A Transaction Cost View on the Allocation of Decision Rights in Franchising

*The Moderating Role of Trust*

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Abstract
The purpose of this paper is to develop an extended transaction cost approach of the allocation of decision rights in franchising networks. We examine the influence of environmental uncertainty, behavioral uncertainty, transaction-specific investments and trust as moderator on the franchisee’s fraction of decision rights. Specifically, this study demonstrates that considering trust in transaction cost theory (TCT) supplements the explanation offered by the TCT on the allocation of decision rights in franchising networks. We found that behavioral uncertainty and transaction-specific investments have a positive effect on the allocation of decision rights to franchisees. These findings imply that franchisors tend to delegate decision rights to franchisees when they encounter difficulties in measuring franchisees’ performance and controlling their behavior and when they are able to reduce formal control due to the bonding effect of franchisees’ transaction-specific investments. In addition, we found that trust functions as moderator in the relationships between the transaction cost variables and franchisor’s propensity to delegate the decision making power to the franchisees. Overall, our study contributes to the literature by constructing and testing an extended transaction cost model to explain the structure of decision rights in franchising networks.