

The Logic of Franchise Contracts: Some Empirical Results

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Abstract

Empirical studies have been conducted to examine the factors determining the choice between company operation and franchising. A number of researchers have based studies on the incentive-cum-insurance model of retail contracting. However, there has been little empirical analysis of the competitive environment in which the principal/agent relationship operates. This paper examines this subject by using empirical models concerned with the franchisors' decisions about the extent to which they use franchising. Empirical results show that the higher degree of competition among chains is positively associated with franchising.

Keywords: franchising, empirical study, agency theory, moral-hazard, competition