

Choice of Contract Duration in Franchising

Combining Transaction Cost, Resource-based and Relational Governance Perspectives

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Abstract

This study examines the determinants of franchise contract duration by developing hypotheses based on transaction costs, resource-based and relational governance perspectives. Firstly, based on the transaction costs theory, we hypothesize that transaction-specific investments vary positively with contract duration, while environmental uncertainty varies negatively with contract duration. Secondly, we enrich the transaction cost model by including resource-based and relational governance hypotheses. Applying resource-based reasoning we expect that the intangible system-specific and brand name assets of the franchisor vary positively with the franchise contract duration. According to the relational governance perspective, we hypothesize that trust will moderate the influence of transactions costs variables on contract duration. We use the data from 100 German franchise networks to verify our hypotheses empirically. The data provides strong support for the hypotheses.

Keywords: franchise contract duration, transaction cost theory, resource-based view, relational view of governance