USING TOURNAMENTS TO REDUCE AGENCY PROBLEMS: 
THE CASE OF FRANCHISING

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ABSTRACT

Anecdotal evidence suggests that franchisors use multiunit franchising as a reward to franchisees. In this paper, we model multiunit franchising as the reward in a tournament—one solution to the franchising agency problem. We use a unique database of 68 restaurant franchisors. We find support for the tournament model; franchisors that seek franchisees with managerial experience and franchisors that build routines to share knowledge throughout the chain use more multiunit franchising. These effects are stronger for growing franchisors, suggesting that franchisors, especially ones aspiring to grow, use multiunit franchising as the reward in a tournament to reduce agency problems.