LEARNING AND PERFORMANCE: THE CASE OF FRANCHISING

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We analyze the impact of completeness on the financial performance of franchise chains, considering that performance is contingent on the fit between characteristics of the transaction and the degree of completeness. We evaluate this idea using a treatment regression model and an original sample of 74 franchise contracts. Results suggest that completeness is profitable only when relevant contractual hazards are dealt with and when these contractual hazards are tangible, i.e. monetary investment such as the upfront fee and outlet investment. However, completeness does not affect performance when the contractual hazards are related with the expropriation of intangible assets, such us brand names (reputation). We also observe that most experienced franchisors are those who make more profitable their chains (up to a threshold), but the degree of completeness of their contracts is irrelevant in terms of performance. This is because although they might know how to design the contract, they may have non contractual hazard where completeness give them an advantage.

Keywords: Performance; Completeness; Contractual Hazards; Contractual Capabilities