

Monitoring and Conflict in Franchise Relationships

Susana López-Bayón
Begoña López-Fernández

Business Administration Department
Avda. del Cristo, s/n
33071 Oviedo (Spain)
sbayon@uniovi.es
blopez@uniovi.es

Abstract

Franchisors empower franchisees to take decisions on a package of management issues. This autonomy produces counter effects: While it enables them to capitalize on franchisees' local knowledge, it may also damage system homogeneity. This paper aims to assess assignment of these rights to enhance performance and, particularly, to reduce early terminations instigated by the franchisor. It studies the direct effects of delegating a number of decisions (pricing, human resource practices, product assortment, decoration and local advertising) on the number of early terminations. It also tests the moderating effects of brand name value and of the tacit value transferred to franchisees on these variables. The results indicate that delegation of pricing decisions increases early terminations within the chain, whereas delegation of decisions on product assortment and local advertising tends to decrease them. Moreover, the larger the chain, the more pronounced this effect is, except for local advertising. Delegation of local advertising reduces early terminations and delegation of pricing tends to increase them, regardless of the size of the system.

Keywords: Delegation, early terminations, local adaptation, moderating effect.