

**Knowledge-Based Trust in Franchising:
A Franchisor's Perspective**

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Abstract

The importance of trust in business exchange has been widely acknowledged. It plays a key role in increasing information exchange, internal transparency, performance, and represents a critical ingredient for a long-term relationship success. This study examines the effect of general trust and contextual factors generated from the transaction cost theory perspective on the franchisors' knowledge-based trust. More specifically, we investigate how franchise manager's perception of contextual factors as well as personal propensity to perceive people as trustworthy affects the perception of franchisees' trustworthiness, i.e. franchisor's knowledge-based trust. Hypotheses were tested with empirical data collected from a sample of German franchise systems using moderated regression analysis. The results indicate that both general trust and contextual factors have a significant effect on franchisor's knowledge-based trust. Furthermore, general trust also affects relationship between the environmental uncertainty and knowledge-based trust, reducing its negative effect.

Key words: (interorganizational trust, transaction cost theory, relational governance, franchising)