The Impact of Decentralization and Trust on Network Performance

The Case of Franchising

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Abstract

Research on formal and relational governance mechanisms—decision rights and trust—for managing the franchise networks is on the rise. However, the understanding of how they impact performance of franchise networks remains rather unclear. Thus, the primary goal of this study is to examine the individual and combined effects of decision rights delegation and trust on franchise network performance. The empirical results from a survey of German franchise firms indicate that there is a positive impact of decentralization and trust on network performance. In addition, we find that trust mediates the impact of environmental uncertainty and franchisor’s intangible assets on the delegation of decision rights to franchisees. Specifically, the results indicate that trust is a facilitator of decentralization in franchise networks.