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<p>Tiivistelmä-Referat-Abstract</p> <p>Franchising is not particularly well researched topic in organizational economics. However, its economic importance is significant. For example, the total revenue of franchising in the US is now approximately 50% of all retail trade. A typical franchising chain consists of units that are operated by the franchisees but there are also centrally managed units? Which ones are managed centrally and why? Some of the prior research on the matter is incomplete. The research question of this thesis is: "What factors tend to determine which units of a typical franchising chain are centrally managed?" The main issue of focus in this study is the free riding problems that arise in environments where the franchisee is not compelled to work in the best interests of the franchisor.</p> <p>The objectives of this study are threefold. The goal is to (1) write a thorough literature review on the theory of the firm in order to understand franchising as an organizational form, (2) develop a model describing the franchisor-franchisee relationship and (3) perform a case type empirical analysis on one typical franchising chain to test two hypotheses derived from the theoretical model.</p> <p>The target of the empirical research in this study is McDonald's, a well established franchising chain with a valuable brand. The data used in the research is collected from three main sources: Interviewing the franchising director of McDonald's Finland, searching public web pages and using an internet based service solution for maps (Eniro). Also, a particular qualitative index for metropolitan context was created. It was used to estimate the influence of the franchisees operating environment to the business. A logistic regression model was used to test the proposed hypotheses. The sample size comprises 84 restaurants.</p> <p>The underlying assumption in the empirical research is that an established franchisor has learned an efficient ownership allocation for its units. The key results from the theoretical model are interesting and together with the analyzed theory motivate two hypotheses. According to these hypotheses, this ownership allocation is as a function of operating environment and monitoring costs. The empirical results supported the proposed hypotheses: the likelihood for a given McDonald's restaurant to be owned and operated by the franchisor decreases the closer the unit is to the headquarter (monitoring costs) and the higher the metropolitan index is for that given location (environment). Even though the sample size was not large, the results are statistically significant. The study is concluded with three propositions, suggestions for future research and recommendations for franchising firms.</p>			
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