

Abstract

The rationale behind mechanisms of revenue sharing through two part tariffs (which is a common contract type in many businesses) has been the subject of many theoretical and empirical studies. Franchising is a popular form of retailing in a wide range of product and service markets and is, therefore, a suitable context for research on such revenue sharing contracts. Despite the dominant role of franchising in many developed economies and its rapid growth in many emerging economies, franchisor strategies for deriving economic profit from the rights they grant to their agents (franchisees) remain to be fully examined. There is extensive research in franchising that examines the factors that influence the fee structure of franchise contracts and the relationship between the different components of this fee structure. There are two competing perspectives on the latter – one school of thought views the fixed and ongoing fees as being negatively related, since they are twin parts of a mechanism deployed by a franchisor to extract franchisee profits and ensure that franchisees just receive a normal profit on their investment; the other school of thought posits that the two components are positively related since they reflect the level of franchisor investment in building its brand and business. The divergence in these perspectives calls for a comprehensive empirical examination of the revenue sharing fee structure of franchise contracts. However, to the best of our knowledge, there is no comprehensive quantitative review or meta-analysis on this topic. In this paper, we conduct a meta-analysis to aggregate results from empirical studies, synthesize insights from prior research and test our hypotheses.

Key words: royalty rate, franchise fee, meta-analysis, agency theory, property rights theory