Management Insights & Dialogue Series

Dr Fabrice Lumineau

Associate Professor of Strategic Management, Krannert School of Management, Purdue University, US

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An Asymmetric View of Franchise Contracts

Abstract

We extend the management literature on contractual governance with an asymmetric view of contract design that highlights the strategic implications of selectively excluding specific contractual rights from contracts. Specifically, we consider the choice of contract scope as an alternative way to address exchange hazards. We suggest that when facing exchange hazards, a firm may fortify its own protection not only by bolstering its own contract scope but also by narrowing the contract scope of its partner. The results from a study of disclosed documents and contracts of 136 franchise systems in the U.S. largely support our arguments.

Short Bio

Dr Fabrice Lumineau's research investigates inter-organizational partnerships, the interplay between contract and trust in collaborative strategies, opportunism and ethical issues, and dispute negotiation dynamics. He has published more than 20 articles in the top management journals, such as such as Academy of Management Annals, Academy of Management Journal, Journal of International Business Studies, Journal of Management, Organization Science, Organization Studies, and Strategic Management Journal.

He serves on the editorial board of the Academy of Management Journal, Strategic Management Journal, and Strategic Organization.

Enquiries: TEL: 3411-7583 | EMAIL: mgnt@hkbu.edu.hk