Franchising
Focusing on Franchisees’ Perspective in the Swedish Retailing Industry

Paper within: Bachelor Thesis in Business Administration

Author: Per Carnestedt 910109
Niclas Jonsson 901027
Dennis Ericson 890223

Tutor: Imran Nazir

Jönköping May 2015
Acknowledgements

We would like to acknowledge the people making it possible for us to fulfil the purpose of this thesis, namely our five interviewees. Although anonymous for reasons explained in-text later, we are forever grateful for them giving us some of their valuable time, enabling us to learn a lot about entrepreneurship, franchising relationships, and giving us other insights that will be of great essence as we enter the business world as proud JIBS alumni.

In addition, Anders Melander at JIBS deserves an acknowledgement for administrating such a complex project as this bachelor thesis-course must be.

So thank you Anders Melander, Blue One, Blue Two, Red One, X-Blue, and X-Red, for giving us the opportunity to gain in-depth knowledge in both thesis-writing, as well as the business world of franchising.

Per Carnestedt

Dennis Ericson

Niclas Jonsson
Bachelor's Thesis in Business Administration 15 hp

Title: Franchising - Focusing on Franchisees' Perspective in the Swedish Retailing Industry

Author: Per Carnestedt, Dennis Ericson and Niclas Jonsson

Tutor: Imran Nazir

Date: 2015-05-11

Subject terms: Franchising, Entrepreneurship, Agency theory, Property right, Centralization, Outcome control, Behavior control, Sports retailing

Abstract

Franchising is an important global business phenomenon, yet most research in the field is allocated to the American market. In addition, the majority of conducted research on the topic of franchising is considering the franchisor perspective, even though a franchising establishment is a relationship between two parties; the franchisor and the franchisee. Recent trends in franchising research is to further extend the body of literature by considering the franchisee perspective as well as markets other than the U.S.

This qualitative thesis considers Sweden, a market with great potential for further franchising development. This potential arises from the fact that Sweden is the country in Europe with the lowest percentage of households having problems making ends meet (6.8%), leaving consumers with large disposable incomes and hence, making it an interesting market to engage in.

Despite these obvious opportunities in the Swedish market, research focused on the Swedish franchise industry is limited to a few reports where the majority of research conducted merely considers franchising to a small extent.

Aiming to be the next step to a greater understanding of franchising in a Swedish context, this thesis considers franchising in the Swedish retailing industry, represented by franchisees from the Swedish sports retailing industry. The thesis comprises in-depth interviews with a multidimensional interviewee-group of five interviewees, both current as well as former franchisees in the Swedish sports retailing industry.

The study resulted in indications on franchisee satisfaction in Sweden in terms of control methods (i.e. behavior or outcome control) as well as propensity to central decision rights (i.e. allocation towards centralized or decentralized). Potential underlying factors to the abovementioned indications are also analyzed and explained. In addition, the study proposes numerous indications as to what further research is to focus on in order to extend the knowledge of the Swedish franchising industry to a more holistic view.
Table of Contents

1 Acknowledgements ....................................................................................................................... i
Abstract ........................................................................................................................................... ii

1 Introduction .................................................................................................................................. 1
1.1 Background ............................................................................................................................... 1
1.2 Problem ...................................................................................................................................... 2
1.3 Purpose ....................................................................................................................................... 3
1.4 Definitions .................................................................................................................................. 4
1.4.1 Franchising ............................................................................................................................. 4
1.4.2 Franchisor ............................................................................................................................... 4
1.4.3 Franchisee ............................................................................................................................... 4
1.4.4 Swedish Sports Retail Industry .............................................................................................. 4
1.4.5 Automatic Re-Stocking System (ARS) ................................................................................... 5
1.5 Disposition ................................................................................................................................. 5

2 Frame of Reference ...................................................................................................................... 6
2.1 Franchising ............................................................................................................................... 6
2.2 Property Rights Theory ............................................................................................................. 8
2.3 Agency Theory ........................................................................................................................... 9
2.3.1 The development of Agency Theory .................................................................................... 9
2.3.2 Positive Theory of Agency ................................................................................................. 9
2.3.3 Principal-agent ..................................................................................................................... 10
2.4 Control Methods ..................................................................................................................... 10
2.5 Entrepreneurship ..................................................................................................................... 12
2.5.1 Causation and Effectuation ............................................................................................... 12

3 Method and Data ........................................................................................................................ 14
3.1 Methodology ........................................................................................................................... 14
3.1.1 Research philosophies ......................................................................................................... 14
3.1.2 Research approaches .......................................................................................................... 15
3.2 Method ....................................................................................................................................... 15
3.2.1 Case Studies ......................................................................................................................... 15
3.2.2 Multiple Case Studies ......................................................................................................... 16
3.2.3 Interviews ............................................................................................................................ 17
3.3 Data Collection/ Secondary Data ............................................................................................ 19
3.4 Method of Analysis .................................................................................................................. 20
3.5 Delimitations of the Method ..................................................................................................... 21

4 Results / Empirical Findings ...................................................................................................... 22
4.1 Case 1 - Blue One .................................................................................................................... 22
List of Figures

Figure 1. Disposition of Thesis ................................................................. 5
Figure 2. Visual clarifications of cases .................................................... 22
Figure 3. Franchising timeline of Blue One ........................................... 23
Figure 4. Franchising timeline of Blue Two ........................................... 26
Figure 5. Franchising timeline of X-Blue ............................................... 29
Figure 6. Franchising timeline of Red One ............................................ 32
Figure 7. Franchising timeline of X-Red ............................................... 34

List of Tables

Table 1. Interviews with franchisees ....................................................... 18
Table 2. A visual overview of the data collection process .......................... 20
Table 3. Favorable Control Method ....................................................... 37
Table 4. Decision Propensity (a) ......................................................... 39
Table 5. Decision Propensity (b) ......................................................... 40
Table 6. Decision Propensity (c) ......................................................... 42
Table 7. Decision Propensity (d) ......................................................... 43

List of Models

Model 1. A tool for analysis, developed by the authors ............................ 36
Model 2. A hypothesized model developed and used by Grace and Weaven (2011) .................. 46
I Introduction

In this section we outline the background to the topic of franchising from the franchisee's perspective in the Swedish Retailing Industry. The problem and purpose of this thesis are explained along with a few key definitions relevant for this thesis.

1.1 Background

Already long before the 21st century, franchising was considered and exploited as a way to speed up business growth (Justis & Judd, 1998; Winter & Szulanski, 2001; Hoffman & Preble, 1991, 1993). In Justis and Judd's (1998) book Franchising, this is reinforced by revisiting Cherasky’s (1996) statement of how he considers franchising the key to business success. This claim is still relevant through the fact that franchising has had an economic output exceeding $2.1 trillion, equaling approximately 40% of the U.S retailing sector and more than 3000 franchise systems are registered in the U.S (Dant, Grünhagen, & Windsperger, 2011).

This extensive exploitation of franchising in the business world has been accompanied by the conduction of a large body of academic studies (Combs, Michael, & Castrogiovanni, 2004). A large part of the existing body of literature considers the history of franchising, and uses historical information to predict the future in the field. (Hoffman & Preble, 1993; Dant et al., 2011).

Another extensively focused issue is related to control such as control modes, control techniques, and how these impact the growth and well-being of the franchising company (Dant & Nasr, 1998; Combs et al., 2004; Cochet & Garg, 2008).

Furthermore, Crane and Matten (2010) reinforce the current nature of globalization in general. More specifically, they highlight how cultural differences between various geographical areas of the world decrease and as a consequence, barriers between areas decrease as well. The globalization trend has led to a large deployment of international franchising (Fladmoe-Lindquist & Jacque, 1995), which in turn has led to a trend in franchise literature to consider franchising as an internationalization strategy (Buckley & Casson, 1998; Dant & Nasr, 1998). Another aspect of this trend is that the need for more comprehensive studies has been highlighted, where Fladmoe-Lindquist and Jacque’s (1995) pioneering study in the late 20th century, the body of literature is becoming more diverse, considering the rest of the world more appropriately.

In 2011, the Journal of Retailing issued a special issue on franchising based on a realized need for a more diverse literature. Those articles represented a broad set of topics, indicating the large possibilities and needs within franchising research (Dant et al., 2011). In their article featured in abovementioned special edition, Mellewigt, Ehrmann, and Decker (2011) highlights one of these needs. They address the issue that even though the body of literature has grown large, almost no studies consider franchising from the perspective of the franchisee.
Continuing, the fact that the franchisees’ perspective is rather unstudied is expressed as rather interesting (Mellewigt et al., 2011). This since numerous factors to a franchise success (e.g. the overall system of the franchise, future success, and long-run maintenance) are dependent on the franchisee (Hing, 1995; Gassenheimer, Baucus, & Baucus, 1996). By studying franchising from a franchisee perspective in a context outside of the United States, we believe we can expand the field of study further and contribute to a more holistic understanding of the franchising phenomenon.

1.2 Problem

The problem identified origins from two aforementioned factors. Firstly, there is a large need for outside of the U.S-studies within the field of franchising (Fladmoe-Lindquist & Jacque, 1995). Secondly, existing literature has a limited body of research considering the perspective of the franchisee (Mellewigt et al., 2011). This is astonishing for numerous reasons. For example, globalization is constantly bringing down barriers and moving countries closer together in terms of communication and exchange (Crane & Matten, 2010), which makes such a large portion of existing literature allocated to merely one country illogical (Fladmoe-Lindquist & Jacque, 1995). Another example is, again, that despite the fact that franchising is based on a relationship between two parties (i.e. the franchisee and the franchisor), almost all literature considers the one part, franchisors perspective, even though a large part of the success of the relationship is dependent on the franchisee’s satisfaction (Hing, 1995; Gassenheimer, et al., 1996).

Hence, there is a need for a more diverse research to gain a more holistic view of the concept of franchising (Dant et al., 2011). To some extent, this report aims to continue in the same manner as Mellewigt et al., (2011). In their article, Mellewigt et al., (2011) considered how the choice of control mechanisms by the franchisor affects the satisfaction of the franchisee. This was done through a quantitative study in a multi-unit franchise company in the German travel industry. Mellewigt et al. (2011), state how this was an attempt to contribute to the literature by addressing an industry not earlier addressed, and in addition to that, considered from a perspective with limited research conducted earlier, namely the franchisees’ perspective. We see it appropriate to further extend existing literature by addressing another country than the U.S, where franchising might very well be of interest as an entering internationalization strategy. This will be done using the concept of agency theory as the main theoretical focus, accompanied by entrepreneurship theory and property rights theory to constitute the principle frame of reference.

In our attempt to contribute in the abovementioned way, we consider Sweden. The reason to why we see Sweden as fit for further theoretical studies is because franchise research considering the Swedish market is limited to a small number of studies, despite the fact that Sweden rank high on national well-being, according to Randall and Corp (2014). To further elaborate on this, Sweden rank second in the EU on expected healthy years of life (71 years for both females and males). From a sustainable perspective, Sweden ranks highest in the EU on share of energy from renewable sources with its 51%, an increase of more than 12% since 2004 (Randall and Corp, 2014). Another interesting aspect is the fact that Sweden places second on the list of highest proportion of population engaging in sports of physical
activities at least once a week (70%). More interesting from a business perspective however, Randall and Corp’s (2014) results show that Sweden ranks highest on households with no problems making ends meet (6.8%) (i.e. households not having problems having income exceed spending), leaving consumers with large disposable incomes, making it an interesting market to engage in.

As seen above, Sweden is a good country to franchise into, with great business possibilities, yet the amount of research conducted is limited. Fact is that when searching in the Primo database for articles published in the 21st century considering both franchise and Sweden, one receives 42 hits of which the authors of this text can identify four as actually focusing on franchise in Sweden. The one that stands out is Ekelund (2014), who considers the franchisor-franchisee relationship from an interaction approach. Ekelund (2014) conducted a quantitative research focusing on the franchisor-franchisee relationship in the general franchise market using Swedish franchise companies as a sample group (i.e. not technically having the Swedish franchising market as a main focus but instead to apply an interaction approach to the franchisor-franchisee relationship in general.)

We aim to consider an industry and let that industry function as representative for the Swedish market. In identifying a suitable industry, we will see to the large part (i.e. 70%) of the population engaging in physical activities at least once a week. With this fact at hand we look to an industry where this percentage equals a business opportunity, namely the sports retailing industry.

In this industry, there is potential for franchise systems to exploit the opportunity proved through Randall and Corp’s (2014) results on the Swedish population’s large engagement in physical activities (70%), in combination with the large percentage of households not having problems making ends meet (93.2%). Despite this business opportunity in the Swedish retailing industry, no published journal considers either franchising in the Swedish sports retailing industry nor the Swedish retailing industry in general. This is the problem identified.

1.3 Purpose

This qualitative thesis intends to further extend existing franchising research, both by addressing franchising from a franchisee perspective, but also through considering a country other than the U.S (i.e. Sweden). When conducting our research we will focus on favorable control methods (i.e. outcome control versus behavior control) and decision propensity (i.e. centralized- versus decentralized decision rights) of franchisees in the Swedish sports retail industry, as well as examining possible underlying reasons to those attitudes and opinions.

By doing so the thesis aims to provide in-depth insights and indications on franchisees preferences regarding franchising contract formulations (i.e. in terms of control methods and decision rights allocation), as well as possible factors underlying those factors.
1.4 Definitions

1.4.1 Franchising

This thesis will refer to the general definition of franchising in all of its discussions and decisions (e.g. selection of interviewees, companies to consider etc.). This means that franchising will be considered businesses where one party (i.e. the franchisor) grants other parties (the franchisees) the rights to sell and operate under the franchisors company brand by for example, selling its products, using its interior and free riding on its marketing. These benefits are enjoyed by the franchisee in exchange for various fees (e.g. up-front fees and royalties) (Combs, Ketchen, Shook & Short, 2011; Dant et al., 2011; Combs, Michael, & Castrogiovanni, 2004). Hence, we reserve ourselves for minor technicalities ultimately labeling a business arrangement some sub-form of franchising, and strictly see to if the criteria of a franchisor-franchisee relationship is present in order to make it pass as franchising for this thesis.

1.4.2 Franchisor

As briefly noted above, the franchisor is the part of the franchise-relationship that grants other parties the right to operate under his or her company brand (Dant et al., 2011; Combs et al., 2004). In line with our definition in the previous paragraph, the definition of a franchisor in this thesis will be one that fulfills the criteria of granting others the right to sell his or her products in exchange for different fees. A possible consequence of this could be that we include actors that formally is not engaged in a franchisor-franchisee relationship, however, we are interested in the dynamics in an agency-relationship such as the franchisor-franchisee relationship. Hence, we do include cases based on their relevancy in that aspect, not on the formal contractual terms of their relationship.

1.4.3 Franchisee

A franchisee is consequently the other part of the franchisor-franchisee relationship. Defined as an entrepreneur undertaking business as a replication of an already existing organization in exchange for aforementioned fees (Combs et al., 2011; Dant et al., 2011). Again, a person fitting this description will be eligible for inclusion in this thesis, regardless of contractual agreements definitions and titling of the relationship.

1.4.4 Swedish Sports Retail Industry

When defining the Swedish sports retail industry, we first turn to Bennet (1995) and his definition of retailing: “A set of business activities carried on to accomplishing the exchange of goods and services for purposes of personal, family, or household use, whether performed in a store or by some form of non-store selling” (Bennett 1995, p. 245).

With that definition stated, for the remainder of this thesis we will define the Swedish sports retail industry as the compound of companies operating retailing-activities as stated
above, in Sweden, niched to sports goods and services. Hence all businesses fitting that definition will be eligible for consideration for this thesis.

1.4.5 Automatic Re-Stocking System (ARS)

During our interviews, it became apparent that sports retailing companies in Sweden use a system to improve logistical activities, where products are automatically re-ordered when current inventory falls below certain levels. In practice, these processes have different names, as well as slightly alternating structures between different companies. However, the interviewees from this study reinforce how the general purpose of the different systems is close to identical across company borders. Therefore, for our readers’ easier understanding all automatic re-stocking systems will, for the remainder of this thesis, be referred to as Automatic Re-Stocking System (ARS).

1.5 Disposition

This thesis is structured in the following way; the problem and purpose have been presented through a descriptive background, proving a need for this research to be made. The frame of reference illustrates what theoretical lenses we have used to approach the problem, whereas the method/data segment defines our research philosophy- and approach, as well as the way of collecting and analyzing data. We present our empirical data before applying the theoretical framework to our findings in our analysis part. Ultimately, we conclude this thesis with contributions and propositions for further research.

Figure 1. Disposition of Thesis
2 Frame of Reference

In this section, we begin with presenting a review of the franchising literature and history. Further, we provide our theoretical framework, including property rights theory, agency theory, and the concept of different control methods. Lastly, a short introduction to the subject entrepreneurship is given.

2.1 Franchising

In 1993, Hoffman and Preble described franchising as a network of firms where the franchisor grants exclusive rights to a local entrepreneur to sell the product or service the franchisor has the rights to. In the agreement, the franchisee is allowed to do business in a specific area, using specific methods, during a specific period of time (Hoffman & Preble, 1993). 22 years has passed and extensive research has been carried through under the topic of franchising. Essentially, franchising is a business arrangement where one actor (franchisor) grants other parties (franchisees) the right to market and sell the franchisors products under the franchisors company brand, in exchange for up-front and ongoing fees (Combs, Ketchen, Sbook & Short, 2011; Dant et al., 2011; Combs, Michael, & Castrogiovanni, 2004). Justis and Judd (1998), further extends the understanding of franchising by establishing the presence of three underlying features of franchising, namely a geographic dispersion of sales units, product replication, and joint ownership by the franchisor and the franchisee.

Looking at the history of franchising, it dates back to before 1850 (Hoffman & Preble, 1993; Dant et al., 2011). Hoffman and Preble (1993) discuss the three generations of franchising and the strive to foresee what the fourth generation of franchising might entail. The first generation of franchising, tied-house systems origins from Germany, where brewers contracted agreements with taverns for exclusive sales of their brews. The second generation includes Adam Singer who sold his sewing machines to an intermediary, who in turn had to get the products to the market. This generation of franchising is still used extensively in some markets, most so in automobile sales, soft-drink distribution and retail gasoline and is called product-trade name franchising. The third and nowadays most apparent franchising generation is called business format franchising. It dates back to the twentieth century when A&W restaurants let local entrepreneurs replicate their entire business, hence the form of franchising most people associate with the term franchising (Hoffman & Preble, 1993; Combs et al., 2004; Dant et al., 2011).

The reason to why franchising as a business form, as well as a growth strategy, has been around since before the 1850's and further developed ever since, is argued in literature to be the high survival numbers of franchising businesses (Hoffman & Preble, 1993; Combs et al., 2009). Underlying factors to the high survival percentages, or more specifically the interest in which those factors are, has fascinated scholars for a long time. Kaufmann & Eroglu (1998) argue for how the success of franchising is dependent on how well the franchise system capitalizes on the economies of scale emerging from the large systems, and the responsiveness enabled through local operations. This view is reinforced by Winter and...
Szulanski (2001), as well as Michael (1996) that states how franchising is a way for large firms to enjoy the benefits of being more responsive to customers.

Looking more specifically on the two entities of a franchising relationship, (i.e. the franchisor and the franchisee), it is argued for how the franchisor’s primary benefit from engaging in franchising is the rapid market penetration that the franchisor can enjoy through the entrepreneurs motivated practices (Hoffman & Preble, 1993; Combs et al., 2009). Hoffman and Preble (1993) further elaborates on how the franchisee primary benefits from being able to enter a business with a proven product, service or brand name and hence cuts off some of the risk associated with introducing new businesses to the market, as well as enjoying lower costs than needed for start-ups.

In franchising research it has been stressed that the largest problem faced is the separation of ownership and control, as well as to what degree, closeness, or character the franchisor should exercise control over the franchisee (Lafontaine & Slade, 1997; Kidwell, Nygaard & Silkoset 2007). To further clarify the issue of character of control, Mellewigt et al. (2011) address either behavioral control (i.e. the franchisor focus on controlling that the franchisee undertakes the organizational behavior in marketing, interior settings etc.) or outcome control, where the focus is on outcomes such as for example sales.

The problem of what control methods the franchisor should undertake has arose from the issue of agency cost, and more accurately how agency costs are the main hinder to why unconstrained first-best outcomes cannot be achieved (Lafontaine & Slade, 1997). Since the agency costs is a consequence of the character of the relationship (i.e. an agency relationship), large attention has been dedicated to theoretical studies aiming to explain the dimensions of agency relationships (Kidwell et al., 2007; Fama, 1980), as well as trying to solve for how to economize on agency costs (Shane, 1998). One of the most prominent theories studied is the concept of agency theory, a theory attempting to explain how best to organize a relationship where one part (in our case the franchisor), established the work that the other entity (in this case the franchisee) undertakes (Eisenhardt, 1989).

Agency theory will be the main theoretical focus of this study as comprehensively addressed in an upcoming section (i.e. section 2.3). Along with agency theory, arguments by Hoffman and Preble (1993), Kaufmann and Eroglu (1998) and Combs et al., (2009) stress three more crucial aspects of a successful franchising business; the entrepreneurial nature and behavior of the franchisee, delegation of property rights as it distinguishes the huge variance among different franchised brands, and the ability to balance economies of scale and local responsiveness. Entrepreneurship theory and property rights theory will accompany agency theory as our principal frame of reference with centralization versus decentralization consistently flowing as a red thread.

Further extending previous argument, literature states that a large, as well as important part, of franchising literature stresses the importance of several competing, complementing and differing theories in order to gain a wider understanding of agency relationships, such as the franchisor-franchisee relationship (Kidwell et al., 2007; Lafontaine & Shaw, 1999).
To conclude this section, further research within franchising is said to be a diversification of the different theoretical perspectives (Combs et al., 2004; Kidwell et al., 2007). This is an area of research that has been addressed through decades in order to suit changing landscapes of society, and hence also franchising (Jensen & Meckling, 1976; Lafontaine & Shaw, 1997; Kidwell et al., 2007). In addition, a need for further geographical research is needed, since existing literature mainly focus within the national boarders of the United States (Mellewigt et al., 2011; Fladmoe-Lindquist & Jacque, 1995). Lastly, there is a further need for research addressing the franchisor-franchisee relationship from the perspective of the franchisee (Mellewigt et al., 2011; Gassenheimer et al., 1996).

The two latter are the issues we have decided to focus on in this thesis, whereas the need for further theoretical diversity will be outside of the scope of this report.

2.2 Property Rights Theory

The property rights theory was, according to Windsperger (2004) used during the 1990’s to explain the structure of decision and incentives in firms.

Barzel (1997) illustrates two meanings to what property rights are in economic literature:

1. The ability to enjoy a piece of property, which is referred to as economic property rights.
2. What the state assigns to a person, which is referred to as legal property rights

The difference is that economic property rights are at the end, what one wants to achieve, and the legal property rights are the ways in how to achieve them (Barzel, 1997).

A new version by Mumdžiev and Windsperger, considers that the property rights theory explains the impact that intangible assets have on decision rights (Mumdžiev & Windsperger, 2011).

In franchising literature, the topic of property rights has been rather limited until the 21st century. However, Josef Windsperger’s Centralization of franchising networks: evidence from the Austrian franchise sector (2004) applies the theory to examine the degree of centralization of decision making in franchise systems. By doing so, Windsperger presents a study with the hypothesis that “the more important the franchisor’s system-specific assets for the generation of residual surplus, the more residual decision rights are assigned to the franchisor, and the higher is the degree of centralization of the franchising network” (Windsperger, 2004, p.1361). The hypothesis is tested in the franchisee sector in Austria, and Windsperger’s study resulted in the suggestion that intangible system-specific know-how of the franchisor and brand name assets have stronger influence over the residual decision rights in franchising networks compared to the intangible local market assets of the franchisee (Windsperger, 2004).
2.3 Agency Theory

2.3.1 The development of Agency Theory

The relationship between the franchisor and the franchisee is often resembled to the relationship between a principal and an agent, as stated by Garg, Rasheed, and Priem (2005).

According to Jensen (1994) the concept of agency theory was, inexplicitly, touched upon by Adam Smith in his famous *The Wealth of Nations* from 1776, where he stated doubt for the value of joint-stock companies due to their reduction of financial incentives for management, since the capital was provided by shareholders instead of managers themselves.

The rise of the agency theory is sprung from the agency problem, which Eisenhardt (1989a) describes as a) misalignment of expectations, goals, or ambitions between agency and principal, or b) the difficultness and/or costliness of the principal to control and/or verify the behavior of the agent. This problem led to the key guideline within the theory, the agency-principal relationship ought to find optimal ways of aligning interests, share risks and transfer information.

However, before we can discuss and elaborate on the theory, we need to acknowledge that the agency theory rests upon assumptions in three areas; people (e.g. risk aversion, rationality and self-interest), organizations (e.g. conflicting goals) and the assumption that information is a costly commodity (Eisenhardt, 1989a).

Jensen (1983) describes how self-interest maximization and agency cost minimization has divided agency theory into two different literatures. The first one, he calls “positive theory of agency”, and the second “principal-agent”. The main difference between the two is that positive agency theory is generally non-mathematical and more oriented towards empirical studies while principal-agent is more mathematical and less empirical oriented. They do, however, share the same assumptions stated above by Eisenhardt (1989a).

2.3.2 Positive Theory of Agency

Continuing on positive theory of agency, Jensen and Meckling (1976) aims to integrate agency theory and theory of property rights in order to develop a system for ownership structure. Beneficial for our research is their theory of alignment between agent equity ownership and shared interests with principals. In formal terms, they discuss how increasing the manager’s firm-ownership should decrease managerial opportunism, (i.e. opportunism being the manager or the agent acting out of self-interest).

On the topic of information as a costly commodity, Eisenhardt (1989a) presents a proposition based on research by Fama and Jensen (1983) and states that the agent is less likely to act in self-interest when the principal possesses information to verify the behavior of the agent. Overall, the positivist agency theory describes situations when the principal and the agent have conflicting goals and focuses on the mechanisms behind controlling the agent’s egotistic behavior (Eisenhardt 1989a). Jensen (1983) describes the positive agency
theory as a way of modeling the effects of the contracting environment, such as capital intensity and information costs.

### 2.3.3 Principal-Agent

A second segment within the agency theory is principal-agent and is more concerned with which contract is most efficient under outcome uncertainty and risk aversion, or more specifically, the optimal contract between behavior-oriented and outcome-oriented. It is built upon the assumption of goal conflict between principal and agent, easily measured outcome, and that the agent is more risk averse than the principal.

Eisenhardt (1989a), presents two different scenarios concerning information; either complete or incomplete. With incomplete or unobservable information, moral hazard (i.e. lack of effort by the agent) and adverse selection (i.e. wrongfully represented skills and abilities by the agent) could be the case. In such a case, the principal has two options, either setting up some sort of information system or contract on the outcome instead of the behavior. Outcome based contracts transfer risks to the agent since external changes such as technological change and government policies are now to be included in the agents’ responsibilities. Assuming the agent to be risk averse, behavior-based contracts ought to be more attractive, but simultaneously assuming the principal to be risk averse, behavior-based contracts bear larger risks and hence would not be optimal. Concluding on the topic of risk, at least one party will require compensation if the unit is under the assumption to be more risk bearing than its counterpart, the riskier the specific unit of franchising, the higher the compensation. This generally requires incentives to put forth effort of risk bearing (Mahoney 1992).

Going back to the underlying assumption of goal conflicts, Eisenhardt (1989a), proposes that the smaller the conflict, the less is the incentive for behavior-based contract. This is since, if the goals are shared, the agents’ interests are shared with the principal and the need for behavior control is redundant.

The advantage of using agency theory for this thesis is the fact that it recognizes the relationship between franchiser and franchisee and acknowledges that the relationship is often problematic due to conflicting incentives, goals and risks. More specifically, the theory of principal-agent emphasizes heavily on the different form of contract between behavioral and outcome which, according to Mellewigt et al. (2011) leads to higher satisfaction if executed properly. Mellewigt et al. (2011) continues by both arguing for a somewhat simple solution by stating that outcome control would lead to higher satisfaction amongst experienced franchisees, connecting experiences with comfort towards risk bearing. In conclusion however, it is stated that behavior control does not solely increase franchisee satisfaction but is sometimes necessary as a control mechanism to prevent opportunistically behavior.

### 2.4 Control Methods

There are different ways of looking at control methods, but Weitz and Jap (1995) describe it as the method or mechanisms in place in order to control or coordinate activities by
firms or individuals in ongoing relationships. Quinn (1999) states that the franchisor merely has two ways of maintaining control over the franchisee, namely coercive or non-coercive methods. Coercive sources of power are characterized by some prospective punishment such as contract termination, while non-coercive control enables assistance and support (Doherty & Alexander, 2006). They further elaborate on the idea presented by Quinn (1999) and argue for five major control methods of how the franchisor exercises control over a larger franchise network. Firstly, the contractual agreement, the terms and condition of the relationship which should include length of agreement, terms of termination, sales projections as well as the number of stores to be open within a set timeframe. They also imply that as brand awareness has developed, areas of marketing, IT and analysis of retail sales were to be included in the contract to ensure brand consistency. Nonetheless, the contract is a coercive type of control and is rarely used on a day-to-day basis.

On the non-coercive side, Doherty and Alexander (2006) further present control through support systems, which ought to include a development plan, support through financial manuals, merchandise reviews, training of staff and frequent visits from the franchisor to the franchisee. This is the basis for the day-to-day operation and is often referred to as the “franchise bible”. This bible also contains policies on marketing, human resource management and how to report sales according to Doherty and Alexander (2006). The following three control methods are choice of partners, control of brand and master versus area development, however, they are somewhat insignificant for the franchisor-franchisee relationship and more frequently used for larger franchisor networks (Doherty and Alexander 2006).

Mellewigt et al. (2011) choose a similar approach and put the wide-ranging interpretations and usage of coercive and non-coercive control into a franchise perspective through outcome-based or behavioral-based control. The two control methods can be classified into those techniques used for monitoring final outcome and those monitoring specific stages within the process (Andersson and Oliver, 1987).

Regarding outcome control, the franchisor ought to assess to which extent performance goals regarding sales and other financial ratios are to be met. Advocates for outcome control urge entrepreneurial franchisees and a certain margin for flexibility within the contract and overall relationship (Mellewigt et al. 2011). The agent is held accountable for his or her results (outcomes) and performance but not in what way (inputs, methods, and behavior) those results are achieved (Andersson and Oliver, 1987). Outcome control that contains incentives to increase the franchisee’s motivation to pursue the franchisor’s goals without constraining independence and entrepreneurship are appropriate (Bergen, Dutta and Walker 1992).

In behavior based control methods, franchisors tend to use more comprehensive monitoring tools to increase control. This method is argued to be restrictive for entrepreneurially oriented agents but also more protective for risk-averse agents (Mellewigt et al. 2011).
2.5 Entrepreneurship

Entrepreneurship is a complex, heterogeneous concept, still difficult to establish boundaries around and define (Bruyant & Julian 2001). An academic consensus vaguely connects entrepreneurship with change, yet simultaneously, change can be very disperse in its definition and hence relative in its point of reference. Audretsch (1995) strengthens the connection with change by calling entrepreneurs agents of change, and consequently entrepreneurship being the process of change.

Entrepreneurship also varies between different areas; from an economic perspective, Hébert and Link (1989) say an entrepreneur makes judgments and takes responsibility for decisions affecting use of goods, resources, institutions, and location. The management perspective is contrasting, Sahlman and Stevenson (1991) divide entrepreneurs from managers with the explanation that entrepreneurs pursue opportunities regardless of current resources. Instead, entrepreneurs identify opportunities and then assemble needed resources before taking implementation.

Regarding entrepreneurial literature, the Schumpeterian tradition, based on the work by Thuenen and Schumpeter and characterized as the German tradition, has, according to Audretsch (2003) the greatest impact and influence on the modern entrepreneurship literature. Based on two prominent contributions, *Theorie der wirtschaftlichen Entwicklung* (Theory of Economic Development) (1911) and *Capitalism, Socialism & Democracy* (1942), Schumpeter introduced the theory of creative destruction where, he argues, entrepreneurial forces will sooner or later replace less functional incumbents or production methods, leading to economic growth. In *Capitalism, Socialism & Democracy* (1996, p.132) Schumpeter and Swedberg say:

“"The function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention, or more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way…To undertake such new things is difficult and constitutes a distinct economic function, first because they lie outside of the routine tasks which everybody understand, and secondly, because the environment resists in many ways.”

2.5.1 Causation and Effectuation

The concept, introduced in 2001 by Saras Sarasvathy, is part of human reasoning and has been used to explain the new venture development process (Sarasvathy 2001; Chandler, DeTienne, McKelvie & Mumford 2011).

Causation is a planned strategy approach and assumes a predictable outcome, attainable through calculation or statistics. It focuses on the mean to achieve a chosen effect, an end goal. Connecting causation to entrepreneurs, this is where clearly defined objectives lay the foundation for the entrepreneurial activity. Entrepreneurs systematically search, analyze, and plan activities to exploit their preexistent knowledge, capabilities, and resources in order to maximize expected returns (Chandler et al. 2011). The end goal is envisioned at start and all planned efforts are directed towards achieving the anticipated and intended outcome. Sarasvathy (2001) reaffirms this logic by stating that the mindset within causation is that the future can be controlled as long as it can be predicted. The entrepreneurial individual is
expected to act rational, based on all relevant and attained information and a calculated estimation of expected utility.

Entrepreneurs with the effectuation mindset do not need to predict the future, merely control their own (Sarasvathy 2001). The individual possesses traits of flexibility and controls the future through building alliances and relationships with potential customers, suppliers and competitors. The new venture process here evolves around general aspirations to create something, however, along the process of decisions, observations and results, new information emerge which the entrepreneur continuously changes to optimize the course of actions. Instead of evaluating maximum expected returns and utility, the entrepreneur values loss affordability, and how to minimize potential losses (Chandler et al 2011).

A simplified example used by Sarasvathy (2001) is the case of a chef, a menu, and a couple of ingredients. In the causation scenario, the chef is given a menu in advance and is then free to pick ingredients and a strategy to accomplish the pre-determined meal. In the effectuation scenario, the chef is told to create a meal but is completely free to pick ingredients and a strategy to create the meal.

Although rather different at a glance, Sarasvathy (2001) stresses the two strategies to be overlapping and interlinked, and possibly used simultaneously in different context and situations. Being part of fundamental human reasoning and argued by Sarasvathy (2001) to be overlapping, (i.e. an individual often uses both approaches) this theoretical lens will only be used as a background tool to for the authors to easier visualize the entrepreneurial mind-set among the franchisees.
3 Method and Data

In this section, we present the methodology, research method and data collection method. First is a description of the methodological, where the research approach is presented. The section continues with a description of the chosen method, and a justification of using a multiple-case study including semi-structured interviews.

3.1 Methodology

3.1.1 Research philosophies

According to Collis and Hussey (2014), there are two main philosophical paradigms (i.e. frameworks) that serve to guide how research should be conducted, namely positivism and interpretivism. The difference between the two is that interpretivism is developed to fulfill the insufficiency of positivism in order to meet the needs of scientists today. Interpretivism focuses on investigating the complexity of social phenomena, whereas positivism focuses on measuring social phenomena (Collis & Hussey, 2014). Saunders, Lewis and Thornhill (2009) argue for the importance of understanding what philosophy to apply based on two main arguments. First, it shows the way the researchers view the world. Secondly, and of more importance, researchers need to be able to reflect upon philosophical choices and evaluate why research was conducted in certain ways.

3.1.1.1 Positivism

As mentioned, positivism aims to measure social phenomena. The philosophy has its origins in the natural sciences. In addition to this, it rests on the assumption that everything around us is singular and objective, and hence not affected when being investigated (Collis & Hussey, 2014). Saunders et al. (2009) also argues that if researchers are practicing positivism, it is more probable that it will be a philosophical stance similar to a natural scientist, where observations such as facts and final results can be highly generalized. Researchers within positivism are likely to use qualitative data collection techniques with large samples, and conduct their research from hypothesis building and use existing theories (Saunders et al., 2009). Since our purpose is aligned with a study of social relations, it does not fall suitable under the positivist philosophy.

3.1.1.2 Interpretivism

Collis and Hussey (2014) argue that interpretivism has been developed since scientists recognized gaps and insufficiencies in positivism that in some settings made the positivist philosophy inappropriate. Therefore they mention that instead of adopting quantitative research methods and statistical analysis, interpretive research derives from qualitative research methods. Saunders et al. (2009) support this by discussing how researchers that adopts to an interpretivist philosophy are typically conducting their research with small samples and in-depth investigations, and are much more likely to use qualitative research methods. Furthermore, they argue that interpretivism is critical to positivism in the sense that the social world of management, which is the focus of this thesis, is too complex to rely upon strict theories. In addition, Saunders et al. (2009) emphasize the necessity to
understand the differences between us humans as social, independent actors. Based upon this, our research will draw more inspiration from interpretivism than positivism, because of the purpose of investigating the social relationship between franchisors and franchisees.

3.1.2 Research approaches

Saunders, Lewis and Thornhill (2012) explain that there are three research approaches, namely deduction, induction and abduction. These should be attached to the chosen research philosophy, in our case the aforementioned interpretivism. With a deductive approach, researchers develop a theory and build hypothesis, which later are tested. With an inductive approach, data is collected, and theory is built upon the findings and analysis. With an abductive approach on the other hand, data are collected to explore a certain phenomenon and recognize themes and to explain patterns to either generate a new theory or modify existing ones (Saunders et al., 2012). Saunders et al. (2012) further discuss differences between the three approaches, such as induction emphasizes understanding the research context through the use of qualitative data collection methods, and sees the researchers as parts of the research process. Based upon the differences of these approaches as well as our purpose to understand the social relationship we investigate, we see that our research approach will be an abductive one with qualitative data collection methods. It also means that we will move back and forth between theory and data, which could be seen as a combination between deduction and induction (Saunders et al., 2012).

In addition to this, Flick (2014) argues that the research questions should be used as a starting point when choosing what type of research should be used. Given that we do not work from a research question, we used our purpose as a starting point. From our purpose, it becomes apparent that this thesis is a study about social relations in a business context, since we address the franchisor-franchisee relationship. Hence a quantitative research is not appropriate, but instead a qualitative method will be applied. This decision is supported by Flick’s (2014) argument that qualitative research is especially relevant when studying social relations.

3.2 Method

3.2.1 Case Studies

According to Yin, ”The essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result” (Yin, 2009, p. 17). Furthermore, Yin (2009) compares different research methods, such as experiments, surveys, archival analysis, histories, and case studies to each other in order to assort when to use what method. In general, he suggests that case studies have an advantage under particularly three circumstances (Yin, 2009, p. 2);

1. When how and/or why questions are being addressed by the investigators.
2. The investigators have little control over events.
3. The aim is to gain extensive and in-depth knowledge about a contemporary phenomenon within a real-life context.
Saunders et al., (2009) reinforces this by also emphasizing case studies to be particularly suitable when how, and why questions are addressed, and hence a method commonly used in explanatory and exploratory research. According to Collis and Hussey (2014), the case study method is also commonly associated with interpretivism. The negative aspect with case studies includes for example that they are not sufficient to make scientific generalization, and that they could be very time consuming (Yin, 2009). But as we aim to build an understanding of how and why the social relationship is prevailing, the case study method is suitable for our research based on the suggestions from Yin (2009), Collis and Hussey (2014), and Saunders et al. (2009).

After choosing case studies, Yin (2009) suggests that the next step is to design the case study. The research design is commonly known as a “logical plan for getting from here to there, where here may be defined as the initial set of questions to be answered, and there is some set of conclusions (answers) about these questions” (Yin, 2009, p. 26). Hence, the main purpose is to assure that the research question, or purpose, is being addressed. Based upon this, we have chosen to interview the franchisees and use those interviews and answers as our main collection of evidence. Since the purpose address the perspective of the franchisee in a Swedish context, we believe that this method is the one that will generate the highest validity.

### 3.2.2 Multiple Case Studies

According to Yin (2009), multiple-case designs have both pros and cons compared to single-case designs, for example, the multiple-case design is considered to be more robust in its evidence, but naturally more time consuming than the single-case design. However, Yin (2009) also suggests that when possible, one should preferably conduct a multiple-case design for the analytical benefits of having more than one case. Eisenhardt (1989b) further argues for the number of cases to be chosen within a multiple case study, and she suggests a number between four and ten to be appropriate. In our situation, we wanted to use two companies in order to reduce the risk of interviewee bias in terms of company culture and personal values, thereof the decision to use a multiple-case design. In this thesis, we use five different cases, that each consists of one current, or ex-, franchisee in the sports-retailing industry in Sweden. Further, the cases are collected from two different companies, named in this thesis as Company Red and Company Blue, where two cases represent Company Red, one current, and one ex-franchisor. In Company Blue, three cases are chosen, two current franchisors, and one former. The justifications for selecting these specific cases, e.g. that we wanted franchisees with different backgrounds, and from different companies in order to reduce bias, are further explained in section 3.2.3.3.

Yin (2009) proposes that researchers should conduct so called pilot cases in order to help refining the future data collection. This is supported by Collis and Hussey (2014), who propose preliminary investigations to be a main stage within case study research. Based upon this, we chose to conduct a preliminary interview with one of the franchisees of one of our selected companies in order to be as prepared as possible for the actual data collection.
3.2.3 Interviews

Interviews is a data collecting method where selected participants are asked questions with the purpose of understanding actions, thoughts and feelings (Collis & Hussey, 2014). According to Clarke and Dawson (1999), it is an especially common data collection method when conducting qualitative studies, however not exclusively used for that type of method. Used under the interpretivist paradigm, interviews are conducted for understanding attitudes and feelings that people have in common (Collis & Hussey, 2014). Hence, in a study like ours, it is suitable to use a qualitative approach in terms of the interviews. Several authors differ between interview types. Essentially, existing literature regards semi-structured interviews as the most commonly used method. To elaborate on relevant parts of existing literature, Flick (2014) discusses different types of semi-structured interviews. Saunders, Lewis and Thornhill (2009), mentions semi-structured interviews as well, but also structured, unstructured and in-depth interviews as the most commonly used in research.

The first type mentioned, the structured interview, relies on either a questionnaire or predetermined questions as the data-collecting instrument. Here the questions are asked in a specific order by each interviewer, and the purpose is that all the interviewees are to be exposed to the same stimulus during the interview, and this type of interviews are only used when it is clear what the relevant questions are (Clarke & Dawson, 1999).

The second type, the unstructured interview, is according to Clarke and Dawson (1999) the most informal one. This type is only used when conducting qualitative studies, where additional questions are generated during the interview.

Lastly, a semi-structured interview is according to Clarke and Dawson (1999) a mix between the two aforementioned types, where both standardized questions, e.g. regarding age and sex are covered, as well as open-ended questions with the purpose of contributing to a more qualitative result.

3.2.3.1 Semi-Structured Interviews

In this study, we used semi-structured interviews, which we considered to be the most suitable for our purpose. This allowed the use of predetermined questions, but also flexibility and deviation from the order of which the questions were asked if it was needed to achieve desired quality from the interview (Clarke & Dawson, 1999). We also have the possibility to encourage the interviewees to elaborate upon their answers and hence receive more thought through and in-depth answers. Flick (2014) points out that semi-structured interviews are widely used in research methods because of the increased potential of getting the interviewees to express their subjective attitudes when discussing in a more openly designed atmosphere, which is also aligned with our purpose and hence reinforces our choice of interview type.

3.2.3.2 The Responsive Interview

An interview style mentioned in the study about qualitative interviews by Rubin and Rubin (2012) from Flick (2014), that is suitable for our method, is the responsive interview. In this style, emphasize lies on building a trustworthy relationship between the interviewer and the interviewee, which is supposed to lead to a give-and-take kind of conversation. In this type
of interview, the atmosphere is flexible and the tone is friendly and there is no attitude of confrontation. Flick (2014) argues that this approach fits most interviews, since the focus lies on understanding what the interviewee has experienced, and the aim is to develop a holistic understanding instead of generating short and general answers to the questions.

### 3.2.3.3 Interviewees

For this thesis, five interviewees were chosen. These five interviewees were all representatives of the franchising sport retailing industry in Sweden. Two of the interviewees are active franchisees in one sports retail chain, one interviewee are active in a second sports retail chain, and two has terminated their role as franchisees, one from each of the sports retail chains considered. The choice of interviewees was based upon five different factors. First, we wanted them to represent at least two different companies within the Swedish sports retailing industry. Looking at the four largest actors within the industry, two companies operate with a franchise company structure (Reithner, 2014). Secondly we wanted to address franchisees that are currently active within those companies, but also ex-franchisees, in order to reduce potential bias towards company culture. Thirdly, we wanted franchisees with different background, in terms of education and previous work experiences. Fourth, we wanted the number of stores and turn-over among the franchise firms to differ, in order to get various results. Lastly, we wanted the franchisees to come from different geographical regions within Sweden, in order to investigate if there were any differences depending on the geographical location of the operations.

Since the businesses are located in Sweden, and the interviewees are all native Swedish speakers, the interviews were held in Swedish and later translated and transcribed into English in order to make it as clear as possible for the interviewees due to potential limitations in the English language.

Additionally, the justification of only having interviewees as the single collection of evidence is yet again based on our purpose. Since we address the problem in a Swedish context, and from the franchisees perspective, we are confident that interviews will yield the best result.

<table>
<thead>
<tr>
<th>Franchisee</th>
<th>Blue One</th>
<th>Blue Two</th>
<th>X-Blue</th>
<th>Red One</th>
<th>X-Red</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Date and duration of interview</strong></td>
<td>2015-04-13</td>
<td>2015-04-21</td>
<td>2015-09-04</td>
<td>2015-04-21</td>
<td>2015-04-21</td>
</tr>
<tr>
<td></td>
<td>0:59:55</td>
<td>1:03:16</td>
<td>1:00:16</td>
<td>0:44:01</td>
<td>1:06:25</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>Blue One’s office Jönköping, Sweden</td>
<td>Blue Two’s office Västerås, Sweden</td>
<td>X-Blue’s office Karlshamn, Sweden</td>
<td>Red One’s office Västerås, Sweden</td>
<td>Café Västerås, Sweden</td>
</tr>
</tbody>
</table>

*Table 1. Interviews with franchisees*
3.2.3.4 Question types

Clarke and Dawson claim that, “there is no one right way of conducting an interview” (1999, p. 73). However, according to Saunders et al. (2009), it is vital to consider the approach of asking questions during an interview in order to achieve success when forming semi-structured interviews. They highlight the importance of especially three types of questions to be used during semi-structured interviews, namely open questions, probing questions, as well as specific and closed questions. Hence, our interview questions were based upon the following criteria (the interview guidelines is available in appendix xxx).

Through the use of open questions, the interviewees were allowed to describe specific situations. Open questions are preferred to be used when more developed answers are desired, which makes them suitable for our research. Typically, open questions start with what, how, or why (Saunders et al., 2009).

Alike the open questions, probing questions may also include the phrases what, how, or why, but they are more directed, or focused towards a specific request. These type of questions were used during the interviews when more developed understanding of certain answers were needed, which is supported by Saunders et al. (2009).

Specific and closed questions are similar to structured interview questions, i.e. they are directed and asked with the purpose of either gaining specific information, or acknowledge opinions and/or facts. What is important for the interviewer when using these types of questions is to avoid leading questions to reduce the risk of biased answers (Saunders et al, 1999).

3.3 Data Collection/ Secondary Data

As for secondary data, we focused on two ways of gathering data, namely brief searching, and citation pearl growing. According to Rowley and Slack (2004), brief searching is when one retrieves a few documents in a fast manner. This is seen as a good way to start your collection of data and proceed from there with your further work. Regarding citation pearl growing, Rowley and Slack (2004), explains how this is a search strategy where you start from a low number of documents and identifies key terms in those documents, to later find them in other documents.

In our secondary data collection, we have used the physical library of Jönköping University, as well as a selection of online databases where Scopus has been the main database used with Primo and Google Scholar as partly used to further diverse our search. When brief searching, we focused on finding well-cited documents to grasp a brief overview of franchising and related topics. From there, we practiced citation pearl growing, and more specifically looked for relevant references in the documents found through brief searching (e.g. Mellewigt et al., 2011). When having identified documents through citation pearl growing, we again ran the documents through Scopus, in order to see if the documents were cited to a large extent. As an important note, we did not exclusively see to number of citations when collecting secondary data, but merely used it as a indicator of relevance.
Table 2. A visual overview of the data collection process

<table>
<thead>
<tr>
<th>Literature Review</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Databases</strong></td>
</tr>
<tr>
<td><strong>Main Theoretical Fields</strong></td>
</tr>
<tr>
<td><strong>Literature Types</strong></td>
</tr>
<tr>
<td><strong>Criteria To Include An Article</strong></td>
</tr>
</tbody>
</table>

### 3.4 Method of Analysis

In interpretive studies like ours, the goal of the analysis is to yield an understanding of the phenomenon being studied and the interactions with their contexts (Williamson, 2002). According to Yin (2009), the analysis of the case study is the most difficult, and the least developed aspect of the case study method itself. Unfortunately, it is common that investigators start their investigations without knowing how to analyze the findings (Yin, 2009).

When conducting the interviews, Flick (2014) and Saunders et al. (2009) recommends and argues for them to be recorded and transcribed for easier analyzing them later on. After the transcript has been produced, Saunders et al. (2009) argue for a summary of key points from the interviews. This will help the interviewers to become more familiar with the main theme from the interview (Saunders et al., 2009). To make sense of the transcribed data, Williamson (2002) explains that one commonly used method in qualitative studies is to categorize data, which helps the researchers to analyze the retrieved data at a more in-depth level. Eisenhardt (1989b) suggests within-case analysis as a key step in analyzing cases where it is important to reduce the amount of data. Furthermore, she argues that there is no standard format for such analysis, and that there are probably as many approaches as researchers, but that the general idea is to become familiar with each case before establishing cross-case patterns (Eisenhardt, 1989b).

Following abovementioned suggestions, we began transcribing the interviews by re-listening to the recordings and saving what was most important. After the transcription, we coded the interviews by forming categories to present the answers within. These categories are later presented and discussed in the findings of this thesis. As a result of our abductive research approach, we then went back to our theoretical framework including the agency theory to see if the interviews could be analyzed upon that exclusively, or if additional theoretical frameworks were to be provided. This was done by first analyzing the pilot-interview and again forming categories of what to analyze, and then consider which relevant theories the answers could be connected to. When conducting the actual
interviews we had more in-depth knowledge on what we wanted to analyze and when to ask the interviewees for more developed answers. It then became relevant for us to add entrepreneurship and the theory of property rights in our theoretical framework. After the transcription and coding of the actual interviews, we analyzed each of the five cases based upon the chosen categories, and finally observed cross-case patterns to base our analysis upon.

3.5 Delimitations of the Method

In contrast to what is recommended by several authors of case studies (Yin, 2009; Collis & Hussey, 2014; Saunders et al., 2009), we used interviews as the only collection of evidence. However, we justify this with our specific purpose, which is specified to address the franchisees perspective in a Swedish context, hence we believe interviews are the most relevant sources of evidence. More specifically, the fact that we consider the franchisees perspectives limits our possibility to consider other methods for collection of evidence (e.g. documentations, archival records, interviews, direct observations, participant-observations, and physical artifacts). As aforementioned, Yin (2009) describes pros and cons of these sources of evidence. The pros with interviews are predominant in the sense that we could target the topics desired, and also adapted to our specific context (Yin, 2009). We attempted to avoid the weaknesses, being focused mainly on the risk of response bias, by using multiple-case studies, from two different companies. Additionally, the choice of including ex-franchisees as interviewees was also to further minimize the risk of biased results.

The weaknesses with the other abovementioned methods (e.g. documentations, archival records, etc.) are imminent compared to the strengths, based upon what output we could potentially retrieve with each of them. For example, documentations and archival records could according to Yin (2009) be both hard to retrieve due to privacy, and for our research, we considered them to be irrelevant based upon our specific context. Observations are regarded as time consuming (Yin, 2009), and we regarded observations as hard to retrieve, again based upon our specific context.
4 Results / Empirical Findings

In this section, we present empirical findings from data collected during our interviews. Due to one interviewee’s request of being anonymous, all interviewees will hence be anonymous. As mentioned, we include two companies, Company Blue and Company Red. For Company Blue, we include three interviewees, Blue One, Blue Two, and X-Blue, while Company Red is represented by Red One, and X-Red. A visual clarification is presented below (figure 2). The duration, date and location of the interviews can be found in the appendices as well as in table 1 of this thesis, page 18. All quotes and information are from interviews held between 9th – 21st of April.

Figure 2. Visual clarifications of cases

4.1 Case 1 - Blue One

Case 1 is focused on a franchisee active in Company Blue. The interviewee of Case 1 will for the remainder of this thesis be referred to as Blue One.

4.1.1 General Background

Blue One was a university drop-out born in 1973, today at the age of 42. Blue One made his way to micro- and macroeconomics before realizing that it was not what he wanted to spend the entire life working with and dropped out. The career instead started as a store manager for a small store in the shoe retailing industry. Blue One spent 16 years as a store manager, managing three stores when his career took new directions in 1999.

During a skiing trip, in a ski lift, he got offered to join partnership with a friend and buy a Company Blue store that was for sale. The friend in question already owned two stores (below referred to as store 1 and 2. Any store opened or acquired by the duo after store 1 and 2 will be given similar denotations) and when Blue One got the offer he did not hesitate;

“Coming from an entrepreneurial family I had always seen myself working with something of my own. So when my friend, and now companion, came with the proposition, I did not think for too long. I mean, how long does a ski lift take” (personal communication, 2015).
4.1.2 Franchising Background

Since entering his partnership and acquiring his first Company Blue store in 1999, Blue One and his partner have continued to acquire more Company Blue stores, totaling 12 stores in 2014. In 2015 one of those stores were closed after a merger between two of the stores in the same geographical area.

![Franchising timeline of Blue One](image)

Figure 3. Franchising timeline of Blue One

4.1.3 Thought process before becoming a Franchisee

When discussing the thought process before becoming a franchisee, Blue One again mentions his childhood and being raised in a self-employed family. He also mentions how the thought process was not very long since he could identify himself with being self-employed. Further, he admits that one part of him did consider the transition from running a store to running a business and contemplating whether he was ready for that transition. Blue One does however see that as natural and states that “with such a big decision, it should tingle a bit” (personal communication, 2015).

Furthermore Blue One acknowledges how there was, and still is, a financial risk to it all, but refuses to label it as a barrier to his initial entry to becoming a franchisee. There was however another aspect that he considered more in-depth before accepting the offer of becoming a franchisee, namely the franchise-structure of Company Blue.

To Blue One it was important that there was an ownership that he could build value from over time, since building value is, according to Blue One, one of the most important aspects in the entrepreneurial world. However, as long as he could see possibilities for such value-increasing opportunities for him as an entrepreneur, what kind of company structure he engaged in was not of uttermost importance.

4.1.4 Central Demands vs. Own Decision making

Regarding the trade-off between central- and own decision making, Blue One emphasizes that the expression of power in numbers really suits the retailing industry and how that is the starting point to all structure in a franchise, including the issue regarding allocation of decision rights between central- and local operations.

Blue One accounts for how the issue of central- or local decision making can be categorized in three main areas, namely assortment, layout, and marketing. Blue One then proceeds by discussing assortment more in depth. When doing so, Blue One admits to
how some franchisees embrace it, while some dismiss the increasingly large allocation of decision making to central operations. However, Blue One states how he is certain that if all Company Blue’s franchisees were interviewed, regardless of age, there would be a common denominator that almost everyone have realized the value in being able to focus exclusively on the market and their personnel instead of allocating their focus between assortment, logistics, purchasing, interiors, marketing etc.

Further explaining previous paragraph, Blue One accounts for how the initial purpose of Company Blue’s franchise was to enjoy the benefits of a large and integrated company, while still being locally adaptive. According to Blue One, that is what still drives the changes today. While initially, it was mainly about reaching economies of scale and buyers power when ordering from suppliers, it is now also about exploiting opportunities to have centralized experts (e.g. focusing on assortment, logistics, marketing etc.). Having such experts enables the entrepreneur to focus on what the entrepreneur can be an expert on, namely his/her local customers’ wants and needs, as well as how his/her business can fulfill that need. “If entrepreneurs feel they can do a better job when being in charge of everything, maybe being part of a franchise is not appropriate for those entrepreneurs” (Blue One, personal communication, 2015). When asked about his optimal allocation between central and local decision rights, Blue One states that while today’s allocation is 80/20 in favor of central decision rights, he could imagine the future moving towards an increase in central decision rights to 85/15.

Tying it to ARS (automatic re-ordering system), Blue One does acknowledge the fact that local demands and markets vary to some extent, however he counter-argues that Sweden is a rather homogenous market where demand for basic parts of the assortment (e.g. socks, water bottles) does not vary to the extent to where an ARS is not of value.

Blue One concludes this part of the interview by stating how he believes chain DNA is of uttermost importance. The setting and assortment should be familiar regardless of which Company Blue store you enter, however some local adaption should be present. This since when Company Blue can use the strengths of an integrated, centralized company, but compete by being locally adaptive (e.g. have a soccer or ice hockey profile) that the company maximizes the franchise-structure.

4.1.5 Outcome Control vs. Behavior Control

Looking to behavior control, Company Blue has an assortment group that nationally look into what should be in the stores’ assortment. Then some parts of that assortment might be excluded by the local store due to local adjustments. However, this is more of a tool to secure large volumes being ordered of the same items in order to press supplier prices, and not in order to prevent opportunistic behavior.

Regarding opportunistic behavior, that is more a reason to the strict rules concerning the list of accepted suppliers of Company Blue. Blue One explains that due to increased focus on sustainability, the opportunities from dealing with local suppliers do not outweigh the additional workload and risk for negative consequences (e.g. if it got revealed that a local
supplier engaged in unethical practices). Hence, Company Blue has set up strict rules regarding the list of official suppliers.

Furthermore, both the store concept (e.g. interiors) and marketing are decided centrally. However, the reason to this is to decrease costs through economies of scale and not to prevent opportunistic behavior. Blue One underpins that opportunistic behavior is not a problem as his interests aligns with those of Company Blue. Blue One also shows a poster depicting personnel behavior and values and explains how important it is to have a red thread regarding his and Company Blues personnel in terms of values and behavior.

Moving on to outcome control, it is up to the franchisees to develop budgets and forecasts for their stores to secure that the franchise as a whole grows. Blue One explains: “if a store budgets a growth of 2% while the average store budgets 5% growth, central operations might contact the franchisee to see why this difference is apparent” (personal communication, 2015).

4.2 Case 2 – Blue Two

Case 2 is focused on a franchisee active in Company Blue. The interviewee of Case 2 will for the remainder of this thesis be referred to as Blue Two.

4.2.1 General Background

Blue Two was born in 1969 and is today 46 years old. He is a high school graduate who immediately went on to work within retailing, and the industry that stands out is the sports retailing industry.

At age of 27, in 1996, Blue Two became store manager of a Company Red store. After three years as store manager, in 1999, the franchisee approached Blue Two with an offer to become partner in the store, which at that time was a common way to retain talent and competence in a store like theirs. Blue Two accepted and started his franchising career. However, in 2001 the store changed from a Company Red store into a Company Blue store.

4.2.2 Franchising Background

Blue Two is today part of a four-way partnership. When Blue Two entered the partnership they owned two stores in the same geographical area. Through time the group expanded in two ways, both by acquiring more stores, but also by engaging as franchisees in the fashion industry (from now on referred to as fashion-stores). At most the group owned six Company Blue-stores and six fashion-stores.

Today the ownership of the partner group is smaller, they have terminated all their fashion-stores as well as sold some of their Company Blue-store. Today they have four stores, all four within a geographical area of 50 km.
4.2.3 Thought Process before becoming a Franchisee

To Blue Two, it was not an entrepreneurial process to become a franchisee, nor did he ever hesitate due to two main factors: first, the financial risk to him personally was not large enough to be a barrier of entry. The second was that he could see a future for himself personally in the industry due to a good match between him and the people within the industry, and the environment. In addition, while becoming a partner was not something he saw as an entrepreneurial action, it was a way to secure future employment which was a great contributor to him accepting to become partner without hesitation.

Financially the chance for future dividends was also an incentive to engage in franchise partnership.

4.2.4 Central Demands vs. Own Decision making

When discussing central demands and local decision making, Blue Two states how the sports retailing industry in general has moved, and still moves from large degrees of freedom to more centralized. “The fact that Company Blue is moving towards a more centrally integrated structure all origins from striving for buyers power towards suppliers” (Blue Two, personal communication, 2015).

Blue Two proceeds by explaining how the owner group he is a partner in has chosen to embrace all changes towards centralization. The main reason to this is according to Blue Two that local entrepreneurs are not forced to re-invent the wheel and can instead focus on local adaption and establishing unique selling points for their stores.

Looking back at his time as a franchisee for the Fashion-store, Blue Two explains how that was a completely integrated franchise-form. Everything from marketing, to interiors, to ordering and assortment-related questions were handled centrally and the franchisee’s only functions were to run operations focusing on having the store open and staff present. Blue Two states how this concept worked great when sales were peaking, but during periods of
low sales, the concept was lacking. The reason, Blue Two maintain was that in bad times, them as franchisees lacked room for local adjustments

As of today, Blue Two is focusing on sales and daily operations. According to him, the business works best if he lets central operations run the other part of the business (e.g. rental agreement negotiations, store concept, interiors, main part of the assortment), so Blue Two can focus on those parts that he is the expert on – the local market.

Regarding the future, Blue Two could see a situation where even more parts are handled centrally such as staff-scheduling and recruitment for key positions, this in order to free up even more time to management and business development for him as a franchisee.

Another aspect where Blue Two identifies room for improvement when comparing the Fashion-store and Company Blue is logistics and more precisely re-stocking of products. Blue Two would happily see a future with better developed logistics systems and central operations handling the logistics aspect of his operations, leaving him focusing on sales and business development.

Regarding local decision making, Blue Two stresses that he sees the benefits with some local decision making. “It is through local adaption that we can adjust operations to being more locally responsive than the completely integrated firms. This is, as I said before, done through enabling great entrepreneurs and store managers to focus on their local markets while central operations focus on basic assortment such as ARS and other non-key activities.” (personal communication, 2015)

In addition, Blue Two explains that the reason his owner group terminated some of their stores was since their group did not have the ability to run operations locally since none of the owners lived there. “The operations got too remote-controlled and we could not really compete locally. It became apparent to us that we needed to sell those stores.” (personal communication, 2015)

4.2.5 Outcome Control vs. Behavior Control

“To me, the best control is the control that you do not notice”, “…central operations should be there to clear the way and level any bumps in the road [e.g. supplier negotiation, trend analysis, and marketing] so that the entrepreneur can focus on sales and business development” (Blue Two, personal communication, 2015). Having those things taken care of centrally in a detailed and precise manner is something he appreciates greatly.

When put to choose between being entirely controlled by outcome, or entirely controlled by behavior, Blue Two choses outcome control. The reason is explained to be that, at the end of the day, it is the local entrepreneur who knows how to handle the designated market. Therefore Blue Two see it as more suitable to have a goal to work against and achieve it through his own methods, instead of having a set of methods to work with and achieve a goal set by himself. Blue Two does however put emphasize on how he sees a need for some frame of reference in behavior, however with room for local adjustments.
4.3 Case 3 – X-Blue

Case 3 is focused on a former franchisee of company blue. The interviewee of Case 3 will for the remainder of this thesis be referred to as X-Blue.

4.3.1 General Background

X-Blue was born in 1948 and is today 67 years old. In high school, X-Blue holds a university degree from a one year-master program. After university X-Blue worked with economical and coordination matters, where he was responsible for 550 transportation companies.

X-Blue went on to working as the CFO for a car sales-company but ended up staying at this position for less than a year since he realized he was more interested in selling the cars than administrating the financial issues. With this insight at hand, X-Blue went on to search for employment within sales. He landed a job selling wood cabins and after three years, he had moved up the company to a position as head of sales.

His final position before becoming a franchisee was as divisional manager for a fishing equipment supplier. There, X-Blue established a great network in the Swedish sports retailing industry and in 1987, X-Blue got offered to buy the rights to his first Company Blue store.

4.3.2 Franchising Background

Taking over store 1 in 1988, X-Blue had an eventful first five years. He had to change stores three times, each time with costs totaling around SEK 1 million. However, X-Blue managed to increase the annual turn-over from SEK 8.7 million to SEK 22.7 million during these years.

In 1990, X-Blue opened Store 2. Four years later, in 1994 he got asked by the municipality of a sports profiled town to satisfy the need for another sports store in their area. X-Blue took on this opportunity and opened Store 3, which he kept for eight years before he sold the store in 2002 due to his career taking new directions (which will be addressed shortly) with an annual turn-over of SEK 10 million.

In 1997 the central operations of Company Blue offered him to open another store which he also accepted, Store 4. Store 4 was kept until 2004 when X-Blue decided to exit the sports retail industry and continue his career as a real estate agent.

However, X-Blue’s franchising operations does not end with his terminated practices in Company Blue. Entering the real estate market, he turned to a corporation with similar set up as Company Blue, continuing as a franchisee within his new market.
4.3.3 Thought process before becoming a Franchisee

To X-Blue, being offered to become a franchisee in the sports industry was a dream as he had always been a sports freak. On the question if he ever hesitated to become a franchisee he initially says how there was never any doubt in mind.

When elaborating further however, X-Blue accounts for how Company Blue’s special design of a franchise was an important factor in him accepting the offer of becoming a franchisee:

“Some franchises are too much of a top-down corporation. You get 24 pages of what the franchisor demands from you but only one page on what benefits you would receive. Company Blue had a great structure where you had a lot to say regarding the development of the whole chain. That way you are involved in how your store will be run, not only locally but also centrally” (X-Blue, personal communication, 2015).

Regarding the financial risk, X-Blue states how he was never really troubled by that factor. X-blue does admit how it was easier back then in terms of funding from the bank etc. However, X-Blue emphasizes the “You need to dare to win”-mentality, and relates it to how he changed locations three times in five years, costing him SEK 1 million only in interiors each time.

4.3.4 Central Demands vs. Own Decision making

Back in the days when X-Blue was a franchisee for Company Blue, the operations were much less centralized and the responsibilities of the franchisees were hence much more diverse. Back then, the debate within the company was mainly about store-sign communications. Some owners were convinced that their own brands were stronger locally than the Company Blue-brand, while others were of the opinion that there was value in building a strong brand in Company Blue. In terms of assortment and products offered, it was much more independently organized by the franchisees than it is today. X-Blue discusses how Company Blue emerged from the desire to reach economies of scale and buyers power. They were a group of retailers working together towards suppliers, other
than that, you were your own entrepreneur looking to your own needs on your own market.

X-Blue then proceeds to elaborate on how decision making concerning parts of the operations (e.g. assortments) more and more became centralized as the industry landscape changed, the main factor being the entry of computer systems as a working tool. X-Blue states how a lot has happened after his exit. X-Blue gives the example about how ARS gave the franchisees less freedom to decide on their own assortment. X-Blue states how it became difficult for a franchisee to maximize activities when their freedom to adapt locally was becoming more and more limited. X-Blue has a rather questionable attitude towards ARS, and sees the hardships for a local entrepreneur to make profits when 50% of the assortment is decided centrally and does not fit the local store profile.

“It is not as simple as having someone centrally deciding what will work in every store. How is one to make profits in an area that fancy articles that are black and white, if someone centrally decides they are going to sell 100 cerise training tops?” (X-Blue, personal communication, 2015).

4.3.5 Outcome Control vs. Behavior Control

When speaking about outcome control and behavior control, X-Blue emphasizes that the ability to control franchisees were much more limited earlier. Before the computers became vital in all operations, no one centrally could really control how operations were carried through in the franchised stores of Company Blue. One remarkable difference was how the list of official suppliers became smaller as the list was transferred into computer systems. X-Blue agrees that computers in general increased the available information and hence also central control, but this did not change his behavior since he shared common goals with Company Blue, to grow and increase business.

X-Blue continues by again stating how ARS limited freedom and worked against what had been the largest strength of Company Blue, namely reaching economies of scale while being highly locally adaptive. He does however discuss how margins have gone up remarkably since the middle of the 1990’s and assigns the honor for that to competent assortment executives. X-Blue also discusses how there were central directions on store interiors but that there were no rules regarding sales processes.

Regarding outcome control, X-Blue elaborates on how you would be contacted if you did not deliver certain ratios, but stresses how that was solely out of good intentions and not to control if the franchisee in question was behaving opportunistic.

Concluding the section on behavior- and outcome control, X-Blue answers the question on how he wants to be controlled by central operations as a franchisee in an optimal setting. He answer as follows:

“The optimal setting is to be on your own, to stand on one’s own. However, that becomes impossible due to the crucial need for the large chains positive aspects. So with that
knowledge at hand, the best situation is when you have merely a small number of restrictions and apart from that is in charge of your own operations” (X-Blue, personal communication, 2015).

X-Blue continues by stating how his current setting is close to the optimal solution. His only restriction is that he should have at least 15% market shares in his local market.

4.4 Case 4 – Red One

Case 4 is focused on a current franchisee of Company Red. The interviewee of Case 4 will for the remainder of this thesis be referred to as Red One, but is under no circumstances to be mixed up with any internationally known music producer.

4.4.1 General Background

Red One was born in 1982 and is today 33 years old. Red One was brought up in a self-employed family with his father and grandfather running a local MC and bicycle store. Red One was determined not to take the same path in life as his father and grandfather, hence educated himself as preparations to becoming a pilot.

Red One’s education ended with Red One coming to realize business was his call after all, which resulted in Red One dropping out and, after a season of work in a skiing resort, starting to study business administration, from where Red One later also dropped out. The reason for the second drop out was due to a job offer in Stockholm as district manager within sales for a Danish company in Stockholm. From that position, Red One continued within sales and took on the position as key account manager for a recruitment company in Stockholm. During the time in Stockholm, Red One’s eyes opened to the sports retailing industry as an industry where profits could be made:

“I knew from experience how well my father’s company had gone, however it was all too seasonally sensitive. Therefore I went to my brother, and together we started looking at possible entries into the sports retailing industry” (Red One, personal communication, 2015).

4.4.2 Franchising background

And that is when Red One’s time as a franchisee started. Red One and his brother made an in-depth market analysis focusing on two things initially, namely who (i.e. what sports retail chain) would be able to satisfy their demands, and how they solved the problem of seasonal cycles known from their fathers business venture.

“We knew one thing, we needed to be part of a strong brand since we saw it as vital to have a name that meant something to consumers. In the end, it was only Company Red that could satisfy our needs” (Red One, personal communication, 2015).

The market- and customer analysis resulted in Red One and his brother opening their first Company Red store (Store 1) in 2011, mainly focusing on biking and skiing. Store 1 had a first annual turn-over of SEK 11 million, and since 2011 turn-over has stayed somewhat the same. The reason according to Red One is increased competition in an area with low demand in relation to existing supply.
Nevertheless, in 2014 the two brothers got the offer of buying another Company Red store. The brothers saw an opportunity in taking their biking and skiing-profiled concept to another town, accepted the offer and is at the time of the interview up and running since one month.

4.4.3 Thought Process before becoming a Franchisee

The process was, as discussed earlier, long for Red One and his brother. It was crucial to the two brothers that they had analyzed the risks and opportunities and knew what they were starting. The freedom of running their own operations was a large part of the consideration, they did not want a concept where central operations decided what they was going to do and how things were to be done.

The financial aspect was far from the largest barrier. Together with Red One’s brother and father, the trio invested SEK 1 million.

4.4.4 Central Demands vs. Own Decision making

Speaking about central demands and own decision making, Red One highlights the importance of local adaption. Red One states how, as an entrepreneur, he wants the freedom to engage in any market, with any supplier, that he sees possibilities with. As an example Red One explains how, if customers approach him with needs of buying kayaks, he wants the freedom of bringing kayaks into his assortment rapidly.

Red One continues by stating how central operations have demands on store interiors as well as some assortment restrictions. However, store interior regulations work more as guidelines, not requirements. Red One mentions that when Company Red updated their logo and graphic profile, all stores were to update accordingly, but in their own pace since they had to pay for the new interiors themselves. The issues regarding assortment is part of creating a universal DNA for all stores with the concept of A-D assortment. A-assortment are the products a store must have, while the B-assortment is recommended to have. C- and D-assortment are products that the stores can specialize in to create the desired store profile. However, there are possibilities to cut free from supplying even the A-assortment if it is unbeneifical to the store and its profile.

Talking about ARS, Red One see great potential in it. “There are large parts of my assortment, the parts that are not my primary focus in profiling my store, where ARS is great. It enables me to focus on my areas of expertise and as long as that is the case I am
happy to engage in ARS to a large extent. It is when central operations are restricting me in my key areas I turn against their participation” (Red One, personal communication, 2015).

When elaborating on how much Red One would like central operation to assist and handle parts of his activities, Red One comes to the conclusion that a mix of 50/50 would be best. Then Red One would have enough freedom to profile his store and exploit opportunities as he please, but also to be assisted in areas where Red One is not an expert.

4.4.5 Outcome vs. Behavior Control

When asked what Red One thinks about outcome and behavior control, the immediate response is “I do not enjoy being controlled in any way, however I appreciate help from central operations to enable me to develop my business” (Red One, personal communication, 2015). When elaborating further, Red One explains how help in educating staff would be of great value. However when it comes to what Red One orders for his store, and the volumes of those orders, Red One does not want to be controlled in any way.

When having to choose between working towards specific key ratios/numbers, and working through specific key processes, the answer is without hesitation to work towards specific key ratios or numbers and do it through whatever processes works best for Red One’s local market.

4.5 Case 5 – X-Red

Case 5 is focused on a former franchisee of Company Red. The interviewee of Case 5 will for the remainder of this thesis be referred to as X-Red.

4.5.1 General Background

X-Red was born in 1967 and is today 47 years old. He does not hold a university degree but is a certified carpenter. However, X-Red has taken separate courses in business administration during later years. He accounts for how his education mainly comes from a learning by doing approach.

His career before becoming a franchisee started as a skiing instructor from where he went on to run a construction company. When his father passed away, X-Red started to work for Company Red as an employee as a temporary solution and got to attend a one year leadership program with the company. Since he started to feel there was no personal progress to be made within Company Red he went on to a new venture within sports retailing where he became part of the management team.

After two years, Company Red approached X-Red and offered him to become a franchisee in his hometown. X-Red did not feel ready for the task but accepted a position as a store manager. It only took a year however, until the franchisee left due to underperformance. X-Red elaborates further:

“The turn-over was only SEK 15 million, while the forecast said SEK 25 million. So the franchisee left and I went to central offices and said that, since I have been running the store for a year I might as well run the business as well. So I left the meeting with the keys
to two stores and a promise I would be assigned a great amount of resources from central operations. It took two years before I saw anyone from central operations in any of my stores” (X-Red, personal communication, 2015).

4.5.2 Franchise Background

The start of his franchising career was technically not as a franchisee but a store manager. X-red and Company Red made a deal in 2002 that if X-Red reached a desired turn-over, he would be eligible to buy the stores (e.g. inventory, rental contracts etc.) to a favorable price that does not wish to be published. This deal was carried through in 2008, and at the time X-red had opened one more store, totaling three stores (i.e. Store 1, Store 2, and Store 3).

“I had an opinion that the stores needed strong individual profiles, since sports retailing stores in general were too afraid to exclude product groups, which resulted in a broad assortment with no unique selling points. In addition, I recognized how the company’s already existing process of working with athletics clubs could be applied to companies in terms of working wear. That was the two main ways I managed to make the business meet its financial forecasts” (X-Red, personal communication, 2015).

4.5.3 Thought process before becoming a Franchisee

When discussing the thought process to become a franchisee, X-Red accounts for how he first turned down the opportunity due to the lack of belief in himself being ready to run such a large business. When he finally accepted, he did it with the promise from central operations to assist him with knowledge and resources to guide him through the initial phases of his franchising career.

“…that was by far my largest concern, to not be ready. Financially I had already made a rather risk-free deal so their promise of constant assistance, which later turned out to be false, made me take on the challenge of becoming a franchisee” (X-Red, personal communication, 2015).

4.5.4 Central Demands vs. Own Decision making

Speaking about central- or local decision-making, X-Red claims the franchisee freedom regarding assortment decisions is both the largest strength as well as weakness of Company
Red. X-Red further explains how the lack of central assistance created an asymmetry between stores, a problem he addressed frequently during his time as the owner to one of the largest stores within Company Red. “I preached intensively for a categorization of stores into large, medium-, and small concept-stores. This way it would have been clearer to customers what to expect when entering a Company Red-store. Again, I think the fear of excluding product groups gets in the way of creating a strong profile for the stores” (X-Red, personal communication, 2015). He further elaborates on the positive aspects of belonging to a larger chain, most apparent marketing- and assortment alignment.

On the other hand, X-Red elaborates on that if central operations were stricter and decided on components that must be in a store as a base, then the franchisee could focus on finding products groups that creates the store-profile. X-Red explains how this is to some degree already the case in theory since Company Red has categorized their assortment in A-D product groups. However, X-Red explains that in practice, the A- to D-assortment approach does not really work due to central operations not being strict enough in controlling the stores on A- and B-assortment.

Concluding his argument X-red comes to the conclusion that a 70% central decision allocation with a 30% local adaption possibility would be optimal. The 30% gives, apart from being able to profile your store, the ability to work with local suppliers more easily than if central operations had more than 70% decision rights.

4.5.5 Outcome Control vs. Behavior Control

Addressing the issue of outcome or behavior control, X-Red states through his arguments a need for more extensive behavior control within Company Red. The main reason is not necessarily to counter opportunistic behavior, but instead to strengthen the common brand and allow franchisees to further strengthen the store profiles as well as basic help during the setup process with rental agreements, which X-Red was not given. As of today, there is a lack of any sort of control which forces the franchisee to allocate his work to too many positions, instead of focusing on managing and developing the business. According to X-Red outcome control and behavior control is closely linked to the issue of central or local decision making discussed in the previous section.
5 Analysis

In this section, we conduct an in-depth analysis of our findings. First however, we present and describe a model developed for, and used to, categorize and structure our analysis.

To assist us in our analysis, we have developed a model (model 1) that will be applied to the findings of our interviews. Our aim is to identify similarities and differences in our empirical results in order to find indicators to how franchisees in the Swedish franchise-industry in general, and the sports retailing-industry in particular, work in terms of under what franchisor-franchisee setting they are most satisfied.

As seen below (model 1), we will focus on which control method (i.e. behavior control or outcome control) Swedish franchisees prefer. We will also focus on the propensity to assign local operations decision rights and responsibilities by Swedish franchisees, a continuum where totally centralized decision-making is one extreme, and totally decentralized decision-making is the other. Finally, we will elaborate on what underlying factors might cause the differences and similarities in our findings.

![Model 1](model1.png)

Model 1. A tool for analysis, developed by the authors

5.1 Favorable Control Methods

Judging from the findings, Company Blue has evidently exercised more behavior control than Company Red, that is exercising more outcome control. We mainly find evidence for this in four areas; interior integration, guidelines for contracts and rental agreements, guidelines for staff characteristics and behavior as well as freedom of choosing independent/local suppliers, as showed below in table 2.
Local Suppliers
X-Blue as well as Blue One mention that they no longer find or use local independent suppliers of goods because of the comprehensive framework in regards to business ethics and sustainability.

Interior Integration
Red One explains how Company Red wants all their franchisees to update their interior and signs but how and when is up to the franchisee as long as the end product looks accordingly to the general standards. When Red One opened his second store, he was given reduced prices and recommendations but no strict rules to what it had to look like.

Both Blue One and Blue Two agrees on how straightforward and effortless their integrated interior is, and does not elaborate on any lack of personal touch or freedom of choice.

Rental Agreements
From the interview with X-Red we learned that during the setup process he was not given any negotiation help or guidelines for rental agreements and such.

Blue Two appreciates that detailed agreements such as rent is done or supervised centrally so that he can focus his attention elsewhere.

Guidelines for Staff
On the question of where Red One could see himself benefiting from more behavioral control he mentions that some sort of guidelines for staff behavior and sales education would be helpful.

Blue One proudly shows us core values for all his personnel and explains the importance of having shared values throughout Company Blue.

<table>
<thead>
<tr>
<th>Table 3. Favorable Control Method</th>
</tr>
</thead>
</table>

Relating this to Mellewigt et al. (2011) their results indicate that franchisees are not less satisfied when the franchisor engages in more behavior control activities. This also seems to be the case in our findings. The Company Blue-franchisees had strong confidence in the strict supplier demands from central operations, which is shown through the following quote:

“...the opportunities from dealing with local suppliers do not outweigh the additional workload and risk for negative consequences (e.g. if it got revealed that a local supplier engaged in unethical practices)” (Blue One, personal communication, 2015).

In addition, X-red with his franchisee-venture terminated looks back at his experience, elaborating on how increased behavior control would be a more optimal setting for a franchisee. This is shown through his arguments of how “…if central operations were more strict and decided on components that must be in a store as a base, then the franchisee could focus on finding products groups that strengthens the store-profile.” (personal communication, 2015)

Looking to Company Red-franchisees, they do emphasize their desire to not be controlled at all. The reason, they state, is to be able to practice their entrepreneurial ambitions fully.
However, both X-Red and Red One discuss how they would appreciate more help in terms of educational support.

X-Red was very hesitant to the whole franchisee concept when he was asked due to his inexperience in the field, Blue Two on the contrary emphasizes that it was simply due to the amount of help he received in the initial stages that made him certain of becoming a franchisee. Red-One agrees on the lack of educational help being a problem, both concerning sales-processes and staff-tutoring.

Fama and Jensen (1983) discuss agency self-interest when the principal possesses information to verify the behavior of the agent. X-Blue is the only one able to comment on an information alteration, due to the digital transition he experienced. As he sees himself and Company Blue on the same side, increased ability to control things centrally does not lead to him acting less opportunistic. Eisenhardt (1989a) proposes that increased ability to control should lead to less opportunistic behavior but X-Blue’s statement indicates that when the franchisee has no interest to act opportunistic in the first place, more or less information available does not change the behavior. This is further reinforced by the results presented by Ekelund (2014) showing how aligning franchisor and franchisee interests decreases the overall need to monitor activities of any kind. This implies the fundamental agency theory problem regarding misalignment of interests and monitoring costs (Eisenhardt 1989a) does not apply to this relationship (i.e. X-Blue – franchisor), nor to the relationship between Blue One and Company Blue. Agency theory could then be questioned to be the only applicable theory for all franchisor-franchisee relationships, Ekelund (2014) suggests the interaction approach to be better suiting as it focuses more on mutual trust. This is unfortunately beyond the scope of this thesis but will be elaborated in the discussion part (6.1.2 and 6.1.3).

Analyzing our findings further, we find the Company Blue franchisees to all have more experience within the franchisee-business, something Mellewigt et al. (2011) argue to be interplaying with outcome control. With experience comes autonomy, which yields entrepreneurial encouragement and satisfaction, simultaneously are Mellewigt et al. (2011) able to prove that behavior control does not decrease satisfaction when the franchisee is highly experienced. While Company Blue evidently exercises some degree of behavior control, all their franchisees still stress the positive aspects of outcome control. When given the choice of outcome or behavior control all five interviewees, after elaborating on strengths and weaknesses of both, choose outcome control. Arguments used were entrepreneurial freedom, local adaptability, and that personnel cannot be used as robots with manuscripts.

It seems like when behavior control is lacking or insufficient, outcome control is highlighted as the preferred overall choice as the interviews with Company Red shows. However, they also show that Company Red understands that behavior control can be helpful and not only restrictive, something Company Blue has already understood. Looking to theory, and more specifically agency theory, Eisenhardt (1989a) accounts for how the length of an agency relationship (in our case the franchisor-franchisee relationship) is positively related to behavior-based contracts. This being true would entail franchisees
becoming more and more satisfied with behavior control as the relationship with the franchisor matures. This would hence be an explaining factor to how the more experienced the franchisee becomes, the more satisfaction he or she might find in behavior control-based contracts.

### 5.2 Decision Propensity

Discussing responsibility for decisions and decision rights is where the results from our interviews differ the most. However, one issue where opinions of the interviewees align is on how important being part of a large chain is for a modern day business. Table 3 (a) shows quotes from our interviewees on the importance on being part of a strong and well-known brand.

| Blue One | “…the expression of power in numbers really suits the retailing industry. It is the starting point to all structure in a franchise, including the issue regarding allocation of decision rights between central- and local operations.” |
| Blue Two | “The fact that Company Blue is moving towards a more centrally integrated structure all origins from striving for buyers’ power towards suppliers.” |
| X-Blue: | “The optimal setting is to be on your own, to stand on one’s own. However, that becomes impossible due to the crucial need for the large chains positive aspects.” |
| Red One | “We knew one thing, we needed to be part of a strong brand since we saw it as vital to have a name that meant something to consumers.” |
| X-Red | “Belonging to a larger chain, you will immediately experience positive effects; such as marketing- and assortment alignment.” |

| Table 4. Decision Propensity (a) |

Linking to theory, we start by looking to franchising research where the findings presented in table 3 (a) reinforces the arguments of Kaufmann and Eoglu (1998) on how one of the largest strengths of a franchise systems success is the ability to capitalize on economies of scale as well as the ability of local responsiveness. This strength can be explained through the concept of centralization and decentralization. One of the main issues in centralization and decentralization is the trade-off between economies of scale, as well as rapid implementations across all units of the company, and the local responsiveness of the decentralized firm (Alonso, Dessein, & Matouschek, 2008). In our empirical findings, there is no doubt that interviewees have realized the strengths of centralization. However, regarding to what degree the strengths of centralization is acquired at the expense of the strengths of decentralization is the source to the immense differences in our results.

Looking at our results, there are large differences between current franchisees of Company Blue (i.e. Blue One and Blue Two) and the rest (i.e. Red One, X-Red, and X-Blue). This is
shown in table 4 (b) where the interviewees answer to what their optimal propensity of central decision rights is.

<table>
<thead>
<tr>
<th>Blue One</th>
<th>“Today, we are working with approximately 80%-20% central decision propensity in Company Blue. I would happily see an increase in that number, having central operations responsible for approximately 85% of the decision making.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue Two</td>
<td>“I would happily see central operations having responsibility for even more of our operations than today (i.e. 80%-20%). I could see them handling for example the recruitment of key positions and other aspects of my operations so I could focus more on sales and business development.”</td>
</tr>
<tr>
<td>X-Blue</td>
<td>“My optimal setting is when as much as possible can be decided locally, and I can exploit the buyers’ power through being in the chain.”</td>
</tr>
<tr>
<td>Red One</td>
<td>“I would say 50-50 would be a perfect setting for me. Then I would have enough freedom to profile my store the way I want, yet I could be assisted in areas where I am not an expert or could use help in some way.”</td>
</tr>
<tr>
<td>X-Red</td>
<td>I see a need for increased central decision allocation in Company Red. I think that 70%-30% would be optimal since more than 70% might make the opportunity to profile your store, react to local demands, and to work with local supplier to small. Less than 70% is evidentially not enough to keep the stores on the right track nationwide.</td>
</tr>
</tbody>
</table>

Table 5. Decision Propensity (b)

Aiming to relate, apply, and explain this through theory, we turn to the property rights theory. The results of Windsperger (2004), suggest that “…the franchisor’s intangible system-specific know-how and brand name assets have a stronger influence on the allocation of residual decision rights in the franchising network than the franchisee’s intangible local market assets.” The large diversity in our results might therefor derive from, and be explained by, the interviewees’ different opinions about their own strengths (e.g. knowledge about local preferences and demands) in comparison to the franchisor’s strengths in terms of, for example, brand name and system specific know-how.

One possible main reason to these difference lies in the fact that Blue One and Blue Two put far more trust and confidence in the knowledge and expertise of their central operations than the other franchisees. This leads them to have a higher propensity of central decision rights under their optimal franchisee-situation, as seen in table 4 (b). The differences in opinions here become most apparent when looking at the interviewees’ attitudes towards central operations role in decisions on individual stores’ local product offering (i.e. regarding ARS, which has been explained in the definition part). In table 5 (c) we compare the interviewee’s statements in terms of central operations role in decision-making regarding their product offering.

| Blue One       | “Although somewhat heterogeneous, Sweden is to a very large extent a
homogenous market. Therefore I see value in central operations carrying through large part of my activities, leaving me to focus on what I see as my area of expertise: sales, as well as running and developing my business.”

“I think that if you extended your research and asked all franchisees of Company Blue, almost all of them will have realized the advantages of being able to focus on business development than to focus on whether an item should be red or blue.”

“If an entrepreneur feels he or she can do a better job when being in charge of everything, maybe being part of a franchise is not appropriate for that entrepreneur”

“It is through central operations planning and execution of ordering of products that we achieve the low supplier prices, if it was down to franchisees, the margins would become lower. I do not think any of our franchisees would really want that in the end.”

**Blue Two**

“Me and my partners have chosen to embrace the move towards a larger level of central decision propensity. Sure, you can see it as giving up your entrepreneurial freedom, but on the other hand, I also free up massive amount of time for me to run what profits in the long run: developed sales processes and developing the business.”

“Having the experience from an even more centralized franchise I can see how we are still lagging behind the fashion store in terms of logistics but ahead regarding local sales, so if central operations can focus on developing my logistics, I can work on how to develop an already great sales part of operations.”

**X-Blue**

“It is not as simple as having someone centrally deciding what will work in every store. How is one to make profits in an area that fancy articles that are black and white, if someone centrally decides they are going to sell 100 cerise training tops?”

“How is one to make profits when 50% of the assortment is decided centrally and does not fit the local store profile?”

**Red One**

“I would not think it was okay if central operations forced me to sell certain volumes of certain products. However, I do see the need for central operations to handle parts of my operations in order to free up time for me to focus on key activities.”

“I mean, I have no problem with them [i.e. central operations] saying ‘you have to have these shoes in store’, as long as I can answer, ‘okay, I’ll take one pair because they are ugly.’”

**X-Red**

“The assortment freedom is Company Red’s biggest strength at the same time at it is its most crucial weakness. As it is now, Red franchisees are too
afraid to exclude product groups because when customers come to ask if they have a certain product, they want to be able to say yes. This leads to all stores having and missing the same items, working towards the same customer segments.”

“I would have wanted more strict rules from central operations regarding what product groups that should be everywhere, and then local stores could focus on filling a gap in the local market when creating a store profile.”

| Table 6. Decision Propensity (c) |

Looking to these statements, one can see that the franchisees that do not have a high propensity to central involvement in decision-making (i.e. Red One, X-Red, and X-Blue) stress their entrepreneurial desires and how they want the ability to engage in business opportunities to develop their business or make profits when they encounter such business opportunities. On the other hand, Blue One and Blue Two both speak about how giving central operations large degrees of decision rights and responsibilities, enables them as business leaders to develop their business by focusing on local issues such as staff, sales, and customer demands. An interesting aspect here is that both the ones favoring and not favoring high levels of central operations influence regarding decision-rights refer to business development as a main reason as to why they have the opinion they have.

With that in mind, we look to theory and try to make use of the different findings through applying the concept of entrepreneurship to the different opinions regarding central interference through ARS. As Audretsch (1995), argues for how entrepreneurs can be called agents of change. This is where the definition of entrepreneurship becomes apparent as vague and largely dependent on relativity as well as own attitudes and opinions to who is the real agent of change, or more specifically, what change is the most entrepreneurial. While Red One, X-Red, and X-Blue stress the ability to pursue opportunities encountered, Blue One and Blue Two emphasize that leaving responsibility to central operations, enables them to develop (i.e. change) their business for the better. Looking to Schumpeter and Swedberg (1996), the function of entrepreneurs is said to be reforming or revolutionize patterns of production. This is to be done through exploiting an untried technological possibility. Relating this to the differing opinions of Red One, X-Red, and X-Blue and Blue One/Blue Two, it again comes down to a level of personal opinions what way is actually exploiting an untried technological possibilities in the most changing manner.

Even though a clear justification cannot be made in above paragraph, between what view is entrepreneurial or not by applying theory, one observation can be made by reviewing table 4 (b), namely how, partially, Red One but particularly X-Red describes their optimal decision propensity as a situation similar to, or at least moving towards, the current situation of Company Blue. At the same time Blue One as well as Blue Two describes their optimal decision propensity as a move towards an even higher propensity of central decision rights. With this observation known, we ask ourselves: if franchisees with lower central decision propensity admittedly want a setting similar to that of Company Blue, and Company Blue-franchisees desire a move to even larger central decision-rights, should not a move to total integration be considered?
Looking to our results summarized in table 6 (d), the answer should be no. All franchisees, no matter if they favor a large degree of central decision-rights or not, highlights the importance and competitiveness of being locally adaptive. Reinforcing these results, we turn to Bartlett and Ghoshal (1988) and look to their argument of how a transnational company (i.e. a company focusing on a hybrid between central and local decision rights and responsibilities to reach both economies of scale and local responsiveness) would draw on lessons learned from international, global, and multinational models, and by doing so would be able to exploit the strengths of all models. Even though their argument refers to an international setting, we argue that the Swedish retailing-industry is to some degree heterogeneous. Therefore applying the concept of how a hybrid model between a totally integrated and a totally decentralized firm would represent an idealized type of an organization holds for our purpose.

### Table 7. Decision Propensity (d)

Knowing that a hybrid between totally centralized and totally decentralized decision propensity is favored by all franchisees, as well as applying the theory of property rights and the results of Windsperger (2004) to our findings, we can start addressing the main
question to this section of our analysis: What propensity of decision-rights does franchisees in the Swedish retailing-industry have?

Looking at the issue of the central decision-rights favored by Swedish franchisees we do this by combining theory with our findings. We again look to Windsperger (2004) results indicating that the assets of franchisors have a stronger influence on decision rights than the assets of franchisees, and that this usually leads to decision rights being heavily allocated to the franchisor. With this in mind we revisit how the findings in our research shows how franchisees with high levels of propensity to central decision-rights desire even higher levels, while franchisees working with lower levels of central decision-rights requests the levels of their aforementioned colleagues. With that insight we draw the conclusion that our findings indicate a large propensity of central decisions is favored by franchisees of the Swedish sports retailing-industry. However, our findings does not propose a specific level that best satisfies franchisees in the Swedish retailing industry or the Swedish sports-retailing industry.

This is of no surprise though, because looking to Mellewigt et al. (2011), they state how their findings indicate that there is a need to treat franchisees differently based on individual preferences and attitudes to various underlying factors regarding franchising contracts. Therefore, combined with the fact that our empirical work is limited to five interviews, this thesis cannot make any final conclusions regarding exact optimal levels of central decision-rights of franchisees within the Swedish retail-industry. However, our purpose of finding indications to the preferences regarding franchise contract formulations among franchisees in the Swedish retail-industry can still be accomplished.

Through our findings, we find indications to how franchisees in the Swedish sports retailing-industry favor a level of central decision-rights, if not heavily, at least increasingly allocated towards central operations. However, it becomes apparent that all franchisees observed in our empirical research stress the need for local responsiveness to some degree. With this indication we again look to our model, and more specifically see to what underlying factors might cause different franchisees to have different attitudes towards favorable control methods and decision propensities.

5.3 Possible Underlying Factors

In this part of the analysis, we more than ever stress and realize the limitation to our research in regards to how our empirical part cannot be seen as representative for neither the Swedish retailing-industry as a whole, nor to the Swedish sports-retailing industry. However, there are still observations to be made regarding possible underlying factors to why the interviewee’s have the attitudes they have towards control methods and decision propensity. By examining these observations, we use a similar approach as Hoffman and Preble (1993) and analyze what implications our findings might have as well as lead to. By doing so, we peg up for a part later in our thesis, namely suggestions for future research.
5.3.1 Level of Education

Starting with the general background of our interviewee, and more specifically their level of education, only one (i.e. X-Blue) holds a degree of higher education. Even though only working as indications, this suggests that the franchisees within the Swedish sports-retailing industry in general do not hold higher education. This would, in a situation where this indication is true, have support by Van der Sluis, Van Praag, and Vijverberg (2008) where they argue that higher levels of education may generate better outside options. That is argued to result in decreased likelihood of entrepreneurship as the preferred choice for people holding higher degrees. This argument (i.e. how people with higher education get more lucrative opportunities than engaging in entrepreneurship) would go hand in hand with an argument made by Williams (1999) where the author argues for how entrepreneurs will choose franchising in favor of establishing an independently owned business if the he/she expects better outcomes from franchising. Hence one can conclude a person would choose another option than franchising in the cases where that other option is more lucrative.

Applying this to our research, a possible underlying factor to differences in attitude to control methods and decision propensity might be that they come from a learning by doing-background. Having a higher level of education might have led to a more homogenous attitude towards centralization and decentralization, resulting in less variation in preferences regarding optimal franchising settings among our interviewees. Now, most of our interviewee’s acquired their knowledge through learning by doing, a method that might have caused their attitudes to be influenced by own experience rather than education, causing our results to have the variation it ended up having.

5.3.2 Number of Stores

All the interviewees have or have had multiple stores. Making internal comparisons between the interviewees, two interviewees stand out as having experience from running more stores than the others, namely Blue One (12 stores simultaneously) and Blue Two (12 stores simultaneously), with X-Blue being third (three stores simultaneously). Looking at opinions regarding propensity to central decision-rights, it is again Blue One and Blue Two that stands out as supporters of high levels of central decision-rights. Knowing from earlier in our analysis that both Blue One and Blue Two motivate their confidence in central operations through how it enables them as franchisees to allocate more time to further develop and run their businesses. This indication and possible suggestion from our findings can find support from Patanakul and Milosevic (2008). While the research of Patanakul and Milosevic (2008) is on project managers and not franchisees, they still argue for how multiple-project managers need to be effective in terms of time-management since they have to allocate their time to more units than single-project managers. This would support that the more stores one had to manage, the more responsibility one might want to assign central operations. Relating this back to our findings, this could possibly be an underlying factor to Blue One and Blue Two being more prone to assigning responsibility to central operations than the other interviewees of this research.
5.3.3 Perceived Value from relationship with Franchisor

Looking to franchisor-franchisee relationships, Grace and Weaven (2011) presents a model (model 2) explaining how franchisee satisfaction derives from a multi-dimensional way. In the model developed by Grace and Weaven (2011), the authors assess how social-, emotional-, quality-, and monetary value affects perceived investment risk and relationship satisfaction. While some of their hypotheses were rejected, the authors come to a conclusion that there is more than one dimension to increase franchisor-franchisee risk than merely the financial risk and how increased franchisor-franchisee relationship might decrease the perceived risk.

Model 2. A hypothesized model developed and used by Grace and Weaven (2011)

Relating the findings of Grace and Weaven (2011) to our findings, it is possible that with increased relationship between franchisor and franchisee comes increased confidence in the franchisor from the franchisee. If this observation was to be true, it would align with the fact that Red One, being the one with the shortest franchising career having the least faith in the franchisor, while Blue One and Blue Two having the longest franchising careers also have the largest faith in their franchisor.
6 Discussion

In this section, we discuss how this thesis contributes to existing research along with limitations and suggestions for further research.

6.1.1 Contributions

Firstly, this thesis contributes by filling a gap in existing literature in the research field of franchising. Having not been able to find other studies focusing mainly on the franchisee-perspective in the Swedish retailing industry, our study was needed as a next step to further extend the understanding of franchising in the Swedish retailing industry.

Our research will also be of value in the world outside of academia since it is strongly anchored in the business world. Our interviewee-group consisted of a multidimensional group of franchisees, together delivering indications on how both the Swedish sports retailing industry as well as the Swedish general retailing industry works in terms of franchisee control preference and the underlying factors to why franchisees in the Swedish retailing industry have the opinions and attitudes towards control methods and propensity of central decision-rights that they have.

Lastly, our thesis delivers indicators on what future research should focus on in order to extend the understanding of the Swedish retailing industry in terms of franchisee behavior and control preference. Being the first research considering this part of the field, we see our research as the initiating step to a more holistic view on the Swedish retailing industry and hence welcome any attempt to reinforce or discard our findings. The identified areas to which further research should be devoted, is presented and discussed later in this section.

6.1.2 Limitations

As already touched upon, the fact that our empirical sample consists of five representatives from the Swedish sports retailing industry makes it ineligible to be labeled as representing the franchisees of the industry as a whole without further reinforcement. Instead, it is to work as indications to how the franchisees in the Swedish retailing industry might work in terms of satisfaction regarding control methods and central decision rights allocations.

In addition, we made an assumption that the franchisees of the Swedish sports retailing industry will work as representatives for the whole retailing industry in Sweden. This might very well be the case, however it is nothing our research or any research conducted prior to our research can completely prove and is hence to be seen as a limitation of our study. Related to this limitation is the fact that we chose to limit our research to franchisees in Sweden, hence excluding all other domestic markets.

We used agency theory to approach the issues of franchisor-franchisee relationship. However, as Ekelund (2014) proves through approaching the same relationship from an interaction approach, there are more theoretical lenses to apply. The fact that we consider the relationship using agency theory, entrepreneurship theory and property right theory hence limits our research accordingly.
6.1.3 Further Research

6.1.3.1 Favorable Control Methods and Propensity for Central Decision-Rights

To motivate our recommendations for further research, we see to our analysis. Starting with favorable control methods we see a need to complement our results with quantitative findings similar to the findings of Mellewigt et al. (2011). This since, while our findings provide indications to franchisees attitudes and opinions regarding control methods and central decision-rights, they need reinforcement to work as more than just indications. To exemplify this, our results indicate a large propensity of central decision rights as favorable to franchisees in the Swedish retailing industry, yet from our results we are unable to present any specific numbers to specify this allocation (e.g. 80% central decision rights, 20% local decision rights). Hence, further research of a quantitative character is needed to complement our qualitative one.

6.1.3.2 Possible Underlying Factors

As identified in our results, most of the franchisees considered in this thesis do not hold a degree from higher education. In our analysis this is presented to possibly be explained by the arguments made by Van der Sluis et al. (2008) and Williams (1999) how higher levels of education might lead to alternatives more lucrative than franchising being pursued. Further research might hence focus on the level of education among franchisees in the Swedish retailing industry and focus on what implications this might have on franchisees’ satisfaction and attitudes towards control methods and central decision rights.

Furthermore we considered number of stores as a possible underlying factor to franchisee satisfaction regarding central decision rights. Our findings indicate how propensity to assign decision rights to central operations increased with number of stores owned, a finding that finds support in Patanakul and Milosevic (2008). With that pointed out, further quantitative research could focus on the correlation between number of stores owned by a franchisee and the propensity to assign decision-rights to central operations.
7 Conclusion

In this section, we conclude our thesis by presenting our final thoughts.

This thesis aimed to further extend existing franchising literature by addressing the phenomenon from a franchisee perspective as well as considering a country other than the U.S. the country considered was Sweden, and more specifically the Swedish retailing industry represented by the Swedish sports retailing industry. In more detail, we aimed to find indications on favorable control methods and decision propensity of franchisees in the Swedish retailing industry as well as suggestions to underlying factors causing the attitudes and opinions regarding aforementioned control methods and decision propensity. This was done through five interviews with current and previous franchisees of two large sports retailing chains in Sweden, where findings were compared to theory and analyzed by finding patterns in a cross-case analysis.

This thesis contributes to the academic field with an initial step in the academic quest to further understand the dynamics of Swedish franchising by considering franchisees in the Swedish retailing industry. Also, through the indications identified, it leads the way forward by pointing out what further research is needed to acquire a more holistic view on the Swedish franchising industry.

Looking to contributions to the business world, this thesis contributes by giving indications on franchisees in Sweden’s attitude towards control methods and central decision rights which is information of great value for both franchisors currently active in Sweden, but also franchisors considering franchising into Sweden.

Our findings on favorable control methods show how behavior control is rarely used as an actual control method but more of a detailed guideline in place to help the franchisee. This help aims to free up time, enabling the franchisee to focus on business development as well as making sure essential parts of the business are integrated, alas, the franchisees without sufficient behavior control methods lacks some business integration and are less able to focus on business development on a large scale.

Moving on, our findings propose that franchisees in Sweden favor a large allocation of decision rights to central operations. This is shown by the fact that the most inexperienced franchisee sees an equal split between central and local decision rights, but all else of the active franchisees and one of the previous franchisees favors a decision allocation where central operations have large levels of decision rights.

Our analysis demonstrates that in the choice between outcome control and behavior control, largely based on agency theory, franchisees favor outcome control yet realize the benefits of behavior control. Outcome control is superior when behavior control is administered seamlessly in a helpful but not restrictive manner. Franchisees with little behavior control are afraid it might hinder their entrepreneurial ambitions, traits that is mostly found in more inexperienced franchisees, while franchisees with some behavior
control understands its importance as a compliment to outcome control, more frequently found in franchisees with more experience.

Furthermore, franchisees in Sweden value, or moving towards valuing, a franchising situation with high levels of central decision rights and responsibilities, but not to an extent where the local responsiveness is totally excluded. However, it needs to be recognized and emphasized how there are differences in our results and how that, in combination with our small sample size, makes it impossible to assign our results as representative for the Swedish sports retailing industry as a whole.

Underlying factors to the differences in our findings are indicated to possibly be level of education, number of stores owned by the interviewee in question, or the perceived value from the relationship with the franchisor.

Further research is proposed to be building on our initiating step in the research on franchising in a Swedish context. One example on further research suggested is the level of education among franchisees in the Swedish retailing industry and the implications that might have on the franchisee satisfaction. Another example proposed is to investigate if there is a correlation between stores owned by franchisees in the Swedish retailing industry and their propensity to assign decision rights and responsibilities to central operations.
References


Appendices

Interview guidelines

- Tell us about your background and current position?
  - Previous working experience and education?
  - Number of stores and employees?
  - How long have you been at your current and previous positions?
  - Previous experience of the sports and retailing industry?
  - Have you worked for the same company all the time?

- Explain your thoughts in becoming a franchisee?
  - Did you hesitate?
  - What aspects made your decision more difficult?
  - What aspects made your decision easier?
  - Did you have to invest much of your own capital?

- From a central perspective, how much are you allowed to decide over your stores on your own?
- How are you controlled from the central? (Where is focus put?)
  - Key Point Indicators? Sales numbers? Etc.?
  - Behavior (e.g. in sales processes, store interior, communication, etc.)
  - How are your personal responsibilities allocated between abovementioned areas?

- If you have experience from similar positions, how has it been controlled, and how do you perceive the differences and similarities? What is positive, what is negative? What is missing?

- In an optimal situation, how do you want to be controlled?
  - In other words, could you describe an optimal franchise situation from your perspective?