simply refused to approve Nordicfood as the buyer until Nordicfood agreed to a three year investment plan. After extensive discussions through lawyers, the deal was made with a lesser investment commitment from Nordicfood. The CEO of Localfood expressed his opinion about Worldfood's behavior: "It was extortion like in the mafia. Worldfood tried to exploit the acquisition and their contractual power in order to force their demands on Nordicfood". The halting growth process illustrates an interesting paradox. In the fully franchised form it seems that the franchisor must to a large extent use halting growth in order to achieve system-wide adaptation. Thus, the franchisor faces an unwanted trade-off between the two key challenges unit growth and system-wide adaptation.

Bradach (1997) describes persuasion as being the preferred form of control in the plural form franchise system, as it is not an authoritarian control mechanism. Persuasion is however dependent on a good relationship between the parties. Bradach (1997) quotes the president of a franchise chain: "the company-franchise relationship is like a marriage. You agree to enter the relationship, there are some rules, but there are a whole lot of things you have to work out as you go". However, the CEO of Localfood explains that when Worldfood left the market in 2004 their involvement in daily operations and in the relationship with the franchisees decreased substantially: "It was like the air went out of them, like they let out a sigh of relief that they didn't have to be involved in the Nordic market any longer". The lack of insight and relationship severely impairs the ability to use persuasion as a source of control. Thus, halting growth may in many cases be the only viable option left for Worldfood to utilize. Since Nordicfood is a sequential multi-unit franchisee they have to get approved by Worldfood each time they open new units or acquire other franchisees (Garg and Rasheed, 2003; Kaufmann and Dant, 1996). Thus, the threat of halting growth is ever present. However, the franchisees know that it is in Worldfood's best interest that the acquisition or a new development goes through. As Worldfood does not have and does not wish to have any presence on the Nordic market they cannot threat with buying the unit or exploiting the development opportunity themselves, which weakens their bargaining power (Michael, 2000). Since the overarching key challenge for chain organizations is unit growth, the use of halting growth is somewhat contradictory for the franchisor.

In order to achieve the key challenge of uniformity, Worldfood monitors the performance of the units in basically two ways: (1) by gathering performance figures from the point-of-sale solution that is used in the cash registers and (2) by conducting field audits. The point-of-sale system used in the Nordic market is programmed to each day send the daily sales and sales tickets (number of receipts) to a central information center, which gathers the information from all the restaurants in Europe. The analysis of these numbers is limited as Worldfood relies on self-control by the franchisees, provided by the incentive of making profit. Nordicfood rarely receives any comments about their sales figures other than if they are deviating towards the negative. The CFO of Nordicfood clarifies: “If there is a period of bad sales you can expect to get a call but otherwise they are quiet”. These finding are in line with what Bradach (1997) refers to as management by red marker. The COO at Nordicfood believes that Worldfood is so distant from the market that they do not have the competence necessary to be able to analyze and interpret the information, another consequence of not operating any own restaurants. Nordicfood and Localfood both express that they would have wanted to receive information from Worldfood regarding how restaurants in other markets are performing. Since Worldfood only own a limited number of restaurants in the European market, which is steadily declining as they shift towards the fully franchised form world-wide, the information from those restaurants is not enough to get a full picture. The information from the franchised restaurants on the other hand cannot be shared by Worldfood since the franchisees has to explicitly approve that their figures are being shared in the system. Worldfood lack both data input that they can present to the franchisees and also the market insight to effectively analyze the data received from the franchised units. This further worsens the ability to effectively use persuasion as control mechanism.

The other way of monitoring performance is conducting field audits by physically visiting the restaurants in a process called Restaurant Evaluation Visit (REV). During the visits a Worldfood representative spends some time in the restaurant and checks that levels of cleanliness are upheld, that certain operations processes are followed and that the overall condition of the restaurant is satisfactory. The restaurant is then given a REV score, from 0 - 100, which is dependent on how well the restaurant scores on predetermined parameters. The REV score has several implications. Firstly, a low REV score leads to action plans that detail how the franchisee should fix their operations. Secondly, a franchisee that consistently has an average REV score below a certain level will not get approved to open new units. Thus, the REV system is used in order to halt growth for underperforming franchisees. Thirdly, a franchisee that repetitively delivers terrible REV scores, and fails to follow up on the action plans, can be subject to termination of the franchise agreement. Fourthly, the REV score determine how much influence a franchisee gets in future negotiations with Worldfood. If you get a low score your opinion carries less weight until you have made the necessary improvements, and received a higher REV score. This has implications for the control within the system. For example, Nordicfood wanted to put their coffee machines out in the restaurant, instead of behind the counter, and let the customers get their own coffee since this reduced the service time and increased customer satisfaction. The Regional Operations Manager at Worldfood agreed with Nordicfood after thorough discussions and brought the matter to the attention of Worldfood executives. However, they explicitly said that it could not be done. The CEO of Nordicfood speculates: "They [the executives] are only experienced in the US market and are afraid of lawsuits should the customer get hot water on themselves". The Worldfood executives were not aware that do-it-yourself coffee machines are standard procedure in many Nordic fast-food chains and other places serving coffee, such as gas stations. The conflict ended with the COO of Nordicfood and the Regional Operations Manager, who understood Nordicfood's point of view, deciding that the coffee machines could be placed in the restaurants with a deduction of 3 points on the REV score. The lack of market insight leads to the REV control not being adjusted to local markets. As the REV score is used in other negotiations, the unjust deduction impairs the franchisees negotiation power. Hence, it seems that business decisions which increases sales and thus should be appreciated by Worldfood are instead punished. Lack of market insight may thus lead to efficient changes not occurring (Lewin-Solomons, 2000).

Concluding Remarks

Managing a franchise in the fully franchised form clearly affects how control systems are used to manage the key challenges of a franchise chain. As our case analysis shows, the means of exerting control are limited. Not owning units in the market weakens the threat of contract termination as the franchisee knows that it is an unwanted option for the franchisor and will only be used as a measure of last resort. Furthermore, being unable to gather information from company-owned units impairs the ability of the franchisor to effectively build business cases that can be used for persuasion, when trying to maintain uniformity or impose system-wide adaptations. The franchisor also lacks the opportunity to lead by example and use their own performance to put pressure on the franchisees. Hence, our case analysis shows that halting growth may be one of the few efficient means of control in the fully franchised form. This sends mixed signals however, as one of the key challenges actually is to foster unit growth. It also leads to the franchisor having to manage a trade-off between enforcing system-wide adaptation and encouraging unit growth. Another finding is that the franchisor's distance to the market may lead to misconstructed monitoring systems, which in turn leads to efficient changes not occurring and inefficient changes being implemented (Lewin-Solomons, 2000).

4.4 – Strategy Making

Strategy making is one of the most important means to achieve unit growth, maintain uniformity, respond locally and facilitate system-wide adaptation in the franchise system. Determining how resources should be deployed is a constant hot topic and reason for many discussions between the franchisor and franchisees. The franchise agreement stipulates the franchisor's right to enforce some system-wide investments, but does not give unlimited decision power over the franchisees' resources. New strategies are in most cases initiated by Worldfood, although some ideas come from franchisees, and the challenge is to get them accepted and implemented by all franchisees in the system. Bradach (1997) writes about a dynamic strategy creation in the plural form with cooperation between company-owned and franchised units. We did not observe much cooperation between Worldfood and their franchisees. Instead, there was more of a battle where the franchisees tried to communicate that specific market conditions made it necessary to adjust or abandon the intended strategies.

System-wide strategies such as new production methods, new machinery, restaurant design or new products are decided and initiated by Worldfood headquarters in the US. These are then handed down through the hierarchy to the regional managers who communicate with the franchisees (see Figure 3). The strategies are often presented as mandatory changes without a supporting business case, which spark irritation with the franchisees. The CEO of Localfood explains: "We get an e-mail stating that 'these machines have been tested in our [Worldfood's] test kitchen and you should order these before the 31st of December. Here are the order forms'". This way of introducing new strategies without consulting franchisees to check the local feasibility has been one of the main sources of conflict. The franchisees want to know how the investment will affect them, if it will increase sales and how much it will cost, among many other questions that arise. The CFO of Nordicfood reasons: "If they presented the strategies saying 'we have done these market surveys, we are doing these analyses and we expect this outcome' and so forth, then we would be more inclined to cooperate. We are the ones who are making the actual investments" the CFO of Nordicfood said. One of many examples was in 2010 when Worldfood introduced a new system called Kitchen Aid that was to be installed in every restaurant. Kitchen Aid is a tool that records the sales during the day and simultaneously calculates how much of each product should be produced in order to meet the demand. This system had been proven successful in the US market and Worldfood wanted it to be implemented in all restaurants world-wide, including the Nordic market. Kitchen Aid was presented as a mandatory investment. In order to achieve system-wide adaptation, Worldfood used halting growth as a control mechanism. They said that franchisees were not allowed to open any new restaurants without having Kitchen Aid installed. After Kitchen Aid was installed by the franchisees, it turned out to be dysfunctional in 90 % of the restaurants. The product was not applicable to the Nordic market where sales vary in certain patterns during the day in contrast to the US market where sales are more evenly distributed. Moreover, the US based company that had developed Kitchen Aid only offered support on US working hours, which further added to the frustration of the Nordic franchisees. The franchisees felt that they had made a large investment in a product that did not even work and had insufficient support. The problems with Kitchen Aid were brought to the attention of the regional manager who understood the issue, but had orders from his headquarters to fully implement it. This behavior was evident in other strategy implementations as well. The employees at Worldfood in charge of the Nordic market had some understanding of the local market issues but had to advocate the global strategy initiatives anyway. The Head of Marketing at Nordicfood recalls a conversation with a former Worldfood employee: "After he quit Worldfood he told me that the most frustrating thing during these strategy negotiations was that he knew that I was right, that I knew the business better than him. But he had his orders from above and had to execute them". Since Worldfood does not own any restaurants in the Nordic market, they could not foresee that Kitchen Aid was not applicable. Moreover, they did not have to deal with the consequences of having a nonfunctioning product, which made Worldfood less perceptive to the opinions of their franchisees. Nearly all of our interviewees at Nordicfood expressed this lack of consideration, and stated that without owning any own restaurants in the Nordics, Worldfood will never fully grasp how certain strategic decisions affect the whole business. Worldfood only look on how investments affect sales, not the bottom line. This resembles what Lewin-Solomons (2000) described, where the franchisor focus more on revenue increasing changes when the franchise sector becomes very large. Furthermore, Worldfood had no ability to test Kitchen Aid before implementing it system-wide, which is a clear disadvantage (Baker and Dant, 2008). In the plural form described in Bradach (1997), the franchisor used their expertise together with the ability to test and evaluate ideas in company-owned units to persuade franchisees to adopt the new strategies. With this option being unavailable in the fully franchised form, the strategies are instead forced upon the franchisees. The franchisees also bear the full consequences of misjudged strategies since no compensation is given by Worldfood.

One area where we found evidence of cooperation however, was in marketing. Previously, Worldfood launched campaigns without enough knowledge about how market specific factors affect sales, which led to suboptimal decisions. The Head of Marketing at Nordicfood explained: "Worldfood simply stated that 'now we are going to have a campaign' without having any specific goals with it. They didn't reflect on which season it was or if people had money or not". Now, the Regional Marketing Manager at Worldfood and the Head of Marketing at Nordicfood have developed a close collaboration working with marketing and new products. It actually started as a result of Worldfood's distance to the market since the Regional Marketing Manager at Worldfood needed analyzed restaurant data which Nordicfood could provide. The Regional Marketing Manager at Worldfood mentions the advantages of the close collaboration: "If you have the right conditions for cooperation, then it doesn't matter if you have company-owned units or not. It's more like you get a better focus if you don't have company-owned units". The reason that the relationship developed between Worldfood and Nordicfood, and not another franchisee, is because of Nordicfood's relative size compared to other franchisees on the market. Nordicfood operates over 50 restaurants and is responsible for more than 50 % of the sales in their region, making them the most ideal partner to retrieve information from. As Worldfood wanted increasingly more information, Nordicfood required increased decision power and ability to affect the strategies. This is similar to findings in Cliquet and Pénard (2011). The Head of Marketing at Nordicfood explains: "We help each other. I provide information and in return I get to be involved in deciding which marketing campaigns we are going to run. I also help develop new products and set prices". There have been discussions within Nordicfood about whether they should do the work that Worldfood ought to (Brickley and Dark, 1987), but for the time being they have reasoned that the extra influence is worth the increased work load. It gives Nordicfood the chance to steer marketing strategies in the right direction and use their knowledge of the market to avoid suboptimal strategy initiatives. It seems that the close cooperation between Nordicfood and Worldfood regarding marketing is essential in order for Worldfood to respond locally in the Nordic market. Worldfood's lack of market insight, as they have no restaurants providing relevant information, has however given the franchisees power to exert pressure on their franchisor.

When franchisees want to initiate strategies it is often met with resistance from Worldfood as the Head of Marketing at Nordicfood expresses it: "There are loads of things I have wanted to change but nothing happens. This is sometimes due to their [Worldfood's] belief that they know best but often it feels like it is a matter of prestige. They want to be the ones calling the shots and coming up with the ideas". This behavior was evident when Nordicfood wanted to sell cheap ice cream cones in their restaurants in order to match competitors. From the time Nordicfood introduced the idea of the cheap ice cream cones it took three years before it was implemented in the Nordic market, even though it already existed in other European countries. When the ice cream cone eventually was introduced, it was presented as an initiative taken by Worldfood, and no involvement of Nordicfood was mentioned. The CEO of Localfood provides additional insight about the resistance to change within Worldfood: "We have tried to come with improvements, innovations, thoughts and suggestions all the time since we are on the restaurant floor and can see what is needed. But our suggestions have never been received well as Worldfood thinks that their own ideas always are superior". Having no restaurants in the Nordic market should have made Worldfood more apt to listen to ideas from the franchisees and spark more cooperation, but we observe the opposite development. This seems to be due to prestige as well as fear of losing power. If Worldfood would ask for too much input or help they fear that they might lose power in future negotiations. This has ultimately led to a loss of innovation from the franchisees as they feel there is almost nothing to gain from taking own initiatives. As innovation from franchisees is highly important to respond locally (Bradach, 1997), Worldfood's behavior impairs their ability to achieve one of the key challenges.

Another key challenge for Worldfood as a chain organization is unit growth. Since they have chosen to sell all of their company-owned units, the growth has to be done by attracting new franchisees or by pushing existing franchisees to expand. The Regional Development Manager at Worldfood clearly states that one of the primary goals is to open more restaurants every year. Further, the Regional Operations Manager at Worldfood states that they only want to work with franchisees that want to grow. The development of new restaurants in the Nordic market is in most cases initiated by a franchisee that finds an attractive location and contacts Worldfood to get a target reservation agreement, which gives the franchisee the exclusive right to establish a restaurant in that area. New franchisees also has to pass through an approval process and provide Worldfood with projected future financial statements, one showing a break even scenario and one showing the most likely scenario. If the financial statements are approved, the franchise agreement is sent to the franchisee for signing and construction can begin. Some issues regarding unit growth were discovered during our interview with the franchisees. Employees at Nordicfood expressed opinions concerning Worldfood's evaluation of both new franchisees and new restaurant locations. The CFO of Nordicfood says: "I don't know how thoroughly they examine the projected financial statements. If you are not a complete idiot and are willing to take the risk they will probably let you start a restaurant. They are not better equipped than anyone else making projections for the future". The CEO of Nordicfood further states: "If a franchisee wants to open a restaurant in a back alley where no one walks Worldfood will say ok! They do not make any calculations of the feasibility since they do not share the risk. If it goes well they will earn money from the sales but if goes bankrupt, so be it". Worldfood's lack of insight in the Nordic market due to their absence has made it difficult for them to judge the suitability of new franchisees as well as evaluating restaurant locations. This has in the past led to restaurants being situated in unprofitable locations, which forced the franchisees to cut costs and quality to make the result break even. Examples of this have been undeclared employees and filthy restaurants. This deteriorates the trademark which hurts the other franchisees directly, as well as the franchisor, but since Worldfood does not have any own restaurants in the region the impact on them is not as apparent. Not owning restaurants makes them both less knowledgeable about how and where to develop more units and also less susceptible to trademark deteriorating activities. This is contradictory to Kaufmann and Dant (1996) who argue that franchisees are less equipped to evaluate market factors and that the franchisor has asymmetrical information advantage.

Concluding Remarks

Strategy making is one of the areas where the most friction and conflicts arise and we believe that it is partly a result of the fully franchised form. The franchisor's absence from the market has led to cooperation with the franchisees in strategy making being virtually nonexistent. New strategies are presented as mandatory directives with no supporting data to motivate the often sizeable investments. Moreover, no inputs from the franchisees are being taken into consideration which creates frustration among the franchisees, leading to resistance in the implementation process. One of the reasons for this behavior is the lack of market insight resulting from the shift to the fully franchised form. Because of this, the franchisor loses their ability to predict how new initiatives will impact restaurant operations. A common view of the franchisees is that the franchisor focuses on revenue increasing strategies while being inconsiderate of how it affects the margins (Lewin-Solomons, 2000). Without operating any company-owned units, the franchisor has further forsaken the option to test the strategies before implementing them system-wide. One area where the friction has been mitigated in our case study however, is marketing, where proper adjustments have been made to fit the fully franchised form. The franchisor is provided with information by the franchisee and in exchange the franchisee gains some extra decision power. This goes to show that there are ways to adapt to the fully franchised form, in this case by the franchisor opening up to more collaboration with a franchisee. Without collaboration the franchisees may experience that their opinions carry no weight which leads to a loss of innovation. If franchisees lack innovation incentives, it leads to a loss of local responsiveness. Bradach (1998) argues that franchisees, not centralized decision makers, are responsible for effective local responsiveness. In conclusion, not having company-owned units leads to the franchisor losing insight and understanding for all mechanisms at work in the marketplace.

5 – Conclusions

This thesis was conducted with the aim to describe the mechanisms at work in a franchise system containing only franchised units. More specifically we wanted to use the theoretical framework, derived from Bradach's (1997; 1998), to investigate how organizational structure, control systems and strategy making are used to manage the challenges of unit growth, uniformity, local responsiveness and system-wide adaptation in the fully franchised form. Moreover, we wanted to gain a deeper understanding of how the processes that emerged are a result of the fully franchised form.

We found that the franchisor's absence in the market had several implications. The organizational structures in the franchise system shifted towards a smaller franchisor organization and a preference for large multi-unit franchisees. The franchisor has to increasingly rely on the franchisees in order to achieve local responsiveness, and the franchisees take over many functions previously undertaken by the franchisor. Large franchisee organizations are preferred in order to achieve uniformity and system-wide adaptation as the franchisor decreases their support. Unit growth is also facilitated with large multi-unit franchisees, as they can acquire capital more easily than small franchisees.

The means of exercising control for the franchisor are reduced in the fully franchised form. Due to the lack of market insight the franchisor cannot use persuasion, and threat of contract termination is not a likely option for a franchisor without presence in the market. Besides referring to the clauses in the franchise contract, halting growth becomes the most commonly used control mechanism when trying to maintain system uniformity or impose system-wide adaptations. This sends mixed signals as growing in units is one of the key challenges. It further leads to the franchisor having to struggle with the trade-off between unit growth and system-wide adaptation. Having an impaired market insight may also lead to misconstructed monitoring systems, resulting in efficient changes not occurring and inefficient changes occurring.

The perhaps most apparent finding is that the fully franchised form is characterized by a lack of cooperation between the franchisor and the franchisee. This has led to the franchisor taking an authoritarian approach in strategy making, which leads to franchisee resistance in system-wide adaptation. Moreover, the franchisor's ability to predict how new initiatives will impact restaurant operation is heavily reduced due to the decreased market insight. The fully franchised form also shows tendencies towards a loss of innovation by the franchisees, impairing local responsiveness. However, our case analysis also shows examples of the possibilities to adjust to the fully franchised form when the franchisor is willing to cooperate and give the franchisees more decision power.

It is our hope that our research can be used by franchisors and franchisees operating in fully franchised forms or those that are in the process of shifting to the fully franchised form. Additionally, it can hopefully be used as guidance when constructing a new franchise network, in order to avoid the pitfalls found here. Our findings can also be used to understand the mechanics that drive certain developments and hopefully help prevent the problems experienced by our case company. We further hope that this thesis can be applied to other organizational forms as well, where markets are left or functions are delegated to third parties.

We suggest that further research is conducted on the fully franchised form as it is scarcely researched today. There are certain limitations of our study however. Nordicfood operates in a relatively small market in Worldfood's franchise system and decisions by Worldfood relating to the Nordic market should be seen in the light of its relative size compared with, for example, the US market. Thus, we encourage future investigations in other markets and industries to further enrich the literature. Moreover, a case study could be performed where more focus is put on the franchisor's point of view.

6 – Practical Suggestions

Above we have presented some of the unique issues and problems that arise in a franchise system where the franchisor does not own any units, a fully franchised form. According to us there are however measures that could be taken to mitigate the problems. Firstly, we believe that a franchise council consisting of a few chosen representatives from the franchisees would be of great help. It would create a formal process where the franchisor could access the local knowledge of the franchisees and avoid misguided system-wide strategies. New strategies could be presented before the council and the council could in turn present a unified franchisee perspective on the proposed strategy. It would at the same time provide the franchisees with more weight in negotiations with the franchisor. Moreover, it would be helpful for franchisees to exchange thoughts and ideas with each other as well. When presenting the idea of a franchise council to the Regional Development Manager at Worldfood we got the following response: "One voice towards the company [Worldfood] would be an improvement even if it would result in tougher negotiation for us. But when a conflict is solved, it is solved for 100 percent of the system, instead of 20". Our case company was also positive to the idea of a franchise council and would welcome the initiative.

Secondly, we believe that franchisors would benefit from having some actual presence in the operations of the business to maintain the necessary knowledge and to be able to lead by example. This could be done by establishing one or a few flagship units in each country. The flagship units would work as a test site for all system-wide strategies, where the franchisor would cover additional investment costs. The unit would be operated by the franchisee, but there would be a contract between the franchisor and franchisee detailing the special arrangement. Then, the franchisor would be able to test new equipment, without financial risk for the franchisees which we found was a major cause of conflict. Through the flagship units, the franchisor would get a deeper insight in the market which would facilitate discussions with the franchisees. They would also be able to test new strategies to assess their feasibility before implementing them system-wide, which is a key advantage in the plural form according to Baker and Dant (2008). The franchisor could set an example for the other franchisees and show how new initiatives improve operations. The restaurant could also be used as a training ground for new franchisees. The flagship unit investment by the franchisor could, in a sense, be compared with an actual company-owned unit. As Michael (2000) points out, investments like this are a way for the franchisor to increase bargaining power and reduce conflict in the franchise system. In addition, franchisee compliance to franchisor standards will be enhanced.

7 – References

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