JOURNAL ARTICLE

Contractual Allocation of Decision Rights and Incentives: The Case of Automobile Distribution

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Benito Arruñada , Luis Garicano , Luis Vázquez

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Abstract

We analyze empirically the allocation of rights and monetary incentives in automobile franchise contracts. All of these contracts substantially restrict the decision rights of dealers and grant manufacturers extensive rights to specify and enforce dealers' duties. The allocation of decision rights and incentive intensity differs across brands, however. This variation is explained by the incidence of moral hazard. In particular, when the cost of dealer moral hazard is higher and the risk of manufacturer opportunism is lower, manufacturers hold more rights to determine the performance required from their dealers and to use mechanisms such as monitoring, termination, and monetary incentives to ensure that such performance is provided.

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