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EXPLORING THE IMPACT OF FRANCHISING ON INDUSTRY EVOLUTION:

FAST FOOD/QUICK SERVICE RESTAURANTS (QSR) AND REAL ESTATE INDUSTRIES IN IRELAND

THESIS SUBMITTED FOR THE DEGREE OF PH.D.

2015

ROSALIND BEERE

1.1 DECLARATION

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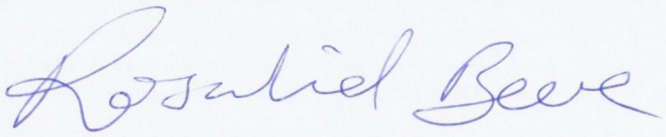

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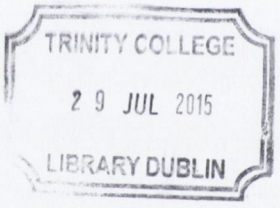

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1.2 SUMMARY

The principal aim of this study was to explore and describe the role of franchising in terms of its emergence and impact on industry structure. The justification for the research was based on a number of theoretical and empirical grounds. These included the general neglect of the area in the literature, the potential implications for future research and potential contribution recognised by practitioners, policy makers, and academics.

The empirical research was based on the contextual methodology developed at the Centre for Corporate Strategy and Change, Warwick University. The study employed a comparative longitudinal case study method, where the secondary and primary (interview) data were collected, coded, and analysed. Due to the time-consuming nature of this research method, the number of cases was limited to two: the Irish fast food/QSR (Quick Service Restaurants) industry and the Irish real estate industry.

The impact of franchising on the structural change of an industry has been defined by contextual drivers which have led to the adoption of franchising. The emergence of franchising is often initiated by changes in the macro-environmental such as; government impact, economic and social change and technology effects. Industry level context was also important in the adoption of franchising which was mostly driven by (a threat of) national/international competition, national-level developments, expanding industry boundaries, the emergence of new sectors as well as agency factors (entrepreneurs) and customer expectations. The impact of franchising therefore contributed to industry-level structural changes. Specifically, it expanded industry boundaries, encouraged the emergence of new sectors, increased competition, created new institutions and changed industry-level relationships. Franchising also increased the franchise system's own internal capabilities (and the capabilities of its franchisees), generated/transformed knowledge and information, increased industry capabilities and protected industry boundaries by erecting barriers to entry as well as preventing state regulation by achieving self-regulation.

By exploring the role of franchising in the evolution of industries this study fills a gap in the literature and makes a valuable contribution to the body of knowledge relating to industry evolution and franchising. The multi-modal design of this study utilises five competing theories (Transaction Cost Economic, Agency Theory, Resource Dependency Theory, Neo-Institutional Theory and Population Ecology) common to both fields. The economic theories explanatory power captured the initial adoption of franchising but often failed to account for the subsequent impact of franchising on industries over time. In contrast sociological theories were limited in dealing with the initial adoption of franchising but offered the legitimisation explanations for the impact of franchising once introduced in the later stages of industry evolution.

The innovative application of the evolutionary approach to the individual and comparative case analysis makes a theoretical and conceptual contribution. Two new case studies have been constructed to answer the research question, and are the first comprehensive account of the evolution of two Irish industries: the fast food/QSR industry and the real estate industry. These cases not only offer great historical data, but also stand as a source of information for policy-makers, industry analysts, franchisors, franchisees, and academics, making the unique contribution to practice. Finally, the longitudinal multi-level and multi-modal comparative case study approach used in this research required a well-built methodological base and well-constructed data collection and analysis method.

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1.3 ACKNOWLEDGEMENTS

This thesis would not have been possible without the invaluable support of my colleagues, friends, and family. I am sincerely grateful for the support and encouragement of Dr. Jim Quinn whose supervision and guidance has helped me through the PhD process and enabled me to complete this work. I would also like to thank my mother Helen, my family and friends, and especially my husband Cian, and children Catherine and Senan for their love and support.

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CHAPTER 1 INTRODUCING THE STUDY

1.1 INTRODUCTION

This chapter gives an introduction to this study and explains the research rationale as well as identifying the research question, after which the potential research contributions are highlighted and finally the structure of the thesis is presented.

1.2 RESEARCH RATIONALE

This study will focus on industry evolution and the impact of franchising from a strategy perspective. There has been increasing interest in the area of industry evolution, yet there have been few industry studies outside of the manufacturing sector. This thesis aims to address this issue by investigating the structural evolution of industries in the service sector. There is a weakness in industry evolution literature as Malerba and Orsenigo (1996) have noted that the research to date 'provide few case studies of the structural evolution of whole industries', and specifically there is little research where structural evolution is the primary research objective. Seldom researched is how industry structure changes from one configuration to another or how such transitions might be stimulated by factors other than technological breakthrough (Christensen, 1997; Tushman and Anderson, 1986). In addition, there is a gap in the franchising literature addressing the emergence and impact of franchising on industry structure. This thesis aims to address this gap.

In particular this study will focus on the impact of franchising as a governance structure on the evolution of industries. This study aims to facilitate a deeper exploration of franchising as a hybrid organisational form, an important structural variant at industry level and such an undeniably prominent and widespread form of organisation evident on a global scale and for these reasons alone, should be of major concern for organisation and management research (Brickley & Dark, 1987; Lafontaine, 1992; Norton, 1988; Rubin, 1978; Shane, 1996).

Before beginning a detailed discussion on franchising, some definitions are useful. According to Rubin (1978):

> *A franchise agreement is a contract between two (legal) firms, the franchisor and the franchisee. The franchisor is a parent company that has developed some product or service for sale; the franchisee is a firm that is set up to market this product or service in a particular location. The franchisee pays a certain sum of money for the right to market this product (Caves and Murphy, 1976; Rubin, 1978).*
>
> *'The term 'franchise' means any commercial relationship... whereby a person offers, sells or distributes to any person... goods, commodities, or services which are (1) identified by a trademark, service mark, trade name, advertising or other commercial symbol... or (2)*

directly or indirectly required or advised to meet the quality standards prescribed by another person where the franchisee operates under a name using the trademark, service mark, trade name, advertising or other commercial symbol'. (Federal Trade Commission Rule 436.2, paragraph 6160).

According to Dant and Grunhagen (2014) business format franchising, the variant of franchising that this study focuses on (the other form of franchising is product licencing) the franchisor develops a brand name and an operating system which will deliver products or services to end customers. The franchisor licenses the franchise to another party, a franchisee, for a certain time period, at a certain location. This form of franchising is most common in industries in which companies need to operate a large numbers of outlets across a wide variety of geographic locations. According to Shane (2008), business format franchising is an important mechanism for obtaining the financial and human resources that firms need for rapid organizational growth and brand identity, and to gain a necessary competitive advantage (Shane, 2008) (see Chapter 2 Context: Franchising in Ireland for a full explanation of franchising, its definitions and development).

Porter (1980) in his work on industry evolution observed that 'industries evolve because some forces are in motion that create incentives and pressures for change' he also noted that 'industry fragmentation has been overcome by franchising'. This study aims to generate a deeper understanding into the presence of franchising in Ireland's service driven market economy. This thesis aims to build on the preliminary work of my MBS dissertation which centred on franchising and its implications for strategic management theory using a qualitative case study methodology. This study also looks to build on the work of Quinn and Leavy (2002) which identified symbol group trading, and its significant impact on industry evolution. This thesis is concerned with identifying how franchising impacts structurally on a given industry. In addition, it will explore competing organisational management theories and their rival explanations for the adoption of franchising as a governance structure and hybrid organisational form. This research provides scope to explore the debates concerning the impact of franchising over time on a given industry and to explore how it gains ground and momentum.

The question of what drives the process of economic development was one of the three guiding questions raised by Adam Smith (Nelson and Winter, 2002). A partial answer is that firms and industries change over time and ultimately lead to economic development and growth (Audrersch and Klepper, 2000). Many studies from differing perspectives have explored features of industrial evolution and change. Malerba and Orsenigo (1996), however, suggest that these studies 'did not enter into the details of how industries change over time in terms of their structural features and forms of organisation' (1996), and that 'we still do not know much about the dynamics and evolution of industries as a whole' (1996). In particular, the authors refer to a broader view of the

evolution of industrial structure, which incorporates elements of structural dynamics and looks at: the generation and transformation of technologies and products, the development and change of capabilities, the changing boundaries of firms, vertical integration, diversification, the development of networks, and the role played by institutions. The article raising these concerns was published in 1996, but research in the field has not significantly improved since then. Studies that focus on the structural evolution of whole industries and the drivers of these changes are still rare. However, several recent studies have focused on the structural evolution of industries such as the work by Quinn (2002), Quinn and Leavy (2002, 2004, 2005), Quinn and Murray (2005) and Quinn and Sparks (2007). The crucial impact of franchising on an industry, segments, sectors, governments, and economies in general is frequently acknowledged in the business press, industry organisations and by other industry players, as well as governments but is under researched in the academic arena.

However, there has been a resurgence of academic interest in cooperative and network activity between organisations both within and across sectors and national economies (Child, Faulkner and Tallman, 2005; Faulkner, 2003; Inkpen and Tsang, 2005). This interest has been driven by increasing levels of resource amalgamation and coordination by organisational actors within a globalising economy. The formal and informal inter-organisational relationships used by firms take diverse forms and range from simple distributor or supplier agreements to strategic alliances and to the larger scale and higher-level instances of cooperation through franchising. Much of the recent research has been concerned with relationships between firms, such as those found in strategic alliances, while the cooperative role played by franchising has received less attention. Nevertheless, the role of franchising as a means of industry-wide intentional cooperation has long been recognized. The multifaceted nature of franchising and diverse inputs from different academic disciplines including; economics, channel marketing, sociology, organisation theory, finance and law has resulted in a significant level of fragmentation within this research field. As a result, much of the knowledge that was developed over many decades has dissipated. In terms of linking franchising to the evolution of industries there remains a major gap in the literature.

1.2.1 Research Goals and Potential Contribution

A clarification of the research goals has numerous benefits. Firstly, at the most basic level it helps to ensure that the study is worthwhile, the gaps in the literature discussed in this chapter and in the literature review reveal that this study is worthwhile. Secondly, it helps to justify the study. Maxwell (2005) distinguishes between three different kinds of goals: personal, practical, and scholarly. Personal goals reflect the intrinsic needs and desires of the researcher, this study emerged after the author completed her Master's thesis and wished to pursue an academic career and further the research in both franchising and industry evolution. Practical goals are focused on accomplishing something, the author wished to complete a PhD and to become a competent

researcher. Intellectual goals are aimed at understanding, gaining an insight into something, or/and answering the question not previously addressed. Thus, achieving intellectual goals can also contribute toward achieving practical goals again the author wished to further the academic and practitioner based research on franchising in Ireland and to marry that with the gap in the industry evolution research.

1.3 THE RESEARCH QUESTION

'How and why does franchising emerge, how does it impact on the structural evolution of an industry?'

In addressing this research question, the contextual-processual research frame adopted is critical of the a-historical, a-contextual and a-processual nature of much of the work on industry evolution to date. The research question mirrors Quinn and Leavy's (2002) work on symbol groups and aims to expand and develop on this research. These research objectives will be explored via the following research questions:

- 'How and why does franchising as a form of organisational structure emerge and evolve?'
- 'What impact does franchising have on structural evolution? (growth, size, level of concentration)'

This study aims to make a contribution on a number of levels including: a theoretical contribution, a practitioner contribution and an empirical contribution, each is explored separately in the following section.

1.3.1 Theoretical Contribution

At the analytical level, this study provides at least three features of interest to researchers and practitioners involved with industry evolution. Firstly, evolutionary studies of non-traditional industry types such as retailing and wholesaling are still quite rare and as such this research will also look to contribute to the general research agenda within the field of industry evolution. The extent, to which industry configuration and structural evolution has developed differently across a number of industries, needs to be explored. This will expand prior research undertaken by Malerba and Orsenigo (1996).

Secondly, a potential contribution to organisational theory can be identified. This contribution is in terms of industry evolution and the relative explanatory power of competing theories. At the analytical level the robustness of these competing theories will be investigated and their relevance further explored. More specifically, it will relate to conceptual and theoretical debates in the field of organisational theory, with an aim to explore the relative explanatory power of these competing theories. This study will look at these five competing theories (Transaction Cost Economics, Agency Theory, Resource Dependency Theory, Neo-Institutional Theory and Population ecology)

and in addition will incorporate further relevant competing organisational management and industry level theories.

Finally, this study aims to make a theoretical contribution to the research on franchising. In recent years, franchising has become a very popular form of organization and, for this reason alone, should be of major concern for organisation and management research (Brickley and Dark 1987, Dnes 1993, Lafontaine 1992, Mathewson and Winter 1985, Minkler 1992, Norton, 1988, 1995, Rubin 1978, Shane 1996). Due to several distinct structural properties of franchise systems (hybrid organisational system incorporating a franchisor and its franchisees), it offers ample opportunities to research topics of more general theoretical and managerial interest. It is noteworthy that scholars of franchising have made remarkable progress in the past few decades. Many important theoretical and empirical studies have provided coherent explanations for the existence of franchised marketing channels and have tried to further our understanding of the conditions that promote its existence but still the area of franchising its emergence and development over time needs to be further explored. This thesis looks to add a more dynamic perspective to the literature on franchising which to date has been cross sectional and static in nature. At the conceptual level, this study will examine the extent to which efficiency and power considerations help to explain the contrasting success and failure of franchising as a growth model, given that transaction cost economics (Williamson, 1975, 1995, 1996) and resource dependency theory (Pfeffer and Salancik, 1978; Pfeffer, 1987) are two of the most robust perspectives on structural arrangements at industry level. The main conceptual aim of this research is to explore and describe the impact of franchising on the evolution of industries by using contextual and longitudinal data. The 'explanatory place' in this type of analysis is given to business and economic factors outside of franchising, and the interplay between these contextual layers 'as providers of both the necessary and sufficient conditions for continuity and change' (Pettigrew, 1985). The analysis aims not only to describe and interpret the way franchising affects industries, but also to pinpoint common historical features that initiated particular developments. The following intellectual goals should be achieved by this research: 1) Explore the macro-environmental and industry context within which franchising emerges and evolves; 2) Understand franchising firms (agency effects) how they develop and how they relate to the macro-environmental and industry context; 3) Investigate and explore the impact franchising has on the evolving structure of industries.

1.3.2 Empirical Contribution

This study looks to make an empirical contribution and aims to add two more service industry case studies to the body of industry studies to date. On an empirical level the research contribution will aim to look at the impact of franchising per se as an empirical driver of structural change within industries. Reflecting on the research context and background there are a number of obvious shortfalls and concerns generally with empirical work to date. In particular, there is a distinct lack

of industry evolution studies focused on the service sector, and there is a noticeable lack of research on franchising and its emergence and impact across a variety of industries. Empirically, industry studies are predominantly cross sectional and quantitative in nature, with few templates available to look at industry evolution and change over time. Indeed, 'empirical studies' of the structural evolution of whole industries are still quite rare in the economics literature, and rarer still beyond that discipline (Malerba and Orsenigo, 1996 Malerba et al., 1999). Industry studies to date have focused on three main areas of application: the population ecology perspective of industry demographics, industry dynamics and fewer still have looked at the structural evolution of industries. Furthermore, the popular life cycle model used to describe industry dynamics aptly applies to manufacturing and technology based industries but fails to fit with the dynamics of service base industries. As this study is contextually based in industries utilising franchising as an organisational form and thus the variant of 'business format franchising', there is a definite need to move beyond the life cycle model of previous empirical industry studies, embarking on an analysis which incorporates hybrid organisational systems such as franchising, set in the service sector.

1.3.3 Practitioner Contribution

This study aims to make a contribution to a spectrum of academic and industry practitioners interested in industry evolution and franchising. During preliminary discussions with senior representatives of Bank of Ireland, AIB, Ulster Bank Franchise Units, Davy Stockbrokers Equity Research Department, the IDA and the Irish Franchise Association it was evident that from their perspective the current research on franchising in Ireland was predominantly quantitative and static in nature with little meaningful research carried out to date. All organisations emphasised their interest in this study and its potential contribution to franchising research in Ireland and that further research could add greater depth of knowledge to the impact of franchising over time. All of the experts believed there is a serious lack of formal and in-depth research in this area. It is hoped that this study will prove to be a valid and relevant contribution to academic literature and be an informative tool for the business community, and stakeholders at large.

1.3.4 Stakeholder Interest

Franchising as an organisational structure is a growth phenomenon, with a spectrum of stakeholders benefiting from its development. There is a need to collect finer grained empirical evidence on structural evolution and develop taxonomies of industry evolution in terms of some basic dimensions of structural change relating to franchising. This research aims to take an in-depth, cross-sectoral look at franchising structures in Ireland. This study poses that hybrid organisational forms such as franchising provide a way to overcome many modern transaction and resource constraining factors faced by firms in a highly competitive environment. In the context of industry evolution, franchising has increasingly begun to permeate and emerge across a number of sectors, its presence as a contributor to structural change within an industry is notable with more

empirical research needed to assess the drivers and structural processes. From a general stakeholder perspective, the phenomenon of franchising represents a prominent and successful form of organisation in the Irish economy, particularly within the retail sector representing a massive financial contribution to the economy and stakeholders therein. The combined annual turnover for franchise systems operating in Ireland was estimated at €2.5 billion, according to the Ulster Bank and UCD Smurfit Franchising in Ireland survey (2010) and this figure remains unchanged as reported by the Irish Franchise Association in 2014. At present there are more than 4,086 operating units (315 active franchise systems) generating 42,927 full-time jobs. With a failure rate of only 7 per cent franchising has become one of Ireland's fastest growing sectors. These statistical indicators provide a preliminary context and background for the importance of franchising to the Irish economy and business community and related stakeholders, thereby reinforcing the potential interest for this study.

The practical goals, i.e. the intended contribution of this research to practice, are twofold. Firstly, this study intends to contribute to the knowledge pool of the franchising industry, industry management, and of policy-makers in general. Secondly, the two cases constructed using primary and secondary data collection and analysis will offer the first historical account of the development of the Irish fast food/QSR and real estate industries from an industry perspective. To date no chronological record has been created of the development, activities, achievements, and failures of franchising within the context of these industries and Irish economic development. In addition, many of the respondents in this study admitted that they would be very interested in the findings of such an historical account as both a record of historical events and a source of new managerial and policy-making knowledge.

1.4 STRUCTURE OF THE THESIS

This Chapter provided an introduction to this study. Chapter 2 offers insights into the specifics of Irish franchising, its definition, development and international context. This information aids in understanding county-specific issues with regards to franchising activities and by describing the general definition and operational model of franchising.

The relevant literature explored for this study focuses on industry evolution and franchising and Chapter 3 reviews this literature, and from this develops the theoretical framework of this study and discusses this study's research design. Chapter 3 provides an overview of franchising and industry evolution literature. The initial section presents the literature on franchising and has a brief discussion of definitional issues of and varying attitudes towards franchising over time and then critically evaluates previous work on franchising relating to the areas around the emergence and impact of franchising on industry. Among other conclusions, this section suggests that franchising has primarily been studied from the economics, channel marketing and organisational theory

perspectives in particular the field has been informed by Agency Theory and Resource Scarcity Theory. Then the current gaps in the franchising field are assessed. The industry evolution literature section reviews the approaches to the study of change and process and suggests the evolutionary approach is the most suitable one for this study. This section presents an overview of the evolutionary approach and its perspective on the drivers of change. It then follows an assessment of industry evolution theories and perspectives and suggests that there are a number of evolutionary theories suitable for dealing with the emergence and impact of franchising on industry evolution. Based on the literature reviewed this section then discusses the five competing theories of Agency Theory (AT), Transaction cost economics (TCE), Resource Dependency Theory (RDT), and the Neo-institutional theory in sociology (NIT) and Population ecology (PE) and their robustness and relevance are explored. Then a summary of some of the common theoretical links between franchising and industry evolution is presented. Chapter 3 finally looks to build an integrated theoretical framework and offers an explanation of the design of this research study. Concluding with a discussion of the components of the conceptual framework, it discusses the research question and a conceptual framework as a frame of reference for this research study.

Chapter 4 explores the methodology employed in this study. An overview of the philosophy of science is explored and its relevance to this research project. This is followed by a discussion of the philosophical and methodological orientations used in this research, as well as a discussion of contextualism as a theory of method. After which this section elaborates on the choice and description of the comparative case study method. It provides a detailed description of the data collection and data analysis techniques used. In addition it explores the issues relating to the primary and secondary data collection. Due to the innovative and complex nature of this research, the section considers research validity, research implementation, and the selection approaches to define the real estate and fast food/QSR industries.

Following a brief introduction Chapter 5 supplies a description of the economic and social context of the two case studies and provides an overview of Irish social and economic history, within which the evolution of the real estate and fast food/QSR industries took place. Firstly, this context acts as a control in the analysis of the role of franchising. For example, such contexts might help in understanding whether a sudden adoption of franchising in the fast food/QSR or real estate industry is an industry-level issue, or an economic trend. Secondly, it helps to identify and explain periods of potential increases in industrial activity driven by social and economic factors.

Chapter 6 and Chapter 7 detail the two cases constructed from the data collected. While the economic and social history chapter follows the period structure generally accepted by economic historians, the fast food/QSR and real estate industry cases are arranged around pre-emergence of franchising, its emergence and adoption and post adoption. Each industry history chapter starts

with an overview of the industry, including major developments, and then in chronological order the detail of the industry history and finally a conclusion of the industry at present.

Chapter 8 presents the comparative case analysis, framed by the conceptual framework. This chapter begins with the overview of the individual case analysis of the fast food/QSR and real estate industries and moves through the analysis using the conceptual framework as a guide discussing the macro-environmental and industry contexts as well as agency factors. It therefore presents the findings regarding the emergence and impact of franchising on the evolution of each industry.

The final Chapter 9 links the study's findings to the broader literature on franchising and industry evolution and discusses the application of evolutionary framework to this research and then provides an overview of the study's contributions to knowledge, conceptual contribution, contribution for practitioners, methodological contribution and then presents proposals for a future research agenda.

This chapter began with the research rationale and then introduced the research goals and potential contributions of this study such as the empirical, theoretical, practitioner and stakeholder contributions. The chapter also presented the research question and sub-questions and concluded with an overview of the structure of this thesis.

The following chapter will look at the definition and development of franchising and give both a national and international context of franchising.

CHAPTER 2 CONTEXT: FRANCHISING IN IRELAND

This chapter provides an overview of the origins of franchising, its definitions, its development, and its relevance to the Irish and international contexts. The chapter looks at the U.S. the UK and finally at franchising in Ireland. It assesses franchising as a business system and looks at franchising in terms of its operational systems and structures, addressing the implications of franchising across different industries.

2.1 THE ORIGINS OF FRANCHISING

The word 'franchising' is a French term, which when translated means 'a granting of right' or 'an exemption' (Williamson, 1992). Franchising is a form of business arrangement, which originated from Western Europe in the Middle Ages, at a time when feudal lords initiated the practice of selling the rights to collect taxes and operate markets on their behalf. The first examples of franchising are to be found in mid-nineteenth century Germany where brewers set up contracts with tavern owners to sell their beer exclusively in their taverns (Shane, 2008).

In terms of the growth of franchising, it is possible to identify three stages in its development. The first stage dates back to the middle of the nineteenth century in the U.S. when the Singer Sewing Machine was introduced through a licence/franchising-like arrangement (Hacket, 1976). The Singer Sewing Centre was developed by Isaac Singer in 1858. He encountered two obstacles post invention - a lack of capital to manufacture the machine in large numbers and a need for user training. To address these concerns he began selling the rights to local business people, to both sell and train customers in the use of his machine. This proved successful and the business expanded rapidly as the fees earned from the licence rights helped to fund his manufacturing costs. In the early 1890's another successful franchisor was Coca Cola. Coca Cola chose to franchise the rights to bottle its carbonated beverage to a large number of independent businessmen who received exclusive territories in which to distribute the product (Shane, 2008). According to Dant and Grunhagen (2014) whereas the focus of traditional franchising is on the product of the manufacture, in business format franchising, the second variant to develop, the outlet itself is the product (Dicke, 1992). Dant and Grunhagen (2014) refer to business format franchising as the franchisor selling a 'way of doing business' together with a comprehensive package of services, together with an operating manual and other operational supports. Dant and Grunhagen (2014) suggest that the first true business format franchise system was created in the early 1890s by Martha Matilda Harper, who had succeeded in developing a network of over 500 Harper Beauty Shops by the mid-1920s (Plitt, 2000). While Harper Beauty Shops didn't make a lasting mark in the U.S. franchising arena some of the other early business format franchise systems e.g. Hertz Car Rentals, A&W Restaurants, Terminix Termite and Pest Control that started in the 1920s continue to exist and operate as franchises.

During the second stage of development in the U.S. during the 1920s and 1930s, similar license/franchise relationships were developed by petrol companies and some wholesalers and retailers (Ayling, 1988). The franchising model was quickly copied in several industries, in particular by major motor manufacturers and oil companies (Shane, 2008). Furthermore, Ford and General Motors began to franchise dealerships to independent business people as they did not have sufficient funds to create the necessary retail outlets when they first began to operate.
A further development, within the franchising model, occurred in the 1920s, when the major oil companies became pioneers of conversion franchising. In this model, already established independent businesses became franchisees under the umbrella of the franchisor's brand name (Shane, 2008). During this time franchising in retail and service businesses developed in the U.S. The earliest retailers to adopt franchising were the Ben Franklin stores and Piggly Wiggly stores; both began to franchise in the 1920s. The earliest fast food franchise was A&W Root Beer, established in the U.S. in 1924. Howard Johnson was the first to franchise restaurants in the U.S. in 1935 (Shane 2008).

The third generation of franchising, namely Business Format Franchising dates back to the late 1940s and early 1950s (Mendelson, 1992). This form of franchising really took off in the U.S. In the 1950s and 1960s many of today's large franchise chains were founded such as Tastee-Freez, KFC, McDonald's and Burger King. The acceleration in franchising during this period can be attributed largely to two factors; Firstly, the rise of television advertising, which made national advertising a viable way to build a brand. Businesses began to gain competitive advantage over rivals by building brands and national chains. Secondly, the establishment of the U.S. national highway system, which made travel to unfamiliar places more common and created the need to have national brand names as a way to demonstrate quality to customers in various locations (Shane, 2008). However, with the rapid adoption of business format franchising in the 1960s, some problems arose. Fraud became an issue with an increase in franchise operations taking potential franchisees investment and subsequently shutting down. This activity led to the development of franchising regulation in the 1970s in the U.S. The Federal Trade Commission (FTC) initiated its first fraud investigations in 1975. In that same year, the North American Securities Administration drew up draft guidelines for Uniform Franchise Offering Circulars (UFOCs). These have become the standard for disclosing franchise opportunities to franchisees (Shane 2008).

2.2 WHAT IS FRANCHISING?

In simple terms, a franchise is a particular form of organization, in which the development of a business concept and its execution are undertaken by two different legal entities. The U.S. Federal Trade Commission, (the U.S. government agency responsible for regulating franchising) provides a legal definition of this arrangement.

'The term 'franchise' means any commercial relationship... whereby a person offers, sells or distributes to any person... goods, commodities, or services which are (1) identified by a trademark, service mark, trade name, advertising or other commercial symbol... or (2) directly or indirectly required or advised to meet the quality standards prescribed by another person where the franchisee operates under a name using the trademark, service mark, trade name, advertising or other commercial symbol'. (Federal Trade Commission Rule 436.2, paragraph 6160). Comparatively, the International Franchise Association defines a franchise operation as 'a contractual relationship between the franchisor and franchisee in which the franchisor offers or is obliged to maintain, a continuing interest in the business of the franchisee in such areas as know-how and training; wherein the franchisee operates under a common trade name, format or procedure owned by or controlled by the franchisor, and in which the franchisee has made or will make a substantial capital investment in his business from his own resources.' The broad category of franchising is made up of two different business models; product franchising and business format franchising. Product franchising is an arrangement in which one party, a franchisor, develops a trade name and licenses it to another party, a franchisee. The product franchise contractually agrees for the use of the trade name to deliver products or services to end customers for a certain time period, at a certain location. Examples of companies that engage in product franchising are Coca-Cola and Goodyear Tires (Shane 2008).

In business format franchising, the franchisor develops a brand name and an operating system which will deliver products or services to end customers. The franchisor licenses the franchise to another party, a franchisee, for a certain time period, at a certain location. This form of franchising is most common in industries in which companies need to operate a large numbers of outlets across a wide variety of geographic locations. According to Shane (2008), business format franchising is an important mechanism for obtaining the financial and human resources that firms need for rapid organizational growth and brand identity, and to gain a necessary competitive advantage Shane, 2008).

2.2.1 The Franchising System

Franchising has two characteristics that distinguish it from other organizational forms such as joint ventures and strategic alliances. Firstly, franchising typically occurs in businesses where there is a notable service component that must be performed near customers. The result is that service-providing outlets must be replicated and dispersed geographically. The second key characteristic is that, franchise contracts typically reflect a unique allocation of responsibilities, decision rights, and profits, between a centralized principal (the franchisor), and decentralized agents (franchisees). The franchisor sets and enforces chain-wide standards for performance, selects franchisees, approves outlet locations, manages brand image, and coordinates activities such as purchasing, where scale economies are available (Caves & Murphy, 1976).

The franchisor's revenue comes primarily from royalty payments tied to franchisee sales. In some cases franchisor revenue can be substantial when calculating new franchisee partnerships as initial capital payments are made by the franchisee. Apart from paying royalties, in most cases franchisees have a degree of autonomy and are instrumental in establishing their local outlet, setting local policy such as price, hours, and staffing, and managing day-to-day operations in exchange for profits after royalties and other expenses. Franchisors, in general, give detailed guidelines to their franchisees as to how they are to conduct the business, a management system for operating the business, and a shared trade identity. Franchising can also be seen as a pooling of resources and capabilities with the franchisor contributing an initial capital investment, know-how and experience, and the franchisee contributing the additional capital investment and operating experience. Furthermore, the franchisor tends to provide marketing, training and purchasing support, as well as product development services for franchisees. This model appears in a multitude of industries such as catering and hotel services, car maintenance, car and truck rental, business services such as accounting and employment agencies and consumer services such as home cleaning, education and real estate brokerage.

2.3 FRANCHISING INTERNATIONAL CONTEXT

The concept of franchising is well developed and is a popular business strategy in many countries. A mature level of franchising can be found in the United States, Europe and Australia, while Asia, South America, Central America and Mexico report rapid growth (Alon & McKee, 1999). However it is difficult to measure accurately either the scope in one country, or to make comparisons between countries due to the varying definitions of franchising and limitations in methods of data collecting.

2.3.1 THE U.S.

U.S. franchise systems are the oldest and most recognizable franchise brand names globally. A recent study commissioned by the International Franchise Association in Washington and conducted by PricewaterhouseCoopers examines the economic impact of franchising in the United States. The main findings are as follows; 'franchised businesses operated 767,483 establishments in the United States in 2012 counting both establishments owned by franchisees and establishments owned by franchisors. They provided 9,797,117 jobs, made $229.1 billion in terms of payroll and produced $624.6 billion output. To indicate economic size, franchise businesses employed the same number of people in 2012 as did all manufacturers of durable goods, such as computers, cars, trucks, and planes' see Table 2.1 below on the Franchise business economic outlook 2007-2012 (PricewaterhouseCoopers 2012 study).

	2007	2008	2009	2010	2011	2012
Establishments	847,244	883,984	883,292	901,093	-0.1per cent	2.0per cent
Employment (thousands)	9,859	9,931	9,522	9,558	-4.1per cent	0.4per cent
Output billion	$802.9	$850.4	$844.7	$868.3	-0.7per cent	2.8per cent

Table 2-1 Franchise Business Economic Outlook 2007-2012 US

(Source: PriceWaterhouseCooper)

Between 2001 and 2005, the number of business format franchise establishments increased by 5.6 per cent per year, their employment capability increased by 3.7 per cent, and their annual economic output increased by 9.7 per cent. However, growth slowed in 2007/2008 to 2.8 per cent. In 2010 economic output declined by 0.7 per cent, with a net loss of $5.7 billion. In 2012 PriceWaterhouseCoopers estimates that output will increase by 2.8 per cent, with a net gain of $23.6 billion.

According to Dant, Grunhagen and Windsperger (2011), franchising has become the dominant mode of retail entrepreneurship in the United States and globally. Almost 3,000 companies manage franchise chains, in more than 80 industries. These companies work with 901,093 franchisees that employ 18 million people. Franchise systems generate $2.1 trillion in sales annually, accounting for approximately 40.9 per cent of all U.S. retail sales. However despite the widespread reach of franchising, surprisingly few companies succeed at franchising. There are more than 200 new franchise systems established in the U.S. each year. From that 25 per cent do not last one year, 75 per cent fail within a decade and only 15 per cent remain operating for anything up to 17 years, with a small per cent age lasting beyond 20 years.

2.3.2 U.S. Franchising by Industry

Some industries are better than others when it comes to creating successful franchise systems (see table 2.2 below).

	Establishment	Employment (thousands)	Output (billions)
Automotive	38,340	182	$36.4
Commercial & Residential Services	57,007	230	$38.2
Quick Service Restaurants	192,827	3,343	$203.6

Retail Food	70,722	853	$67.5
Table/Full Service Restaurants	48,609	1,066	$64.0
Lodging	31,827	627	$62.7
Real Estate	41,630	60	$22.8
Retail Products and Services	88,312	577	$50.5
Business Services	231,669	1,420	$189.6
Personal Services	100,151	1,101	$132.8
Total	901,093	9,558	$868.3

Table 2-2 Franchising in the U.S. Industries by Performance

(Source: PriceWaterhouseCooper)

Half of all franchisors are concentrated in the top ten industries for franchising (see table below). In some industries such as tax preparation, printing and copying and specialty food retailing, franchisors account for the majority of all firms (Shane, 2012). Today franchising occurs in more than 80 different industries*. Although the list is long and broad, franchising does not occur in all industries and there is a high concentration in just a few. One study from the International Franchise Association reports that 18 per cent of all franchise systems are found in fast food see table 2.3 below, and 11 per cent in general retail.

Industry 2012	**per cent of Franchisors**	**per cent of Franchised Units**
Fast Food	18	26.8
Restaurants	7.0	3.8
Automotive products	6.2	5.5
Maintenance and cleaning	5.4	8.2
Building and remodeling	4.9	1.5
Specialty retail	3.8	1.5
Specialty food	3.8	2.0
Health and fitness	3.3	3.5
Child development	3.2	0.7
Lodging	3.1	5.9

Table 2-3 Top Ten U.S. Industries for Franchising in percentage of Franchisors

Source: Adapted from data contained in R. Bond's Bond's Franchise Guide, 15th annual edition (Oakland, CA: Sourcebook publications, 2012)

Shane (2012) identified nine characteristics that make an industry appropriate for franchising:

1. Production and distribution occur in limited geographic markets
2. Physical locations are helpful for serving customers
3. Local market knowledge, is important to performance

4. Local management discretion is beneficial
5. Brand name reputation is a valuable competitive advantage
6. High levels of standardisation and codification of the process of creating and delivering the product or service
7. The operation is labour intensive
8. Outlets are not extremely costly or risky to establish
9. The outlet operator's effort is hard to measure relative to their performance

2.3.3 THE UK

The NatWest & British Franchise Association (BFA) survey provides the following comparison. In 2012, after four years of growth, the franchise systems increased total national turnover to £12.4bn, an increase of £600 million (+5 per cent). Since 2007, the number of franchise systems have also grown by 15 per cent, despite a UK GDP growth rate of only 9.4 per cent in the same period. The number of franchise systems operating in the UK has grown to 897, increasing the number of franchise units to 36,900. Total employment by franchise systems is 521,000. Franchising has also helped to drive international trade. Around a third of UK franchisors have units located outside the UK. Additionally, 38 per cent of domestic only franchises plan to expand abroad (NatWest BFA survey 2012). According to the survey, four out of five franchisees said that being part of the franchise model offers them a competitive advantage over non-franchised competitors, with 89 per cent reporting profitability. They claimed that branding, the appearance of being part of a larger business with standardised products/services and the perception of quality, were the main advantages.

Franchisors also anticipate better prospects for their business than the wider economy performance, with 75 per cent expecting improvements in the coming years of trading. Two thirds of franchise businesses trading less than two years reportedly made a profit. In the UK, the average franchisee fee is £15,300, and the average start-up investment costs are £46,600. The average management service fee is 11.2 per cent (8.2 per cent in 2008 and 7.5 per cent in 2012) with the average advertising levy at 2.6 per cent (3.9 per cent in 2008 and 1.9 per cent in 2012).

2.4 FRANCHISING IN IRELAND

From a general stakeholder perspective, the phenomenon of franchising represents a prominent and successful form of organization and business activity in the Irish economy. Within the retail sector in particular, it represents a substantial contribution. Since the first franchise was introduced into Ireland in the late 1970s there are more than 270 different franchises operating in 2012. Franchising is almost exclusively a service oriented business. As Ireland's economy becomes increasingly dominated by services, franchise companies will benefit. According to the Ulster Bank and UCD Smurfit franchise survey 2010, the past fifteen years have witnessed significant growth in

franchising throughout Ireland spanning many industries. Moreover, the number of franchise systems has doubled since 1997 (see table 2.4 below).

Year	Franchise Systems	Annual Turnover €
1989	44	80 million
1998	140	450 million
2003	180	1.2 billion
2010	270	2.419 billion
2012	350	2.5 billion*

Table 2-4 Irish Franchise Systems 1989-2012 Annual Turnover

(Source: based on Bank of Ireland Franchise Survey data 2006 & Ulster Bank and UCD Smurfit Franchising in Ireland survey 2010 and *refers to Irish franchise Association figures for 2012)

By the 1980s there were less than 20 franchise systems operating in Ireland, and in 1983 the Irish Franchise Association was established. The association was set up as an independent body offering franchise information for both franchisors and franchisees. By 1989 44 franchise systems operated. A decade later in 1998, 140 franchise systems were operating. This represented an increase of ten new franchises each year over the ten year period. By 2003 over 180 franchises were operating in Ireland. In recent years the franchising of domestic systems has improved significantly. By 2012 the UK had become the dominant source of franchise systems, with the US diminishing in terms of system origin. As shown in the table above, the continual growth and economic success of franchise systems in Ireland is evident and today there are over 350 systems operating, contributing a combined annual turnover of over €2.5 billion. Over 50 per cent of franchise systems in Ireland operate in the service sector, with over 30 per cent in the retail sector, the minority being mobile or van based. The food and drink industries dominate, and account for over 20 per cent of franchise owners. Over 30 per cent of those have held a master franchise for three years or less, indicative of the continued growth in this sector. Overall, there has been a 36 per cent growth in the franchising industry in Ireland, during the last five years. With a failure rate of only 7 per cent, franchising has become one of Ireland's fastest growing sectors.

Indigenous Irish franchises account for nearly 20 per cent of total franchise systems, or 54 out of the total 270 franchise systems. Currently this may seem like a small percentage, but growth is evident in the increase from 14 per cent in 2010. Examining the origin of franchise systems, the UK has overtaken the US as the dominant source, accounting for over 30 per cent, or 81 franchise systems, of the total market. New entrants, from other countries such as Australia, Spain and the Far East, have also begun to establish themselves in the Irish market in recent years.
In 2012 the combined annual turnover (see table 5.5 below) for franchise systems operating in Ireland was estimated at €2.5 billion, according to the Ulster Bank and UCD Smurfit Franchising in

Ireland survey 2010 and recent Irish Franchise Associations figures (2012) combined. This represents a substantial increase since the last survey carried out by Bank of Ireland and McGarry Consulting in 2006. At present there are more than 4,086 operating units generating 42,927 full-time jobs see table 2.6 below. In addition to generating employment directly, there is indirect jobs creation. In a time of economic downturn the franchise sector has increased employment figures every year since 2008 and has positively contributed to the Irish economy in the form of taxation (see the tables below).

	1995	1997	1999	2001	2003	2006	2012
Turnover	0.256	0.397	0.571	1.02bn	1.272bn	2.099bn	2.5bn
% Change	+62	+55	+43	+79	+24	+ 69	+15

Table 2-5 Annual Turnover for Franchise Systems in Ireland 1995-2012

* Note (a) Turnover figures do not include sales by the retail symbol groups.

	1995	1997	1999	2001	2003	2006	2012
Employment	4,900	7,400	9,600	14,400	17,890	25,461	42,927
% Change	+48	+51	+30	+50	+24	+42	+35

Table 2-6 Total Employment for Franchise Systems in Ireland 1995-2012

* Note (a) Turnover figures do not include sales by the retail symbol groups.

In terms of geographical spread of franchise systems, Dublin would appear to be the key location for the sector, with 75 per cent of all franchises having at least one outlet in Dublin city. However, the regional spread of franchise units is quite even with almost 75 per cent of franchise systems operating outside the capital. Northern Ireland is another stronghold with 58 per cent of all franchise systems in Ireland having at least one outlet located there.

Regarding gender representation across Irish franchise systems, men continue to dominate the Irish franchise business, accounting for 83 per cent of franchisees. Franchising is also a younger person's business. According to the UCD Ulster Bank 2010 report, 87 per cent of franchisees are under 50 years of age. Additionally, 25 per cent of franchisees were self-employed prior to buying their franchise. A further 25 per cent were employed in a large private company, with another 25 per cent employed by a small private company and 20 per cent unemployed. In terms of education, 30 per cent of franchisees hold a Leaving Certificate and a further 40 per cent have higher education qualifications.

In relation to the cost of a franchise system, the research in 2012 by the Irish Franchise Association showed that the average initial franchisee fee is €24,638. This represents little to no change from

the Bank of Ireland 2006 report or the 2010 UCD Ulster Bank report. However, there was a significant difference in terms of the average working capital, and total set-up costs. The research found that the average working capital is €21,873, which is significantly reduced when compared to €39,300 in 2006. Similarly, there has been a significant decrease in total set-up costs; they have dropped from an average of €226,000 in 2006 to €124,330, in line with the recent economic downturn. However, the average management services fee charged to franchisees in Ireland has increased from 6.5 per cent in 2006, to 8.1 per cent in 2012. The advertising contribution made by franchisees has decreased from an average of 2.2 per cent in 2006 to 1.9 per cent. Certainly, 25 per cent of franchise owners do not solicit any marketing contribution from their franchisees (see Appendix 1 for more detail on costs).

In Ireland, 95 per cent of all franchise owners provide an operating manual for use by the franchisee. All franchisors provide comprehensive training, with 50 per cent providing training on a short-term basis, lasting less than two weeks. There is an increase in franchisors opting for two week to one month (shorter training periods) training courses becoming the norm and a move away from training that lasts over one month.

One of the main changes in the retail landscape, and a factor that has affected the locations of franchising outlets is the significant increase in shopping centres across Ireland. This has presented a mutually attractive proposition for franchisors and retail centre developers alike in helping to manage risk. The brand recognition that is an inherent part of a franchise offers the potential for greater footfall for the developer, while offering the franchisor a certain level of security in location set-up. Ireland's shopping centres now account for an increasing volume and value of retail sales. As such the pervasive presence of franchising is shifting away from the traditional focus on the High/Main Street.

Further evidence of the growing importance of franchising is the recent launch of the Irish National Franchise Centre (NFA). In 2011 The Limerick Institute of Technology (LIT) and the Limerick Chamber of Commerce announced the launch of Europe's first third-level franchising centre. The centre was set up in response to statistics which claim that over 80 per cent of start-up companies fail in the first five years, whereas 80 per cent of franchises succeed in the first five years. Additionally, because of this success rate banks provide a higher level of funding for franchise systems. According, to the NFC it is estimated that within a decade, franchising will represent over 50 per cent of the total Irish retail economy, and will employ more people in Ireland than all US multinationals combined.

While many franchise businesses have proven to be outstandingly successful, there is no guarantee that failure will not occur. If a franchise involves a proven product or service with a well-

recognised brand, combined with hard-working, well financed franchisees, the chances of success are very high. If on the other hand, the franchisor is under-funded, with a poor business concept that has not been tested properly, and the franchisees are poorly recruited or trained, failure is likely. Shane (2012) identified the transaction cost problems associated with franchising, arising from the delivery of a product or service to end customers by a set of legally independent entities. Several transaction cost problems that are not present in chains of outlets, owned by a single company, arise: free riding, under-investment and loss of intellectual property. Pressures such as these may account for some of the franchise failures which can be found amongst all the successes. Some failed franchising endeavours include: Bewley's, which withdrew from the franchising concept for its cafes; the 7-11 convenience store chain, which failed to take off despite success in other countries; and KFC, which encountered difficulty establishing a successful entry into Ireland.

However, the statistics show that franchising is a growing and successful business system which continues to contribute to the employment and financial success of many businesses in Ireland, contributing a significant amount to Ireland's economy and future economic growth prospects.

* Today franchising occurs in more than 80 different industries, these include; car repair, car sales, book selling, building materials, business services, camera sales, car washes, carpet sales, computer training, chemists, credit agencies, cleaning contractors and domestic cleaning services, data processing, dentistry, dry cleaning, e-commerce, employment agencies, fast food, formal wear rental, greeting cards, grocery sales, hair care, hardware, insurance, music sales, optical care, petrol stations, photo processing, tax preparation, security systems, travel agencies and weight loss centres.

2.5 CONCLUSION

This chapter looked at the context of franchising, reviewing the definition of franchising, its evolution and the international context of franchising in the U.S. and UK and then the Irish context. The next chapter will look at the competing literatures from the franchising and industry evolution fields and present the conceptual model for this study.

CHAPTER 3 LITERATURE REVIEW

3.1 INTRODUCTION

The previous chapter gave insights into the importance and continued growth and development of franchising both in an Irish and international context. In looking to expand and explain the impact of franchising on industry evolution, this chapter engages with two bodies of literature: that of franchising and industry evolution through a strategy lens. This literature review will critically appraise the evolution of these domains and evaluate their relevance to the main research question under investigation: How does franchising impact on the evolution of industries? In order to adequately explore this research question it is divided into two sub-questions: a) why does franchising emerge? b) what impact does franchising have on industry structure? Furthermore this chapter will explore some common underlying theoretical frameworks and from this builds a conceptual framework for the analysis linked to the main research question of this study:

The first section of this chapter provides a critical analysis of works on franchising. Franchising research is reviewed firstly from the origins of franchising, and then looks at the different streams of franchising literature. Then the literature is assessed in terms of its relevance to the two research questions which examine the emergence of franchising as an organisational form and the impact of franchising on industry structure. The next section will explore the various approaches to the study of industry evolution/industry-level change, assessing the Malerba and Orsenigo (1996) article as a guide to the field of study and gaps in the literature. The section will then look at the emergence of a new organisational form such as franchising within the industry evolution literature from the Variation, Selection and Retention approach. The research on industry change such as fragmented industries, co-evolution lens, industry platforms and industry architecture will be explored as to their importance as an aid to understand the impact of franchising on industry evolution. From this the five competing organisational level theories are identified and assessed as to their explanative power in understanding both franchising and industry evolution: Transaction Cost Economics (TCE) and Agency Theory (AT), Resource Dependency Theory (RDT), Neo-Institutional Theory (NIT) and Population Ecology (PE). However, a combination of competing theories is required as it appears that the economic theories of transaction cost economics and agency theory are able to explain the emergence of franchising. There are limitations regarding the dynamics of the evolution of franchising and its industry effects. These are dealt with more robustly by the sociological approaches of resource dependency theory, neo-institutional theory and population ecology theory.

The final section of the chapter presents the research design and research questions under investigation and addresses the approach to building a conceptual framework for this research and concludes with the typology of theories centred on the type of questions they address. The chapter concludes by building a conceptual framework from both a franchising and industry evolution

perspective which will be able to address the main research question and which incorporates the two research sub-questions.

3.2 FRANCHISING

This section will explore the literature on franchising from its origins and evolution in terms of research output. As outlined in the previous chapter franchising has become immensely important and represents a prominent and successful form of organisation in the Irish and global economy. This is particularly evident within the retail sector representing a massive financial contribution to the economy and stakeholders therein. As stated in the previous chapter by 2010 (according to the Irish Franchise Association this figure is still representative in 2014) the combined annual turnover of franchise systems (business format franchising) operating in Ireland was estimated at €2.5 billion, representing a significant impact on economic growth and future development. This section reviews the franchising literature in terms of its origins and the major streams of within the franchising literature. The literature will be assessed from two perspectives, firstly the emergence of franchising and secondly relating to its impact on industry evolution. To note franchising research to date has been mainly focused on the reason or decision to franchise at firm level predominately using transaction cost economic and resource scarcity explanations. There is very little research done to date which relates to the emergence of franchising at industry level or addresses the macro-environmental context for its emergence. Thus there is a substantial gap in the research that this study endeavors to address. Although the franchising literature has focused a good deal on research relating to entrepreneurship or has been from an entrepreneurial perspective. The significance of agency and the influence of individual entrepreneurs with regard to the emergence of franchising research has mainly been from a quantitative perspective and is thereby limited in offer in depth insights. This study uses qualitative and more in-depth and inductive methods thereby adding to the body of research to date. Franchising has rarely been looked at from a strategy lens and this study hopes to address that gap in the research. However, one of the main contributions of this study is to try to fill fundamental gap in terms of research and literature relating to franchising and its impact on industry as well as the evolution of franchising over time. There is some work on competitive advantage and franchising (Truss 2004 and Collis & Montgomery, 1995) but again this is limited and only from the firm level perspective and not relating to a broader industry level, as this study proposes to do. Pertaining to this gap one specific paper by Elango and Fried (1997) was uncovered whereby the authors had made a call for research on franchising and industry effects and implications which have still remained unanswered. Furthermore Porter (1980) whilst looking at industries made the connection between franchising and its ability to overcome industry fragmentation. To date this area remains underexplored.

3.2.1 The Origins of Franchising

According to Dant and Grunhagen (2014) even though the United States is thought to be the home of franchising, franchising actually has a long history stretching back to ancient China (Seid and Thomas, 2010). The roots of franchising can also be traced back to feudal times (Purvin, 1998) and the Middle Ages (Dicke, 1992). The term 'franchising' or the Old French term 'franche' means to invest with a franchise or privilege' and 'franchising' directly translated means 'a granting of right' or 'an exemption' (Williamson, 1992). Moreover modern day franchising, describes a contractually vested inter-firm business relationship between two legally independent entities involving a grantee (or franchisee) and a grantor (the franchisor), where the franchisee pays the franchisor for rights to sell the franchisor's product or service using franchisor's trademarks and its proprietary business system in a pre-specified location for a pre-specified length of contract. A distinction is usually proposed between the first to develop traditional (or product and trade name) franchising, and the second, business format franchising where the outlet itself is the product, where the franchisor sells a 'way of doing business' Dant and Grunhagen (2014).

Commensurate with its economic importance, franchising has captured the attention of a wide array of researchers and has become a very popular form of economic organisation as suggested by Dant and Grunhagen (2014) and for this reason alone, should be of major concern for organisation and management research (Brickley & Dark, 1987; Lafontaine, 1992; Norton, 1988; Rubin, 1978; Shane, 1996). As franchising has increased its visibility and impact on the business landscape, it has attracted the attention of a wide variety of researchers from different academic backgrounds with hundreds of articles in a variety of academic fields, such as: economics, finance, management science, law and marketing having been published on this topic by the mid-1990s (Elango & Fried, 1997). Despite the rapid adoption of the franchising concept, there is still a lack of understanding and consensus on the theoretical determinant and creation of this organisational form and business strategy (Inma, 2005). Due to several distinct structural properties of franchise systems, it offers ample opportunities to research topics of more general theoretical and managerial interest. For the past four decades agency theory has been popularly used to explain the foundation of franchising. According to Inma (2005), there is a limitation to using agency theory to explain the fundamental of franchising and a complete understanding of franchising practice may require an explanation involving more than one theory. Drawing together much of this research by juxtaposing the two key theories used to explain franchising: Resource Scarcity Theory and Agency Theory, the empirical findings are usually centred on three key franchising constructs: franchise initiation, subsequent propensity to franchise, and franchise performance. It has been suggested by a number of scholars that research emphasis needs to shift toward understanding why firms initiate franchising and how franchising impacts different types of organisational performance at firm level. Franchising research needs to be addressed by looking at external factors in terms of industry effects and also the influence of agents or actors within franchise systems themselves. As this is a

multi-level, multi-modal study the literature will be reviewed with this in mind. This study therefore looks to focus on the emergence of franchising and to develop the under researched aspect of franchising and its impact on industry structure and evolution.

3.2.2 Different Streams of Franchising Literature

This section will review the different streams of franchising literature which includes the perspective of strategic management of which this study is centred and as such franchising is viewed in strategy as an important organizational form (Combs & Ketchen, 1999) from the perspective of entrepreneurship, franchising is a vehicle for attaining business ownership (Shane & Hoy, 1996). From the marketing perspective, franchising is an important distribution channel (Kaufmann & Rangan, 1990) and from the economics viewpoint, franchising is a leading venue for understanding the structure of contracts (Lafontaine, 1992). Whereas an advantage of attracting scholars from many academic disciplines is that a sizable literature has grown up around franchising, a disadvantage is that competing discipline-based paradigms, hidden assumptions, and varying methodological norms make the literature particularly difficult to review and synthesize. Researchers have begun to take stock of this ever-growing research in an attempt to draw appropriate conclusions and guide future inquiry.

3.2.2.1 Strategy Literature

More specifically, the Strategic Management literature includes topics such as vertical control without the cost associated with vertical integration (Carney and Gedajlovic 1991). In this manner, franchising can be viewed as a hybrid organizational form but much of the research is utilizing economic or sociological theories and is mostly quantitative in nature. However, the resource based view of the firm (RBV) has been a leading framework for strategy scholars for the past few decades. Along this line of reasoning, Knott (2003) looks at franchising and stresses the tie between competitive advantage and tacit knowledge in the context of routines. Her logic is that if routines are what make firms flourish, then in a franchising system these routines must be transferred to the franchisees. However, if the routines do not contain tacit knowledge, they are easily transferable and not likely to garner a competitive advantage. Indeed, the prevailing strategy-based theme in terms of franchising is in the study of Agency Theory (an economic theory discussed in depth later in the chapter) which is concerned with Principal-Agent alignment especially in incentive schemes. The problems that arise in the Agency approach are adverse selection, moral hazard and holdup. In order to minimize the first two issues, firms may choose to franchise operations in order to give the other party a residual claim on excess profits. In this manner, the franchisee can be viewed as a district manager but one that holds the right to earn these profits (Shane 1998; Lafontaine 1992; Brickley and Dark 1987). As mentioned franchising can be viewed as a hybrid organizational form and following on this theme are companies that mix operations whereby some outlets are company owned and others are franchised out. The ability for

the franchisor to pick this strategy is derived from the amount of power involved in the relationship between mother firm (franchisor) and franchisee (Michael 2000). Yin and Zajac (2004) argue that it is not whether companies franchise or not in terms of performance but instead that the right fit is incorporated into the company structure. In other words, since flexibility is a benefit of franchising, firms that need to be more flexible will perform better if they choose franchising whereas a more rigid structure is conducive to more control oriented firms.

3.2.2.2 Marketing Literature

In the field of Marketing, much of the research is empirical Srinivasan (2006) studies the link between the dual distribution schema of a firm and its intangible value. According to Srinivasan, the dual distribution consists of firms which own some of their retail locations while also franchising others. Although he focuses on the restaurant industry, the finding that having a dual distribution mechanism of governance increases intangible value is pertinent for numerous industries. In addition, the paper attempts to study industries which are highly fragmented. Dant, Paswan and Kaufman (1996) follow the history of Oxenfeldt and Kelly's (1968) argument which was that once the franchisor established itself enough in terms of assets, experience and cash-flow generation, that it would discontinue franchising operations and, instead, only focus on company-run stores. They find that moderators such as sales share, lack of long-term contracts, net conversion gain and attrition are contributing factors in the ownership redirection theory and the adoption of franchising as suggested by Oxenfeldt and Kelly (1968). Wu (1998) focuses on the pricing of a brand name (i.e. Franchisor) in the motel services industry and asks a question: Are franchised brands valuable? In other words, if franchised and non-franchise systems not only compete but thrive in the same space, how does branding help?

3.2.2.3 Economics Literature

The Economics literature contains many works that reiterate some of the same themes previously discussed yet from a different, and again often from a more quantitative, angle. Kalnins (2005) is concerned with franchisor-franchisee contracts in the context of development commitments. He finds that the larger the development commitment in the franchise system, the less likely a firm is to survive. Lofontaine and Shaw (2005) revisit the dual distribution schema that many scholars have studied and find that franchisors with high brand name value have higher rates of company ownership. Dnes and Garoupa (2005) focus on externalities in franchise systems. They posit that firms have a trade-off decision between managerial motivation and trying to limit externalities. Furthermore, this trade-off explains which organizational forms firms choose. Windsperger (2002) emphasizes the role of intangible assets in franchising with a concentration on property rights. In essence, and after testing the hypothesis, he finds that there is a positive relationship between the amount of intangible knowledge that a franchisor owns and the amount of ownership rights that should be transferred to the franchisee. Following on the rights and contracts approach to

franchising, Chaudhuri, Ghosh, and Spell (2001) show that franchisors, due to asymmetry in power and rights, choose more profitable locations for company owned stores and less profitable ones for franchisees. Dnes (1996) and Lafontaine and Slade (1997) reviewed much of the empirical literature from economics and highlighted agency theory as a motivation for franchising. Elango and Freid (1997) took a broad view by reviewing research on franchising's role politically, economically and socially, why firms franchise, and how franchise systems are managed. More recently, Combs and Ketchen (2003) employed meta-analysis to test 10 commonly studied correlates of franchising.

3.2.2.4 Entrepreneurship Literature

The Entrepreneurship literature takes a different focus on franchising than Strategy, Marketing and Economics because, at its core, franchising is an entrepreneurial option. Combs, Ketchen and Hoover (2004) study franchising in the backdrop of strategic groups and find that those restaurant firms that franchise out of resource scarcity had poorer performance than other groups. Hoffman and Preble (2003) studied conversion franchising where franchisors pull independent firms into their system as opposed to only recruiting potential entrepreneurs to commence new operations therefore conversion franchising has been an ever-increasing phenomenon in that space in recent years. Kaufman and Dant (1998) look at four topics regarding franchising including 1) innovation, 2) concepts, 3) risk and 4) multi-unit franchising in an attempt to explain three key areas of their work namely traits, processes and activities.

Within the franchising context, Oxenfeldt and Kelly (1968), Caves and Murphy (1976), Norton (1988), and Gilman (1990) have argued that entrepreneurs use franchising to gain access to significant resources that are in short supply in the early stages of the development of their chains. These growth-minded but resource-constrained entrepreneurs have two realistic options available for securing external resources: (1) selling equity and (2) selling franchises. Debt options are often not realistic because growing chains are seldom able to furnish requisite collateral to qualify for the level of loans needed, a problem exacerbated by the novelty of many franchise concepts at the time they are introduced (e.g., leak detection, cookies in a mall). Selling equity secures access to only financial capital. Franchising, however, represents an efficient bundled source for all three critical capitals (i.e., financial, managerial, and informational; cf. Norton, 1988). As entrepreneurs, individual franchisees engage in innovation and experimentation to generate more efficient processes and better products (Bradach, 1997). For example, Darr, Argote and Epple (1995) describe how a franchisee in Pennsylvania solved a problem with pepperoni shifting during the baking of pizza and the entire franchise system benefitted from this innovation. The gain for the franchisor can be increased adaptability to local markets (Kaufmann & Eroglu, 1999), increased chain-wide innovation (Bradach, 1997), and eventually improved performance (Sorenson & Sorensen, 2001). Despite considerable anecdotal evidence, however, no formal examination of the

claim that franchising is a vehicle for innovation has yet occurred. One potentially fruitful avenue for future inquiry might be to investigate whether the benefits of franchisee innovation for the franchisor are moderated by the quality of franchisor-franchisee relations. Whereas many innovations developed by franchisees are not communicated to franchisors (Darr et al., 1995), franchisors with good franchisee relations might be better able to identify and implement local adaptations that will benefit the entire chain (Bradach, 1997). According to Combs et al. (2001) today's franchising researchers are leveraging new theories, investigating under-examined aspects of franchising, and exploring contextual factors that shape its use. Chirico, Ireland, and Sirmon (2011) also recognize that many, if not most, franchisors and franchisees are family-run enterprises, and they use this insight to draw implications about franchising from research on family firms. They also assert that entrepreneurship as a discipline is a natural home for franchising research as that, like entrepreneurship, franchising is inherently multidisciplinary. As such entrepreneurship research addresses the diverse activities that entrepreneurs confront, such as opportunity recognition, team building, strategy, marketing, finance, and law - and entrepreneurship researchers come from disciplinary backgrounds that reflect these activities (Busenitz et al., 2003).

In terms of an overview as mentioned the franchising literature still remains fragmented. Moreover, much remains to be done and improvements need to be made in the theory base supporting franchising research. Past research has been too closely tied to theories of agency and power. While helpful, these theories are quite narrow. They have often ignored both the franchisee's perspective and the important knowledge that can be gained and shared from the franchisee's perspective. Adoption of other research methods may also be advantageous. Many important questions cannot be answered without using more fine-grained research methods. The next section will look at the franchising research from the emergence perspective and assess the literature and its gaps.

3.2.3 Literature Relating to The emergence of franchising

This section will address the issues relating to why and how franchising emerges both in terms of firm level propensity to adopt franchising and any literature relating to the macro-environmental and industry conditions necessary for its emergence.

3.2.3.1 Reasons to Franchise

The reality is that most of the franchising literature relates to the emergence of franchising from the perspective of the firm. The decision to franchise has been a subject of interest for students of the economics of organisations and thus at the level of the firm for many years. Initial and still-insightful works are Caves and Murphy (1976) and Rubin (1978). Lafontaine and Slade (1997) reviewed much of the empirical literature from economics and highlighted agency theory as a motivation for franchising; further amplification and analysis can be found in Blair and Lafontaine (2005). Most franchising research has been grounded in either Resource Scarcity Theory or Agency

Theory and also Transaction cost economics. All three aspects will be addressed in the following section.

Resource Scarcity Theory views franchising as a mechanism to ease financial and managerial constraints on growth. The most debated topic in franchising research is the reason a firm chooses to franchise which is related to why franchising emerges rather than a firm choosing to expand through company-owned units. Oxenfelt and Kelly (1968-69) proposed a life cycle model of franchising, in which a young company with a limited supply of capital becomes a franchisor in order to use the franchisee's capital to expand. Then as it acquires sufficient capital, the franchisor will later take over the larger units from franchisees. This view has become known as - resource scarcity (Carney and Gedajlovic 1991). Initial empirical support for this view was provided by Hunt (1973), who found an aggregate trend towards company-owned units in the fast-food industry. He also found that larger and older units are likely to become company owned units. Caves and Murphy (1976) also observed a similar trend towards company ownership in restaurants, hotels, and motels. Additional evidence was provided by Anderson (1984), who found that the percentage of units owned by franchisors systematically increased over a period of ten years. Thompson (1992) found that company ownership is less likely to occur when units require high capital investment or when the franchisor is experiencing significant growth, thereby supporting the notion that resource constraints drive the decision towards franchising. The importance of resources for firms in the early stages of growth is also evidenced by new franchisors charging a higher initial fee than older franchisors (Sen 1993). However, the resource scarcity view does not explain why franchising is used by many businesses who clearly have full access to capital markets (Lafontaine and Kaufmann 1994).

Agency Theory is another much used economic theory to explain the propensity to franchise. Note that resource scarcity and agency theory are not contradictory; a firm must both attract resources (resource scarcity) and align incentives (agency theory). Agency theory views franchising as a mechanism for improving the alignment between firm and outlet-level incentives. Following the theory of efficient capital markets, many researchers hold a different perspective based on organizational economics, particularly agency theory. They argue that the franchisor is able to reduce risk by investing in the entire system and hence has a lower cost of capital than does the franchisee, making capital more available to the franchisor than to the franchisee (Rubin 1978). Agency theory (Brickley and Dark 1987; Mathewson and Winter 1985; Rubin 1978), which holds that managers (the agents) will tend to shirk in their duty to the firm (the principal) because their compensation is fixed and as a result, high monitoring costs will be incurred by the firm to insure that its managers act in the firm's best interest. Hence, franchisee-owned units are likely to perform better than company-owned units because the contract between the principal (franchisor) and agent (franchisee) is designed to keep their financial interests closely aligned. Support for the agency

theory view was provided by Brickley and Dark (1987), who found that high employee monitoring costs, low initial investment cost per unit, and high frequency of repeat customers per unit favored franchising over company-owned units. Further support is provided by Thomas, O'Hara, and Musgrave (1990), who found that high unit sales (which spread monitoring costs over more sales dollars) cause units to be converted from franchised to company-owned status (also see Dahlstrom and Nygaard (1994). They found no support for the life cycle theory of franchise development. Thompson (1992) also reported that company ownership of units occurs in urban areas and areas where units tend to be large. Furthermore, Combs and Castrogiovanni (1994) found no support for the notion of resource scarcity but did find significant support for the agency theory and risk-spreading perspectives. Company-owned units generally seem to offer employees higher wage increases over time than franchise-owned units (Krueger 1991). However, Shelton (1967) found that franchised units outperformed company-owned units, even though the managers of company owned units received some incentive compensation. According to franchisors, the high level of motivation of franchisees compared to paid employees is the most important advantage offered by franchising (Lillis, Narayana, and Gilman 1976). This may be a result of the franchisee having a marginal opportunity cost of labor below that of a hired employee (Caves and Murphy 1976).

Carney and Gedajlovic (1991) attempted to synthesize the resource scarcity and agency views. Based on a study of franchising patterns in Quebec, they develop a path model of the franchising life cycle that incorporates both theories. Similar findings were reported by Lafontaine (1992) found that franchising is prevalent when there are incentive problems, but firms also use franchising to grow faster; however the constraints that franchising must overcome may not always be financial. Thompson (1994) argues that managerial talent may be a scarcer resource than capital for a growing organization.

In addition to agency theory and resource scarcity theory, Oliver Williamson has discussed franchising in several of his works on Transaction cost economics (Williamson 1985, 1996). Franchising has not been analysed explicitly but it has instead been cited as an example of hybrid governance. Forward integration out of manufacturing into distribution would be implied by hierarchy. Franchising awards greater autonomy than say an organisational hierarchy but places franchisees under added rules and surveillance as compared with markets. Costs control and local adaptations are stronger under franchising than hierarchy. The added autonomy (as compared with hierarchy) and the added restraints (as compared with the market) under which franchisees operate nevertheless come at a cost. If, for example, quality assurance is realised by constraining the franchisee to use materials supplied by the franchisor, and if exceptions to that practice are not permitted because of the potential for abuse that would result, then local opportunities to make 'apparently' cost-effective solutions are prohibited. Similarly, the added local autonomy enjoyed by franchisees may get in the way of some global adjustments (Williamson 1996). Studies at firm

level view franchising as a form of organization for profit maximization. While this type of research is common in management journals, much of the underlying theory comes from economics, whereby performance is measured by franchise system sales or unit growth.
All these reasons are supported conceptually by Caves and Murphy (1976). In summary, it appears that agency theory, resource scarcity theory and transaction cost economics offer some explanation as to why firms franchise. However, there are other reasons that have not been extensively examined and this study hopes to address.

3.2.3.2 International Franchising

Another area of research relating to the emergence of franchising is that of international franchising which can be used as a method of entry into a new market or region for firms who already have indigenous franchise systems and for firms who are new to franchising. Franchising as an organizational form is gaining acceptance in many countries (Preble and Hoffman 1995). Franchising has spread internationally in two stages. Initially it spread to countries characterized by high per capita income and a developed retail service sector; then to countries characterized by greater diversity in culture, income, and political systems (Welch 1989). This internationalization of franchising has been of interest to several researchers, although the research is largely atheoretical. For example a recent study by Accenture found that one-third of U.S. franchisors had overseas operations. Among the firms without overseas operations as yet, 50 per cent indicated interest in operating overseas within the next five years (Tannenbaum 1992). While franchisors that are older and/or have a larger number of units are more likely to operate internationally (Huszagh, Huszagh, and McIntyre 1992), all types and sizes of franchisors are interested in becoming international franchisors (Aydin and Kacker 1989).

Hackett (1976) found that the major motive for franchisors to move overseas was a desire to take advantage of markets with great potential and to establish a brand name. Many franchising firms were able to enter overseas markets without any change in their marketing strategy and experienced the same level of profitability as they did at home. International franchising also offers a strategic option for firms who do not franchise domestically. Ayal and Izraeli (1990) claim that for high tech products, an international market expansion through franchising could offer many advantages, including higher value accrued to the product due to the services provided by the franchising system coupled with the scale advantages of franchising. Whitehead (1991) found that international franchising provides an opportunity for firms to establish a presence in countries where the population or per capita spending is not sufficient for a major expansion effort. Both Hackett (1976) and Walker and Etzel (1973) found that legal and governmental red tape were the major barriers to international entry by franchising firms. In contrast, Aydin and Kacker (1989) found that the large U.S. market, the lack of international management expertise, and limited financial resources were reasons that franchisors remained domestic. The importance of perceptions in

making this decision is illustrated by Kedia, Ackerman, and Justis (1995), who found that firms whose managers are favourably predisposed to internationalisation are likely to pursue international opportunities. Research has also explored strategies for international franchising. For example, Chan and Justis (1990) suggested master franchising, joint venturing, licensing, direct investment, or governmental agreements as possible entry strategies for franchises trying to enter the East Asian market. Based on the above review, it may be concluded that international expansion will be pursued by franchisors more vigorously in the future as their domestic markets mature. International franchising could also offer opportunities for firms who are not traditionally franchisors. The major barriers to international franchising are the lack of managerial abilities and legal barriers. Franchisors also need to reach a minimum size in order to cover transaction costs from international activities.

3.2.3.3 Environmental Context

As mentioned much of the literature pertaining to the emergence of franchising relates to firm level decision and choices. However, there is some research that looks at the environmental context as important in the emergence of franchising. Some of the franchising literature looks at institutional theory which can help connect some external and environmental factors relating to the emergence of franchising. The application of institutional theory has proven to be especially helpful to this stream of entrepreneurial research. Combs et al. (2004) discuss institutional theory and explore how its social influence affects organizational decision-making (Oliver, 1997). According to institutional theory, firms exist in an institutional context defined by rules, norms, values, and taken-for-granted assumptions that guide economic behavior (Oliver, 1997).

It is in Shane and Foo's (1999) exploration of franchising success, that institutional theory played a major role in helping to explain the forces that shape entrepreneurial success, apart from organizational (or entrepreneurial) resources (Ahlstrom & Bruton, 2002; Peng, 2006). While Shane and Foo's work focused on domestic U.S. franchising, institutional theory, as suggested by Hoskisson, Eden, Lau, and Wright (2000), has also proven to be particularly powerful in examining international related topics. The factors that have been widely acknowledged are that for new organizations, the institutional environment defines and limits entrepreneurial opportunities, and thus affects the rate and size of new venture creation (Aldrich, 1990; Gnyawali & Fogel, 1994; Hwang & Powell, 2005). Other institutional factors in the external environment that impact entrepreneurial development and the start-up phase are favourable market incentives and the availability of capital (Foster, 1986). Therefore inadequate institutional development can complicate new venture development such as the adoption of franchising (Baumol, Litan, & Schramm 2009) while a more developed institutional environment with overly restrictive regulation can hamper firm's founding (Soto, 2000). Moreover, Barthélemy (2011) asserted that a key tenet of institutional theory is particularly relevant to franchising, that is decisions are

influenced by isomorphic pressures arising from the environment. Overall, findings from Barthélemy (2011) study suggest that researchers should supplement the popular agency theory with institutional theory to adequately explain franchising decisions by investigating whether institutional theory explains variance in franchising decisions beyond what is explained by agency theory.

3.2.3.4 Industry Context

As well as a lack of research on the broader environmental influences only three articles actually touch on the emergence of franchising from the perspective of the industry. The impact of franchising at an industry level is looked at by Dant, Grunhagen and Windsperger (2011) in relation to industry fragmentation and as mentioned previously Elango and Fried (1997) made a call for franchising and industry effects and implications to be investigated. Furthermore Martin (1988) asked questions such as why does franchising exist and why does franchising exist in certain industries? Martin (1988) addressed the first question when he examined franchising from an industry perspective and found that capital needs, market competition, monitoring costs, and the need to reach minimum efficient scale were reasons to franchise. The second question Martin (1988) asked was why is franchising successful in some industries and not others? From the empirical research he found that from multiple quantitative studies there seems some consensus on the following: firstly, retail sales, fast food and customer service franchisees were found to have low closure rates, while beauty and health and automotive and hotels had the highest failure rates (Justis, Castrogiovanni, & Chan 1992). Secondly the longer established the franchise system the lower the failure rates (Lafountaine and Shaw, 1998). But these findings don't get to the bottom of the issue at hand and further research needs to truly address these fundamental questions.

3.2.4 The Impact of Franchising on Industry Structure

3.2.4.1 Theoretical Perspectives

This section looks at franchising research that relates to the impact of franchising on industry structure. As mentioned at the beginning of this franchising literature review little or no research has specifically looked at the impact of franchising on industry structure, a gap this study intends to address. Institutional theory, resource dependency theory and population ecology will be looked at in terms of their relevance to the impact of franchising on industry evolution.

As mentioned institutional theory has been applied to franchising in terms of its emergence but in addressing the impact or influence of franchising on industry only a some link has been made by Gauzente & Dumoulin (2012) also address the relevance of institutional theory to the field of franchising research. Gauzente et al. (2012) maintain that franchising is one of the most dynamic forms of organization for retail networks. Conceptualized as a hybrid form by transaction cost theory, franchising outlets are supposed, in the long run, to be bought by franchisors in order to

capture residual rents. However, franchising has persisted a long time and still represents one of the favourite means to cover territories. Gauzente et al. (2012) suggests that this persistence of franchising in the organization of retail networks can be explained by institutional theory and those institutional forces exert their influence at multiple levels forcing firms to promote and perpetuate franchising. Combs et al. (2009) submit that social factors described by institutional theory will enhance understanding. Empirically using a sample of 1,300 franchisors active during 1980 through 2000 the authors found evidence that both environmental and internal institutional pressures influenced firms' propensity to franchise, but that responsiveness to internal institutional pressures declined as economic reasons to franchise increased. Overall, social factors appear to actively influence franchising, but their impact is muted by economic factors. The results also suggest that perhaps franchising is itself becoming an institutionalized norm. For researchers, institutional theory promises to be a fruitful avenue for increasing understanding about franchising. For franchisors, results highlight the value of systematic analysis of franchising decisions.

Furthermore in 1999 Shane and Foo (1999) adopted an institutional perspective to investigate franchising. Empirically they examined 1292 new franchise chains and showed that survival probabilities increase when franchisors gain signs of legitimacy such as age, size, and media certification. With respect to the propensity to franchise, they argued that franchisors enhance long term survival when their propensity to franchise matches the demands of the institutional environment. The practices of highly visible competitors are frequently observed by others and copied (Sherer & Lee, 2002). In franchising, knowledge of competitors' practices might spread through franchising consultants or the national franchising associations, which are the major clearinghouse for practitioner-focused franchising information in most countries. As others adopt the practices of highly visible competitors, the practices begin to confer legitimacy, leading still others to adopt them (Sherer & Lee, 2002). When a highly visible competitor elects to franchise, that decision is easy to observe and imitate.

In addition Resource Dependency Theory has also been used to look at franchising and its impact on industry but not as its central focus. However, franchising has the ability to affect power relationships within franchise systems and between franchisors in an industry. According to Hillman et al (2009) thirty years have passed since Pfeffer and Salancik's seminal work on resource dependence theory (RDT). During this time Resource dependency theory has been applied broadly across the research domain to explain how organizations reduce environmental interdependence and uncertainty. Hillman et al. (2009) structure their review around the five options that Pfeffer and Salancik propose firms can enact to minimize environmental dependences: (a) mergers/vertical integration, (b) joint ventures and other interorganizational relationships such as franchising, (c) boards of directors, (d) political action, and (e) executive succession. Since its publication, resource dependence theory (RDT) has become one of the most influential theories in

organizational theory and strategic management. Resource dependence theory characterizes the corporation as an open system, dependent on contingencies in the external environment (Pfeffer & Salancik, 1978). As Pfeffer and Salancik (1978: 1) state, "to understand the behavior of an organization you must understand the context of that behaviour - that is, the ecology of the organization." Resource dependence theory recognizes the influence of external factors on organizational behavior and, although constrained by their context, at firm level managers can act to reduce environmental uncertainty and dependence. Central to these actions is the concept of power, which is the control over vital resources (Ulrich & Barney, 1984). Organizations attempt to reduce others' power over them; often attempting to increase their own power over others and in the case of franchising it is increasing the franchisors power over the franchisees. Pfeffer (1987) provides the basic argument of the resource dependence perspective and inter-organizational relations as 1) the fundamental units for understanding inter-corporate relations and society are organizations; 2) these organizations are not autonomous, but rather are constrained by a network of interdependencies with other organizations (such as franchisors and franchisees); 3) interdependence, when coupled with uncertainty about what the actions will be of those with which the organizations interdependent, leads to a situation in which survival and continued success are uncertain; therefore 4) organizations take actions to manage external interdependencies, although such actions are inevitably never completely successful and produce new patterns of dependence and interdependence; and 5) these patterns of dependence produce inter-organizational as well as intra-organizational power, where such power has some effect on organizational behavior. Thus one major insight from using a RDT lens is the understanding that franchising has the ability to affect power relationships within franchise systems themselves and between organisations in an industry.

In addition to institutional theory and resource dependency theory population ecology has been used in the franchising literature to connect franchising and its impact and fit with the environment. Perrigot (2008) explores franchise systems and their relationship to population ecology theory. Organizations must fit to their environment in order to survive. However, in the case of franchising networks, there seems to exist a particular form of organization that has a better fit with the environment. Perrigot (2008) found that franchise systems that had a plural format i.e. combining franchised units and company-owned units, offered greater flexibility and can fit more easily to the market (Bradach and Eccles, 1989). Perrigot (2008) asserts that the changes in the populations of organizations occur through selection rather than adaptation (Scott, 1998). Natural selection can be broken down into three distinct stages: variation, selection and retention (Aldrich, 1979). The natural selection process enables us to understand three key themes: organizational foundation (Hannan and Freeman, 1987; Aldrich, 1990; Lomi, 1995, 2000; Messallam, 1998), organizational mortality (Aldrich and Reiss, 1976; Freeman and Hannan, 1983; Carroll, 1987) and organizational change (Aldrich and Reiss, 1976; Hannan and Freeman, 1984; Hannan, Burton and Baron, 1996).

However, Perrigot (2008) deals primarily with the survival of franchising networks, only the theme of organizational mortality. Because of their similar focuses on the role of the external environment, population ecology may also represent a theoretical perspective for integration with Resource dependence theory. In one of the earliest attempts to integrate Resource dependence theory with other theoretical lenses Ulrich and Barney (1984) do just this. The authors use these two perspectives along with transaction cost economics to develop a meta-theoretical perspective of organizations. They suggest population ecology's perspective of organizational selection and survival may be explained by a firm's ability to reduce environmental dependencies while gaining power over others. However, beyond this initial theorizing, little research has considered the role that inter-organisational relationship such as franchising play in the survival and selection process from this perspective.

3.2.4.2 Franchising and its impact on Society

In trying to gain a broader perspective of the impact of franchising on industry evolution there are a number of economics and law related articles that view franchising from the perspective of a utility to society. They generally explore questions regarding whether the social benefits of franchising outweigh the costs society incurs because of it. While it is recognized that many aspects of franchising may have a beneficial impact on society by improving economic efficiency, there is concern that some aspects of the franchising relationship may serve as restraints on trade. Particular franchising practices examined include resale price maintenance (the franchisor sets the price the franchisee can charge), exclusive territories (only one franchisee can do business in a geographic area), exclusive dealings (the franchisee can only do business with the franchisor), and requirements contracts (the franchisee is required to purchase certain supplies from the franchisor). Scherer and Ross (1990) provide an overview of research in this area. In addition to considering what harm franchising may do to society as a whole, these authors are concerned with how much the franchisor might abuse the relationship to the detriment of the franchisee. While the franchisee provides the capital for the franchising unit, the franchisor has decision-making power over many items quite important to the success of the unit. Topics researched in this area include how much information a franchisor should disclose to a potential franchisee when soliciting an investment (Castrogiovanni, Justis, and Julian 1993; Stadfeild 1992); the ability of the franchisor to terminate the relationship after the franchisee has made a significant investment (Hadfield 1990; Brickley, Dark, and Weisbach 1991); and court interpretation of the franchise contract (Hadfield 1990). This area of research is not managerially oriented. However, research from franchising and society does have relevance to management issues.

3.2.4.3 The Impact of Franchising and Competitive Advantage

In further assessing the impact of franchising on industry structure there is a definite connection between the role of firms who adopt franchising and their success or competitive advantage. Again

this is an area under researched and there is a lack of studies using franchising as a central tenet. Many scholars have asked the question as to what can lead a firm to achieve competitive advantage. Perhaps franchising as an organizational form can lead an organization to achieve competitive advantage? Thus by entrepreneurs introducing franchising into their own firm and it leading to success or competitive advantage the entrepreneurs will have had an impact both at firm and industry level. In terms of owning resources that are unique to that firm whether developed over time or through unique technology needs to be utilized to maximize the performance of the business (Collis & Montgomery, 1995). Recognising uniqueness is not enough to gain competitive advantage; they need to be used to shape the strategy of the organization. Many franchise systems are homogenous in their offerings and may not be identifying or utilising their resources as a means of gaining competitive advantage. Truss (2004) broadens this by including clients or suppliers as having an influence in developing people management practices and these may include external sources. Thus franchising as a system cannot guarantee competitive advantage amongst rivals but it can act as a promoter of greater organizational efficiencies, brand building and development of unique resources and core competencies as well as incentivised franchisee motivation and productivity. In order to maximise their potential competitive advantage the franchising organisation's offerings need to be judged by their customers as either sufficiently rare, valuable, inimitable, and/ or non-substitutable (Litz et al., 2000). In this way the firm's resources allow it to extract superior rents and sustain future operations. As a result research needs to be carried out on whether franchising firms do gain a competitive advantage and thus can impact the industry in which they develop something this study shall address.

3.3 FRANCHISING: GAPS IN THE RESEARCH

To summarise the review of the franchising literature, a number of gaps have been highlighted in the franchising research. Firstly Dant (2008) addresses the geographical bias of franchising research and claims that the reason most research of the franchising phenomenon is based in non-North American contexts (like Cochet, Dormann, and Ehrmann 2007) is that the franchising industry in the United States is fast approaching its maturity state where a number of erstwhile controversial issues (for example, ownership redirection thesis; cf., Oxenfeldt and Kelly 1968, and Dant and Kaufmann 2003) have been reasonably settled. However, these issues continue to be dominant in other countries where the legal systems related to franchising are still in their developmental stages. Dant and Grunhagen (2014) also look at the rapid global expansion of the franchising enterprise. Initially this inter-national growth was largely limited to countries that were linguistically or culturally similar to the U.S. However, an emerging trend is the growth potential of global markets, developing economies like India, China, brazil and South America appear to have the greatest potential (Dant, 2011) suggests that as these markets are relatively new to franchising master international franchising is among the fastest growing methods of international expansion (Alon, 2006). Kaufmann and Dant (1996) define master franchising as 'a form of umbrella

licensing agreement which differs from the standard unit or location-level franchise in two ways: a) It provides for the granting of an exclusive territory extending beyond the trade area of a single unit, and b) It envisions from the outset the introduction of an additional layer of control between store level management and the franchisor'. Hence, if researchers want to study the evolutionary, developmental stages of franchising in completely new contexts, they need to go beyond the North American domain of enquiry something this study attempts to do.

Secondly Dant and Grunhagen (2014) highlight the dominance of franchising research from the franchisors perspective (Dant 2008, Dant, Kacker, Coughlan, & Emerson 2007) they discuss how the enormous popularity of franchising has made prospective franchisees accept the reality of one-sided franchise contracts as 'industry standard' and hence acceptable, a state of affairs that is likely to persist so 'long as there are buyers standing in line with pen and cash in hand' (Purvin, 1998). Some notable exceptions are Baron and Schmidt (1991) who asked individuals why they joined a franchising system as a franchisee. They found that franchisees wanted to run their businesses independently but felt that the availability of backup help, a proven concept and name and reduced risks of failure made franchising attractive. Similarly Knight (1984) surveyed franchisees and found that the benefit of a known trade name, the higher independence and job satisfaction enjoyed, and easier business development were the primary reasons to be a franchisee. Willingness to work hard and a desire to succeed were seen as the most important characteristics of a successful franchisee. Akremi et al. (2010) also addresses the issues associated with franchise relationships and they claim that these relationships are often assumed to be simple, dyadic, and highly constrained relationships between franchisors and franchisees (Clarkin and Rosa, 2005). Yet, research emphasizes the complexity of franchise relationships and demonstrates collaborative and entrepreneurial teamwork between franchisees, not only between franchisors and franchisees (Clarkin and Rosa, 2005; Cochet and Ehrmann, 2007; Dormann and Ehrmann, 2007). Dant and Grunhagen (2014) look at a recent contemporary development which promise to bring greater parity between the franchisors and franchisees. There is a phenomenal increase in the number of multi-unit franchisees that is the number of franchisees that operate multiple units within a franchise system that function virtually as mini-hierarchies within the overall franchisor-franchisee hierarchical structure. Dant (2008) also concludes by suggesting that while a handful of franchisee-based studies exist; however, there is a virtual absence of examining the franchising phenomenon from the perspective of the customer. This despite the fact that some have scorned the franchising industry for its impact on the homogenization of tastes (e.g., Luxenberg 1985). Hence, in reality we have very little idea of how the customers think about the value-added aspects of franchising another gap in the franchising field.

Thirdly Quinn and Doherty (2000) note that much of the prior research studies in international franchising as well as other areas of franchising were based primarily on survey research and used

quantitative methods. Qualitative studies, however, have complemented the portfolio of research approaches in the past few years (e.g. Altinay and Wang, 2006; Doherty & Alexander, 2004; Grunhagen et al., 2010) in an effort to gain richer insights into the rationale of key decision makers, such as franchisees, system managers, or franchise customers. Furthermore this study will add to the qualitative research on franchising.

Finally there is a significant lack of research on franchising and its effects on industry. Elango and Fried (1997) made a call for one area in particular to be investigated, which related to franchising and industry effects and implications. Much of the franchising research has previously looked at the franchising system without considering the environment within which it operates. However, franchising is much more popular in some environments than others. Caves and Murphy (1976) argue that 'franchising appears to prevail where efficient scales of operation diverge markedly between the production of a good and the production or development of the goodwill attached to it'. Those interested in why franchising exists could benefit from analysing the characteristics of the industries where it is prevalent (Martin 1988). They also call for use of more fine grained research methods. Stating that almost all research to date on franchising has been coarse grained, using limited information from a large sample. Fine grained methods like case studies capture details of context by studying the phenomena in depth. These methodologies are well suited to deal with complex situations and are utilised in this study to address the impact of franchising on industry evolution.

As might be understood from the review presented here, each area or discipline that studies franchising has its own perspective, and researchers in one area rarely, if ever, seem to show an interest in research in other fields. As a result, franchising research is highly fragmented. Past research has been too closely tied to theories of agency and power, while insightful; these are quite narrow in their perspectives. Therefore there is a great need for more fine grained studies and for a broader industry perspective on franchising over time which this study hopes to achieve.

3.4 INDUSTRY EVOLUTION

This section looks at the development of the industry evolution literature while assessing the relevance of Porter (1980) and the contribution of Malerba and Orsenigo (1996) to the field of industry evolution, after which the next section more specially look at the issues relating to the field of industry evolution and its relationship to the emergence of franchising and its impact on industry evolution as well as the more recent industry change approaches.

3.4.1 Overview of Research on Industry Evolution

This section will look at the evolution of industry evolution research from Porter's (1980) work and will also assess the Malerba and Orsenigo (1996) seminal article on industry evolution and will

identify the number of gaps in the current literature. As mentioned this study is from the strategy perspective and as such the study of industry evolution is important to strategic management scholars because it helps explain changes in the economic, social and cultural landscape (Durand, 2006). Porter (1980) in his work on industry evolution observed that 'industries evolve because some forces are in motion that create incentives and pressures for change' he also noted that that fragmented industries are characterized as being intensely competitive and that 'industry fragmentation has been overcome by franchising' (Porter, 1980). Furthermore, after the life cycle model, (explored in more detail in the next section) Porter's (1980) industry analysis framework has been the most prominent contribution to our understanding of industry evolution in the strategy field. However, Porter's (1980) work on competitive strategy and his five forces model relating to the competitiveness of an industry has also been severely criticised, for not 'explicitly accounting for the role of government, except when the government is a supplier or buyer' (Besanko, Dranove and Shanley, 2004). This study aims to generate a deeper understanding into the presence of franchising in Ireland's service driven market economy and its effect on industry evolution.

Looking holistically at the importance of industry evolution for the development of the field of strategy as an area of research it helps to build an understanding of the structural and architectural changes occurring in an industry over time and the processes by which firms ultimately attain superior market positions through embracing the realities of business decision making, and uncovering forces that are in motion which create the incentives for change (Porter, 1980; Winter, 2005). To date theories originating from many disciplines including economics, sociology and also strategic management have been exploited to explain the nature of change in industries and organizations (Garud & Van de Ven, 2002) although influential writers warn against singular theories of change advocating a multi-modal and multi-level approach (Quinn & Murray, 2005). Despite the word "evolution" implying change, the vast majority of the work carried out has been cross-sectional (Barron, 2003) and there is only limited evidence of research of industry evolution over time (Malerba & Orsenigo, 1996; Quinn & Leavy, 2005; Quinn & Murray, 2005). Historically other scholars have built on the knowledge on industry evolution, particularly in respect to the one dynamic model; the industry life cycle (Klepper, 1996, 1997; Utterback & Abernathy, 1975) which had recently been formalised by Stephen Klepper (Klepper, 1996), for which, they suggest, there is limited empirical evidence in many industries. In addition the emergence of Industrial Organization Economics which brought with it the primacy of static analysis in the study of industry structures, market positioning and competitive dynamics. During the 1970s and 1980s new influences entered the field as work from transaction cost economics with its focus on structural choice between markets and hierarchies, and new institutional organization concerned with motives and the rational decision procedures of agents, or new institutionalism emerged but all have a 'static and equilibrium flavour'.

In 1996 Malerba and Orsenigo penned one of the foundational works on the evolution of industries. Their study of industry dynamics and evolution has become a cornerstone of theory within the field, and served to spur on and influence subsequent research through the foundations they established and the gaps in knowledge they identified. Fifteen years on, some but not all of the gaps identified in their paper have been addressed. Furthermore Malerba and Orsenigo argue that while there have been many studies relating to structural dynamics of industry evolution, there is still a 'lack of empirical evidence which would allow us to construct generalisations, taxonomies, or theories about how industries evolve over time in terms of structure' (Malerba and Orsenigo, 1996). According to Malerba & Orsenigo (1996, 2002) and Malerba (2006) over the last decade more attention has been paid to industry evolution which has been informed by a range of studies, including Porter's (1980) work on competitive strategy, McGahan & Baum's (2004) and McGahan's (2004) analysis of business strategy over the industry lifecycle, and Lovas & Ghoshal (2000) and Durand's (2006) work on organisational evolution and strategy.

This study deals with the emergence and evolution of industries, generation and transformation of technologies and products, the development and change of capabilities, changing boundaries of firms, the development of networks, relationships between actors/agents, and the roles played by institutions. A number of scholars have looked to broaden the scope of research aside from exploring the entry, exit, size and concentration features of industries (Malerba and Orsenigo, 1996). There have also been attempts to develop sociological models of industry evolution using organisation theory (McGahan, 2004). From this perspective the organisational ecology model adopted by Hannan and Freeman (1977) has been the most widely used for population studies. However, there still remains very little research about the structural evolution of entire industries and about the role played by institutions which this research will address.

It is important to understand the gaps in the literature and in order to assess possible research contributions. Malerba and Orsenigo (1996) observe that there are many gaps in our understanding of industry evolution, particularly in respect of empirical research in the field, as well as theoretical explanations for it. The major gaps are:

- A lack of exploration of structural dynamics or structural evolution
- A focus on the manufacturing sector with little research on service or distributive industries
- A lack of a dynamic model of industry evolution
- A lack of a historical perspective
- The need to a wider definition of industry boundaries
- The role of institutions in industry evolution
- The relationship between firm level activity and industry evolution
- The need for finer grained empirical studies

To elaborate on two of the significant gaps which are pertinent to this study, firstly Malerba and Orsenigo (1996) also refer a gap in the field of industry evolution that of the role of institutions. Institutions, the humanly devised constraints that shape human interaction (North, 1990), can take many forms including governments, professions, universities, industries, religions and families. Organizations strive for legitimacy and isomorphic pressure to conform can produce change (DiMaggio & Powell, 1983). Malerba and Orsenigo observe that 'government policies and public institutions always play a major role' in the evolution of industries, that '...one observes over time complex structural processes at work involving firms and institutions'. James Quinn and his collaborators have reported on the influence of institutions on the evolution of Irish and British grocery wholesaling (Quinn & Leavy, 2005; Quinn & Murray, 2005; Quinn & Sparks, 2007). Greenwood, Hinings, and Suddaby (2002) showed that regulatory agencies, such as professional associations, play a significant role in legitimizing change in the evolution of accountancy services over a twenty year period in Canada.

Secondly Malerba and Orsenigo (1996) address the gap in research particularly relevant to this study that of the importance of linking industry evolution to firm level activity. Malerba and Orsenigo (1996) observe that 'any serious attempt to build theory will have to come to grips with concepts such as firm competences, boundaries and connections' and the need to 'analyze firms according to several dimensions at once: competences, innovative activities, productive specialization and organizational structure'. Some theories, particularly in the discipline of strategic management, see them as constantly evolving. For example, the emerging dynamic capabilities approach (Augier & Teece, 2009; Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece, & Winter, 2007; Teece, 2009; Teece, Pisano, & Shuen, 1997) endeavours to show how firms achieve sustainable competitive advantage in a changing environment exposed to strong competition (Augier & Teece, 2008). A dynamic capability is the capacity of an organization to purposefully create, extend, or modify its resource bases (Helfat et al., 2007), helping managers to sense the changing environment and reconfigure their resources to optimise their future performance in this new environment.

Finally in the 15 years since the publication of "The Dynamics and Evolution of Industries" (Malerba & Orsenigo, 1996) research guided by Malerba and Orsenigo has produced a body of work through which some of the gaps identified have been addressed (Dosi, Malerba, Marsili, & Orsenigo, 1997; Malerba, 2007; Malerba, Nelson, Orsenigo, & Winter, 2001; Malerba & Orsenigo, 2000, 2009). In this work they have started to address the issue of more dynamic industry evolution studies, and have looked at history friendly models, and continued to identify further challenges and progress in the field of industry evolution. There has been a noticeable shift towards a historical analysis of technological innovation and structural changes at the industry level, studies of the drivers of industrial transformations have been mainly in the economics discipline (Quinn

and Leavy, 2004), with technology as their focus (Quinn and Leavy, 2004), and related to manufacturing (Quinn and Leavy, 2005), failing to address the dynamic perspective (Meyer et al., 2005; Quinn and Leavy, 2004). However, Quinn (2002) has made a significant contribution by studying the evolution of Irish wholesaling, and recently Quinn & Murray (2009) who address the transformation of industries and industry architectures through a community evolution analysis of two closely related value chains in Britain and Ireland. This study aims to build on this research. The following section examines the development of the field of industry evolution research and its relationship to the emergence and impact of franchising on industry structure.

3.4.2 Literature Relating to The emergence of franchising

This section looks at the industry evolution literature relating to the emergence of a new variant or new organizational form such as franchising. One of the major gaps in the literature is the lack of attention to agency or in fact the influence of entrepreneurship in the evolutionary process. This has only recently been mentioned by Jacobides (2006) work on industry architecture (looked at in more detail in the next section) and the dynamic capabilities (Augier & Teece, 2009) literature as mentioned previously. This section will review the major contribution of variation, retention and selection (VSR) approach in its ability to help explain the introduction and emergence of new organizational forms such as franchising.

3.4.2.1 The Evolutionary Approach as Meta-Theory

As seen the industry evolution literature is complex and can be limited in its ability to study dynamic and emerging new industry processes. Furthermore there is a need to complement empirical analysis across a broad range of industries with the development of theoretical frameworks to explain the mechanisms by which industries evolve. As mentioned it is beneficial for this study to engage with an overarching theory, such as the variation, selection, retention meta-theory (Aldrich & Ruef, 2006) which is reviewed in the following section, in the context of organizational evolution and strategy (Durand, 2006). This connects to the use of longitudinal, multi-modal, multi-level studies recommended by industry evolution scholars (Dosi & Malerba, 2002; Malerba & Orsenigo, 1996) which this study promotes.

The following section defines and explains the relevant evolutionary processes that are applicable to this study and its exploration of the emergence of franchising and its influence on industry dynamics. De Wit & Meyer (2010) look at industry evolution and claim that "the industry dynamics perspective is often referred to as the industry evolution perspective, due to the strong parallel with biological evolution". They suggest that as with nature, industry evolution is similar as in both instances the survival of firms or species is dependent on their adaptability to their environment. This perspective is useful in looking at the survival of firms and how those who adopt franchising as an organisational form in order to survive in their industry. However they caution,

"as the environment changes only those that meet the new demands will not be selected out" (De Wit & Meyer, 2010). According to Aldrich (2006) the evolutionary approach is 'a generic framework for understanding social change' and is an overarching approach for studying the processes through which organisations, populations and communities emerge and change. This study will adopt this approach and the benefit of this approach, is that it looks at the emergence and evolution of firms and industries at multiple levels many individual theories are limited in their ability to do so. It is applicable at multiple levels and looks at the processes of variation, selection, and retention (VSR). The idea that organisational and industry evolution follows a comparable form to biological processes is now accepted by most in the social sciences. Emerging from 'universal Darwinism', the non-scientific understanding of evolution differs greatly between disciplines. Douglas J. Futuyma (1986) looked at evolutionary biology and claimed that evolution as 'merely change, and so is all-pervasive; galaxies, languages, and political systems all evolve'.

3.4.2.2 Evolutionary Approach: The Generic Processes

This study has found that Darwin's variation-selection-retention (VRS) model when applied to evolutionary theory (Aldrich, 1999) can be used to explain how particular forms of organisations come to exist in specific kinds of environments. It is a useful model to use in terms of studying industry evolution and the emergence of a new variant such as franchising. VSR occur simultaneously rather than sequentially. Variation generates the raw materials for selection, by environment or internal criteria; retention processes preserve the selected variation. As such in terms of the emergence and adoption of franchising it can be viewed as an organisational variation, a new hybrid organisational system which is robust and adaptive in competitive environmental situations. However, once a variation is identified the retention processes also restrict the kinds of variations that may occur. Competitive struggles as well as cooperative alliances may change the shape of selection criteria. Like many scientific analysis, an evolutionary perspective requires that organisational theorists think carefully about some research design questions: What is the most appropriate unit of analysis - organisations, populations and communities. Given the importance of emergence as an outcome in evolutionary analysis how can we define organisations or organisational forms as novel?

Looking at variation, as a useful analytic to help understand evolution, any departure from routine or tradition is a variation, and variation may be intentional or blind. Intentional variations occur when people or organisations actively attempt to generate alternatives and seek solutions to problems such as the adoption of franchising as a new organisational form. Variations can result not from intentional responses to adaptation pressures but rather from accidents, chance, luck, conflict, malfeasance etc. Variations are the raw materials from which selection processes cull those that are most suitable, given the selection criteria. A crucial feature of an evolutionary framework is that it must consider not only variations within existing organisations but also

variations introduced by new organisations such as new entrants into an industry. Most founders intend to reproduce the characteristics of organisations perceived as successful. An example of an intentional environmental variation is the development of a strong new organisation by an outsider to an industry (Aldrich, 1999) or introducing a new organisational governance structure such as franchising.

Selection as an evolutionary process is generated by forces that 'differentially select or selectively eliminate certain type of variations' (Aldrich, 1999). The selection criteria are set by the operation of factors like market forces, competitive pressures, organisational structure, and conformity with norms. Consistent selection pressures usually lead to a high degree of similarities across organisations (Aldrich, 1999) such as many firms adopting a franchise model. Scholars of strategic choice argue that managers can often introduce positive internal selectors first by establishing the strategic direction of an organisation and then by favouring elements of organisational design that are consistent with the logic, scope, goals, and competitive advantage of that strategy (Saloner, 2001). The Retention mechanism occurs when 'selected variations are preserved, duplicated or reproduced' (Aldrich, 1999). If environmental change is slow, replication is important for survival. (Aldrich, 1999) claims that at the organisational level the retention or preservation of existing organisational norms takes the form of selected routines, structures and procedures (Nelson and Winter, 1982). They are efficient as long as an organisation continues to fit the relevant selection criteria (Aldrich, 1999). At the organisation level, the retention mechanism preserves collective and overarching competencies, practices, and technologies (such as franchising), which are shared by many organisations.

According to Aldrich and Reuf (2006) evolutionary theory is an overarching meta-theory applied across multiple levels of analysis; it is open to multiple approaches for explaining particular kinds of changes. The evolutionary approach relates to other theories and perspectives and 'holds out the promise of using these (theories and perspectives) to achieve an integrated understanding, not an integrated theory' (Aldrich and Reuf, 2006). The VSR process of industry evolution helps understand how specific forms of organisations survive and act in particular environments. This approach can be useful in assessing the elements pertinent to the emergence of franchising. Major issues are still under debate with regard to VSR, including the question of what is being selected in evolutionary processes (e.g. routines versus organizations), how novel evolutionary variations can be defined, and what research designs are most appropriate in capturing the indeterminacy of outcomes that is a key feature of evolutionary analysis.

3.4.3 The impact of franchising on industry evolution

This section will address the industry change and process literature that relates to the potential impact a variation like franchising can have on industry structure including approaches such as the industry life cycle model, a co-evolutionary lens and industry architecture.

In terms of understanding what possible impact on industry structure franchising may have it is helpful to approach industry evolution from a practitioner's perspective. The growth of modern economies has been characterized by the emergence, development and on some occasions the decline of a range of industries. New firms enter an industry, some exit, some firms grow, and others decline. In addition, economic entities expand or contract their boundaries and undergo organizational change (Malerba & Orsenigo, 1996). In reality the evolution of industries has been characterized by intense change, sometimes over lengthy periods of time. From a theoretical perspective evolutionary theorists argue that to get a full understanding of how and why industries evolve we must study change over time (Barron, 2003; Quinn & Leavy 2005). That said there are very few in-depth empirical studies of long-run change. While interest in the study of change, change processes and industry evolution has grown only a few studies have focused fully on structural evolution as a central theme (Malerba and Orsenigo, 1996; Winter et al, 2003). The process of change continues to be the least understood aspect of how industries evolve (Dosi, Malerba, Marsili, & Orsenigo, 1997). This study supports this observation and it will address these shortfalls.

3.4.3.1 Industry Evolution – Life Cycle Model

This section looks at the relevance of the industry life cycle model in studying the impact franchising on industry evolution. The industry life-cycle model has contributed significantly to the development of industry evolution in the strategy field (Abernathy and Utterback, 1975; Baum and McGahan, 2004; Klepper, 1993, 1997, 2002; Utterback, 1994). The life cycle model remains the most cited and empirically substantiated model. In addition, Klepper (1997) addressed the industry life-cycle approach, while Baum & McGahan (2004) studied business strategy over industry life-cycles. The industry life cycle is the supply side equivalent of the product life cycle. It poses that an industry produces a range and sequence of products and the industry life cycle is likely to be of longer duration than that of single products. The life cycle has four phases: introduction (or emergence), growth, maturity and decline. However, much of the research on lifecycles links models of innovation and technological change. Little if any research has been carried out in the service sector and the model is static and lacks a dynamic approach as not all industries go through the distinct phases. Drawing on empirical research in three industries, Malerba and Orsenigo (1996) illustrate that the patterns that the industry life cycle model would predict did not occur, whereas sectoral differences and the macro context of the industries did play a role despite being largely absent in the static paradigms and the industry life cycle.

More recently McGahan et al (2004) claimed that 'the industry lifecycle model - is so widely accepted and its basic premise so taken for granted that it has become conventional wisdom in business.' However, the value of the life-cycle model as a generic process model of industry evolution has been questioned with a number of limitations cited. As most of the research has address industrial demography, therefore structural dynamics and structural evolution have been neglected. Klepper (1993:1996) claims that the life cycle model remains the only dynamic model with empirical support, while progress in the area of structural evolution remained unexplored. However, even the explanatory power of the life-cycle approach is limited and concerns have been expressed with regard to the narrow product definition of industries studied that underpin the model (Malerba and Orsenigo, 1996, Klepper, 1997; Mowery and Nelson, 1999).

3.4.3.2 Organisational Change and Development Models

So taking into account the limitations of the industry life cycle model and in order to understand the most appropriate approach to assessing the impact of franchising on industry evolution this study looks to Pettigrew's work and the Aldrich and Reuf's evolutionary model (Aldrich and Reuf, 2006). Pettigrew (1985, 1987, 1990, & 1997) has argued that change is a multi-level process that can only be fully understood in its wider context. Pettigrew (1985, 1987, 1990, 1997) claimed that up till the 1980s there have been 'remarkably few studies of change that actually allow the change process to reveal itself in any kind of substantially temporal or contextual manner' (1987). Wilson (1992) concluded that the study of change 'needs a perspective which can blend the behavioural with the economic, the historical with the future orientated decision making and the political with the social and economic factors (1992). Levy (1991) studied change in the Irish dairy industry context; Lundgren's (1995) looked at technological innovation and network evolution.

However, multi-level and multi-modal approaches of the type advocated by these scholars are still uncommon. To help address this shortfall, in their seminal work Organisational Change and Innovation Processes, Van de Ven and Poole (2000) distinguish between four types of organisational change and development theories, based upon two dimensions of change: the unit (a single entity or multiple entities) and the mode of change (prescribed or constructive). Based upon these dimensions Van de Ven and Poole (2000) identify four organisational change and development theories: The Life Cycle Model (LC) (see section above), A Teleological Model, the Dialectical Model and the Evolutionary Model. Aldrich & Ruef (2006), developed their framework to classify and interpret historical transformation/organisation change models into life-cycle, non-life-cycle (teleological and dialectical), and evolutionary models. Aldrich and Reuf (2006) advocate the use of an evolutionary approach, which 'encompasses many levels and units of analysis, takes interdisciplinary perspective on change processes'. This approach has been chosen as the overarching framework of this study, thus adding to the gap in the research on the evolutionary approach.

In the following section some of the more exciting industry evolution developments and research trends are explored and their relevance to the study of franchising and its impact on industry evolution is noted. Next the extension of this research into co-evolution and industry architecture is addressed to deal with some of the limitations of the previous models, as firms and industries are more frequently being understood as related and simultaneously evolving components. Then the concept of industry architecture is investigated along with its growing use in the study of industry dynamics and evolution.

3.4.3.3 The Co-Evolution Lens

The co-evolutionary lens is receiving more attention from scholars of industry evolution and this section explores why it may be of value to this study. In many domains of research from economics, management and sociology scholars attest that industries go through the life cycle phases and in the early stages of industry development many firms emerge and as industries mature this number decreases and eventually declines following the industry life cycle model (Utterback, 1994). Economists have attributed this pattern to differences in cost structures of firms, driven mainly by the discovery and/or adoption of innovations such as the adoption of franchising, leading to the success of some firms over others (Klepper 1996). Sociologists, led by organisational ecologists, have attributed this trend to legitimation of organisational fields and then subsequent firm level competition within these industries (Hannan and Freeman 1989). However questions remain unanswered: what happens if we only look at these industry changes through the research of single or isolated industries? Could the effect of an industry's life cycle have implications across two or more industries such is the case with this study.

Baum & Singh (1994) have explored how populations pursuing competing production technologies in the same industry will affect each other's life chance (Barnett & Carroll 1987; Utterback 1994). Still others have launched a study of 'community ecology' (Ruef 2000) in which interdependent populations within a community of populations influence each other's' evolution.
Poole et al (2004) explains that co-evolution is viewing the organisation as part of an inter-organisational community, industry or population which fits with the research on franchising in terms of franchise systems being made up of a network of franchisors and franchisees (within a franchise system) and at industry level the relationship between competing franchisors. The seminal paper by Lewin and Volberda (1999) focused on how firms co-evolve with each other and with a changing organisational environment see figure 2.2 below. According to Lewin and Volberda (2011), co-evolution theory is not a new idea in organisational science; they claim that it was implicit in the early work on the emergence of bureaucracy by Weber in 'Economy and Society' (1978). Co-evolutionary effects take place at multiple levels within firms as well as between firms, as seen in the context of franchise systems in an industry. While co-evolution has been studied on a single level of analysis, McKelvey (1997) argues that co-evolution takes place at

multiple levels. He makes a distinction between co-evolution within the firm (micro co-evolution) and co-evolution between firms and their niche/industry (macro co-evolution). This approach recognises that processes of variation, selection and retention function within the organisation and interact with similar processes operating at the population level. The focus of macro co-evolutionary theory is on firms existing in a co-evolutionary competitive context, while micro co-evolutionary considers co-evolution of intra-firm resources, dynamic capabilities and competencies in an intra-firm, competitive context (McKelvey, 1997).

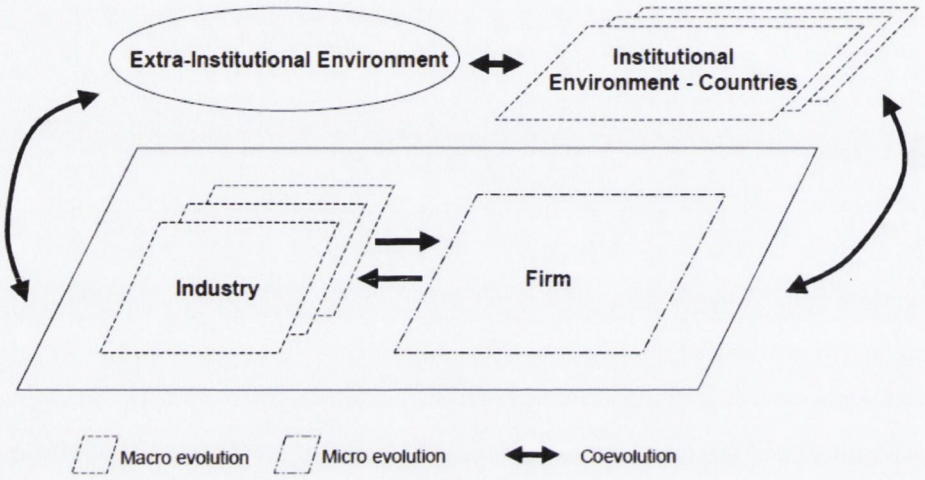

Figure 3-1 Co-evolution of the firm, its industry and environment from Lewin et al (1999)

McKelvey (1997) has argued that evolution of organizations cannot be understood independently from the simultaneous evolution of the environment. In his paper McKelvey (1997) advocates a co-evolutionary perspective to studying organisational adaptation. He notes the importance of studying organisations over a long period of time with an historical perspective (emphasizing the co-evolution of the firm and its environment). Lewin et al. (1999) (see figure 2.2 above) have advanced a theory of the evolution of new organization forms as an outcome of the co-evolution of the competitive environment, firm intentionality and the institutional environment of the firm under conditions of stochastic or chaotic environmental uncertainty. More recently Lewin and Volberda (2011) argue that co-evolution has the potential to serve as a unifying framework for research in strategy and organisation studies and for reinterpreting, reframing, and redirecting the selection, adaptation discourse. Realising this potential will require dramatic increases in empirical research within co-evolutionary inquiry systems with such research requiring longitudinal methods of analysis and time series data which this study contributes to.

Building on the VSR model and the co-evolutionary dual hierarchy - genealogical and ecological (Baum & Singh, 1994) - Rodolphe Durand (2006) develops a theoretical model of the integration of evolution and strategic management. His Organizational Evolution and Strategy (OES) model facilitates an understanding of the relationship between competitive advantage, the survival of the

'concrete firm' and industry evolution. This research poses to look beyond current research on inter-organisational relationship, networks and alliances by considering other organizational structures such as franchising. Within the context of their approach relating to the adaptation of choices of the firm and as such investigating the motivation for a franchise system as a governance structure, the co-evolution of the firm and its environment, as well as the embeddedness of a franchise system within industry adaptation practices mediated by the institutional arrangements constraining the firm. However, one of the main criticisms of co-evolution is the lack of some co-evolutionary studies giving only a limited role to human agency. However, this study holds that co-evolution is a useful lens through which industry evolution may be investigated and also suggests that the role of human agency is an important element to consider.

The previous sections have drawn on the variation-selection-retention (VSR) model, organizational change and development theories and the co-evolutionary framework. The following section will endeavour to examine the research on industry architecture and industry platforms in order to help explain the types of change that result in the evolution of industries.

3.4.3.4 Industry Platforms & Industry Eco-Systems

The emerging industry architecture research (Jacobides, 2005; Jacobides, Knudsen & Augier, 2006; Jacobides & Winter, 2005) is closely linked to research on industry platforms (Tee & Gawer, 2009) and is relevant to addressing the impact of franchising on industry evolution. Tee and Gawer (2009) observed that today's complex high-tech industries, however, has brought to the fore the idea that in many cases, industries can be better analyzed as networks of interconnected firms or 'industry ecosystems' (Iansiti and Levien, 2004), to try to capture the multidimensionality and the complexity of firms' relationships such as franchise systems operating together in an industry. In this context, an important question is: What factors and processes drive value appropriation and value creation in interdependent industry ecosystems? What perhaps are the roles of industry actors? This perspective helps develop the role of the agent where industry co-evolution is limited with regards to this element.

In recent years, two theoretical perspectives, industry architectures and platforms, have attempted to explicitly address the issue of how value is created as well as captured in the context of interdependent systems of firms and institutions. Industry platforms are technological building blocks that act as a foundation upon which an array of firms, organized in a set of interdependent firms (sometimes called industry 'ecosystem'), develop a set of interrelated products, technologies, and services (Gawer, 2009). Research on industry platforms (Gawer and Cusumano, 2002, 2008) and ecosystems (Iansiti and Levien, 2004) builds on earlier research on technology evolution and technological dominance (Utterback and Abernathy, 1975; Tushman and Anderson, 1986; Suarez, 2004; Murmann and Frenken, 2006), as well as literature on standards and network externalities.

Platform leaders tend to drive industry-wide innovation in a trajectory that allows them to exert architectural control over the overall system, as well as derive large profits and erect barriers to entry in their own market.

Perhaps, a hybrid organisational form such as franchising could be seen as a value creating industry platform with the industry eco-system comprised of the inter-connected firms (franchisor and franchisees) evident in a franchise system.

3.4.3.5 Industry Architecture

Complementary to the research on platforms, a new strand of work centred on the notion of 'industry architecture' (Jacobides et al., 2006) has emerged. It explores the rules and roles of inter firm relationships and focuses on the ways in which activities along the value chain get divided among industry participants, paying particular attention to firm roles, interdependencies, and the ways in which organizations attempt to shape the industry's division of labour. The concept of industry architecture (Jacobides et al., 2006) defines the ways in which roles are distributed among interacting firms. Industries have fairly well-established rules about what activities each party undertakes, as well as roles played by industry players such as franchise systems within an industry.

According to Jacobides and Billinger (2006) more recently research has considered how industry boundaries evolve, and how intermediate markets emerge (Jacobides, 2005). However, scant research has addressed how an industry's boundaries originate, evolve and how they may impact individual firms. Therefore by considering industry architectures the templates that emerge in an industry define the extent of firm reach and activity. He then argues that firms may be able to affect the architecture of their sectors, especially when it is not sharply defined, and as such create an "architectural advantage". Jacobides et al. (2006) suggest that this 'architectural advantage' can be manipulated by deliberate, forward-looking firms (and in this case, these behaviours much resemble firms' attempts to establish platform leadership). Certainly focusing on actors and differences in their roles can help us understand why platforms might show differences in say regional or geographic success or failure or take-up. Furthermore Tee and Gawer (2009) discuss how environmental shocks, such as changes in regulation, can lead to significant changes in the way an industry organizes itself, with important implications for control or profitability of particular types of firms (Cacciatori and Jacobides, 2005; Jacobides, 2005). Depending on the structure of the industry architecture, certain types of firms can capture more value than others.

Industry architecture research also considers the evolution of industry value chain structures. It investigates how and why the vertical integration of different industries and their changes (or lack thereof). This area of research acknowledges the agency of firms and individuals in such changes

and seeks to understand the processes and circumstances of architectural change which connects to the research on franchising Jacobides (2007).

An important extension to the industry evolution literature is that the research on industry architectures does allow for government intervention and for deliberate separation of capabilities (Jacobides & Billinger, 2006; Jacobides, 2008). According to Quinn & Murray (2009) their article focused on the transformation of industries' architectures - how firms, institutions, technologies, and strategies coevolve. Industry architectures are seen as ''the stable but evolving relationships along the value chain'' (Jacobides, Knudsen, & Augier, 2006). Furthermore, the very usefulness of an 'industry' as a level of analysis is becoming doubtful: much of the change and evolution in terms of strategy, technology, and knowledge development does not happen either among firms within a stable industry, or through the growth or decline of certain sectors compared to others. Instead, the change occurs in terms of the definition, redefinition, drawing, and redesigning of the very architecture of these sectors. Technology, new systems or new firm structures such as franchising do not progress and develop within a sector; rather they shape (and are shaped by) the encompassing architecture of multiple sectors.

The next section looks the shifting relative influence of economic (efficiency/cost minimisation) and sociological (power-seeking and stability-seeking) drivers on the emergence of franchising and its impact over time. To look at the issue of multiple levels in terms of theoretical contribution this study now looks at the five organisational level theories (Transaction Cost Economics, Agency Theory, Resource Dependency Theory, Neo-Institutional Theory and Population ecology) in Table 3.1 below. This table relates each of the theories to both explaining franchising and the study of industry-level change/evolution. Table 3.1 explores all five theories and their potential to explain the evolutionary process. At the analytical level the robustness of these competing theories are investigated and their relevance explored with an aim to discover the relative explanatory power of these competing theories. Economic theories proved to be more limited in their explanation of the impact of franchising on industries. While their explanatory power captured the initial adoption of franchising they often failed to account for the subsequent impact of franchising on industries. Sociological theories offered the legitimisation explanations for the impact of franchising once introduced in the later stages of industry evolution, but often failed to deal with the initial adoption of franchising.

ECONOMIC PERSPECTIVES	
Transaction Cost Economics and Franchising	**Transaction Cost Economics and Industry Evolution**
As an economic theory of exchange, transaction cost economics (Williamson, 1975, 1985, 1996) has been widely used in the literature on inter-organisational relationships and inter-firm cooperation. In its more recent guise Transaction cost economics explores the rationale for the existence of the various organisational forms that arise between market and hierarchy. Franchising involves a non-market, long term contract that specifies the most important but not all aspects of economic exchange. Thus franchising is not completely market driven because the corporate body makes some decisions though not all decisions. Governance issues that have been the subject of strategy research include diversification, integration, joint ventures, and multinational organisation. Overall, Transaction cost economics labels intermediate forms of governance structures such as franchising as hybrids and explains why hybrids exist in terms of efficiency and economising seeking behaviour. Business histories and case studies, meanwhile, recount the role of organizational innovations in the success of a variety of businesses and industries (e.g., Porter and Livesay, 1971; Chandler, 1977). But the evidence is not all supportive. Diverse organizational forms clearly survive for extended periods within the same industry. Conglomerates compete with single-product firms; manufacturers procure inputs from integrated and independent sources; franchisors oversee both franchised	The Transaction cost economics approach uses the transaction as the unit of analysis (Commons, 1934) and the focus of this theory is on how organisations need to organise their boundary-spanning activities in order to minimise transaction costs (Barringer & Harrison, 2000). Originally, the theory provided a framework for exploring markets and hierarchies as alternative governance structures, stressed cost and cost-minimising as a rationale for cooperation, and suggested that cooperation can reduce the uncertainty caused by market failure difficulties with regulation, and high transaction, opportunism, and legitimisation costs (Barringer & Harrison, 2000, Aldrich & Ruef, 2006). Thus Transaction cost economics theory has developed the perspective that the efficient management of transactions is a key source of firm competitiveness and the correct alignment of governance structures with transactions is essential to efficiency, survival and adaptation (Alchian & Demsetz, 1972; Williamson, 1991). In this framework, transaction costs include negotiating, monitoring, and enforcing contracts. Similarly the Transaction cost economics perspective distinguishes between three broad types of governance structures: markets, hierarchy and hybrid. Organisations can obtain what they need by engaging in transactions with other independent actors in the market or they can internalise the production of the needed resource, thus subjecting it to their own hierarchical control. Transaction cost economics theorists recognise that organisations actually comprise a mix of market and hierarchy based activities and the intermediate forms such as contracts.

and company-owned outlets; nonprofits operate alongside for-profit hospitals, day care centers, and nursing homes. The coexistence and stability of varied organizational forms is an undeniable observation.

External uncertainty is the volatility (unpredictability) of the firm's environment. Williamson (1979) hypothesises that firms should react to volatility by avoiding ownership, since it commits them to one operation that may not be appropriate when the next environmental shift occurs. Rather, firms should retain flexibility and shift risk to outsiders. This suggests that in the absence of transaction-specific assets, market contracting, is unchanged by volatility.

In short, uncertain environments aggravate the normal difficulty of working with irreplaceable agents, making the combination of uncertainty and specificity a potent double bind. This suggests that given some degree of asset specificity, control becomes more desirable as uncertainty increases. Apart from external uncertainty there is also the issue of internal uncertainty in the transaction cost framework. Internal uncertainty exists when the firm cannot accurately assess its agents' performance by objective, readily available output measures. This may occur when good measures of output are not available, or when the relationship between inputs and outputs is ill-understood (Ouchi 1977), making it difficult to specify what performance level to expect. Uncertainty internal to the firm makes control more desirable regardless of the level of asset specificity involved (Williamson 1981).

Thus inter-organisational relations can help overcome some of the problems associated with markets and hierarchies, such as market failure, difficulties with regulation, and

According to Klien and Lien (2009) Transaction cost economics can be useful when looking at industry structure and firm strategy from an organisational economics perspective. In their paper they examine the implications of transaction costs for diversification decisions. Citing that "Transaction cost economics is essentially a theory about the costs of contracting, and sheds light on the firm's choice to diversify into a new industry rather than contract out any assets that are valuable in that industry" Klien and Lien (2009). However they also acknowledge the limitations of the theory, contending that "while Transaction cost economics does not predict much about the specific industries into which a firm will diversify, it can be combined with other approaches, such as the resource-based and capabilities views, that describe which assets are useful and where companies may diversify next", Klien and Lien (2009).

In summation according to this research, it appears that firms that diversify may actually have a fundamental impact on industry evolution because they are larger than the incumbent average at entry, grow faster, and exit less often than other firms.

Fundamentally, Transaction cost economics presents a theory examining considerations for matching governance structure to transaction type. Despite its valuable contribution in terms of boundary decisions which are relevant to structural and architectural change, there are a number of valid criticisms of the Transaction cost economics approach.

Similar to other boundary theories, Transaction cost economics was not intended to specifically address arguments for industry evolution or adaptation and selection. Nevertheless Transaction cost economics principles can be examined through the lens of adaptation and change (Dyer, 1996). However, the ability of Transaction cost

high transaction, opportunism, and legitimisation costs. Accordingly franchising can help to reduce competitive pressures. The frequency, uncertainty, and asset specificity of transactions are the major variables of inter-organisational governance structures. Efficiency is achieved by creating economising governance structures and acts as a driver of industry change at the level of organisation. However, Transaction cost economics perspective has been repeatedly critiqued for its lack of social and institutional embeddedness as well as for its strong focus on rationality.	economics to explain the evolution of organisational forms and adaptation is highly constrained due to its static, comparative-efficiency basis. Transaction cost economics does not account for how organisations should change their governance structures as circumstances alter (Roberts and Greenwood, 1996). Argyres and Porter-Libeskind (1999) argue that past governance decisions influence a firm's future governance choices due to path dependence, thereby suggesting the need to study transactions as interconnected overtime. Thus the decision of whether to contract within a hierarchy or market may be largely embedded in the organisation environment and its past history and scope. Arguments for examining the implications of Transaction cost economics overtime and considering firm specific issues suggest that Transaction cost economics may benefit from integration with other theoretical constructs such as evolutionary economics or the resource-based view. The primary focus of Transaction cost economics is on the content of change rather than the process. As Kay (1992) noted 'Williamson's theory rests on comparative statics and cannot be used to describe dynamic, evolutionary phenomena'. The evolutionary aspect of Transaction cost economics theory applies to VSR processes at the organisational level. Variation is introduced through opportunistic actors, who are guided by self-interest and rational intentions. Transaction cost economics finds dealing with the process of change problematic. As such Transaction cost economics can only provide a momentary view of possible institutional responses to temporary situations. Actors therefore tend to lie, steal and cheat to further their own position. Given a resource scarce environment, actors will be under pressure to find ways to economise on transaction costs. Selection involves matching organisational actions with the efficient use of resources in a competitive context (market). In other words, these

	actions are aimed at minimising transaction costs. In terms of evolutionary theory transaction structures that reduce uncertainty by preventing misunderstanding will have a selective advantage over those that do not. Retention in Transaction cost economics is positioned in the transaction specific investments made by parties to a relation, or in contracts and in the mutual monitoring and enforcement that accompanies repeated transactions. Williamson acknowledged that 'farsighted contracting' which to some extent links to evolutionary theory. However there is differing levels of confidence economists place in 'farsightedness'. Transaction-specific investments anchor retention processes: parties need to invest to sustain relationships, monitor transactions, and enforce repetitive transactions (Aldrich and Reuf, 2006). Despite its valuable contribution in terms of boundary decisions which are relevant to structural and architectural change, there are a number of valid criticisms of the Transaction cost economics approach. First, its explanation of the formation of inter-organisational relations is limited to efficiency and cost-minimisation and thus ignores learning, legitimacy, perceived fairness, and other human nature characteristics (Aldrich and Reuf, 2006; Barringer and Harrison, 2000; Ring and van de Ven, 1994). Second, it does not address the contextual issues. Third, the theory's focus on individual rather than on group behaviour implies that industry level issues have not been explained sufficiently (Gunningham and Rees, 1997). Fourthly, its inability to deal with the role of power, culture and people in choices between market and hierarchy implies that the relational aspects of cooperation over time, reduction of opportunism through trust, cultural incompatibility, and bonding between partners have been left outside the scope of the theory (Barringer and Harrison, 2000; Child et al., 2005). As Aldrich (1999) put it, the perspective tends to 'overstate the role of individually orientated economic

	incentives in organisations and understate the importance of social exchange: reciprocity, co-operation and trust'.
Agency Theory and Franchising	**Agency Theory and Industry Evolution**
Initial and still-insightful works are Caves and Murphy (1976), Rubin (1978), Lafontaine and Slade (1997) and Blair and Lafontaine (2005) who reviewed much of the empirical literature from economics and highlighted agency theory as a motivation for franchising. 'Agency theory provides a valuable theoretical context in which to examine the effect of hybrid organisational arrangements on firm growth since it examines the relative efficiency of hiring employees and making them owners' (Alchain & Demsetz, 1972). In the case of franchising this theory can be used to illustrate the benefits derived from essentially outsourcing ownership and allowing the natural benefits of the entrepreneurial instincts that can be lacking in modern management motivations. The claim is that by franchising, a relatively small company can grow and expand beyond and outstripping its present resources. A perspective combining economics and organisation theory can be found in the review by Combs et al. (2004). Franchising lacks a conceptual basis from which an explanation of the major elements of this activity can be generated (Eisenhardt, 1989). Agency theory has been used to explain the distribution of franchised and company-owned outlets in franchise systems (Brickley & Dark, 1987; Lafontaine, 1992; Norton, 1988). Agency theorists have shown that market-based incentives, like franchising, are more efficient than hierarchical governance mechanisms where agent adverse selection and sub-optimal	The governance perspective of Agency Theory is primarily concerned with how to devise appropriate governance mechanisms or contracts to help reduce transaction or agency costs. Agency theory has been widely cited in the franchising context and has been used to explain the firm-level and industry-level governance decision between own vs. franchise. Within Agency theory economists see individuals and organisations, as pursuing their self-interest and their primary mechanism of control is coercion. Recent studies emphasise the need for and the costs of regulation of this behaviour. However, agency theory (Jensen & Meckling, 1976; Fama & Jensen, 1983) helps to provide a much needed explanation of franchising. Developed in the information economics literature, agency theory is based on the relationship between one party (the principal) who delegates work to another (the agent). The relationship of agency is one of the oldest and most common codified modes of social interaction (Ross, 1973). More recently literature on organisational economics has moved toward theories that reject the classical model of the firm but assume classical forms of economic behaviour on the part of agents within the firm. Agency theory doesn't directly relate to industry evolution, and has not directly been used to study industry evolution. However, Agency theory does look at the complex inter relationship between principal and agents and their roles in enabling change both at organisational level and beyond. Organisations and inter-organisational relationships are treated self-interested parties, sustained by rewards derived from their relationships with other members within their organisation or within inter-organisational

effort are present (Brickley & Dark, 1987; Eisenhardt, 1989; Jensen & Meckling, 1976; Rubin, 1978).

Several franchising theorists argued that the agency theory could be a rationale behind the widespread use of franchising (for example, Mathewson and Winter, 1985; Rubin, 1978; Shane, 1998). The agency theory postulates that franchising was not a low risk or cheaper way for obtaining capital as claimed by the resource scarcity theory. The risk concentration was in the hand of the franchisees, because the franchisees were contributing the input fees and the royalty payments (Blair and Kaserman, 1982; Mathewson and Winter, 1985), therefore risk-adverse franchisees should demand a higher return from franchising, resulting in a lower return from the franchisor (Rubin, 1978).

As a result, the franchisor would be more risk averse that the franchisee. In addition, the agency theory has also been used to clarify agency relationships in franchising. It was proposed that under the conditions of incomplete information and uncertainty of the business environment the managers (agents) tended to shirk their duty to the firm (principal) because their compensation was fixed. As a result, high monitoring costs will be incurred by the firms to ensure that the employed managers acted in the firms' best interest (Rubin, 1978). Thus, firms engaged in franchise business as a response to an agency problem of adverse selection and moral hazard (Birnberg, Turopolec and Young, 1983; Shane, 1998).

Support for the agency theory as a rationale behind franchising is substantial. Research found that the franchisee motivation as an agent was perceived to be the most important

relationships. The success of Agency theory depends on participants continually negotiating a shared understanding of what they are doing to avoid the risk of relationship and organisational dissolution.

In their paper on agency theory and early evolutionary economic theory, one of the only papers to connect Agency theory and evolutionary economic thought, Fink, Wäckerle, & Yolles (2012), describe the model of an economic "living system" in interaction with environments. They look into the history of economic thought, especially into the early rise of evolutionary economic theory by providing a brief account of the systems of thought of F.A. Hayek, J. Schumpeter, H. Simon, and T. Veblen and highlight complementarity among them with respect to their ideas about the dynamic interplay of agency and structure. An agency is not isolated, but interacts with an environment, or with other agencies in an environment (Ang, Van Dyne, Koh, Ng, Templer, Tay & Chandrasekar, 2007). This is constituted as a structural coupling (Maturana and Varela, 1987) that is responsible for past, present and future interactive history. An agency may be seen as a "living system" that may be modeled to consist of three systemic domains: a cognitive system (meta-systemic aspects), a figurative system (purpose) and an operative system (structure that supports behavior and action).

They pose the question: Why should there even be an organization? J.A. Schumpeter (1997, 1911) answers this question by referring to the will of an economic agent to change something particular. Agents are therefore vital, energetic, dynamic, economic leaders, capable of changing the economic environment. In order to succeed as an entrepreneur and to reshape the economy it is necessary to create something novel, to

strategy of the franchise firms (Oxenfelt and Kelly, 1968) while the capital advantage of franchising, which was proposed by the resource scarcity theory, had a low acknowledgement by the franchisors (Lillis, Narayana and Gilman, 1976). Agency theory is an important, yet controversial theory (Eisenhardt, 1989). Its proponents argue that a revolution is at hand and that 'the foundation for a powerful theory of organisations is being put into place' (Jensen, 1983). Its detractors call it trivial, dehumanising and even dangerous (Perrow, 1986).

Proponents of agency theory such as Ross (1973) argue that examples of agency are universal. Yet other scholars such as Perrow (1986) claim that agency theory fails to address clear and definable problems. In light of the criticism that agency theory is 'hardly subject to empirical test since it rarely tries to explain actual events' (Perrow, 1986) Perrow has also criticised the theory for being unrealistically one-sided because of its neglect of the potential exploitation of agents by their principals. The main limitation of the agency theory explanation is that it is a historic perspective (Carney and Gedajlovic, 1991). The basic assumption of agency theory explanations is that 'companies involved in franchising generally have identifiable brand names that help to assure customers of uniform product quality' (Brickley and Dark, 1987: 403). Many young and small franchise systems lack brand name capital and the capacity to ensure uniformity of product. A path or history dependent model should be developed in explaining franchisor ownership patterns. Therefore case-type studies are necessary to further develop the proposition. One example is Shane's (1998) study where he used a survival analysis of 157 new franchisors established in 1981 and 1983 and tracked over time. After controlling for firm age and size, the paper found that new franchisors are more likely to survive if they economise on agency costs in establishing new franchise

break with routines and to go beyond rules of conduct. "… uns vom Diktat der Routine zu befreien." (to free us from the dictates of routine) (Schumpeter, 1997, 1911).

systems. While agency theory explains why firms exist, it ignores the external industry and competitive conditions present. In addition, Agency theory cannot be used to explain satisfactorily why some firms might outperform others in their empirical settings (Barney and Hesterly, 1996). Another serious problem exists with this model. Not only does it assume costless exit from the firm and entry to another position as noted, but almost exclusively emphasises shirking by subordinates (agents) as the only form of self-interested behaviour that must be guarded against. The possibility that the capitalist (principal) might lie to the agents about profit levels or threats of loss of business, all to extract more profit, or simply shirk their responsibilities is ignored or swept aside by mentioning that the firm will protect its reputation.	
SOCIOLOGICAL PERSPECTIVES	
Resource-Dependency Theory and Franchising	**Resource-Dependency Theory and Industry Evolution**
The Resource Dependency Theory adopts a power-dependence model of exchange from an organisational set perspective (Scott, 2002). The need to acquire resources creates dependencies between organisations and their environment. Franchising is an organisational form which Resource Dependency Theory looks to explain in terms of power and control. The Resource Dependency Theory view suggests that firms act to achieve control other organisations that possess critical resources and to reduce the power of organisations that seek control over them. Though introduced to the franchising context by Oxenfeldt and Kelly (1968), the resource dependency perspective of organizational strategy has impressive lineage. Its pedigree has been traced to a prodigious school of thought (Hunt, 1999). Confronted by	Resource Dependency Theory (Pfeffer, 2005; Pfeffer and Salancik, 1978), as an exchange theory in sociology, deals with power/control issues and the strategic actions taken by organisations to manage interdependences with other organisations (Aldrich and Reuf, 2006). While the theory has been applied to different levels, inter-organisational relations remain the basic unit of analysis (Aldrich and Reuf, 2006) although it has also been applied to other types of relations between subunits. Applications range from micro to macro, across units of analysis from individual managers, to organisational subunits, to firms, to alliances and joint ventures, to inter-organisational networks or hybrid organisational structures. The perspective argue that the behaviours of organisations can be explained by examining their inter organisational exchanges. Resource dependence theory is another approach to understanding

resource limitations, firms are predicted to opt for strategic organizational and interorganizational governance choices that ensure the availability of resources critical for the furtherance of their business. When a firm controls a resource that is rare among competing firms and valuable in that it enhances profits, then a firm possesses at least temporary competitive advantage. The competitive advantage can be sustained until competitors compete the advantage away by overcoming barriers to imitation or by finding strategic substitutes (Barney, 1991). If a chain's competitive advantage rests in its brand reputation and operating systems, and the theory might predict firm ownership wherein firms can control their source of advantage. However, Dyer and Singh (1998) explain how firms involved in inter-firm cooperation can make relation-specific investments that generate competitive advantage. In essence, franchise systems can cooperate to build strategically valuable resources that neither could build independently (e.g., Dyer, 1996).

Resource dependency theory is seen as being the most appropriate theory to account for adaptive responses of specific organisations over relatively short periods compared with Transaction cost economics. Furthermore, it shares with Transaction cost economics a focus on the content and change and is weak in describing the process of how change unfolds (Scott, 1998).

Resource dependency theory is also lacking in comprehensively addressing history and path dependence. While Resource dependency theory seems to acknowledge that 'organisations seek to manage or strategically adapt to their environment' (Aldrich and Pfeffer, 1976), Pfeffer and Salancik (1978) point out that 'that success is in the hands of many actors outside the control of the organisation.

organisations that has been adopted by many working in the areas of management, strategy and industry. Similar to transaction cost economics in some respects, resource dependence theory understands the firm from the perspective of resource exchange and the resulting power dispositions between organisations. Firms seek to reduce uncertainty, maximise their control of critical resources and alter the balance of power in their favour (Pfeffer, 1992; Pfeffer & Salancik, 1978). The genesis of this approach is found in the social theories of organisational exchange that emerged in the early 1960s (Levine & White, 1961; Litwak & Hylton, 1962). Since that time this perspective has grown to be one of the major views on organisational theory. The foundational text on resource dependency theory emerged from the work of Pfeffer and Salancik (1978). Aldrich and Ruef (2006) contend that empirical work on resource dependence theory has been lacking, mirroring Pfeffer's (2003) own comments. Despite this however, resource dependence theory continues to extensively shape organisational and inter-organisational thinking in many areas of management and industry research.

In terms of evolutionary processes, interdependencies are grounded in an inter-organisational division of labour. Dependencies can be avoided by many actions, ranging from adjusting internal structures to seeking mergers or firm alliances. Gaining power involves managing not only organisations, but also their environments, which are comprised of multiple, sometimes hostile, interest groups. In these cases organisations aim to either align themselves with such groups, or neutralise them. Pfeffer and Salancik (1978) depicted decision makers attempting to gain power so that they can manage their environments as well as their organisations.

	Selection forces are 'inherent in asymmetric power relations' (Aldrich and Reuf, 2006), where power is derived from reducing dependency on others (and/or increasing the dependency of others) and is related to the control of resources that others value. Selection forces are inherent in asymmetric power relations. Power in this scheme is based on Emerson's (1962, 1972) concept that one's power resides implicitly in another's dependency. The power to control or influence others resides in control over the resources they value (Aldrich, 1979). The Resource dependency theory asserts that one consequence of competition and cooperation over scarce resources is the development of dependencies of some organisations on others. Retention of viable structures is potentially problematic from a Resource dependency theory perspective given its emphasis on an organisation as 'a coalition of groups and interests each attempting to obtain something from the collective by interacting with others' (Pfeffer and Salancik, 1978). At the organisational level, retention might be embedded in an organisation's task and division of labour structure, thus increasing its chances of survival. While Resource Dependency Theory is well developed and has been widely used, some critics suggest that it still lacks empirical research, has definitional issues, and is unclear about the forces that generate various different forms of inter-organisational relations (Aldrich and Reuf, 2006). Other limitations include its inability to explain competence development, and the lack of attention paid to transaction costs and legitimacy explanations.
New-Institutional Theory (Sociology) and Franchising	**New-Institutional Theory (Sociology) and Industry Evolution**
Participating in inter-organisational relationships, such as franchising, allows firms to access formal and informal institutional resources such as laws, reputation, and legitimacy, address problems, mitigate environmental problems by using political	New institutional theory explores how social influence affects organizational decision-making (Oliver, 1997). According to institutional theory, firms exist in an institutional context defined by rules, norms, values, and taken-for-granted assumptions that guide

institutions (Getz, 1997), and reduce uncertainty. Governmental units and professional groups are viewed as the main collective actors that generate institutional rules (Scott, 2003). Franchising can act as a form of regulatory agent and as major sources of normative institutions (DiMaggio and Powell, 1983). Neo-institutional theory proposes institutional forces as the main drivers of change.

Only Shane and Foo (1999) have adopted a neo-institutional perspective to investigate franchising. They examined 1292 new franchise chains and showed that survival probabilities increase when franchisors gain signs of legitimacy such as age, size, and media certification. With respect to the propensity to franchise, they argued that franchisors enhance survival when their propensity to franchise matches the demands of the neo institutional environment. Specifically, franchisors founded in states with laws requiring franchisors to show 'good cause' before terminating a franchisee should use more franchising because the institutional environment lowers franchisee risk (i.e., franchisors cannot opportunistically terminate a successful franchisee) (Shane & Foo, 1999). Knowing that franchisee termination is difficult, firms from these states must develop organizational routines for resolving conflict without litigation, which facilitates franchising elsewhere (Shane & Foo, 1999).

Once a practice is accepted as institutionalized, conforming to that practice becomes necessary to attract resources (Oliver, 1997). Resource owners expect that as a practice becomes taken for granted; it is part of the institutional framework that makes things work. Legitimacy of the firm seeking resources makes supplying resources more socially acceptable and presumably less risky to the resource supplier, which enhances access to resources (Deephouse, 1996). Prospective franchisees and bankers, for economic behaviour (Oliver, 1997). Norms cohere within organisational fields. However, Powell and DiMaggio (1991) note that within modern sociology 'the new institutionalism' has tended to stress the role of 'cognitive-cultural' processes in social life. Institutions, the humanly devised constraints that shape human interaction (North, 1990), can take many forms including governments, professions, universities, industries, religions and families. Organizations strive for legitimacy and isomorphic pressure to conform can produce change (DiMaggio & Powell, 1983). Malerba and Orsenigo observe that 'government policies and public institutions always play a major role' in the evolution of industries, that '…one observes over time complex structural processes at work involving firms and institutions'. They stress the importance for researchers in paying attention to institutions and the role and influence they can have in the structural evolution of an industry (Malerba and Orsenigo, 1996). They also note the impact of the inertial forces of institutionalization when they state that "… in our examples some firms were successful because they were able to exploit rapidly newly created openings in demand and technology, which were not captured by the established firms, locked in by their successful competences and current customers" (Malerba and Orsenigo, 1999). James Quinn and his collaborators have reported on the influence of institutions on the evolution of Irish and British grocery wholesaling (Quinn & Leavy, 2005; Quinn & Murray, 2005; Quinn & Sparks, 2007). Greenwood, Hinings, and Suddaby (2002) showed that regulatory agencies, such as professional associations, play a significant role in legitimizing change in the evolution of accountancy services over a twenty year period in Canada.

New institutional theory focuses on the sociological perspective of organisation and is traced by some to the early work of sociologist Max Weber, which highlighted the

example, might respond more favourably to firms whose propensity to franchise mirrors other successful organizations in the same organizational field. By granting access to important resources, legitimacy offers the opportunity for enhanced performance (Deephouse, 1996).

The New Institutionalism in Sociology sees legitimation, as a major concern of institutionalism and NIT theory focuses on explaining the similarities among organisational forms in terms of this and which arise in franchise systems. Isomorphism, the constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions, is seen as the key institutional process promoting homogeneity. For this reason institutional theorists would focus on the development of franchising in an industry in terms of legitimacy and isomorphism.

Neo-Institutional theory predicts that many of the organizational routines and policies that are established upon founding are imprinted, meaning they become taken-for-granted norms (Oliver, 1997). Policies become institutionalized and thus difficult to change because people in organizations prefer predictability and stability (Meyer & Rowan, 1977). Aspects of franchising such as the terms and conditions of contracts, screening criteria for franchisees, and advertising practices are likely subject to institutional pressures. For example. Lafontaine and Shaw (1999) found that franchisors rarely adapt their royalty rates and franchise fees over time. Similarly, once franchisors establish a particular proportion of outlets franchised, they express little desire to alter it materially (Lafontaine & Kaufmann, 1994). Accordingly, once franchising is

rising domination of bureaucracy and institutions in society (Weber, 1947). Institutional theory centres on the character of organisations and the manner in which organisational actions are legitimised (Aldrich & Ruef, 2006; Scott, 2008). Institutional theorists highlight the role of stability through isomorphism with institutional rules, in an organisation's survival (Meyer & Rowan, 1977). Isomorphism is identified as a process whereby organisations tend to develop the same structure. This process is said to occur through coercive, mimetic or normative means (DiMaggio & Powell, 1983). As institutional processes are on-going, institutional fields have to be conceptualized as evolutionary (Hinings, Greenwood, Reay, & Suddaby, 2004).

Neo-Institutional theorists have treated variation primarily as external in origin, generated as organisations are forces to respond to, adapt to, or imitate the ebb and flow of normative and regulatory currents in their environments. Critics of NIT argue that it fails to address endogenous change (Aldrich and Reuf, 2006; Hoffman, 1999; Munir & Phillips, 2005), processes (Aldrich and Reuf, 2006), and that it doesn't consider informal relations, conflict and power (Aldrich and Reuf, 2006). Another major set of criticisms relates to the unit of analysis, as there 'has been little effort to make neo-institutionalism's micro-foundations explicit' (Powell and DiMaggio, 1991). According to Aldrich (1999), NIT has also been criticised for paying very little attention to the creation of new organisations.

Neo-Institutional theorists have not intended to specifically address arguments for industry evolution or adaptation and selection. However, the evolutionary aspect of Neo-institutional theory applies to VSR at the organisational and has treated variation primarily as external in origin, generated as organisations are forces to respond to, adapt

established, institutional pressures from within firms might restrain the degree to which the balance between franchising and firm ownership can shift.

Sociologists (Granovetter 1985) have criticized the economic explanation of Neo-institutional theory as being under socialized. They argue that the success of new firms depends not only on economic efficiency but also on institutional approval (Hannan and Freeman 1984). In particular they argue that firm survival depends on the ability to establish cognitive and socio-political legitimacy (Aldrich and Fiol 1994). Governmental units and professional groups are identified as the two major types of collective actors that generate institutional rules. When assessing franchising, governmental regulatory bodies, trade associations and franchise systems themselves would all impose strict conformity.

The Neo-institutional theory a sociological theory concerns itself with the means that legitimate social practices, the social embedded ness of human actions and the particular historical character of institutionalised practices (Meyer and Scott, 1983; Powell and DiMaggio, 1991). Zucker (1987) also observed that 'institutionalisation is both a process and a property variable'. In Zucker's view the field is potential prone to addressing content and not process. DiMaggio (1988) expresses his concern for the lack of attention to the field of change. However Nelson (1995) said that the study of industry evolution from a sociological perspective stresses the fact that it is industry itself that moulds its own environment. DiMaggio, Powell (1983), Scott (1995, 1998, 2000) and Zucker (1987) view change as incremental and evolutionary. Scott (1998) identifies governance systems and institutional logics as useful in examining adaptation to, or imitate the ebb and flow of normative and regulatory currents in their environments. When environments are treated as institutions, analysts have typically adopted a reproductive theme focusing on how systems are copied on the organisational level with government units seen as the source of such facts. The levels at which variation occur depends on what is treated as an institution: environments or organisations. In the former, governance level events or norms are replicated at an organisational level. In the latter, a generative theme, groups and individuals within organisations imitate other organisations (Aldrich, 1999). Selection forces are connected to the constraining role played by culture, norms, and rules. Selection is influenced by the conformity to external norms maintained by actors in organisational fields (Aldrich, 1999; Meyer, 1994). Sometimes, however, organisations do not conform, but pursue alternative strategies such as; compromise, avoidance, defiance, and manipulation of institutional norms (Oliver, 1991) aimed at achieving legitimate new institutions. Retention mechanisms are typically subordinated to selection processes in institutional theory, like ecologists, institutional theorists tend to treat the persistence of organisational entities as relatively non-problematic. Institutional theories highlight the forces that create and maintain organisations such as socialisation and charismatic leadership which promote shared meanings and understandings (Aldrich and Reuf, 2006). Critics of Neo-institutional theory argue that it fails to address endogenous change (Aldrich and Reuf, 2006; Hoffman, 1999; Munir, 2005), processes (Aldrich and Reuf, 2006; Washington, 2004), and that it doesn't consider informal relations, conflict and power (Aldrich and Reuf, 2006). Another major set of criticisms relates to the unit of analysis, as there 'has been little effort to make neo-institutionalism's micro-foundations explicit' (Powell and DiMaggio, 1991). According

processes at industry level. While they may change over time institutional logics act as important sources of stability.	to Aldrich (1999), Neo-institutional theory has also been criticised for paying very little attention to the creation of new organisations.
Population Ecology and Franchising	**Population Ecology and Industry Evolution**
Population ecology asserts the importance of environments in shaping organisations (Meyer, 1990). According to Barnett and Carroll (1995), individual organisations cannot change easily and quickly and when they do change significant risk is incurred. The main implication of changing from an organisational to a population level of analysis is that the focus is seen to shift to the environment (Davis and Powell, 1992). The most important environmental force that has been studied within population ecology has been the effect of population density. The density model of legitimation and competition (Hannan and Freeman, 1989; Hannan and Carroll, 1992; Carroll, 1997) proposes two general forces as the drivers of selection; social legitimation and diffuse competition. The role of competition as a driver of evolution has also been a strong theme within population ecology (Barnett, Greve, and Park, 1994). Technology and technological change are also seen as important (Baum and House, 1990; Barnett, 1990). Freeman (1990) describes the way that such changes 'disrupt markets, change the relative importance of various resources, challenge the learning capacities of individuals and organisations, and make suspect previously accepted claims to legitimacy'. He identifies technical innovation as a source of opportunities for the creation of new organisations, of uncertainty and risk for older ones and as opening the door to new competition. According to Perrigot (2008) who studied the Population ecology model and its implications for franchise networks survival and success, Perrigot (2008) suggests that	Another perspective that has had strong influences on industry evolution thinking recently is the group of theories related to population ecology. Originally stemming from the field of biology, ecology studies the nature of populations, and as applied to industries, populations of firms. Initial work for this perspective was laid down by sociologists such as Hawley (1950), and adapted into main stream organisational theory later (Hannan & Freeman, 1977). While work in the biological field has sought to explain the population dynamics of species within environments, organisational theorists have examined the success of firms in competitive industries. Following from their foundational work, Hannan and Freeman have developed theory on the emergence, change, growth and survival of populations of organisations (Freeman & Hannan, 1983; Hannan & Freeman, 1984, 1986, 1987), which has fed into organisational thinking in all areas of management research. Since then other writers have taken an ecological perspective to contribute to organisational theory; such as Levinthal's (1991) work on change processes and environmental selection, or Carroll's (1993; 1989) work on organisational populations and firm heterogeneity. Population ecology is the study of dynamic changes within a given set of organizations. Using the population as their level of analysis, population ecologists statistically examine the birth and mortality of organizations and organizational forms within the population over long periods. Hannan & Freeman (1987) believe that long-term change in the diversity of organizational forms within a population occurs through selection rather than adaptation. Most organizations have structural inertia that hinders adaptation

the model enables us to study the evolution of franchising networks through a process of natural selection as exerted by the environment (Aldrich, 1979), and examine the survival of networks using the symmetrically opposed notion of organizational mortality and the survival analysis, or the "method of choice" according to ecologists. Perrigot (2008) explains that the population ecology model, promotes that the changes in the populations of organizations occur through selection rather than adaptation (Scott, 1998). In fact, the main mechanism behind change within the population of organizations is the natural selection influenced by environmental constraints and competition. Organizations must fit to their environment in order to survive. However, in the case of franchising networks, there seems to exist a particular form of organization that has a better fit with the environment. According to the results of Perrigot's (2008) study in fact, plural form networks, combining franchised units and company-owned units, offer greater flexibility and can fit more easily to the market (Bradach and Eccles, 1989).	when the environment changes. Those organizations that become incompatible with the environment are eventually replaced through competition with new organizations better suited to external demands. Analysis in population ecology has three levels: • explaining birth and death rates within a population • explaining vital-rate interaction between populations • examining "communities of populations" sharing similar environments In general, population ecologists ascribe to an evolutionary view of organizational change. Organizations descend from previous or existing organizations, and population-level change in organizational forms is usually slow and continual. Unlike evolution in animals, natural selection in organizations does not necessarily lead to optimization. Optimized change often depends on the "coupling" between intent and outcome. Hannan & Freeman (1984) claim that "Because organizations play key roles in modern societies, the speed and direction of social change depend onthe dynamics of organizations In particular, the ability of society as a whole to respond to changing conditions depend on the responsiveness of its consitituent organizations and on the diversity of its organizational populations". Population ecology is often focused on longer-timespans than other organizational theories, which allow the theory to have much in common with social history. Population ecology works the idea that 'long-run changes in organizational diversity reflect the accumulated effects of short-run differences in net mortality rates of populations facing limited resource environments". Evolutionary theory means three things. 1. Organizations have descended from past

	organizations 2. big differences seen now have arisen gradually 3. The processes of change are still around us and can be examined experimentally. The population ecology model (Hannan and Freeman, 1977, 1989) attempts to explain processes underlying change, takes into account historical contexts, and also pays attention to political and economic conditions (Aldrich, 2006). From Hannan and Freeman's (1989) perspective, specialist organizations maximize their exploitation of the environment and accept the risk of experiencing a change in that environment. This model identifies three stages of organisational change – variation introduced through new organisations, selection resulting from the fit between organisations and the environment, and retention through external pressures and internal inertia (Aldrich and Reuf, 2006). Within the Population ecology literature where change does arise, major authors in the field such as Hannan and Freeman (1997) McKelvey and Aldrich (1983) and Aldrich (1999) adopt an incrementalist and evolutionary standpoint. Aldrich (1999) sums up the current state of thinking when he acknowledges that after almost two decades of research 'ecologists are willing to admit that organisations can and do change, sometimes in quite radical ways'. However, this change is seen to be distinctly evolutionary in nature and achieved through a process of variation, selection and retention. Changes in technologies and environments cause some existing organisations to fail and some new ones to appear. In this way 'selective replacement of the old forms of organisation by the new forms constitutes the main way this mechanism accounts for

change in the world of organisations' (Barnett and Carroll, 1995). Changes arise largely through the processes of organisational birth and death as contrasted with the adaptation of individual organisations (Hannan and Freeman, 1989). While population ecology deals with selection pressures, those selection regimes may have political elements. There is no assumption that selection is only on the basis of efficiency or economic performance (Hannan and Freeman, 1989).

Barnett and Carroll (1995) identify the structural inertia theory of Hannan and Freeman (1977, 1984) as being the most developed of the population arguments on organisational change. The concept of inertia sees adaptive processes as being insufficient to enable organisations to keep up with the rate of change in the environment (Davis and Powell, 1992). In contrast, at the level of the organisation, population ecologists adopt an environmental selection perspective, seeing diversity as emanating from the births of new forms and the deaths of old ones (Singh and Lumsden, 1990). The density model of legitimation and competition has been used to explain long-term evolutionary change in organisational populations (Hannan and Freeman, 1989; Hannan and Carroll, 1992). This articulates a life-cycle approach to change. Both Hannan and Carroll (1992) and Aldrich (1999) acknowledge the path dependant nature of population ecology. Aldrich identifies both technological lock-in and network externalities as sources of such dependence. Equally he draws attention to the impact of age, historical events and founding conditions on organisational outcomes.

Population ecology focuses attention on factors that are important, but over which organisations have little control except, perhaps in relation to the choice or niche.

	Pfeffer (1982) sees 'little room in population ecology for elements of rational choice and for the operation of goals, preferences, wants or ambitions'. Freeman (1982) notes that natural selection approaches to the study of organisations 'seem to leave no role for individual choice'.

Table 3-1 Five Competing Theories and their Explanatory Power of Franchising and Industry Evolution as adapted from Aldrich and Reuf (2006)

As Table 3.1 above shows the five organisational level theories and how they relate to franchising. The economic theories proved to be more limited in their explanation of the impact of franchising on industries. While their explanatory power captured the initial adoption of franchising and were good at explaining efficiency, cost and transaction issues the economic theories proved to be limited in their explanation of the more dynamic power issues because of the static nature of their approach they often failed to account for the subsequent impact of franchising on industries. Sociological theories offered the legitimisation explanations and power explanations for the evolution of industries particularly in the later stages of industry evolution, but often failed to deal with the initial adoption of franchising or with the basic efficiency issues. Linking the organisational theories to the Variation Selection and Retention approach, VSR is an evolutionary approach which serves as a met-a-theory within which the value of these theories can be recognised and appreciated to understand the change process. The VSR perspective suggests that it is primarily variation processes (both at macro-environmental and at industry level) that drive organisations to introduce franchising as well as the influence of individual agents. According to the economics perspective (see Table 3.2 below), a firm may choose to introduce franchising following the threat of variation imposed by other agents, or the firm itself. This variation might threaten the efficiency and cost levels of the firm (Transaction cost economics). Similarly, Agency theory suggests that franchising is driven by the possibility of shirking and control issues and franchisors use the model of franchising to reduce these issues. Thus, Resource dependency theory talks about variation, which can cause changes in the power and dependency equilibrium. While Neo-institutional theory emphasises the threat of departures from norms and legitimisation caused by variation. Moreover, Neo-institutional theory also suggests that a firm may choose to deal with existing selective pressures, to amend them or to act as a source of new ones.

The intended impact of a firms franchising strategy is predefined by the reason the firm chose to introduce this new organisational structure. A franchising firm can make an impact on either variation or selection processes within an industry. Its decision to franchise can result in a new variation, or it can prevent or adapt to variations caused by other players. This may be the result of an agent or actor championing the introduction of franchising in their firm. In terms of selection, a firms' adoption of franchising can result in maintaining existing preferred selection criteria, changing them, or diminishing selection pressures. Thus, the firm can succeed at retaining or increasing efficiency levels, retaining or reducing transaction costs, obtaining wealth redistributed from others, or preventing franchisees from losing it (economics perspectives). Franchise systems can also retain or increase their power levels, the dependence of others or their own independence. They may decrease their own dependence on others, legitimise themselves or their franchisees, form new institutions, and standardise certain practices (sociological perspective). By making an impact on variation or selection, franchise systems can thus act as a driver or facilitators of industry level change processes.

Therefore many scholars argue that individual theories are insufficient to capture the complexity of inter-organisational relationships (Barringer and Harrison, 2000; Quinn and Leavy, 2005), and that multi-modal approaches offer better explanations. The exploration of multi-model theories, which takes the form of the conceptual framework for this study, shows how theories can be used to complement each other, while explaining the phenomena. This framework illustrates that the five theories can be used as complementary tools to achieve a better explanatory power of evolutionary processes. Some theories focus on pure economics operationalisations, while others complement them with sociological and behavioural solutions.

THEORETICAL PERSPECTIVES AND VSR

This table below (table 3.2) is a summary of the theoretical perspectives of the five competing organisational theories and VSR.

Perspectives	**Variation**	**Selection**	**Retention**	**Fit with Conceptual Model**
Firm Level				
Transaction Cost Economics	Variation into via intended Rational action	Selection involves actions to min transaction costs	Retention via transaction specific investments	Agency and Firm Level Context
Resource Dependency	Variation introduced as managers try to avoid dependence	Selection via asymmetric power relations	Retention a temporary result of coalitions and bargaining	Agency (Firm Level) & Industry Context
Agency Theory	Variation via new organisations internal incentives offered to employees	Selection via asymmetric power relations	Retention a via contacts and bargaining	Agency and Firm Level Context
Industry level				
Neo-Institutional	Variations introduced from external origins e.g. imitation	Selection via conformity	Retention through transmission of shared understandings	Macro-environmental Context
Population Ecology	Variation depending on coordination of relationships	Selection results from fit between organisation and environment	Retention through transmission of shared understandings and efficiency	Macro-environmental and Industry Level Context

Table 3-2 The Five Competing Theories and VSR and Fit with the Conceptual Model

3.4.4 Common Theoretical Base for the Study of Industry Evolution and Franchising

The following section with give a summary of some of the common theoretical links between franchising and industry evolution research, The final section will devise a conceptual framework upon which this study will be based. Firstly, one piece of work that helps to unify the two streams of research and focus on the emergence and impact of franchising in terms of industry evolution theory is Aldrich's work on (2000) 'Organisations Evolving' which begins to explore the question of how new organisations emerge and evolve. Aldrich notes that organisational scholars have done an excellent job in explaining how things work in organisations that have been in existence for some time but not how they developed over time. Aldrich also argues that the evolutionary approach can be used as an overarching framework within which the value of other approaches such as ecological, institutional, interpretive, organisational learning, resource dependence, transaction cost economising approach can be recognised and appreciated and this study benefits from this approach.

Secondly, looking at the use of multi-modal approach which this study has adopted is beneficial in terms of connecting the five theories as detailed in the previous Table 3.1. and Table 3.2 and how Transaction Cost Economics, Agency Theory, Resource Dependence Theory, Neo-institutional Theory and Population Ecology can help to both explain and connect both franchising and industry evolution perspectives. Pfeffer (1993) looked at whether evolutionary theory could be an overarching framework for studying organisations. This leads to an eclectic theoretical approach that is complex and often difficult to distinguish at first glance. For instance, resource dependency theory is often combined with institutional theory when developing more sophisticated theoretical constructs such as industry architectures (Jacobides et al, 2006), which are shaped also by economic perspectives such as transaction cost economics. Some studies combine ecological and institutional perspectives to examine co-evolutionary issues (Koka, Madhavan, & Prescott, 2006), Added to this, research is now combining such sociological approaches with co-evolutionary perspectives to explore industry evolution in greater detail (Lin, Chen, Sher, & Mei, 2011). So it is beneficial to use a multi-modal approach to address such a complex study such as this one and to help connect and make linkages between franchising and industry evolution theory.

Thirdly, variation, retention and selection (VSR) is an evolutionary approach and serves as a met-a-theory within which the value of other organisational theories can be recognised and appreciated VR is a model promoted in the industry evolution literature and its relevance to explaining the emergence of franchising is undeniable. Therefore franchising can be seen as a new organisational variation which is adopted, selected and ultimately retained. Furthermore research on co-evolution

can also be drawn on to assess why franchising is selected as an organisational variation. Firms may therefore adopt a franchising model to help them achieve a competitive advantage in their industry. This leads to firms' legitimisation, the strengthening and adoption of franchising, and to the development of this organisational structure across many industry incumbents. Co-evolutionary theory ties in with the organisational structures of franchise systems where there is more than one organisational entity at play in the system and there are multiple organisations within the organisational structure that have multiple levels of inter-relationships and inter-organisational interactions. The section on franchising literature relates to franchising as an inter-organisational system where each of the participating firms is an independent agent: where the franchise system co-evolves as an outcome of organisational activity and the actions of each participating firm (franchisor and franchisee): act as agents and their actions are reciprocally embedded within each of the firms constituting the franchise system, the industry, and society.

Fourthly, another theoretical connection between the franchising and industry evolution literature is the role of agency. Entrepreneurship and the role of entrepreneurs is at the forefront in the emergence of franchising, the area of entrepreneurship pervades the franchising literature as well as the role of entrepreneurs and agency. Even though the area of entrepreneurship and agency is limited in the industry evolution field there still is some work on industry architecture and dynamic capabilities which notes the role of agency and actor in shaping the evolution of an industry.

Finally research on fragmented industries is important when addressing a study on franchising and industry evolution. The relationship between industry fragmentation, franchising and industry evolution is important as Porter (1980) stated that franchising overcomes industry fragmentation, this indicates that franchising might have the potential to alter an industry structure a suggestion which is at the heart of this study. This study will try to verify if franchising does impact industry structure as Porter suggested. In addition Dess (1987) discusses the key attributes of fragmented industries are the presence of a large number of small and medium-sized firms and the absence of market leaders with the power to shape industry events. These industries have a low four-firm concentration ratio, i.e. the share of industry sales accounted for by the top four firms. Porter (1980) describes fragmented industries as those that contain all or some of the following: Low Entry Barriers, Lack of Power of Buyers, Lack of Power of Suppliers, Lack of Economies of Scale, Lack of Economies of Scope, Regional Issues such as High Transportation Costs and Regulation. Porter (1980) concentrates on manufacturing whereas Brown (2011) focused on service sector and fragmented structure in the real estate industry a study relating to franchising and industry fragmentation. Porter (1980) suggests that fragmented industries are characterized as being intensely competitive. Borch and Bradstad (2003) suggest that research on the strategic behavior of companies in fragmented environments has been largely ignored and even Porter (1980, 1985) only reluctantly recognized the potential for collective strategy in fragmented industries. Brown (2011)

asserts that fragmented industries are fundamentally different in terms of their structure and competitive landscape yet these industries have been neglected by much of the existing literature. Furthermore fragmented service industries have not received the attention that they deserve something this study will address.

In summary this study will highlight an evolutionary perspective, beginning with antecedent and founding conditions, negotiating and establishing expectations for creating and distributing joint value, the co-evolution of direction, structure, and practices within the context of the evolution of the constituent firms/agents, industry, and institutional environment. Furthermore, absent from the literature are studies of the evolution of franchise systems, as they co-evolve with the changing strategies of the firm, evolving industry strategic practices, and the changing regulatory and institutional environment. This research, hopes to advance the view that organizational forms such as franchise systems need to be understood and should be researched in the context of the adaptation choices of the firm over time. The choice to franchise, in this view, is embedded within the firm's history and strategic portfolio and co-evolves with the firm's strategy, the institutional, organizational, and competitive environment, and with management's strategic intent for the creation of the franchise system.

3.5 BUILDING A FRAMEWORK FOR ANALYSIS

The previous sections presented the franchising and industry evolution literatures and their perspectives in accordance to the type of question they address (Getz, 1997). In the following section a framework will be developed to guide the analysis and will incorporate operational concepts relating to franchising activities and the evolutionary processes that link the two fields. The framework, integrates theoretical propositions on two interconnected facets: the rationale behind the introduction of franchising and the impact of franchising on the structural evolution of industries. This study is from a multi-level perspective and as such the decision to franchise is driven by both macro-environmental and industry contextual factors as well as individual agency. Dependent on the driving force and the purpose of such adoption can cause structural changes within an industry. The possible causes of such action and the impact of franchising have been discussed in this chapter.

3.5.1 CONCEPTUAL FRAMEWORK

3.5.1.1 Building a Conceptual Framework

3.5.1.2 Research design

This research project has a definite structure comprising of the five main components suggested by Maxwell (2005): (1) goals, (2) a conceptual framework, (3) research questions, (4) methods, and (5) validity.

(1) Formulating goals helped to understand why the study is worth doing, what issues this study aims to clarify and what policies it wishes to influence. In addition, it deals with the personal reasons for conducting a study and with persuading the world that the findings are important. The goals of this research project are discussed in the first chapter of this thesis: introducing the study.

(2) The conceptual framework for this study is described in the next section of this chapter. This study's conceptual framework builds on the literature. It help to understand the issues and settings relating to this study, and to identify theories, concepts, and prior research findings, which will guide and inform this research.

(3) Research questions state what specifically one intends to understand by doing a study (Maxwell, 2055). They should clarify what is not known about the phenomena under study and what needs to be studied. This study's research questions and the discussion of how they relate to one another can be found in the next section.

(4) Research methods of this study encompass the approaches and techniques used to collect and analyse data are addressed in the methods component the selection of settings, participants, the time and places of data collection, the data collection methods, the data analysis strategies and techniques. According to Maxwell (2005) research questions should have clear relationships with goals, and should be informed by what is already known about the phenomena, and by the theoretical concepts and models that can be applied the research methods are detailed in full in the next chapter on Methodology.

(5) In terms of validity this study aims to uncover the impact of franchising on the evolution of industries and the method chosen for this study involves extensive primary and secondary data collection, archival analysis and multiple interviews. In a similar fashion, theories can have implications for research validity which will be addressed in the following Methodology chapter.

Some other factors that influence the five components described above include; resources available, research skills, ethical standards, research settings, data collected and the result of their analysis, and participant consent. Maxwell (2005) refers to them as the 'environment' within which the research takes place and/or the 'products' of the research. Some of these environmental factors, which influenced and shaped the five components of this research design, are described in the Methodology chapter. The following section will look at the research question and sub-questions as well as addressing the conceptual framework for this study.

3.5.1.3 RESEARCH QUESTION

The motivation for this research stems from the deficiency of existing literature and lack of empirical research, exploring the emergence and impact of franchising on industry evolution which still remains empirically and conceptually underdeveloped. This research was motivated by a desire

to explore and understand the long-term impact of franchising on the evolution of industries. The literature review indicates a somewhat cursorily approach to franchising in the strategy literature and how lacking franchising has been to empirical and theoretical studies of industry evolution. Thus a significant gap has been identified with respect to the way franchising impacts structural industry change and to analyse the role franchising played in the evolution of the Irish QSR/Fast Food and Real Estate Industries. The main research question is:

How does franchising impact on the evolution of industries?

This main research question is 'multi-layered'; hence the answer requires the collection and analysis of various data using a multi-level approach. The breakdown of the question into two sub-questions generates the information necessary to fulfil the temporal restrictions and to answer the main question. The first sub-question looks to identify the emergence of franchising. The second sub-question deals with the causes of franchise systems activities and offers an analysis of the impact of franchising on the structure of industry. The empirical findings to each sub-question will also be informed by the concepts and proposition derived from the conceptual framework described in this section.

(Q1) Why does franchising emerge?

What drives the introduction of franchising? From the industry evolution literature Variation, Selection and Retention (VSR) which is explored in this chapter is an evolutionary process which can trigger firms to adopt franchising. The answer to this question aims to provide empirical data that will explain why firms adopt franchising and what they plan to achieve by doing so. For example, variation in an industry can be created by increasing demand for branding and high levels of product and service standards. If this happens, the franchising firms can either influence this new selection criterion, or facilitate their franchisees to comply with it in order to survive. This question also raises the issue of the role of agency and the involvement of entrepreneurs as addressed by the franchising literature with regards to the introduction of franchising at firm level. Furthermore as long as this selection criterion remains important, franchising firms and their franchisees will be retained in the industry. As another example, the struggle for scarce resources also forces firms to legitimise and unify their franchisees.

(Q2) What impact does franchising have on evolving industry structure?

How does franchising alter industry structure? Franchising challenges and changes the prevailing institutional structures of an industry. The answer to this question explores the choice made by franchising firms between the alternative sets of strategies available to them within a certain environment. These strategies are dependent on 'why' some firms choose to adopt franchising and 'what' they want to achieve ('what' impact to make). The industry evolution literature explores the

notion of firms co-evolving within their industry or industry architecture whereby firms can change the dynamics of the industry structure by their actions. This question of impact also explores the dynamics of franchising firms over time which is under researched from the franchising literature. The impact of franchising on industries is associated with the embedded contextual drivers behind a firm's decision to franchise. Such impacts can be observed when franchise systems successfully challenge/defend the status quo against the prevailing preferences of other agents and environmental factors (macro-environmental and industry context as well as agency). For example, increasing demand for industry standards and branding creates new variation. As a response to this new variation, new industry entrants appear and begin to adopt franchising to compete with the leading firms and thus retain this new organisational form.

3.5.1.4 BUILDING AN INTEGRATED CONCEPTUAL FRAMEWORK

The frame of reference used to guide this research is derived from the literature review and informed by the theoretical concepts and models that explain industry evolution and franchising. It connects different aspects of enquiry and acts as an underlying map. The conceptual framework incorporates Pettigrew's contextualist work on strategic change, within which industrial change is regarded as a continuous process: 'the point to appreciate is the richness of these contexts and their simultaneous shaping of strategic change. The hallmark of the processual dimension is that strategy does not move forward in a direct, linear way nor through easily identifiable sequential phases' (Pettigrew and Whipp, 1991). According to Pettigrew (1985), in addition to clearly defined variables/categories and a clear description of the processes under examination and the theories, contextualist analysis requires a linkage of vertical concepts to the processes under observation in the horizontal analysis: 'theoretically sound and practically useful research on change should involve the continuous interplay between ideas about the context of change, the process of change and the content of change together with skill in regulating the relations between the three' (Pettigrew et al., 1992).

3.5.1.5 The Conceptual Framework

The structural evolution of an industry is captured through the evolutionary processes occurring within the macro-environmental and industry contexts as well as agency effects at multiple levels. These processes are also embedded in historical developments, which are shared by both cases. Therefore, as with Quinn & Leavy's (2005) research, this enables a focus on industry and national level effects and leaving aside some common historical developments.

This study's conceptual framework is linked to the main research question: how does franchising impact industry evolution and the two research sub-questions (Q1) why is franchising introduced and how does the macro-environmental, industry and agency factors that deal with the franchise systems strategy development and implementation relate to the emergence of franchising? (Q2)

what impact does franchising have on the structural evolution of an industry, in terms of assessing franchising over time and what are the industry structural changes that occur once franchising emerges? Answers to these two questions require a clear examination of all processes and contexts. The interconnectedness of contexts, contents, and impacts across multiple levels allows for the linkage of concepts, defined by the five theories. Many concepts relating to franchising are derived from the franchising literature review. Other concepts relate to industry evolution and its literature assessment. This definition is broader than traditional market structure view. It suggests that the transformation of industrial structures is not limited to demographics, but it also incorporates other industry-level developments, such as the emergence of new industries and sectors and segments, generation and transformation of technology and information, development of capabilities, development of networks and relationships, and changing boundaries of firms. It also takes into account the roles played by institutions. Industry evolution is a process, but at one point in time certain institutional structures prevail, thus forming the status quo at that point in time. Through their actions, firms who adopt franchising attempt to alter the prevailing industry structures, or to retain them. Consequently, the firm's decision to franchise and the role of the relevant agents can result in structural changes. However, the literature review indicated the importance of agency with regards to franchising however, the setting for the decision to franchise is multi-faceted and has a relationship to the macro-environmental and industry contexts which drive the adoption of franchising. Therefore a more granular exploratory model was developed to guide data collection and analysis.

The organisational theories can help explain the contextual drivers with regards to the emergence of franchising and its impact over time from a multi-level perspective addressing the macro-environmental, industry and agency/firm level context. The economic theories of Transaction cost economics and Agency theory both relate to the influence of the firm/agency in relation to the adoption of franchising. Transactions cost economics has evolved over time and the focus of the theory has developed from the original question of why organisations exist, to address questions regarding what designs will organisations adopt under various circumstances? (Roberts and Greenwood, 1997) In its more recent guise Transaction cost economics explores the rationale for the existence of the various organisational forms that arise between market and hierarchy. Franchising involves a non-market, long term contract that specifies the most important but not all aspects of economic exchange. Thus franchising is not completely market driven because the corporate body makes some decisions though not all decisions. Agency theory is also focused at the firm level and Caves and Murphy (1976), Rubin (1978), Lafontaine and Slade (1997) and Blair and Lafontaine (2005) who reviewed much of the empirical literature from economics and highlighted agency theory as a motivation for franchising. The claim is that by franchising, a relatively small company can grow and expand beyond and outstripping its present resources. A perspective combining economics and organisation theory can be found in the review

by Combs et al. (2004). Agency theory has been widely cited in the franchising context and has been used to explain the firm-level and industry-level governance decision between own vs. franchise. In addition Resource dependency theory also relates to contextual factors at the firm level which enable the emergence of franchising (Pfeffer and Salancik, 1978). Resource dependency theory has as its primary focus the organisation itself - its behaviour and its relations with other organisations rather than its component units. (Scott, 1992). However, Resource dependency theory does not just explain agency and firm level change according to Pfeffer and Salancik (1978) it is strongly rooted in an open system framework with its central thesis being that 'to understand the behaviour of an organisation you must understand the context of that behaviour – that is the ecology of the organisation'. As organisations are not self-sufficient; all must engage in exchanges with the environment in order to survive. Therefore Resource dependency theory, along with and Population ecology help to explain the contextual changes at industry level which encourage the emergence of franchising. Resource dependency theory views organisations as dependent on a resource environment that can impose constraints and create uncertainty, both of which are harmful to the focal organisation. Population ecology by definition operates at a population level of analysis. Although population ecology acknowledges individual organisations its concern is with organisational forms or populations of organisations (Ulrich and Barney, 1984). The implication of changing from an organisational to a population level of analysis is that the '*locus of causality*' shifts to the environment (Davis and Powell, 1992). Finally Population ecology and Neo-institutional theory both help in understand the contextual factors operating at the Macro-environmental level which promote the adoption of franchising. Population ecology promotes that an organisation's fate is largely in the hands of others and selection forces that are outside of its control (Pfeffer, 1998). While stopping short of determinism Population ecology asserts the primacy of environments in shaping organisations (Meyer, 1990). Neo-institutional theory proposes institutional forces as the main drivers of change. Participating in inter-organisational relationships, such as franchising, allows firms to access formal and informal institutional resources such as laws, reputation, and legitimacy, address problems, mitigate environmental problems by using political institutions (Getz, 1997), and reduce uncertainty.

These three levels of contextual influencers (Macro-environmental, industry and agency context) are depicted in the conceptual framework for this study which is illustrated in figure 3.2 below and helps to formulate the content of structural change which entails managing the context and process. This study is looking to explore the impact of franchising on industry evolution and as stated will follow Pettigrew's contextualist approach. The exploratory framework used to guide this research is built around the conceptual model outlined in Pettigrew (1987) who composed a model with an outer and inner context at the organisational level which was utilized by Quinn (2002) and Hanchar

(2011) at the industry level and as such this model is appropriate for such inductive research. Within this framework 'inner context' refers to the task environment or industry context, 'outer context' the institutional or macro-environment, the effect of human agency within the industry is described as 'social action and 'history' describes the unfolding path-dependent influences that help direct the course of evolution. The process of industry evolution refers to how change comes about within each industry as a result of the confluences of forces over time.

According to Quinn (2002) the intention of the framework was to provide the fieldwork with sufficient conceptual guidance to give it focus, while avoiding undue advance categorisation of the data. The model sees the process of industry evolution as one that unfolds over time and is shaped by the interplay of context, history and social action. The framework leaves open the questions of specific drivers since new insights on these questions can be through the induction from the data (Quinn, 2002). Furthermore Pettigrew's (1987) reference to content, this study looked at identifying content as the particular areas of transformation or franchising in this case, under examination (thus the firm may be seeking to change technology, products, geographical positioning, or corporate culture). The process of change refers to the actions, reactions, and interactions from the various interested parties as they seek to move the firm from its present to its future state. Thus broadly speaking, the 'what' of change is encapsulated under the label content, much of the 'why' of change is derived from an analysis of inner and outer context, and the 'how' of change can be understood from an analysis of process. This study has attempted to do all of the above using a contextualist approach. 'An approach, which offers both multilevel or vertical analysis, and processual, or horizontal analysis, is said to be contextualist in nature' (Pettigrew, 1985). While Pettigrew's framework was originally developed for a firm level analysis, the main focus of this research is on industry. As mentioned it has subsequently been proven by Quinn (2002) and Hanchar (2010) its ability to address industry level change. Therefore, the macro-environmental context refers to the 'social, economic, political and competitive environment', within which industry evolves. Industry context refers to the developments within an industry, such as entry/exit, size of firms, concentration, competitiveness, core activities, and industry boundaries. The content of structural change is linked to the process of change (Pettigrew, 1987). The influence of an individual agency relates to those entrepreneurs or managers who may be a part of the decision making process at firm level to initiate the introduction of franchising as an organisational structure within their own firm as depicted in figure 3.2 below.

Overall, the conceptual framework of this study, integrates the multilevel (macro-environment, industry and firms) and the multimodal (the five theories: Transaction cost economics, Agency theory, Resource dependency theory, Neo-institutional theory & Population ecology) nature of this research with the view of strategic change from a context/process/content framework. The conceptual framework maps the logic behind the study and shows that the adoption of franchising

is driven by the contextual processes, at multiple levels and may impact industry structures by creating new sectors, disseminating information, increasing legitimacy of firms, changing power arrangements and industry boundaries, and erecting industry barriers. It also takes into account the roles played by institutions. In relation to this study this view suggests that the development of new capabilities or dissemination of information among franchise systems (the franchisors and franchisees and across the network of franchise systems) as a result of the adoption of franchising represent the impact of franchising on the structural evolution of each industry. The conceptual framework (see model 3.2 below) helps to address the main research question: How does franchising impact industry evolution? As it allows the two research sub-questions to be assessed within the model the first part of the model relates to the first research sub question (Q1) Why does franchising emerge? And incorporates the influencing factors that prompt the emergence of franchising which include the macro-environmental context, the industry context and the role of agency as drivers of the emergence of franchising. The second part of the model looks at the effect on industry structure once franchising is adopted (Q2) What impact does franchising have on the structural evolution of an industry? Thus the second part of the framework includes the process of industry evolution and the resulting outcomes of structural change such as changes to industry entry and exit, industry expansion and contraction, levels of industry concentration, and changes in relationships with buyers and suppliers, companies and consumers and according to Porter (2007) each industry has a distinctive structure that shapes the nature of competitive interaction that unfolds there.

3.5.2 Integrated Conceptual Model

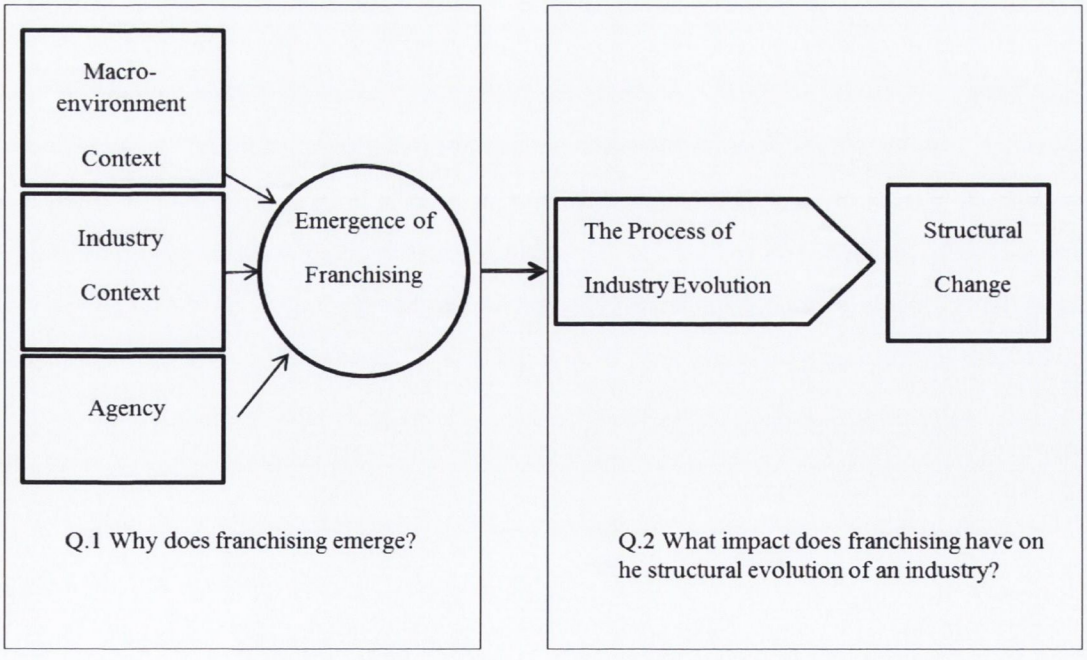

Figure 3-2 Integrated Conceptual Model

3.6 CONCLUSION

The gaps in the literature in both industry evolution and franchising that this study has highlighted together with reference to Porter's (1980) work which investigates how franchising impacts industries lay the foundations for the conceptual framework as discussed in the previous section. Furthermore Porter (1980) suggests that before the introduction of franchising industries are fragmented and that franchising overcomes fragmentation, this viewpoint has not been previously explored in depth. In terms of the franchising literature there is a gap in the research around the pre-emergence conditions necessary for franchising to be adopted and most of the research is at firm level and focuses on the decision to franchise and negates the emergence and impact factors at industry level. The industry evolution literature doesn't effectively deal with the firm level issues nor has franchising and its emergence and impact been previously investigated in this way before. Therefore there is a need to examine franchising and its emergence and evolution at the firm and industry level as well as franchising's impact on industry structure overtime.

In conclusion this chapter reviewed and analysed the evolution of two bodies of literature: the literature on franchising and industry evolution. It highlighted some of the difficulties met by the researchers in the field when studying industry evolution, and encountered by both academic researchers and practitioners when dealing with franchising. Building on this analysis, this chapter developed the theoretical framework to inform the research with the theoretical concepts and models. This chapter then looked at the five theories which form the theoretical underpinnings of this research. The discussion of the research design elements, the main 'multi-layered' research question, and the two research sub-questions was then followed by the presentation of the conceptual framework. Built upon literature reviews, a theoretical framework and research questions led to the development of the conceptual framework and showed the logic behind this study and the way its elements fit together to create a meaningful and robust research project. The next stage is to explore the methodology and method used to answer the main research question.

CHAPTER 4 METHODOLOGY

4.1 INTRODUCTION

This chapter will give an outline of the methodological approach chosen for this study. The explanatory framework of this study is embedded in and directed towards the methodology appropriate to answer the research question. This involves a discussion on the choice of paradigm, background and justification of research strategies, and description of analytical tools. A qualitative, interpretive, phenomenological approach to this thesis is taken, which was found to be more adequate, than a quantitative, verification based approach. According to Yin (1993) 'a research design is the logic that links the data to be collected (and the conclusion to be drawn) to the initial questions of the study'. The choice of qualitative research methods utilised in this research is guided by ontological and epistemological assumptions. This chapter briefly reviews the beliefs that define enquiry paradigm, followed by a discussion of the building blocks of this study. The methodology of this research is based on the longitudinal process comparative case study approach. Particular attention is given to the discussion of contextualism as a theory of method. The review of a case-oriented strategy is followed by a detailed discussion of the data collection and analysis. The main function of the research design is to explain how to find the answers to the research question under analysis. It is a logical and constructive way of designing a process of problem solving. 'The research methods must be appropriate to the objectives of the study' Eisenhardt (1989). In addition, 'a research design should include the following: the study design per se and the logistical arrangements that you propose to undertake, the measurement procedures, the sampling strategy, the frame of analysis and the time-frame' (Kumar, 1996). Finally Mintzberg's (1979) view when he said: 'It is discovery that attracts me to this business, not the checking out of what we think we already know…'

The research schedule is centered on the drivers of change and this research will focus on the change process through an inductive approach. Saunders et al. (2000) describes the research design approach as akin to peeling an onion 'the first of these layers raises the question of research philosophy you adopt. The second considers the subject of your research approach, thirdly, we examine what we call research strategy and the fourth layer is the time horizons'. Kumar (1996) poses that conceptualising a research design 'involves identifying gaps in knowledge, verification of what is already known and identification of past errors and limitations' and that 'research involves systematic, controlled, valid and rigorous establishment of associations and causation that permit the accurate prediction of outcomes under a given set of conditions'.

The review of the literature on change and strategy revealed the need to study the processual nature of change, as well as the need for more understanding on its implications at different levels of analysis in the organisational structures. Research methods and the debates associated with the

social sciences are linked directly to assumptions about ontology, epistemology, and human nature. Morgan and Smircich (1980) argue that after reviewing these assumptions, it can be argued that the dichotomy between quantitative and qualitative methods is a rough and over simplified one. Qualitative research is an approach rather than a particular set of techniques, and its appropriateness is dependent on the nature of the social phenomena to be explored. There are many problems involved in the choice of a method that current debates have failed to explore and a more balanced approach to research in organization theory is required. Burrell and Morgan (1979) suggest that all approaches to social science are based on interrelated sets of assumptions regarding ontology, human nature, and epistemology. In general qualitative studies have often been criticised for reliability and validity issues. The chapter concludes by addressing these issues as well as looking at the research implementation issues, such as the choice of industries and the definition of industries.

4.2 OVERVIEW OF THE PHILOSOPHY OF SCIENCE

Knowledge of the social world implies a need to understand and map social structures, and which is concerned with the epistemology of positivism, with the empirical analysis of concrete relationships in the social world. It requires the 'objective' form of knowledge that indicates the nature of laws, regularities, and relationships among phenomena measured in terms of social 'facts' (Pugh & Hickson, 1976; Skinner, 1953, 1957). At the other end of the continuum, the highly subjectivist view of reality as a projection of individual imagination is in favour of an epistemology that emphasizes the importance of understanding the processes through which human beings understand their relationship to their world. This perspective challenges the idea that there can be an 'objective' knowledge in a tangible form, the fact that knowledge created is often just how a human being imposes their personal frame of reference on the world, mistakenly perceived as being an external and separate realm (Husser, 1962). The grounds for knowledge in each of these perspectives and conceptions of social reality which are at polar opposites.

An inquiry paradigm defines what falls within and outside the limits of an authentic inquiry (Guba and Lincoln, 1994). The basic beliefs that define inquiry paradigms can be summarised assessing the ontological, epistemological and methodological questions. The interpretive framework or paradigm is described (Denzin & Lincoln, 2000; Guba & Lincoln, 1994, 2005), which encompasses three elements that combined give the researcher a basic set of believes that guide action: (1) how is reality to be known and what the relationship is between inquirer and the known (epistemology); (2) what is the nature of that reality (ontology); and (3) what are the strategies to be followed to gain knowledge about that reality (methodology). According to Guba and Lincoln (1994) 'Ontology is crucial to methodology because the appropriateness of a particular set of methods for a given problem turns on assumptions about the nature of the causal relations they are meant to discover… the methodologies… must be congruent with its prevailing ontologies'.

Ontological assumptions are concerned with the essence of the phenomena under investigation and the form and nature of reality (Guba and Lincoln, 1994). According to Burrell and Morgan (1979), researchers are faced with the basic ontological question of whether the reality to be investigated is external to an individual (realism), or whether it is the product of an individual's consciousness (nominalism).

Epistemological assumptions of knowledge explain how one might begin understanding the world and communicating knowledge to others, or whether knowledge can be acquired or has to be personally experienced (Burrell and Morgan, 1979). The epistemological assumptions are determined by the ontological position (Guba and Lincoln, 1994). They fall into a positivism-postpositivism spectrum, which varies from an assumption on whether knowledge is something that can be acquired, to something that can be personally experienced.

Methodology is concerned with 'how can an inquirer go about finding out whatever he or she believes can be known' (Guba and Lincoln, 1994). Methodology is constrained by the ontology and epistemology assumptions. Methods must be fitted to a predetermined methodology and the methodological question cannot be reduced to a question of methods. According to Guba & Lincoln (1994), questions of ontology, epistemology and methodology serve as a focus for the analysis of the four inquiry paradigms: positivism, postpositivism, critical theory and constructivism. According to Miles & Huberman (1994), the paradigms for conducting social research have been shifting, and difficult to find researchers representing one fixed place along the spectrum. Miles & Huberman (1994) argue that in the practice of empirical research, the polarised epistemological positions overlap and realists, interpretivists, and critical theorists find themselves closer to the centre.

4.2.1 Quantitative vs. Qualitative

Traditionally, business research has been portrayed in terms of a dichotomy between quantitative and qualitative orientations. Quantitative researchers typically focus on the links among clearly defined and measured attributes involving a statistically significant number of cases. Qualitative researchers, on the other hand, focus on the links among many contextualised attributes involving relatively few cases (Brannick, 1997). King, Keohane, & Verba (1994) attribute the differences between the traditions to their styles and specific techniques. Thus, quantitative research uses numbers and statistical methods and is based on numerical measurements of the phenomena and abstracts from particular instances as a way to seek general descriptions or test hypotheses. Qualitative research, on the other hand, covers a wider range of approaches that do not rely on numerical measurements, focusing on a smaller number of cases, with interviews and in-depth analysis of historical materials, exposing large amounts of information. The quantitative methods used in the social sciences, which draw principally on the methods of the natural sciences, are

appropriate for capturing a view of the social world as a concrete structure. Once the ontological assumption that the world is a concrete structure is relaxed, and researchers acknowledge that human beings, far from responding to the social world, may actively contribute to its creation, the dominant methods become increasingly unsatisfactory, and indeed, inappropriate.

According to Morgan and Smircich (1980), 'if one recognizes that the social world constitutes some form of open-ended process, any method that closes the subject of study within the confines of a laboratory, or merely contents itself with the production of narrow empirical snapshots of isolated phenomena at fixed points in time, does not do justice to the nature of the subject. The very nature of the phenomena under investigation challenges the usefulness of such methodological at play. 'Historical change, contextual fields of information, and processes through which human beings engage in symbolic modes of discourse, create their reality, and project themselves from the transcendental to more prosaic realms of experience, can be captured and measured only through means of static techniques and only in the most partial and limited of ways' Morgan and Smircich (1980). Different approaches and methods are required for studying these phenomena, and more often than not they focus on qualitative rather than quantitative features of the subject of study. Quantitative techniques may have an important but only partial role to play in the analysis and understanding of the process of social change. Morgan and Smircich (1980) claim that the case for supporting qualitative research in social science begins as one departs from the objectivist extreme of the subjective-objective continuum. Qualitative research stands for an approach rather than a particular set of techniques, and its appropriateness - like that of quantitative research - is dependent on the nature of the phenomena to be studied. There is a need for a more spontaneous approach to understanding the nature of social research, with a focus on the way in which favoured techniques are often linked to underlying assumptions. It emphasizes a need to approach discussions of methodology in a way that highlights the vital link between theory and method - between the world view to which the researcher subscribes, the type of research question posed, and the technique that is to be adopted as a basis for research.

According to Miles & Huberman (1994), qualitative research is labour-intensive, imposes a risk of data overload and researcher bias, is very time intensive, and presents issues around the adequacy of sampling and the quality of conclusions drawn from it. 'At the same time, with qualitative data one can preserve chronological flow, see precisely which events led to which consequences, and derive fruitful explanations. …Good qualitative data are more likely to lead to serendipitous findings and to new integrations …help researchers to get beyond initial conceptions and to generate or revise conceptual frameworks' (Miles and Huberman, 1994).

This study will be using the qualitative research approach as it is deemed most appropriate for the research question under investigation.

4.2.2 Inductive vs. Deductive

Aristotle (384-322 BC) developed an inductive-deductive view of the way systematic knowledge was obtained. According to this view, certain regularities could first be induced and then deduced. Mill (1806-1873) outlined four primary inductive strategies for establishing empirical generalisation: agreement, difference, concomitant variations, and residues. Two of the four methods are particularly relevant for a case-oriented investigation: the method of agreement and the indirect method of difference, both are methods of elimination (Mill, 1882; Ragin, 1987). In the method of agreement to know the cause of a phenomenon, the researcher should first identify instances of the phenomenon and then attempt to determine the circumstance which precedes its appearance thus this is the cause of the phenomenon. The circumstance that would satisfy the requirement is the cause. In the social sciences comparativists usually use the method of agreement when they are concerned primarily with a single case. According to Ragin (1987), the two methods described by Mill form the core of the case-oriented strategy, as they are both useful inductive techniques.

While the inductive methods can establish generalisations and causal laws, scientific reasoning, from observations to theories, is often held to be a paradigm of inductive reasoning. Inductive analysis as advocated by Henry Mintzberg (1979) should be 'as purely inductive as possible'. He identifies two essential steps in inductive research. The first he calls the detective work where patterns and inconsistencies are tracked down. Second is the creative leap, which involves generalizing beyond data. In his view, it is this kind of data-led exploratory approach, involving 'peripheral vision, poking around in relevant places, a good dose of creativity' among other things, that really 'makes good research, and always will, in all fields' (1979). The role that literature plays in inductive analysis is an important one according to Leavy (1994). He sees, in data-led qualitative research, that literature and data 'are interleaved and the researcher continually interacts with both in ongoing inner dialogue throughout the duration of the project'. The researcher needs to sensitize themselves to what they are investigating as Glaser (1978) summaries 'when reading for his research the analyst should read for ideas', which will, 'make him sensitive to what he may discover in his data'. Inductive analysis and the sensitizing of the researcher in this study are of paramount importance.

Mintzberg (1979) emphasises that it is a new discovery that attracts in science and 'not checking out what we think we already know' as in the case with deductive research. According to Mintzberg (1979), there are two steps in inductive research: detective work and the creative leap. The former is tracking down patterns and consistencies, while the latter refers to breaking away from the expected to describe something new. This study will be following an inductive line of inquiry to address the research question under investigation.

4.3 METHODOLOGY

4.3.1 Epistemology and Ontology

In the broader area of social sciences, paradigms are treated in a more extensive way than the simple distinction between quantitative and qualitative research. Slife and Williams (1995), for example, develop a comprehensive explanation of epistemologies behind most types of behavioural and cognitive approaches to learning and knowing. Another instance is Burrell & Morgan's (1979) debate on subjectivist and objectivist conflicting approaches to social sciences at all paradigmatic levels (ontology, epistemology, human nature, methodology).

Starting at the most objective end, positivism regards reality to be studied as 'real' and apprehendable; meaning that the phenomenon to be known exists on its own regardless of the scientist's awareness of it, and it can be observed and comprehended. Under this paradigm the would-be-knower and what can be known are completely detached from each other and independent, so the inquirer can only gain knowledge of reality by means of objective observations and findings. Strategies followed to gain such knowledge are experimental or manipulative; chiefly, quantitative verifications of hypotheses. The post positivist paradigm keeps considering reality as 'real' and completely detached and independent from the inquirer; however, it is more critical about the way reality can be known since its assumption is that reality is only imperfectly understood. Knowledge, in this case, is gained by means of the same experimental strategies; the analysis, however, is critical about the findings since they depend on the personal appreciation of the inquirer's observations. Strategies may include qualitative methods.

Looking at the more subjective end of the spectrum, there are a series of alternative paradigms such as neo-Marxism, feminism, materialism, and participatory inquiry. Whatever their differences, Guba and Lincoln (1994) grouped them under the critical theory blanket term due to the value-determined nature of inquiry present across all these alternatives. In this collective paradigm, reality is considered historical, since it is shaped by social, political, cultural, economic, ethnic, and gender values, and crystallised overtime. The inquirer and the phenomenon under study hold a transactional subjective relationship that produces findings mediated by their values. Methods used under this paradigm involve dialog and dialectical interaction.

Constructivism is the subjective end of the spectrum as originally conceived by Guba and Lincoln (1994) its ontology; realities, rather than being 'real', are multiple, intangible mental constructions, based in social experience. The variety of paradigms discussed by Lincoln and Guba (2005) aim at covering the breath of approaches social scientists have taken to study the social world. They represent fundamental assumptions and beliefs of the researchers, and they explain how the same phenomenon can be studied from very different perspectives and still produce as many valuable

findings. The current debate on paradigms transpires into the business studies research arena in the form of frameworks such as the one proposed by Arbnor and Bjerke (2007) where they discuss six paradigms based on six different ontological assumptions: reality as (1) a concrete and conformable law, from a structure independent of the observer, (2) a concrete determining process, (3) mutually dependent fields of information, (4) a world of symbolic discourse, (5) a social construction, and (6) a manifestation of human intentionality.

Moreover, many authors, however, in their attempt to make their framework choice more accessible to business research students abbreviate their treatment of the matter by considering only two main research paradigms. Brannick (1997) calls these two paradigms the empiricist tradition and the hermeneutic tradition; the former also known as the hypothetico-deductive approach, is firmly based on the scientific model, while the later attempts to understand social reality by interpreting the meanings shared by the social group. Similarly, Hussey & Hussey (1997) talk about a positivistic paradigm and a phenomenological paradigm, again, one extreme firmly rooted on the scientific tradition while any other approach that is not theory testing would be considered phenomenological, qualitative, subjectivist, humanistic, and/or interpretivist. Robert Stake (2005) pointed out that a case study, more than a methodological decision, is a choice of what is to be studied; the choice of case study being determined by the lessons that can be learnt from studying it. In this instance firms and industries which have evidence of franchising as an organizational form were identified as the objects to be studied, however, due to the complexity in the configuration of the multiple organisational entities involved, the case is broken down into level specific sub cases to facilitate cross-level analysis. In brief, it is designed as multiple case studies with multiple embedded units of analysis (Yin, 2003).

Besides the contextual factors discussed there are also epistemological concerns, and norms of practice that justify the use of an inductive qualitative case study. Firstly, an inductive approach allows the researcher to be theoretically sensitive to many different concepts while remaining open to the possibility of new findings, which is in tune with the nature of this study attempts to address the change process. Secondly, in order to study the change process, due to its contextual features, a case study approach is best suited to this research since the driving question is: what can we learn from this situation? (Eisenhardt, 1989; Fox-Wolfgramm, 1997; Stake, 2005; Yin, 2003)
The epistemological view that guides this research can be described as postpositivist critical realism. It implies that the social world is reproduced daily and transformed (Bhaskar, 1989). The ontological assumption of the research is based on the processual nature of human activity. It treats human acts or events as dynamic, and assumes that the reality is continuously changing, and that human activity is positioned within a socio-historical context of meaning and relationships. Based on these assumptions, this study relies on the accounts of people's perceptions and their reactions.

According to van de Ven (1988), there are four requirements one needs to 'undertake research on the process of change in general, and strategic management in particular'. 'A key aspect of qualitative longitudinal analysis in general... is that it is theoretically driven, and is characterised by a focus on meaning' (Elliot, Hollard and Thomson, 2008).

To understand the process of change, the Centre for Corporate Strategy and Change (CCSC) at the University of Warick 'takes a historical approach grounded in a detailed study of the context of an organisation in its industrial environment' (Pugh and Hickson, 2007). This approach provides an opportunity to examine a continuous process in a context, thus offering a holistic explanation of phenomena under investigation (Pettigrew et al., 2001). The nature, of this study suggest that its methodology should be based on Pettigrew's (1985, 1987, 1988, 1990) contextualist longitudinal processual, and comparative case study methodology developed at CCSC. The methodology focuses on the issues of process, content, and context. It highlights the historical experiences and chronology of change and draws on the need for a multi-level and multi-modal investigation. Along with Pettigrew (1985), it has been promoted by other evolutionary academics (Dosi and Malerba, 2002; Malerba and Orsenigo, 1996; Nelson and Winter, 1982) and organisational theorists (Pettigrew, 1985 and Scott, 1995).

This study will follow Pettigrew's contextualist, longitudinal processual and comparative case based approach as it was deemed most appropriate to address the research question.

4.4 CONTEXTUALISM

Burrell and Morgan (1979) and Morgan (1986) helped to make explicit the various ontological and theoretical assumptions guiding much of organisational analysis. A contextualist analysis of a process such as change draws on phenomena at vertical and horizontal levels of analysis and the interconnections between those levels through time. The vertical level refers to the interdependencies between higher or lower levels of analysis upon phenomena to be explained at some further level; for example, the impact of a changing socioeconomic context on features of intra-organisational context and firm level behaviour. The horizontal level refers to the sequential interconnectedness among phenomena in historical, present, and future time. An approach that offers both multilevel or vertical analysis and processual, or horizontal, analysis is said to be contextualist in character for the following reason: firstly, by the importance of embeddedness, studying change in the context of interconnected levels of analysis; secondly, by the importance of temporal interconnectedness, locating change in past, present, and future time; thirdly, by the need to explore context and action, how context is a product of action and vice versa; and finally by the central assumption about causation in this kind of holistic analysis, causation of change is neither linear nor singular.

According to Pettigrew (1990) in order to conduct and undertake longitudinal research by means of the comparative case study method the CCSC case studies involved comparisons between firms in the same industrial sector, between firms in different sectors, and sometimes, as in their human resource work, direct sector to sector comparisons. Time was captured in their work through a combination of retrospective and real time analysis. Pettigrew's (1997) personal and therefore partial view of the nature and conduct of process research in organisational settings look at issues of time, agency, structure, context, emergence and development are crucial in human conduct and have been widely debated by philosophers and social theorists. Pettigrew (1997) asks what is a process? And what is a processual analysis? Van de Ven (1992) has offered an instructive formal definition of what a process is. He argues that process is often used in three ways in the literature: (1) as a logic used to explain a causal relationship in a variance theory; (2) as a category of concepts that refer to activities of individuals or organisations; and (3) as a sequence of events that describes how things change over time. Of these three approaches only the third explicitly and directly observes the process in action and thereby is able to describe and account for how some entity or issue develops and changes over time. Thus the working definition of process used in this study is: a sequence of individual and collective events, actions, and activities unfolding over time in context.

Another analytical factor which can change a case history into a case study reminds us that inductive pattern recognition has also to go hand in hand with deduction. Few process scholars enter the field with an empty head waiting to be filled with evidence. Scholars are not just scientists, they remain obstinately human beings and as such are carriers of assumptions, values and frames of reference which guide what they are capable of seeing and not seeing. The aims of this research, and the themes which embody these aims, have a crucial role to play in this pattern recognition process. Pettigrew (1997) summarizes: like all forms of social research, process work has its strengths and its weaknesses, its virtues and its limitations. The major contribution of process research is to catch reality in flight, to explore the dynamic qualities of human conduct and organisational life and to embed such dynamics over time in the various layers of context in which streams of activity occur.

Therefore looking at the main method used for contextualist analysis of process is the comparative case study method. Case studies are used in organisational and management studies as well as in policy and public administration research. The case study method is recommended when the research is focused on contemporary phenomena and does not require control over behavioral events (Yin, 2003). Mintzberg, (1979) in defending case studies and qualitative research states that 'the field of organization theory has, I believe, paid dearly for the obsession with rigor in the choice of methodology. Too many of the results have been significant only in the statistical sense of the word. What, for example, is wrong with samples of one? Why should researchers have to apologize

for them?' He goes on the say, 'no matter what the state of the field, whether it is new or mature, all of its interesting research explores'. It seems that the more deeply we probe into this field of organizations, the more complex we find it to be, and the more we need to fall back on so called exploratory, as opposed to 'rigorous,' research methodologies.

As a research strategy, it is an empirical inquiry that investigates a phenomenon within its real life context when the boundaries of phenomenon and context are not yet clearly understood (Brannick, 1997). An added value of the use of the case study as a strategy of enquiry is its appropriateness in the process of building theory. Eisenhardt (1989) placed particular emphasis on the usefulness of the case study to generate theory; a number of methodological issues were considered. In the interest of focus and definition of the overall research project, the research question addresses the impact of franchising on industry evolution from an industry level and organizational level and from a multilevel perspective. Case based research is required on a frequent basis to both test theory and to expand and explore new areas of research. Qualitative research is generally associated with description and explanation rather that it's quantitative counterpart which mainly deals with prescription and prediction. Case based research is an empirical enquiry, which investigates a contemporary phenomenon within its real life context (Brannick, 1997). It was believed that the use of case based analysis contributes in a very important way to the extension of the present empirical research in this area. Reiterating this Yin (1993) claims, 'a case study is an empirical investigation that investigates a contemporary phenomenon within its real life context, especially when the boundaries between the phenomenon and context are not clearly evident'. This study will use a case study approach.

4.5 PETTIGREW AND THE WARWICK CENTRE FOR STRATEGY AND CORPORATE CHANGE

According to Pettigrew (1987, 2012) much research on organization change is ahistorical, aprocessual, and acontextual in character. In this respect, the area of organization change merely reflects the biases inherent in the social sciences and in the study of organizations in particular. There are remarkably few studies of change that actually allow the change process to reveal itself in any kind of substantially temporal or contextual manner. Where the change project is treated as the unit of analysis the focus is on a single event or a set of discrete episodes somehow separate from the immediate and more distant antecedents that give those events form, meaning, and substance. Such episodic views of change not only treat innovations as if they had a clear beginning and a clear end but also, where they limit themselves to snapshot time-series data, fail to provide data on the mechanisms and processes through which changes are created. Studies of transformation are, therefore, often preoccupied with the intricacies of narrow changes rather the holistic and dynamic analysis of change. The suggestion made by Pettigrew is that one way to respond to the above weaknesses in the literature on change is to encourage a form of research

which is contextualist and processual in character (Pettigrew, 1985). A contextualist analysis of a process such as organizational change draws on phenomena at vertical and horizontal levels of analysis and the interconnections between those levels through time. The horizontal level refers to the sequential interconnectedness among phenomena in historical, present, and future time. An approach that offers both multilevel, or vertical analysis and processual, or horizontal analysis, is said to be contextualist in character. Pettigrew (1985) notes that any fully contextualist analysis would have the following characteristics:

(1) It would require a clearly delineated but theoretically and empirically connectable set of levels of analysis. Within each level of analysis, of course, depending upon the focus of explanation, there would be specified a set of cross-sectional categories.

(2) It would require a clear description of the process or processes under examination. Basic to the notion of a processual analysis is the idea that an organization or any other social system may profitably be explored as a continuing system, with a past, a present and a future. Any processual analysis of this form requires the set of cross-sectional categories identified in point. Change processes can be identified and studied only against a background of structure or relative constancy.

(3) The processual analysis requires a motor, or theory or theories, to drive the process, part of which will require the specification of the model of human beings underlying the research. Within this research on change, strong emphasis is given both to people's capacity and desire to adjust social conditions to meet their ends and to the part played by power relationships in the emergence and ongoing development of the processes being examined.

(4) Crucial, however, to this whole approach to contextualist analysis is the way that the contextual variables in the vertical analysis are linked to the processes under observation in the horizontal analysis. The view taken here is that it is not sufficient to treat context either just as descriptive background or as an eclectic list of antecedents that somehow shape the process. Neither, of course, given the dangers of simple determinism, should structure or context be seen as just constraining process. In this analytical approach to understanding the origins, development, and implementation of organizational change, the interest, therefore, is in multilevel theory construction.

Pettigrew (1989) also looks at the macro-environmental context which refers to the social, economic, political, and competitive environment in which the firm operates. Industry context refers to the structure, corporate culture, and political context within the firm through which ideas for change have to proceed. Content refers to the particular areas of transformation under examination. Thus the firm may be seeking to change technology, manpower, products, geographical positioning, or indeed corporate culture. The process of change refers to the actions, reactions, and interactions from the various interested parties as they seek to move the firm from its present to its future state. Thus broadly speaking, the 'what' of change is encapsulated under the label content, much of the 'why' of change is derived from an analysis of external and industry

context, and the 'how' of change can be understood from an analysis of process. 'An approach, which offers both multilevel or vertical analysis, and processual, or horizontal analysis, is said to be contextualist in nature' (Pettigrew, 1985). According to Pettigrew, Woodman, and Cameron (2001), in the early work in the contextualist approach, 'the context was dichotomized into the external and industry contexts of organizations. Macro-environmental context included the economic, social, political, and sector environment in which a firm was located. Industry context was defined as features of the structural, cultural, and political environments through which the ideas and actions for change would proceed'.

Pettigrew (1984a) claims that contextualism, as a theory of method, involves a number of assumptions. Firstly, target changes under investigation should be studied within the context of changes at other levels of analysis. Here irregularities between the levels of context are sources of change. Secondly, it is important to reveal sequential interconnectedness, to 'catch the reality in flight'. There is a need to search for deeper structures and at the same time it is important to remember probabilistic trajectories of change. Thirdly, context and action need to be combined and explored. And, finally, causation is neither linear, nor singular because changes usually have multiple causes. Pettigrew, Woodman & Cameron's (2001) point out the limited potential analytical power of contextualism and argue that the only way to address this limitation is to examine a sufficiently long time-series in order to show how multiple levels of context interact to revitalise the change process. Therefore, the depth of the current retrospective study is set to cover 90 years from the 1920s until the early 21st century.

4.5.1 Levels of Analysis

Meyer et al. (1990) suggest that the concepts of first order and second order change have been plied in virtually every unit of analysis examined by organizational scientists. Within the field of strategic management, however, first order change has received considerably more attention than second order change. Much of this literature emphasizes gradual, first order environmental change, and exhorts strategists to respond by engaging in planning, forecasting, and other first order organizational changes. Under the analysis of differing levels, Meyer et al. (1990) acknowledge that the level at which change is assumed to occur provides a second dimension for classifying organizational change. Traditionally (Van de Ven, 1983) say that strategy theorists have taken the firm as the relevant unit of analysis. More recently concepts fashioned at the level of industries, populations or groups of competing organisations have been introduced. However, according to Meyer et al. (1990) after newly introduced industry-level concepts became assimilated by strategic management theory, the level of analysis tends to revert from the industry back to the firm.

Gersick (1991) poses that questions about change have commanded the attention of organization theorists for many years. Looking to answer: How do individuals, groups, organizations, and

industries evolve over time? How do they adapt or fail to adapt to changing environments? How can change be planned and managed? Gersick (1990) states that the need to understand change processes is particularly critical now, when dramatic alterations are underway in the economic, technological, social, and political features of our environment, and people in organizations are struggling to keep pace (Deal, 1985). One paradigm that has heavily influenced our thinking about change processes is Darwin's model of evolution as a slow stream of small mutations, gradually shaped by environmental selection into novel forms.

4.6 METHOD

Taking all of the above into account this study will use a comparative case based approach. The two historical cases constructed and analysed for the purpose of this research are the fast food/QSR and the real estate industries. They are detailed accounts of the macro-environmental and industry contexts as well as the role of agency, and their contents at the three analytical levels. The rationale behind the choice of the cases is explained later in the 'Research implementation issues' section.

4.7 COMPARATIVE CASE BASED METHOD

The comparative case study method is the primary means for a contextualist analysis of process (Quinn, 2002). Miles & Huberman (1994) argue that there are two different approaches to comparative case analysis: case-oriented (the comparative) and variable-oriented. The variable-oriented approach is suitable for finding probabilistic relationships among variables in a large population, but poor in handling the real complexities of causation (Miles and Huberman, 1994). However, the comparative case method is 'good for finding specific, concrete, historically grounded patterns'. It provides an opportunity to examine continuous processes in a context, and to draw on the significance of various interconnected levels of analysis, thus revealing multiple sources and loops of causation and connectivity which are important in identifying and explaining change and its patterns (Pettigrew, 1990).

Ragin (1987) suggested some distinctive features of the case-oriented approach:

1. Investigators get close to the data and become familiar with their cases as they try to pinpoint key differences/similarities between cases.
2. Case-oriented methods 'require the investigators to suspend assumptions about the equivalence of case and conditions' (Ragin, 1987). Thus, there is no assumption that cases are drawn roughly from the same population or that the meanings of various measurements is the same from one case to next.
3. The cases are considered as whole entities and are examined as wholes, not as a collection of variables. Examining each case as a whole, as a total situation resulting from a combination of conditions, and comparing cases with each other as wholes, makes it possible to address causal complexities, to 'examine the conjunctures in time

and space that produce the important social changes and other phenomena' (Ragin, 1987).

4. The case-oriented method is flexible in its approach to evidence thus stimulating a dialog between ideas and evidence. It provides a basis for examining how conditions are combined in different ways and in different contexts to produce different outcomes.

4.7.1 Use of a longitudinal multiple sites

The Methodology chosen will closely follow the industry evolution study as subscribed to by Quinn and Leavy (2002) in their study on industry evolution. A number of writers (Gersick, 1991; Meyer et al., 1990; Pettigrew, 1990, 1997; Scott, 2001) have advocated multi-modal approaches to studies of change. Furthermore, both Pettigrew (1983, 1987) and Scott (2001) have advocated a multi-level approach. "Multiple retrospective studies increase the external validity of a research design, a longitudinal study can increase internal validity by enabling one to track cause and effect" (Pettigrew, 1990). The use of case studies on multiple sites, offers the opportunity to identify patterns indicative of dynamic processes and the longitudinal study provides a close-up view of those patterns as they evolve over time. The methodology is a longitudinal retrospective analysis of comparative multi case studies across three different industries (e.g. the fast food/QSR and real estate industries). The methodology draws on or is related to the work of numerous other researchers who have discussed both the perils and the richness of qualitative data collection methods (e.g. Miles and Huberman 1984, Van Maanen 1988, Pettigrew 1979), who have developed efficient, thorough approaches to developing theory through comparative case study.

4.7.2 5.3 Access

Access was not anticipated to be an issue as the researcher has access to a large network of individuals across all industries utilising franchising in Ireland. The researcher's family business is one of the first and largest franchise systems in Ireland and from this perspective many of the companies approached will be familiar with the researcher's connections and background. Furthermore, the researcher has already approached the Irish Franchise Association, Bank of Ireland Business Banking Franchise Section, Davy Stockbrokers Equity Research Department and the IDA and all organisations are extremely interested in the proposed research and are willing to help in any way possible. Their combined industry information and connections will be extremely valuable when conducting the proposed research.

4.7.3 Data Collection

According to Miles & Huberman (1994), strong and well-collected qualitative data should be locally grounded by being collected in a close proximity to a specific situation; 'it should be rich and holistic to reveal complexity and provide thick and vivid descriptions nested in a real context; it should be collected over a sustained period of time to allow for a study of a process; it should

locate the meaning people place on the events, processes and structures, and connect their meaning to the social world' (Miles and Huberman, 1994). This study focuses on the fast food/QSR and real estate industries over a 100 year period and within each case study there were periods of clusters of events and change. To collect such research over such a long timeframe was difficult and time consuming and to begin with secondary research was necessary to build a picture of each industry before primary data was collected. Yin (2003) and Stake (1995) list at least six sources of evidence; physical artifacts, archival records, interviews, documentation, direct observation, and participant-observation. Glesne (1999) and Creswell (1998) list interviews, observation and document collection, and open-ended surveys as sources of evidence. This study used archival records, interviews and documentation to build the comparative case study. The data for the construction and analysis of the two cases within this research framework was collected from the archives (documents and historical sources) through sources of statistical information from national and European publications. These secondary sources included: archival records, agendas, announcements, other written reports, administrative documents, newspaper clippings and other articles, interviews, other documentation were used. In addition, primary data was collected through in-depth semi-structured interviews with open-ended questions. "The qualitative research interview is a construction site for knowledge. An interview is literally an interview, an inter-change of views between two persons conversing about a theme of mutual interest" (Kvale, 1996). Qualitative interviews are effective research instruments for getting deeply insights about how people experience, feel and interpret the social world (Mack et al., 2005). Interviews were used as the participants were key informants who were targeted to investigate the current issues and practices related to fast food/QSR and real estate industry.

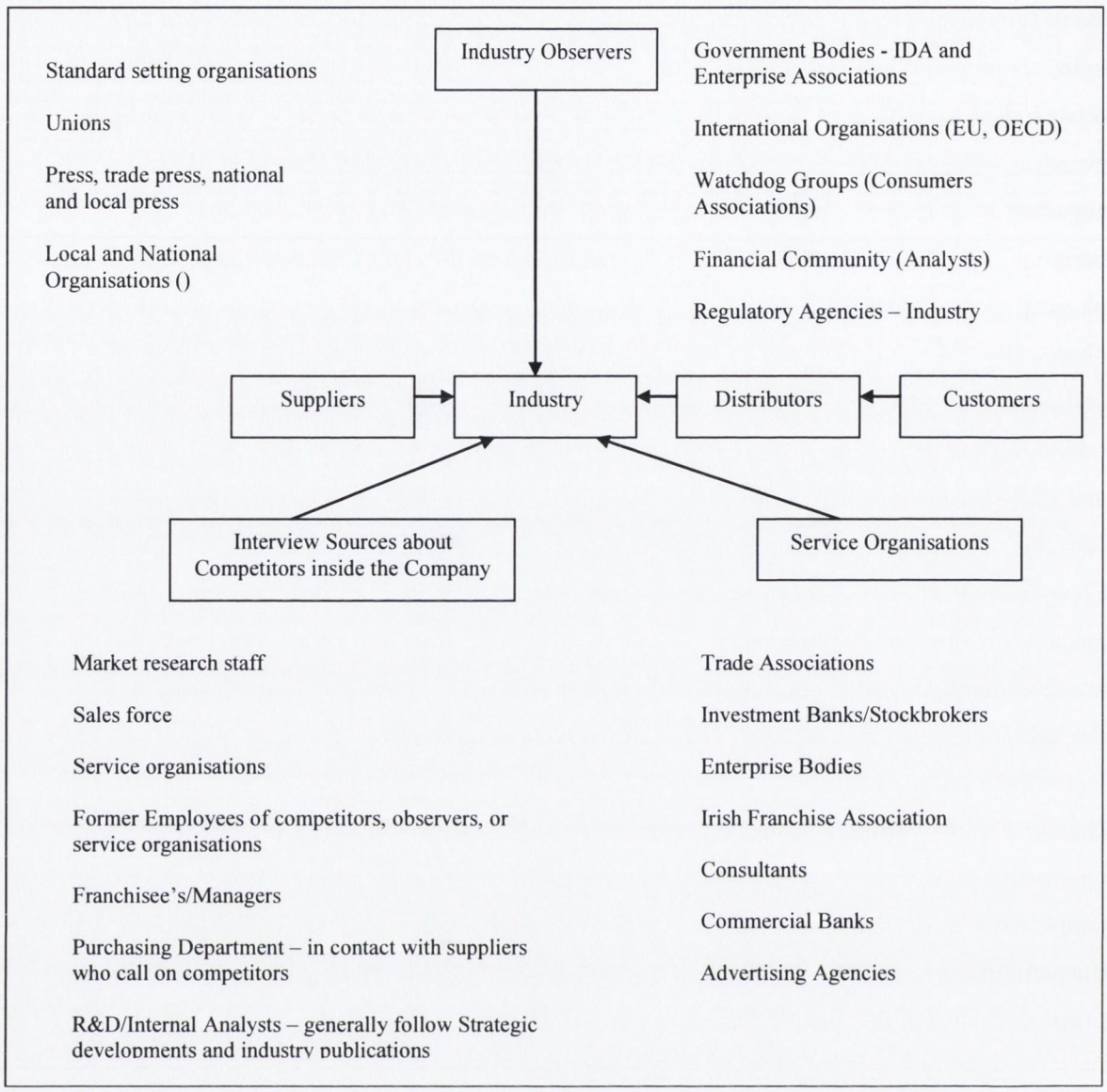

Figure 4-1 Porter (1980) Adapted from 'Sources of Field Data for Industry Analysis'

Processes for data collection for case studies are more complex than other research strategies. Yin (2003) also recommends following certain "formal procedures to ensure quality control during the data collection process" (p. 106). He described three principles of data collection that help in this process:

1. Multiple sources of evidence
2. Creating a case study database, and
3. Maintaining a chain of evidence.

The reliability of the study is increased through the process of triangulation, where converging lines of inquiry are developed from the multiple sources of evidence. Additionally, construct validity is addressed as multiple measures of the same phenomenon are provided through multiple means (Merriam, 1988; Yin, 2003). Glesne (1999) adds that triangulation is a measure of validity through the "use of multiple data-collection methods, multiple sources, multiple investigators,

and/or multiple theoretical perspectives" (p. 32). This study has endeavoured through the examination of multiple sources and multiple data collection methods to ensure triangulation. Creating a case study database is the process of organizing the data in a manner that other investigators are able to review it directly. In this study there were two separate collections of documentation that went into the database; the raw data (documents, my observation reports, interview transcripts), and the final case studies. Both of these documents went into a series of folders and sub folder (both physical and computerized folders) so they could be easily accessible to another investigator. Although computerized database software that is connected to a server can facilitate this process because of its ability to store and retrieve text, audio, video, scanned documents, websites, and graphic images (Yin, 2003). In this study the researcher used the folder system on the computer to collect and store all of the data in various folders and an Excel database to record events and categorize the data. The database contains the original interview notes, the researcher's notes, and any documents or information submitted by the participants. Subfolders were used to organize the data for easy retrieval.

4.7.4 Archival Data

Longitudinal data were collected covering both industry activities and then franchising activities since the 1920s. The sources of the data were manifold: primary data included statistical data, strategy and policy documents, memos, other company documents, annual reports, industry reports, indices maintained by different levels of Government and its agencies, trade journals, business magazines and newspapers. Secondary data on the background and historical context were gathered from history books, economic and social history publications as well as newspapers and industry journals.

4.7.5 Statistical Data

Statistical data was obtained from the Irish Central Statistical Office (CSO), the Organisation for Economic Cooperation and Development (OECD), and the European Commission (EC). It was collected, displayed, and analysed to pinpoint key trends and characteristics of the Irish economy in general, and fast food/QSR and real estate industries in particular (Pettigrew, 1985).

4.7.6 Interviews

The research methods literature (Saunders et al., 2003) has identified three different forms of interviews (structured, semi-structured and unstructured interviews). Dawson (2002) suggested that the semi-structured interview is one of the most widely used methods in qualitative research. In this kind of interview, the researcher pre-establishes a set of questions to know more information about specific issues and sometimes identify new issues that were not originally part of the interview. It is characterised by its flexibility in which the researcher can add or remove questions from the schedule based on the results of each interview. Also, Saunders et al. (2003) indicated that the

investigator is not requested to follow a specific order of questions but can vary the order depending on the flow of the conversation. Indeed, semi-structured interviews give the researcher the opportunity to 'probe' for more detailed information by asking the respondent to give more clarification to his answer. This is significant for those who adopt a phenomenological approach because a prime concern is focused on understanding the meanings that the respondents ascribe to various phenomena (Saunders et al., 2003). However, the interview is influenced by the level of awareness and the emotional state of the interviewee, so that a possible distortion to data may occur as a result of the interviewee being anxious or annoyed at the time of the interview (Patton, 2002). To avoid having biased data, the researcher should maintain his own knowledge and let the interviewee 'flow' (May, 1997).

The interviews with 32 respondents were conducted in order to add more exploratory and explanatory elements to the cases, constructed following an analysis of the archival, document, and statistical data. The qualitative data was collected from interviews in order to achieve deeper meanings, to clarify the contexts already described, to obtain tentative explanations, to identify missing causations, and to obtain various perspectives in order to allow for triangulation. The key respondents were selected on the basis of their current and former positions in franchising firms and relevant industry experts, all of whom at different stages were involved in changes and strategic processes across both industries. Interviews were mostly based on general and leading questions that asked respondents to give a verbal tour of their area of expertise. They also allowed for focused responses (Leech, 2002) and a detailed, in-depth, insider's perspective for a better comparison across actors. In addition twelve interviews were held over the phone (six in each individual case study) with franchisees (in different regional locations across Ireland) across both industries. The remaining interviews were held in Dublin. Each interview commenced with an introduction of the researcher and a short explanation of the nature and purpose of this research. All interviewees were given a guarantee that all of their statements would remain confidential if they found it necessary. Permission was asked for the use of a digital voice recorder. None of the interviewees had any objections to the use of a recorder. This brief introduction was followed by asking the interviewee about his/her position and responsibilities as a way of collecting more detail about him/her and at the same time creating a good atmosphere to conduct the interview and facilitate the interaction with the interviewee. Most of the questions asked were open-ended in nature. The questions were formulated based on varied sources along with my background on the topic studied. All respondents exhibited diverse experience in the research topic. All interviews took place within the interviewees' organisation and lasted between 45 – 90 minutes. Also, hand-written notes of the interviewees' responses were taken throughout the interview. I assured all interviewees about the confidentiality of the information given.

Finally, they all were thanked deeply and promised to be supplied with a summary of the research results. Three sections or phases of the industries formed the semi-structured interview. These phases were (1) pre-emergence conditions of franchising including the macro-environmental, industry and agency contexts related both at firm and industry level, (2) the emergence and initial adoption phase of franchising again, looking at the macro-environmental, industry and agency conditions both at firm and industry level and then the (3) third phase the post adoption of franchising and its impact on industry structure both at firm and industry level.

4.8 DATA ANALYSIS

To overcome the problem of confidence in findings, Miles & Huberman (1994) suggest that researchers need to work at 'sensible canons for qualitative data analysis, in a sense of shared ground rules for drawing conclusions and verifying their sturdiness'. Data analysis was carried out in accordance with Pettigrew's (1990) recommendations on the research output from a longitudinal comparative case study. The analysis for this study commenced at the early stages of data collection and became part of an on-going process. This allowed working with data already obtained and then generating strategies to collect new data.

Data analysis was guided by the theoretical and conceptual frameworks, and by the research question. The primary and secondary sources in the form of industry journals, government and EU-level reports, special documents, and media coverage were selected, consulted, and their content analysed (Pettigrew, 1973). The content analysis of the document sources involved the following four phases: (1) the development of categories, (2) the coding and extraction of data from primary/secondary sources, (3) organising the data into chronological order/cases, and (4) the coding and analysis of the cases.

4.8.1 Phase 1:

The development of categories: The initial phase in thematic analysis allowed for familiarisation with the data. A preliminary set of categories (see the three phases of industry development as detailed in the previous data collection interview section) was developed prior to the data collection/analysis and was based on the conceptual framework and research question (Miles and Huberman, 1994). Reading and re-reading the material until the researcher was comfortable was crucial to this initial phase of analysis. While becoming familiar with the material, note-taking was a crucial part of this step in order to begin developing potential codes. The inductive and context-sensitive nature of the research made it difficult to initially develop all of the codes and the list was continuously expanded with new context-driven categories. After completing data collection, I then began transcribing the interview data into written form. Transcription of the data was imperative to ensure the dependability of analysis. Transcribed data came from television programs, interviews, among others.

Different qualitative data analysis software were available to be used, e.g. NUD*IST, ATLAS and NVIVO 7. NVIVO 7 was trialled and compared with manual qualitative data analysis. Manual qualitative data analysis was more useful as the researcher was more involved in it and got 'closer' to the data, and was able to become more familiar to the participants' words and using the analysis phase to build ideas and themes. Qualitative data analysis software was more time consuming as the researcher had to draw tree nodes with different themes and sub-nodes with related themes on paper then would have to put them back into NVIVO7. This consumed more time than using colour codes (using highlighter pens) (or using colour coding of themes in a word document) to link between different themes and the main issues from transcription data. The second reason for not using qualitative data analysis software was the discrepancies between Word and NVIVO7 document pages. Some features were missing in NVIVO7 and the software sometimes suddenly shutdown having with the researcher having worked on it for more than seven hours, thus causing a loss of analysis. After this stage of manual theme coding and analysis I felt more familiar with the content of the data and was able to identify overt patterns or repeating issues in one or more interviews. These patterns were recorded in a reflexivity journal where they could be of use when coding and checking for accuracy. Following the completion of the transcription process the most important task was to begin to gain control over the data. At this point, it was important to mark data that addressed the main research question and the two sub-research questions. This was the beginning of the coding process. Thus the data was sectioned into categories: pre-emergence of franchising, the introduction of franchising and the post-emergence of franchising and its subsequent impact on industry structure.

4.8.2 Phase 2:

The coding and extraction of data from primary/secondary sources: The second step in the thematic analysis was to generate an initial list of items from the data set that have reoccurring patterns. This systematic way of organizing, and gaining meaningful parts of data as it relates to the research question is known as coding. The coding process evolves through an inductive analysis and is not considered to be a linear process, but a cyclical process in which codes emerge throughout the research process. This cyclical process involved going back and forth between phases of data analysis as needed until I was satisfied with the final themes. I attempted in this phase to go beyond surface meanings of the data to make sense of it and to tell an accurate story of what the data meant. The initial coding therefore set the stage for a detailed analysis later by allowing the re-organisation of the data according to the ideas that were obtained throughout the process. A reflexivity journal entry for new codes served as a reference point with the data sections, helping me to understand why and where these codes were included in the final analysis. Extended and unreduced text alone is a 'weak and cumbersome form of display', making it difficult to analyse and compare (Miles and Huberman, 1994). Therefore descriptive and interpretive coding was used to retrieve, organise, and classify the relevant data from both extended and unreduced sources. This

was done by attributing a class of phenomena to a segment of text and then extracting coded segments (Miles and Huberman, 1994).

4.8.3 Phase 3:

In this phase organising the data into chronological order/cases and then searching for themes and considering what worked and what did not work within themes meant I was able to begin the analysis of potential codes. In this phase, it was important to begin by examining how codes combined to form over-reaching themes in the data. At this point, I had a list of themes and began to focus on broader patterns in the data, combining coded data with proposed themes. I also began considering how relationships were formed between codes and themes and between different levels of existing themes. Themes differ from codes in that themes are phrases or sentences that identified what the data means. Thematic analysis allows for categories or themes to emerge from the data like the following: repeating ideas; indigenous terms, metaphors and analogies; shifts in topic; and similarities and differences of participants' linguistic expression. To understand the patterns and recurrences, a more explanatory coding system was used to group the summarised segments of data into a more meaningful level of analysis – a case study report (Miles and Huberman, 1994), or 'chronological listings of qualitative events' (van de Ven, 1988). At this stage the research output in the form of an analytical chronology and diagnostic cases was achieved. This allowed for the clarification of sequences, suggesting causal linkages across levels, and establishing early analytical themes (Pettigrew, 1990). Memos, propositions, and vignettes were developed along the way to guide further data collection and coding (Miles and Huberman, 1994). Interviews were conducted prior to Stage four. The data obtained from the interviews was incorporated into the cases in a similar fashion to the one described above.

4.8.4 Phase 4:

The coding and analysis of the cases: The case-oriented analysis was then undertaken. This comparative historical investigation works well when the number of cases is relatively small. Each case was considered as a whole entity, and its individual case configurations were looked at. This was then followed by a comparative analysis of the cases (Ragin, 1987). The former allows one to move the 'analysis and writing beyond the analytical chronologies', and to link 'emerging conceptual and theoretical ideas inductively derived from the case both to stronger analytical themes within the case and wider theoretical debates in the literature' (Pettigrew, 1990). The latter links the 'theoretical and empirical findings across cases to wider bodies of literature' (Pettigrew, 1990). Thus, the longitudinal data in the form of cases was coded into conceptual categories from the study's conceptual and theoretical frameworks. It was then systemised and analysed (individual case analysis followed by comparative case analysis). In his paper on processual analysis, van de Ven (1988) refers to a similar process as 'coding chronological events into conceptual tracks' similar to periodisation and 'analysing process patterns or cycles in activity tracks'. The

interpretative comparative case and 'meta level' analysis was based on these individual patterns and 'tracks'. The analysis followed the logic behind the main research question and two research sub questions and the conceptual framework. The description and the analysis of empirical observations and findings across the two cases were followed by a discussion of the linkages of the empirical findings to the conceptual explanations derived from the literature.

In this research, two case studies were chosen as the aim of the study involved investigating the emergence and impact of franchising on industry evolution and a cross case comparison was deemed to be appropriate in order to understand emerging patterns in differing contexts and industry settings. Maxwell (1998) pointed to three different main strategies in data analysis, namely: categorising strategies (such as coding and thematic analysis); contextualising strategies (such as narrative analysis and individual case studies analysis); and memos and displays. Powell and Renner (2003) listed following steps in data analysis which were adopted in this research: get to know your data; focus the analysis; categorise information; identify patterns and connections within and between categories; interpretation or bringing it all together. Maxwell (1998) supports these categorisation strategies. In order to combine the ideas of Powell and Renner (2003) and Maxwell (1998) a form for transcription was developed here. Termed a 'main issues/themes transcription method', and periodization was used and was developed to save time and effort as getting access to data had consumed much of the research time. This tactic was based on building a table with the main themes or issues on the left hand side and each interviewee was coded and listed in columns on the right hand side. This tactic was used in analysing phase one and phase two of research.

Research Phase	**Research Objectives**	**Data-gathering methods**	**Intended Outputs**
Literature Review	-Review of pertinent literature -Development of deductive themes for analysis	- Secondary Research - Archival analysis	Justification for research Research frame Deductive themes
Writing case study contexts	-Provide an overview of cases prior to interviews.	-Archival data -Company Reports - Analyst Reports -Organisational data	Case study context as per template
Primary Data collection	Explore the emergence and evolution of	-Semi-structured interviews	Collect data in line with research questions

	franchising in the two industries under analysis	-Case study development	
Data analysis; Writing cases and cross case comparison	Collate data by theme. Write individual case study reports. Compare cases by theme. Note emerging themes	-Analysis by theme	Exploration of research questions. Identification of key themes across the two cases and identify differences/similarities between the two case groups

Figure 4-2 Research Phases, Methods and Intended Outputs

Miles and Huberman (1994) describe and summarise the analytic strategy

- Putting information into different arrays
- Making a matrix of categories 'Periodization' and placing the evidence within such categories
- Creating data displays – flowcharts and other graphics – for examining the data
- Tabulating the frequency of different events
- Putting information in chronological order or using some other temporal scheme

Glesne (1999) says that "Data analysis involves organizing what you have seen, heard, and read so that you can make sense of what you have learned. Working with data, you describe, create explanations, pose hypotheses, develop theories, and link your story to other stories" (p. 130). Data collected from the interviews and the examination of documentation were stored in a database and organized under categories based on the emergent themes. Since qualitative data analysis does not provide any fixed formulas or cookbook recipes to the researcher, much depends on the investigator's way of thinking about the data, along with consideration of alternative interpretations and presentation of evidence (Yin, 2003). Data analysis using the constant comparative method (Merriam, 1988) allowed for themes and patterns to emerge from the multiple sources of evidence. Individual case studies are reported and then comparative case analysis was conducted so that common patterns and themes could emerge from the cross case analysis.

Although presented as a linear, step-by-step procedure, the research analysis was an iterative and reflexive process. This interactivity, applied throughout the process of qualitative inquiry, is

described by Tobin and Begley (2004) as the overarching principle of "goodness." The data collection and analysis stages in this study were undertaken concurrently, and the researcher reread the previous stages of the process before undertaking further analysis to ensure that the developing themes were grounded in the original data. The primary objective for data collection was to represent the subjective viewpoint of participants who shared their experiences and perceptions of the impact of franchising from their perspectives.

4.9 RESEARCH IMPLEMENTATION

4.9.1 Research Validity

The conventional positivist paradigm constructs (internal validity, external validity, reliability, and objectivity) were reworked by Lincoln & Guba (1985) to fit with interpretative qualitative enquiry, and more accurately reflect the assumptions of the qualitative paradigm. 'Any research project should respond to canons of quality – criteria against which the trustworthiness of the project can be evaluated' (Marshall and Rossman, 2006). Lincoln & Guba (1985) called such constructs 'establishing the truth value', applicability, consistency, and neutrality of the study, and later referred to them as credibility, transferability, replication, and researcher's biases.

The goal of credibility is to demonstrate that the enquiry was conducted in such a manner as to ensure that the subject was appropriately identified and described and that the findings of the study are credible. According to Marshall & Rossman (2006), the credibility of a study rests on its validity and is addressed by adequately outlining the parameters and limitations of the study. The notion of transferability/generalisability (external validity) is about how transferrable and applicable the findings are to another setting. Stating the theoretical parameters of the research, by referring to the original theoretical framework to show how concepts and models guided the data collection and analysis, can counter such challenges. Thus, future studies within similar parameters could determine whether the cases described could be generalised and transferred to other settings. Dependability refers to the replication of the study with the same participants and in the same context. To account for this construct, a researcher needs to account for changing conditions on the phenomenon of the study and for changes in the design 'created by an increasingly refined understanding of the setting' (Marshall and Rossman, 2006). Finally, the confirmability construct captures the concept of objectivity and refers to the logical inference and interpretations of the researcher (Marshall and Rossman, 2006). Confirmability refers to the degree to which the results could be confirmed or corroborated by others. Documenting the procedures for checking and rechecking the data throughout the study (Lincoln and Guba, 1985), can enhance the confirmability of the results. Cresswell (2007) suggests eight strategies for validity which have been used by different qualitative researchers. He advises to stick with two of them at least in any given study. These strategies are: 'prolonged engagement and persistent observation in the field'; 'triangulation'; 'peer review or debriefing'; 'refining hypotheses as the inquiry advances';

'clarifying researcher bias from the outset of the study'; 'the researcher solicits participants' views of the credibility of the findings and interpretations'; 'rich and thick description' and ' external audits'. To ensure validity nearly all of these strategies were adopted in this research.

As such validity is concerned with whether the findings are really what they appear to be about. In addition by using multiple sources of evidence such as the combination of Primary and Secondary sources, the logic of triangulation is adhered to and thus further ensures that validity is upheld. Thus in this study many forms of data were used (as described in previous sections) ensuring triangulation.

4.9.2 Generalisability

Generalisability is sometimes referred to as external validity. This essentially questions how your research findings may be equally applicable to other research settings, such as other organisations. Furthermore one could test the robustness of this particular study and its conclusions by exposing them to other research settings (Saunders et al., 2000). However, this does not mean that this particular thesis and its theory and results can be generalised to all populations. Here generalizability of case studies can be increased by the strategic selection of cases (on the selection of cases, see Ragin, 1992; Rosch, 1978). When the objective is to achieve the greatest possible amount of information on a given problem or phenomenon, a representative case or a random sample may not be the most appropriate strategy. This is because the typical or average case is often not the richest in information. Atypical or extreme cases often reveal more information because they activate more actors and more basic mechanisms in the situation studied. Instead, my main priority was to try to explain what is really occurring in a particular research setting in both the fast food/QSR and real estate industries, however this study could easily be extended to other industry settings something this researcher would like to do in the future.

4.9.3 Triangulation

Triangulation is the rationale for using multiple sources of evidence and data. 'Much has been written about 'triangulation' as a near-talismanic method of confirming findings. Stripped to its basics, triangulation is supposed to support a finding by showing that independent measures of it agree with it or at least do not contradict it' (Mills, 1997). Triangulation has occurred in this study by the use of multiple sources of data. Both primary and secondary sources of data were used. Therefore in this study the use of multi-sources of information should help to increase the reliability and validity of the findings.

4.9.4 Research Implementation Issues

There are certain practical problems in implementing a 'research strategy incorporating the longitudinal comparative case study method' 'underpinned by a contextualist theory of method'

(Pettigrew, 1990). These two problems were faced when designing and implementing this research: (1) the choice of industries, and (2) defining industries.

4.9.5 Choice of Industries

While the 'topic choice, funding, the selection of sites, and realising access are all interconnected' (Pettigrew, 1990) the selection of sites (industries/cases) for this research was not only driven by the choice of a research topic. The decision to choose the fast food/QSR and real estate industries as sites for this study was guided by a set of decision rules proposed by Pettigrew (1990):

(a) go for extreme situations, critical incidents, and social dramas;

(b) go for polar types;

(c) go for high experience levels of phenomena under study;

(d) go for more informed sites to increase the probabilities of negotiating access.

This research endeavours to follow Pettigrew's (1990) justification of industry choice as outlined above. According to rules:

(a) A researcher needs to choose cases, where the progress is 'transparently observable', meaning that there is a transparent look at the growth, evolution, and transformation of an industry. In the real estate industry there has been an observable pattern of extremes with many firms not adopting the franchising model and the relatively recent introduction of franchising (since 1999). In the fast food/QSR industry, the industry underwent a transformation in the late 1970s (1977) and most firms in the industry have now adopted franchising. In its application to the research undertaken by Pettigrew, he referred to the degree of competitive performance (high vs. low). In this research the two industries act as rule

(b) 'Polar types' from the point of view of their structures, and the strengths and roles of franchising. The real estate industry has been characterised by low density franchising. The fast food/QSR industry franchising density is high.

(c) The pragmatic logic of rule has been the evidence of the intense activity of franchising to differing degrees in both industries in Ireland.

(d) The pragmatic logic of rule is a 'general tactical recommendation' (Pettigrew, 1990), as the longitudinal study requires 'intensive access', which in this study refers to the issue of the availability of industry journals, and the accessibility of documents and interviewees. Longitudinal comparative case studies of industries are quite rare because of the difficulties with gaining access to complete data collection (Pettigrew, 1985). This researcher has 'intensive access' to data over an extended period of time.

Another important consideration was the level of these industries' maturity to allow for a study of a continuous process in context. The real estate industry in Ireland was established at the end of the

17th century, and the fast food/QSR industry emerged at the beginning of the 19th century. To allow for a comparative case comparison, historical and statistical data were gathered since the early 1900s where available, for the construction and analysis of both cases. To provide additional context, the origins and short histories of the industries are also given. There were also some issues with data collection and degree of involvement. Therefore, the aim was to collect 'processual, comparative, pluralist and historical, and conceptual data to produce the cases, which were not purely chronological, but also to develop analytical themes' (Pettigrew, 1990). A triangulated methodology was used to collect various types of data, which could be used as cross checks. For example, archival documents and industry journals provided facts, and open-ended interviews provided depth.

4.9.6 Defining Industries

There are many definitions and conceptions about environments and industry in the literature (Scott, 2003) and there are no widely accepted criteria for defining industry boundaries (McGahan, 2004). According to McGahan (2004), too broad or too narrow a definition can lead to the wrong analysis and diagnostics of the industry. Researchers have developed some typologies to describe organisational environments; e.g. Emery and Trist (1965) classified them by the extent of interlocking relationships developed in four different environmental textures, extending from randomised to turbulent field environments; Warren (1967) based his on decision-making structures; while Meyer and Scott (1992) defined two types of organisational environments: technical and institutional (Scott, 2003). Over the last century the fast food/QSR and real estate industries in Ireland, and the world, underwent considerable transformation. For example, following globalisation, the traditional real estate industry expanded into the mortgage and insurance industries, commercial and residential property and buying, selling and rental (including online sales) and property management markets. In the fast food/QSR industry boundaries have expanded from traditional fish and chip offered to incorporate all day and night time trading Quick Service Restaurants (including online sales), convenience stores, pubs and petrol stations. The borders between supply chain segments have also blurred. All of these transformations have implications for the longitudinal analysis of any industry. Thus the task of defining the scope of the research becomes a difficult exercise, especially in describing and analysing the macro-environmental context. To define the boundaries of the real estate and fast food/QSR industries for this research, standardised activity classifications developed by the Irish CSO, OECD as well as the Irish Franchise Association and Industry expert classifications were used as guidelines.

4.9.7 Non-Statistical Boundaries

4.9.7.1 Real Estate Industry

Limiting the case to real estate industry raised the issue of defining it. The Irish real estate sector is comprised of two segments; residential and commercial property. The majority of Irish real estate

agents, deal with residential property sales, with only a few expert firms focusing on commercial property. The focus of this study is on real estate agents predominantly trading in the residential property market. In other words, the scope of this case study is mostly limited to domestic (Irish) residential real estate services and leaves out other services, such as commercial property services, mortgage and insurance services, property investments and online property listing firms.

4.9.7.2 Fast food/QSR Industry

Today the fast food industry, also referred to as the Quick Service Restaurant Industry (QSR), is described as 'being a limited menu establishment which lends itself to production line techniques of producing food that is served packaged for immediate consumption, on or off the restaurant premises. Fast food/QSR customers normally order at a counter and pay before eating'. Overall the fast food/QSR industry is regarded as a competitive industry. The firms operating within the industry have basic product offerings (such as burgers, fish and chips, pizzas, curries and sandwiches) considered as basic/normal goods. Thus the focus of this study is related to all fast food/QSR restaurants in Ireland.

4.10 CONCLUSION

This chapter consists of three main sections. Firstly, it justified the choice of methodology. Then it reviewed the study's methods. Finally, it concluded with validity and research implementation issues. The contextual methodology of the study is based on Pettigrew's (1985) work. The description of the method for a contextualist analysis of the process is followed by a discussion of the archival, document, statistical, and interview data collection methods and of the data analysis. Credibility, transferability, replication, and the researcher's bias are identified as the main constructs that define the validity of a qualitative research. The chapter concludes with the justification of the choice of industries/cases and with a discussion of how the industry boundaries were defined. The next chapter will endeavour to give an economic and social background to the Irish national context with regards to the two industries histories that are presented in this study.

4.11 LIST OF INTERVIEWEES

Table 4.1 below shows a list of all the 32 interviewees for the two industry histories.

Fast food/QSR Industry
Abrakebabra: Graeme Beere CEO and co-founder, Wyn Beere co-founder, Dominick Kelly CFO
McDonalds: Michelle Ryan HR Director, Chris Pollock Franchise Director, Annette Kelly Trainer
O'Briens: Brody Sweeney Founder
Supermacs: Pat McDonagh founder and CEO

Franchisees = 6
Total = 14 interviewees
Real Estate Industry
SherryFitzgerald: Trisha Gorman Franchise Director and Phillip Sherry co-founder
RE/MAX: Mark Campbell Franchise Director
DNG: Keith Lowe CEO and Michael Glynn Franchise Director and Tony Forte Manager
IAVI: Alan Cooke CEO and IPAV: Pat Davitt CEO
Franchisees = 6
Total = 14 interviewees
Industry Experts
Ulster Bank Franchise Unit: Orna Stokes Senior Manager
Bank of Ireland Franchise Unit: Margaret Nolan Senior Manager
AIB Franchise Unit: Adrian Moynihan Senior Manager
Irish Franchise Association: David Kileen Senior Manager
Total of 32 interviews

Table 4-1 List of Interviewees

CHAPTER 5 IRISH NATIONAL CONTEXT: ECONOMIC AND SOCIAL HISTORY

This chapter presents an overview and background of the Irish national context, where franchising as an organisational structure has emerged and impacted each of the two industries under investigation. The chapter chronologically traces the Irish national history from the era of the new Free State, through to the era of Protection and then to the era of Free Trade and the beginning of the Irish European Union membership. Then the chapter addresses the recessionary period of the 1980s and then the Celtic Tiger era followed by the economic recession in 2008. This data provides important background for the analysis of each of the individual industry histories, as it helps to identify and explain certain industry level developments. The chapter provides an overview of Irish economic history, and explores the contextual effects of the Irish economic environment, social change and wider business environment issues, spanning the timeline of the industry case studies.

5.1 OVERVIEW OF IRISH ECONOMIC HISTORY

From the 1930s up until the 1950s the Irish government adopted a protectionist policy underpinned by economic nationalism (O'Hagan 2008). Ireland thus reinforced a programme of trade protection and thus limitation of imports from the early 1930s to the early 1960s. Initially, protection augmented employment in indigenous industry; but fundamentally it was unsuccessful in resolving Ireland's underlying economic growth difficulties. Ultimately a change to an economic policy, focusing on international trade and enticing inward investment was triggered by severe balance of payments problems, recession and emigration during the 1950s. Ireland's policy shift re-positioned the domestic economy, and brought about economic growth which was sustained for a period of time (O'Hagan 2008). In 1973 Ireland's accession to the European Economic Community (EEC) began a fresh chapter in the country's economic and social development. Another key era of economic adjustment ensued in the 1990s which marked the start of unparalleled economic prosperity, referred to as the 'Celtic Tiger years'. However, this economic boom culminated in a severe recession and the Irish financial crisis which began in 2008.

5.1.1 Irish Liberation and the New Free State

Ireland gained independence from the United Kingdom in 1922 and became known as the Irish Free State, separating from the six North Eastern counties, which became known as Northern Ireland, under UK governance. In 1937 the Irish state was re-established under its current name, Ireland (O'Hearn, 1990). Upon achieving independence, Ireland inherited an extensive system of communications, a wholesale and retail network, and high literacy rates (O'Hagan, 2008). The economy, however, remained weak. Irish industry was dominated by a few British-based conglomerates in drink, food, and textiles (O'Hearn, 1990). Indeed the strong economic ties between Ireland and England remained (Maher, 1986), depicted by the Irish Currency Act of 1927 whereby the new Irish currency, was backed by British sterling securities. The heavy dependence

of the Irish population on agriculture, the small size of the population, and minimum natural recourses meant that Ireland was inevitably dependent on foreign trade (O'Hagan, 2008). According to O'Hagan (2008) the first Irish government promoted stability and renewed growth but was limited in its ability to ensure economic development. Economic policies pursued from 1922-1932 were concerned with reducing the budget deficit, and maintained low tax rates with limited government interference in industry (O'Hagan 2008).

A number of social issues were of concern at the time. There was continual movement into urban centres from rural areas. Over a period of about 40 years, there was a general movement towards a consolidation in farms. By the 1930s it became apparent that there was a general discontent among the rural population with their living and working conditions. The rate of emigration remained high during the 1930s and 1940s, with England as the main destination. By the mid-1950s, 45 per cent of farms were in the range of 30 to 100 acres. In the crowded urban areas, the government tried and failed to deal adequately with the social issues arising from the new inner city slums of Dublin.

5.1.2 Era of Protectionism

In 1932, under the leadership of Eamon de Valera and a Fianna Fail Government, Ireland experienced a dramatic shift from free-trading to protectionism and import-substitution (O'Hagan & Foley, 1982). The rationale for this move was linked to the creation of a new Irish manufacturing sector and the reduction of British imports (O'Hagan & Foley, 1982; O'Hearn, 1990). The first state-sponsored bodies (SSB) were established bringing many sectors of the economy under government control (including air, train, bus transport, insurance, peat development, trade promotion, and industrial development), and many believe they were successful instruments in aiding Ireland's economic development (Haughtom, 2000).

5.1.3 Social and Economic Change

The political developments of the 1920s and 1930s had an enormous impact on economic activity, social change and the housing market. There was a flurry of legislation relating to Land Acts, Rents and Property; these included the State Lands Act 1924; the State Land Bill 1925; Land (Finance) Rules 1925; the Land Registry Rules 1926; and the Land Act 1926 and Section 29 of the Land Act 1927. These all brought about dramatic social changes throughout the country, shifting economic power from an elite landlord class to a wider and more prosperous property-owning democracy. During this period rising land prices, and a new league of auctioneers, estate agents and solicitors who were allowed to negotiate property sales were all ready to profit from a new era of property growth. Irish citizens were able to buy and sell land. Housing demand increased with the influx of workers from rural agricultural land into the cities in search of work and a more prosperous future, particularly in Dublin. By 1936 land prices had risen to such a degree in one decade that an acre, previously worth £10 was valued at £300-£500 in 1936. To deal with the housing issues the

Government began to provide public housing. In the mid-1930s it was estimated that a further 18,000 new dwellings were required to deal with Dublin's housing problem alone.
By 1948, with Fianna Fáil out of power, the public housing policy in Dublin was finally having a positive impact on the population of the inner-city. Inhabitants were relocated to new Dublin estates such as Kimmage, Ballyfermot and Finglas. The spread of electricity throughout Ireland was one of the most far reaching developments, together with the introduction of the car. This increased provision of public transport and allowed greater freedom of movement for the population. The construction industry benefited from this building boom in terms of employment (Haughton, 2000). By the 1950s (Haughton, 2000; O'Grada, 1997) the Irish economy was performing fairly well and the time was right to look externally for exportation opportunities (Haughton, 2000). However, many viewed the 1950s as a decade of failure with a balance of payments deficit and national income stagnation.

5.1.4 Free Trade

Ireland's decision, in the late 1950s and early 1960s, to switch from protectionism to an open economy and export led growth, was a highly conscious one. The intention was to achieve an exporting economy, by modernising and re-orienting the indigenous industry, and to attract inward investment. By the end of 1956, expansionary policies and 'foreign-led industrialization' was the chosen direction of the Irish government (O'Hearn, 1990). The Finance Acts of the late 1950s extended industrial investment grants, removed restrictions on foreign investment, and increased the powers of the Industrial Development Authority (IDA) to encouraging foreign investment. A series of grants, schemes, tax reliefs, agricultural and industrial incentives, (O'Hearn, 1990) provided momentum for industry restructuring. The Economic Development report and the White Paper Programme for Economic Expansion were considered indicators of the Government's willingness to implement economic expansion policies (1959). In 1957 Ireland joined the International Monetary Fund (IMF) and the World Bank, and in 1961 applied for EEC membership (Haughton, 2000).

5.1.5 Economic Expansion

During the 1950s in a post-war building drive, cities commenced their relentless sprawl into the rural countryside. Dublin led the way, its peripheral expansion continuing in an arc from Howth to Killiney. Public and private housing areas developed separately. In less fashionable locations serried rows of two story semi-detached or terraced housing multiplied. Government intervention fostering economic growth helped Ireland become more prosperous. This ultimately led to increased demand for residential housing and commercial offices. Residential flats were considered, as a lucrative property investment.

In 1949 Ireland was renamed the Republic of Ireland. Economically and socially times were difficult in the Republic with high unemployment and emigration rates and Ireland experienced a general depression. However, during the 1950s new approaches to economic policy were starting to emerge. In 1950, the Industrial Development Authority was established as an independent State agency, its main objective to foster growth. In 1955, the Minister for Finance Gerard Sweetman introduced a budget which proposed a tax exemption on profits from exports. In 1957 the European Economic Community was created and work began on Whitaker's seminal paper 'Economics of Development'. Thomas Kenneth Whitaker, the architect of the modern Irish economy was appointed Secretary at the Irish Department of Finance. It was a bleak time for the Irish economy, which by the end of the decade had haemorrhaged 20 per cent of the population through emigration. In 1958, Dr. Whitaker was responsible for the seminal paper Economic Development, the blueprint for the move from protectionism to free trade and the modernisation of the economy. This also helped incentivise multinational companies to establish manufacturing operations in Ireland. The paper promoted the modernisation of the Irish economy by providing incentives in the form of tax breaks and grants to multinational companies encouraging them to locate to Ireland. This government intervention was to lay the foundations for a new more prosperous country and thus lead to increased demand for housing, offices and all things connected to a rising construction industry and an increased demand for property and land. Ireland entered the 1960s looking forward to more prosperous times and this marked a period of economic expansion, which would sow the seeds, for the first ever Irish property boom. Between the years 1960 and 1973, the Irish economy showed improvement. The unemployment and inflation rates remained stable and GDP per capita experienced periods of strong growth. The improvement has been credited to the export-led growth strategy, trade liberalisation and the attraction of foreign direct investment to Ireland. The Industrial Development Authority refocused on high technology foreign direct investment. Education was also reformed to a large extent by the state built Regional Technical College (RTC) system, which greatly extended access to education. In particular technical education and university education were transformed. Entry into the European Economic Community (forerunner to the European Union) in 1973 also added to Ireland's economic prospects; however 90 per cent of Ireland's exports still went to Britain.

5.1.6 Building Boom

The 1960s sowed the seeds of Ireland's first ever 'property boom'. Irish exports had risen by 50 per cent in the period from 1960 to 1966 and the economy was growing faster than any in Europe, at 4 per cent per annum. The 1963 Planning & Development Act was a major landmark, effectively laying the foundations for a newly emergent modern commercial property industry in Ireland. A new office property era dawned in Dublin. A demand for industrial space rose significantly and other forms of commercial property experienced corresponding growth. The number of office jobs rose by 40 per cent during the 1960s. Purpose built office blocks, new shopping centres,

commercial investment properties and the wider availability of development finance presented unprecedented challenges together with corresponding opportunities. More pertinently between 1961 and 1971 employment in agriculture fell by 28 per cent – the increase in non-agricultural employment was concentrated in the towns with the result that the urban populations grew more rapidly at the expense of the rural.

Socially change was underway. A more prosperous society likewise provided for new retail development, as international influences began to filter through to Irish consumers. The first suburban shopping development opened in the Republic. From 1966 onwards many new shopping developments opened particularly in Dublin. Efforts to improve the conditions of the inner city dwellers, merely transplanted social problems, into suburban slums. The decision to shift thousands of disadvantaged people to bleak high rise tower blocks in Ballymun in 1967 spawned a whole new generation of socio-economic problems. Three additional suburban towns were created to the west – Tallaght, Blanchardstown and Clondalkin. In the 1960s air travel became affordable and the introduction of the 'package holiday' with the first chartered flights meant that ordinary Irish working people could afford to travel to foreign countries. A general increase in the standard of living continued from the 1960s. There was wider access to education, good housing, cars, television, foreign travel, good food and health services for most women and men. In tandem with these developments, during the 1960s and 1970s, building societies were another major success story, emerging as a major force in the financial markets. Although mostly founded in the late nineteenth century, building societies had continued to be low key mutual societies (like the credit unions of today), until this period of economic growth and subsequent demand for finance, fuelled by the property boom.

5.1.7 European Membership

In 1973 Ireland gained EEC accession which dramatically changed the economic environment of Ireland (Barry, 2003). The EEC was established fundamentally as a customs union and the requirements for membership led to further reductions in trade barriers, which were mostly removed in 1977. Foreign investors, who were granted generous incentives, contributed to a remarkable transformation of the country between the late 1950s and early 1970s (O'Grada, 1994). The common Agricultural Policy (CAP) provided subsidises for farm prices, and the country also received structural funds, such as Regional Development, and Social and Cohesion under the Community Support Network (Haughton, 2000). Greater emphasis was placed on the development of small indigenous industries and services. This happened as a result of the IDA beginning a new Joint Venture programme in 1973. However industrial relations disputes, inflation from the oil crises of 1973 and 1979, unrest in Northern Ireland, new capital taxes and poor management of the economy had an adverse effect on the economy. Despite the slowdown in the world economy and initial adjustment to EC membership, Ireland attempted to maintain growth in the face of

international recession. In 1979 Ireland joined the European Monetary System (EMS) (Haughton, 2005).

5.1.8 The Introduction of the Euro

The late 1970s showed positive economic growth, lower inflation and decreasing unemployment rates. However this only lasted between 1976 and 1979. By the early 1980s the Government was facing heavy public commitments, a sizable fiscal deficit, high inflation and unemployment rates, and economic debt mostly financed through increased foreign borrowing (Hardiman, 1992). The government sought to rectify the situation with taxation increases and cutbacks in spending, thereby reducing the ratio of public debt.

5.1.9 Economic Recession 1980s

However, by the 1980s Ireland was referred to as the 'sick man of Europe' and was far behind its European counterparts - with frequent changes in government compounding the situation. The period 1980 to 1987 was one of prolonged recession, falling living standards, and a dramatic increase in unemployment, creating the prospect of mass emigration. The turnaround achieved in the late 1980s was led by economic reform including tax cuts, welfare reform, more competition and a reduction in borrowing to fund current spending. Considerable support from the European Union was essential in helping this economic retrenchment. A new perspective emerged on Ireland's position in relation to European integration and a globalising economy, embodied in the social partnership approach to economic and social management and innovative policies in several areas. This encouraged a reviving enterprise sector and fostered a new national self-confidence and willingness to respond to global challenges.

5.1.10 The Emergence of Economic Growth

Economic growth began again in Ireland from 1987 onwards and reached exceptional levels in the mid-1990s (Haughton, 2000). Inflation was low, and the unemployment level was decreasing. There has been much conjecture on the issue of Ireland's rapid economic growth. According to Ó Gráda (1997), amongst a number of factors which encouraged Irish economic growth, the booming US economy was critical and underpinned American firms' readiness to invest abroad. With a 10 per cent tax on manufacturing profits, a well-educated work force, a credible macroeconomic stance and wage restraint, Ireland was ripe for US investment (Haughton, 2000). White (2005) suggests that the inflows of foreign direct investment contributed to the emergence of the 'Celtic Tiger' economy by creating employment. He suggests that the Irish Financial Services Centre (IFSC) contributed successfully to Ireland's economic development at a time when industrial policy was focused primarily on employment creation. Over the ten-year period from 1995 to 2005, concern over unemployment shifted to that of labour shortages. Long-term unemployment was reduced from 9 per cent in 2004 to less than 2 per cent in 2005 and was accompanied by continuing

growth in labour productivity (O'Hagan & Newman, 2005). Joining the Eurozone brought changes in the policy and economic decision-making. At the same time, heavy investment from the U.S. strengthened Ireland's industrial connection. Throughout this period, the Irish connection with the UK remained very significant (O'Hagan & Newman, 2005).

The new economic strategy from 1960 to 1987, after a century and a half of uncertainty, helped Ireland achieve relatively strong economic and demographic growth. There was a dramatic structural adjustment in the economy. In 1960, agriculture, forestry and fishing, accounted for almost 37 per cent of all employment. By 1987 this had fallen to 14 per cent, reflecting rapid productivity growth. Ireland's economic strategy came to rely heavily on inward investment. While Ireland proved an attractive location, it was not clear that this was an adequate basis for development. An on-going concern was the decision of Trans-National Corporations (TNCs) to locate only certain stages of production in Ireland, retaining value-added functions at headquarters or in other advanced countries. The extent and persistence of differences between foreign-owned and indigenous enterprises - in technology, export orientation, product quality, and scale - prompted many to describe Ireland as a 'dual economy' thereby, indicating a need to focus on building strong indigenous enterprises and sectors.

5.1.11 Celtic Tiger (1990s-2007)

During the 1990s, Ireland began to experience its 'Celtic Tiger' period of prosperity. Ireland joined the EMS and by signing the Treaty of Maastricht in 1992, entered the European single currency system. By the end of the 1990s Ireland's economy was transformed, factors such as high FDI rates, low corporate tax rates, better economic management and a new 'social partnership' approach to industrial relations all contributed to the beginning of the economic boom. The European Union had contributed over €10 billion towards Irish infrastructure. By the year 2000 the Republic had become one of the world's wealthiest nations, with unemployment at 4 per cent and income tax at almost half 1980s levels. The Irish economy grew by five to six percent annually, dramatically raising Irish monetary incomes, surpassing those of many states in the rest of Western Europe.

Growth in real disposable income from the mid-1990s was stronger than in any other industrial country. Real interest rates were among the lowest. Furthermore, Irish demographic trends were particularly favourable to housing demand in the 1990s, with a strong population growth, a fall in household size, an increase in the number of double income households and higher divorce rates. Another contributing factor to this unusual growth was the number of baby boomers investing in the buy-to-let market. Financial market liberalisation during the 1980s and 1990s supported demand by allowing a rapid expansion in credit. The full effects of liberalisation were beginning to be felt in the mid-1990s, at exactly the time when housing demand was rapidly increasing. The adoption of the euro was another important influence in helping to increase the elasticity of supply

of mortgages and access to finance. The exchange rate risk disappeared, removing one of the obstacles to the freer flow of funds within the euro area. This meant that the domestically-based Irish banks had an enormous reserve of funds available. Finally, most mortgages in Ireland were variable rate loans, so the reduction in short-term interest rates further boosted demand for mortgages. The rise in housing demand triggered a strong response in supply, which again was unprecedented by international standards. Housing construction and residential permits per capita were among the highest in the OECD with more than 30 per cent of the housing stock less than ten years old. The enormous increase in housing supply was accompanied by significant increases in real construction costs and land prices.

5.1.12 Consumerism

During the 1990s, over four-fifths of Irish households were living in owner occupied accommodation, one of the highest rates in the world. A total of 30,575 new houses were completed during 1995 almost double the 1988 level. Dublin residential property soared to new heights in late 1990s, buoyed by a booming economy, with many suburban houses selling from IR£1 to IR£3 million. Ireland's house prices had risen dramatically and from 1995 to 2005, the price of second-hand houses more than tripled in real terms. The Irish housing boom was exceptional. Government investment in infrastructure and a new roads network in Dublin had a significant impact on housing demand. In particular West Dublin emerged as a popular residential area. In tandem the city centre once again became a popular residential area. Headed by Ken MacDonald, Hooke & MacDonald became the first estate agency to specialise in apartment sales, carving out a lucrative niche. In the late 1990s house-building made a major contribution to nominal growth. The strength of consumption growth was likely to have been as a result of rising house prices. Consumers generally purchase big-ticket durable goods when moving home, this combined with general wealth and high consumer confidence meant consumption levels continued to rise. Evidence from a cross-country study suggests that consumption in Ireland was relatively sensitive to the housing market, as there was a high rate of home ownership, loan to-value ratios on new mortgages were high and short-term interest rate loans were popular (Catte et al., 2004).

During the early 2000s the Irish government implemented a series of national economic programmes designed to curb inflation, ease tax burdens, reduce government spending, increase labour force skills and reward foreign investment. The economy felt the impact of the global post-Dot Com economic slowdown in 2001, particularly in the high-tech export sector. GDP growth continued to be relatively robust, with a rate of about 6 per cent in 2001 and 2002 – but this fell to around 2 per cent in 2003. GDP growth after a near stagnant year in 2002, started to increase once again in 2003 and by 2005, GDP growth rates had increased to around 5 per cent. During the early 2000s Irish consumerism became an unstoppable machine as international retailing giants entered the Irish market. Irish indigenous firms also prospered, bringing full employment and a culture of

'cash rich, time poor' where convenience was the number one criteria for consumption. In terms of food shopping and supermarkets, the larger convenience-store chains like Spar, Centra and Londis, were competing with foreign discount supermarkets like Lidl, Aldi as well as large native national supermarket chains like Dunnes Stores and Superquinn and Tesco Ireland (formerly Irish owned Quinnsworth).

The Celtic Tiger also brought new challenges. One of the most disrupting problems, affecting many industries, was staffing shortages. This was due to the economic upturn and the increase in jobs across all sectors. People were not taking up employment in minimum wage jobs. This buoyant period brought challenges in terms of labour and costs and in terms of increased competition as consumers had more choice and more money.

5.1.13 Social Change

There was a considerable lifestyle change in the Irish population which acted as the underlying driver of consumption from 2000 onwards. All the factors that go with a vibrant economy; high employment, dual income families and a young workforce, meant leisure time was at a premium. The 'Celtic Tiger' economy had encouraged suburban commuting, sedentary desk jobs and an increasing reliance on convenience consumption. In terms of consumer spending during the early 2000s, the national preference became for frozen and convenience foods, featuring dishes with a more European slant. Ethnic foods and restaurants were also gaining in popularity and becoming more prominent across towns and villages in Ireland. However, many consumers became more health conscious. As the population were consuming more processed food, with fat consumption doubling and the consumption of fresh vegetables reducing by half, compared to the immediate post famine period. There was a conscious shift in consumer demand for healthier foods. Another social change that affected the foods demanded and sold in Ireland was the influx of immigrants from Central Europe, in particular from Poland. Ireland opened its labour market to 10 new member states of the European Union in 2004. Immigrants from Poland, Latvia and elsewhere began arriving at a rate that reached an average of 10,000 workers per month. A government report said the non-national population in Ireland had nearly doubled in four years (2004-2008). With an influx of 400,000 emigrants in 2010, this brought the population to 4.2 million. To reflect this change, the restaurant market responded with an ethnically more diverse offering.

5.1.14 Economic Recession

However from 2007 onwards, Ireland's economic progress was again affected by a wider global economic slow-down, with the construction sector being particularly affected. During the summer of 2007, Irish residential property prices fell by over 2 per cent and subsequently, continued to fall by approximately 1 per cent per month, leaving property prices falling by a further 9 per cent by February 2008. This impacted on consumer spending and investment confidence across the Irish

economy generally. In July 2008, a predicted €3bn shortfall in government annual revenue, led to the announcement of €440 million reduction in Government spending. Ireland became the first of the Eurozone economies to announce it was in recession during the global Economic crisis of 2008. On budget day in 2008 Finance Minister Brian Lenihan said that the General Government deficit would be 7 per cent of GDP in 2008, and would be kept to 6.5 per cent (or E12bn) in 2009, in stark contrast to a Government surplus of €5.2bn in 2006. In September 2009, due to continuing revenue shortfalls, the budget was advanced six weeks to October 2009 and Government statistics showed that the Irish economy, with quarterly GDP falls of 0.3 per cent and 0.5 per cent, had entered recession at the beginning of 2008 for the first time since 1983.

In 2012 the Central Bank claimed Ireland was experiencing an unprecedented contraction in output, after the earlier unsustainable construction-driven activity, which peaked in 2007. It added that the exceptionally difficult global economic and financial conditions were making the Irish situation worse. It predicted that the downturn in activity would be set to continue in 2011 and predicted a further contraction of 3 per cent. This would mean that economic growth would have fallen by over 12 per cent from 2008 to 2012, which would result in a broadly similar fall in the standard of living for the entire population of Ireland. The Central Bank also said that domestic demand in 2011 would be set to further decline by 10 per cent with about half of this decline due to the contraction in the housing market. Socially, change had already occurred since the recession began in 2008 with unemployment and emigration rates increasing, consumption patterns at a low and a relative growth halt to the Irish housing market see table below (Table 4-1) on the IMF/EU 'Bailout'.

5.1.15 IMF/EU 'Bailout'

Table 5.1 below shows the 2003–2019 Irish financial crisis EU-IMF intervention – showing the government surplus and deficit.

Year	Income	Expenditure	Surplus(Deficit)	GDP	% GDP
2003	34.4	35.4	(1)	x	x
2004	37.5	37.5	0	158.2	0%
2005	40.8	41.3	(0.5)	167.7	(0.3%)
2006	48.0	45.8	2.3	176.7	1.3%
2007	49.3	50.9	(1.6)	186.6	(0.9%)
2008	43.0	55.7	(12.7)	180	(7%)

2009	35.3	60.0	(24.6)	166.3	(14.8%)

Table 5-1 Government Surplus (Deficit) (Euro billions)

5.2 CONCLUSION

This chapter has offered an overview of the contextual factors, relating to the economic and social development of Ireland. The chapter reviewed Irish national history context relating to economic and social changes in Ireland from the Protectionist era through to the new Free State period to the era of Free Trade and European Union membership. This was followed by recessionary and boom periods of the 1980s and 1990s and ending with the 2008 economic crisis right up until 2012. The review of Irish economic history identified the stages that defined the general market and non-market issues for Irish business interests. Overall, the chapter lays the groundwork, and in a broad sense describes the macro-environmental context of the two industry histories under examination, thus increasing the explanatory power of the case data. The following chapter will present the Irish fast food/QSR industry history.

CHAPTER 6 CASE STUDY OF THE IRISH FAST FOOD - QUICK SERVICE RESTAURANT (QSR) INDUSTRY

6.1 INTRODUCTION

This chapter presents an industry history of the Irish Fast Food/QSR industry from the beginning of the 1900s to the present day. Both firm and industry level changes over the decades are examined in a chronological account see table 6.1 below for a timeline on the industry. The historical account is based on primary and secondary data collected from the Irish fast food/QSR industry. This case study is presented as a story, tracing the industry from its emergence right through to the introduction of franchising to the present day.

6.2 FAST FOOD/QSR INDUSTRY TODAY

Today the fast food industry, also referred to as the Quick Service Restaurant Industry (QSR), is described as 'being a limited menu establishment which lends itself to production line techniques of producing food that is served packaged for immediate consumption, on or off the restaurant premises. Fast Food/QSR customers normally order at a counter and pay before eating'. Overall the fast food/QSR industry is regarded as a competitive industry. The firms operating within the industry have basic product offerings (examples are; burgers, fish and chips, pizzas, curries and sandwiches) considered as basic/normal goods. These goods are usually inexpensive and therefore during times of recession, are not adversely affected.

The boundaries that defined the Irish fast food/QSR industry throughout the 20th century have undergone considerable transformation. Since its inception in the 1860s the industry as a whole has grown considerably in revenue terms. At the beginning of the 20th century, the industry comprised primarily of independently owned fish and chip shops. During the 1950s a new wave of ethnic cuisine came to Ireland with the opening of Chinese and Indian restaurants and takeaways nationwide. From the late 1970s and early 1980s international competitors began to enter the market bringing new product and service offerings. During this time franchising was introduced by the international fast food chain McDonalds, which resulted in a rapid adoption of franchising by many industry players during the 1980s. In the late 1990s the industry underwent further changes. There was an even greater increase of international competitors such as: Burger King, Domino's and Four Star Pizza. Since entry, these firms have grown in size and dominance (see Table 6.1 below). From the late 1990s, the growth in the number of firms has stabilised but the level of industry concentration has increased. Independent operators are now in the minority and a new industry structure has emerged, centred on national and international branded franchise systems. Following the introduction of franchising the industry has witnessed significant efficiency gains, the importance of branding has come to the fore, and new industry leaders have emerged.

1920s	1950s	1960s	1970s	1980s	1990s	2000s	2010s
20 fish &	chippers	120 chippers	Franchising	2 firms dominate**	2 firms dominate**	4 firms dominate	3 firms dominate
chip shops	expand	Wimpy (1968)	occurs	BurgerKing (1981)	Abrakebabra 60*	McDonalds 66*	AIL 190*
	nationwide		250 chippers	Abrakebabra (1982)	McDonalds 35*	Abrakebabra 55*	McDonalds 75*
			100 Indian/	O'Briens (1988)	Dominos (1991)	Supermacs 45*	Supermacs 90*
			Chinese	FourStarPizza (1986)		O'Briens 60*	Dominos 42*
			Burgerland (1975)			BurgerKing 34*	FourStarPizza 37*
			McDonalds (1977)			FourStarPizza 26*	BurgerKing 30*
			Supermacs 1978)			Dominos 17*	260 chippers (180 ITICA)
			KFC (1979)				Other 541
* number of outlets							
** 2 firms dominate							

Table 6-1 Timeline of the Irish Fast Food/QSR Industry

The industry has always been affected by changes in economic cycles, social change, and regulatory changes. Competition within the industry has increased substantially since the 1920s, when just 20 fish and chip shops operated in Dublin. Today the independent operators still exist, but they lack the competitive advantages of the branded franchising chains. In addition to the increased international competition, the industry still has a large number of small, independently owned fast food/QSR outlets across Ireland. These include approximately 300 fish and chip shops, and 541 Chinese/Asian restaurants and takeaways (see Table 6.2 below). The sector faces increasing concentration in its customer base, particularly among the branded franchised fast food chains. In recent years, a new industry structure has emerged, with a concentration of three large nationwide franchise systems; the multiband Abrakebabra Investments Limited (AIL), McDonald's and Supermacs. Prior to 2008 there were four dominant firms including O'Brien's Sandwich Bars. In 2008 AIL acquired O'Brien's which led to further industry concentration. Today the three leading firms account for 45 per cent of the market (see table 6.3 below). All three industry leaders have been in existence since the late 1970s and early 1980s. AIL and Supermacs are Irish-owned, and McDonald's is a US multinational. Indeed all three firms have successfully expanded, utilising a franchise model of growth and they maintain a solid national presence across Ireland. The growth of the franchise chains has increased the level of buyer concentration and power, thus making the industry a highly competitive one. Recently independent chippers have instigated co-operative action in order to help them compete with the franchise chains.

Fast Food/QSR Brand	Number of outlets	Average Size	Annual Turnover 2012	Turnover per outlet
AIL* Multibrand	190 outlets	2000 sq ft	€254.5million	€1,339,473
McDonald's	75 outlets	4000 sq ft	€200 million	€2,666,666
Supermacs	90 outlets	2000 sq ft	€58.8 million	€653,333
Burger King	30 outlets	3600 sq ft	€38.2 million	€1,273,333
Four Star Pizza	37 outlets	1200 sq ft	€15 million	€405,405

Domino's Pizza	42 outlets	1700 sq ft	€12 million	€285,714

Table 6-2 Irish Franchise systems Fast Food/QSR Number of Outlets Annual Turnover 2012

*(Multibrand including: Abrakebabra 60, O'Brien's 72, Bagel Factory 42, Gourmet Burger Kitchen 8, King Chick 6 and Yo-sushi 2) (Source: annual returns and outlet number information was obtained by contact with each company's head office)

Name	Eat-in	Number of Outlet	Country of Origin
McDonald's	Seating	78	U.S
Supermacs	Seating	90	Ireland
Abrakebabra AIL	Seating	60	Ireland
O'Brien's AIL	No Seating/Some	72 (230 Intl)	Ireland
Gourmet Burger AIL	Seating	8	UK (Master)
Bagel Factory AIL	No Seating/Some	42	UK (Master)
King Chick AIL	Seating	6	UK (Master)
Yo Sushi AIL	Seating	3	UK (Master)
Domino's	No Seating	48	UK
Four Star Pizza	No Seating	33	US
Eddie Rockets	Seating	30	Irish
Burger King	Seating	27	U.S.
KFC.	Seating	17	U.S
Chippers	26	No Seating (180 ITICA)	Irish
Other Restaurants	Seating	541	Irish
Including: 187 Chinese, 125 Indian, 50 Asian and 179 Italian			

Table 6-3 Selected Competitors Restaurant Numbers in Ireland 2012

6.3 THE EARLY DEVELOPMENT OF FAST FOOD/QSR INDUSTRY

6.3.1 Eating Outside the Home

The origin of the industry can be attributed to the rise in food consumption outside of the home. In Ireland this began in the early 19th century. It was then predominantly a male dominated affair and consisted of visits to the local inn or pub. The majority of the population would have frequented cafes and coffee houses together with pubs and hotels, such as Bewley's of Grafton Street (opened in 1927), the Mansion House Supper room (1881), Switzers (1892) and the Royal Hibernian Hotel (1892) all located in Dublin City. In fact the origin of the fast food/QSR phenomenon has its roots in the United Kingdom, with the opening of the first fish and chip shop. In 1994 Walton wrote a book, Fish and Chips and the British Working Class, 1870-1940. In his study he states that 'fish

and chip shops' were, in many ways, pioneers of fast food/QSR industry. Fish and chips became an important meal in the working class diet, thus the fish and chip shops became an essential component of urban centres. In the UK by the year 1905, there existed a fish and chip shop for every 400 citizens of London, Leeds and Bradford. By 1913 there were 25,000 outlets. The trade spread to Scotland, where Italian immigrants began to make the fish and chip trade their own, with many doubling up as ice-cream parlours. By 1914 Scotland had approximately 4,500 'chippers'.

6.4 THE ORIGINS OF FAST FOOD/QSR – THE INFLUENCE OF THE ITALIANS

Indeed, it was twenty years after the emergence of the fish and chip industry in London that the first fish and chips were sold in Ireland. In Dublin in 1885 an Italian immigrant, Giuseppe Cervi, began selling chips outside a pub, with a handcart on Great Brunswick Street (now Pearse Street, Dublin). According to Walton (1989) by 1909, there were 20 fish and chip shops in Dublin, run by Italian immigrants, serving a population of 290,000, predominantly working class customers. Many of these early traders built their business around selling fish and chips and some also sold Italian ice cream.

Almost all of Ireland's Italian chipper families came from Frosinone in Val Di Comino, 140 km southeast of Rome. Initially, they drifted into Dublin and Cork in the late 19th century, selling religious statues and their celebrated ice-cream. These families began to operate fish and chip shops, enabling them to integrate into Irish society. Most named their establishments with their family name: Borzas, Caffollas, Macaris, the Fuscos, Marsellas and Apriles. According to Walton (1989) the popularity of the fish and chip shop fundamentally aided the social needs of the urban working classes at the time, by reducing the domestic workload of women, easing tensions in the home, and supplementing a poor diet. In terms of social influence, the Italian Chippers were predominately Catholic and encouraged the Catholic religious tradition of eating fish instead of meat on Fridays. By the middle of the 20th Century many of these businesses had developed a full service structure, providing a wide range of fast food items and a high degree of personal service. These fish and chips shops became important establishments within their communities. In 1912 the famous Irish Burdocks and Beshoff's fish and chip shops began trading both of which are still successfully operating today. Meanwhile in the U.S. in 1904 the first hamburger was sold from a burger stall at a Louisiana fair by Fletch Davies, who began serving grilled steak between two pieces of toast. However, it would take more than 50 years before the hamburger arrived in the UK or Ireland.

6.5 CHANGING INDUSTRY STRUCTURE

In the post war period significant changes took place in the industry. Competition intensified as the number of outlets increased. Throughout the 1950s there was an increase in the growth of fish and chip shops outside the Dublin area. By the 1960s, every town in Ireland had a chipper, bringing the

national total to approximately 120. The picture painted was of a small industry with small firms many of which were over ten or twenty years old. These firms were run by families with many extended family members operating one or two outlets. During this time chippers began to expand their menu offering to include: sausages, battered sausages, hamburgers and the Irish spice burger. During the 1960s many fish and chip shops began stocking frozen chips which made the operational process more efficient and reduced overall costs. In Dublin the first sit down restaurants began to open up: the Beaufield Mews and the Trocadero both opened in 1956 and are still trading today.

6.5.1 New Entrants: 1950-1970

The fast food industry changed considerably from the late 1950s. Customer profiles broadened, competitive new entrants appeared and new food offerings began to emerge. During this period, Asian immigrants came to Ireland and brought with them new and exciting cuisine, resulting in the opening of the first Indian and Chinese restaurants. In 1956 The Golden Orient became the first Indian Restaurant to open on Leeson Street, Dublin. The proprietor, Mike Butt, was an East African Indian who adapted many dishes to suit the taste palate of the Irish which was slightly bland. Chinese immigrants also came to Ireland in the late 1950s, and Ireland's first Chinese restaurant, 'the Universal', opened in 1957, on Leeson Street. 'Luna' and 'Sunflower' Chinese restaurants, followed in quick succession. The number of Chinese restaurants in Ireland is much greater than the number of Indian restaurants, due to the larger number of migrants moving to Ireland. Another development, in the late 1950s, was the beginning of 'pub grub'. By the late 1960s, Pubs began to serve a variety of food, including 'chicken in a basket', steak, shepherd's pie, fish and chips, sausages and chips, and the traditional Sunday roast.

6.5.2 Managing New Challenges: Fast Food/QSR Revolution

The 1960s brought with them improved economic and social prosperity, with Irish cities commencing their developmental sprawl. During this time the genesis of the Celtic Tiger began to emerge. There was wider access to education, good housing, motor cars, television, good food and health services for most women and men. As the economy improved and air travel became cheaper, more people began traveling abroad for their holidays. The introduction of the 'package holiday' opened consumers' eyes to new ways of living, socialising and eating. Expenditure on 'convenience food' rose by 31 per cent between 1955 and 1960, and in 1966, accounted for 20 per cent of total food consumption. 'Convenience food' (defined as: a food, typically a complete meal that has been pre-prepared commercially and so requires little preparation by the consumer) became popular, helping reduce the domestic workload of the growing proportion of married women, taking up paid employment outside the home. Television advertising campaigns for convenience foods increased considerably and branding in general became increasingly important.

A greater emphasis on convenience and preference for labour-saving items created a demand for eating outside the home. By the end of the 1960s the fast food industry was under pressure from several quarters. New entrants were increasing the competitive nature of the industry. The traditional fish and chip shop incumbents began to feel the pressure and the era of the American hamburger was fast approaching.

6.5.3 Wimpy Bar – Opens in Ireland

The first Wimpy opened in Ireland in the 1960s. However, the Wimpy brand was created in the United Kingdom in the 1930s. The name was inspired by the character of J. Wellington Wimpy from the Popeye cartoons created by E.C. Segar. In the UK by the early 1950s businessman Eddie Gold was running 12 restaurants serving hamburgers and fries to the public. In 1954 the Wimpy fast food concept came to the attention of the company directors of J. Lyons and Co, a large-scale British food manufacturing and hotel conglomerate. Lyons Inc. licensed the brand for use in the UK and in 1954 the first 'Wimpy Bar' was established at the Lyons Corner House in Coventry Street, London. Originally the bar had a special fast-food section within the more traditional Corner House restaurants, but the success soon led to the establishment of separate Wimpy restaurants serving only hamburger-based meals. By 1970 the business had expanded to over a thousand restaurants in 23 countries. In the 1960s, Wimpy opened in Galway. Irish born Jimmy Sheils from Derry, witnessed first-hand how successful managing a Wimpy bar franchise could be when he was living in England. In particular, he noticed that fast food restaurants were very popular during the 1960s – so much so that he bought a franchise and opened a Wimpy restaurant in Galway. Sheils claimed 'I was going to open the restaurant on the Strand Road in Derry but a friend convinced me to come to Galway, so I did and it proved to be very successful'.

6.6 INDUSTRY CHANGE: THE IMPACT OF FRANCHISING 1970-1980

In the twenty year period between 1950 and 1970 new entrants were mostly independent fish and chip shops, and Chinese or Indian outlets. By the 1970s there were approximately 250 chippers and 100 Indian and Chinese restaurants in Ireland. In 1971 the original American hamburger and fries were introduced to Ireland by Captain America's restaurant on Grafton Street, Dublin. In 1975 Burgerland was the first fast food/QSR burger bar since Wimpy's to open in Ireland, and by 1979 had two outlets in Dublin's city centre. For many industry incumbents it was becoming apparent that in order to survive they would have to learn to operate in a more intensively competitive environment.

6.7 INTERNATIONAL COMPETITION

At the end of the 1970s the US-based fast food leader, McDonald's, began to express their interest in the establishment of fast food outlets in Ireland and other EEC markets. This global new entrant would spur the Irish industry incumbents to change. Upon the arrival of McDonald's to Ireland, the

fast food industry underwent a period of profound transformation. The small independent traditional fish and chip shop was blindsided by the professional image and finely honed operating model of McDonald's. McDonald's brought to the industry a new focus on brand building and the novel organisational structure of franchising. Between 1977 and 1982 McDonald's, Wimpy, Supermacs and Abrakebabra entered the industry. These firms were focused on building their brands, and for the first time the industry witnessed professional marketing practices and improvements in operational efficiencies. However, none of the new entrants came to dominate the industry at this point, and product offerings remained narrowly focused. Although there were several significant players, they only competed when products or geographical locations overlapped and full head-to-head competition became the norm.

6.8 THE EMERGENCE OF NEW INDUSTRY LEADERS

By the late 1980s two firms, McDonald's and Abrakebabra, were the two leading fast food operators, with outlet and turnover figures larger than other industry competitors. Both firms offered similar product ranges including burgers, French fries and soft drinks, with Abrakebabra offering their unique kebabs. The financial success and brand recognition of both firms enabled them to carry out a rapid nationwide expansion strategy using the franchising model, further enforcing their brand power and industry dominance.

6.8.1 McDonald's Opens in Ireland

McDonald's arrived in Ireland in 1977 and opened its first fast food outlet on Grafton Street, Dublin. The famous McDonald's burger and French fries had finally arrived in Ireland and with it the first franchising business endeavour on Irish soil. The fast food phenomenon was so new to Irish customers that it took them some time to adapt to this new style of eating i.e. queuing for food, paying at the till before sitting down to consume their meal, without using knives and forks. McDonald's Inc. sold the Irish Master franchise to Irishman Mike Meagan, who had worked for McDonald's in Canada. Meagan approached McDonald's about operating a McDonald's franchise in Ireland and was granted the licence. His first franchise outlet was so successful that he opened another six McDonald's outlets in Dublin between 1977 and 1982. However, in 1989 McDonald's bought back the rights to the Irish region, as they had huge plans for expansion beyond Meagan's own ambitions.

McDonald's global has always been focused on rapid growth. The company is not just a very large MNC, it is a phenomenon in its own right. McDonald's was founded in 1937 by the McDonald brothers. They began franchising in 1955, when Ray Kroc, a milk-shake mixer salesman, negotiated a franchise deal which gave him exclusive rights to franchise McDonald's in the US. The concept was innovative, the menu was short, simple and cheap, and the hamburgers, fries and milkshakes were of the highest quality. By 1960 Kroc had opened 200 restaurants throughout the

USA, and within five years the company went public becoming the McDonald's Corporation. From its entry into the Irish market McDonald's has followed a dual approach to its growth strategy, opening both company owned and franchised restaurants. The company owned outlets allowed McDonald's to try out new concepts, and spot potential franchisee and management talent. McDonald's Ireland recognised that its success and profitability was inextricably linked to the success of its franchisees. Franchisees benefited greatly by having a well-developed and universally recognised brand and product range. This was backed by national and international marketing campaigns. Additionally, McDonald's operating processes were the core of their success. Their well-honed cooking processes were broken down into small, repetitive tasks. This enabled staff to be highly efficient and adept at all tasks, and provided franchisees with a ready-made operational model.

The cost of a McDonald's franchise varied, it depended on the capital available to potential franchisees. They could choose between two financial routes: the Conventional Franchise or the Business Facilities Lease. With the Conventional Franchise, franchisees would buy an existing restaurant at 25 per cent of the purchase price, or open a new restaurant for 40 per cent of the total purchase price. The Business Facilities lease would be for potential franchisees who did not have sufficient capital. This model used the cash flow of the restaurant to purchase the franchise within the first three years of trading. For both options there was a monthly rent and service fee, as well as a contribution to an annual marketing budget. All this would be based on a percentage of sales. McDonald's also required franchisees to undergo unpaid training for nine months. The programme would cover all relevant areas including team building, customer relations, people skills, business management, health and safety, hygiene and general first aid. Training would be split between restaurant experience and residential courses at their Training Centre. McDonald's claimed that a certain type of person with certain characteristics would make a successful franchisee. Usually they would be successful in business or in a previous career, having experience of people management and development, sales-building and marketing. Joe Byrne, a McDonald's franchisee in Waterford, began working at McDonald's while he was still at school. He spent seventeen years with the organisation and worked his way up to becoming a restaurant manager at 29 years of age. Byrne was attracted by the support offered by McDonald's with proven operational methods. This helped to reduce the risk of failure in opening a new restaurant. Another franchisee, Gerry Riordan had worked in the banking industry for a number of years prior to opening his McDonald's franchise restaurant in Blackrock, Dublin. According to Riordan, the management skills and the successful business systems that he gained from the McDonald's training programme would have taken him years to acquire on his own. Finally Paul Crocker, had run a number of successful petrol station businesses before taking on a McDonald's franchise in 1996, and within five years he had opened five outlets. Crocker claimed 'the secret to McDonald's success was their combination of finely tuned operational performance and the ability to entice new customers into the restaurant.'

6.8.2 Wimpy Bars in the 1970s – emergence of the Burger King brand

In 1977, the Wimpy business was acquired by the English firm United Biscuits. In the UK by the late 1980s, Wimpy was beginning to lose ground to McDonald's, who had opened their first UK restaurant in 1974. New management at Wimpy began to streamline the business by converting some of the traditional table service into counter service restaurants. In 1989, the business was sold to Grand Metropolitan (now Diageo). Grand Metropolitan had acquired Burger King the previous year and they began to convert to the 'counter service' restaurants in Burger King Restaurants. In 1990, the remaining 220 'table service' restaurants were purchased by a management buy-out backed by 3i. A second management buy-out occurred in 2002. By the mid-1990s there were 12 Burger King outlets in Ireland, and some were combined with petrol stations.

6.8.3 Supermacs Opens in Galway 1978

Supermacs was founded by Pat McDonagh in Galway in 1978 directly after McDonald's entered the Irish market McDonagh was a former school teacher and initially wanted to open a pool hall but failed to get planning permission. He settled on a shortlist of other business alternatives for his location, a furniture shop or a takeaway. He chose the latter and Supermacs was born. The name was based on McDonagh's nickname which he had acquired playing school GAA.

Supermacs used its 'Irishness' to set it apart from its competitors, in particular from the international global giants McDonald's and Burger King. According to McDonagh, it gave the brand a unique identity. The company focused on opening sit-down, family-style restaurants, using the franchise business model of expansion. Initially Supermacs concentrated its growth in the West of Ireland. Important lessons were learned about selecting suitable franchisees and the right locations. Many franchisees began working for Supermacs as employees and worked their way up to become managers. In 1984, John Kennedy a franchisee in Athlone, joined Supermacs directly from school. Initially he worked part time, and then became a full time manager. In 1997, he became a franchisee, 'I liked the opportunity to become your 'own boss', to work for yourself, and to have more control over the standards of your own business'. He attributes his success to having a good support team as Kennedy prefers to focus on the day-to-day running of the restaurant while others focus on the administration. Another franchisee, Danny McHugh opened three Supermacs in Mayo. He worked for Supermacs for 12 years before training to become a manager. In 2005 he opened his first franchise in Roscommon. He believed Supermacs offered the ability to conduct both localised store marketing and brand-wide marketing as well as the ability to get involved in the local business community. Another franchisee, Jim Casey, opened his first Supermacs outlet in 2005, a Supermacs Express (smaller Supermacs run out of a large motorway petrol station) on the Dublin to Athlone motorway. He already owned the premises and operated a garage there thus the Express Supermacs launch was for him a natural progression.

6.9 THE INDUSTRY'S TRADE ASSOCIATION

By the early 1980s franchising as a business model was gaining a degree of publicity, particularly after the success of many U.S. franchised businesses during the 1970s. In Ireland in 1983, the Irish Franchise Association was established as a point of reference for firms considering franchising, as well as individuals wishing to become franchisees. At this time franchising was mainly concentrated in the fast food/QSR industry. The Irish Franchise Association aimed to encourage franchising as a successful way to achieve businesses growth and expansion. The Association's mission statement has always been 'to develop and promote best practice franchising in Ireland and create an environment within which franchise businesses can grow'. The declared objective of the Irish Franchise Association;

> *'To protect and further the interests of properly constructed franchising companies and by these means to establish and maintain a clear definition of ethical franchising standards to assist members of the public, press, potential investors and government bodies in differentiating between sound business opportunities and any suspect investment. In consequence of these aims, a code of ethics and strict criteria for membership are produced'.*

Up until the 1980s, in the fast food/QSR sector there was a distinct lack of industry regulation this being laissez-faire with little or no interference from government. A restaurant licence was unnecessary in order to open a fast food/QSR, only a restaurant certificate was required if the restaurant had seating. However, Ireland having joined the EU in the 1990s produced new directives under the Maastricht Treaty relating to industry policies which were set to change.

6.9.1 Abrakebabra Founded in 1982 and Adopted Franchising in 1985

In 1982 Graeme Beere, with his brother Wyn, established a new fast-food restaurant, targeted at Dublin's late night pub going population. A product mix of kebabs, burgers and chips, late night opening, and the option to 'eat-in' were all innovative to the Irish market. Graeme called his new restaurant 'Abrakebabra'. He realised that location was the key for this new venture to work. The restaurant needed to be situated close to pubs, and in an area where his target market lived and socialised. The first outlet was opened in the Dublin suburb of Rathmines. Abrakebabra proved hugely popular with customers, and by 1984 had opened four successful shops. However, the brothers experienced problems managing four busy restaurants. Having witnessed the unrivalled success of McDonald's using franchising, the brothers saw the potential it offered to expand the business rapidly, and they decided to pursue this model. It provided solutions to two key challenges to the further growth of their business – cash flow and management capacity.

The period between 1985 and 1987 was one of very rapid growth for Abrakebabra. The company used a dual strategy to drive the growth process. By 1997, Abrakebabra had sixty restaurants in total, twelve company-owned restaurants, and forty-eight franchised restaurants across Ireland. The logic of this dual strategy was that by franchising, the company could expand quickly, as franchisees provided capital and management. The success of the franchised outlets provided the resources to fund company-owned restaurants. The larger the chain became, the greater the brand

recognition, and the easier it became to attract franchisees. Abrakebabra would approach an established local fast-food restaurant suggesting a franchise conversion. However, teething problems began to emerge with the franchises early on, namely an inability to control franchisees financial performance and restaurant standards. Consequently, Abrakebabra decided to be more rigorous in choosing franchisees. They set about formulating a selection process. The process would involve franchisees completing a formal application form. If selected, they would be interviewed to evaluate their ambitions, experience and personal characteristics. Abrakebabra wanted people with experience in management and entrepreneurship. They wanted people with ambition and passion to run a restaurant full-time, serving customers to the best of their ability. Previous education was not as important as previous experience in business, especially in the food industry. When a franchisee was selected and deemed suitable, their official training would begin under the instruction of an established franchisee. This form of training would take between two to three months.

Abrakebabra, required a franchisee entry fee and an on-going levy of 6 per cent on each franchisee's gross revenues (excluding the 1 per cent advertising levy which was charged to every franchisee and pooled into a fund specifically for brand advertising campaigns). Franchisees paid the franchisor for expertise in operational issues, access to economies of scale, supply chain management, bulk buying, marketing and branding. All of these benefits made the franchisee more cost efficient, 'bulk buying offered Abrakebabra operators an extra 10 per cent profit margin over and above the industry norm of 60 per cent.' There were a number of reasons why franchisees would decide to choose an Abrakebabra franchise. A Dublin-based franchisee believed Abrakebabra had the most attractive franchise package when compared to McDonald's and Supermacs. A Waterford franchisee was attracted by the strong brand name and innovative product range. Originally a fish and chip shop owner, he claimed 'I was already in the business, and I knew that one of the chains would eventually open up in my area, so I chose Abrakebabra as they had a national presence.' Another, Cork based franchisee, who converted his restaurant to an Abrakebabra acknowledged, 'we owned our own restaurant and McDonald's came to town we saw our trade drop by 30 per cent so Abrakebabra was something to do battle with McDonald's.' When citing the reasons for success, franchisees consistently commented on the importance of Abrakebabra's branding and marketing as well as bulk buying benefits. One franchisee in Sligo claimed, 'as franchisees, we were part of a bigger picture in terms of marketing and branding and from a financial point of view we were purchasing supplies at least 12 to 13 per cent cheaper than as an independent operator'. A Cork based franchisee said, 'Advertising and bulk buying would be the two main benefits. Abrakebara's back up services were very good and they helped to solve operational problems'.

6.10 NEW FOCUS: IMAGE, BRANDING, EFFICIENCY

6.10.1 Increased International Competition

In the years following late 1980s, industry change was particularly swift and extensive. At the lower end of the market, the inexpensive fast food/QSR sector once dominated by independent chippers and Chinese and Indian takeaways began to change. The industry began to experience increased competition from international franchised fast-food restaurant chains such as McDonald's, Burger King, and Domino's, as well as from the Irish-owned Abrakebabra and Supermacs. Increased competition, combined with a recession in the late 1980s, brought further challenges to the industry. New store openings by the franchise systems increased dramatically and price competition intensified. The two key elements for success in the industry became branding and operational efficiency. The 1990s also brought changing customer preferences - customers were becoming increasingly health conscious – and this increase in buyer power made success in the industry increasingly difficult. In response, competitors extended their food offerings to incorporate more health conscious options and also began to invest heavily in marketing strategies, which caused alarm across the industry's independent operators. Independent chippers were severely hit and their numbers declined particularly in the Dublin region. Many fish and chip owners converted and became franchisees of the franchised chains. The 1990s unleashed unprecedented price competition in the industry, the introduction of 'meal deals' and McDonald's famous 'happy meal' were unique to the Irish market and after its success, McDonald's rolled-out the concept to all its global restaurants.

6.10.2 Intensifying Competition and Industry Failures

During this period of growth and competitive intensity there was one international fast food chain which struggled to enter the industry. In the midst of the success of most of the international fast food/QSR market entries, Kentucky Fried Chicken (KFC) experienced a market entry failure. Kentucky Fried Chicken (KFC). KFC, a hugely successful American fried chicken chain, first entered the Irish market in the late 1970s opening four outlets. However, KFC has operated intermittently ever since and in the early 1990s, closed most of its outlets in the Republic. This was attributed to management issues. KFC was a tiny part of the worldwide Pepsi organisation and during this period its Irish division reported directly to the United States instead of the UK or Europe. 'They were trying to run the stores by U.S. remote control,' according to UK based Kevin Higgins of Tricon's.

In 1997, Pepsi spun off its restaurant business, which also included Pizza Hut and Taco Bell, to Tricon. As a result, the responsibility for the Republic of Ireland was transferred to the UK headquarters. Although KFC had a chequered history in the Republic, the company had thrived in Northern Ireland opening 31 outlets. These are operated by two separate franchise firms, the

Belfast based Herbel Restaurants and Ladbury restaurants (also a Pizza Hut franchisee in Ireland). The KFC management in the UK were convinced that KFC would be successful in Ireland so they decided to re-enter the Irish market. They opened a small outlet in Liffey Valley shopping centre in 1998, and a drive-through was established at Blanchardstown shopping centre.

6.11 INDUSTRY BOUNDARIES EXPAND

Traditional fast food, typically represented by products such as fish, chips and burgers began to expand and the Quick Service Restaurants (QSR) began to broaden their scope. Both night-time and day-time trading became part of the industry and in the 1990s the day time sandwich and snack trade became direct competitors. Industry level changes in the 1990s were not dramatic and firms further developed their product offerings and consolidated their positions. Despite entries and exits, the basic methods of trading remained the same. Throughout this period different segments of the industry varied in their overall performance, however, McDonald's and Abrakebabra remained industry leaders.

6.11.1 O'Brien's Sandwich Bars Founded in 1988, Adopted Franchising in 1994

Brody Sweeny founded O'Brien's Sandwich Bars in 1988 and had previous first-hand experience of franchising in the Irish printing industry. Brody's father, Frank Sweeney, a solicitor, was granted the licence to operate Prontaprint (a UK printing franchise) in 1980. Brody took over the business and bought his father's share. He then spent eight years setting up Prontaprint franchise outlets all over Ireland. The company expanded rapidly, at a loss. Brody finally sold Prontaprint back to the UK Company in 1988. In the same year he opened O'Brien's, bringing some valuable insights from his printing experience.

From the beginning, Brody Sweeny wanted to create a modern Irish image for his sandwich bars. He chose the name O'Brien's, as it is the most common surname in Ireland. Sweeney wanted the design to be young and friendly, with no plastic sandwich packaging. He used high quality ingredients, thick slices of fresh bread filled with the customer's own choice of healthy, non-processed food. He wanted it to incorporate all the positive traditional Irish values, yet reflect modern Ireland and the changing lifestyles with a proposition that would have universal appeal. His research indicated that the biggest sector of the fast food/QSR market in the UK was the sandwich sector. 'In other words, more sandwiches were sold in the UK than hamburgers, pizza, chicken, Chinese, and fish and chips all put together and it was the only one of those sectors without a chain' (Brody Sweeny). The business concept was developed with a view to international expansion, as such Sweeney sought the help and advice of Howarth an International franchise consultancy, who helped him put together a franchise package and franchisee agreement. Despite initial success, O'Brien's continued to lose money for the first six years and by 1994 the company was in financial trouble. Sweeney developed O'Brien's as a franchise business, writing

manuals and focusing on expansion. In 1994, when happy with his franchise package, he opened the first O'Brien's franchise. By 1999, there were 61 franchised O'Brien's Irish Sandwich Bars operating: 25 in Ireland, 25 in England and Scotland, two in America, two in Singapore, two in Australia, and two in Germany. The company's motto was 'an O'Brien's' franchise partner is in business for themselves but never by themselves'. The operations team supported the franchisee through every stage of the franchising process. The franchisee was supported with property acquisition, store design, on-going staff recruitment and training, group purchasing, business development, employment law, health and hygiene. As well as training in sandwich preparation, speciality coffee making and the office and outside catering arrangements. Communications with franchisees were maintained through regional meetings, weekly phone calls, newsletters and an annual international conference. All O'Brien's marketing campaigns were supported by a proactive public relations team who helped launch each new outlet. Thus gaining valuable recognition with positive media coverage focused on raising the profile of the O'Brien's brand. A mix of leaflet drops, high quality point of sale material, promotional campaigns, local radio ads, national media activity and public relations helped promote sales and profits. Having a strong brand was essential for O'Brien's strategic planning and ensured differentiation from competitors. They believed that the strength of their brand could be seen in every aspect of the business, be it the franchise partners and the staff they attracted, or the supplier partners who joined their distribution network. The idea of optimal standardisation across the network of stores was key and O'Brien's claimed a customer could predict with certainty what they would find when they walked into any O'Brien's outlets worldwide.

As a franchisee, Andi Cooke set up two Dublin O'Brien's Sandwich Bars. Before becoming a franchisee, she was Operations Manager for O'Brien's for 6 years. She wanted to start up a business within the catering sector. She saw O'Brien's as being a market leader with excellent support services for franchisees'. Laura Hill, another O'Brien's franchisee, in Mayo. 'I worked as an accountant prior to opening my outlet. I had no previous experience as an entrepreneur and therefore decided a franchise opportunity would suit me'. Laura felt that O'Brien's had a proven track record. The back-up provided was particularly beneficial to her in the early days, offering advice and support in relation to set-up, store location, layout, systems and suppliers, as well as continuously developing new products and marketing ideas which she would never have had the time to do on her own. It appears that while O'Brien's were excellent at strategizing on branding and expansion they were weak at financial and operational planning.

6.12 FRANCHISING DOMINATES

6.12.1 Economic and Social Changes

By the end of the 1990s the Irish economy was heating up for what was to be a period of unprecedented economic growth and prosperity known as the Celtic Tiger years. Irish consumerism

became an unstoppable machine and international retailing giants began to enter the Irish market. Irish indigenous firms also began to prosper and thrive, bringing full employment and a culture of 'cash rich, time poor', where convenience was the number one criteria for consumption. In terms of food shopping and supermarkets, the smaller operators were now competing with larger convenience-store chains such as Spar, Centra and Londis, foreign discount supermarkets Lidl and Aldi, and large native national supermarket chains Dunnes Stores and Superquinn and British chains, such as Tesco Ireland (formerly Quinnsworth).

In the fast food/QSR industry, increased competition, an ensuing recession and increased health conscious consumers – caused many incumbents to focus more on branding, advertising, product innovation/extension and price in order to differentiate themselves from their competitors. Fast food also suffered from its own obsession with cost and margins at the expense of marketing effectiveness. Many operators paid staff minimum wages and failed to attract a high quality workforce, and in many cases their company operational infrastructure was weak. Although the 1990s was a period which presented numerous challenges to the fast food industry, on a whole the industry continued to expand. McDonald's, Abrakebabra and O'Brien's continued to dominate as the independents declined. Competition in the industry intensified, resulting in the demise of many independent fish and chip shops.

6.13 COPING WITH CHANGE: NATIONWIDE EXPANSION & BRANDING

6.13.1 Industry Expansion

During the 1990s, some key issues affected all fast food/QSR operators. These included staff shortages, unemployment being at an all-time low, making minimum wage jobs difficult to fill. Additionally, customers had increased disposable income and began opting for more expensive restaurants over inexpensive fast food/QSR outlets. Furthermore, for the first time comprehensive Irish Health and Safety regulations were firmly established in 1993 under the guidance of the Irish Health and Safety Authority (and the European Union Maastricht Treaty directives. In general, people's working lives had become increasingly fast-paced, with more people eating outside of the home. The industry experienced further expansion; this was reflected in the increase in pubs and petrol stations which began selling hot food. From the late 1990s pubs had begun to experience a decline in sales of alcohol, therefore food became a critical component of sales. In some cases food accounted for 50 to 65 per cent of turnover. Another extension of the fast food/QSR sector occurred when petrol stations began to sell hot food, such as breakfast rolls, sandwiches, tea and coffee. In the early 1990s Statoil garages began to sell 'the breakfast roll' and their food and drink sales became as important as their fuel sales. According to Frank Gleeson of Topez garages, 'in the food channel, we began to compete against Quick Serve Restaurants (QSR), convenience shops, and symbol stores, we become a roadside utility to satisfy people's convenience needs'.

The demand for fast food/QSRs and restaurants, continued to grow. The industry key firms were McDonald's, Abrakebabra, O'Brien's and Supermacs. McDonald's began to expand and had opened 35 outlets by the late 1990s (see table 6.4 below). However, the real industry leader was Abrakebabra who opened over 60 outlets by the late 1990s. During this period there was additional growth amongst independent burger bars, pizzerias and sandwich/snack bars across Ireland and a variety of internationally franchised pizza chains also entered the Irish market. In an ever competitive industry, many industry incumbents began to expand their product offering to include ethnically diverse fast food items, as well as catering to the more health conscious customer. Branding and price continued to be a priority, particularly as customer buying power increased. Within this context, franchising offered benefits in terms of brand power and cost reduction. Franchised chains, such as Abrakebabra and McDonald's, achieved important margin increases for their franchisees by bulk buying at discounted prices and capital injections from new franchisees' fees fuelled firm expansions. All of these factors combined helped the leading franchise systems stay ahead of the competition. In the late 1990s, efforts to develop stronger brand identities were intensified in response to the growing competition from the industry's leading firms.

Name	Eat-in	Number of Outlet	Annual Turnover
MacDonalds	Seating	35	€46 million
Abrakebabra	Seating	60	€50 million
Supermacs	Seating	16	€10 million
O'Brien's	Seating	50	€30 million
Four Star Pizza	No Seating	10	€4 million
Burger King	Seating	12	€35 million
Domino's Pizza	No Seating	9	€2.5 million

Table 6-4 Selected Competitors: Restaurant Numbers in Ireland 1997

(Source: annual returns and outlet number information was obtained by contact with each company's head office)

According to many of the industry incumbents such as McDonald's, Abrakebabra and O'Brien's, when the market was at its most competitive, organisational changes were necessary to tackle industry challenges. To differentiate themselves fast food/QSR firms began to focus on becoming more customer-centric, enhancing their quality of service, improving cost effectiveness, and building the capabilities needed to improve overall business performance. Statistics on the number of firms in the industry from 1970 until the late 1990s are not available, but information from industry sources suggest that the number of firms had not changed substantially since the late 1970s particularly with reference to the 250 chippers and 100 Chinese and Indian takeaways. However, in terms of the franchised chains, growth was dramatic.

6.14 INDUSTRY REGULATION

6.14.1 McDonald's Influences Industry Regulation

Government regulation regarding fast food/QSR industry was broad and rather vague up until the late 1980s when the Health and Safety Authority (HSA) began to monitor the industry. However, McDonald's global model of operations, which maintained the highest H&S standards, had been developed in the U.S. during the 1950s and 1960s. Annette Kelly (McDonald's Trainer) claims that

'Only in the mid-1990s did we have visits from the Health and Safety Authority.'

McDonald's, from its entry into the Irish market in 1977, was instrumental is setting H&S industry standards. McDonald's worked in conjunction with the HSA on its policies, guidelines and standards.

> *'We would work quite closely with the food safety authority, and they love what we do and they have taken a lot of our systems and used them as an industry benchmark' (Chris Pollock) '*

Industry regulation and increased Health and Safety awareness became important for firms in the 1990s when HSA (Health and Safety Authority) officers began to inspect all restaurants and fast food outlets, carrying out cleanliness and food safety audits. In the late 1990s, new directives were introduced at a European level regarding Health and Safety policies and industry monitoring became increasingly more stringent. New auditing procedures were introduced whereby every restaurant and food serving outlet would be inspected regularly each year. If standards were not met or maintained, then a restaurant or food service operation would be shut down and a re-application for a restaurant licence would be needed. Customers could also report to the HSA directly if they suspected that basic standards were not being met by a restaurant.

6.15 INDUSTRY COMPETITION – NEW TACTICS

Industry dynamics changed considerably in the early 2000s and the two previous industry leaders (Abrekebabra and McDonald's) were now joined by Supermacs and O'Brien's (see table 6.5 below). Both firms gained a foothold after a decade of company expansion and brand building, enabled by their adoption of franchising. For the first time the pizza chains began to have an impact on the industry structure and gained an increased market share.

Name	Eat-in	Number of Outlet	Annual Turnover
Abrakebabra	Seating	55	€40.5 million
Supermacs	Seating	45	€29.4 million
McDonald's	Seating	66	€176 million
Burger King	Seating	10	€17 million
Four Star Pizza	No Seating	26	€10 million
Domino's Pizza	No Seating	17	€10 million

Table 6-5 Main Franchise Restaurant Outlets Operating in Ireland 2005

(Source: annual returns and outlet number information was obtained by contact with each company's head office)

For the industry incumbents the early 2000s were characterised by intense price wars, further product expansion and costly marketing campaigns. The leading firms competed intensely for customers and were always focused on obtaining new sites for their outlets, often at the expense of the independents. As the market became more crowded there were casualties.

Such intense competition led to further industry consolidation and by 2008 Abrakebabra Investments Limited (AIL formed in 2008) had begun to diversify its brand offering to increase market share. The company embarked on a Master franchise acquisition strategy. AIL acquired O'Brien's Irish Sandwich Bars, after the company went into liquidation in 2009. Having looked at the success of the U.S. multi brand Yum (KFC, Pizza Hut and Taco Bell) AIL decided to build a diversified brand portfolio. In addition to O'Brien's, AIL acquired the Master franchise to Bagel Factory (UK), Gourmet Burger Kitchen (UK), Yo Sushi (UK), and King Chick (UK), making it the first fast food/QSR Multi-brand franchise system in Ireland.

6.15.1 Social and Economic Change – 2000 Onwards

By the late 2000s the Irish franchise market was considered to be in its infancy compared to the U.S. and considered to have potentially great future growth. In recent years one of the key changes in retail was the increase in new shopping centres across Ireland, a factor that affected the locations of fast food/QSR outlets. The brand recognition that is an inherent part of franchising is a very attractive proposition for a shopping centre owner or developer. Ireland's shopping centres now account for an increasing volume of retail sales, representing a move away from the traditional focus on the Main Street. In most Irish shopping centres many of the large fast food/QSR franchise chains now have a presence.

Consumer lifestyle changes and increased availability of new product and service offerings have been an underlying driver of consumption between the years 2000 and 2008. High employment, dual income families and a young workforce meant people were choosing to eat out. A recent report assessing the eating habits of Irish families revealed that a large portion of meals in Ireland are not eaten or prepared at home. According to Professor Patrick Wall, of the UCD School of Public Health and Popular Science;

'In Ireland, 33 per cent of food is eaten or prepared outside the home,'

As a testament to this increased consumption of fast food/QSR, Tallaght, a sprawling suburb in County Dublin with high unemployment rates among its inhabitants (a population of 71,467 according to the 2010 census), consumes more pizza than anywhere else in the world. The Tallaght

branch of Domino's Pizza is the busiest of its 8,000 stores worldwide, selling a record 1 million pizzas per annum (13 pizzas per year per capita).

Another change affecting the range of convenience foods demanded in Ireland has been the influx of immigrants from Central and Eastern Europe. Ireland opened its labour market to 10 new member states of the European Union in 2004, and triggered an influx of Polish and Latvian immigrants, reaching a high of 10,000 workers per month. To reflect these changes even small supermarkets routinely stock large ethnic food sections containing Indian, Chinese, Thai, Polish, Tex-Mex American (Mexican) and specialty foods from Poland and the Czech/Slovak/Slovene regions. As a result of this, the fast food/QSR industry incumbents have begun to offer more varied product range to cater for a more diverse customer base.

6.15.2 The Response of the Traditional Chippers

As a result of increasing industry pressure traditional Irish chippers have decided to come together and form a branded association and create a unified identity. The Association named the Irish Traditional Italian Chipper Association (ITICA) was formed in 2010,

> 'to celebrate the unique identity of the traditional Italian chippers in Ireland and to mark the contribution we have made to the Irish community.'

ITICA is a unique association, with only Italian-owned chippers allowed to become members. There are strict rules governing the association. The chippers must be family-run, the chips have to be made from freshly cut potatoes and the batter must be made on the premises. Johnny Soave CEO of ITICA says,

> *'99 per cent of Italian chippers are still run by people whose forefathers came to Ireland'.*

Soave says there are probably 300 takeaway chippers in Ireland and not all of them, would meet ITICA's criteria for membership. ITICA already has more than 180 members out of 260 Irish Italian chippers in 2010. The number of chippers has remained relatively stable since the 1970s, which is impressive considering the growing competitive intensity of the industry. Therefore chippers have had to innovate and to address the increasingly diverse consumer tastes. Most have expanded their menus offering a range of curries, gravies, salsas, cheeses, kebabs, pizzas, Tex-Mex food, chicken tandoori and chicken curry in addition to other formerly unknown menu selections.

6.15.3 Economic Collapse

Following the 2008 Irish economic collapse, national consumption patterns altered once again as the population's disposable income decreased. Consumers began to opt for cheaper fast food/QSRs takeaways as opposed to expensive sit-down restaurant meals. Fast-food outlets once again began to experience a steady increase in sales from 2008 onwards. Domino's UK and Ireland have seen a change in customer habits,

'many consumers are 'trading down', to cheaper QSR options, which means that they are eating out less often and staying at home,' (according to Domino's' Chairman Stephen Hemsley).

6.15.4 Industry Growth

By the end of 2012 the economic collapse was still permeating Ireland; the fast food/QSR industry experienced continued growth with increased levels of consumption. By 2012 AIL, McDonald's and Supermacs were still the main industry leaders, followed by a number of other key industry competitors.

6.16 INDUSTRY LEADERS

6.16.1 AIL (Abrakebabra) 2012

In the late 1990s Abrakebabra made the decision to sell all of its company-owned outlets, and focused solely on operating as a franchisor. The management team acknowledged the obvious benefits of franchising as a system of growth and they redefined the advantages of such a structure. Through franchising Abrakebabra had achieved rapid expansion and market penetration with relatively low capital investment, as well as increasing market coverage, market share and brand equity with limited financial exposure. Due to the early adoption of a franchise strategy, Abrakebabra had a solid and largely unrivalled position. By 2006, Abrakebabra faced another difficult decision. The company had 60 own-branded outlets but decided that the market was at saturation point for its kebab shops. Abrakebabra realised that its brand was limited to late night eating and a narrow demographic. The company made a key strategic decision to acquire other Master franchise brands. Abrakebabra looked to the UK to find popular brands in the QSR industry. They bought the master franchise rights for: the Bagel Factory, Gourmet Burger Kitchen, King Chick and Yo-sushi. Within a two year period Abrakebabra had opened 42 Bagel Factory's, eight Gourmet Burger Kitchens, six King Chick's and two Yo-sushi's.

6.16.2 O'Brien's 2012

In 2008 O'Brien's went into liquidation. Under an arrangement sanctioned by the High Court, AIL's subsidiary, Impless, immediately acquired and began to operate O'Brien's Sandwich Bars. A statement issued by AIL founder, Graeme Beere: 'with over 25 years' experience in the franchise sector and we intend to work with O'Brien's franchisees, new and old, to ensure that in these testing retail times they feel renewed confidence in the brand, a brand that we believe in strongly'. In 2008 there were 85 O'Brien's stores in Ireland and more than 200 franchised outlets across the globe. O'Brien's had always focused on innovation in its product offerings and also had focused on recruiting good quality franchisees. AIL's intention was to maintain O'Brien's' position as a leader in the day time sandwich market.

6.16.3 McDonald's 2012

By 2012 McDonald's Ireland had 75 restaurants with over 3,000 employees, serving more than 150,000 customers daily. Of the restaurants operating across Ireland, approximately 75 per cent would be operated by franchisees. McDonald's has always regarded people and continuous training as central to the company's success,

> *'We provide training at every level to a high standard, with an investment above the national average, ' according to Michelle Ryan (McDonald's Trainer).*

According to Chris Pollock, the head of McDonald's franchising in Ireland, the biggest advantage McDonald's derives from franchising is to take the global brand and make it local, so that the franchisee is the local voice of a big global corporation.

> *'I see very few negatives in franchising if it's done properly, its advantages far out-way risks.' Chris Pollock, the head of franchising McDonald's Ireland)*

As a testament to its success, McDonald's has consistently been voted one of the '50 Best Companies in Ireland to Work For' between the years 2005 to 2012. In Ireland McDonald's is the only franchise system operating an independent HR department, managing both its company-owned stores and its franchisee-operated outlets. While the HR function managed the traditional aspects of policies and procedures, it also manages the relationship between McDonald's and its franchisees. This is accomplished through a consultative approach, getting involved when required, setting best practices and influencing rather than regimenting change. McDonald's has always focused on its branding and customer service, to ensure that customers always receive a positive and consistent experience, throughout all outlets. To achieve their business goals McDonald's has identified 'People', their employees, as a key source of competitive advantage. In the Quick Service Restaurant industry, McDonald's has continuously set the standard for operational excellence by identifying and measuring key indicators of product quality and fast and accurate service.

Turnover for McDonald's Ireland's 78 restaurants in 2012 was €200 million. Sales were expected to continue to grow in 2011/2012. However, 'the actual spend per customer is declining,' says John Atherton (McDonald's Ireland MD). *'What we're seeing in our restaurants is that people are trading down.'* In a recent interview with the Irish Times Atherton would not divulge a figure for 'system-wide profits' but said tax paid in 2009 was €3.3 million. Based on a 12.5 per cent rate, this would indicate an annual profit of €26.4 million.

6.16.4 Supermacs 2012

In 2012, Supermacs' turnover was €58.8m. The company's turnover was derived from the operation of its fast-food outlets and service stations in Ireland together with its nine subsidiaries engaged in fast food, patent technology, forestry development and franchising technology related to fast foods. McDonagh and his wife Úna have made the move to Multi-brand franchising, as well as

Supermacs and they hold the country franchise for the Papa John's Pizza Chain and a sub-franchise for the Quiznos sandwich chain. McDonagh also owns Claddagh Irish Pubs, a 15-strong US pub/restaurant chain. He wants to expand the chain to 80 outlets within five years, possibly through franchising. By 2012 Supermacs brand had over 2,500 employees and 103 branches, serving an average of over 320,000 customers per week. McDonagh is very much a 'hands-on' CEO and is highly involved in the day-to-day operations of the company. The company's success is built on a unique menu, ideally suited to local tastes, using high quality food and ingredients locally sourced where possible. This quality philosophy has been recognised by the Gilbey's Award for Food Excellence and the Excellence Ireland Hygiene Mark. Similarly to McDonald's, Supermacs places emphasis on quality of staff and service.

McGurk Consulting, who recently completed a brand audit of Supermacs, said the brand was associated in everyone's mind with 'real Irish country food'. Supermacs opened a number of new outlets in 2012. A typical new store fit-out costs €250,000 and McDonagh intends to invest a total of €8 million for refits of existing restaurants in 2012. Changes in customer behaviour, coupled with what McDonagh described as an 'overcrowding' of legislation in relation to the traditional Supermacs business have also prompted the company to look at other models, such as the smaller, cheaper Fresh Express outlets which have done well in service stations. This has led McDonagh to invest in a number of service stations. According to McDonagh, 'Applegreen went with Burger King and Topaz went with McDonald's and we have decided maybe we can do serviced stations ourselves.'

6.17 CHANGING ENVIRONMENT - CHANGING PRIORITIES

6.18 FRANCHISED COMPETITORS

In 2012 as well as the industry leaders, key industry players were Burger King, and the pizza chains Domino's and Four Star Pizza. In 2012 amidst the success of many industry leaders, KFC decided to attempt another market re-entry.

6.18.1 Burger King 2012

In 1981 the first Irish Burger King outlet opened on Grafton St, Dublin. Today there are 34 outlets located throughout Ireland with 17 located in Dublin. Burger King was founded in 1954 by James McLamore and David Edgerton in Miami, Florida. They had a guiding principle of offering reasonably priced quality food, served quickly, in attractive, clean surroundings. OKR Group was the sole franchisee for Burger King in the Republic of Ireland and employed over 900 people. According the Daniel Fitzpatrick, Burger King's Chief Operations Officer (COO)

> *'we think of each of our restaurants as a standalone business, we really make life simple for the restaurants. The last thing we want them focused on is things like IT. We want them focused on serving customers and serving great food. We get very granular information on*

every single item we sell; it's all about getting full visibility into what's happening at the restaurant.'

Fitzpatrick says the company's current make-up is about 90 per cent franchisee and 10 per cent company-owned restaurants. In 2009 Burger King changed hands again, and was acquired by private investment firm 3G Capital for $3.3 billion and Fitzpatrick was appointed chief brand and operations officer. Based back in Miami, he reports directly to the U.S. Head Quarters and CEO, Bernardo Hees. Fitzpatrick said:

'We wanted to make sure that our marketing of the brand and our operations of the brand were very consistent, over 30 per cent of our customers are kid's parties, we have a balanced customer portfolio.'

However in 2012 Burger King Ireland saw profits fall nearly 13 per cent with pre-tax profits of €4.82 million, down from €5.53m in the previous financial year with 30 outlets in Ireland. Burger King has 17 Dublin outlets as well as restaurants in all the major Irish cities. Burger King, like Supermacs and McDonald's has begun to combine fast food with petrol stations and now has an outlet in Urlingford, County Kilkenny, which is the location of the rest stop for buses between Dublin and Cork; and an outlet in Celbridge, County Kildare. These outlets are located in Petrogas (Applegreen) petrol stations, as Petrogas hold the Master Applegreen franchise in Ireland.

6.18.2 Domino's Pizza 2012

Domino's Pizza Group Limited (DPG) is a wholly owned subsidiary of Domino's Pizza UK & IRL plc which is quoted on the London Stock Exchange. DPG is the UK and Ireland's leading pizza delivery company and holds the Master franchise to own and operate Domino's Pizza stores in these markets. The first UK store opened in 1985 and the first Irish store opened in 1991. Domino's Pizza was founded in 1960 by Tom Monaghan, whose original goal was to open three pizza delivery stores hence the three dots on the company's logo. His modest plan grew into something far bigger and more successful than he could have imagined. By franchising his pizza delivery model to like-minded entrepreneurs, Domino's Pizza has become the world leader in pizza delivery and one of the most successful franchise businesses in the world. The company is still growing today with more than 8,000 stores in more than 50 international markets.

Domino's Pizza Group (DPG) is a Quick Service Restaurant, they are not a fast food restaurant, they are not a takeaway (on average, only 30 per cent of their pizzas orders are collected) and they are not a restaurant (their stores don't have eat-in facilities). DPG invests a lot of time and money in branding and their marketing activity is financed through a National Advertising Fund (NAF) which is made up of franchisee contributions. They carefully select targeted marketing campaigns that reach their core audience of 18-35 year olds. DPG provide support to franchisees in areas such as information systems, operations training and marketing. New franchisee's take part in a four-week intensive Franchise Development Programme. This training course is designed to equip them with the knowledge and skills that they need to run a successful Domino's Pizza delivery business.

The full cost of a new store is approximately £280,000. In 2012 DPG saw profits rise to £23.4 million. The company also announced it had witnessed a broadening customer base with many families ordering pizzas at home. In Ireland the average branch makes an annual profit of £100,000.

6.18.3 Four Star Pizza 2012

Four Star Pizza was founded in 1981 in Washington, Pennsylvania, a suburb of Pittsburgh, USA by Alan B. Cottrill. In 1986 Four Star Pizza US opened a model store in Dublin with the intention of selling the Master franchise to an Irish company. The benefits of owning a Four Star Pizza franchise included: pizza delivery chain-brand leader and realistic costs, affordable initial investment and start-up package. Four Star Pizza also offered full franchisee support on customer service, product information, advertising, record-keeping, training, promotion, communication and day-to-day business operations.

However, in 2012 the company behind the Four Star Pizza sought protection from the High Court from its creditors. Four Star Pizza's parent company, Zowington, was deemed insolvent, unable to pay their debts. The takeaway company owed National Irish Bank €4.9 million and other creditors including suppliers, a printing firm and the Revenue Commissioners. Four Star Pizza currently has 37 outlets in Ireland. However, onerous lease costs have put a strain on franchisees and sales have declined by about 30 per cent in the past three years due to increased competition and heavy price discounting. About 35 people are directly employed by the holding company, with another 400 working in the franchised outlets. In 2012 the latest accounts for Four Star show the holding company made a loss of €83,000.

6.18.4 Kentucky Fried Chicken (KFC) 2012

In 2012 after two unsuccessful attempts to enter the Irish market, KFC made a third attempt, this time backed by a multi-million pound investment programme. KFC plans to build at least 30 new outlets in the Republic over the next four years, two-thirds to be located in Dublin,

> *'having seen these operations; seen the sales and the return on investment, looked at staffing and all the other issues we are now comfortable that we can make a success of KFC in the Republic'*

says Kevin Higgins, the business development director at Tricon's UK operation. KFC is likely to face a significant battle for both franchisees and locations, as Ireland's other main fast food/QSR operators are also currently expanding. The company estimate that demographics show the Republic could support 70 outlets. The investment programme will be significant, as a typical outlet set up cost of £500,000 and land costs could add a further £200,000 to each unit. Thirty outlets would require a £21m investment while building 70 KFCs would cost up to £49m. Not

including the cost of a major advertising and marketing campaign. However, KFC have committed to the rollout and are confident in its success.

6.19 THE LATEST DEVELOPMENTS IN THE FAST FOOD/QSR INDUSTRY

The fast food/QSR industry, over recent years, has become dominated by a few large firms. There is a shared view amongst operators in the market that Ireland's population of 4.6 million (2011 Census), there is a market saturation point of between 70-100 outlets per brand. In terms of potential new industry entrants, the single biggest problem has been available retail space, which is slightly easier to obtain during the current recession. Assessing why franchising works so well in fast food/QSR, the resounding two key elements are good margins and branding. It is important to note that consumers choose to differentiate between a Burger King burger and a McDonald's burger which are fundamentally similar products. This perceived differentiation is a testament to the huge influence branding has on this industry. In addition to branding, the product quality and value is very important and the total franchise package appears to work because there are high margins associated with fast food/QSR products sold which contribute to high profits. The fast food/QSR industry came under increased pressure in 2011/2012 with operators competing on value menus and reduced price promotional offers, in addition to the introduction of wider product ranges. Meanwhile reduced disposable incomes continued to have a negative impact on consumer spending. During 2012, consumers further restricted spending as concerns over Ireland's economy escalated. It appears that Irish tastes and preferences have begun to move away from fast food, which is considered to be less healthy than other food types. However a look at the global picture shows growth in regions such as Latin American and Asian in fast food/QSR. In these regions, consumers perceive the fast food/QSR offering as relatively healthy.

Ireland's economic downturn is continuing into 2011/2012, with no sign of abating. If anything, as 2011/2012 progressed, the situation worsened as the full extent of the banking crisis became evident and the government floundered under increasing pressure from a disgruntled population, opposition parties and the EU. Consumer food service operators were not immune to the crisis, as consumers continued to reduce discretionary spending as a result of lower disposable incomes. Businesses continued to suffer high operating costs which further squeezed profit margins, with approximately 80 per cent of restaurants running at a loss. For many operators, 2011 and 2012 have been about adjusting to a new operating environment and accepting that fundamental changes had taken place within the market that will have implications for many years to come. Franchised chains, especially international operators, appear at first glance to be performing well in Ireland. However, on closer inspection there is some evidence that international companies are subsidising their Irish operations. With many operations currently running at a loss, subsidising is necessary to maintain outlet numbers and retain brand presence. The effect on independent operators is a continued decline in numbers as they find themselves unable to compete with the franchised chains

due to their high operating costs and reduced revenues and profitability. However, franchising continues to play an important role in the fast food/QSR industry in Ireland as witnessed by the success and brand awareness of popular brands. The success of franchising can be attributed to the strength of a national (or international) brand with the benefits of well-established local knowledge and reputation to respond to smaller local markets, allowing substantial market penetration and increased brand recognition. Today there has been considerable industry consolidation and the four industry leaders reduced to three in 2008. In 2012 McDonald's, Abrakebabra Investment Limited (AIL) and Supermacs are still industry leaders, followed closely by Burger King, Four Star Pizza and Domino's. By the end of 2012 McDonald's has been overtaken by Supermacs in terms of the number of outlets it has operating. Abrakebabra became an even greater industry leader with its acquisition of O'Brien's, and AIL as a Mulibrand has over 191 outlets (Abrakebabra 60, O'Brien's 72, Bagel Factory 42 etc). Faced with intensifying competition from the branded franchised chains the newly founded Irish Traditional Italian Chipper Association (ITICA), intend to help create a collective identity for the original industry founders, the independent traditional chippers, as they try to collectively ward off competition from the larger franchised chains.

6.20 CONCLUSION

This chapter presented an industry history of the fast food/QSR industry in Ireland. It traced the industry from its emergence pre-1900s, to the first fish and chip shops right through to the wave of international fast food/QSR entrants and the increases in the competitive landscape. The impact of franchising is addressed and the structural changes that take place once it is introduced are presented. The case follows the story of the industry through the recessionary and boom times and finishes with the overview of the industry today. The next chapter presents the industry history of the Irish real estate industry.

CHAPTER 7 CASE STUDY OF THE IRISH REAL ESTATE INDUSTRY

7.1 INTRODUCTION

This chapter presents an industry history of the Irish real estate industry from the beginning of the 1900s to the present day presenting following both firm and industry level changes over the decades in a chronological account. The historical account is based on primary and secondary data collected from the Irish real estate industry. This case study is presented as a story, tracing the industry from its emergence right through to the introduction of franchising to the present day.

7.2 IRISH REAL ESTATE INDUSTRY TODAY

The Irish real estate sector is comprised of two segments; residential and commercial property. The majority of Irish real estate agents deal with residential property sales, with only a few expert firms focusing on commercial property. In Ireland the commercial property specialists are DTZ Sherry Fitzgerald, Douglas Newman Good (DNG), Caldwell Banker, Lisney, Hooke & MacDonald, Knight Frank and MEPC.

The focus of this study is on real estate agents predominantly trading in the residential property market. There are seven leading residential real estate agents in Ireland namely; Sherry Fitzgerald, DNG, RE/MAX, Hamilton Osbourne King (HOK), Gunne, Lisney and Property Partners (a co-operative organization based in Galway comprised of independent property real estate agents). However, in recent years, Sherry Fitzgerald and DNG have emerged as the two industry leaders, with both firms claiming to hold 60 per cent of the total market share see table 7.1 below. The two firms have a nationwide presence in Ireland, and have grown using franchising as a business model SherryFitzgerald first introduced franchising to the industry in 1999 pending the imminent threat of entry from the international franchise chain RE/MAX who entered the Irish market in the same year 2004 DNG adopted franchising. Today Sherry Fitzgerald claims to hold the number one position in the industry with DNG in second position, based on sales and outlet presence. The industry consists of a large number of small independent real estate agents who have built up a reputation for themselves within their local areas. In recent years, many have become involved in co-operative or network affiliations, such as Property Partners, ERA Ireland and Property Team. These co-operative networks have helped independent real estate agents to develop collective marketing campaigns, and share market knowledge, which is vital for success in such a competitive industry.

Real Estate Brand	**Number of outlets Average Size**	**Annual Turnover 2012**
SherryFitzgerald	84 franchises & 14 company-owned	- €15.5 million loss

DNG	90 franchises	
RE/MAX	40 outlets	
Property Partners	20 franchises	
HOK (Savills)	5 outlets	
Gunne	5 outlets	
Lisney	6 outlets	

Table 7-1 Industry Leaders Number of outlets 2012

(Source: annual returns and outlet number information was obtained by contact with each company's head office)

Since the 1920s, the industry has undergone significant changes, and the number of real estate firms and agents has increased, decade by decade see table 7.2 for the industry timeline. However, in recent years, the level of industry competition has intensified dramatically. The industry and firm level growth has always been dictated by economic cycles. In recent years the sector has been adversely affected by the recent economic downturn.

1920s	1940s	1970s	1980s	1990s	2000s	2010s
4 leading firms**	3 new leaders	IAVI renamed	5 firms dominate	6 firms dominate	3 firms dominate	2 firms dominate
IAA formed	Lisney (1922)	IPAV formed	Lisney, HOK,	Lisney, HOK,	SherryFitzgerald 104*	SherryFitzgerald 98*
67 agents	HOK (1928)	Education key	SherryFitzgerald (1982)	SherryFitzgerald,	RE/MAX 80*	DNG 90*
	JacksonStops (1924)		and Gunne (1981)	Gunne, RE/MAX (1999),	PropertyPartners (2000) 60*	PropertyPartners 40*
	580 agents		DNG (1983)	& DNG	DNG 10*	RE/MAX 20*
			Mergers occur	Franchising occurs	469 total firms	Lisney 6*
					157 Dublin firms	Gunne 5*
*Number of outlets						
** The four leading firms: Battersby and Co. (1815), James H. North & Co. (1829), Ganly and Sons (1847) and James Adam and Sons (1887						

Table 7-2 Timeline of the Irish Real Estate Industry

7.3 EARLY INDUSTRY DEVELOPMENT: PRE AND POST 1920S

7.3.1 The Origins of the Real Estate Industry

Company histories show the emergence of the real estate sector in Ireland dating as far back to the beginning of the 19th century. Real estate agents (known then as auctioneering firms) have been operating in Ireland since 1815, when the first recorded real estate agent was established to conduct business. The main corpus of legislation relating to real estate can be traced back to Georgian times with the first appraiser's licenses being granted by King George III in 1806. By the 1800s an auctioneer was the individual to undertake the sale of Lands and Estates and auctions were held in coffee houses, Marts or Auction Rooms. Some of the first established real estate agents in Ireland were based in Dublin; in 1815 Battersby and Co., 1829 James H. North & Co., 1847 Ganly and Sons, and in 1887 James Adam and Sons were established. Between 1815 and 1900s these agents would have been involved in the sale of a variety of properties including large estates, breweries, distilleries, theatre/cinemas, aerodromes, factories and government buildings. Many smaller

regional real estate agents would also have been involved in selling antiques, cattle, and all manner of livestock, in addition to dead stock such as machinery and furniture. Real estate agents would also have been involved in house lettings, property management, and valuations of many items for probate, family division, loans, and mortgages etc. Historically, these regional real estate practices were passed down from generation, to generation. No formal qualifications were needed to operate as a real estate agent and the main emphasis was on mentoring and apprenticeships usually in small family-run businesses. In most provincial districts, it was very common that real estate agents were also active farmers, managing day-to-day farming duties. What emerges is a picture of a small industry with many small firms, some over 50 years old.

7.4 THE FIRST TRADE ASSOCIATION - IAA

The 20th century transformation of Irish real estate determined the industry's structure for the next century. It is around this time that the first signs of industry-level cooperation became evident with real estate agents joining the first industry trade association. The Auctioneers Association of Ireland (IAA) was established in 1922, with the purpose, of bringing a professional identity and unity as well as offering support to real estate agents in Ireland. A striking aspect of the real estate industry in Ireland has been its continuity, with family run businesses being passed down from one generation to the next. The IAA yearbook provides annual membership listings. Many of the original firms are still operating today e.g. Craigie and Ganly in Dublin, Coonan, Kildare; Marsh, Cork; Palmer, Waterford; Armstrong, Kells; McMahon, Ennis; Quirke, Clonmel; Smith, Navan etc. The IAA was focused on establishing educational standards and membership requirements for the association encouraged members to gain qualifications. In many respects, this affected entry requirements into the industry. From the outset the IAA were instrumental in driving forward the industry and influencing incumbent's business conduct. The IAA drew up a scale of fees, as guidelines, applicable to private sales, auction sales, valuations, inventories and other services – acknowledged by Government departments, courts of law and the public. In 1925 the IAA was instrumental in improving legislation relating to real estate agents' licenses, and lobbied against unqualified and unprofessional persons being allowed to act as real estate agents. The IAA disapproved of some solicitors who began placing advertisements, offering properties for sale and to let. By the late 1920s, every person, exercising or carrying out trade as a real estate agent was required to hold a license, paying the annual duty of excise of £10. Persons acting as house agents were required to take out an annual license and pay a duty of £2. Where two or more agents acted in partnership, each was required to have a separate license. At this time, entry into the major real estate firms was prestigious and young entrants regularly paid an apprenticeship fee (in the 1920s approximately £100, later rising to £300) to secure a position with a leading practice. The apprenticeship period typically lasted for three years, at the end of which membership of the IAA was sought.

7.5 A NEW ERA OF GROWTH: 1920-1940

The industry in the late 1920s was dominated by four firms all based in Dublin, Battersby and Co., James H. North & Co., Ganly and Sons, and James Adam and Sons many of which had been trading for over 100 years and were family businesses. Outside of Dublin small independent firms were operating, usually covering a particular region. At the time the IAA recorded 67 registered real estate agents throughout Ireland.

The 1920s triggered a flurry of legislation relating to lands, rents and property; including the State Lands Act 1924; the State Land Bill 1925; Land (Finance) Rules 1925; the Land Registry Rules 1926; and the Land Act 1926. Section 29 of the Land Act 1927 was of particular importance to real estate agents. It made them personally liable for all arrears due to the Land Commission on any lands let by them. These legislative developments had an enormous impact on economic activity, social change, and the housing market. Larger, more established real estate agency practices operated where population density and housing demand was greater, in the major cities and towns such as Dublin, Cork, Galway and Limerick,. In more rural areas, one agent would usually cover a number of local towns, where population density was low.

From the 1930s onwards, the Government set about providing public housing, building 5,000 dwellings in Dublin alone, between 1923 and 1930. The Government estimated that a further 18,000 new dwellings were required to meet the capital's housing problem. Reconstruction costs, covering redevelopment of buildings, at the end of the Civil War, were estimated at around £20 million. This period marked a change in home and land ownership, and a new class of homeowner was born. Agricultural lands were suddenly turned into suburban building sites. The population of Dublin and other larger towns were now showing signs of rapid increase, with manufacturers, as well as private citizens beginning to discover the drawbacks of operating in crowded central areas. By the late 1930s, land prices had risen so much that an acre worth £10 in 1926, was offered for sale at £300-£500 in 1936.

Real estate agents were quick to adapt to the changing demands of society and during the 1930s began to focus on advertising and customer service. At first, professional photographs of properties for sale would be displayed in the windows of the real estate offices. Additionally, they also began to print property listings in national newspapers. To improve customer service and sale negotiation, many real estate agents began to drive prospective purchasers to inspect a property, accompanied by one of the firm's area supervisors.

Another testament to the increase in housing demand was the growth of Building Societies, who were at the forefront of lending to the new home owners. The most significant increase in the assets of building societies occurred in the 1940s when assets grew from £1.4million to £9.5million.

7.6 INDUSTRY POWER STRUGGLE

7.6.1 Real Estate Agents' 'New Blood'

New entrants to the real estate industry had minimal levels of regulation to adhere to, and limited start-up costs. However, they had to contend with the well-established real estate agents who had built up a brand name and reputation in their area of operation.

From the 1940s onwards, the IAA focused on education. In 1943 a six-month professional course was introduced by the City of Dublin Vocational Education Committee for aspiring real estate agents, which was taught at Bolton Street Institute of Technology. The course was based on the syllabus of the auctioneers & real estate agents Institute of the UK.

According to IAA records, real estate agent numbers doubled from 1940 to 1950 giving a total of over 500 real estate agents operating in Ireland. After the war, the sector benefited from the release of pent up demand in house sale activity. During this time the real estate industry prospered, and in addition to new firms, partnerships and mergers were taking place. By the end of the 1940s the four firms who had previously dominated the industry were swept aside and three new Dublin based firms quickly became industry leaders: Lisney's, Hamilton Osbourne King (HOK) and Jackson Stops McCabe. All three were leading with sales and employee numbers of 20 or more. The three new firms emerged as more flexible and efficient compared with the industry incumbents, and contributed to the climate for change in the sector.

7.6.2 Lisney

Lisney was founded, in 1922 as Franks & Franks. The company specialised in real estate management, and operated from offices at number 23 St Stephen's Green. In 1932, Harry Lisney took over the firm, and subsequently changed the name to, Harry Lisney & Company. At that time the business was a small valuation practice. By the 1940s the business had become one of the most highly respected estate agencies in Ireland. In 1964 there were a total of 30 employees and the company later moved to the larger premises at No. 24 St. Stephens Green.

7.6.3 Hamilton Osborne King

In the late 1920s Osborne King & Megan, was a commercial property consultancy firm, based in Belfast, associated with a UK private partnership of chartered surveyors. It was among the oldest firms of its kind in Ireland. Hamilton Osborne King was founded in 1942, under the name of Hamilton & Hamilton and located at No. 17 Dawson Street. In 1947, James Osborne King took over his father's firm and formed Osborne King and Megan with Jervis Megan. The company offered a full range of property services to both public and private sectors. Known mostly for its public sector work and contracts in defence, county councils, government offices and educational

facilities. Over the years, the firm has changed names frequently e.g. Osborne King & Megan, J Trevor & Sons, Hamilton Osborne King & Osborne King.

7.6.4 Jackson Stops & McCabe

In 1908, at the age of 24, Herbert Jackson-Stops opened an office in Towcester Town Hall, a village in the UK. Initially Jackson-Stops practiced as an auctioneer, holding weekly livestock auctions. In 1924, he decided to open an office in London's Mayfair, not satisfied with expanding in the UK, Jackson-Stops had a desire to develop an international business. Two of his London team, John McCabe and Owen Sebag Montefoire established an associate firm in Dublin called Jackson-Stops & McCabe. They operated at No. 35 Kildare Street, Dublin 2. The two businesses never had a written agreement and continued to have a close co-operative relationship.

7.7 PROSPEROUS TIMES: INDUSTRY GROWTH 1950-1970

Between 1954-1961 fundamental changes took place, influenced mainly by a shift in national economic policy from protectionism to export-led growth, promoting increased industry competition and efficiency. During the 1950s the Irish pace of life quickened discernibly. A post-war building drive led to cities expanding their boundaries into the rural countryside. Dublin led the way, with its peripheral expansion continuing from Howth to Killiney. The Government helped foster economic growth, leading to increased prosperity and increased demand for residential housing and commercial property. Public and private housing areas developed separately, driving an invisible social wedge between the classes. Residential flats and office buildings were now beginning to be viewed as lucrative property investments, and white collar employment, such as office jobs, rose to 40 per cent in 1960s. Therefore Ireland entered the 1960s, looking forward to more prosperous times.

7.7.1 Property Boom

The 1960s marked a period of economic expansion after years of static growth, leading to Ireland's first ever 'property boom'. In terms of industry structure things remained stable with Lisney, HOK and Jackson Stops McCabe continuing to lead the industry. A steady stream of new entrants into the industry was sustained but none making any significant impact. Demand for housing continued as rural workers moved to the cities in search of new opportunities and urban populations grew more rapidly. As a result, between 1961 and 1971 employment in agriculture fell by 28 per cent. A more affluent society provided opportunities for new retail developments as international influences began to percolate through to Irish consumers. By the end of the decade, two property companies were quoted on the ISEQ, namely Associated Properties and Dublin Artisan Dwellings.

Strategies promoting economic expansion and urban development rejuvenated the building and property sectors. Regional development stimulated considerable commercial building activity,

while tax incentives encouraged private sector housing and commercial development. All of this spurred growth in the real estate industry. The 1963 Planning & Development Act was a major landmark, laying the foundations for the modern commercial property industry in Ireland. As a result, a new office property era dawned in Dublin and demand for industrial space rose significantly. Purpose built office blocks, commercial investment properties, and the wider availability of development finance, presented unprecedented challenges, together with corresponding opportunities. In 1966 the Stillorgan Shopping Centre was built. It was the first planned suburban shopping development in the Republic and cost £1.5m to build. The project was managed by the commercial property firm MEPC. During the period 1966-1990, 51 planned shopping developments opened for trade in Dublin alone. Three new suburban towns were also created in West Dublin – Tallaght, Blanchardstown and Clondalkin. These were intended to rehouse and improve the lives of inner city dwellers. However, in many cases, they merely transplanted social problems into suburban ghettos.

As a result of all of these developments new commercial property agents began to emerge and some incumbents set up commercial property subsidiaries or departments within their organisations to capitalize on such growth. Numbers of residential property real estate also began setting up offices and some located in the newly developed West Dublin to aid the selling of properties in this locale. Independent real estate agents numbers continued to rise and during the 1960s reached the 1,000 mark according to the IAA records.

7.7.2 Building Societies

Building societies also grew to become a major force in the 1960s and 1970s. Building societies operated as financial institutions, owned by their members. They offered banking and related financial services, specialising in mortgage lending. In 1989 the introduction of the Building Societies Act, which granted the building societies the power to engage in banking transactions, dramatically changed their status by allowing them to extend credit for non-housing purposes and provide payment facilities and a wide range of financial services.

The term 'building society' first arose in the 18th century in Great Britain, from cooperative savings groups. Five Building Societies, in particular became prominent in the Irish mortgage lending sector, these were Irish Nationwide Building Society, First Active, Irish Permanent, EBS Building Society, ICS Building Society and Irish Life Building Society.

Irish Nationwide Building Society, established in 1873, was one of Ireland's oldest financial institutions and was originally called the Irish Industrial Building Society. In 1975, it had just five staff and changed its name to Irish Nationwide Building Society. First Active was founded in Dublin in 1861 as the Workingman's Benefit Building Society, by a small group of skilled

tradesmen. The Society's members, many of whom were railway workers, subscribed for shares, and their regular deposits were used to make house purchase loans. In 1875, when the Society had more than 200 members, it was incorporated under the Building Societies Act 1874. In 2003 First Active plc, Ireland's oldest building society, was acquired by Ulster bank and continued to operate as a separate brand. Irish Permanent, founded as the Irish Temperance Permanent Benefit Building Society established in 1884, changed its name to Irish Permanent Building Society in 1940. EBS Building Society, was founded in 1935 by teachers to provide affordable housing finance for teachers and other civil servants. ICS Building Society first opened for subscriptions on June 2nd 1864 gaining a reputation for financial strength, customer service and innovation. In 1984 ICS became part of Bank of Ireland Group. ICS Building Society launched the first Mortgage Store in 1989, with the opening of their Grafton Street premises. The objective of the store was to provide a fresh alternative to the traditional mortgage experience offered by banks and building societies. In 1939 Irish Life Assurance incorporated was established, as part of the amalgamation of nine British and Irish life assurance companies. The Minister for Finance held 18 per cent of the shares of the company, and in 1979 it rebranded as the Irish Life Building Society.

With Building Societies offering mortgages and finance for property purchases and property investment, this fuelled the demand for properties for sale. These developments significantly influenced the competitiveness of the Irish real estate industry.

7.8 INDUSTRY EXPANSION – BRANDING AND OPERATIONAL EFFICIENCY

From the early 1960s, the range of real estate agents services increased, the differences between real estate agents blurred, and profit margins within the industry compressed, thus reducing the barriers to entry and increasing competition. During the 1960s, economic growth paved the way for real estate agents to grow and prosper, particularly in the Dublin region. New office blocks, suburban Shopping Centres, and satellite towns, were being developed. With the increase in housing demand and supply, real estate agents services were in demand more than ever before. To differentiate themselves in an increasingly competitive landscape, they needed to focus on building a reputation and brand, marketing their services, listing properties, and improving customer service. Many of the agents who were established before the 1950s began to witness enormous growth and needed to respond quickly to capture this demand. Change was predominately centred in the Dublin area. In the regional areas one agent covering a few small towns, remained largely unchanged.

7.9 INDUSTRY CONSOLIDATION: 1970-1980

In 1970, the IAA increased membership requirements, allowing entry only to those with a recognised qualification. As a result of the IAVI's restrictions, a new trade association called the IPAV (the Institute of Professional Auctioneers, Valuers and Livestock Salesmen) was formed in

1971. This was specifically set up for non-IAA members, and was, subsequently renamed, the Institute of Professional Auctioneers and Valuers (IPAV). Its membership comprised of smaller real estate agents in rural locations. As a consequence of the IPAV's formation in 1971, The IAA was renamed the IAVI - Irish Auctioneers and Valuers Institute with 698 members and 47 students. The Dublin-based Lisney, HOK and Jackson Stops McCabe were still leading the industry in terms of sales and market share with the rest of the industry represented by small geographically spread independent estate agents. Changes in the industry since the 1940s had not been dramatic, with firms developing their service offerings and consolidating their positions. Despite entries and exits the basic methods of trading remained the same.

7.10 REGULATION – GROWING CONCERN

In 1973 The National Prices Commission conducted a study, investigating the charges accruing to the real estate profession. The report was opposed by both the IPAV and the IAVI. The report compiled a full list of licensed real estate agents; it revealed that there were a total of 1,649 real estate licenses granted with 139 licenses in Dublin 1 & 2 districts. This figure having grown steadily since the 1950s directly reflected the upturn in the economy, in addition to the lucrative level of fees charged at the time. Not all licensed real estate agents dealt in property; some were dealers in livestock or food. To obtain a real estate license, an annual excise duty of £10 was required, as well as an insurance bond. The report identified the three main ways to sell a property in Ireland: by auction, by private treaty or by tender. The report noted that the presence of a high number of auction sales was unique in Ireland. At the time 50 per cent of Dublin residential properties were sold by auction.

However, stamp duty, a major government duty, was about to be introduced. This would prove to be disadvantageous for real estate agents. A period of heated debate followed with a spotlight being shone on the industry, specifically real estate agents, their prices and overall professionalism. It was a time when numbers grew in the industry's trade associations and it appeared that real estate agents valued the work the associations had achieved in managing the industry's public relations.

7.11 RECESSION: NEW FOCUS – IMAGE, BRANDING AND EFFICIENCY

The 1980s was a period when the property market plummeted. The period brought many entries, exits and acquisitions. A number of established players grew through acquisitions and new ventures, creating the need for more professional management. Recession ensued from 1981-1985, and brought with it emigration. As a result there was a flood of second-hand housing on the market and a diminishing demand for new housing. The Economist magazine in 1988, called Ireland the 'Poorest of the Rich'. The average house price at this time was IR£50,000 in a contracting property market.

For the first time since the 1940s the real estate industry was to undergo dramatic change. The recession had an adverse effect on the real estate industry. Many real estate agents closed down and ceased to trade. A number of key mergers and acquisitions occurred in order to pool resources, spread costs, and create brand awareness as a method of survival. A merger resulting in the formation of Hamilton Osbourne King (HOK) took place. At the time HOK, Lisney and Jackson-Stops McCabe, were still the leaders in the industry. However, during the early 1980s three new entrants to the industry were about to change industry dynamics and become the new generation of leaders. Gunne (1981), Sherry Fitzgerald (1982) and Douglas Newman Good (DNG) (1983) were established, and emerged as a new breed of real estate agents, highly ambitious, focused on growth with a new survival tactic, capturing economies of scale with nationwide expansion. By the end of the 1980s competition in the real estate industry was high. There was a distinct increased emphasis on firm branding and marketing by the new entrants that dramatically altered the industry's playing field. Marketing and promotional expenditure in the industry, across all three leading firms, totalled £15 million in 1988; this constituted an enormous amount for advertising at that time, not previously witnessed.

7.12 EMERGENCE OF A FEW DOMINATING FIRMS: 1980-1990

7.12.1 Increasing Competition

In the 1980s efforts to differentiate from the competition resulted in firm level investment in developing stronger brands and market identities and a new breed of entrants appeared to set the pace in terms of this development.

7.12.2 Gunne Founded 1981

Gunne was originally established in Monaghan in 1950 by P.B. Gunne. He operated a successful cattle market business, and expanded into Carrickmacross in 1956. Widening his horizons into real estate, Gunne opened a branch in Dundalk in 1964. It wasn't until 1981 that Gunne opened in Dublin. By 1987, the firm had established itself as a competitive force, as a nationally operating real estate agency. Within fifteen years the company ranked in the top four estate agencies in the country.

7.12.3 Sherry Fitzgerald Founded 1982

In 1982 two companies amalgamated, FitzGerald & Partners (founded in 1972) and Sherry & Sons (founded in 1949). During this difficult economic decade, the company recruited a team of young property professionals, with a gender-balanced business philosophy. Sherry Fitzgerald's business opened a second branch in 1989, in Terenure, Dublin. The firm targeted the middle market in residential sales, becoming successful in the early 1990s as the housing market prospered. They opened eight new branches across Dublin (Drumcondra, Dun Laoghaire, Dundrum, Sutton, Bray, Lucan, Killester and Templeogue). Moreover, in 1992, Sherry Fitzgerald launched their Dublin

house price index, and became the first entity outside of the Department of the Environment to provide any coherent house price information to the general public. In 1998 Sherry Fitzgerald, opened its first branch outside Dublin, in Galway, and in the same year launched one of the first property websites, SherryFitz.ie. Sherry Fitzgerald, formed a joint venture with the global property advisory firm DTZ Holdings, and became DTZ Sherry Fitzgerald. At its peak in the late 1990s DTZ Sherry Fitzgerald had over 150 employees.

7.12.4 Douglas Newman Good (DNG) Founded 1983

Douglas Newman Good (DNG) was founded in 1983, and initially focused on the Dublin market. The company grew quickly and became the largest sellers of residential property in the Greater Dublin area, with 20 per cent of the market share.

7.12.5 Hamilton Osborne King (HOK)

In 1987 two of the largest real estate firms – Hamilton & Hamilton and Osborne King and Megran merged to form Hamilton Osborne King. The newly merged agency, HOK, grew and expanded rapidly with a focus on selling large country estates and auctioning the contents of these houses, including furniture and paintings.

7.13 THE END OF THE 1980S RECESSION – 1990 ONWARDS

In 1989 the Building Societies Act, authorized building societies to extend their product range thus allowing them to compete more effectively with the banking industry. As a result, lending for home ownership and property investment became more widely available. The 1990s brought with it the emergence of franchising as a growth model for a number of industry incumbents. Overall the industry witnessed a few large firms who began to dominate and competition amongst independent real estate agents increased. International real estate agents began to enter the market as a property boom began. The population of Ireland had increased to a total of 3.6 million, with unemployment at an all-time low. Population density changed, with more people moving back into Dublin's City Centre. The new Dublin road network had a significant impact on residential housing and increased the demand for housing in the west of Dublin city. By the end of the 1980s and the beginning of the 1990s five Dublin based firms strengthened their positions as leaders in the industry: Lisney, HOK, Gunne, SherryFitzgerald and DNG.

The 1990s saw over four-fifths of Irish households living in owner-occupied accommodation, one of the highest rates in the world. The Economist in late 1997 published an article: 'The Celtic Tiger: Europe's shining light'. By the end of 1997, the average home price had jumped to over €93,000 (from €50,000 in 1988). A total of 30,575 new houses were completed during 1995, almost double the 1988 level, with many suburban houses selling from £1 to £3 million. Hooke & MacDonald, already successful in commercial property (established in 1967 and headed by Ken

MacDonald), was the first estate agency to specialise in apartment sales, thus carving out a lucrative company niche. Additionally, during the 1990s the Irish populace became aware of investment opportunities, buying and selling property abroad. Thus property investment, both domestic and foreign, began on a large scale. Moreover, the government introduced property investment legislation with Section 23 and Section 29, which encouraged such investment. Another initiative driven by the Irish Government which stimulated industry and employment and encouraged international financial firms to locate to the newly developed Irish Financial Services Centre (IFSC) in Dublin's city centre. In 1996 it was acclaimed as the fastest growing Off-Shore Fund Centre in Europe, with some 400 companies located there.

During this time Information Technology became important to the real estate industry. The leading, Dublin based real estate agents began adopting IT systems and developing their own company websites. The first Irish property sold having been featured on the internet was by Hamilton Osbourne King in 1996. This technology utilization would change the face of real estate forever, in terms of increasing operating efficiencies and consumer access to property information. Many older regional firms were to be left behind in terms of technology adoption and it was a race to see who would lead in terms of internet adoption and exposure. Three of the industry's leading firms believed that the internet was the way forward. To such an extent that they bought into what would be the first successful Irish property listings website, www.myhome.ie (which at its peak had over 8,500 real estate agents listing properties). The main stakeholders were SherryFitzgerald (23.5 per cent stake), Gunne (19 per cent) and DNG (19 per cent) and the AIB Group (18 per cent stake) with CEO Jim Miley owning 10 per cent of the website. Myhome.ie would ultimately be sold in 2006 to the Irish Times for €50 million.

7.14 INDUSTRY COMPETITION INCREASES

By 1995 the number of Irish real estate firms was reaching over 300 nationwide. The industry was changing once again, with increased market growth and increased residential sales this encouraged new entrants into the industry and in particular international competitors were attracted to the Irish market. The number of real estate agents expanded considerably, but mostly at the smaller end of the scale. Unambiguous statistics on changes since the early 1980s are not available, but information from industry sources suggests that the number of firms changed substantially since the 1980s. While turnovers would undoubtedly have increased, size distribution would be unlikely to have changed since then.

From 1995 onwards the housing boom resulted in an unprecedented increase in apartment developments. In 1996, according to The Irish Times, the four biggest Dublin residential sales agencies were Sherry Fitzgerald, DNG, HOK and Gunne, handling 71 per cent of the 1,221 auctions for that year. The top five firms in the late 1990s, according to Business & Finance were,

in alphabetical order: Gunne, Hamiltion Osbourne King, Jones Lang Wooton, Lisney and Sherry FitzgeraldGerald. Each of these firms also operated substantial commercial property operations. However, Jones Lang Wooton claimed to be the only specialist firm, involved exclusively in commercial property. In 1996 The Property Valuer magazine stated:

> *'In agency terms the market has undoubtedly become more competitive, though the names of the key firms have changed little. Some medium sized firms may be finding it more difficult to prosper in an environment where specialisation is the norm for both small niche firms as well as the larger firms'.*

A study carried out by David McKenna, in the late 1990s, on the Property Service Industry (PSI) shows that, both in volume and value terms, real estate agents were disproportionately concentrated in Dublin. Small practices outside of Dublin, would find it virtually impossible to compete for property services within the Dublin region. During the property boom, real estate agents were challenged to stay informed of changing legislation and practices, as new trends were emerging. They needed to focus on creating market specialization in order to prosper in such an increasingly competitive environment.

7.15 INDUSTRY CHANGE: THE INTRODUCTION & EMERGENCE OF FRANCHISING

By the end of the 1990s five firms were leading the industry: SherryFitzgerald, DNG, Gunne, Lisney and HOK. During this time one of the most important events in the Irish real estate industry was the introduction of franchising as an organizational structure by SherryFitzgerald in 1999. SherryFitzgerald began to use franchising as a means to expand nationwide and to build a brand that would be recognizable outside of Dublin. At the same time, in 1999 the industry was exposed for the first time to international competition in the form of the American international real estate RE/MAX, which used franchising exclusively as a growth model. RE/MAX was also unique as it allowing unqualified agents set up RE/MAX real estate franchises, a practice frowned upon in Ireland, but internationally it was quite commonplace. At the time many industry sceptics, including the two trade associations, questioned whether franchising was appropriate for the Irish real estate industry, but no-one could deny the success U.S. based franchise systems like RE/MAX had experienced on a global scale.

7.15.1 1999 Sherry Fitzgerald Begins to Franchise

In 1999 Sherry Fitzgerald became Ireland's first ever, property franchisor. The company's first franchisee was real estate agent McMahon Estate Agents, already operating in Ennis and Shannon. In the same year, Sherry Fitzgerald was listed on the Dublin Stock Exchange, which helped raise the required capital to pursue a national expansion strategy. Shortly after flotation, the Group acquired the Ross McParland New Homes business, Ireland's most successful new homes specialist, later rebranded Sherry Fitzgerald New Homes. Sherry Fitzgerald also opened offices in Cork, Limerick, Castleknock and Swords.

Sherry Fitzgerald embarked upon the franchising process because they saw the potential in nationwide growth. The company had already opened offices in Galway, Limerick and Cork. In a branded market place, Sherry Fitzgerald understood that branding was a way to add value to their franchising model. The company had 15 years of brand building experience and they recognized that they could transfer their operating systems and leverage their brand nationwide. However, it became clear how important having a local real estate agent, with local knowledge, was in operating their regional branches. Customers wanted everything a big brand could give them, but they also wanted to deal with local personalities they could trust. Thus franchising as a growth strategy offered this advantage. Sherry Fitzgerald were very aware that international property franchise systems were looking to enter the booming Irish property market,

> *'we knew they (RE/MAX) were coming but we knew an Irish brand was going to win out over an international brand,' according to Triona Gorman.*

Sherry Fitzgerald believed that they had first mover advantage as customers recognized and trusted their brand and they planned to capitalize on this lead. Philip Sherry (MD of Sherry Fitzgerald) travelled throughout Ireland visiting every town looking for potential franchisees. He and his team compiled a dossier on all the possible agents, the biggest agents in each town were not necessarily their targets, and instead they wanted,

> *'Like-minded professionals with a willingness to change for the future and for the better' said, Philip Sherry (MD of Sherry Fitzgerald).*

Post market research, they could design a franchise package, and sought the expertise of an international franchise consultancy firm known as Howarth. This expert firm which helped them to draw up their franchise agreement; and also helped them understand how best to manage potential franchisees. This was an entirely new operational strategy for the company, requiring different skills and knowledge. By April 1999 the company had 11 franchisees with 13 offices. By 2007 they had reached the 100th franchisee outlet, which they believed was the saturation point in terms of the Irish market. Sherry Fitzgerald claims that they could have expanded organically, but they would not have had the capital to fully penetrate the market to the level of 100 outlets in eight years;

> *'Ultimately it just wouldn't have been cost effective to have over a hundred offices all around the country, trying to manage each office separately'.*

Sherry Fitzgerald has a strict and formalized approach to monitoring their franchisees in relation to standards of service and operations. They organized mystery shopper programs and customer service satisfaction surveys. Sherry Fitzgerald has also had a number of business development managers who would visit each franchisee regularly,

> *'To make sure the office is looking well, that they are trading properly,' says Triona Gorman.*

The company had an awards system for ranking the best performing franchisees. Some of the problems encountered in the earlier years were mostly franchisees not adhering to their branding

guidelines. One of the biggest challenges they faced was making sure all franchisees used the brand name consistency across their systems, on all promotional items, to ensure brand uniformity.

Once a franchisee had signed their franchise agreement, Sherry Fitzgerald's offered training by its full-time training and development department. The training covered all aspects relating to their property business, such as sales, marketing, strategic planning, HR and information technology systems. They were the only real estate franchisor with a HR training centre. In addition, Sherry Fitzgerald also recognized, earlier than most, that consumers were using the internet to access property information. Sherry Fitzgerald offered their clients two of the most successful property websites in Ireland, sherryFitz.ie and myhome.ie. Sherry Fitzgerald, as a franchisor, also offered property advisory services throughout Ireland, in residential, commercial and overseas markets, mortgages and investments. Additionally, they had a full-time research department which provided up to date market trends and forecasts. Franchisees benefited from this huge pool of property expertise. Furthermore, there was an international dimension to Sherry Fitzgerald, which franchisees had access to, via their commercial partner DTZ, and their property investment and fund management partner, Signature Capital. Sherry Fitzgerald's London residential business, Marsh & Parsons, also provided an opportunity to promote franchisee's properties to an audience outside Ireland.

One Sherry Fitzgerald franchisee, Sean Daly, founded his original real estate and financial services business in 1977. The directors felt that joining the Sherry Fitzgerald franchise would offer them access to a recognised brand and a property network of over 100 Sherry FitzGerald offices, in which to market their local properties. Another franchisee began trading as Rainey Estate Agents, in Letterkenny, in 1958. The founder, Dermot Rainey Snr originally operated his real estate business in conjunction with a long established furniture and hardware business. In 1980 the firm decided to concentrate exclusively on the real estate business. In 1999 the firm recognised the importance of having a link with a national brand name became a franchisee of Sherry FitzGerald. Tony Kavanagh a franchisee based in Galway says,

> *'Our intention was to continue to lead the market in Galway city, to provide a quality service and deliver real value for money to our customers. Sherry FitzGerald helped us focus on the customer and their needs'.*

7.16 1999 RE/MAX ENTERS THE IRISH MARKET

RE/MAX entered the Irish market in 1999. According to RE/MAX, branding and exceptional levels of client care have differentiated them from their competitors. In terms of branding, the RE/MAX hot air balloon logo, one of the world's 13th most recognised brand. RE/MAX Ireland was founded in 1998 by Dennis Curtin and Tamara Libbey. Dennis Curtin was the first RE/MAX franchisee in the U.S., opening his Kansas City franchise in 1975. Tamara Libbey specialized in the area of business planning, sales promotion and training and began working from the beginning.

Ireland was considered a RE/MAX region, and Mark Campbell was the Irish Regional Director based in Dublin with a support team and Franchise Sales Consultants nationwide. In 1999 RE/MAX opened its first franchise office in Wicklow and by 2000 had ten outlets located in Dublin, Kildare, Portlaoise, Limerick, Athlone and Roscommon. In 2002, RE/MAX had achieved rapid growth and had opened over 60 offices across Ireland. In 2009 RE/MAX Ireland had over 80 agents, and had a target of expanding to 120 franchisees. However the company was forced to close or amalgamate a number of its offices, as a result of the downturn in the property market due to the 2008 recession.

Initially the group began recruiting franchisees by targeting small to medium-sized Irish practices. In some cases agents approached RE/MAX directly. RE/MAX preferred that their franchisees were already operating as real estate agents, and also preferred members of recognised trade associations, either the IVAI or the IPAV, they did make exceptions to this rule. RE/MAX claimed their franchisees and Associates were the best trained, most motivated, and most client-focused in the industry. Every RE/MAX franchise office was independently owned and operated. RE/MAX representatives received mentoring, coaching, training, and technological and marketing support from RE/MAX. The company's services were always supported by 'hi-tech' sales and information systems (putting properties on a world-wide network, and including automatic language translation). The company has always invested heavily in IT and training. RE/MAX always insisted that franchisees adhered to brand uniformity and used standardized processes and procedures such as letter and contract templates. The cost of buying a RE/MAX franchise was €10,000 for a rural firm, and €15,000 for an urban firm. RE/MAX operated on the basis that each franchise office would cost €10,000 and that 10 real estate agents could rent a desk, splitting the overhead costs between them. RE/MAX franchisees would work on 9 per cent of commission income. According to Mark Campbell he believed that,

'we were the ones with a real franchise system in Ireland'.

RE/MAX always tried to help franchisees build a business. Some individuals who became RE/MAX franchisees, were not qualified real estate agents,

'we had everybody from bank managers to school teachers.'

John Fogarty, a franchisee with offices in Waterford, Tramore and Carlow previously traded as part of the Property Partners group believed that new franchisees would come from independent small firms operating in both cities and towns. He cited branding as the reason for becoming a RE/MAX franchisee.

'RE/MAX's cost model allowed them to operate on a lower cost base than an independent office', said John Fogarty.

Fogarty said he had already had several approaches about joining from independent agents as well as some presently in a group practice.

7.16.1 Property Partners Founded in 2000

As a result of increased competition in the industry, Property Partners was established in 2000 as a co-operative of National Property Consultants. They claimed to provide an unrivalled service, by utilising the strength of their network of offices throughout Ireland. Each office, within the co-op, would run as an independent real estate agency, yet would benefit from a pool of property information, marketing collateral, and nationwide reach. The affiliated agents promote the Property Partners brand and represent professionalism and quality of service. This is backed by a strict code of practice, bespoke property marketing tools and service excellence. With 150 property professionals nationwide, Property Partners have their head office located in Galway. The co-op has always been recognised as a leading player in the Irish property market. Continuously offering professional development programmes to monitor and enhance their service levels, and the skills of all their negotiators.

7.17 EMERGENCE OF THE CELTIC TIGER

The late 1990s saw the beginnings of the Irish economic boom referred to as the 'Celtic Tiger', which was fuelled by an unprecedented property boom. Established agents prospered and grew quickly, and new entrants were vying to enter into the profitable market. Competition increased amongst the industry leaders: Sherry Fitzgerald, DNG, HOK, RE/MAX, Lisney and Gunne. The industry had been transformed. These industry leaders had propelled it to higher levels of efficiency and professionalism, and many of the older players had been relegated to a significantly reduced market share. Up until the emergence of franchising in 1999, most real estate agents had traded in their local area, building up a local client base. After the introduction of franchising, the Dublin based operators began to focus on national growth. Franchising was the favoured growth model for both Sherry Fitzgerald and RE/MAX. It offered branding, operational efficiencies, and was a successful growth accelerator in what was a highly competitive industry. Franchising could accomplish company growth, at a fast pace, and with maximum brand impact. In 2000, according to Business and Finance, the top real estate agents and spenders, in press advertising were Sherry Fitzgerald IR£8,419,990, DNG IR£1,782,980 and HOK IR£5003,460 (Source IAPI Advertising Spend).

However, there were a number of key differences in the real estate adoption of the franchise model. Firstly, the majority of their franchisees were mostly conversions of existing real estate businesses, rather than new startups. RE/MAX, however had initially recruited both qualified and unqualified real estate agents. Secondly, the franchisor's brand name could be used alongside the established franchisee's trading name. Finally franchisees were able to offer 'Speed to Market' and 'Superior Service Delivery' by replicating franchisor methods in every transaction, such as, standard signage, accounting systems, client relationship management and data management.

One issue arising at this time was the increasing tension between the trade associations and the franchise systems. The IAVI initially disapproved of RE/MAX's entry into Ireland, objecting to unqualified agents becoming real estate franchisees under the RE/MAX brand. The IAVI began lobbying for government intervention, in the form of increased industry regulation. This would take another ten years to occur.

7.18 MANAGING NEW CHALLENGES

By the mid-2000s it was clear that in order to compete and secure a leading position in the real estate industry, firms would have to focus more on creating efficiencies and also concentrate on building their brands. The industry leaders were lean and competitive, finding opportunities in the nationwide expansions, brand building and the complacency of incumbents. The older incumbents faced serious problems, including a diminished position in the industry, poor brand and reputational image, and obsolete technology usage. Specialists emerged to serve both residential and commercial customer categories, with further specialization in the residential sector between sales and rental, and apartment and house categories.

7.18.1 2004 DNG Begins to Franchise

The Douglas Newman Good (DNG) Group adopted franchising much later than their competitors. Founded in 1983, the company had consistently been the largest residential property agency in the Greater Dublin area. In 2004 the company embarked on a franchise-lead growth strategy, and within a short period of time had become the second largest franchise network in Ireland, second only to Sherry Fitzgerald. DNG rebranded and became DNG Nationwide and initiated a national franchise expansion strategy. By 2007, the company had 88 branded offices nationwide, supported by teams of marketing, technology and property specialists. DNG franchise system focused on providing a first class service, by ensuring stringent standards, professionalism & expertise – qualities that DNG claimed all their nationwide franchisees possessed. The company had ambitions to grow rapidly, but had difficulty achieving organic growth. According to CEO Keith Lowe,

> *'We realised we had to franchise to help us grow quickly because if we didn't, we believed we would get left behind and our competitors would pass us out'.*

In 2004 DNG believed that franchising was the appropriate method of national growth. They were eager to compete with Sherry Fitzgerald, the largest franchise operator in the real estate industry. In 2004 DNG's aim was to overtake Sherry Fitzgerald as the number one leader in Ireland. At the time Sherry Fitzgerald had 90 offices nationally. Property Partners at that time occupied the number two spot, with nearly 70 branches. In 2005 DNG CEO Keith Lowe, had sales of over €2bn that year. Even before adopting franchising, DNG's business had been increasing by 15 per cent through its Dublin offices, indicating a very buoyant market. During this period the company also spent heavily on advertising, marketing and branding. DNG always supported their franchisees' businesses by working closely with them on branding, administration systems, local marketing advice and human resource training. One of the key competitive advantages they could offer their

franchisees was access to a strategic alliance with GMC Nationwide, the second largest mortgage retail broker in Ireland. This helped their franchisees develop mortgage income for their businesses. Franchisees, also had access to DNG sales and management training programs as well as DNG's Property Research Department. In terms of branding, the company focused heavily on developing a website, media and print tools to drive the brand forward. DNG approached a franchising expert Michael Glynn, who had helped Sherry Fitzgerald establish their franchising network. Glynn was happy to oversee technology investment and mortgage marketing. DNG senior partner Tony Forte oversaw the franchisee recruitment and management side of the operation. However, when converting agents to the DNG brand, the most successful number one and two agents were already operating for the competition. This was a disadvantage to DNG's late adoption of franchising. During a franchisees' initial set-up stage, DNG provided shop design and planning support, through their creative agency. The DNG operational support manual outlined everything a franchisee needed to know, from start up through to staff training, sales and negotiation, customer care management, team leadership and information technology. DNG had a training consultant with ten years of property training experience, and franchisees were invited to attend business and property training courses on a regular basis. DNG also made considerable investments in its IT systems. All aspects of the sales process were automated using a system called 'Property Selector' (similar to a Client Relationship Management (CRM) system), to manage data from client's details, client meetings, property valuations, advertising budgets and fees that might have been discussed with the client. The brochure production system was also automated and used information from the system generating webpages. The strength of this system lies in the fact that it enabled the operator to extract all kinds of information instantly. Data from each branch was uploaded nightly to the firm's head office.

In 2004 DNG already had 20 company-owned branches in the Greater Dublin area, and by 2007 had 65 franchise offices throughout the country. By 2007, DNG had earned over €2 billion in turnover. DNG always supported the trade associations IAVI and IPAV, and its franchisees were members of both. DNG knew their rival, Sherry Fitzgerald, were the larger franchise operator. However DNG have always had the largest Dublin presence, with Sherry Fitzgerald having the larger nationwide presence. In fact DNG claimed that, Sherry Fitzgerald had been diluting their own market, as within each of their regions had three or four franchisees operating beside each other. In 2005 Thomas Reid joined DNG as a franchisee:

'I was delighted to join one of the leading property franchises in the country.

Reid's Waterford-based estate agency was already firmly established as one of the leading providers of property sales advice and services in Waterford. Reid suggested being part of a larger organisation would only serve to improve his business. The opportunity to join with other equally well placed and respected estate agents across the country would further enhance his offering to

clients while still utilising his firm's local knowledge and expertise. Another franchisee based in Cork stated that the benefits of joining DNG were branding and expertise,

> *'the DNG nationwide franchise network and its customers benefit from significant national and local 'board' presence and selling expertise unsurpassed in Ireland.*

7.19 THE EMERGENCE OF TWO INDUSTRY LEADERS

From 2003 onwards, enormous changes were happening in the Irish real estate industry. Ireland was still in the throes of an economic boom, and competition was increasing with seven major real estate agents: Sherry Fitzgerald, Douglas Newman Good (DNG), Hamilton Osbourne King (HOK), Gunne, Lisney, Property Partners (Co-op) and RE/MAX dominating the industry. Sherry Fitzgerald and RE/MAX had been the two market leaders but in 2004 another firm would compete and vie for joint industry leadership with Sherry Fitzgerald. Douglas Newman Good (DNG) adopted a franchise model, to compete with Sherry Fitzgerald and RE/MAX, as well as the smaller quasi-groupings such as Property Partners and ERA (Real Estate Alliance) and Property Team, all nationwide co-op networks. By 2004 Sherry Fitzgerald had 90 franchised outlets, RE/MAX had 80 franchisees, Property Partners and ERA and Property Team in total had approximately 60 offices see table 7.3 below. By 2004 DNG had 16 Dublin offices and 25 franchised outlets.

Real Estate Brand	**Number of outlets**
SherryFitzgerald	90 franchises and 14 company owned
RE/MAX	80 franchises
DNG	10 franchised and 16 company owned
Property Partners and Property Team	60 franchises

Table 7-3 Real Estate Agents' Number of Oulets 2004

(Source: annual returns and outlet number information was obtained by contact with each company's head office)

7.20 FRANCHISING A POSSIBLE THREAT TO THE TRADE ASSOCIATIONS?

Initially it would appear that the industry's trade associations viewed franchising as being almost a competitive threat to their existence. However, on closer inspection, this was a more complex issue. The IAVI's CEO claimed,

> *'We were facing the challenge, of franchising, and some were saying the institute should have been offering services that franchisors were offering'.*

However by 2005 the IAVI supported both Sherry Fitzgerald and DNG who complied with industry regulations. Moreover, both franchise systems helped to set and maintain high standards of professional practice and conduct, and most of their franchisees were either IAVI or IPAV members. However, the IAVI objected to the RE/MAX model of franchising, as unqualified and unregulated agents were allowed to operate. In some cases, a RE/MAX agent might have two jobs, only working part time as a real estate agent. But the trade association's main issue related to US

franchise's operating procedures, which conflicted with Irish national licensing laws. In certain cases some agents had been obliged, under their franchise contract, to act contrary to Irish agency/contract law.

7.21 GOVERNMENT INTERVENTION

7.21.1 The New Regulatory Environment

In line with increasing industry regulation and greater attention to ethical issues, the two industry trade associations introduced an industry-wide voluntary code of conduct. In 2005 the Auctioneering/Estate Agency Review Group was set up to assess and report on the real estate industry. Under the review, the two main Property Services Providers (PSPs) classifications were agency and professional services (including valuations and property management). The property services industry was defined as consisting of the member firms of the IAVI, IPAV and the Society of Chartered Surveyors (SCS). In 2004, the number of real estate licenses was 2,103. A total of 469 real estate and surveying firms in Ireland, with 157 practices located in Dublin and 312 located outside of Dublin. In 2004 the SCS had 205 members, the IAVI had 788 members, and the IPAV had a membership of 200 working in the industry. The number of firms under this umbrella principally described themselves as real estate agents, auctioneers, valuers, surveyors, and property consultants. The conditions for obtaining a real estate license were certification of qualification, stating that the candidate was of sound character, a lodgement of €10,000 deposit to the High Court, a tax clearance cert from the tax office, and the license to be taken up within 28 days of receipt of deposit from the High Court. In 2004 a total of 2,500 people were employed in Irish property services. The majority of firms had only one outlet, fewer than ten staff and an output of less than €100,000 per annum. With 87 per cent earning less than €250,000 and only a handful earning, in excess of £1 million. In terms of foreign entrants into the industry, the majority of companies were found to be Irish-owned with less than 2 per cent originating outside of Ireland. In ownership terms, the industry was a mix of partnerships, limited companies and sole traders. According to the review, housing in Ireland totalled 1,406,000 dwellings in 2004. The Irish population maintained a preference for home ownership, and this coupled with other factors, increased demand for property. In 2004 the Irish property market witnessed the delivery of record house completions, totalling 76,954 houses. As a result of the review the National Property Services Regulatory Authority was established in 2005 as a regulatory authority, to underpin a new regulatory framework governing the auctioneer/real estate sector. The Authority aimed to achieve uniformity and transparency in licensing, regulation and the provision of information for the public. Thus Auctioneers, Real Estate agents, Letting agents and Property Management agents would all be regulated by the new Authority.

7.22 THE PROPERTY BUBBLE BURSTS

The Irish property bubble began in 2000 and peaked in 2006. According to the Economist, by 2006, the average price had soared to €311,000 (from €50,000 in 1988 and €93,000 in 1997). However, by September 2009 average prices were down to €232,500 and were continuing to fall. The economy slowed and large numbers of migrant workers, previously employed in construction and hospitality sectors, began returning home. This lowered demand for rental properties, leaving lower returns and high inventories. Rent prices fell by up to 30 per cent. Many property developers went bust, leaving newly built developments vacant or half built. Lending to builders and developers had comprised roughly 28 per cent of all banks' lending which left the banking system unstable as Banks were calling in loans and developers were going into receivership.

7.23 INDUSTRY COMPETITION: NEW STRUCTURE

Ireland's economic bubble burst during 2008. By the second quarter of 2012, house prices had fallen by 35 per cent, compared with the second quarter of 2007, and the number of housing loans approved, fell by 73 per cent. The fall in domestic and commercial property prices contributed to the Irish banking crisis. As of first quarter of 2012, prices continue to fall. In 2012, of the 1200 real estate agents, approximately 470 were in franchise or quasi-franchise groupings. Although only 30 per cent of these firms had over 75 per cent of the total market share.

7.23.1 Sherry Fitzgerald 2012

In 2012, Sherry Fitzgerald had 84 franchised offices and 14 company owned offices, coupled with 14 offices in London. Sherry Fitzgerald claimed to account for over 20 per cent of the total industry market share. However, due to the economic recession, the company initiated a significant cost-cutting programme during 2008. Total staff numbers fell from 476 in 2007 to 202 in December 2012. Sherry Fitzgerald made a pre-tax loss of €15.5 million in 2008, a year it described as *'exceptionally difficult and challenging'. Turnover for 2008 was €39.97 million, down from €64.95 million the previous year, when pre-tax losses were €3.79 million'.*

7.23.2 DNG 2012

In 2012 DNG's aim was still to overtake Sherry Fitzgerald, as the number one industry leader in Ireland. In 2012 DNG had 60 offices, and Property Partners occupied the number three spot, with nearly 40 branches.

> *'Like any industry, the real estate business is consolidating,' said Lowe. 'As the big brands become stronger, it will become more difficult for the smaller operator to survive.'*

The company was spending heavily on advertising, marketing and branding. Lowe claimed that in the UK, the public perception of estate agents is unfavourable.

> *'In Ireland, there is a much more professional and ethical code to agencies, however this has changed in recent years with people allowed to open up business, with no qualifications, simply appearing in court, to get a license'.*

All DNG agents were qualified and were members of either the IAVI or IPAV. Lowe claimed than in the current downturn, having a solid reputation, a respected brand and high levels of service would help DNG to survive.

7.23.3 Property Partners 2012

The Property Partners Real Estate Group was established as an independently owned real estate group, with more than 40 offices nationwide. Founded in 2000, Property Partners was established as a co-operative of National Property Consultants. Property Partners claimed that by listening to their customers and responding to their needs, they have been able to develop their services to meet their buyers and seller's specific requirements. They claimed to provide an unrivalled service with access to the widest audience by utilising the strength of their network of offices throughout Ireland. Each office operates independently, yet benefits from a pool of property information and marketing collateral that reaches the property markets, both nationwide and abroad. Property Partners' claimed that their agents offer a brand of professionalism and quality service with a combined staff of 150 professionals nationwide. Property Partners in terms of scale is a leading player in the Irish property market. Similar to other real estate agencies Property Partners claimed to continually monitor and enhance customer service levels and strive to improve the skills of all their real estate agents through a comprehensive professional development programme.

7.23.4 RE/MAX 2012

In 2012, Waterford-based auctioneer, John Fogarty, acquired the RE/MAX Irish franchise from its American owners. His plan was to double the number of RE/MAX offices in the country to 40 over the next few years. Fogarty, had offices in Waterford, Tramore and Carlow and previously traded as part of the Property Partners group. He believed that the new franchisees would come from the smaller firms needing a big brand to help them survive the current recession.

7.24 LATEST DEVELOPMENTS IN REAL ESTATE INDUSTRY

A few key firms dominate the industry and these firms continue to operate successfully, namely Sherry Fitzgerald, Douglas Newman Good (DNG), Property Partners, Gunne, Lisney, and RE/MAX. However, Sherry Fitzgerald and DNG have forged ahead and secured their industry leadership with the largest market share of over 60 per cent between them see table 7.4 below. Therefore, branding and operational efficiencies, the cornerstones of the franchising model, have provided the bigger franchise systems with a competitive advantage over smaller independent firms.

Real Estate Brand	Outlet Number
SherryFitzgerald	98
DNG	90

Property Partners and Property Team	40
RE/MAX	20
Lisney	6
Gunne	5

Table 7-4 Industry Leaders Number of Outlets 2012

There has been a noticeable claw-back of RE/MAX franchised operations from 80 to 20 franchises. This can be attributed to both changes in industry legislation (not permitting unqualified people to act as property agents) and to the economic downturn. Another development has been the success of the co-operative, Property Partners since its formation in 2000. In 2012 the co-operative holds third place in the industry with over 40 offices nationwide.

There are indications that the government would begin to regulate the industry more heavily in the very near future and the IAVI and IPAV claim to welcome this move. The IAVI see the government as having greater powers to enforce standards that the IAVI is striving to set and maintain. The question is whether the franchising firms stand for or against the trade associations. It appears that individual franchisees independently decide which of the two trade associations they wish to join. The standards, which both trade associations appear to be upholding, are in line with the franchise systems standards. This ensures that agents are under observation and appear to have stringent operating standards, and professional codes of conduct, together with on-going internal training and development. In recent years it appears that both trade associations have become less involved in the sectors affairs.

7.25 THE TRADE ASSOCIATION MERGER - SCSI

In 2011, after six years of discussions, the IAVI and the SCS Society of Chartered Surveyors merged to form the new Society of Chartered Surveyors Ireland (SCSI). The SCSI will represent up to 4000 property and construction professionals. Its goals are:

- to enhance the brand of chartered surveyors in Ireland;
- to ensure high and uniform educational standards;
- to produce a higher and clearer profile of the profession;
- to enhance and augment services and the pooling of resources.

The merging of the two trade associations was especially significant in light of the economic crisis since 2008. The move was anticipated to produce a substantial saving of administration costs, as well as the ability to offer joint education programmes. As a result of this amalgamation, the IPAV will be the only other representative body for real estate agents and auctioneers in Ireland. Current opinion is that the industry has already consolidated and further consolidation may be accelerated by the economic downturn. It is evident that there are currently two leading firms in the industry,

DNG and Sherry Fitzgerald, both of which are franchise systems who the co-operative Property Partners in third position. The majority of industry incumbents are small independent real estate agents operating in their local region, similar to their industry founders over 100 years ago.

7.26 CONCLUSION

This chapter presented an industry history of the real estate industry in Ireland see table 7.5 below for industry timeline. It chronicled the industry from its emergence pre-1900s, to the first auctioneers right through to the wave of international new entrants and the increases in the competitive landscape. The impact of franchising is addressed and the structural changes that took place after franchising was introduced are presented. The case follows the story of the industry through the recessionary and boom times and finishes with the overview of the industry today. The next chapter presents the analysis of the two individual cases as well as the comparative case analysis.

Year	Number of Licenced Agents	Leading Firms
1921	67	Leading firms Dublin are based: James North & Co., Ganley & Sons, Battersby & Co, James Adam & Sons
1930	330	Agent and firm numbers increase
1940	340	New firms appear on the horizon. partnership and mergers begin leading firms
1949	580	Lisneys, HOK and Jackson Stops and McCabe ' – partnerships and mergers
1965	1,054 licenses	1960s real estate agents trying to differentiate themselves from the competition – branding and efficiencies become important
1970	698 * (47 students)	IAVI renamed and IPAV formed
1980	1,600 licenses	1980s staff cuts and key mergers & amalgamations to survive competition and economic downturn Four key firms dominate: Gunne, Sherry Fitzgerald and HOK, Lisney coming to fore in Dublin market and mergers to survive competition
1996	1,406 licenses	Five key firms dominate: Gunne, HOK, Jones Lang Wooton (commercial), Lisney and Sherry Fitzgerald - the five firms holding 71per cent auctions
1997	1,520	Three key firms dominate: Sherry Fitzgerald, Douglas Newman Goode (DNG), Hamilton Osbourne King

		(HOK), with Gunne, Lisney, Property Partners (Co-op) also important firms
2005	2,000	469 firms with 157 firms based in Dublin - two key firms dominate – Sherry Fitzgerald, DNG
2010	2,750	DNG and Sherry Fitzgerald dominating the market with Gunne, Lisney and HOK in the top five
2012	5,800	DNG and Sherry Fitzgerald dominating the market and Property Partners co-op in third position with Gunne, Lisney and HOK in the top six

Table 7-5 Timeline of the Real Estate Industry

CHAPTER 8 ANALYSIS – INDIVIDUAL CASE ANALYSIS

8.1 INTRODUCTION

This chapter offers a multilevel comparative case analysis, which is guided by the study's conceptual framework. The chapter opens with the description of the individual case study analysis undertaken after which the individual case analysis of the fast food/QSR industry is presented followed by the individual case analysis of the real estate industry and finally the comparative case study analysis is presented. The thematic analysis of both cases and thus the comparative analysis have been built on the individual case analysis, as detailed in the Methodology chapter.

8.2 INDIVIDUAL CASE STUDY ANALYSIS

This section looks at the nature of individual case study analysis. A chronological analysis of each individual case narrative was periodized based on the macro-environmental, industry and agency context. On this basis a timeline of each industry was created from which an individual case analysis could be carried out. The two industry histories were contextualised in respect to the economic and social context, industry level structure as well as individual and firm level perspectives. Each case study commences before franchising emerged to ensure the earliest influences are identified. Therefore, each case has been analysed in its entirety and from this the individual case patterns have been assessed thus helping to form the basis of the comparative case analysis. Furthermore the individual case analysis has highlighted comparable strategic patterns in both the fast food/QSR and real estate industries, with comparative and contrasting variations occurring around the drivers of change and specific differences occurring with relation to the impact on industry structures. The structure of this chapter closely follows the logic behind the study's conceptual framework. These common themes relating to the emergence and impact of franchising are explored following the conceptual framework for each industry (see Figure 8.1 below for the fast food/QSR industry framework) followed by a comparative conceptual framework at the end of the chapter which is a useful guide in addressing the two research sub-questions: (Q1) Why does franchising emerge – which relates to the first part of the framework and includes the macro-environmental context, the industry context and the agency effects as drivers of the emergence of franchising. (Q2) What impact does franchising have on the structural evolution of an industry - relates to the second part of the framework and refers to the outcomes of structural change once franchising has emerged and its subsequent impact.

In order to fully answer the main research question 'how does franchising impact industry evolution?' Individual case analysis was necessary in order to allow for a comparative case analysis. Using the case data the emergence of franchising was assessed and contextualised in terms of its adoption and impact on the two industries under investigation. Looking at both cases it was necessary to assess the data relating to the contextual drivers affecting each industry which

prompted the adoption of franchising at firm and then at industry level. In addition, it was important to analyse the data relating to the impact of franchising on the structural evolution of each industry.

8.3 INDIVIDUAL CASE ANALYSIS – THE FAST FOOD/QSR INDUSTRY

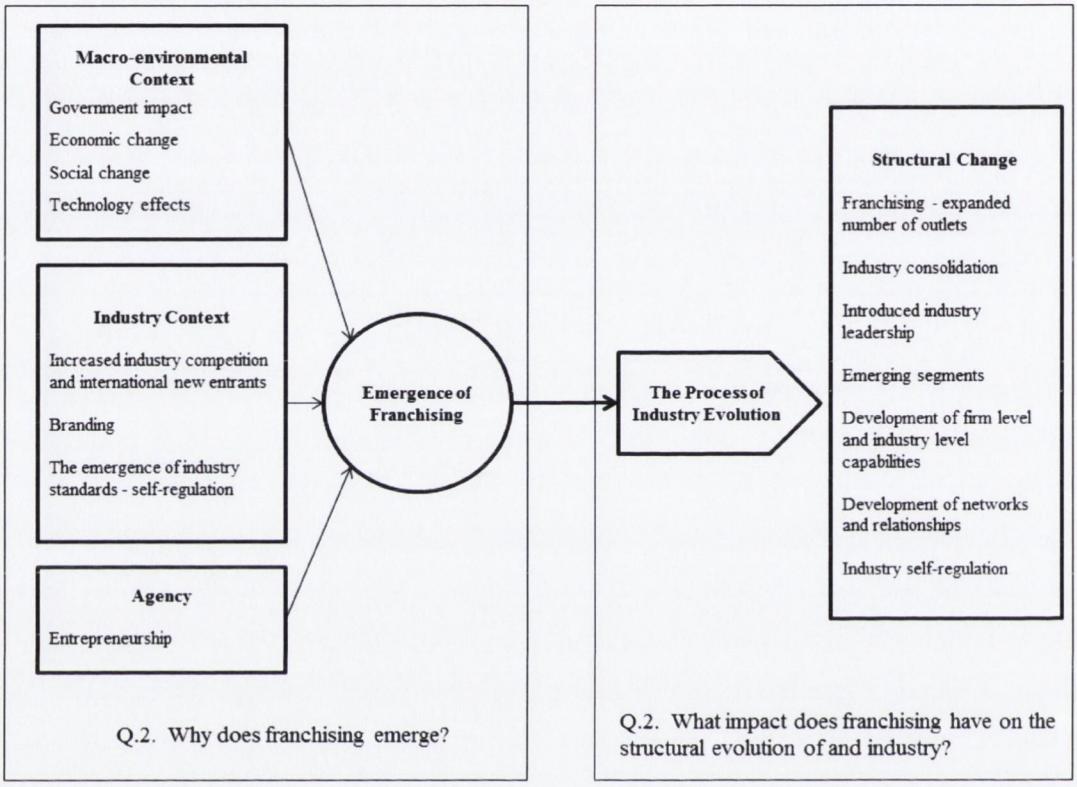

Figure 8-1 Conceptual Framework for the Fast Food/QSR Industry

8.4 Q.1. WHY DOES FRANCHISING EMERGE?

This section looks at why franchising emerged in the fast food/QSR industry using the framework depicted in figure 8.1 above. When assessing "Why" franchising emerged at firm level, it is evident from the data that with increasing macro-environmental factors as well as increasing industry competition, firms who wished to gain a national foothold and achieve brand dominance viewed franchising as the most efficient way to achieve these goals. Franchising also helped minimize franchisors financial risk and effort, resulting in maximization of operational efficiencies and profits. The following section deals with the macro-environmental and industry contextual change as well as the role of agency to help identify key influencers of change in the emergence of franchising.

8.5 MACRO-ENVIRONMENTAL CONTEXT

Change in the macro-environment is driven by the forces of technology, consumer preferences, economic growth and a host of other influences. Change is both the result of macro-environmental

forces and the competitive strategies of the firms within an industry. Competition within an industry is also a dynamic process in which firms vie for competitive advantage, only to see it erode through imitation and innovation by rivals.

Moreover, the role of government, economic fluctuations, social change and technological drivers amongst other factors within which the fast food/QSR industry evolved, and was greatly varied throughout the 20th century. The level and pace of industry growth coincided with changes in the macro-environmental context.

8.5.1 Government Impact

Governments can have a great influence on overall industrial policy, leading to changes over time in government approaches toward different industries. Governments can directly affect industry through legislation or indirectly through state agencies. On the other hand, industries can also influence government policy both positively or negatively, signifying a reciprocal relationship. One of the strongest influencing drivers to emerge is government impact, which can be seen to suddenly fuel changes in the fast food/QSR industry. The industry case reveals several dimensions to the government's role as an initiator of change in terms of its impact which was a key determinant for the emergence of franchising. According to the data collected and analysed, the government extended significant industrial incentives from the 1950s onwards. For example, in the 1950s, when the Irish government began developing its expansionary policies, the national industries that lacked competitiveness were forced to compete with new industry entrants and thus either grow and diversify or decline. From the mid-1950s fundamental changes took place, influenced mainly by a shift in national economic policy from protectionism to export-led growth, promoting increased industry competition and efficiency furthermore during the 1950s the Irish pace of life quickened discernibly. As a result the fast food/QSR industry showed increasing levels of activity during the transition from the liberalisation of the 1950s and 1960s, and free trade initiatives from the 1970s onwards. More specifically the European Economic Community (EEC), oil crises, European Monetary System (EMS), Single Market and the Eurozone caused dramatic economic changes. It is not surprising that as a consequence of these influences in the 1970s McDonalds entered the Irish market. From this point onward the fast food/QSR industry was profoundly affected in terms of increased national and international competition and ultimately prompted the growth of franchising as a firm level solution to these changes. Further government impact occurred under these new outward reaching policies and there was another wave of industrial incentives evident from 1973 through to the late 1990s which fuelled further growth and as a result the food/QSR industry exhibited increasing levels of competition and expansion. Therefore government impact had a deep and lasting impact on the emergence and growth of franchising in the fast food/QSR industry.

8.5.2 Economic Change

Economic change played a significant part in driving industry evolution. Economic shocks and cycles were particularly important and over the period studied, four economic shocks affected the evolution of the fast food/QSR industry, including the two oil crises as well as the boom period of the late 1990s and the recent 2008 economic crisis. The growth of the industry appears to continue during these shock periods and recessionary periods have marked an increase in consumption of convenience food and fast food and meant uninterrupted growth for the industry.

The fast food/QSR industry during the periods of economic downturn actually experienced increases in demand, as disposable income dropped; consumers began to purchase more normal/basic and inexpensive convenience and fast foods goods. Convenience foods also became more widely available and people began to eat outside the home from the late 1950s onwards following the positive economic growth of the 1950s and 1960s which would ultimately led to growth in the industry and increased market share of firms, encouraging indigenous and international competition. During these periods, branding, pricing and value become as important as achieving firm operational efficiencies and cost reductions. The industry therefore witnessed uninterrupted growth during the 1980s recessionary period when franchising emerged and franchising helped firms to gain competitive advantage through rapid expansion, increased brand awareness, and operational efficiency. During this period there was a huge influx of international competitors to the market which was a result of the favourable market conditions and consumer demand which continued well into the late 1990s when franchising became the industry norm. Again in the late 1990s during the Celtic Tiger years a huge surge of economic growth and prosperity meant that Ireland's population was cash rich and time poor which further fuelled the need for convenience food and fast food/QSR outlets. Once again during this time consumption of convenience food and eating outside the home increased, but consumers were choosing more expensive luxury eateries once their disposable income increased and thus pressure intensified for the fast food/QSR incumbents. The industry thus experienced severe levels of competition during this period and in particular during the Celtic Tiger years when consumers could easily choose between a large numbers of similar offerings. However since the 2008 economic downturn the industry has once again seen growth and consumers are focused more than ever on value for money and low prices. Indeed the property crash has also enabled fast food/QSR operators to purchase and rent key locations that in the height of the economic boom were only in the grasp of a few large incumbents. As a result of the 2008 recession the fast food/QSR industry witnessed growth and has since benefited from an increase in the consumption of inexpensive fast food/QSR products and the industry has continued to grow while other industries have struggled. From the data it is evident that economic change was a factor in the emergence of franchising and its initial adoption.

8.5.2.1 Increased International Competition

The development of free trade initiatives which opened up Ireland to increased international competition from the 1970s onwards had profound effects on the fast food/QSR industry such as; changes to industry entry and exit, industry expansion and contraction, levels of industry concentration, and changes in relationships with buyers and suppliers, companies and consumers. These developments ultimately fuelled economic growth and prosperity in Ireland over the subsequent decades and led to an increase in consumers' disposable income and buying patterns, individuals began to travel and they were exposed to new cultures and consumption trends. These were all positive side-effects for the fast food/QSR industry. As a consequence of the free trade initiatives there was a direct effect of increased international competition across most industries and especially in the fast food/QSR industry. Furthermore the introduction and adoption of franchising in Ireland was a result of the entry of international competitor McDonalds in the late 1970s. McDonalds brought into Ireland for the first time the fully formed concept of the franchising model. Other international new competitors entered into the market from 1980s onwards but McDonalds remained the true initiator of industry change and inspired indigenous fast food/QSR start-ups such as Abrakebabra and Supermacs who would drive the industry forward and adopt the franchising model.

8.5.3 Social Change

The broader changes that took place in Irish society during the post war years altered the fast food/QSR industry. The most significant changes were population growth, density, movement and lifestyle changes which affected the patterns of demand.

8.5.3.1 Population Growth and Urbanization

In terms of social change, recent population growth and increased urbanization supported the scale economies of the fast food/QSR revolution and supported the emergence of franchising. Migration to suburban estates generated demand for alternative food offerings thus fuelling the fast food/QSR industry. The growth in urbanization and supporting infrastructure in the Dublin area alone from the 1950s onwards encouraged new entrants into the fast food/QSR industry and created industry competition pressures. From the 1950s onwards Ireland experienced improved economic and social prosperity, with Irish cities commencing their developmental sprawl. During this time the genesis of the Celtic Tiger began to emerge. There was wider access to education, good housing, motor cars, television, good food and health services for most women and men. Expenditure on 'convenience food' rose by 31 per cent between 1955 and 1960, and in 1966, accounted for 20 per cent of total food consumption. In relation to the fast food/QSR industry an important development was the growth, among all social classes, of 'eating out'. Throughout the 1950s there was an increase in the growth of fish and chip shops outside of Dublin. By the 1960s, every town in Ireland had a chipper, bringing the national total to approximately 120. From the entry on

McDonalds in the 1970s thus industry growth continued over the coming decades. The industry has gone from being fragmented pre-1990s to witnessing intense competition in the late 1990s and early 2000s and continues today. Thus the growth of urbanisation and population density helped to fuel the demand for increased numbers of outlets and variety of competitor offerings in the fast food/QSR industry.

8.5.3.2 Increasing Levels of Immigrants

Social influences such as increasing levels of immigrants helped create demand for diverse foods. During the 1950s onwards, Asian immigrants came to Ireland and brought with them new and exciting cuisine, opening the first Indian and Chinese restaurants. This pattern is evident by the impact of Italian immigrants setting up chippers and Chinese and Indian immigrants setting up takeaways. Most recently the influx of Eastern Europeans and Africans has further increased the diversity of Irish society and this has increased the demand for ethnically diverse foods once again and this has encouraged the expansions of internationally focused food offerings as well as internationally recognised franchised brands entering the market. The influence of increasing diversity amongst the Irish population has increased the demand for a variety of offerings a food and brand variety with regards to competitors within the fast food/QSR industry.

8.5.3.3 Consumer Demand - Pull factors

Overall social change has also influenced consumers and their preference for brands and product and service quality bringing with it a consumer led demand-pull factors. A more recent wave of demographic and lifestyle changes since the 1980s have been favourable to the continued expansion of the fast food/QSR industry and brought with it changes in consumer demand within the industry. From the 1980s onwards the fast food/QSR industry was positively affected by the changing role of women in society. Women began to work outside the home thus the need for convenience food, and the rate and frequency of people eating outside the home increased, with dual career, single house holders and demand for, and supply of, recognized branded services required for such transactions. The fast food/QSR industry answered the consumer pull demands with the adoption of the franchising model in the late 1970s and early 1980s which provided a formula to maximize brand promotion and development, operational efficiencies and systems of consistency in terms of product and service delivery all extremely important for the consumer. Further change occurred in the 1990s when the economy was heating up for a period of unprecedented economic growth and prosperity known as the Celtic Tiger years. Irish consumerism became an unstoppable machine and international retailing giants entered the Irish market in every industry, Irish indigenous firms also prospered and Ireland witnessed full employment and a culture of 'cash rich, time poor' where convenience was the number one criteria for consumption. In the fast food/QSR industry sustained economic growth since the mid-1990s and rising immigration escalated demand for convenience food and broader range of foods on offer and once again the

economic crises of 2008 has helped to promote the growth of the fast food/QSR industry which offered cheaper alternatives to convenience food than expensive restaurants.

The analysis above highlights the importance of societal change and its ability to drive industry evolution. Ultimately the fast food/QSR industry appears to have been greatly influenced by societal change and thus has enabled and prompted the introduction and growth of franchising in the Irish fast food/QSR industry.

8.5.4 Technology Effects

Technology can relate to information technology and its adoption as well as organizational operating models such as franchising, it can also relate to all forms of information technology and communications. In context the outcome of competition between rival designs and technologies is usually convergence by the industry around a dominant design (a product architecture that defines the look, functionality, production method for the product and becomes accepted by the industry as a whole). An example of dominant design adoption in the fast food industry was when Ray Kroc opened the first McDonald's hamburger restaurant in Illinois in 1955; he established what would soon become a dominant design for the industry, a limited menu, no waiter service, eat-in and take out options, roadside locations for motorized customers and a franchise system of ownership and control. The case reveals how technology has acted as a driver and enabler of industry change and thus promoted the emergence of franchising. For the most part, new technologies have been transferred from the US and Europe to Ireland. However, some of the impetus for technology driven change also came from individual firms within the industries themselves. The major effect of technology adoption in the fast food/QSR industry has related to the adoption of this dominant design as promoted by the franchising model this has set the threshold in terms of industry standards regarding operations and branding. In the late 1970s this dominant design was introduced for the first time into Ireland by McDonalds and became the industry norm by the late 1990s. In terms of firm level effects technology has played an important role in helping to increase the efficiencies of fast food/QSR operators in relation to communication systems such as monitoring stock levels and re-ordering and thus enabling franchisors to operate centralized stock management systems.

There has also been an increase in the use information technology such as the use of the internet and its accessibility to consumers which has enabled online ordering and increased access to information about firms and consumer opinion as well as business to business communications and supply chain efficiencies. Technology has also benefited franchisor's monitoring capability and the ease with which they can carry out financial transactions as well as corporate communications both internal and external thus acting as an enabler for further improvements in the franchise model. Furthermore, new organisational technologies have facilitated changes and improvements in

product characteristics, logistics, communications and information management thus technology can be seen as a key instigator in the introduction of franchising as a dominant design and of its continued growth and success within the fast food/QSR industry.

8.6 THE INDUSTRY CONTEXT

Analysis of the Irish fast food/QSR industry reveals that the industry was fragmented prior to the introduction of franchising, as industry demographics were characterised by a large number of small independent firms. The industry has been affected by increased international competition and the evidence from the fast food/QSR industry shows immediate and direct correlation between the outward looking policies of the 1970s, and the increased competition and international new entrants of the late 1970s and early 1980s and the subsequent introduction of franchising.

8.6.1 Increased Industry Competition – International New Entrants

The industry was comprised primarily of independently owned fish and chip shops up until the 1960s which were predominantly owned by the Italian immigrants who came to Ireland from the 1920s onwards. After which there has been a consistent influx of international new entrants up to the present day.

8.6.1.1 The New Cuisines

The fast food/QSR industry has consistently witnessed waves of new cuisines emerging over the decades many of which are introduced by international new entrants. During the 1960s a new wave of ethnic cuisine came to Ireland with the opening of Chinese and Indian restaurants and takeaways nationwide. In the twenty year period between 1950 and 1970 new entrants were mostly independent fish and chip shops, and Chinese or Indian outlets. By the 1970s there were approximately 250 chippers and 100 Indian and Chinese restaurants in Ireland. In 1968 the first international new entrant in the form of the UK Wimpy hamburger bar opened on 50 Lower Dorest Street, Dublin opening a second Wimpy shortly after in Dundalk, Co Louth. In 1971 the Captain America's restaurant on Grafton Street, Dublin opened serving all American style Burgers and French fries. In 1975 Burgerland opened a fast food bar and by 1979 had two outlets in Dublin's City Centre. In 1977 McDonalds entered the Irish market and changed the face of fast food industry introducing its unique food offering of the Big Mac and French fries. After which other cuisines were introduced particularly from the 1980s onwards, the kebab was the key product launched by the Irish owned start up Abrakebabra, from which other competitors began to set up offering a variety of unique foods. In the early 1980s after the success of McDonalds, a number of indigenous firms also emerged such as; Supermacs and Abrakebabra, but it wasn't until the mid-1980s that these firms began to use franchising as a means to expand from this time onwards there was an influx of international competitors into the Irish marketplace such as Burger King, Domino's Pizza and KFC. During this period there was also a distinct expansion of food segments

within the fast food/QSR industry the once limited offering of fish and chips was expanded to include other foods such as burgers, pizzas, kebabs, tacos and fried chicken offerings.

8.6.1.2 The New Operating Model

The fast food/QSR industry experienced many demographic alterations over the decades which were not solely centred on individual firms expanding but rather on changes in industry standards, in particular key international new entrants brought higher standards of service quality and new products. Perhaps the most influential international new entrant to the fast food/QSR industry was McDonalds which entered the Irish market in 1977, the firm was embarking on a European wide expansion strategy and Ireland was a natural extension after its successful entry into the UK in 1974. McDonald's entry was pivotal to bringing change to the Irish fast food/QSR industry at the time as the company was the first to introduce the franchising concept to Ireland. In turn, this initiated another wave of restructuring across the industry proving yet again the profound impact of international new entrants on the industry. The industry had been dominated by independent fish and chip shops up until this period and after the entry of McDonalds a new operating model was introduced to the industry in the form of franchising. Franchising offered benefits of standardised operating efficiencies, centralisation of marketing and branding efforts as well as organisational improvements such as cost efficiencies which made firms more profitable and enabled rapid national expansion with minimised risk and cost to the franchisor. Entry of international competition which changed the industry's operating model has continued to the present day and the industry is now dominated by international and Irish branded franchise systems.

8.6.2 The Importance of Branding

For many firms, the development and effective management of their brand is critical in creating competitive advantage. In the fast food industry there were both push and pull factors in terms of the importance of branding. In relation to the brand pull factors, customers were demanding more in terms of value and better standards in terms of service quality and brand image. The brand push factors from the industry perspective showed significant efforts to build industry reputation in terms of creating value, reliability, service and quality. This campaign was targeted at customers. The case data suggests that branding was important, and franchising was introduced at a time when consumers were demanding quality of goods and service and firms were acknowledging the need to distinguish themselves from the competition through branding. McDonalds, Supermacs and Abrakebabra, O'Briens, and Burger King were focused on building their brands and they realised that to gain competitive advantage they needed to differentiate themselves from the competition. For the first time the industry witnessed professional marketing practices and improvements in brand image and the emergence of franchising enabled these improvements examples of which are; large-scale marketing campaigns, nationwide PR and advertising campaigns. The strengthening of competition was among the main causes of change and balance of power shifts in the fast

food/QSR industries throughout the late 1980s and 1990s. Moreover, customer service levels in the fast food/QSR industry have varied widely with McDonalds offering the highest perceived levels of industry service and standards and thus reputable brand value. In the late 1980s and 1990s the number of firms utilising the franchising model increased and these firms were able to benefit from the centralisation of marketing and branding efforts which improved their company image in a move to ward off increased industry competition. Franchising also enabled rapid national expansion. Moreover, in the fast food/QSR industry the brothers Graeme and Wyn Beere of Abrakebabra, Pat McDonagh of Supermacs and Brody Sweeney of O'Briens had all witnessed the success of McDonalds in the U.S. and Ireland and decided that they could benefit from utilising franchising and its brand building principles and marketing focus which would ultimately help to increase the profitability of their businesses and gain market share. In terms of the importance of brand building, franchising was the perfect model in which firms could leverage and build their brand in order to be able to react to increasing consumer demands and expectations.

8.6.3 The Emergence of Industry Standards and Self-Regulation

In fast food/QSR case there is evidence of industry self-regulation in lieu of government regulation. In 1973 under the guidelines of the Maastricht Treaty the government sanctioned new legislation regarding Health and Safety standards and prior to this McDonalds had helped in the formulation of industry guidelines adopted by local authorities, up until the EU level Health and Safety regulations were formally introduced in the mid to late 1990s. Prior to the introduction of the formal legislation McDonald's led the way in helping with industry self-regulation, as their in-company Health and Safety standards became the industry best practice benchmark. However, once the new legislation was introduced it had an impact on the industry and for the first time restaurants began to be monitored in order to retain their restaurant license once granted. These changes meant that industry incumbents needed to change and improve their standards and therefore the standardisation approach of franchising was an ideal business model to help them avoid industry regulation and instead opt for industry self-regulation. In the fast food/QSR industry, there was no trade association or similar industry representative body and so the industry benefited from the standardisation, quality and efficiency improvements in products and services that franchising offered. Therefore the emergence of franchising helped ward off industry regulation and instead promote industry self-regulation whereby industry incumbents were recognising the need for proper standards and consumer demands of higher standards was growing. Regulation remained unchanged after the mid-1990s and it was only in 2010 when the Italian fish and chip shops collectively established the ITICA (Irish Traditional Italian Chippers Association) which was the first co-operative/industry trade association to be established, it was a move to help the independent fish and chip shops compete with the franchise systems and promote their own industry image and operating standards.

8.7 ACTOR/AGENT

8.7.1 Entrepreneurship

In the fast food/QSR case study entrepreneurial activity at firm level was seen to have a major impact on the emergence of franchising. In the fast food/QSR industry McDonalds was introduced to Ireland by an Irish entrepreneur when McDonald's Inc. sold the Irish Master franchise to Mike Meagan, who had worked for McDonald's in Canada. Meagan approached McDonald's about operating a McDonald's franchise in Ireland and was granted the licence. His first franchise outlet was so successful that he opened another six McDonald's outlets in Dublin between 1977 and 1982. However, in 1989 McDonald's bought back the rights to the Irish region, as they had huge plans for expansion beyond Meagan's own ambitions. Entrepreneurial activity was also at the forefront of Abrakebabra the Irish owned entrepreneurial venture (founders Graeme and Wyn Beere) adopted franchising in 1985 after five years in operation). Abrakebabra's founding entrepreneurs saw franchising as a vehicle to enable growth and the expansion of their business. Furthermore Supermacs founder and entrepreneur Pat McDonagh also decided to adopt the franchising model as did Brody Sweeny of O'Briens Sandwich bars, without these entrepreneurs would franchising have been adopted at such a swift and successful rate? Up until this point most chippers or take-a-ways were run by individuals or families and it appears that such firms like Abrakebabra, Supermacs and O'Briens were founded by entrepreneurs who had a vision and strategic focus of ambitious growth and development and they chose franchising as the vehicle to achieve their aims. Thus this type of innovative entrepreneurial spirit served as an exemplar for others to follow without these visionary entrepreneurs, these firms and indeed the industry may have developed in a different direction.

8.8 Q2 – WHAT IMPACT DOES FRANCHISING HAVE ON INDUSTRY STRUCTURE IN THE FAST FOOD/QSR INDUSTRY?

Franchising emerged in the late 1970s and fundamentally changed the fast food/QSR industry thereafter. The approach taken in this study to define industry structural change suggests that industry evolution is not limited to just changes in industry demographics. It requires a broader approach and should consider other developments at the industry level, for example the emergence of new institutions, transformation of products and organisations, and development of capabilities. Hence, the role of franchising in these broader developments constitutes its impact on the evolution of the fast food/QSR industry. Again individual case analysis identifies that at different points in time the adoption of franchising played a vital role in the fast food/QSR industry's evolutionary pattern. This was exemplified in the following outcomes explored in this section including; franchising the expanded number of outlets, industry concentration, introduced industry leaders, emerging segments, development of industry and firm-level capabilities, development of networks and relationships and industry self-regulation.

8.8.1 Franchising – Expanded Number of Outlets

The industry was the first industry in Ireland to adopt franchising and the pace and diffusion of the franchising model was swift. Franchising was adopted in 1977 by the entrance of the US chain, McDonalds after which both international and indigenous firms quickly embraced the model (companies such as Abrakebabra, Supermacs and O'Briens followed McDonalds lead) and expanded rapidly using the franchise system which ultimately changed the industry makeup. Today all the leading firms in the industry are franchise systems that expanded quickly resulting in large numbers of franchisee outlets. In Ireland the fast food/QSR industry was the first industry to adopt franchising and the pace of which franchising was adopted in the industry remains unparalleled. In acknowledgment of the franchise systems dominance the Irish Italian chippers formed an association in 2010 to promote themselves and unify a large number of individual operators.

8.8.2 Industry Consolidation

There appears to be major changes at industry level once firms adopt franchising they would begin to expand their number of outlets. In addition to this franchise systems would gain organisational capabilities and organisational power, which in turn generated changes in industry-level relationships, and eventually resulted in changes in industry structures and changes in industry concentration and consolidation. The Irish fast food/QSR industry underwent a series of restructurings (see table 8.1 for industry timeline) expansions and firm conversions once franchising emerged in the late 1970s, thus reflecting contextual demands for increased capabilities.

1920s	1950s	1960s	1970s	1980s	1990s	2000s	2010s
20 fish &	chippers	120 chippers	Franchising	2 firms dominate**	2 firms dominate**	4 firms dominate	3 firms dominate
chip shops	expand	Wimpy (1968)	occurs	BurgerKing (1981)	Abrakebabra 60*	McDonalds 66*	AIL 190*
	nationwide		250 chippers	Abrakebabra (1982)	McDonalds 35*	Abrakebabra 55*	McDonalds 75*
			100 Indian/	O'Briens (1988)	Dominos (1991)	Supermacs 45*	Supermacs 90*
			Chinese	FourStarPizza (1986)		O'Briens 60*	Dominos 42*
			Burgerland (1975)			BurgerKing 34*	FourStarPizza 37*
			McDonalds (1977)			FourStarPizza 26*	BurgerKing 30*
			Supermacs 1978)			Dominos 17*	260 chippers (180 ITICA)
			KFC (1979)				Other 541
* number of outlets							
** 2 firms dominate							

Table 8-1 Timeline of the Irish Fast Food/QSR Industry

In the years following late 1980s, industry change and changes in industry concentration were particularly swift and extensive. At the lower end of the market, the inexpensive product offerings of the fast food/QSR industry once dominated by independent chippers and Chinese and Indian takeaways began to change. The industry began to experience increased competition from international franchised fast-food restaurant chains such as McDonald's, Burger King, and

Domino's, as well as from the Irish-owned Abrakebabra and Supermacs. Increased competition, combined with a recession in the late 1980s, brought further challenges to the industry. New franchisee outlet openings continued nationally and price competition intensified. Independent chippers were severely hit by this increase in competition and their numbers declined particularly in the Dublin region. Many fish and chip owners converted and became franchisees of the franchised chains. During the 1990s there was additional growth amongst independent burger bars, pizzerias and sandwich/snack bars across Ireland and a variety of internationally franchised pizza chains also entered the Irish market. In an ever competitive industry, many industry incumbents began to expand their product offering to include ethnically diverse food items, as well as catering to the more health conscious customer. Branding and price continued to be a priority, particularly as customer buying power increased.

Following the 2008 Irish economic collapse, national consumption patterns altered once again as the population's disposable income decreased. Consumers began to opt for cheaper fast food/QSRs takeaways instead of expensive sit-down restaurant meals. Fast-food/QSR outlets once again began to experience a steady increase in sales from 2008 onwards. By the end of 2012 the economic collapse was still permeating Ireland; the fast food/QSR industry experienced continued growth with increased levels of consumption. By 2012 AIL, McDonald's and Supermacs were still the main industry leaders, followed by a number of other key industry competitors (see Table 8.2 below). In 2012 as well as the industry leaders, key industry players were Burger King, and the pizza chains Domino's and Four Star Pizza. In 2012 amidst the success of many industry leaders, KFC decided to attempt another market re-entry.

Name	Eat-in	Number of Outlets	Country of Origin
McDonald's	Seating	78	U.S.
Supermacs	Seating	90	Ireland
Abrakebabra AIL	Seating	60	Ireland
O'Brien's AIL	No Seating/Some	72 (230 Intl)	Ireland
Gourmet Burger Kitchen AIL	Seating	8	UK (Master)
Bagel Factory AIL	No Seating/Some	42	UK (Master)
King Chick AIL	Seating	6	UK (Master)
Yo Sushi AIL	Seating	3	UK (Master)
Domino's	No Seating	48	UK
Four Star Pizza	No Seating	33	US
Eddie Rockets	Seating	30	Irish
Burger King	Seating	27	U.S.

KFC	Seating	17	U.S.
Chippers	No Seating	260 (180 ITICA)	Irish
Other Restaurants	Seating	541	Irish

Table 8-2 Selected Competitors: Restaurant Numbers in Ireland 2012

(Including: 187 Chinese, 125 Indian, 50 Asian and 179 Italian)

It appears from the data that reactions and patterns emerging in the fast food/QSR industry once franchising was introduced ultimately led to a degree of industry restructuring. The emergence of franchising is taken in the context of environmental change and can be seen to benefit multiple industry stakeholders including; customers (by improving product and services), the firm level (with benefits of efficiency gains and branding benefits) and at an industry level (as protection from increased competition).

8.8.3 New Industry Leaders

In subsequent years following the emergence of franchising indigenous competitors such as Supermacs and Abrakebabra and O'Briens, began to adopt franchising as a means to expand nationally and to compete with the industry leader McDonalds in terms of gaining brand and marketing dominance. In the fast food/QSR industry, by the late 1980s two firms, McDonald's and Abrakebabra, were the two leading fast food/QSR operators, with outlet and turnover figures larger than other industry competitors. Both firms offered similar product ranges including burgers, French fries and soft drinks, with Abrakebabra offering their unique kebabs. Franchising helped these firms to compete against further international and domestic new entrants and aided in the development of capabilities such as branding, operational efficiencies and enabled national expansion. Thus franchising emerged at a time when the industry was growing and competition was increasing. There was an even greater increase of international competitors such as: Burger King, Domino's and Four Star Pizza. Since entry, these firms have grown in size and dominance (see Table 8.3. below). Since the late 1990s, the growth in the number of firms has stabilised but the level of industry concentration has increased. Independent operators are now in the minority and a new industry structure has emerged, centred on national and international branded franchise systems with large number of outlets within each franchise system (see table 8.3 below).

Name	Eat in	Number of outlets	Annual Turnover
Abrakebabra	Seating	60	€50 million
MacDonalds	Seating	35	€46 million
Supermacs	Seating	16	€10 million
O'Brien's	Seating	50	€30 million
Four Star Pizza	No Seating	10	€4 million

Burger King	Seating	12	€35 million
Domino's Pizza	No Seating	9	€2.5 million

Table 8-3 Industry Leaders Restaurant Numbers in Ireland 1997

(Source: annual returns and outlet number information was obtained by contact with each company's head office)

Industry structure changed considerably in the early 2000s and the two previous industry leaders (Abrekebabra and McDonald's) were now joined by Supermacs and O'Brien's. Both of these firms gained a foothold after a decade of company expansion and brand building, enabled by their adoption of franchising. For the first time the pizza chains began to have an impact on the industry structure and gained an increased market share. For the industry incumbents the early 2000s (see table 8.4 below) were characterised by intense price wars, further product expansion and costly marketing campaigns. The leading firms competed intensely for customers and were always focused on obtaining new sites for their outlets, often at the expense of independents. As the market became more crowded there were casualties.

Name	Eat-in	Number of Outlets	Annual Turnover
Abrakebabra	Seating	55	€40.5 million
Supermacs	Seating	45	€29.4 million
McDonald's	Seating	66	€176 million
Burger King	Seating	10	€17 million
Four Star Pizza	No Seating	26	€10 million
Domino's Pizza	No Seating	17	€10 million

Table 8-4 Main Franchise Restaurant Outlets Operating in Ireland 2005

(Source: annual returns and outlet number information was obtained by contact with each company's head office)

By the late 2000s the Irish franchise market was considered to be in its infancy compared to the U.S. and was considered to have potentially great future growth (see table 8.5 below). In recent years one of the key changes in retail was the increase in new shopping centres across Ireland, a factor that affected the locations of fast food/QSR outlets. The brand recognition that is an inherent part of franchising is a very attractive proposition for a shopping centre owner or developer. Ireland's shopping centres now account for an increasing volume of retail sales, representing a move away from the traditional focus on the Main Street. In most Irish shopping centres many of the large Fast food/QSR franchise chains now have a presence they are known as anchor tenants and they are seen as key performers in attracting customers to the shopping centres for day and evening trading.

Fast Food/QSR Brand	Number of outlets	Average Size	Annual Turnover 2012	turnover per outlet
AIL* Multibrand	190 outlets	2000 sq ft	€254.5million	€1,339,473
McDonald's	75 outlets	4000 sq ft	€200 million	€2,666,666
Supermacs	90 outlets	2000 sq ft	€58.8 million	€653,333
Burger King	30 outlets	3600 sq ft	€38.2 million	€1,273,333
Four Star Pizza	37 outlets	1200 sq ft	€15 million	€405,405
Domino's Pizza	42 outlets	1700 sq ft	€12 million	€285,714

Table 8-5 Irish Franchise systems Fast Food/QSR Number of Outlets Annual Turnover 2012

*(Multibrand including: Abrakebabra 60, O'Brien's 72, Bagel Factory 42, Gourmet Burger Kitchen 8, King Chick 6 and Yo-sushi 2) (Source: annual returns and outlet number information was obtained by contact with each company's head office)

By 2012 in addition to the increased international competition, the industry still had a large number of small, independently owned fast food/QSR outlets across Ireland, including approximately 300 fish and chip shops, and 541 Chinese/Asian restaurants and takeaways (see previous table 8.5). In recent years, a new industry structure has emerged, with a concentration of three large nationwide franchise systems; the multiband Abrakebabra Investments Limited (AIL), McDonald's and Supermacs. Prior to 2008 there were four dominant firms including O'Brien's Sandwich Bars. AIL decided to build a diversified brand portfolio. In addition to O'Brien's, AIL acquired the Master franchise to Bagel Factory (UK), Gourmet Burger Kitchen (UK), Yo Sushi (UK), and King Chick (UK), making it the first fast food/QSR Multi-brand franchise system in Ireland. In 2008 AIL acquired O'Brien's which led to further industry concentration.

In 2012 the three leading firms accounted for 45 per cent of the market (€513.3 million combined annual turnover of the top three firms) (see table 8.5 above). All three industry leaders have been in existence since the late 1970s and early 1980s. These leading firms (McDonalds, Abrakebabra and Supermacs) have dominated the industry for over 30 years, AIL and Supermacs are Irish-owned, and McDonald's is a US multinational. Franchising has also influenced power arrangements within the industry as the main franchise systems became the dominant operators. The case analysis shows that power-related changes in industrial structures were often caused by increased capabilities, resulting from firms' adoption of franchising.

8.8.4 Emerging Segments

At different points in time the emergence of new segments affected many industry incumbents. At different stages of industry development firms tended to adopt franchising to either gain a competitive advantage or to ward off the potential threat of international competition i.e. to eliminate competition. However, throughout these periods of change new entrants and new

segments continued to emerge. For example from the 1990s onwards convenience food and fast food began to be offered not just in fast food/QSR outlets but in pubs and petrol stations. From the late 1990s pubs had begun to experience a decline in sales of alcohol, therefore food became a critical component of sales, in some cases food accounted for 50 to 65 per cent of turnover. Another segment extension within the fast food/QSR occurred when petrol stations began to sell hot food, such as breakfast rolls, sandwiches, tea and coffee. In addition to the success of O'Briens Sandwich bars, sandwiches and traditional lunchtime food normally served in cafes and restaurants began to be considered as part of the fast food/QSR industry. Furthermore traditional fish and chip shops who once offered fish, chips and burgers began to expand and become more like the Quick Service Restaurants (QSR) by broadening their offering. Both night-time and day-time trading became part of the industry and in the 1990s the day time sandwich and snack trade became direct competitors with the night time operators and vice-versa. Since the emergence of franchising there has been a definite shift and the emergence of new segments has occurred.

8.8.5 Development of Firm Level and Industry Level Capabilities

Among other things the capabilities of an industry generally include issues like reputation, general level of industry knowledge, and the ability of industry players to adapt to a changing external environment. For example there was an increase in firm and industry level capabilities resulting from improved branding strategies in the fast food/QSR industry. For decades the fast food/QSR industry had problems with its image due to a lack of trust by the general public. Since the 1980s, following a number of issues in the industry, image and transparency of industry players became particularly relevant. The franchise systems implemented a number of campaigns aimed not only at improving the image of their own individual brands but also addressing the health issues that were negatively impacting the entire industry. The franchise systems began to dramatically broaden their menu range as well as contributing to community level engagement such as local sports sponsorship campaigns, which helped improve their image and position in the industry. Another capability derived from franchising was improved operating efficiencies, both at firm and industry level.

Franchising also created increased firm level branding capabilities, operating efficiencies and standardisation and service improvements, were increasingly important and helped to improve the overall image of the industry. Franchising also helped to fundamentally change and improve the industry's health and safety standards as well as quality improvements in standards of food and service, thus raising the bar in terms of the industry's threshold capabilities. In relation to the industry standards McDonalds having honed the franchising model for 20 years in the U.S. prior to its entry into the Irish market, was the guiding force in terms of operating standards and industry improvements. Ultimately these standards would become the industry guidelines in terms of best practice, and the formal Health and Safety requirements governed by local authorities.

Furthermore, prior to the introduction of formal regulations in 1993 under the EU Maastricht Treaty, McDonalds' operating model had for many years helped prevent State Regulation by promoting Industry Self-Regulation.

8.8.5.1 Branding

It appears that franchise systems offered increased legitimacy for firms especially in the eyes of the consumer and gave independent outlets (once they became franchisees) credibility as part of a nationally branded system which acted as a differentiator in terms of customer preference. In the fast food/QSR industry some conversions of independent operators occurred as a result of the franchisors brand building but in many cases franchisees were new to the industry or had worked as an employee with the franchisor they would partner with. Franchising promoted branding and rapid organisational level expansion, and enabled the early adopters to gain first mover advantage over rival firms. Branding was an important element of the franchising model and in an industry where most products were generic; branding helped to differentiate competing firms to potential consumers, and helped to create consumer brand loyalty. This in turn helped to increase firm profits and turnover. Franchising also provided franchisees with a level of standardisation in terms of operations and on-going economies of scale, as well as providing set up services, advisory services, standard setting, R&D, training services, and marketing and PR activities. Ultimately franchising aided firm level organisational efficiency, branding and growth strategies – as well as speed to market - all essential in tackling increased industry competition. Franchise systems also offered franchisees the chance to become part of a nationally branded chain and aided the development of firm level capabilities and therefore industry level capabilities.

8.8.5.2 Dominant Design

In the fast food/QSR case it appears that once franchising was adopted it changed the industry recipe and offered a successful dominant design that other firms would adopt or imitate. In the Irish fast food/QSR industry McDonalds helped to define industry standards and create a dominant design (offering a new product and service offering limited menu, no waiter service, eat-in and take out options, Main street and roadside locations for motorized customers and a franchise system of ownership and control) when it entered the Irish market and within a few years other firms began to follow. The franchising model offered benefits such as branding, marketing initiatives and training activities. For example, franchisees could benefit from discounted bulk buying offers, group wide marketing campaigns, and franchisor industry know-how. From the 1980s onwards the two key elements for success in the industry became branding and operational efficiency. In fast food/QSR industry McDonald's Health and Safety standards as well as branding and marketing campaigns helped to change industry structure by setting minimum standards for other competitors to bench mark against. As a result this led to increases in market share, sales and profits for the franchise systems and caused major industry-level structural changes. However, the fast food/QSR industry

came under increased pressure in 2011/2012 with operators competing on value menus and reduced price promotional offers, in addition to the introduction of wider product ranges. Furthermore, Irish tastes and preferences had begun to move away from fast food, which is considered to be less healthy than other food types. All of these factors have created a hyper competitive environment in which firms must compete on quality of service and a broader product offering as well as value for money and low prices. To differentiate themselves firms began to focus on becoming more customer-centric, enhancing their quality of service, improving cost effectiveness, and building the capabilities needed to improve overall business performance. Franchising has helped create a dominant design in terms of industry best practice and has given competitive advantage to the franchise systems over independent operators.

8.8.6 Development of Networks and Relationships

Franchising has also helped to promote the development of networks and relationships throughout the industry and particularly amongst franchisees within their franchise systems and it has even helped to prevent State Regulation by encouraging industry self-regulation. In the fast food/QSR industry level networks have occurred particularly between franchisors in order to lobby government on industry issues such as labour shortages, health and safety issues and minimum wage agreements. The emergence of franchise systems has encouraged franchisees within their system to form collaborative relationships with other franchisees. Franchising also enabled increased dissemination of information both within franchise systems and throughout networks at industry level, an example of this was when the fast food/QSR industry faced worker shortages in the late 1990s (with the economy at full employment people didn't want to work in minimum wage jobs offered by the industry) and the industry competitors came together and lobbied the government to grant more visas to help encourage non-nationals to come and live and work in Ireland. The franchise systems through information dissemination and industry standardisation also helped to ward off industry regulation through self-regulation with the franchise systems adopting the benchmark levels set by McDonalds in terms of high levels of operating standards.

8.8.7 Industry Self-Regulation

Franchising has fundamentally changed and improved the fast food/QSR industry's threshold operating standards, branding capabilities and overall image. In Ireland in 1983, the Irish Franchise Association was established as a point of reference for firms considering franchising, as well as individuals wishing to become franchisees. At this time franchising was mainly concentrated in the fast food/QSR industry. Once franchising was adopted it enabled industry wide improvements in the quality of food and service, thus raising the bar in terms of the industry's threshold capabilities. Up until the 1980s, there was a distinct lack of industry regulation in the fast food/QSR industry. Industry regulation was laissez-faire with little interference from government. A restaurant licence was not necessary in order to open a fast food/QSR outlet, only a restaurant certificate was required

if the restaurant had seating. Indeed McDonalds having honed the franchising model for 20 years in the U.S. before entering the Irish market, was the guiding force in terms of operating standards and industry improvements. Ultimately these standards would become the industry guidelines in terms of best practice, and the formal Health and Safety requirements governed by local authorities and finally would become formal regulation in 1993 under the Maastricht treaty. Therefore McDonalds' operating model had for many years helped prevent State Regulation by promoting Industry Self-Regulation.

> '*We would work quite closely with the food safety authority, and they love what we do and they have taken a lot of our systems and used them as an industry benchmark' (Chris Pollock, Head of McDonalds Franchising, Ireland)* '

Industry regulation and increased Health and Safety awareness became important for firms in the 1990s when HSA (Health and Safety Authority) officers began to inspect all restaurants and fast food outlets, carrying out cleanliness and food safety audits. Franchising has fundamentally helped to created industry self-regulation and best practice setting and has warded off industry regulation.

8.9 INDIVIDUAL CASE ANALYSIS - THE REAL ESTATE INDUSTRY

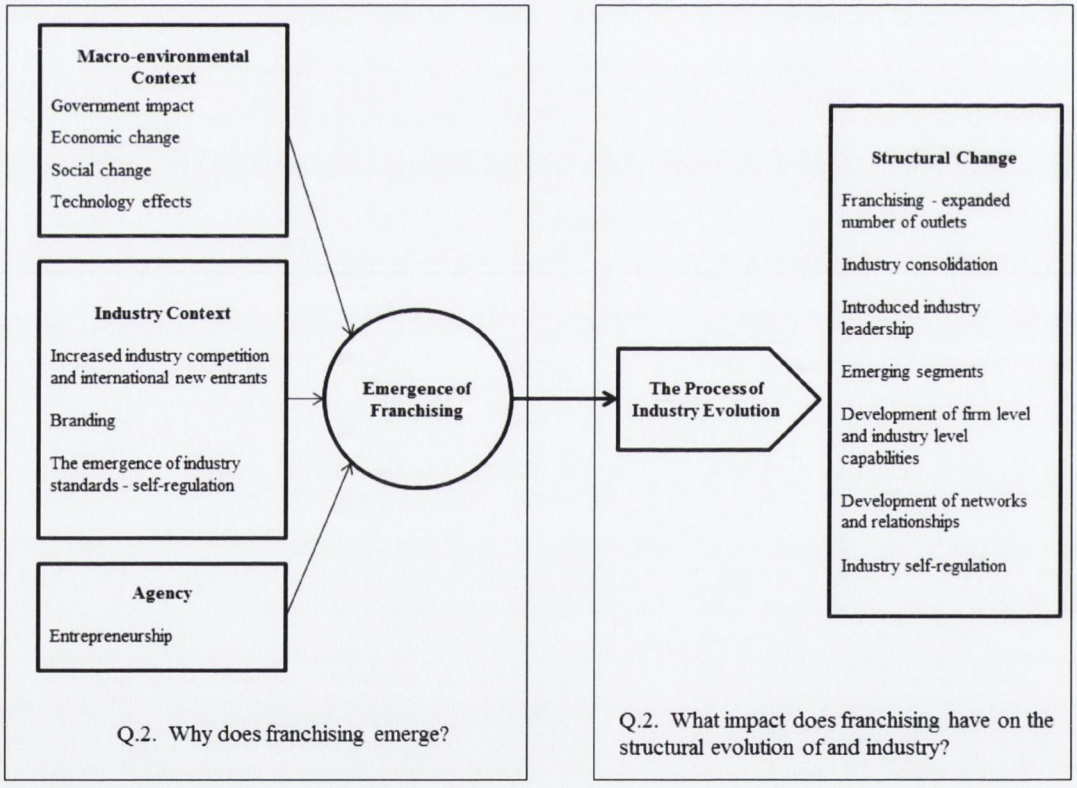

Figure 8-2 Conceptual Framework

8.10 Q.1. WHY DOES FRANCHISING EMERGE?

This section presents an individual case analysis of the real estate industry and looks at why franchising emerged in the real estate industry using the framework depicted in figure 8.2 above. When assessing "Why" franchising was adopted at firm level, the data suggests that with

increasing industry competition, firms who wished to gain a national foothold and achieve branding dominance viewed franchising as the most efficient way to achieve these goals. However, in order to assess why franchising occurred, the real estate case can help to identify and understand the triggers for the emergence of franchising. Franchising emerged in the real estate industry during the late 1990s and certain conditions were evident, the industry was exposed to a US franchised chain threatening to enter into the Irish market. The industry also experienced an increase in new entrants to the industry, at the time had low barriers to entry and showed high levels of industry fragmentation. Franchising brought an efficient method of growth and expansion as well as branding and operational efficiency benefits to firms who adopted it. The following sections will analysis the case data using the conceptual framework see figure 8.2 above.

8.11 MACRO-ENVIRONMENTAL CONTEXT

The following section deals with the macro-environmental and industry contextual change as well as the role of agency to help identify key influencers of change.

8.11.1 Government Impact

One of the strongest influencing drivers in the emergence of franchising is government impact. In the real estate industry the pre-war and post-war years were influenced by a flurry of legislation relating to lands, rents and property had an enormous impact on economic activity, social change, and helped fuel the housing market. Therefore at the time population density and housing demand was greater in the major cities and people continued to migrate from rural areas to cities and towns such as Dublin, Cork, Galway and Limerick thus affecting the real estate industry. Another example of the influence of government impact leading up to the emergence of franchising was with a deliberate shift of government policy from promoting a once closed economy to embracing an open economy. This fundamental change in ethos was adopted by the Irish government post the 1950s and from this came the introduction of free trade initiatives in the 1970s which opened up Ireland to increased international competition and ultimately had profound effects on the industry such as; changes to industry entry and exit, industry expansion and contraction, levels of industry concentration, and changes in relationships with buyers, suppliers, firms and consumers. These government policies of outward focus set the scene for change over the coming decades and during the late 1990s as a result of these initiatives international competitors could enter into the Irish market. In the late 1990s the threat of entry by a US franchise chain spurred a radical change in strategy for one particular firm in the real estate industry which would profoundly affect the industry for decades to come and bring about the emergence of franchising.

8.11.2 Economic Change

Economic change played a significant role in the emergence of franchising. In the real estate industry economic cycles affected the property market dramatically going as far back as World

War II when the housing market was dampened and so was the buying power of the population. This generated pent up demand which had dramatic effects in the post war years when the housing market picked up with a clear demand for new housing. Following the upturn of the 1950s and 1960s economic growth continued, which sowed the seeds for the Celtic tiger years, and the housing market entered a long period of positive growth interrupted by the 1980s recession. However, the effects of the two oil crises were more selective and directly affected the real estate industry resulting in a collapse of construction activity. A government demand stimulus was stopped in its tracks by a second oil shock in 1979. The 1980s was a period when the property market plummeted. In the real estate industry this period brought many exits of small independent operators and acquisitions. A number of established players grew through acquisitions and new ventures, creating the need for more professional management. Many mergers and acquisitions took place, which enabled these firms to pool resources in terms of marketing and operational efficiencies. In the 1980s efforts to differentiate from the competition resulted in firm level investment in brand development and a new breed of entrants appeared to set the pace in terms of this focus.

At the opposite end of the spectrum in the late 1990s Ireland was experiencing an economic boom period and the property market was once again prospering. As a result industry incumbents expanded and the industry was attractive for potential new entrants. In the late 1990s franchising was seen as a means to enable rapid expansion at firm level. SherryFitzgerald claim to be the first real estate agent to adopt franchising followed by the international new entrant RE/MAX; however, RE/MAX claim that they were already looking to enter Ireland before SherryFitzgerald decided to franchise. The adoption of franchising enabled both firms to achieve rapid growth and expansion and to gain an advantage in capturing the booming property market at the time. The prosperous Celtic Tiger years of the late 1990s and sustained economic growth fuelled the industry beyond measure, resulting in an inflated housing market, with unrelenting demand outstripping supply. These factors led to housing prices soaring to unprecedented heights. However the rise of such over inflated growth could only be matched by a severe economic crisis, as witnessed by the aftermath of the 2008 recession, which left the industry shaken. The economic crisis of 2008 has had a devastating impact on the real estate industry with housing developments lying empty and the housing market crash affecting the industry across the board.

It appears that the two most successful firms to weather the recent economic downturn of 2008 have been the franchise systems SherryFitzgerald and DNG. The one time industry leader RE/MAX has suffered from the economic downturn and has also been affected by new regulations limiting unqualified real estate agents to operate in the industry. In light of this development the newly established Co-op Property Partners has taken over the third position in the industry once held by RE/MAX. Economic change had a profound effect on the real estate industry and as such

firms were forced to find ways to adapt to economic cycles and franchising emerged as a robust business model to enable firms in the industry to remain competitive and to expand and increase efficiencies.

8.11.2.1 Increased International Competition

The introduction of free trade in the 1970s marked a period of economic expansion after years of static growth, sowing the seeds of Ireland's first ever 'property boom'. New office blocks, suburban shopping centres, and satellite towns, were being developed. This growth enabled and fuelled the real estate industry and even though international competitors didn't enter into the Irish arena until the late 1990s, free trade opened up Ireland to international trade and created an environment whereby Irish real estate agents benefited from economic growth and industry expansion. These factors fuelled the demand for property both residential and commercial and thus the need for real estate agents services. In the late 1990s as a result of the threat of the international RE/MAX brand entering the Irish market with its hugely successful franchise model, SherryFitzgerald in 1999 quickly adopted the franchise format and began to expand nationally; afterwhich RE/MAX entered the Irish market. Both of these firms helped to create major industry change, following their success DNG followed suit and adopted franchising in 2004. The threat and the inevitable introduction of international competition encouraged the emergence and adoption of franchising in the real estate industry.

8.11.3 Social Change

The broader changes that took place in Irish society following the more enlightened and outward looking policies of the 1950s and 1960s altered the real estate industry and prompted the emergence of franchising. The most significant were population growth, density, movement and lifestyle changes which affected the patterns of demand. Social change has impacted the real estate industry in many ways. Since the 1950s migration to suburban estates generated demand for housing both rented and owned, thus fuelling the real estate industry. The construction of over 130,000 houses together with supporting infrastructure in the Dublin area alone between 1946 and 1985 and real estate industries and created pressures for structural change.

8.11.3.1 Changing Cultural Factors

An important factor in terms of social change witnessed Irish people beginning to travel abroad post 1960s and considering overseas property as possible investment opportunities. This development was also encouraged by government tax incentives. Furthermore from the 1960s onwards a new office property era dawned in Dublin, and demand for industrial space rose significantly and other forms of commercial property experienced corresponding growth. Another social factor affecting the real estate industry was Ireland's ingrained cultural need for home ownership, as distinct from other European cultures of life-long property rental. This need for

ownership created high levels of housing demand which peaked during the Celtic tiger era (the late 1990s onwards) and coupled with the influx of Eastern European immigrants helped to further fuel the demand for housing. Thus the population of Ireland increased dramatically and by the end of the 1990s the population was at a total of 3.6 million, with unemployment at an all-time low and a booming property market. However, in recent year's population levels have stabilised at 4.6 million in 2012. Sustained economic growth since the mid-1990s and rising immigration escalated demand for housing, and saw population expansion replace government intervention as the key motor of growth in the housing market. Once again as a consequence of economic factors the economic crisis of 2008 has led to further social change with outward migration and a suppressed housing market. However, in the aftermath of the 2008 economic recession there has been an increase in outward migration. All of these factors have had lasting effects on the real estate industry in terms of its expansion and contraction.

8.11.3.2 Consumer Demand – Pull Factors

Therefore social change has had a lasting influence over the decades on the industry and demand for real estate services. Social change has also influenced consumers and their preference for brand loyalty and service quality and in particular the real estate industry shows evidence that consumers require a level of trust when embarking on choosing the services of a real estate agent to manage one of the biggest assets they will ever purchase – therefore social change has been a significant driver in the industry wide adoption of the franchising model since the late 1990s. Franchising helped to provide a predetermined formula of maximization of brand promotion and loyalty and operating efficiencies, as well as offering customer focused systems of consistency and service delivery.

8.11.4 Technology Effects

Technology relating to information technology and communications and online internet adoption has profoundly affected the real estate industry, both with the increase of internet usage for consumers, which has made access to information about real estate agents and their property listings much more readily available, led by the success of Daft.ie and myhome.ie, the two main online property listings websites. By 2012 all major real estate agents and co-ops have their own websites and property listing capabilities.

Technology in terms of the adoption of an organizational operating model is in evidence in the real estate industry which has been facilitated by the adoption of the franchise system. Such technology has helped to automate many of the previously time consuming processes and paperwork. Therefore for franchise systems technology has enabled uniformity in terms of operating standards and practices and it has also helped franchisors to monitor the individual franchisees using a centralized system, setting the bar in terms of industry wide standards. The real estate industry case

reveals how technology has acted as a driver and enabler of industry change. For the most part, new technologies have been transferred from the US and Europe to Ireland. However, some of the impetus for technology driven change also came from individual firms within the industries themselves. Technology has fundamentally enabled the adoption and emergence of franchising in the Irish real estate industry.

8.12 INDUSTRY CONTEXT

Analysis of the context and content of the real estate industry and the subsequent emergence of franchising suggests that in terms of longevity, the Irish real estate industry was established many years ago; however franchising didn't impact the real estate industry until the late 1990s. In the real estate industry up until the introduction of franchising there were very few dominant real estate agents. Most industry competitors remained small and economically insignificant and the industry structure was one of fragmentation. The free trade initiatives of the 1970s which were meant to attract overseas investment into Ireland didn't hugely impact the industry directly until the late 1990s when international competition became an issue, up till this point the majority of incumbents were indigenous independent operators. Since the late 1990s, however, considerable changes were observed across the industry.

8.12.1 Increased Competition – International New Entrant

The 1960s onwards marked a period of economic expansion after years of static growth, leading to Ireland's first ever 'property boom'. In terms of industry structure things remained stable with Dublin based real estate agents Lisney, HOK and Jackson Stops McCabe continuing to lead the industry at national level. A steady stream of indigenous new entrants into the industry was sustained but none making any significant impact. From the early 1960s, the range of real estate agent services increased and the differences between individual real estate agents blurred. Profit margins within the industry increased, and as a result there was increased competition and new entrants emerged. In the 1970s, the IAA the industry's trade association began to limit new membership, only allowing entry to those with a recognised qualification. As a result of the IAVI's restrictions, a new trade association called the IPAV (the Institute of Professional Auctioneers, Valuers and Livestock Salesmen) was formed in 1971. The Dublin-based Lisney, HOK and Jackson Stops McCabe were still leading the industry in terms of sales and market share with the rest of the industry represented by small geographically spread independent estate agents. In the real estate industry international competition didn't affect the industry until the late 1990s and the balance of power shifts came from the combination of incumbent's organic growth such as industry mergers and acquisitions and the threat of international competitor RE/MAX entering the market.

8.12.1.1 New Operating Model

Prior to the entry of RE/MAX in 1999 the majority of real estate agents were qualified and usually members of a trade association. However RE/MAX's franchising model did not require that their real estate agents be qualified or work on a full time basis, and so unqualified franchisees could purchase a 'desk' (and also easily purchase a real estate agents licence) from a RE/MAX office and begin selling properties. From this point onwards the industry standards began to alter. Other changes that affected the industry were the influence of technology and the establishment of Myhome.ie and Daft.ie, online property listings websites which revolutionised the advertisement of properties for sale or rent. Previously real estate agents would take out print ads in newspapers to showcase the properties they had for sale or rent, a very costly method and usually reserved for the larger real estate agents. In contrast Daft.ie began to offer online listings service, initially for property rental but soon for properties for sale and so independent real estate agents for a minimal cost, were now able to place ads online and reach a larger audience.

However with the threat of the international competitor RE/MAX entering the market, in early 1999 SherryFitzgerald adopted the franchise model and in doing so fundamentally changed the rules of the game in terms of competing in the industry. Once these changes occurred in the late 1990s a change in industry concentration was apparent. A small number of key players emerged who began to expand and grow rapidly and branding became important in terms of aiding national expansion. The franchise systems such as SherryFitzgerald, RE/MAX and DNG (from 2004) began to dominate the industry. Therefore RE/MAX was the one international competitor to have a major influence on the industry and prompted the introduction of franchising, though, RE/MAX was a only a key player for about a decade until the 2008 economic crisis and industry regulation changes. Thus as a result of RE/MAX entering the market increased international competition was a driver in the emergence of franchising in the real estate industry.

8.12.2 The Importance of Branding

Branding and company image became increasingly important in the real estate industry during the late 1990s, in particular the importance of brand building and development. Branding ultimately would help consumers to differentiate between firms and their offerings and was a key benefit of franchising. In the real estate industry, agent's reputation and trust were key qualities needed in terms of their service offering. Most new franchisees were already independent operators working in their local region who would decide to join a franchise system (the franchisor). Moreover, the individual franchisees local knowledge and reputation as well as customer trust were important and ultimately franchisees benefited from the franchisors branding capabilities and operational efficiencies. SherryFitzgerald decided to adopt franchising as an expansionary tool, branding and marketing vehicle and as a strategy to ward off the threat of the international competitor RE/MAX. In the real estate industry prior to the introduction of franchising the establishment of the two trade

associations helped to improve the image of the industry, provide training and information sharing, collective action and to offer guidelines in operational issues such as setting real estate agents' fees. However, the trade associations were there in a supportive and information giving capacity to all members. The introduction of franchising enabled firms to strategically build their brands and gain consumer loyalty in the process, helping these firms gain increased market share and competitive advantage for individual franchise systems and offering many of the services previously provided by the trade associations.

8.12.3 The Emergence of Industry Standards and Self-Regulation

The real estate industry exhibited evidence of industry self-regulation activity prior to the introduction of franchising. Defined by a lack of major developments within the industry context, industry self-regulation was a dominant strategy used by the real estate industry and promoted by the two industry trade associations up until 2004 when regulation was introduced (the IAVI was involved with developing the industry regulation guidelines). Industry regulation prior to this period was relatively laissez-faire with some requirements for agents setting up new practices. The lobbying activities of the two trade associations were mostly driven by changes in context, such as increasing competition, expanding boundaries, and threats to the reputation of the real estate industry which posed a threat to the associations' power and/or resources. Therefore it appears that initially franchising was viewed as a competitive threat to the function of the two trade associations. Many services offered by the trade associations were similar to those offered by franchise systems to their franchisees. Previously the trade associations helped to establish codes of conduct and develop and maintain industry standards as well as improve the image of the industry and reduce the need for industry regulation. In recent times the power of the trade associations has diminished and the franchise systems and co-operative associations have begun to lead the way in terms of setting industry standards and best practice. The industry in 2011 witnessed the merger of the IAVI and the SCS Society of Chartered Surveyors to form the new Society of Chartered Surveyors Ireland (SCSI) representing up to 4000 property and construction professionals. This move is evidence that the IAVI was losing its hold on the real estate industry and the amalgamation has helped it broaden its scope to include all property and construction professionals. The emergence of franchising was a key factor in the continued industry self-regulation and the reduction in power of the trade associations.

8.13 ACTOR/AGENT

8.13.1 Entrepreneurship

The case material reveals that entrepreneurial activity and influence played an important role within key firms in the real estate industry specifically in relation to the emergence and adoption of franchising whereby some individual leaders championed the introduction of the franchising model within their own firm. Thus this type of entrepreneurial vision served as an exemplar for others to

follow. In the real estate industry entrepreneurial activity at firm level enabled the introduction of franchising, in particular entrepreneurial firms who quickly adapted to new business model of franchising, brought about firm level efficiencies, branding dominance, investments in technology, high organizational standards and organisational growth and expansion. In the real estate industry most firms were small independent start-up real estate agents with perhaps one or two individual real estate agents running them. However there were a number of key firms who stood out as being more visionary and entrepreneurial in their strategic approach. In particular, SherryFitzgerald under the entrepreneurial guidance of co-founder Phillip Sherry and co-founder and CEO Mark Fitzgerald adopted franchising in 1999 under threat of RE/MAX's entry to the Irish market. Therefore, after the adoption of franchising SherryFitzgerald quickly grew to be one of the largest estate agents in Ireland. Following on from this success, in 2004 DNG under the entrepreneurial vision of CEO Keith Lowe also adopted the franchising model and today SherryFitzgerald and DNG are the two industry leaders.

8.14 Q2 – WHAT IMPACT DOES FRANCHISING HAVE ON INDUSTRY STRUCTURE IN THE REAL ESTATE INDUSTRY?

The emergence of franchising in the real estate industry took place in 1999. The approach taken in this study to define industry structural change suggests that industry evolution is not limited to changes in industry demographics. It requires a broader approach and should consider other developments at the industry level, for example the emergence of new institutions, transformation of products and organisations, or development of capabilities. Hence, the role of franchising in these broader developments constitutes its impact on the evolution of industrial structures. Thus case analysis identifies that the adoption of franchising played a vital role in the real estate industry's evolutionary pattern. This was exemplified in the following outcomes explored in this section; franchising and the expanded number of outlets, industry concentration, introduced industry leaders, new segments, development of industry and firm-level capabilities, development of networks and relationships and industry self-regulation.

8.14.1 Franchising – Expanded Number of Outlets

Franchising as an organisational structure emerged in the Irish real estate industry in 1999. From that time onwards only three firms have successfully adopted franchising and each have opened multiple franchise outlets enabling them to dominate the industry in terms of market share. Two of these franchise systems are indigenous and one international. In terms of the rate diffusion of franchising the rest of the industry remains unchanged with the majority of these firms operating as independent real estate agents, in recent years some real estate agents have joined co-operatives in light of the dominance of the franchise systems. Certainly it is relevant to note that soon after the introduction of franchising, Property Partners a real estate agent Co-op was established in 2000 as a response to the success of the franchised chains, and was formed to help independent real estate

agents compete with the leading franchise systems and their brands. However, in spite of this the two industry leaders are the franchise systems SherryFitzgerald and DNG with Property Partners Co-op a close third.

8.14.2 Industry Consolidation

There appears to be major firm level changes once individual firms adopt franchising, they begin to gain organisational capabilities and organisational power, which in turn generates changes in industry-level relationships, and eventually results in changes in industry structures and changes in industry concentration.

1920s	1940s	1970s	1980s	1990s	2000s	2010s
4 leading firms**	3 new leaders	IAVI renamed	5 firms dominate	6 firms dominate	3 firms dominate	2 firms dominate
IAA formed	Lisney (1922)	IPAV formed	Lisney, HOK,	Lisney, HOK,	SherryFitzgerald 104*	SherryFitzgerald 98*
67 agents	HOK (1928)	Education key	SherryFitzgerald (1982)	SherryFitzgerald,	RE/MAX 80*	DNG 90*
	JacksonStops (1924)		and Gunne (1981)	Gunne, RE/MAX (1999),	PropertyPartners (2000) 60*	PropertyPartners 40*
	580 agents		DNG (1983)	& DNG	DNG 10*	RE/MAX 20*
			Mergers occur	Franchising occurs	469 total firms	Lisney 6*
					157 Dublin firms	Gunne 5*
*Number of outlets						
** The four leading firms: Battersby and Co. (1815), James H. North & Co. (1829), Ganly and Sons (1847) and James Adam and Sons (1887						

Table 8-6 Timeline of the Irish Real Estate Industry

The real estate industry has undergone significant changes, and the number of real estate firms and agents has increased decade by decade (see industry timeline table 8.6 above). However, it has only been in recent years, that the level of industry consolidation has intensified. By 1995 the number of Irish real estate firms was reaching over 300 nationwide. The industry was changing once again, there was increased market growth, increased residential sales which encouraged new entrants into the industry and in particular international competitors were attracted to the Irish market. From 1995 onwards the housing boom resulted in an unprecedented increase in apartment developments. In 1996, according to The Irish Times, the four biggest Dublin residential sales agencies were Sherry Fitzgerald, DNG, HOK and Gunne, handling 71 per cent of the 1,221 auctions for that year. The top five firms in the late 1990s, according to Business & Finance were, in alphabetical order: Gunne, Hamiltion Osbourne King, Jones Lang Wooton, Lisney and Sherry FitzgeraldGerald.

Contextual pressures forced the industry to remain structurally fragmented with only a few notable industry leaders and this remained the position until the late 1990s when franchising was introduced. After which the development of new capabilities emerged (at firm and industry level) and expanded the power/level of control of the franchise systems such as SherryFitzgerald, RE/MAX and later DNG which ultimately led to increased industry concentration. Consequently, the industry-level power arrangements and real estate industry structure underwent some transformations from 2000 onwards. Thus changes to industry level relationships, and correspondingly to industrial structures, resulting from the emergence of franchising.

However, Ireland's economic bubble burst during 2008 bringing major change to the industry and by the second quarter of 2012, house prices had fallen by 35 per cent, compared with the second quarter of 2007, and the number of housing loans approved, fell by 73 per cent. The fall in domestic and commercial property prices contributed to the Irish banking crisis. As of first quarter of 2012, prices continue to fall. In 2012, of the 1200 real estate agents, approximately 470 were in franchise or quasi-franchise groupings. Although only 30 per cent of these firms had over 75 per cent of the total market share. Current opinion is that the industry has already consolidated and further consolidation may be accelerated by the economic downturn. It is evident that there are currently two leading firms in the industry, DNG and Sherry Fitzgerald, both of which are franchise systems who the co-operative Property Partners in third position. The majority of industry incumbents are small independent real estate agents operating in their local region, similar to their industry founders over 100 years ago.

8.14.3 New Industry Leaders

Once franchising was introduced in the real estate industry the industry underwent significant transformations that reflected changing macro-environmental and industry factors. By the end of the 1990s five firms were leading the industry: SherryFitzgerald, DNG, Gunne, Lisney and HOK. During this time one of the most important events in the Irish real estate industry was the emergence of franchising as an organizational structure by SherryFitzgerald in 1999 following increased industry competition and the threat of entry from the U.S. franchise system RE/MAX. SherryFitzgerald began to use franchising as a means to expand nationally and to build a brand that would be recognizable outside of Dublin.

The Celtic Tiger took hold and from the late 1990s onwards the property industry was in its biggest boom period on record. From 2003 onwards, enormous changes were happening in the Irish real estate industry. Ireland was still in the throes of an economic boom, and competition was increasing with seven major real estate agents: Sherry Fitzgerald, Douglas Newman Good (DNG), RE/MAX, Hamilton Osbourne King (HOK), Gunne, Lisney and Property Partners (Co-op) dominating the industry. The two franchisors Sherry Fitzgerald and RE/MAX were the market leaders but in 2004 another firm would compete and vie for industry leadership. Douglas Newman Good (DNG) adopted franchising in order to compete with Sherry Fitzgerald and RE/MAX. By 2004 the market leaders were the three franchise systems Sherry Fitzgerald had 90 franchised outlets, RE/MAX had 80 franchised outlets, and by the end of 2004 DNG had 16 Dublin offices and 25 franchised outlets (see table 8.7 below). As a result of the dominating franchisors a number of independent real estate agents set up small quasi-groupings such as Property Partners, ERA (Real Estate Alliance) and Property Team, all of which were nationwide co-op networks. Property Partners and ERA and Property Team in total had approximately 60 outlets.

Real Estate Brand	Number of outlets
SherryFitzgerald	90 franchises and 14 company owned
RE/MAX	80 franchises
DNG	26 (10 franchised and 16 company owned)
Property Partners and Property Team	60 outlets

Table 8-7 Real Estate Agents' Number of Outlets 2004

(Source: annual returns and outlet number information was obtained by contact with each company's head office)

By 2012 there were seven leading residential real estate agents in Ireland namely; Sherry Fitzgerald, DNG, Hamilton Osbourne King (HOK), Gunne, Lisney, RE/MAX, and Property Partners (a co-operative organization based in Galway comprised of independent property real estate agents) see table 8.8 below. The industry consists of a large number of small independent real estate agents who have built up a reputation within their local area.

Real Estate Brand	Number of outlets 2012
SherryFitzgerald	84 franchises & 14 company-owned
DNG	90 franchises
RE/MAX	20 franchises
Property Partners and Property Team	40 outlets
HOK (Savills)	5 outlets
Gunne	5 outlets
Lisney	6 outlets

Table 8-8 Industry Leaders Number of Outlets 2012

(Source: annual returns and outlet number information was obtained by contact with each company's head office)

A recent change in RE/MAXs strategy from 2008 onwards they embarked on a claw-back of their franchisee operations from 80 outlets down to 20 outlets this can be attributed to changes in industry legislation (not permitting unqualified people to act as property agents) and to the 2008 economic downturn which contracted the industry as a whole. Another development has been the success of the co-operative, Property Partners since its formation in 2000 (and as a consequence of the success of the franchise systems) a number of independent real estate agents decided to form a collective organisation and unified co-operative brand. In 2012 the co-operative held third place in the industry with over 40 outlets nationwide. However, in recent years, SherryFitzgerald and DNG have emerged as the two industry leaders, the firms claim to hold 60 per cent of the total market share. Sherry Fitzgerald claims to hold the number one position in the industry with DNG in second position, based on sales and outlet presence. They both have a national presence in Ireland,

and have grown using franchising as a business model. Branding and operational efficiencies, are the cornerstones of the franchising model, and have provided the bigger franchise systems with a competitive advantage over smaller independent firms. Once franchising emerged the industry has become dominated by two key national franchise systems.

8.14.4 Emerging Segments

Once franchising emerged, there is evidence that new industry segments developed. In the real estate industry, the two trade associations had an industry self-regulation strategy. In the first half of the 20th century they successfully retained members' power and prevented non-member real estate agents from accessing certain privileges. The real estate industry trade associations were opposed to the removal of industry barriers such as permitting non-qualified agents to operate. The 1990s brought with it the emergence of franchising as a growth model for a number of industry incumbents. Overall the industry witnessed a few large firms who began to dominate and competition amongst independent real estate agents increased. International real estate agents began to enter the market as a property boom began. However, there appeared to be an issue arising with regard to the entry of RE/MAX into the Irish real estate industry as the company had an American system of setting up new agents that didn't have relevant qualifications. RE/MAX's franchising model did not require that their real estate agents be qualified or even full time, and so unqualified franchisees could purchase a 'desk' from a RE/MAX office and begin selling properties. From this point onwards the industry boundaries began to become blurred and the industry experienced emerging new segments. The industry trade associations had a major issue with this operating model and lobbied against such practices and in a way created barriers to entry. Ultimately the trade associations were successful in lobbying for increased industry entry barriers and new legislation was introduced in 2004 which limited membership to the industry to unqualified individuals.

Other changes that prompted the emergence of new segments in the industry was the influence of technology and the establishment of Daft.ie, an online property listings company which revolutionised the advertisement of properties for sale or rent. Previously real estate agents would take out print ads in newspapers to showcase the properties they had for sale or rent, a very costly method and usually reserved for the larger real estate agents. In contrast Daft.ie (followed by myhome.ie) began to offer online listings service, initially for property rental but soon applied to properties for sale and so independent real estate agents, at for a minimal cost, were able to place ads online and reach a large audience. When assessing the impact of the emergence of franchising in the real estate industry, franchising helped certain firms to develop capabilities which enabled them to dominate their industry. As a result further new industry segments emerged and evidence of this was with the formation of the co-operatives and real estate agents alliances such as Property Partners, ERA etc. which were in direct challenge to the impact of the franchising systems. Due to

increased competition in the industry, Property Partners was established in 2000 as a co-operative of National Property Consultants. They claimed to provide an unrivalled service, by utilising the strength of their network of offices throughout Ireland. Each office, within the co-op, would run as an independent real estate agent (already established), yet would benefit from a pool of property information and marketing collateral. In addition they gained a national reach and again by collective action helped to create barriers to entry of new real estate agents. Furthermore the two leading industry firms are SherryFitzgerald and DNG who both utilise the franchising model and by their success and dominance have helped to create barriers to entry by their branding power and operational efficiencies and national presence.

8.14.5 Development of Firm Level & Industry Level Capabilities

Among other things the capabilities of an industry generally include issues like reputation, general level of industry knowledge, and the ability of industry players to adapt to a changing external environment. The real estate industry had problems with its image due to a lack of trust by the general public. Changes at economic and industry level, however, required the industry to work on improving the way it was perceived by the general public. Since the 1980s, following a number of issues in each industry, image and transparency of industry players became particularly relevant. Thus firm level capabilities such as branding and marketing strategies, as well as improvements in operational standards and service were increasingly important and helped to improve the overall image of each industry.

In the real estate industry franchising brought many benefits to the industry such as increased branding capabilities, and increased operating efficiencies, both at firm and industry level. Franchising also allowed increasing legitimacy of firms, particularly in the eyes of consumers; a franchised system offered branded credibility to new entrants nationwide when compared to the small local independent real estate agents who usually spent years building credibility in their local region. Franchising fundamentally changed the business model at firm and industry level, and enabled the early adopters to gain first mover advantage and increased capabilities over rival firms, as well as raising overall industry level capabilities.

8.14.5.1 Branding

Franchising as s system offered increased legitimacy for firms especially in the eyes of the consumer and offered independent outlets (once they become franchisees) credibility as part of a nationally branded chain. Therefore franchising enabled the development of firm and industry level capabilities such as branding which were being demanded by consumers.

In the real estate industry franchisees were usually qualified real estate agents and would have already been operating as independent real estate agents. As previously mentioned, franchising

activities in the real estate industry commenced later than in the fast food/QSR industry and were less diversified. Amongst other factors, branding, marketing activities and operational guidelines adopted by franchise systems were driven by their need to expand and recruit franchisees. In addition these activities were also fuelled by the increasing threats of competition caused by changes in the macro-environment. These developments forced franchisors to offer an attractive franchisee package to include training activities, and information dissemination to ensure franchisees were aware of the latest developments within their industry. Franchising helped to created legitimacy from the consumer perspective and franchise systems benefited from a national brand identity and collective strength.

8.14.5.2 Dominant Design

Once franchising was adopted it changed the industry recipe and offering a successful dominant design that other firms would adopt or imitate. Prior to the emergence of franchising the two trade associations helped to set industry standards and best practice. However once franchising was introduced it helped to create a dominant design and standardization within the industry via codes of conduct and practice, brand development and focused marketing campaigns. Franchisors focused on information dissemination and training activities and thus helped to advance their franchisees knowledge of national and international challenges, brand development and IT training. Consequently, franchising helped to advance the knowledge base of franchise systems and contribute to the improvement of managerial systems and the knowledge and skills of the franchisor and their franchisees.

During this time information technology became important to the real estate industry. The leading, Dublin based real estate agents began adopting IT systems and developing their own company websites. This technology utilization would change the face of real estate forever, in terms of increasing operating efficiencies and consumer access to property information. Many older regional firms were to be left behind in terms of technology adoption and it was a race to see who would lead in terms of internet adoption and exposure. By the mid-2000s it was clear that in order to compete and secure a leading position in the real estate industry, firms would have to focus more on creating efficiencies and also concentrate on building their brands as such to following the dominant design set by the franchise systems.

8.14.6 Development of Networks & Relationships

Franchising helped to promote the development of networks and relationships throughout the industry and particularly amongst franchisees within their franchise systems.
Franchising also enabled the dissemination of information. In the real estate industry up until the emergence of franchising the trade associations had been the key distributors of information across the industry, holding training and development sessions and allowing members to come together

and share information. The real estate industry previously achieved self-regulation when the trade associations acted as informal regulators of standards across their members. However following the emergence of franchising the franchise systems began to provide information dissemination, promote industry standards and build relationship networks within their own franchise systems and at industry level.

8.14.7 Industry Self-Regulation

As well as creating increased firm level branding capabilities and operating efficiencies, franchising has fundamentally changed and improved the real estate industry's threshold standards of operations, branding capabilities and overall image. In Ireland in 1983, the Irish Franchise Association was established as a point of reference for firms considering franchising, as well as individuals wishing to become franchisees.

In the real estate industry up until the emergence of franchising the two trade associations; the IAVI and the IPAV helped to establish and maintain industry standards through membership requirements. However, once franchising was introduced the franchise systems effectively took over in terms of setting high levels of operating standards, codes of conduct and brand building. Indeed it became a situation of trade association v's franchise systems. In 2004 the industry faced a review in terms industry regulation. Since then the franchise systems have managed to adhere to the new industry guidelines with little changes needed. In 2004 the government had an impact on the real estate industry and after initiating a review of the industry a regulatory body was set up to monitor the industry and its practices. In 2005 the Auctioneering/Estate Agency Review Group was set up to assess and report on the real estate industry. Under the review, the two main Property Services Providers (PSPs) classifications were agency and professional services (including valuations and property management). In 2011, after six years of discussions, the IAVI and the SCS Society of Chartered Surveyors merged to form the new Society of Chartered Surveyors Ireland (SCSI). The SCSI will represent up to 4000 property and construction professionals.

CHAPTER 9 THE COMPARATIVE CASE ANALYSIS

The next section presents the comparative industry case analysis using the conceptual framework addressing Q1.and Q. 2 and looks to compare and contrast both cases under the relevant headings as explored previously in the individual case analysis sections and assessing differences and similarities.

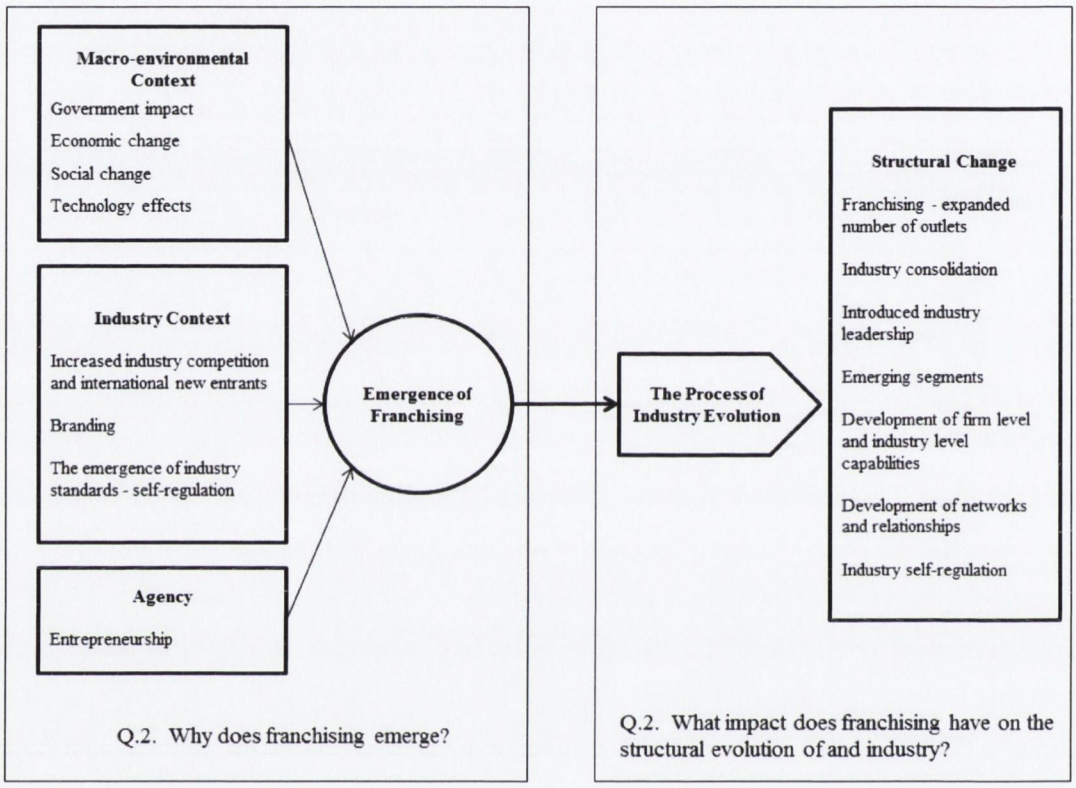

Figure 9-1 The Conceptual Framework – Comparative Case Analysis

9.1 Q1. WHY DOES FRANCHISING EMERGE?

The following section conducts a comparative analyse of the two industry cases using a meta-analysis as guided by the conceptual framework, beginning with the macro-environmental context, the industry context and the actor/agent role, and from this evaluating the emergence and impact of franchising on the structural evolution of both industries and assessing the similarities and differences (see the conceptual framework for the cross case analysis above in figure 9.3).

9.2 THE MACRO-ENVIRONMENTAL CONTEXT

Change in both the macro-environment and industry was driven by the forces of technology, consumer preferences, economic growth and a host of other influences. Change was both the result of external forces and the competitive strategies of the firms within each industry. Competition within the two industries was a dynamic process in which firms were vying for competitive advantage, only to see it erode through imitation and innovation by rivals.

In both cases the entry by an international franchise chain spurred a radical change in strategy for incumbents profoundly affecting both industries for the coming decades and prompting the emergence of franchising for the first time. However, there was a 20 year lag in terms of the time of the threat of entry or entry of the international competitor with regards to the fast food/QSR and real estate industry however, the effects of these new entrants was the same in both cases.

The impact of government directly influenced the introduction of franchising to both industries but was more immediate and directly influential with regards to the emergence of franchising in the fast food/QSR industry and 20 years later in the real estate industry. In addition both industries displayed other variations at times of dramatic economic change caused by economic recessions and economic booms. In terms of similarities between the two cases both industries have been affected by economic change which ultimately helped to promote greater efficiency, but also impacted the structural shaping of each industry, prompting new competitor entry during periods of industry growth and firm exits and consolidations during periods of industry contraction. Thus economic change has had a major effect on both industries and has helped to drive the emergence of franchising. In the fast food/QSR industry franchising emerged in a recessionary period. In direct contrast franchising emerged in the real estate industry during a boom period. However there appears to be a more dramatic and negative effect on the real estate industry with regards to economic change and economic recessionary periods whereas the fast food/QSR industry appears to be more robust and less vulnerable to these influences. Economic change meant that both industries became more competitive and firms within each industry had to develop strategies to survive. In both cases franchising was a means to overcome economic change at firm and industry level.

The cases reveal several dimensions to the increase in international competition. However, it is evident that the direct impact of increased international competition is different for each industry and has not been uniform over the period studied and perhaps the influence has been more direct and timely with regards to the fast food/QSR industry which happened 20 years earlier than it did in the real estate industry . Furthermore the emergence and adoption of franchising in Ireland was a result of the entry of international competitor McDonalds in the late 1970s. McDonalds brought into Ireland for the first time the fully formed concept of fast food/QSR's and the franchising model. Other international competitors entered into the market from 1980s onwards but McDonalds remained the true initiator of industry change and inspired indigenous fast food/QSR start-ups such as Abrakebabra and Supermacs who would drive the industry forward and adopt the franchising model. In contrast the real estate industry wasn't affected as quickly or as directly by the increase in international competition however, twenty years later when the same threat occurred the consequences were similar. From late 1990s the real estate industry experienced increased entry

of international competitors and in turn the demand for property (commercial and residential) and real estate services increased. In the late 1990s as a result of the threat of the U.S. RE/MAX franchise system entering the Irish market SherryFitzgerald in 1999 quickly adopted the franchise format and began to expand nationally. RE/MAX entered the Irish market shortly after and both of these companies helped to create major industry change, as a result of their success DNG followed suit and adopted franchising in 2004. Indeed the government's outward reaching policies of the 1950s, 1960s and the free trade initiatives of the 1970s had a lasting impact on both industries allowing new international entrants to set up in Ireland. These new competitors brought new ways of doing business (such as franchising) and created increased international competition. Economic development would therefore sow the seeds for the prosperous Celtic Tiger years. Subsequent government influence since the 2008 recession has been once again to try and stimulate economic demand and international trade and foster industrial development and economic growth for the future. The threat and the inevitable introduction of international competition encouraged the emergence and adoption of franchising into both industries at different points in time but will similar consequences.

Social change has also had a great influence on the adoption of franchising in both cases. Comparatively social change has probably had a slightly greater impact on the fast food/QSR industry in terms of the immediate and swift emergence of franchising in the late 1970s when compared to the emergence of franchising twenty years later in the real estate industry. Furthermore in both industries franchising can be seen as a new technology in itself and has had a major influence on the emergence of many now standardized practices promoted initially by the larger franchise systems. In addition new technologies adopted by firms also enabled the rapid adoption of a dominant design in both industries of which became widely imitated once shown to work. This technology played a significant role in the evolution of the two industries studied. While the evidence suggests that the benefit sought was usually increased efficiency, technology also helped give franchisors more power and control over their franchisees, as well as allowing online presence of firms and business to business communications. Therefore technology has had a great influence on the emergence of franchising in both industries but there is significant evidence to suggest that the rapid adoption of information technology has had the greatest effect on the real estate industry. However, there is evidence that the adoption of technology as a dominant design was more intense and swift and happened 20 years earlier in the fast food/QSR industry.

9.3 THE INDUSTRY CONTEXT

Analysis of the context of the Irish fast food/QSR and real estate industries and the subsequent emergence of franchising suggests that these industries exhibited the features of comparative cases. Therefore, both cases also showed evidence of structural differences across a range of factors. Firstly, in terms of longevity, the Irish real estate industry was established before the fast food/QSR

industry; however franchising emerged in the fast food/QSR industry twenty years before it was introduced into the real estate industry. Secondly, there is a considerable difference between the industries' demographic characteristics, roles, experiences, capabilities, and the power of their players. However, both industries were fragmented prior to the introduction of franchising. For example in the real estate industry until the introduction of franchising there were very few dominant real estate agents. Most industry competitors were small and economically insignificant. In the fast food/QSR industry the industry demographics were also characterised by a large number of small independent firms, which also exhibited industry fragmentation. Both industries were affected by increased international competition and prior to this were both highly fragmented. In the fast food/QSR industry McDonalds entered the Irish market in 1977 and in the real estate industry REMAX entered in 1999. In terms of the fast food/QSR industry McDonalds, perhaps the most influential international competitor entered the Irish market. McDonald's entry was pivotal to bringing change to the Irish fast food/QSR industry at the time as the company was the first to introduce the franchising concept to Ireland. The evidence from the fast food/QSR industry shows immediate and direct correlation between the outward looking policies of the 1970s, the increased competition and international new entrants of the late 1970s and early 1980s. From the 1980s onwards there was an influx of international competitors into the Irish marketplace. During this period there was also a distinct expansion of food segments within the fast food/QSR industry. Entry of international competition into the Irish market has continued to the present day. In contrast in the real estate industry the outward looking economic policies and free trade initiatives of the 1970s, which were meant to attract overseas investment into Ireland, had no great impact on the industry directly. However, that changed twenty years later in the late 1990s when international competition became an issue with the threat of the international competitor RE/MAX entering the market. In 1999 SherryFitzgerald adopted the franchise model and in doing so changed the rules of the game in terms of competing in the industry. Once these changes occurred in the late 1990s a change in industry concentration was apparent. RE/MAX has been the one international competitor to have an influence on the industry and prompted the emergence of franchising. Thus increased international competition was a driver in the emergence and adoption of franchising in the real estate industry.

The adoption of franchising was preceded by increased competition and international new entrants in both cases. In addition the increasing competitive demands of the industry with the need for high levels of service, brand development and cost efficiencies, encouraged many firms to adopt the organisational structure of franchising. Overall, following changes in the macro-environment and the subsequent increased international competition, both industries saw the emergence of franchising. Moreover, following these changes franchising as an organisational structure helped firms to expand into new industry segments propagating its norms and values, and increasing firm's potential for success. However, in balance it appears that international competition has

affected the fast food/QSR industry more profoundly and earlier than the real estate industry. Indeed without the international entrant RE/MAX the real estate industry may not have adopted the franchising model so both industries were affected in a similar way but at different points in time.

In both cases from the 1990s onwards, most franchise systems began to engage in brand building as well as knowledge dissemination activities. Throughout the 1990s and 2000s the increased demand for business transparency, full information, and ethical practices forced firms to develop PR and information campaigns aimed specifically at their end customers. For example, most firms developed web sites promoting their activities. In both industries some firms believed that unfavourable changes in their macro-environments and industry could be ameliorated by adopting franchising and both industries witnessed the correlation between the emergence of franchising and brand building and development. Brand building was equally important in the two industries and it was of particular necessity in the fast food/QSR industry when differentiation was needed across the industry's generic product and service offerings. In relation to real estate services branding building helped to impart much needed consumer confidence in the industry.

In both industries there is evidence of industry self-regulation. However, ultimately the real estate industry exhibited greater evidence of industry self-regulation activity than the fast food/QSR industry. The contextual factors that triggered this varied across each industry. The influence of self-regulation and trade associations differs greatly between the two industry cases. These differences were consistent with contextual differences at industry-level. In summary the emergence of franchising enabled both industries to further develop self-regulation strategies but the effects were more profound in the real estate industry when compared to the fast food/QSR industry.

9.4 ACTOR/AGENT

In both cases entrepreneurial activity at firm level has been seen to promote greater efficiency, in particular entrepreneurial firms who quickly adapted to new business models such as franchising, brought about firm level efficiencies, branding dominance, investments in technology, high organizational standards and organisational growth and expansion.

The influence of entrepreneurship in the identification and emergence of franchising as an organisational model is equally relevant to both industries and is as importance a factor in the emergence of franchising as the macro-environmental context. The firms who adopted franchising were clearly entrepreneurial, with a vision and focus for strategic growth and increasing market share, acting as innovators and drivers of change in their industries. Each case demonstrates how individual entrepreneurs served as archetypes for others, raising standards and expectations throughout their industry and setting new performance criteria primarily through innovation and

sheer determination. All of the entrepreneurs mentioned have given a sense of strategic direction and vision to their firms, with ambitions to grow, which led them to become some of the most successful in their industry, enabling their companies to continually innovate and develop new products and new markets. Clearly key individuals and firms act as drivers of change, though often in ways linked to both efficiency and power considerations. Thus the role of agency and entrepreneurship appears to affect both industries equally.

Overall the Macro-environmental and agency contextual factors were more powerful than the contextual factors. However, the time lag of 20 years from when franchising emerged in the fast food/QSR industry compared to the real estate could be justified by the differing macro-environmental context and as such the threat of entry of an international competitor and also the industry contextual factors prominent at the time of the emergence of franchising.

9.5 Q2 – WHAT IMPACT DOES FRANCHISING HAVE ON INDUSTRY STRUCTURE?

Analysis of the data shows that reactions and patterns emerging in the fast food/QSR and real estate industries, once franchising emerged ultimately led to a degree of industry restructuring. This is of particular relevance to this study which explores the impact of franchising on the structural evolution of industry as its main research question. The emergence of franchising is taken in the context of macro-environmental change and can be seen to benefit multiple industry stakeholders including; customers (by improving product and services), the firm level (with benefits of efficiency gains and branding benefits) and at an industry level (as protection from increased competition). For both industries the adoption of franchising helped increase firm sales, operating efficiencies and brand development. This adoption also provided a level of standardisation in terms of operations and on-going economies of scale, as well as providing set up services, advisory services, standard setting, R&D, training services, and marketing and PR activities. Once franchising emerged at industry level some of the benefits seen in both industries included: the standardisation of products and services, marketing campaigns to increase customer loyalty and the development of training programmes to increase franchisees' operational capabilities. Ultimately franchising aided firm level organisational efficiency, branding and growth strategies – as well as speed to market - all essential in tackling increased industry competition.

Franchising as an organisational structure emerged and evolved within the Irish real estate and fast food/QSR industries, and exhibited dramatically different characteristics in terms of timeline and rate of adoption. Structurally franchising has had a substantial impact on both industries albeit at different points in time. However it appears that in the fast food/QSR industry franchise adoption and diffusion took immediate effect and the key industry leaders were franchise systems (with large numbers of outlets per franchisor) and the rest of the industry comprised of independent operators. Franchising emerged early in the fast food/QSR industry in 1977 with the entrance of the US chain,

McDonalds, resulting in both international and indigenous firms quickly embracing the model. Within a few short years other industry competitors quickly adopted the franchising model and expanded by opening multiple franchisee outlets which ultimately changed the industry makeup. Once franchising was introduced in the fast food/QSR industry the rate of adoption was swift with individual franchisors opening up multiple franchisee outlets. In contrast franchising as an organisational structure emerged and evolved within the Irish real estate industry, twenty years later in 1999. From that time onwards only three firms have successfully adopted franchising and become franchise systems (each with their own network of franchisees and expansion of outlets) two of these franchisors are indigenous and one international. In 2012 the two industry leaders franchise systems and the third biggest competitor is a co-op – all three competitors share 60 per cent of the market. The majority of firms in the industry remain small independent real estate agents.

There appears to be major industry changes once firms adopt franchising, they began to gain organisational capabilities and organisational power, which resulted in changes in industry-level relationships, and eventually in industry structural change as well as adjustment to industry concentration. Therefore in both cases key franchise systems became dominant players and opened up multiple outlets nationally which ultimately led to industry consolidation amongst a few franchisors. The analysis helps uncover how firm level adoption of franchising emerged as a result of certain macro-environmental conditions, industry factors and agency influences and consequently the impact that franchising strategies had on structural evolution of both industries. It appears from the data that reactions and patterns emerging from the two industries once franchising emerged which ultimately led to a degree of industry restructuring. Franchising aided firm level organisational efficiency, branding and growth strategies – as well as speed to market - all essential in tackling increased industry competition. The fact that important structural changes across the two industries took place at different times suggests divergent contextual pressures occurred at different points in time prompting the adoption of franchising. However, there is clear evidence in both industries that the impact of franchising created changes to industry level relationships, and correspondingly industrial structures, all of which resulted from the emergence of franchising.

Franchising has also influenced power arrangements within both industries. The main franchise systems became the dominant operators. The case analysis shows that power-related changes in industrial structures were often caused by increased capabilities, resulting from firms' adoption of franchising. Moreover, both industries exhibit evidence of changing power arrangements and it appears that franchising created a shift in power towards the franchise systems as they began to dominate their industry and a clear reaction to this was the formation of firm associations or co-operative alliances as witnessed in both cases.

Once franchising was adopted, there is evidence that an emergence of new segments occurred. In the fast food/QSR industry during the early 1990s convenience and fast food began to be offered in pubs and petrol stations and not just in fast food/QSR outlets. Franchising once it took hold in the industry, enabled the emergence of new segments, as well as changing the boundaries of the industry. In the real estate industry once franchising was adopted, there is evidence that new segments also emerged. In the real estate industry prior to the introduction of franchising the majority of real estate agents were qualified and usually members of a trade association. However RE/MAXs franchising model did not require that their real estate agents be qualified or even full time, and so unqualified franchisees could purchase a 'desk' from a RE/MAX office and begin selling properties. Other changes that affected the industry were the influence of technology and the establishment of Daft.ie (and myhome.ie), an online property listings company which revolutionised the advertisement of properties for sale or rent. In both cases after the adoption of franchising there has been a definite shift and emergence of new segments across both industries albeit at different periods of time.

Franchising in both industries helped to create increased firm level capabilities, operating efficiencies, and a fundamental change and improvement in the industry's standards and image thus raising the bar in terms of the industry's threshold capabilities. In both cases franchising has helped to legitimise firms and create a branding differential in the eyes of the consumer. Franchising has helped drive the development of branding in both industries, and became such a threshold capability, that firms who wanted to compete needed a strong brand as an essential component of their strategy. In both cases it appears that once franchising was adopted it changed the industry recipe and offered a successful dominant design that other firms would imitate and adopt. In both cases a dominant design which included standardisation and codes of conduct and practice were developed and implemented by the franchise systems, and altered structures of both the fast food/QSR and real estate industries. Franchising has helped create a dominant design in terms of best practice in the industry and gave competitive advantage to the franchise systems over independent operators. Franchising helped improve firm's operational efficiencies, reduce costs and increase profits. The operating model of the business format franchising promotes a dominant design and standardisation across a franchise chain – with franchisees following a pre-determined operations manual and approved methods of business operations to achieve the highest levels of efficiency and high quality service and product offering which in both cases became the industry benchmark or best practice.

Franchising has also helped to promote the development of networks and relationships in both industries and particularly amongst franchisees within their franchise systems and it has even helped to prevent State Regulation by encouraging industry self-regulation and cooperation.

Franchising helped promote the development of networks and relationships throughout the industry both at firm and industry level.

However, once it emerged franchising has helped to set best practice and industry standards in both industries. The fast food/QSR industry has been successful at self-regulation and avoiding government regulation. In the fast food/QSR once franchising was adopted it enabled industry wide improvements in the quality of food and service, thus raising the bar in terms of the industry's threshold capabilities. In contrast the real estate industry prior to the emergence of franchising had the two trade associations help the industry to self-regulate and after franchising emerged the franchise systems helped to set standards and ward off regulation. However, in recent years due to some questionable operating practices the government in 2004 stepped in and carried out a formal review of the industry and set some regulatory guidelines. Since then the franchise systems have adhered to the new industry guidelines with little changes needed and therefore have maintained a level of industry self-regulation. Indeed franchising has still had a profound effect on helping to set high standards in terms of best practice, branding and operations and thus enabled a degree of industry self-regulation in both cases.

This chapter presented the individual and comparative case analysis. The next chapter is the final chapter offering a discussion and conclusion on this study.

Industry level differences: Fast food/QSR (FF/QSR) and Real Estate (RE)
Different time frames of the emergence of franchising FF in 1977 v's RE in 1999
In FF/QSR franchising is dominant form whereas in RE still many independents and co-op
Trade association impact on RE entry not so in FF/QSR
Education and training important entry requirement in RE. Initial training only important in FF/QSR for franchisees
Franchisee selection different in RE need for qualifications most agents already with a practice. In fast food/QSR industry some conversions but more franchisees new to the industry no educational requirements
Historically legislation important role in RE not so in FF/QSR only Health and Safety since mid-1990s
Competitive differences in both industries in FF/QSR much more competitive and especially in the late 1990s, national dominance important (economic boom)
Economic cycle's affect both industries differently RE growth occurred during boom and FF/QSR growth occurred during recession

Industry level similarities: Fast food/QSR (FF) and Real Estate (RE)

Branding and operational efficiency as well as speed of expansion important in both industries
Social change affecting consumers in RE (increased travel), in FF/QSR cultural changes and tastes changed as well as women working outside the home
Franchising helps firms to develop branding and gain nationwide dominance quickly, set up costs reduced and operational efficiency increased as well as bulk buying or franchise systems cost reductions/discounts
Consumers respond to brands and trust in a brand in FF/QSR branding important as products are similar basic goods – trust important in RE for customers as property is usually the biggest purchase people make in their lifetime
International competition and economic growth cycles affect both industries

Table 9-1 Emergence of Franchising in Fast food/QSR & Real Estate Industry

Fast food/QSR Industry Timeline	
1920s	Fish and chip shops – small independent firms
1950s	Fish and chip shops are nationwide but industry still small independent firms however, eating more outside the home increased – expansion of fish and chip menu new food offerings
1950s and 1960s	People stated to travel abroad and experience new cultures and the first Indian and Chinese restaurants opened in Ireland
	Cultural shift from women staying at home to women working out side of the home and need for convenience food from 1960s onwards
	Fish and Chip shops only dominated the industry until 1970s run mainly by immigrated Italian families
	Industry fragmented
	The first burger brought to Dublin 1960s into chippers
	Spice burgers, become popular which were invented in the early 1950s
	Hamburgers gave rise to fast food/QSR and shift from traditional fish and chip shops
	Also franchising introduced in the late 1970s in 1977
1970s	McDonalds entered the Irish market – franchising first appears – changing consumer tastes
	Burgerland opened mid 1970s O'Connell Street, Mallow and McDonalds opens 1977 Grafton street Dublin, closely followed by another on O'Connell Street

	McDonalds needed to educate customers on how to eat without knife and fork and to pay for food before they ate it
1980s	New entrants – firms start to operate nationally and branding becomes important
	1982 Abrakebabra opened – offering new product of kebabs for the first time
	Influence of America on TV and ads on consumption so McDonalds from US people wanted to buy into the culture
	Pizza introduced 1984 by Four star pizza
1990s	Increased competition and international entrants – franchising increases and branding is key – franchising enables nationwide expansion – McDonalds, Abrakebabra and O'Briens are leaders
	Garages selling food late 1980s early 1990s and pubs then follow
	Late 1990s huge surge of growth aligned with economic growth, increase in workforce and two income households
2000	Boom period, industry very competitive as consumers have more choice – health issues important
	Cash rich. Time poor Celtic tiger
	Fast food/QSR industry growth during recession
2008	Recession and industry consolidates – multiband franchising emerges and franchising is essential to increasing margin and profit and branding is a key success factor – AIL, McDonalds and Supermacs are industry leaders all franchise systems
2010	ITICA – Irish Traditional Italian Chipper Association founded Feb 2010 more than 180 members out of 300 chippers
2012	Legislation not much evidence except for basic contract law, health and safety HSA and company law in the mid-1990s
	Many franchisees may have been operating previously as independent fish and chip shop and are converted to franchisees but many also are new to the industry

Real Estate Industry Timeline	
1920s	Independent real estate agents dominate, IAA forms to try to improve industry reputation and standards
	Industry founders would have been mainly auctioneers involved in cattle markets, auctioning cattle, furniture and then houses
	Pre 1920s and post, mostly auctioneers of houses and cattle marts
	In small towns generations of families passing on tradition of being estate agents
	Auctioneering seen as a profession which required a period of apprenticeship normally paid for by the apprentices

	Impact of IVAI on industry founded 1921
	Nationally real estate meant one town one agent
	Trust is a huge issue buying/selling the biggest personal asset need to trust a reputable operator
	Dublin largest market for housing with larger estate agents
1940s	Economic prosperity and new entrants manly in Dublin
	Economic boom and recessions dictate the levels of property activity and thus the demand for real estate agent's services
1960s	Property boom and industry prospers customer service important – (Industry growth)
	Government incentives in late 1950s and 1960s fuelled property for investment
	IAVI tried to gain standardisation of practices and education qualifications required to join association
	IPAV set up in 1970s for agents (many rural) the IAVI were turning away with or without qualifications
1980s	Recession and mergers occur for many firms survival – branding becomes important (New focus: image, branding, efficiency)
1999	SherryFitzgerald franchise and Remax enters Irish market – franchising enables nationwide expansion (Industry change: the impact of franchising)
	Closed industry no international players until late 1990s
	Industry up till late 1980s and 1990s highly fragmented
	1990s industry rivalry increases and mergers and acquisitions take place
	1999 industry first franchise systems with SherryFitzgerald and RE/MAX
2000	Boom period – industry growth and competition high (Managing New Challenges)
	Tension between IAVI and franchising which was seen as a threat to the trade association
	Does a franchise system provide all the monitoring that the IVAI does?
	Franchising brought IS/operating systems and codes of practice
	Branding and organisational efficiencies also major benefits of franchising
	2004 DNG largest Dublin player decide to franchise 80 franchisees within five years
	2005 review of the industry and regulatory body set up to monitor industry – issue with unqualified individuals setting up in RE/MAX franchise system
2008	Recession and industry consolidates – SherryFitzgerald and DNG emerge as leaders (industry competition: new structure)
	2008 onwards economic downturn having a huge negative impact on the industry
	2010 two major players remain SherryFitzgerald and DNG both franchise systems

	2011 IAVI and CSC merge
2012	Franchisees are chosen from agents who have previously been operating in the industry and have qualifications and experience

Table 9.2 Timeline of Fast food/QSR and Real Estate Industries

CHAPTER 10 DISCUSSION AND CONCLUSIONS

10.1 INTRODUCTION

The previous chapter presented the individual and comparative industry history analysis. This chapter links the theoretical and empirical propositions from the literature on franchising and industry evolution to the comparative case study analysis from this study. The chapter will follow the conceptual framework in order to explore the emergence of franchising and its impact on the structural evolution of industries. Therefore the central research question is: How does franchising impact industry evolution? In addition this chapter will discuss this study's contribution to knowledge such as the theoretical, conceptual, practitioner and methodological contributions. Finally, it will conclude with an overview of directions and implications for future research.

The main contributions of this study are that it provides a focused engagement with franchising over time. An opportunity to develop a clearer understanding of the relationship between franchising and its industry setting was identified - something not adequately covered in the existing literature. This research therefore allowed for an understanding of why franchising emerges in an industry along with its structural impact over time. It also introduced the opportunity to use industry evolution material to explain this – and therefore engaged with a need in the evolutionary literature to understand the emergence of new organisational forms/institutions such as franchising. The review of the franchising literature highlighted the fragmented nature of previous research and the role of franchising as a driver of industry-level change which has not been previously explored. The study also makes an empirical contribution by providing evidence on how the Irish fast food/QSR and real estate industries evolved over time, particularly in terms of structure as research in service sectors still suffers from the 'lack of empirical evidence' (Malerba and Orsenigo, 1996). By exploring franchising and its impact on the structural evolution of industry, this study enhances the franchising and industry evolution literature.

10.2 LINKING EMPIRICAL FINDINGS TO THE LITERATURE

This section will link the empirical findings to the franchising and industry evolution literature and will address the main research question: 'How does franchising impact industry evolution?' By firstly addressing the two sub-research questions: Q.1 Why does franchising emerge and Q.2. How does franchising impact industry evolution? See figure 9.1 below for conceptual framework addressing the research questions.

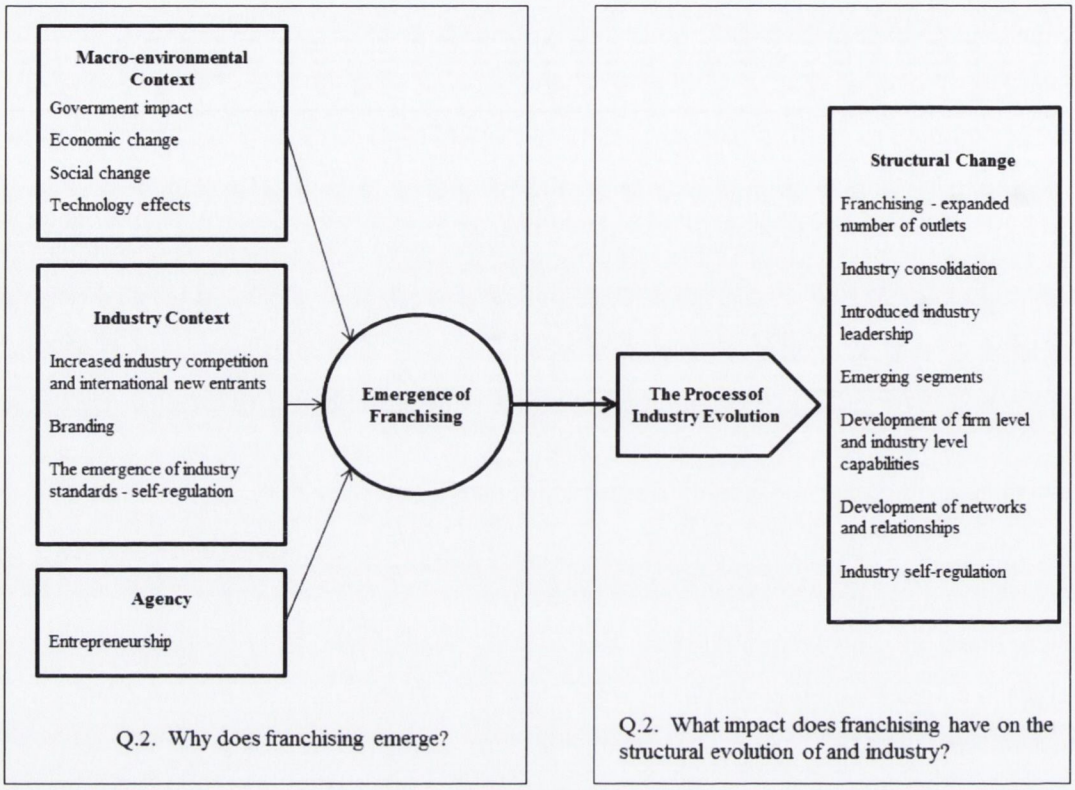

Figure 10-1 Conceptual Framework Addressing the Research Question:

10.3 WHY DOES FRANCHISING EMERGE?

This section explores the emergence of franchising and links this question to the literature on franchising and industry evolution and then assesses the relevance of the literature to the findings of this study.

10.3.1 Franchising

10.3.1.1 Importance of a Multi-level and Multi-modal Approach

Franchising research to date has mainly focused on the reason or decision to franchise at firm level mostly using agency theory and resource scarcity explanations. Little research has been conducted relating to the emergence of franchising at the macro-environmental level (government impact, economic and social change or technology effects) or the industry context (industry competition, branding or industry standards), so there remains a substantial gap in the research which this study looks to address. Furthermore to date franchising research has failed to assess the emergence and pre-emergence of franchising from a multi-level approach, and instead research has focused on the adoption rather than pre-adoption conditions of franchising and with a main focus on firm level issues as opposed to industry level analysis see figure 9.2 below.

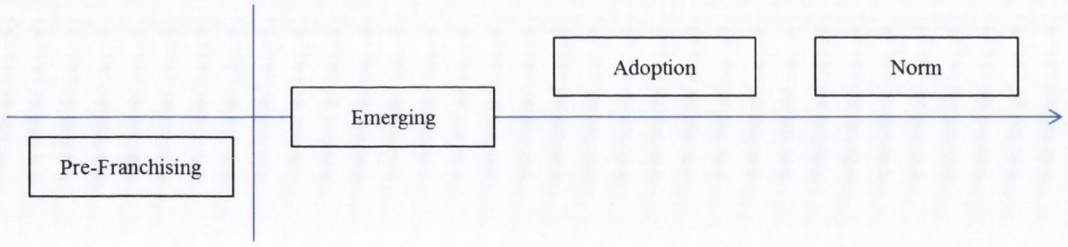

Figure 10-2 Pre-emergence and Emergence of Franchising

Therefore this study looks at the factors evident prior to the emergence of franchising from a multi-level approach incorporating macro-environmental and industry level and firm level in the two case studies under investigation. The data shows that in the fast food/QSR and real estate industries macro-environmental level changes including; environmental, governmental, economic and social conditions were important factors in the emergence of franchising as was the influence of industry competitive pressures and potential new entrants. In addition at firm level the influence of agency and entrepreneurs were instrumental in the adoption of the franchising model for their individual organisations. Despite the rapid adoption of the franchising concept, there is still a lack of understanding and consensus on the theoretical determinant and creation of this organisational form and business strategy (Inma, 2005). Due to several distinct structural properties of franchising, it offers ample opportunities to research topics of more general theoretical and managerial interest. This study investigates the exploratory power of different theoretical perspectives. In doing so it has looked at the franchising literature and has assessed its relationship to research on industry evolution using a multi-modal approach. In addition the complementary use of the five organisational level theories (transaction cost economics, agency theory, resource dependency theory, neo-institutional theory and population ecology) in explaining the emergence of franchising on industry evolution has been useful which will be addressed later in this chapter (see table 9.1).

10.3.1.2 Importance of Macro-environmental and Industry Context

As mentioned much of the literature pertaining to the emergence of franchising relates to firm level decision and choices. However, there is some research that looks at the environmental context but this is limited and focuses mainly on institutional theory. Notably Shane and Foo (1999) and Barthélemy (2011) look at franchising and link it to institutional theory which can help to connect some environmental factors to the emergence of franchising. The application of institutional theory has proven to be especially helpful to this stream of entrepreneurial research. However, even so the majority of franchising literature fails to properly address the macro-environmental conditions evident in the emergence of franchising (including government impact, economic and social change and technology effect) which this study looks to address. The literature suggests as highlighted by Elango and Fried (1997) that franchising is suited for environments characterized by intense competition, rapidly changing customer tastes, and a trend towards localized market segments. Indeed, one area of the franchising research that has been given attention is the

importance of the competitive environment (at the industry level) with regards to the adoption of franchising. Most industries and firms are having to face increasingly turbulent and ambiguous and hypercompetitive environmental conditions (Volberda, 1996, 1998; Brown and Eisenhardt, 1998). In these conditions, the need to search for and 'explore' new organisational forms appears necessary for organisational survival (March, 1991; Lewin and Stephens, 1993). The findings of this study show that in addition to increasing competition at industry level, the macro-environment of both industries became more demanding and as such firms needed to react to these changes. There became a need for organisations to adapt to change and as well as increased efficiency and operational improvements, image and branding demands coupled with the need for transparency of business practices, which all emerged as an important determinant of industry success. Thus as a consequence of this the pattern of strategies of the fast food/QSR and real estate industries also changed over time. Henceforth, industry incumbents began to pay less attention to the protection of industry boundaries through erection of barriers, and focused instead on the improvement of the reputation, branding and operating efficiencies within their industry. The fast food/QSR industry and the real estate industries exhibited similar evolutionary patterns and their strategies were generally driven by similar contextual developments. At the same time, they responded differently to these developments. This study supports the current franchising research on the importance of the competitive environment and the increasing pressures that such a competitive environment creates at firm level which in turn promotes the emergence of franchising. However, the data also shows that the emergence of franchising was as a result of the macro-environmental context including the influence of government, economic and social change and technology effects (not previously explored in the franchising literature) as well as industry level effects such as competition and the influence of agency and entrepreneurs. Therefore the choice to franchise, in this view, is embedded within the firm's history and strategic portfolio and co-evolves with the firm's strategy, the institutional environment (macro-environment) the organizational and competitive environment, and with management's (entrepreneurs) strategic intent for the creation of the franchise system.

Indeed to look in more detail at the industry effects in relation to the emergence of franchising Martin (1988) asked some key questions: why does franchising exist and why does franchising exist in certain industries? Martin (1988) addressed the first question when he examined franchising from an industry perspective and found that capital needs, market competition, monitoring costs, and the need to reach minimum efficient scale were reasons to franchise. The second question Martin (1988) asked was why is franchising successful in some industries and not others? He found that from multiple quantitative studies there seems some consensus on the following: firstly, retail sales, fast food and customer service franchisees were found to have low closure rates, while beauty and health and automotive and hotels had the highest failure rates (Justis, Castrogiovanni, & Chan 1992). Secondly the longer established the franchise system the

lower the failure rates (Lafountaine and Shaw, 1998). But these findings do not uncover the core issue at hand and further research is needed to truly address these fundamental questions. Elango and Fried (1997) made a call for one area in particular to be investigated, which related to franchising and industry effects and implications which this study has endeavoured to address. The findings of this study show that according to the data franchising emerged was as a result of varied contextual developments. At the same time, the anticipation of contextual changes at industry level were also important in driving the adoption of franchising. The data shows that in both industries many actions of the fast food/QSR and real estate industry incumbents were aimed at keeping the existing context and industry status quo and preventing environmental changes. However in the fast food/QSR industry it was McDonald's entry in 1977 that first brought franchising to Ireland and changed the industry forever and in the real estate industry it was the threat of entry of the U.S. RE/MAX that prompted SherryFitzgerald to adopt franchising. Some studies suggest that the increasing competition towards the end of the 20th century forced firms to examine alternative ways to do conduct business including new organisational forms such as franchising. The cross-case analysis showed that throughout different stages of each industry's evolution the introduction of franchising occurred under similar industry level contextual circumstances. These findings provide empirical support to previous studies in the field. Thus, as Martin (1988) suggests firm level co-operation at industry level such as the introduction and emergence of franchising often became a response to changing environmental forces and to economic and political pressures which this study supports.

10.3.1.3 The Role of Agency – and the Role of Entrepreneurs

The franchising literature has focused a good deal on research relating to entrepreneurship or indeed has been from an entrepreneurial perspective. However, the role that entrepreneurs play with regard to the emergence of franchising has not been extensively explored and has mainly been from a quantitative perspective. As such there is limited research using qualitative and more in-depth and inductive methods as adopted by this study. Furthermore the franchising literature has mainly focused on the franchisor perspective and not accounted for the importance of the franchisee. Dant (2008) highlights that much of what we know about franchising is based on investigations of the franchisors to the virtual exclusion of research focused on the franchisee perspective. Furthermore, franchising research has rarely been looked at from a strategy lens which this study adopts. Oxenfeldt and Kelly (1968), Caves and Murphy (1976), Norton (1988), and Gilman (1990) have suggested from their research that entrepreneurs use franchising to gain access to significant resources that are in short supply in the early stages of the development of their franchise chains from a quantitative perspective. Chirico, Ireland, and Sirmon (2011) also recognize that many, if not most, franchisors and franchisees are family-run enterprises, and they use this insight to draw implications about franchising from research on family firms. However most of the research fails to explore the role of agency or entrepreneurs in the emergence of

franchising as a central focus. The findings of this study and the evidence from the data suggest that agency and the role of the entrepreneurs was of enormous significance in the emergence of franchising in both industries. Entrepreneurship was widely evident in both cases especially as an instigator of the adoption of franchising whereby key individual entrepreneurs championed the adoption of franchising within their own firm. This type of industry leadership served as an exemplar for others to follow. In both the fast food/QSR and real estate industries the role of entrepreneurship and individual entrepreneurs (both franchisors and franchisees) were critical in making the decision to adopt franchising as a growth model in a resource and capital constrained environment. Entrepreneurship was manifested in the leading role of entrepreneurs such as; Mike Meagan (McDonalds), Wyn Beere, Graeme Beere (AIL) and Pat McDonagh (Suprmacs) in the fast food/QSR industry and with Philip Sherry and Mark Fitzgerald (SherryFitzgerald) and Keith Lowe (DNG) in the real estate industry.

In order to further the stream of entrepreneurial research the concept of innovation was also looked at whereby entrepreneurs i.e. franchisors and individual franchisees engage in innovation and experimentation to generate more efficient processes and better products (Bradach, 1997). In spite of considerable anecdotal evidence, however, no formal examination of the claim that franchising is a vehicle for innovation has occurred. One potentially fruitful avenue for future inquiry might be to investigate whether the benefits of franchisee innovation for the franchisor are moderated by the quality of franchisor-franchisee relations. Whereas many innovations developed by franchisees are not communicated to franchisors (Darr et al., 1995), franchisors with good franchisee relations might be better able to identify and implement local adaptations that will benefit the entire chain (Bradach, 1997). This study found that from the data that franchise systems were instrumental in bringing innovation and new systems into the industry for example McDonalds was innovative in their efficiency and operating models which had an effect on the fast food/QSR industry and SherryFitzgerald were innovative in terms of their uptake on technology and CRM systems which influenced other industry incumbents in the real estate industry.

A point to note is that from the data is that there were multiple similarities with regard to the patterns evident in both cases prior to the emergence of franchising. However, there was one principal difference across the adoption of franchising in both industries: the emergence of franchising and its rate of adoption in the fast food/QSR industry franchising occurred much earlier in 1977 and its diffusion was much faster. In contrast in the real estate industry franchising was adopted twenty years later in 1999 and its diffusion although quick was not as fast or as intense as the fast food/QSR industry. Although the timing of emergence may have been different many of the influencing factors such as macro-environmental, industry and agency were similar in both industry cases.

10.3.2 Industry Evolution

This section will look at the relevant industry evolution literature with its contribution in explaining the emergence of franchising and comparing it with this study's findings. Firstly the section will look at Porter's (1980) work on fragmented industries and its relationship to the findings of this study. The contribution of the Variation, Selection and Retention (VSR) approach will be explored followed by the importance of the role of agency in industry evolution.

10.3.2.1 Fragmented Industries

Taking into account the analysis of the comparative case studies the question can be asked; does the industry evolution literature offer an explanation as to why franchising emerges? It appears that there are a number of shortcomings with regards to the industry evolution literature. Some of the key findings from this study have not been previously explored in the research field. There are a number of gaps in the literature that have been highlighted; the service sector is rarely investigated and to date franchising has never been studied from an industry evolution perspective. In terms of the industry evolution literature after the life cycle model, Michael Porter's (1980) industry analysis framework has been the most prominent contribution to the development of industry evolution in the strategy field. However, Porter (1980) is one of the few strategy theorists to mention franchising in the context of industry and he talks about fragmented industries prior to the emergence of franchising. The data from this study is able to support this assertion as both industries were fragmented prior to the emergence of franchising. In addition, Porter (1980) suggested that technology, demographics, trade barriers, political conditions, and regulations influence industries. Drawing from Porter's work this study sought to assess what was happening in the macro-environmental and industry context that precipitates the opportunity for change and therefore pre-emergence conditions for franchising as well as the structural consequences of the impact of franchising. Many of Porter's (1980) suggestions were valid but there were other contextual factors he did not mention and which this study has unveiled. The findings of this study confirm Porter's (1980) assertions, as the data shows in the fast food/QSR and real estate industries that the emergence of franchising often took place as a response to some external variation. For example changes in government impact, economic change, social change, technology effects and increasing international competition as well as a range of other factors accelerated the need for firms to adopt franchising to help them remain competitive in a changing macro-environmental context. In addition there were other industry contextual factors that prompted the introduction of franchising such as; increased industry competition, the threat of or the entry of international new entrants as well as branding/industry standards, changes in industry recipe and continued industry self-regulation. Moreover, the industry evolution literature does not give a great deal of information regarding the pre-emergence conditions, however it does look at some external factors or environmental conditions but nothing in great depth.

10.3.2.2 Variation, Selection and Retention in Explaining the Emergence of Franchising

From the literature review in chapter two the Variation, Selection and Retention (VRS) model when applied to evolutionary theory (Aldrich, 1999) could be used to explain how particular forms of organisations come to exist in specific kinds of environments and is a useful model in terms of studying industry evolution and indeed the emergence of a new variant such as franchising. According to Aldrich and Reuf (2006) evolutionary theory is an overarching meta-theory applied across multiple levels of analysis; it is open to multiple approaches for explaining particular kinds of change and it is a meta theory that requires downstream links to other theories such as the five organisational level theories used in this study (Transaction cost economics, Agency theory, Resources dependency theory, Neo-institutional theory and Population ecology all five theories are dealt with in greater detail later in this chapter (see Table 9.1)). The evolutionary approach serves as a meta-theory within which the value of these approaches can be recognised and appreciated. Table 9.2 looks at how these chosen perspectives deal with the issues of variation, selection and retention. VSR is applicable in this study as franchising is a variation that is selected and retained.

In both cases franchising became the preserved and most replicated business model and ultimately became the dominant form of organisational model for industry leaders. Thus, the external variation and the opportunities to create change caused franchising to be adopted and to restructure industry dynamics. Franchising resulted from the external variation and new external pressures. In terms of the impact on industry, franchising created new variations, adapted to variations, and dealt with selective pressures. The findings of this study address the question of why variations occur and how this relates to franchising and its emergence. The empirical findings of this study generally support the conceptual propositions embedded in the theoretical framework. Furthermore change and variation are encompassed in evolutionary economics as firms are seen as vehicles of innovation and drivers of change at the industry level (Nelson and Winter, 1973, 1974, 1982). As shown by the data in both industries firm level changes in business strategies, organizational structure and search activities such as the adoption of franchising affected firm profitability and market share; these changes generated fluctuating degrees of expansion and contraction of individual firms, leading to dynamic changes at the industry level (Nelson and Winter, 1974). Variation, the threat of variation, and selection as evolutionary processes drove the emergence of franchising as a new variation. Thus, the external variation and the opportunities to create variation caused franchising to emerge. Therefore the introduction of franchising resulted from the external variation and new external pressures.

The findings show that in both the fast food/QSR and real estate industries the emergence of franchising took place as a response to some external variation caused by changes in government policies, increasing competition, at both national, European and international levels. For example, increasing competition imposed not only risk, but also an opportunity for firms to expand into new

segments. The period from the 1970s to 1990s imposed industry and EU-level structural changes and created external variations. Organisational restructuring and optimisation through the adoption of franchising allowed some firms to adjust to variations caused by their external environment. Moreover, it helped the franchise systems to deal with changing selective pressures by meeting new efficiency and branding requirements and customer expectations. The case data suggests that despite industry level variations, the emergence of franchising in both industries exhibit similar characteristics. Since the 1980s both industries faced the necessity to legitimise themselves in the eyes of consumers, governments and industry stakeholders. There is also evidence of new selective pressures emerging in both industries, which are embedded in increasing customer and government expectations of higher standards and transparency.

10.3.2.3 Role of Agency

The industry evolution literature can in many ways appear disconnected and often fails to adequately explain the macro-environmental, industry context and role of agency with regards to the emergence of franchising, whereby franchising is viewed as a change or variation that is introduced. Furthermore one of the major gaps in the literature is the lack of attention to agency or indeed the influence of entrepreneurship in the evolutionary process and it has only recently been mentioned by Jacobides (2006) in his work on industry architecture and also in the dynamic capabilities (Augier & Teece, 2009) literature. Aldrich and Reuf (2006) mention its relevance to industry evolution and Jacobides (2006) looks at the roles of industry actors/agents. Jacobides et al. (2006) suggest that 'architectural advantage' depends on two factors: complementarity and mobility of assets and that these industry architectures can be manipulated by deliberate, forward-looking firms (and in both cases, these behaviours resemble many firms' attempts to establish platform leadership by adopting franchising). Jacobides (2006) claims that by focusing on actors/agents and the differences in their roles can help us understand why platforms might show variances in say regional or geographic success or failure or take-up. This area of research acknowledges the agency of firms and individuals in such change and seeks to understand the processes and circumstances of architectural change. However, apart from Jacobides (2006), the influence of entrepreneurship is not widely acknowledged in the industry evolution literature and this study aims to link the importance of the role of entrepreneurship in the emergence of franchising something not previously explored. The findings of this study show that in both the fast food/QSR and real estate industries the role of entrepreneurs in the introduction of franchising was of great importance. In the fast food/QSR industry McDonald's Inc. sold the Irish Master franchise to Irishman Mike Meagan; Meagan approached McDonald's with regard to operating a McDonald's franchise in Ireland and was granted the licence. His first franchise outlet was so successful that he opened another six McDonald's outlets in Dublin between 1977 and 1982. However, in 1989 McDonald's bought back the rights to the Irish region, as they had huge plans for expansion beyond Meagan's own ambitions. The entrepreneurs and owners of Abrakebabra and

Supermacs quickly followed suit and also adopted franchising. In the real estate industry it was the entrepreneurial vision of Phillip Sherry and Mark Fitzgerald who introduced franchising to the Irish real estate industry followed by the entrepreneurial foresight of Keith Lowe of DNG.

As noted the conceptual framework identifies certain factors which helped to drive the emergence of franchising and the data corresponds to the industry evolution literature in terms of assessing the macro-environmental context and its influence on the emergence of franchising, the influence of government impact, economic change, social change, technology effects are supported by the literature. However, from the findings the role of macro-environmental context factors play a more powerful influencing role than compared to the industry context factors in terms of the emergence of franchising. The industry context factors have a role to play in the emergence of franchising the industry evolution literature supports that certain influences such as the increased industry competition, international new entrants can bring about industry recipe changes such as the introduction of an organisational model like franchising. One significant shortcoming of the industry evolution stream of research is that it fails to properly identify and explore the crucial role of entrepreneurs or agency in terms of enabling the adoption of franchising. One of the key findings of this study is that the role of agency and entrepreneurs are of major importance to the emergence of franchising which extends the current body research in the field.

10.4 WHAT IMPACT DOES FRANCHISING HAVE ON THE STRUCTURAL EVOLUTION OF AN INDUSTRY?

10.4.1 Franchising

This section will look at the franchising literature in terms of addressing the impact of franchising on industry structure and will discuss the relevance of this study's findings to this field of research. To date there is a significant lack of research on franchising and its effects on industry. In the field of franchising Elango and Fried (1997) made a call for one area in particular to be investigated, this related to franchising and its effect on industry which up until now has remained unanswered. Moreover much of the franchising research has previously looked at the franchising system without considering the macro-environment within which it operates. However, one of the main contributions of this study is to address the fundamental gap in terms of research and literature relating to franchising and its impact on industry or indeed the evolution of franchising over time. Furthermore, the impact of franchising on industry evolution remains the most understudied aspect of franchising research. The findings of this study suggest that through its emergence and impact, franchising was able to alter the structure of both industries and played an important role in determining the evolutionary path of each industry. Moreover, the impact of franchising varied over time, and firm's strategies were often aimed at protecting and defending their own and industries' interests, thus increasing their (industries') stability and facilitating the continued wellbeing of the incumbents. Franchising also facilitated learning and the dissemination of

important information, thus helping franchisors and franchisees deal with changing contexts. In both industries the franchise systems also engaged in training and information dissemination activities, developed codes of conduct and practice thereby promoting shared understandings, socialisation, and new norms and understandings. Absent from the literature but addressed in this study is the effect of franchising and indeed the evolution of franchise systems over time as they co-evolve with the changing strategies of the firm and the subsequent industry effects. Furthermore, by expanding into more industry segments, franchise systems created new variations, including the strengthening and legitimisation of their organisations and reduced competitive pressures on their franchisees. These are all the firm level and industry level consequences that occurred once franchising was adopted and changed the structural dynamics of both industries in this study.

Most of the franchising research focuses on the competitive advantage which franchising offers organisations and this study supports this viewpoint. Franchising as an organisational structure offers many benefits, enabling firms to achieve a competitive advantage. In both industries the firms who adopted franchising became the most successful in their respective industries and in both cases became the dominating industry leaders. Franchising thus enabled firms to develop capabilities which led to competitive advantage. The benefits of being part of a franchise system are the ability to draw on the strength of the group and the inter-organisational relationships. Traditionally these strengths were seen to centre on the marketing and branding and training aspects of the business. However increasingly it is becoming clear that such offerings are common place among franchisors and given the increased competition for new franchisees, new forms of competitive advantage are required to attract and acquire high quality franchisees. The evolution of strategies developed and implemented in both industries exhibited similar cost and focus patterns. Thus, over time strategies generally evolved from low-cost marketing campaigns to high-cost expensive media campaigns and branding initiatives. The findings of this study support the literature relating to the competitive advantage that the adoption of franchising can offer organisations. There is a definite connection between the role of firms who adopt franchising and their success and therefore their impact on their industry. There is evidence from both cases that once franchising was adopted its effects were so great that those firms who didn't adopt franchising ended up joining co-operative organisations to ward off the competition, for example in the real estate industry with the formation of Property Partners and other such groups or in the fast food/QSR industry the ITICA was formed as a collective organisation representing the independent chippers. Again this specific aspect of competitive advantage is under researched using franchising as a central tenet. There is some work (Collis & Montgomery, 1995) on competitive advantage and how franchising can increase organizational success of firms but this is limited and only from the firm level perspective unlike the approach of this study which relates to a broader macro-environmental and industry level context as well as agency effects at firm level.

Porter (1980) whilst looking at industries made the connection between franchising and its ability to overcome industry fragmentation which to date still remains unexplored. The findings of this study reveal that the structural changes once franchising was adopted were profound. In both industries the firms who adopted franchising went on to dominate the industry and in both cases after the adoption of franchising the industries in terms of structure went from fragmentation to consolidation. The findings of this study suggest that once franchising is adopted the structures of industries are altered and the consolidation of industry occurs. Therefore franchising has played an important role in determining the evolutionary paths of both industries. The impact of franchising varied over time, and the adoption of franchising was often to protect and defend firm's interests, thereby increasing their industries' stability and facilitating the continued survival and success of incumbents.

This research hopes to advance the view that an organisational form such as franchising needs to be understood and researched in the context of the adaptation and choices of the firm over time. Franchising research to-date has looked at the franchising system without considering the macro-environment within which it operates. This study seeks to address this shortfall and the findings of this study show that the macro-environmental context is extremely important in terms of the impact of franchising on the industry structure and is affected by macro-environmental changes over time. In addition franchising has usually been addressed from the firm level and not from the industry level a further gap this study has sought to address. Furthermore entrepreneurship has an important role in the adoption and the subsequent impact of franchising according to the findings of this study. In both cases entrepreneurs played a role in the adoption and diffusion of franchising and the effects of agency on industry which have not been adequately explored. The franchising literature demonstrates that a competitive advantage can be gained by organisations who adopt franchising. The data from this study has shown that franchising can be viewed as a hybrid structure that can help organisations achieve competitive advantage in hyper competitive and changing external environments. This study supports what the franchising literature promotes (Shane, 2008) that franchising leads to franchisors gaining competitive advantage.

Finally another important observation to note relates to the most debated topic in the franchising research which is the reason a firm chooses to franchise rather than expand through company-owned units. Oxenfelt and Kelly (1968-69) proposed a life cycle model of franchising, in which a young company with a limited supply of capital becomes a franchisor in order to use the franchisee's capital to expand. Then as it acquires sufficient capital, the franchisor will later take over the larger units from franchisees. This view has become known as - resource scarcity (Carney and Gedajlovic 1991). Initial empirical support for this view was provided by Hunt (1973), who found an aggregate trend towards company-owned units in the fast-food industry. Caves and Murphy (1976) also observed a similar trend towards company ownership in restaurants, hotels,

and motels. However, this study has shown that in both industries once firms adopt franchising they tended to reduce the number of company-owned units and increase the number of franchised units over time. In the fast food/QSR industry AIL, McDonalds, O'Briens and Supermacs did this and in the real estate industry SherryFitzgerald, RE/MAX and DNG followed suit. Thus traditional franchising theories such as resource scarcity and agency theory cannot alone explain the adoption, selection and retention of a variation such as franchising.

10.4.2 Industry Evolution

This section will explore the relevant industry evolution perspective and will assess the viewpoint taken from the literature and how the findings of this study compare. To begin with the relevance of co-evolution theory as well as industry architecture will be addressed. Moreover Porter (1980) will be further examined as he has noted that fragmented industries are characterized as being intensely competitive and that 'industry fragmentation has been overcome by franchising' (Porter, 1980). However, apart from this one mention the relationship between franchising and its impact on industry structure has not been previously addressed. This study aims to generate a deeper understanding of the presence of franchising in Ireland's service driven market economy and its effect on industry evolution. It is important to understand the gaps in the literature and to assess possible research contributions of this study. As detailed in the literature review in chapter two Malerba and Orsenigo (1996) observe that there are many gaps in our understanding of industry evolution, particularly in respect of empirical research in the field, as well as theoretical explanations for it. The gaps include a lack of exploration of structural dynamics or structural evolution, a lack of focus on the service or distributive industries. There is also a lack of a dynamic model of industry evolution, a lack of a historical perspective. There is a need to assess the role of institutions in industry evolution, a need to explore the relationship between firm level activity and industry evolution and the need for finer grained empirical studies. This study supports these observations and it addresses these shortfalls.

Furthermore, recent research on co-evolution and franchising confirms what the findings of this study have shown. At the firm level establishing expectations for creating and distributing a hybrid organizational form such as franchising, the co-evolution of direction, structure, and practices within the context of the evolution of the constituent firms/agents, industry, and institutional environment are all of equal importance. According to the data the choice to franchise, within this view, is embedded within the firm's history and its strategic portfolio and co-evolves with the firm's strategy, the institutional, organizational, and competitive environment, together with management strategic intent for the creation of the franchise system. The research on co-evolution can be drawn on to assess why franchising is selected as an organisational variation. Many firms therefore adopt a franchising model to help them achieve a competitive advantage in their industry. This would lead to firms' legitimisation, the further strengthening and continued adoption of

franchising, and to the development of this organisational structure across many industry incumbents. The co-evolutionary lens is receiving more attention from scholars of industry evolution and it is of value to this study. Poole et al (2004) explains that co-evolution is viewing the organisation as part of an inter-organisational community, industry or population which fits with the research on franchising in terms of franchise systems being made up of a network of franchisors and franchisees (within a franchise system) at industry level the relationship between competing franchise systems. The seminal paper by Lewin and Volberda (1999) focused on how firms co-evolve with each other and with a changing organisational environment.

Moreover, Lewin et al. (1998) have advanced a theory of the evolution of new organizational forms as an outcome of the co-evolution of the competitive environment, firm intentionality and the institutional environment of the firm under conditions of stochastic or chaotic environmental uncertainty. The findings of this study and the data support the proposition that firms and industries co-evolve and specifically when franchising is adopted at firm level it has a huge impact on the evolution of an industry. In both cases franchising changed each industry's structure from fragmentation to consolidation. In both cases firms and their industry have co-evolved with each other in a changing environment. Therefore this study validates the propositions upheld by co-evolution theory. Furthermore, one issue that may need further research with a central focus on competencies in relation to the intra-firm dynamic which this study has not fully investigated. As such McKelvey (1997) suggests that the focus of macro co-evolutionary theory is on firms existing in a co-evolutionary competitive context, while micro co-evolutionary considers co-evolution of intra-firm resources, dynamic capabilities and competencies in an intra-firm, competitive context (McKelvey, 1997) and this area could do with further investigation.

In recent years, two other theoretical perspectives, industry architectures and platforms, have attempted to explicitly address the issue of how value is created as well as captured in the context of interdependent systems of firms and institutions. Industry platforms are technological building blocks that act as a foundation upon which an array of firms, organized in a set of interdependent firms (sometimes called industry 'ecosystem'), develop a set of interrelated products, technologies, and services (Gawer, 2009). 'Industry architecture' (Jacobides et al., 2006) has emerged. It explores the rules and roles of inter-firm relationships and focuses on the ways in which activities along the value chain get divided among industry participants, paying particular attention to firm roles, interdependencies, and the ways in which organizations attempt to shape the industry's division of labour. Industry architecture is another more recent stream of industry evolution research and its applicability to the context of this study is valid. The literature on industry eco-systems which is linked to research on industry platforms Tee and Gawer (2009) describe platform leaders and how they drive industry wide innovation. The findings from this study reveal that in both industries the platform leaders (the early adopters of franchising) drove the emergence of

franchising and enabled franchising to become the dominant design. Developing this further the business models that 'win' are often championed and copied linking to the concept of dominant design. As such changing business models affect the industry structure (Gambardella and McGahan, 2010). Within the industry, these models compete and through the sequence of Variation, Selection and Retention, success or failure is determined by the competitive process. The industry then restructures around the new dominant business model leading to new industry architecture (Jacobides et al., 2006) which occurred in both the fast food/QSR and real estate industries once franchising emerged and impacted each industry. One thing to note that was not investigated in the initial literature review was the area of firm competences which links into the development of firm and industry level capabilities witnessed in both cases as a result of the impact of franchising (competences including branding and the dominant design of franchising). Tae and Jacobides (2011) look at competences within the industry architecture field and build on this. This 'architectural' approach brings together components of existing studies to show how profit gravitates toward a set of firms engaged in one particular activity. The intuition here is that superior capabilities in one activity enable a firm to change the competitive conditions of the segment it belongs to – which also could change the industry architecture to its advantage. This is different from the Resource based view (RBV) in that the competition of capabilities takes place not only at market/segment level (e.g. among franchise systems) but also at the value-chain level (e.g. among franchisor and franchisees). Therefore the issues of competences and how they relate to firm and industry capabilities are concepts evident in this research that were not addressed in the literature review and could be further explored as a main focus in future research.

Finally as suggested by the industry evolution literature on the Variation, Selection and Retention (Aldrich, 1999) approach once franchising was adopted it was selected and retained. As evidenced by both cases the firms who adopted franchising were the ones who ultimately became industry leaders. Therefore at industry level, selection encouraged continued expansion of profitable firms and a decrease in unprofitable firms. Thus the 'phenomena of search and selection are simultaneous, interacting aspects of the evolutionary process. The findings of this study indicate that in both industries structural changes were implemented if firms saw the opportunity to adopt a new variation such as a new organisational structure like franchising. In addition to further retain the newly selected variation of franchising; industry self-regulation is evident in the data extracted from both cases. The threat of external variation imposed by the government and/or government agencies and increasing competition has always been the most significant motivation for self-regulation in both industries. Finally, self-regulation created new variation, an opportunity for new variation, and became a source of new variation within both industries.

10.4.3 Common Themes between Franchising and Industry Evolution

This section looks at possible common themes between the franchising and industry evolution literatures and thus has implications for the empirical findings of this study. There is an overlap in the research on fragmented industries which is important when addressing a study on franchising and industry evolution. The relationship between industry fragmentation, franchising and industry evolution is important as Porter (1980) stated that franchising overcomes industry fragmentation, this indicates that franchising might have the potential to alter an industry structure and this suggestion is at the heart of this study. This study reveals that in both industries franchising did impact industry structure as Porter (1980) suggested and helped to overcome industry fragmentation.

An important theoretical connection between the franchising and industry evolution literature is the role of entrepreneurship Oxenfeldt and Kelly (1968), Caves and Murphy (1976), Norton (1988), and Gilman (1990). The role of entrepreneurs in the emergence and dominance of franchising is hugely important; the area of entrepreneurship pervades the franchising literature as well as the role of entrepreneurs and agency. Even though the area of entrepreneurship and agency is limited in the industry evolution field there still is some work on dynamic capabilities (Augier & Teece, 2009; Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece, & Winter, 2007; Teece, 2009; Teece, Pisano, & Shuen, 1997) industry architecture Jacobides (2006) which notes the role of agency and actor in shaping the evolution of an industry. The findings of this study confirm the importance of agency and entrepreneurs in the emergence and impact of franchising on industry structure.

The Variation, Selection and Retention (VSR) model (Aldrich, 1999) is a useful meta-theory utilised by this study. This evolutionary perspective adds value to the organisational level theories (TCE, AT, RDT, NIT, and Population ecology) and variation, selection and retention uses these organisational theories to explain organisational change. From the franchising and industry evolution perspectives variation, selection and retention (Aldrich and Reuf, 2006) incorporates the emergence of a new organisational form, generation/transformation of technologies and dominant design, development and change of industry and firm level capabilities, entrepreneurship and agency, and industry competition. Entrepreneurs and managers alike must try to adapt to the changes occurring within the business environment. Competition is a dynamic process and firms try to obtain a competitive advantage, once gained it can quickly dissipate through imitation and innovation by rivals. The outcome of this process is an industry environment that is continually being altered by the forces of competition. According to the data this study reveals that once franchising emerged and was adopted as an organisational variation two of the most prominent structural effects were: industry consolidation and industry self-regulation. Moreover, variation, the threat of variation, and selection as evolutionary processes drove the adoption of franchising and its

subsequent industry restructuring. The findings add to VSR theory by showing how franchising as a new organisational variation is adopted, selected and retained and becomes the most successful organisational form in both industries. Aldrich and Reuf (2006) suggest that within the context of VSR any organisational theory can be an evolutionary theory and the five competing organisational theories used in this study help to explain franchising and within this VSR acts as a meta theory and help to explain change at multiple levels both at organisational level, industry level and macro-environmental level. VSR as a theory helps to explain how a new hybrid organisational form emerges and then becomes the dominant form. As a consequence of the franchising emerging (a new variation) and being adopted (selected) and then becoming the industry norm (retained). This study therefore supports VSR as a robust meta theory which helps to explain how a new variation such as franchising emerges and is selected and retained and the findings of this study empirically show how franchising causes the two industries to go from fragmentation to consolidation.

The co-evolution literature McKelvey (1997) and Lewin and Volberda (2011) is also relevant in the context of franchising and industry evolution which promotes that firms and the environment co-evolve. Franchising in the context of this study has displayed co-evolutionary tendencies both in terms of it as an inter-organisational community between franchisors and franchisees and at an industry or population level. The analysis from the cases informs us that in both industries firms have co-evolved with each other in a changing environment. There is evidence of both macro and micro co-evolution in both industries albeit at different stages and different rates of time. Furthermore the cross case data affirms what McKelvey (1997) has argued that evolution of organizations cannot be understood independently from the simultaneous evolution of the environment. This thesis supports the propositions made by McKelvey (1997), Lewin and Volberda (2011) and demonstrates empirically that the concept of co-evolution between a firm and its environment is an important one in terms of explaining structural change at both the firm and industry level. Indeed the evidence from the findings show how franchising emerges at firm level and ultimately helps an organisation to evolve which in turn aids in the evolution of an industry. Furthermore McKelvey (1997) looked at co-evolution from an organisational level and this thesis also engages with the level of the industry thus extending the empirical co-evolution research.

In addition the body of work by Tee and Gawer (2009) on industry eco-systems and industry architecture (Jacobides, 2006) is important for this study in terms of helping to explain how firms adapt and innovate. Platform leaders tend to drive industry-wide innovation in a trajectory that allows them to exert architectural control over the overall system, as well as derive large profits and erect barriers to entry in their own market. This study shows that a hybrid organisational form such as franchising can be seen as a value creating industry platform with the industry eco-system comprising of the inter-connected firms (franchisor and franchisees) evident in a franchise system and also between franchise systems in competition with each other in an industry. Whereby

franchising once it is adopted the firms who promote it become platform leaders and impact the industry eco-system. This thesis and its findings can confirm that franchising in both industries helped firms to create an architectural advantage which in turn helps to explain their success and industry dominance. This area of research acknowledges the agency of firms and individuals with regards to such changes and seeks to understand the processes and circumstances of architectural change. The data from both cases has shown the influence of entrepreneurs in adopting and developing the franchising model at firm level and thus affecting industry architectural change. Thus supporting empirically the tenants of industry architecture. Indeed industry architecture is a relatively new concept this study explores and extends the theory by empirically testing what variables of architecture franchising influences and its effect on promoting firms that adopt franchising and ultimately the new pecking order that is creating once franchising emerges.

Finally in relation to assessing the structural effects of franchising this study supports the proposition by Porter (1980) that franchising enables fragmented industries to become consolidated. Porter (1980) states 'fast food industries have been historically fragmented, with thousands and thousands of small, owner-managed operations. Yet there are significant economies of scale in marketing and purchasing in both these businesses, particularly if national saturation can be achieved which allows the use of national advertising media. Porter (1980) also states that fragmentation in this industry was overcome by franchising the individual locations to owner-managers, who operated under the mantle of a national organisation which marketed the brand name and provided central purchasing and other services. Close control and maintenance of service are insured, as well as the benefits of economies of scale'. Again Porter (1980) cites 'another industry in which franchising is unlocking fragmentation today is real estate brokerage. Century 21 is rapidly expanding share in this highly fragmented industry by franchising local firms, allowing them to operate autonomously with their local names but doing so under the umbrella of the nationally advertised Century 21 name' (Porter, 1980). However, Porter doesn't offer an explanation of how or why franchising overcomes fragmentation. This thesis offers a unique contribution in addressing both the emergence of franchising and its structural impact and through the data and findings can offer an explanation as to how and why franchising overcomes industry fragmentation. Indeed, after franchising emerged it became the new dominant design in both industries, the findings show that franchising reduced the need for legislation and thus promoted industry self-regulation, franchising helped firms achieve competitive advantage in their industry. Franchising also offered legitimacy to firms in terms of branding and increased capabilities as well as increased industry capabilities. The developments over time as explored in the analysis chapter show that until the late 1970s franchising had not entered either industry. Franchising emerged in the fast food/QSR industry in 1977 and in the real estate industry in 1999. From the 1980s and 1990s onwards in light of increasing competition from international competitors, firms within each industry began erecting barriers to entry and strengthening their position by increasing their

capabilities. Since the late 1990s franchising has influenced both industries by securing and strengthening the existing industry-level power relationships through the increasing capabilities of franchisors and leading to industry consolidation in both cases. In addition the findings show that the macro-environmental factors as well as agency influence were extremely important in promoting the emergence of franchising.

10.4.4 The Five theories and Case Examples Relating to the Q.1 the Emergence and Q.2 the Impact of Franchising on Industry Structure

The multiplicity of theoretical propositions on what drives industry-level change - seen by many as problematic - was addressed in this study by using multiple theoretical approaches (Transaction cost economics and Agency theory, Resource dependence theory, Neo-institutional theory and Population ecology). The review of the literature showed that franchising has mainly been researched from the economics and sociology perspectives. The economics perspective focused on efficiency and self-interest issues, costs, and wealth redistribution issues. From the transaction cost economics perspective a firm may choose to introduce franchising following the threat of variation imposed by other agents, or the firm itself. This variation might threaten the efficiency and cost levels of the firm. Similarly, agency theory suggests that franchising is driven by the possibility of shirking and control issues and franchisors use the model of franchising to reduce these issues. Therefore economic theories proved to be more limited in their explanation of the impact of franchising on industries. While their explanatory power captured the initial adoption of franchising they often failed to account for the subsequent impact of franchising on industries.

Sociology theories complement the economic perspectives by offering more behavioural, power and dependency explanations. They also offered the legitimisation explanations with regards to the impact of franchising in the later stages of industry evolution; however the sociology approaches often failed to deal with the initial adoption of franchising. Thus, Resource dependency theory talks about variation, which can cause changes in the power and dependency equilibrium, and Neo-institutional theory emphasises the threat of departures from norms and legitimisation caused by variation. Moreover, Neo-institutional theory also suggests that a firm may choose to deal with existing selective pressures, to amend them or to act as a source of new ones. The complexity of this study revealed five theories dealt with in the table 9.1 below (Transaction cost economics and Agency theory and the sociological theories of Resource dependence theory, Neo-institutional theory and Population ecology) that are shared by both literature streams. The findings of this study generally support the conceptual and theoretical propositions found in the five competing organisational theories.

Table 10.1: Five theories relating to Franchising and industry evolution and Case Examples

Theory	**Case Example**
Transaction Cost Economics and the Emergence of Franchising	**Transaction Cost Economics and the Emergence of Franchising Case Examples**
TCE shows that efficiency considerations of firms in adopting franchising often led to firms transaction cost reduction. Thus, according to TCE, efficiency is achieved by creating economising governance structures and acts as a driver of industry change at the level of organisation and as a substitute when markets fail. TCE also suggests that inter-organisational relations can help overcome problems like market failure, difficulties with regulation, high transaction, opportunism and legitimisation costs, and can reduce competitive pressures (Schneiberg & Hollingsworth, 1996). Thus Transaction cost economics generally explains the efficiency considerations of the adoption of franchising but fails to explain fully how franchising is formed in both industries and in addition enabled the development of organisational capabilities such as branding and training.	TCE explains much of the adoption of franchising in the fast food/QSR and real estate industries. In both cases the emergence of franchising was largely driven by a number of factors; the increase in demand for fast food/QSR restaurants and real estate agent services, the increase in international and national competitors and the need to maximise profit margins, improve operational efficiencies and increase branding at firm level. In terms of the increased competitive pressures international new entrants forced some firms to look to franchising as new more efficient operational model in both the Irish fast food/QSR and real estate industries. Indeed from the 1980s and 1990s onwards, greater efficiency in both industries resulted from a national policy shift to free and open markets. The resultant threat of increased competition has been treated as a contextual factor (Macro-environmental, industry and Agency factors), which initiated the adoption of franchising, which resulted in a threat of external variation, and could increase transaction cost and redistribute wealth from the Irish companies to foreign competitors. The resultant threat of increased international or domestic competition has been treated as a contextual factor, which initiated franchising as a growth strategy in both cases.
	In addition both cases showed that entrepreneurial activity at firm level helped to promote greater efficiency, in particular entrepreneurial firms who quickly adapted to

	new business models such as franchising, brought about firm level efficiencies, branding dominance, investments in technology, high organizational standards and organisational growth and expansion. Thus the empirical analysis supports the view that efficiency considerations played a crucial part in the emergence of franchising in the two industries.
	In both cases there were examples of industry leadership passing to new entrants or incumbents who achieved superior efficiencies by adopting franchising, such as McDonalds entering the fast food/QSR industry or SherryFitzgerald adopting franchising in the real estate industry. In addition the development of the franchisor and franchisee relationship and industry network capabilities were also an important factor in the adoption of franchising in both the fast food/QSR and real estate industries. The empirical evidence showed efficiency seeking to be shaped by exogenous and endogenous influences. Therefore industry wide efficiency seeking was seen sometimes to be ideologically driven and not always voluntarily at firm or industry level.
Transaction Cost Economics and the Impact on Industry Evolution	**Transaction Cost Economics and the Impact on Industry Evolution Case Examples**
Despite the common use of Transaction cost economics (Williamson, 1975, 1985, 1996) as an economic theory of exchange in the literature, the theory was not intended to specifically address arguments for industry evolution or adaptation and selection. Nevertheless Transaction cost economics principles can be examined through the lens of adaptation and change (Dyer, 1996). However, the ability of Transaction cost economics to explain the evolution of organisational forms and adaptation is highly constrained due to its static, comparative-efficiency basis.	Once introduced franchising enabled rapid expansion without huge capital investment on the part of the franchisor. The operating model of the business format franchising promoted standardisation across a franchise chain – with franchisees following a pre-determined operations manual and approved methods of business operations to achieve the highest levels of efficiency and high quality service and product offering. In terms of the adoption of franchising some researchers suggested that cooperation often became a response to changing environmental forces and the current study found that

As such Transaction cost economics has its explanation of the formation of inter-organisational relations and is limited to efficiency and cost-minimisation and thus ignores learning, legitimacy, perceived fairness, and other human nature characteristics (Aldrich and Reuf, 2006; Barringer and Harrison, 2000; Ring and van de Ven, 1994).	similar processes were also observable in the Irish fast food/QSR and real estate industries. Firms introduced franchising following varied contextual developments. At the same time, the anticipation of contextual changes was also important in driving the firm's decision to franchise; many developments within the fast food/QSR and real estate industry were aimed at keeping the existing contexts and preventing these environmental changes.
Some studies Shane (2009) suggest that the increasing competition towards the end of the 20th century made franchising an important organisational structure to deal with contextual changes.	The franchising patterns identified in the Irish fast food/QSR and real estate industries explored in this study also changed over time. In addition to increasing competition, however, the data showed that the environments became more demanding in terms of the operational and efficiency costs and reputation and branding emerged as an important determinant of industry success. Therefore, firms who adopted franchising started to pay less attention to the protection of industry boundaries through erection of barriers, and instead focused on the improvement of their efficiency levels and branding within their industry. Franchising also helped drive the development of branding in both industries, and became such a threshold capability and business model, that firms who wanted to compete needed a strong brand as an essential component of their strategy. In both cases franchising helped to create increased firm level branding capabilities, operating efficiencies, and a fundamental change and improvement in the industry's standards thus raising the bar in terms of the industry's threshold capabilities. Franchising once it took hold in each industry, enabled the emergence of new sectors, as well as changing the boundaries of the industry. It appears that franchise systems enabled rapid

	expansion with limited capital investment and offered increased efficiency and operational advantages as well as value for customers.
Transaction Cost Economics and Variation Selection Retention	
Similar to other boundary theories, TCE was not intended to specifically address arguments for adaptation and selection. Nevertheless TCE principles can be examined through the lens of adaptation and change. However, the ability of TCE to explain the evolution of organisational forms and adaptation is highly constrained due to its static, comparative-efficiency basis. TCE does not account for how organisations should change their governance structures as circumstances alter (Roberts and Greenwood, 1996). Argyres and Porter-Libeskind (1999) argue that past governance decisions influence a firm's future governance choices due to path dependence, thereby suggesting the need to study transactions as interconnected overtime. Thus the decision of whether to contract within a hierarchy or market may be largely embedded in the organisation environment and its past history and scope. Arguments for examining the implications of TCE overtime and considering firm specific issues suggest that TCE may benefit from integration with other theoretical constructs such as evolutionary economics or the resource-based view. The primary focus of TCE is on the content of change rather than the process. As Kay (1992) noted 'Williamson's theory rests on comparative statics and cannot be used to describe dynamic, evolutionary phenomena'. The evolutionary aspect of the theory applies to VSR processes at the organisational level. *Variation* is introduced through opportunistic actors, who are guided by self-interest and rational intentions. Actors' choices are not optimal since they are based on cognitive deficiencies, limits on information availability and processing, capability constrains, and bounded rationality issues. TCE finds dealing with the process of	

change problematic. As such TCE can only provide a momentary view of possible institutional responses to temporary situations. In dealing with variations in organisations, TCE posits actors who have rational intentions but who also face constraints on their capabilities (Aldrich and Reuf, 2006). 'Self-interest seeking with guile' is Williamson's clever description of normal state of human affairs. Actors therefore tend to lie, steal and cheat to further their own position. Given a resource scarce environment, actors will be under pressure to find ways to economise on transaction costs.

Selection involves matching organisational actions with the efficient use of resources in a competitive context (market). In other words, these actions are aimed at minimising transaction costs. Transactions can be characterised by their frequency, uncertainty, and level of transaction-specific investments. Frequent transactions force actors to find economical ways of handling them, and the uncertainty produced by bounded rationality and opportunism requires more resources. TCE makes selection a matter of matching organisational actions to organisational goals. Selection processes posited by TCE turn on the consequences of human shortcomings (Aldrich and Reuf, 2006). Given bounded rationality transactions with other actors are almost always problematic and potentially costly. In terms of evolutionary theory transaction structures that reduce uncertainty by preventing misunderstanding will have a selective advantage over those that do not.

Retention in TCE is positioned in the transaction specific investments made by parties to a relation, or in contracts and in the mutual monitoring and enforcement that accompanies repeated transactions. Transaction specific investments refer to the resources actors invest in a relationship to keep it going. For one time market based

transactions maintenance of the relationship is not a relevant issue. If even one of the parties to the transaction has an interest in ensuring that it persists then that party must invest some resources in maintaining the relationship otherwise purely self-seeking behaviour will destroy the relationship (Swanson, 1971). Williamson acknowledged that 'farsighted contracting' which to some extent links to evolutionary theory. However there is differing levels of confidence economists place in 'farsightedness'. Transaction-specific investments anchor retention processes: parties need to invest to sustain relationships, monitor transactions, and enforce repetitive transactions (Aldrich and Reuf, 2006).

Despite its valuable contribution, there are a number of valid criticisms of the TCE approach. First, its explanation of the formation of inter-organisational relations is limited to efficiency and cost-minimisation and thus ignores learning, legitimacy, perceived fairness, and other human nature characteristics (Aldrich and Reuf, 2006; Barringer and Harrison, 2000; Ring and van de Ven, 1994). Second, it does not address the contextual issues. Third, the theory's focus on individual rather than on group behaviour implies that industry level issues have not been explained sufficiently (Gunningham and Rees, 1997). Fourthly, its inability to deal with the role of power, culture and people in choices between market and hierarchy implies that the relational aspects of cooperation over time, reduction of opportunism through trust, cultural incompatibility, and bonding between partners have been left outside the scope of the theory (Barringer and Harrison, 2000; Child et al., 2005). As Aldrich (1999) put it, the perspective tends to 'overstate the role of individually orientated economic incentives in organisations and understate the importance of social exchange: reciprocity, co-operation and trust'.

Agency Theory and the Emergence of Franchising	Agency Theory and the Emergence of Franchising Case Examples
Agency theory was developed in the information economics literature, and is based on the relationship between one party (the principal/franchisor) who delegates work to another (the agent/franchisee).	In both cases the adoption of franchising was a new hybrid organisational structure new to Ireland and the firms who adopted franchising wanted to expand quickly, with the least amount of capital expenditure and they also needed to have competent people (franchisees) they could trust to maximise profits and help grow and develop their brand.
The governance perspective of Agency Theory is primarily concerned with how to devise appropriate governance mechanisms or contracts to help reduce agency costs. Agency theory suggests that parties in a contractual relationship act out of self-interest. Franchising as an organisational structure helps parties to cooperate and align their goals in order to achieve a favourable outcome. However, according to Inma (2005), there is a limitation to using agency theory to explain the fundamentals of franchising and a complete understanding of franchising practice may require an explanation involving more than one theory. It has been suggested by a number of scholars that research emphasis needs to shift toward understanding why firms initiate franchising and how franchising impacts different types of organisational performance.	In both cases the data reveals that these requirements were relevant for franchisors in both the fast food/QSR and real estate industries and the contract between franchisor and franchisee was suitable for firms who wished to optimise rapid expansion, operational efficiencies and to align goals and increase trust between their franchisees. As a response to external variations and new selective pressures in both industries, franchise systems provided improved information services for their franchisees aimed at increasing awareness of issues among franchisees and their customers. In relation to self-regulation franchise systems paved the way in terms of setting and monitoring best practice and improving the image and reputation of each industry, promoting industry self-regulation and high standard setting.
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Agency Theory and the Impact on Industry Evolution	**Agency Theory and the Impact on Industry Evolution Case Examples**
Agency theory doesn't directly relate to industry evolution, however looking at the process of VSR can be used to help understand some linkages. *Retention* within the Agency theory model is usually via contracts and bargaining between parties within the Agency theory relationship. Organisations and inter-organisational relationships are treated as self-interested parties, sustained by rewards derived from their relationships with other members within their	During the first evolutionary stages of the introduction of franchising in the real estate industry the adoption of franchising was limited initially to only two firms. This reflected the macro-environmental context, which showed very little evidence of multiple threats from international competition (only RE/MAX entered the industry), or from a limited number of other less powerful industry players. In the 1990s, however, contextual changes forced firms to reassess their positions. As a result, in the real estate industry franchising began to be adopted. In contrast to this from the beginning the Irish

organisation or within inter-organisational relationships. The success of Agency theory depends on participants continually negotiating a shared understanding of what they are doing to avoid the risk of relationship and organisational dissolution.	fast food/QSR industry differed structurally from the real estate industry. Franchising was adopted in the late 1970s and it quickly expanded to include almost all fast food/QSR-related segments. The implications of these differences in industry structures and the rate of franchising adoption were discussed in the previous chapter. In both industries, franchising was seen as an organisational variation in the evolutionary process and became a preserved selection criteria which ultimately dominated the industry and subsequently lead to industry consolidation. This also allowed some generalisations about the contextual drivers of such strategies and their outcomes. There is also evidence of the institutionalization of new technologies. In both industries many practices introduced by some of the larger franchise systems, in terms of operating procedures quickly became the dominant service technologies and were widely imitated once shown to work. As discussed earlier in the literature review chapter, reactions and patterns emerging in the fast food/QSR and real estate industries' once franchising was introduced ultimately led to a degree of industry restructuring, which is of particular relevance since the study explores the impact of franchising on the structural evolution of industry. The emergence of franchising is taken in the context of environmental change and can be seen to benefit multiple industry stakeholders including; customers (by improving product and services), the firm level (with benefits of efficiency gains and branding benefits) and at an industry level (as protection from increased competition). The Irish fast food/QSR and real estate industries exhibited similar evolutionary patterns and firms decision to adopt franchising were generally driven by contextual developments. At the same time, firms responded differently to these developments. While agency theory explains why firms exist, it ignores the external industry and competitive conditions present.

Agency Theory and Variation, Selection and Retention	
Agency Theory wouldn't usually be associated with VSR however VSR can be linked to Agency Theory. *Variation* via new organisations internal incentives offered to employees. Variation in organisational structures emerges through social interaction between the two parties operating in an agency/principle relationship where people negotiate, compromise accept others definitions of what they are to do and then act on them. Variations are generated within organisations as people cope with problems involving the reproduction of their organisations from one day to the next. *Selection* via asymmetric power relations, developed from behaviours of negotiation, compromise, manipulation and emergent understandings of relationship roles. *Retention* within the Agency Theory model is usually via contacts and bargaining between parties within the Agency Theory relationship. Organisations and inter-organisational relationships are treated self-interested parties, sustained by rewards derived from their relationships with other members within their organisation or within inter-organisational relationships. The success of Agency Theory depends on participants continually negotiating a shared understanding of what they are doing to avoid the risk of relationship and organisational dissolution.	
Resource Dependency Theory and the Emergence of Franchising	**Resource Dependency Theory and the Emergence of Franchising Case Examples**

Resource dependency theory and its focus on power, dependency, and behavioural explanations appear to be much stronger drivers encouraging the adoption of franchising. Resource dependency theory (Pfeffer, 2005; Pfeffer and Salancik, 1978), just as the exchange theory in sociology, deals with power/control issues and the strategic actions taken by organisations to manage interdependences with other organisations (Aldrich and Reuf, 2006).	RDT offers comprehensive explanations of the franchisors activities, such as branding, PR, information dissemination, and training. These activities were often developed in the emerging stages of franchising at firm level to attract and retain franchisee and to increase franchisees' dependence on their franchisor, thus increasing the power of the latter. All of these factors relating to resource dependency theory help to explain the adoption and emergence of franchising in both the fast food/QSR and real estate industries.
Unlike economics-based theories, Resource dependency theory offers comprehensive explanations of the adoption of franchising. The theory considers concepts like power, trust, and dependency of resources and suggests that change is driven by power. The theory suggests that organisations participate in inter-organisational relations through the creation of vertical and horizontal dependencies and by engaging in exchanges with their environments to obtain critical resources, reduce or minimise the negative effects from dependencies (from government or other organisations), gain control, and decrease uncertainty (Barringer and Harrison, 2000).	In both cases firms sought to adopt franchising in reaction to changes in their external environments and to reduce and minimise the negative dependencies they were vulnerable to, franchisors were also intent on gaining increased control of resources and decreasing uncertainty. Franchising also enables the creation of inter-organisational relationships and power dependencies of the franchisees on their franchisor.
Resource Dependency Theory and the Impact on Industry Evolution	**Resource Dependency Theory and the Impact on Industry Evolution Case Examples**
In terms of evolutionary processes, with Resource dependency theory interdependencies are grounded in an inter-organisational division of labour. Using the VSR process can help understand Resource dependency theory and industry evolution. *Retention* of viable structures is potentially problematic from a Resource dependency theory perspective given its emphasis on an organisation as 'a coalition of groups and interests each attempting to obtain something from the collective by interacting with	In the fast food/QSR industry franchising was largely driven by the need to expand rapidly nationally. At the same time, power, dependency, and behavioural explanations appear to be much stronger drivers of the emergence of franchising. The threat to power as a reason to coordinate firms through franchising became evident in real estate, and fast food/QSR industries as firms were mostly concerned with suffering financially to increases in competition. The period from the 1970s to 1990s imposed industry - and

others' (Pfeffer and Salancik, 1978). At the organisational level, retention might be embedded in an organisation's task and division of labour structure, thus increasing its chances of survival. While Resource Dependency Theory is well developed and has been widely used, some critics suggest that it still lacks empirical research, has definitional issues, and is unclear about the forces that generate various different forms of inter-organisational relations (Aldrich and Reuf, 2006). Other limitations include its inability to explain competence development, and the lack of attention paid to transaction costs and legitimacy explanations.	EU-level structural changes and created external variations. Moreover, customer expectations of firms began to shift towards increased efficiency and branding. Firms had to deal with new sources of selective pressures. These actions were driven by the need to legitimise in the new internationally competitive environment and across new segments and the opportunity to expand their power (and thus increase the dependence of franchisees on their franchisor) over new industry segments.
Resource Dependency Theory and Variation Selection Retention	
In terms of evolutionary processes, interdependencies are grounded in an inter-organisational division of labour. Seeking to create or avoid dependencies involving other organisations generates *variation*. Many of these interdependencies are sought or avoided 'because of power and control possibilities inherent in them' (Aldrich and Reuf, 2006). Dependencies can be avoided by many actions, ranging from adjusting internal structures to seeking mergers or firm alliances. Gaining power involves managing not only organisations, but also their environments, which are comprised of multiple, sometimes hostile, interest groups. In these cases organisations aim to either align themselves with such groups, or neutralise them. With respect to variation Pfeffer and Salancik (1978) formulated a fundamental premise in their book that remains at the heart of the perspective: beyond the normal interdependencies, variations are driven by managers and administrators efforts at avoiding becoming dependent on others, while making others dependent on them. Pfeffer and Salancik (1978) depicted decision	

makers attempting to gain power so that they can manage their environments as well as their organisations. They conceptualised environments as being composed of multiple interest groups and managers must find ways of aligning themselves or neutralising themselves to these groups to protect their organisations.

Selection forces are 'inherent in asymmetric power relations' (Aldrich and Reuf, 2006), where power is derived from reducing dependency on others (and/or increasing the dependency of others) and is related to the control of resources that others value. Control of such resources, and hence inter-organisational dependency, can result from an organisation's differentiation and specialisation (Aldrich and Reuf, 2006). On the intraorganisational level it relates to groups and interests, which gain or lose power through bargaining, negotiation, and compromise (Aldrich and Reuf, 2006). Selection forces are inherent in asymmetric power relations. Power in this scheme is based on Emerson's (1962, 1972) concept that one's power resides implicitly in another's dependency. The parties in a power relationship are tied to each other by the dependence of one on the other or by mutual dependence. The power to control or influence others resides in control over the resources they value (Aldrich, 1979). The RDT asserts that one consequence of competition and cooperation over scarce resources is the development of dependencies of some organisations on others.

Retention of viable structures is potentially problematic from a RDT perspective given its emphasis on an organisation as 'a coalition of groups and interests each attempting to obtain something from the collective by interacting with others' (Pfeffer and Salancik, 1978). At the organisational level, retention might be embedded in an organisation's task and division of labour structure, thus increasing its chances of survival. While RDT is well developed and has been widely used, some critics suggest

that it still lacks empirical research, has definitional issues, and is unclear about the forces that generate various different forms of inter-organisational relations (Aldrich and Reuf, 2006). Other limitations include its inability to explain competence development, and the lack of attention paid to transaction costs and legitimacy explanations.	
Neo-Institutional Theory and the Emergence of Franchising	**Neo-Institutional Theory and the Emergence of Franchising Case Examples**
Along with RDT, New-institutional theory in sociology has the potential to explain the behavioural, power, and institutional considerations of franchising and its impact on the two industries.	In both cases the growing importance of reputation, branding and image, as new sources of selective pressures, often initiated the need for franchising. The influence of government as revealed here is more striking than is apparent from much of the literature and somewhat at odds with it. The two industries were influenced by government impact such as regulation and policy changes, both ideologically and pragmatically. The data highlighted how economic and political changes affect industry evolution; a relationship underplayed in the mainstream literature, and revealed some fresh insights into the process.
NIT emphasises the importance of norms and the institutional expectations that determine organisational behaviour (Getz, 1997).	Once franchising was introduced as a result of some of these factors the franchisors were seen as new institutions to represent their franchisees common interests and legitimise their actions. By doing so, these firms retained their power. Franchising led to the franchisor's firm legitimisation. Legitimisation became an important consideration for branding and training for the fast food/QSR and real estate franchise systems. As suggested by the Neo-institutional theory, the emergence of franchising and ultimately altered industry structures through the formation of new institutions (the franchisors and franchisees) and institutional norms. The latter is especially evident in the franchise systems' operational and procedural standards.

Neo-institutional Theory and the Impact on Industry Evolution	Neo-institutional Theory and the Impact on Industry Evolution Case Examples
The evolutionary aspect of Neo-institutional theory applies to VSR and *Retention* mechanisms are typically subordinated to selection processes in institutional theory, which highlight the forces that create and maintain organisations such as socialisation and charismatic leadership which promote shared meanings and understandings (Aldrich and Reuf, 2006). Capabilities are generally defined as the 'firm's capacity to deploy resources for a desired end result' (Helfat & Lieberman, 2002). Moreover, branding and training activities of franchise systems and other such activities increased similarities across franchise systems and increased the legitimisation of franchising. Finally according to Aldrich (1999), Neo-institutional theory has also been criticised for paying very little attention to the creation of new organisations such as franchising. Neo-institutional theory proposes institutional forces as the main drivers of change.	In both industries external variation and the threat of external variation became the driving factor for the adoption and promotion of franchising. Through their actions, franchise systems could adapt to these variations without noticeable losses of revenues and market share. Neo-Institutional theorists have not intended to specifically address arguments for industry evolution or adaptation and selection. As suggested by the NIT, franchising altered industry structures through the formation of new institutions i.e. the franchisor. In addition, the growing importance of reputation and image, as new sources of selective pressures, initiated self-regulation, which often diminished such pressures. Thus, the knowledge assimilation after the introduction of franchising identified in both cases helped to advance the knowledge base of the franchise systems. Indeed training within franchise systems contributed to the improvement of managerial systems and the knowledge and skills of franchisees and employees. The data from both cases suggest that branding and training activities of franchise systems, as triggered by changes at the national and international levels, mainly influenced the franchisor-franchisee relationships. In both cases the following outcomes where the result of the impact of franchising; the creation of new institutions (franchise systems), the legitimisation of franchise systems which both resulted in modified industry-level power arrangements. Franchising adoption was driven by the need to legitimise firms and their operations in both cases. Since the 1980s both industries faced the necessity to legitimise themselves in the eyes

	of governments and customers. In both the fast food/QSR and real estate industries the franchise systems facilitated learning, and contributed to improvements in their industries' standards, image and reputation. As a result franchising firms helped to erect barriers to entry for new entrants. Franchising also increased the core and inner capabilities of franchise systems and thus improved capabilities at industry level.
Neo-institutional Theory and Variation, Selection and Retention	
Neo-Institutional theorists have treated *variation* primarily as external in origin, generated as organisations are forces to respond to, adapt to, or imitate the ebb and flow of normative and regulatory currents in their environments. When environments are treated as institutions, analysts have typically adopted a reproductive theme focusing on how systems are copied on the organisational level with government units seen as the source of such facts. The levels at which variation occurs depends on what is treated as an institution: environments or organisations. In the former, governance level events or norms are replicated at an organisational level. In the latter, a generative theme, groups and individuals within organisations imitate other organisations (Aldrich, 1999). *Selection* forces are connected to the constraining role played by culture, norms, and rules. Selection is influenced by the conformity to external norms maintained by actors in organisational fields (Aldrich, 1999; Meyer, 1994). Sometimes, however, organisations do not conform, but pursue alternative strategies such as; compromise, avoidance, defiance, and manipulation of institutional norms (Oliver, 1991) aimed at achieving legitimate new institutions.	

Retention mechanisms are typically subordinated to selection processes in institutional theory, like ecologists, institutional theorists tend to treat the persistence of organisational entities as relatively non-problematic. Institutional theories highlight the forces that create and maintain organisations such as socialisation and charismatic leadership which promote shared meanings and understandings (Aldrich and Reuf, 2006). Critics of NIT argue that it fails to address endogenous change (Aldrich and Reuf, 2006; Hoffman, 1999; Munir, 2005), processes (Aldrich and Reuf, 2006; Washington, 2004), and that it doesn't consider informal relations, conflict and power (Aldrich and Reuf, 2006). Another major set of criticisms relates to the unit of analysis, as there 'has been little effort to make neoinstitutionalism's microfoundations explicit' (Powell and DiMaggio, 1991). According to Aldrich (1999), NIT has also been criticised for paying very little attention to the creation of new organisations.	
Population Ecology and the Emergence of Franchising	**Population Ecology and the Emergence of Franchising Case Examples**
In relation to population ecology, according to Perrigot (2008) who studied the population ecology model and its implications for franchise networks survival and success, Perrigot (2008) suggests that the model enables us to study the evolution of franchising networks through a process of natural selection as exerted by the environment (Aldrich, 1979), and examine the survival of networks using the symmetrically opposed notion of organizational mortality and the survival analysis, or the "method of choice" according to ecologists or emergence of franchising as is the case with this study.	In both industries, franchising was seen as a hybrid organisational form which was adopted quickly and ultimately dominated both industries. The emerging industry leaders in both cases have been the firms that adopted the franchise model quickly and successfully. Thus enabling those franchise systems to achieve success and growth and to retain their power and gain industry dominance.

According to the results of Perrigot's (2008) study in fact, plural form networks, combining franchised units and company-owned units, offer greater flexibility and can fit more easily to the market (Bradach and Eccles, 1989).	In both cases franchising also helped increase the rate of survival and success for the firms who adopted it. Moreover, following these changes franchising as an organisational structure expanded into new industry segments propagating its norms and values, and increasing firm's potential for survival and success. Organizations must fit to their environment in order to survive. However, in the case of franchising networks, there seems to exist a particular form of organization that has a better fit with the environment.
Population ecologists tend to focus on government actions that affect selection at firm level and most provide very limited insight into how government or political ideology influences industry evolution. Aldrich (1999) also recognises that governments can influence organisations and that 'changes in political leaders or governing parties sometimes bring about changes in organisational environments'. Institutional theorists see governments as a powerful force for conformity and as an initiator of change (Scott, 1995).	The evidence from this study suggests that there is a link between government impact and the emergence of franchising and more research is needed. Moreover the findings illustrate how industries can influence government policy, in the case of fast food/QSR industry McDonalds influenced greatly Health and Safety legislation and in the real estate case, real estate agents and professional bodies lobbied so that new regulation would be introduced to ensure only qualified agents can set up businesses. The data has given light to the great influence of government can play on industry change such as a new variation as such it is important to look at this factor separately. In both cases the influence of government is apparent in terms of influencing the entry of international competition and the subsequent emergence of franchising. Population ecology is useful in terms of explaining the adoption of franchising as a process of natural selection as a result of change exerted by the environment.
Population Ecology and the Impact on Industry Evolution	**Population Ecology and the Impact on Industry Evolution Case Examples**

According to Perrigot (2008) who studied the Population ecology model and its implications for franchise networks survival and success, Perrigot (2008) suggests that the model enables us to study the evolution of franchising networks through a process of natural selection as exerted by the environment (Aldrich, 1979). In terms of barriers to entry at different points in time the protection of industry from new entrants became an important objective for industry incumbents. Franchising can act as a form of regulatory agent and as major sources of normative institutions (DiMaggio and Powell, 1983).	Therefore in both the fast food/QSR and real estate industries franchising enabled firms to access key resources in the face of environmental problems such as increased competition and to also legitimise themselves in the eyes of the consumer and ultimately gain a competitive advantage in the hopes of dominating their respective industries. Franchising in both cases at certain points in time prevented government regulation. Evidence from both cases suggests that after franchising emerged the need for industry regulation reduced and industry self-regulation was promoted. Self-regulatory patterns of franchising explored in the current study generally support these findings. Until the 1990s the real estate industry was self-regulated by the two trade associations and once franchising was adopted in the late 1990s it encouraged industry self-regulation. In the fast food/QSR industry in the late 1970s when franchising was adopted, self-regulation was used to prevent government regulation through the development of best practice. The self-regulation impact of franchising in the Irish real estate and fast food/QSR industries resulted in a few industry-level structural changes. In terms of self-regulation, its impact on evolutionary processes in both industries led to the creation of new organisational variation of franchising which was in response to context-embedded variations, the threat of variation, and/or the opportunity to create variation. In terms of Population ecology in both cases the industry recipe changed once franchising was adopted. Franchising has also influenced power arrangements within the two industries as the main franchise systems became the dominant operators. There appears to be major changes once firms adopt franchising and from the data evidence

	suggests that franchise systems began to gain organisational capabilities and organisational power, which in turn generated changes in industry-level relationships, and eventually resulted in changes in industry structures and changes in industry concentration. The fact that important structural changes across the two industries took place at separate times suggests differing contextual pressures occurred at different points in time prompting the adoption of franchising. Indeed both cases also showed evidence of structural differences across a range of factors. Firstly, in terms of longevity, the Irish real estate industry was established before the fast food/QSR industry; however franchising impacted the fast food/QSR industry twenty years before it affected the real estate industry. Secondly, there is a considerable difference between the industries' demographic characteristics, roles, experiences, capabilities, and the power of their players. However, both industries appeared to be fragmented prior to the introduction of franchising and post franchising began to see some industry consolidation effects.
Population Ecology and Variation, Selection and Retention	
The population ecology approach sees organisational evolution as a process of VSR. Evolution occurs as a gradual development of the fittest organisations within a population of organisations. During the variation phase a stock of possibilities is created from which the best adapted can be selected later on. According to Hannan and Freeman (1989) an organisation with greater diversity has a higher probability of having a hand in some form that does a reasonable satisfactory job with the changed environmental conditions. Organisations are responding to changing environmental conditions by the development of new organisational forms. Organisations enclosed within a population which best fit the environmental conditions are selected. Selection	

is an optimising principle which leads to the survival of only the most robust organisations. The unfit organisations are weeded out by the environment and have to exit the populations. In the last step retention the fittest organisations are retained. Therefore Population Ecology looks at *Variation* depending on coordination of relationships and the *Selection* results from the fit between the organisation and the environment. Furthermore *Retention* is through transmission of shared understandings and efficiency. According to Perrigot (2008) who studied the Population ecology model and its implications for franchise networks survival and success, Perrigot (2008) suggests that the model enables us to study the evolution of franchising networks through a process of natural selection as exerted by the environment (Aldrich, 1979). In terms of barriers to entry at different points in time the protection of industry from new entrants became an important objective for industry incumbents.	

Table 10-1 The Five Organisational Level Theories and their relevance to Franchising and Industry Evolution Literature including Case examples and relationship to VSR

According to Table 10.1 above in terms of the franchising literature expansion, growth and survival are all explanations for the emergence of franchising, and looking at the five theories they addressed the issues of efficiency (TCE, AT), power (RDT, NIT), survival (population ecology) and therefore the conditions for the variation of a new organisational form such as franchising to emerge. Therefore the adoption of franchising is mostly driven by transaction costs (TCE) opportunism and agency theory (AT) self-interest. The other three organisational theories address the growth and survival of such organisations such as resource dependency theory (RDT) which explains how organizations reduce environmental interdependence and uncertainty, Neo-institutional theory (NIT) looks at the need for legitimacy and Population ecology addresses the issue of survival. However, it does appear that TCE, AT and RDT are best suited to explain the emergence of franchising. As such franchising emerges in response to contextual issues as theory describes and the environmental factors are more prevalent.

Once franchising has emerged in terms of how it impacts on industry structural change Table 10.1 above shows that perhaps TCE is important as it can offer some explanation in terms of efficiency considerations and transaction cost reduction. Agency theory which has never been used in relation to industry evolution also has a part to play in explaining the self-interest alignment of both parties in the evolving franchising relationship. However, perhaps more appropriate in explanation of the impact of franchising on industry evolution are RDT, NIT and Population ecology which offer more insights into the behavioural and power considerations over time. Thus in both cases once franchising emerged, franchisors increased the dependence of franchisees on their franchisor (RDT), and accordingly, increased the power of the franchisors (RDT). Moreover, market activities increased similarities across franchisors (NIT) and increased the legitimisation of these firms (NIT). In addition, franchise systems also diminished selective pressures by influencing industry-level selection processes, thus exhibiting the advantage of expanding their franchisee network.

In summary Table 10.2 below highlights the keys proponents and theoretical perspectives of the five competing organisational theories and their relevance to Variation, Selection and Retention and differentiates between the firm level approaches such as Transaction Cost Economic, Agency Theory and Resource Dependency Theory and the industry level approaches such as Neo-institutional Theory and Population Ecology. As mentioned previously the model of variation, selection and retention uses other approaches to explain organisational change and Table 10.2. below considers how the chosen perspectives deal with the issues of VSR. The evolutionary perspective adds value to each of the approaches and offers hope for a holistic understanding – not an integrated theory - of organisations and change. The diversity of perspectives is necessary given the subject matter and the evolutionary approach serves as an overarching framework within which the other approaches can be recognised and appreciated.

THEORETICAL PERSPECTIVES AND VSR

This table below (Table 10.2) is a summary of the theoretical perspectives of the five competing organisational theories and VSR adapted from Aldrich and Reuf (2006).

Perspectives	**Variation**	**Selection**	**Retention**
Firm Level			
Transaction Cost Economics	Variation into via intended Rational action	Selection involves actions to minimise transaction costs	Retention via transaction specific investments
Resource Dependency	Variation introduced as managers try to avoid dependence	Selection via asymmetric power relations	Retention a temporary result of coalitions and bargaining
Agency Theory	Variation via new organisations internal incentives offered to employees	Selection via asymmetric power relations	Retention a via contacts and bargaining
Industry level			
Neo-Institutional	Variations introduced from external origins e.g. imitation	Selection via conformity	Retention through transmission of shared understandings
Population Ecology	Variation depending on coordination of relationships	Selection results from fit between organisation and environment	Retention through transmission of shared understandings and efficiency

Table 10-2 VSR and the Five Organisational Level Theories

10.5 HOW DOES FRANCHISING IMPACT INDUSTRY EVOLUTION?

Addressing the overarching research question of how does franchising impact industry evolution? The previous sections looked to address the two research sub-questions to help in answering the main research question. This section will summarise the findings and then present this study's main contributions. Porter's (1980) work has been central to the purpose of this study; Porter noted that 'industry fragmentation has been overcome by franchising' this is one aspect of Porters research that this study aimed to assess. It appears from the data that franchising had a major impact on structural change in both industries. In terms of franchising's rate of adoption and emergence both industries differed in terms of the timeframe of the emergence of franchising. Furthermore, it appears that the macro-environmental, industry and agency context were important factors in the emergence of franchising with macro-environmental and agency influences being the more

dominant. The findings show that in the fast food/QSR industry the contextual conditions were evident in the late 1970s and as a result the industry was ready to adopt and diffuse franchising earlier and at a more rapid pace compared to the real estate industry. In the real estate industry franchising emerged nearly twenty years later and its rate of adoption was relatively fast paced but not as rapid as the fast food/QSR industry. In terms of franchising and its effect on industry structure, in both cases prior to the introduction of franchising there was evidence of industry fragmentation and within a short time span industry consolidation was apparent. The analysis helps uncover how firm level adoption of franchising emerged as a result of certain macro-environmental context (government impact, economic and social change and technology effects), industry conditions (increased competition, international new entrants, branding and the emergence of industry standards and self-regulation) and agency effects (such as the influence of entrepreneurs) and consequently the impact that these strategies had on the structural evolution of their industries. It appears that from the data the reactions and patterns emerging in both cases once franchising was introduced ultimately led to a degree of industry restructuring. Porter (1980) observed that 'industries evolve because some forces are in motion that create incentives and pressures for change'. There is clear evidence that changes to industry level relationships, and correspondingly to industrial structures, resulted from the emergence of franchising in both industries.

Addressing the structural change relating to new industry leaders the finding show that in both cases industry leadership changed once franchising was adopted. The case analysis shows that power-related changes in industrial structures were often caused by increased capabilities, resulting from firms' adoption of franchising. Indeed both industries exhibit evidence of changing power arrangements and it appears that franchising creates a shift in power towards the franchise systems as they began to dominate their industry and a clear reaction to this is the formation of firm associations or co-operative alliances as witnessed in both case studies. Structural changes such as barriers to entry post franchising adoption were evident. In both cases the impact of franchising has meant that as a consequence industry barriers to entry have increased. Moreover, franchising created firm level advantages in terms of branding and consumer loyalty as well as helping generate cost efficiencies and high levels of operating standards amongst franchise systems.

Another consequence of franchising's structural impact on both industries was the development of firm level and industry level capabilities. In both cases franchising helped to create increased firm level capabilities, operating efficiencies, and a fundamental change and improvement in the industry's standards and image thereby raising the bar in terms of the industry's threshold capabilities. Within this branding was a significant capability developed post the emergence of franchising. In both cases franchising has helped to legitimise firms and create a branding differential in the eyes of the consumer. Franchising has helped drive the development of branding in both industries, and became such a threshold capability and business model, that firms who

wanted to compete needed a strong brand as an essential component of their strategy. Once franchising was introduced it was selected and retained as a dominant design in both industries. Furthermore in both cases it appears that once franchising emerged it changed the industry recipe and offered a successful dominant design or a changing business model that other firms would imitate and adopt. In both cases this new dominant design which included standardisation and codes of conduct and practice were developed and implemented by the franchise systems, which in turn altered the structure of both the fast food/QSR and real estate industries. In addition, there was also evidence of the emergence of new industry segments once franchising was adopted.

Another structural change once franchising emerged was the development of networks and relationships. In both cases once franchise systems were established they would hold their own training and development sessions and also disseminate information both internally between franchisees within their franchise system. Franchising as well as promoting the development of networks and relationships throughout the industry both at firm level and at industry level aided the prevention of State regulation by fostering industry self-regulation. Moreover, industry self-regulation was another structural change resulting from the impact of franchising. As well as creating increased firm level branding capabilities and operating efficiencies, franchising has fundamentally changed and improved both industries' threshold standards of operations, branding capabilities and overall image and led both industries in terms of structure from fragmentation to consolidation.

10.6 CONTRIBUTION OF THE STUDY

The literature review suggested that there has been a shortage of studies on how industries evolve over time in terms of structure, and on what drives these industry-level changes. By exploring the impact of franchising on the evolution of industries over time, this study contributes towards filling a gap in the literature and makes a valuable contribution to knowledge of industry evolution and franchising. The multi-modal design of the study, which utilises five theories common to both fields, and the innovative application of the evolutionary approach to the individual case analysis make theoretical and conceptual contributions. Two substantial case studies constructed to answer the research question became the first comprehensive accounts of the evolution of the two Irish industries: the fast food/QSR and the real estate industries. These cases not only offer great historical data, but also provide great sources of information for practitioners, franchisors, government and academics, thus making a unique contribution to practice. Finally, the longitudinal processual comparative case study approach used in this research required a well-built methodological base and well-constructed data collection and analysis methods.

10.7 CONTRIBUTION TO KNOWLEDGE

The role of franchising as a driver of industry-level change has not been previously explored. The comparative analysis of the impact of franchising on industry evolution contributes a number of valuable insights into the two understudied bodies of literature. The empirical contribution to the industry evolution literature stems from the comprehensive accounts of the two case studies that reveal common evolutionary phase patterns across the two industries discussed in the comparative case analysis chapter. This study also offers an insight into the types of structural changes that take place at the industry level. Literature on franchising benefits from the analysis of the contextual drivers relating to the adoption of franchising, and the impact that franchising makes on the two industries. The study supports much of the empirical evidence found in the literature. At the same time it puts forward several propositions that have not emerged from previous work on franchising. For example, the current study found that the macro-environmental contextual drivers are much more powerful triggers of the introduction of franchising, than the industry ones and that agency (entrepreneurs) was an important factor in the emergence of franchising. This study also found that earlier in the century the adoption of franchising was mostly driven by threats, while towards the end of the 20th century - by opportunities and possibilities. Franchising, its drivers, its impact across the two industries demonstrated increasing similarities over time and differences across the two industries and the impact of franchising was often shaped by the structural properties of the franchise systems and their leadership.

10.8 CONCEPTUAL CONTRIBUTION

The use of a multi-modal approach in the theoretical framework of this study makes a two-fold contribution. First, multi-modal study designs have been often recommended but rarely employed. Therefore, this study is one of the few to explore the usage and implications of such an approach. Second, the conceptual findings of the study prove the usefulness of the usage of a multi-modal framework. No single theory is able to fully explain the impact of franchising on structures of industries. Economics-based approaches work best with the drivers of franchising adoption. Sociological theories, on the other hand, offer comprehensive explanations of the franchising development, such as entrepreneurship, and the relationship with franchisor and franchisees. The analysis of the data highlights that the Transaction cost economics and Agency theory better explains the motivational factors and the impact of franchising during the earlier stages, while the Resource dependency theory, NIT and Population ecology better account for the processes and actions at the later stages of industrial development, when issues like branding, transparency, and power prevail over transaction costs and efficiency considerations. Another contribution of this study is the innovative application of Agency Theory, which was rarely applied in the strategy field, and which has not been generally viewed through an evolutionary approach. The application of Agency Theory to the analysis of the contextual drivers and the impact of franchising on the structures of their industries proved valuable. This theory offered useful explanations of the

motivations and outcomes of franchising, in preventing new variations or resulted in the creation of new variations. In addition Neo-institutional theory has been useful in understanding the behavioural, power and institutional considerations of franchising activities within each industry. Finally the population ecology model has implications for franchise networks survival and success.

10.9 CONTRIBUTION FOR PRACTITIONERS

The study produced two original and comprehensive case studies of industry evolution with an emphasis on the origins, establishment and evolution of both industries. The evolution of the Irish real estate and fast food/QSR industries in general, and the introduction of franchising have never been explored and documented. This research is of great interest to representatives of the franchising industry, policy-makers, and other stakeholder.rs – a sentiment that was repeatedly expressed in the interviews for this study. The fact that this study is the first in-depth exploratory and descriptive account of the emergence and impact of franchising in Ireland makes it a solid contribution to academia and practitioners. The account of industry evolution offers an insightful description of the contexts, adoption, and impact of franchising. Over time the essence of franchising generally remains unchanged, its application and success rates within different contexts can be studied for strategic purposes. This should prove useful for franchising policy and strategic management theory. This knowledge becomes especially valuable in light of the recent financial crises, which initiated much debate on the optimal balance between industry self-regulation and the degree of government involvement. Finally, while the study achieved its research objectives, the contextual nature of the two cases offers a great pool of historical and industry data that can be used for primary or secondary analysis by the franchising industry, and scholars of strategy and history.

10.10 METHODOLOGICAL CONTRIBUTION

As discussed previously, very few longitudinal studies have been undertaken in the field of strategy because of the complexity of this type of research. Accessibility of data, complexity of coding and data reduction, are among the concerns that prevent researchers from conducting this type of investigation. This study addresses some of these complications and makes a strong methodological contribution to the future research on industry evolution. First, the conceptual framework incorporates an innovative approach to the analysis of the impact of franchising on industry evolution. This thesis provides a contribution to methodology and practitioner use by extending the model developed by Pettigrew (1984), Quinn (2002) and Hanclar (2011). Second, the study employs the archival and document methods of data collection that have been underused in the strategy field.

10.11 FUTURE RESEARCH AGENDA

This research has provided an important base line from which future research can further explore the implications of franchising and its impact on the evolution of other industries in Ireland and in other countries. The unique design of this research can be applied to other settings thus expanding the general understanding of franchising as one of the driving forces of industry. Increasing the number of settings being explored also increases the capacity to draw generalisations about what drives franchising, what strategies are the most successful, and what the impact of these strategies are. There remain a number of gaps in franchising research. Namely if researchers want to study the evolutionary, developmental stages of franchising in completely new contexts, they need to go beyond the North American domain of enquiry. Qualitative studies, have complemented the portfolio of research approaches in the past few years (e.g. Altinay and Wang, 2006; Doherty & Alexander, 2004; Grunhagen et al., 2010) however in an effort to gain richer insights into the rationale of key decision makers, such as franchisees, system managers, or franchise customers. Further research needs to be conducted using finer grained approaches. Moreover, some major gaps in the franchising literature still remain and are suggested by Dant (2008) who highlights that much of what we know about franchising is based on investigations of the franchisors to the virtual exclusion of research focused on the franchisee perspective. Dant (2008) also concludes by suggesting that while a handful of franchisee-based studies exist; there is a virtual absence of examining the franchising phenomenon from the perspective of the customer.

Entrepreneurship has a huge impact on the adoption and the subsequent impact of franchising and again this study has highlighted the importance of entrepreneurs as agents in the adoption and diffusion of franchising and thus their effects on industry evolution. Again Dant (2008) highlights the lack of research focused on the franchisee perspective. Emerging from the literature and data collected perhaps future research could focus on the role of entrepreneurship (both from a franchisor and franchisee perspective) as a central influencing factor in industry evolution with regards to the emergence of franchising and its evolution. Indeed the author has begun work on a paper relating to this particular area. Absent from the literature and empirical studies of franchising are the evolution of franchise systems over time as they co-evolve with the changing strategies of the firm. Future research could therefore address the evolution of franchise systems, alliances and networks over time, as they coevolve with the changing strategies of the firm, evolving industry strategic practices, and the changing regulatory and institutional environment and extend the initial findings of this study further.

Finally in relation to industry evolution the progress demonstrated over the last fifteen years is encouraging, but some significant gaps persist. This may be explained by the complexity of the research that would be required to fill these gaps and recognition of the theoretical limitations that may have existed in the past. The theoretical foundations of industry dynamics and evolution are

not frozen and new spheres of influence have emerged to combine with the traditional paradigms to progress the research agenda. In addition the importance of competences has been acknowledged by Tae and Jacobides (2011) who look at competences within the Industry architecture field and build on this. The issues of competences and how they relate to firm and industry capabilities are concepts evident in this research that were not addressed in the literature review and could be further explored as a main focus in future research. The area of trade associations or industry collective grouping could also be explored in more detail as these were evident in both cases once franchising emerged as a way for independent operators to join force against the franchise systems. Some of the industry evolution theoretical combinations are giving researchers stronger and more robust vehicles for enquiry than ever before, and enabling them to dig deeper into the questions of the field and the mystery of industry evolution. Through such approaches, mindful of multiple theoretical perspectives, different levels of analysis and temporal aspects of influence, research can take up this challenge and uncover the mystery of industry evolution. Then a more enriched understanding of industries and their incumbent firms can be provided for the betterment of practice and of theory as a whole.

10.12 CONCLUSION

This chapter linked the empirical findings on industry evolution and franchising to the data and analysis undertaken in chapter eight. It then presented a discussion of the conceptual and methodological explanations of the five competing organisational theories, which followed the conceptual framework and which was guided by the main research question of this study; how does franchising impact on the evolution of industries? In order to adequately explore this research question it is broken down into two sub-questions: a) why does franchising emerge? b) what impact does franchising have on industry structure? The conceptual framework addressed the theoretical and empirical propositions from the literature and related them to the data analysis. The chapter then offered a discussion of this study's contribution to knowledge as well as the theoretical, conceptual, practitioner and methodological contributions of this research. Finally, it concluded with an overview of a possible future research agenda.

The main contributions of this study are that it offers a focused assessment of franchising over time. There has been a lack of research on the relationship between franchising and its industry setting and this study addressed this gap. This research therefore explored why franchising emerges in an industry as well as its impact over time. It also enables the use of industry evolution material to explain this and therefore addresses the gap in the evolutionary literature in understanding the emergence of a new organisational form such as franchising. This study also makes an empirical contribution by providing evidence on how the Irish fast food/QSR and real estate industries evolved over time, particularly in terms of structure as research in service sectors still suffers from the 'lack of empirical evidence' (Malerba and Orsenigo, 1996). By exploring franchising and its

impact on the structural evolution of industry, this study enhances the literature and research in both the franchising and industry evolution fields.

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