

How to Promote Franchisee Endurance in the Franchise System Based on Entrepreneurial Orientation

Erlinda¹ Yuyus Suryana² Faisal Affiff² Arief Helmi²

1. Graduate Student, Faculty of Economic and Business, Padjadjaran University, 40132, Indonesia

2. Faculty of Economic and Business, Padjadjaan University, Bandung, 40132, Indonesia

Abstract

Entrepreneurial orientation is important to maintain the franchisee's outlet endurance. This research aims to find out franchisee entrepreneurial orientation that appropriate to outlet endurance in the given franchise system. Through a qualitative case study approach, data were gathered by conducting 12 depth interviews to franchisees from 12 differences brand in Banda Aceh municipality, Indonesia to get a cleaner and deeper picture of franchisee entrepreneurial orientation and their outlets endurance. Based on entrepreneurial profiles of prospective franchisees by Boulay and Stan (2013), the result indicates that, franchisees in the system developer class, will have a high endurance by giving independent autonomy, allowing them to innovate and operating system with multi outlets. Franchisees in the in-store craftsperson class will have a high endurance by detail and clear standard operating procedure and develop collaborative communication. And franchisees in the opportunistic class will have high endurance by strengthening brand. Overall franchisees having cooperative entrepreneurial orientation

Keywords: Entrepreneurial Orientation, Franchisee, Cooperative Entrepreneurial, Franchisee Endurance

1. Introduction

Franchisee who purchases the right from franchisor to use its brand name and operating system, faced a dilemma, on the one hand to endurance their outlet, they have to applicate entrepreneurial behaviour, but on the other hand they couldn't applied, due to limitation of standard operational that has been set by franchisor. Then which type of entrepreneur orientation can be matched with the franchisee? This question is important because it's related to franchisees endurance in the franchise system.

Previous study have questioned whether franchisee investor or entrepreneur like (Grunhagen and Mittelstaedt, 2005: Ketchen, Short and Combs., 2011; Boulay and Stan, 2013), because if categorized as entrepreneurs, franchisee doesn't meet all contained aspects in the general concepts of entrepreneurship. But if we says that they aren't entrepreneurs, franchisee implementing some of entrepreneurial dimension. The most widely referenced of entrepreneurial dimension by Lumpkin dan Dess (1996), consist of autonomy, innovativeness, risk taking, proactiveness and competitive aggressiveness. In this case franchisee has conducted three of five entrepreneurship dimensions i.e risk taking, autonomy and pro active.

From three studies mentioned above (Grunhagen and Mittelstaedt, 2005: Ketchen, Short and Combs., 2011; Boulay and Stan, 2013), essentially they conclude that franchisee is 'entrepreneur'. Therefore, the next question is how entrepreneurial profile suitable for franchisee in order to their endurance? This question posed to respond empirical phenomena that occurred in Banda Aceh Municipality. In the last five years business sector including franchising began to grow after the peace agreement and recovery from earthquake and tsunami disaster. But in early 2015 the data shows, many franchise outlets difficult to survive and finally failed. From 35 franchise brands listed in Banda Aceh during observation period in the last five years, 15 brands (43%) failure. Observing the failure rate of franchise outlets in Banda Aceh are high enough, it's interesting to explore further the franchisee endurance in franchise system.

Basically many aspects in researching franchising including franchisee endurance. As suggested by Dant, et.al., (2008), there are trichotomy of franchising domain: 1. Franchisor 2. Franchisee (company outlet) and 3. Customer. This indicates, there are three parties which play in franchise business, therefore research on franchising can be done, *first*, from franchisor side as the party having company and parent brand which sells the rights to other parties (franchisee). *Second*, from franchisee side as the party who purchases the right from franchisor to use its brand name and operating system to sell goods and services to consumer/customer as end user. And *third*, from customer side as end user of franchise product and services.

Although research on franchisee endurance can be seen from three domain mentioned above, but this study is limited to the franchisees. The main reason for this restriction is due to high failure rate of franchisees in Banda Aceh, despite operating outlets on relatively low competition. Whether the failure is related to franchisees entrepreneurial orientation? As a comparison, in Pontianak city West Kalimantan province with geographic and demographic characteristics similar to Banda Aceh, from 33 franchise brands, untill now all brands still survive. Why in Banda Aceh doesn't? It is interesting to study more.

Boulay dan Stan (2013), asserted that there are three entrepreneurial profiles of ideal franchisee (system developer, in-store craftsperson and opportunistic investor) as suggestion to the franchisor in order to choose their ideal franchisees.

This study aims to promote franchisee outlet endurance, based on entrepreneurial profile as asserted in research by Boulay and Stan (2013). It is expected that this research can provide guidelines to franchisees in order to endurance their outlets and as suggestion to the prospective franchisee, what type of franchise should they choose.

2. Literature Review

2.1. Entrepreneurial Orientation

In order to determine franchisee entrepreneurial orientation, first reviewed the concept of entrepreneurial orientation from expert and previous researchers. Entrepreneurship was presented first by Schumpeter in 1934 as 'an innovator'. An entrepreneur is someone who create new business by taking risks and uncertainties to achieve profit and growth by identifying significant opportunities and combine the needed resources, so it's can be capitalized (Zimmerer & Scarborough, 2008:4).

Entrepreneurship according to Hisrich, et.al. (2008: 10), is the process of creating something new on the value of using requires time and effort, bear financial, physical and social risks, receive generating monetary rewards, personal satisfaction and freedom. Essentially entrepreneurship is the process of creating something new and taking risks and returns. Jain (2011), stated that entrepreneurship is a process of (i) recognizing (by the individuals or team of individuals) that the entrepreneurial opportunities, for new venture creation or new value creation exist and they have value (ii) deciding to exploit the opportunities by them (iii) exploiting the opportunities by the way of new venture creation or new value creation by them for realization of some desired value.

The popular models of entrepreneurial orientation (EO), is proposed by Lumpkin and Dess (1996), that there are five dimensions of EO, namely autonomy, innovativeness, risk taking, proactiveness and competitive aggressiveness. But there are three dimensions that stand out are innovativeness, risk taking and proactiveness (Miller, 1983) and has been used as a consistent literature in EO.

Furthermore Suryana (2011:24), revealed that entrepreneurship is a creative and innovative capabilities as the basis, tips and resources to look for opportunities to success. The essence of entrepreneurship is the ability to create something new and different through creative thinking and innovative action to create opportunities. Zenovia (2011), posed the concept of entrepreneurship is seen as the process of uncovering and developing an opportunity to create value through innovation and seizing that opportunity without regard to either resources (human and capital) or the location of the entrepreneur – in a new or existing company.

2.2. Some proponent arguments, that stated franchisees are entrepreneurs

To find out an appropriate form of franchisee entrepreneurship in order to endurance franchisee outlet, some previous research will be reviewed. Grunhagen, (2005:219), stated that franchisee as entrepreneur through the following statement: 'the franchise industry, in an attempt to promote the attractiveness of franchising to aspiring entrepreneurs has coined the catchy phrase: 'be in business for yourself, but not by yourself'.

Ketchen et.al. (2011), through 38 respondent from Entrepreneurship Theory and Practice (ETP) board members, consist of 61.5% full professor, 30.8% associate professor and 7.7% assistant professor. They asked, 'Do you consider franchisees to be entrepreneur?' The answered showed that 12 (31.6%) said yes, six said no (15.8%), and 20 (52.6%) said the some are and some are not. Comparing 'yes' and 'no' answered, it is concluded that franchisee is entrepreneur. Furthermore, Ketchen, et.al., (2011:587) suggested that they (franchisees) do almost all functions as other entrepreneurs except that they do not need to come up with the business idea" and that "from the individual franchisee's perspective, a franchise is a new venture and therefore can be considered an entrepreneur.

Some reasoning from practices through Ketchen, et.al., (2011:584):

- Franchisees are, however, entrepreneurs in the most important meaning of the word, and that is that franchisees put their own capital and net worth at risk, seeking the best return on their investment.—Don Larose, Senior Vice President of Franchise Development, Express Oil Change, LLC
- A franchisee is absolutely an entrepreneur. Anyone who is willing to take a risk by putting their own money and, many times, all they own on the line for a business is my definition of an entrepreneur.—Tom Hunt, Owner and President of PHD Hotels, Inc., a franchisee of Hampton Inns.

Other advocates stressed that franchisees engage in risk-taking, a key element of an entrepreneurial orientation (Lumpkin & Dess, 1996). One respondent, for example, asserted that "franchisees who assume the risks of ownership and engage in innovative behaviors to make their franchise a success would be considered to be entrepreneurs." Rajagopal (2007:346), stated 'As primary income generators of franchise businesses, organisational effectiveness and growth of the entire organisation rests on the abilities of the franchisees.'

Zimmerer and Scarborough (2008), stated some studies have identified several characteristics that tend to be identification by entrepreneur are: 1. The desire for responsibility 2. Prefers moderate risk 3. Convinced ability to succeed 4. The desire to get feedback immediately 5. High energy level 6. Future orientation 7. Organization skills 8. Assessing that achievement higher than money 9. High commitment 10. Tolerance for

ambiguity 11. Flexibility 12. Tenacity.

Previous research by Withane (1991), which explicitly examination of why people choose to join a franchise rather than start an independent business, Withane (1991) asked 150 franchisees to rank the importance of seven personal characteristics for the success of a franchisee. His results are need for achievement, initiative, self-reliance, competitiveness, internal control, autonomy, and risk-taking; but when the same respondents provide self-assessments of how they manifest each characteristic, the ranking is quite different, with risk taking, competition, and self-reliance as the top three characteristics. Garg (2005), said that franchising is cooperative entrepreneurship than independent entrepreneurship. Cooperative entrepreneurship as opposed independent entrepreneurship.

More specific research on entrepreneurial of franchisee has been done by Boulay and Stan (2013) that revealed three entrepreneurial profiles of ideal franchisee as shown in Table 1.

Table 1. Entrepreneurial profiles of ideal franchisee

Class	System Developer	In-Store Craftsperson	Opportunistic Investor
Weight (%)	32.75% of context units	37.99% of context units	29.26% of context units
Interpretation	The desire to develop professionally through entrepreneurship/business creation: Seeks independence and autonomy, willing to develop with and within the network	The desire to set up own business by opening a retail outlet; looking for a second career, focusing on customer relations and involvement in the local environment	The desire to earn more by accumulating more resources; in search of the best opportunities (returns on investment) in the market and ready to switch brands if necessary
Examples of specific vocabulary	Independent autonomy Undertake Entrepreneur Create Entrepreneurship	Store Set up In business Decline Business	Earn [money] System Get on Opportunistic First

Source: Boulay and Stan (2013)

2.3. Franchisee Endurance

The term of franchisee endurance yet used widely in franchising research. Franchisee endurance connected with sustainability of outlets during the contract period and extend the contract further. Many aspects that can be used as a basis for assessing the franchisee endurance.

Several indicators can be used to measure franchisee endurance. *First* from *performance*. Rajagopal (2007:341-346) finding that franchisee performance was reflected in their competitive gains, perceived use values, volume of buying and level of quintessence with the CRM services of the organisation. The strategic performance of franchisee outlets and effective retailing augment the customer perceptions and help build the long-run customer demand towards the franchisee outlets. It has been observed in the study that the performance of franchisee outlets is function of outlet attraction, supply and manufacturing management quality, price and promotional strategies as functional factors. Besides, relational variables including personalised customer services, leisure support and customer convenience also influence the performance of outlets.

Second, from *franchisee satisfaction*. Gauzente (2003), states that the franchisee satisfaction contribute to the long-term durability of the franchise network. Then Lee, et.al. (2010:569), propound that franchisee satisfaction which consist of two dimension, *economic satisfaction* and *social satisfaction*, affect to franchisee loyalty (intention to renew contract and advocacy intention). *Third* from *trust*. It's means as franchisee trust to their franchisor. As research by Chiou, et.al., (2004:24), that intention to remain in the franchise system is a result of trust. *Fourth* from franchisor-franchisee relationship. Researchers who supporting this idea are Brown and Dev (1997), stated that the closer the relationship between franchisee headquarters and the on-site managers, the better individual franchisee will perform and the stronger the chain becomes.

2.4. Franchisee Endurance Based on Entrepreneurial Orientation

Even though franchisee endurance indicators which have been mentioned above are not describe entrepreneurial orientation directly, but to achieve those indicators (performance, satisfaction and trust), the franchisees must seek to explain entrepreneurial orientation dimensions such risk taking, proactiveness. According to Garg (2005), research that can explain franchisees endurance based entrepreneurship orientation/profile is needed. Despite of entrepreneurial orientation dimension are not implemented overall by franchisee, but in order to endurance their outlets, the franchisee must perform entrepreneurial behaviour. Basically since the first assessing what type of franchise will be purchased, how much investment is required, the level of risk, choose a location, it is already carrying out entrepreneurial orientation (based on Lumpkin and Dess, 1996; Zimmerer and Scarborough, 2008).

But entrepreneurial orientation is needed by franchisee, is different from others entrepreneurs, even though managers. As Rajagopal (2007:345) submitted: 'As franchisees are perceived to be independent and self-

employed entrepreneurs, their ongoing development is frequently overlooked or poorly managed, particularly compared with the development opportunities for corporate staff in their support offices. The concern, however, is that franchisees do not prioritise their own professional development due to their inability to diagnose and source appropriate training, their focus on immediate operational needs and a lack of free time to undergo development activities. As primary income generators of franchise businesses, organisational effectiveness and growth of the entire organisation rests on the abilities of the franchisees.'

3. Methodology

Qualitative research was deemed appropriate method, given the lack of literature on franchisee endurance based on entrepreneurial orientation. Particularly, the case study approach, through depth interviews towards 12 franchisees from 12 brands which exists in Banda Aceh municipality who are able to explain perception, opinion and attitude towards their entrepreneurial orientation in order to endurance their outlets. Interviews conducted which lasted approximately 45 minutes until one hour for each franchisee.

The participants were chosen through purposeful sampling, with aim of selecting franchisees from different brand in order to meet the required information of entrepreneurial profile of ideal franchisee from Boulay and Stan (2013). Face to face interviews were conducted on the franchisees' work setting. The main themes in the interview guide were: 1. What are encouraged and considered factors before joining franchising? 2. Whether the franchisees' feel as investor or entrepreneur? 3. What are they do before deciding to choose a particular brand? 4. How are their responds on outlet management procedure? 5. What are they do in order to their outlets endurance? In addition to the questionnaires above, they also asked about 6. Whether they have other business or other jobs? 7. How many years become franchisee? The participants and franchising brands and sectors are presented in Table 2 as follows:

Table 2. The participants, brands and sector of franchising

No	Initial	Brand	Sector
1	AM	KFC	Fast Food
2	AR	Indomaret	Retail
3	YF	GSC Super Bimbel	Education
4	JH	TIKI	Courier
5	MA	King'O Donuts	Food & Beverage
6	AW	Rudy Hadisuwarno	Salon
7	IM	Bimbel Alumni	Education
8	B	JNE	Courier
9	FF	TK Khalifah	Education
10	R	Kuch2 Hotahu	Food & Beverage
11	D	AHASS	Motor service
12	FM	Primagama	Education

4. Result

Based on depth interviews from 12 franchisees with different brands, the result can be described as their answers from seven questions (q1-q7) as follows:

- q1. Before joining franchising, first almost all of interviewees were encourage and considerate of market opportunities, except D whose continuing his father's in law outlet. Second reasoning (AM,AR, YF,AW,IM,F,R,FM) are having idle fund, while JH and B because get trust from master franchise. The next reason is being franchisees more easier than set-up independent business, beside well known brand already or brand which starting to famous.
- q2. All of franchisee feel that they are as entrepreneurs or having entrepreneur spirit.
- q3. Before deciding to choose a particular brand, they would seek the relevant information about one brand and business system which following it. They are also comparing some brands and systems of franchising, including franchise fee, franchise royalty, level of risk, contract system, outlet management.
- q4. Their responds about outlet management procedures have some differences. Many factors influence their comments as their entrepreneurial orientation, their characters and the franchise system. The comments for this question could grouping into three types franchisees character. Franchisee with SD characters have a positive and negative comments. Basically franchisee with SD characters are independent person, they don't like to be restricted. According to them, franchise system more profitable to franchisor including profit sharing.

Similarity with their comments, Laurence and Kaufmann (2011:289) have made a parable about franchisee-franchisor relationship as follows:

'A scorpion needs to get across the river, and says to the frog, carry me across the river, and the frog says,

you know, no, you'll sting me and I'll die. The scorpion said, well no, once we get on the river, if I sting you, we'll both die; I'll drown. So the frog says, okay, and they get halfway across. The scorpion stings him and he says, why did you do that? He says, I'm a scorpion, it's what I do. Well, the scorpion's the franchisor and the frog's the franchisee – Collins'

Thus the parable of franchisor-franchisee relationships. Fortunately franchisee in SD characters, they have others business as independent business, so they don't think too much during the performance outlets still favorable.

Then the franchisees with ISC character prefer the franchise system where they are following to participate managing the outlet. Because basically they reason become a franchisee are for main source of their economic living. Therefore they have great interest for their outlet endurance. And the franchisee with OI characters prefer the franchise system where they are not too much follow to participate managing the outlet. Generally they have a regular job in other sector, so become franchisee as to invest and earn their money.

q5. To endurance their outlet, the franchisees always monitoring constantly their outlets performance. They are also building good communication with their franchisor. But some franchisees complained about the lack of supervision of their franchisor after contract is signed.

q6. For question about whether franchisees have others business or others jobs, the answer could be grouped into three type of franchisees entrepreneurial characteristics. AM, AW,FM, AR, JH whose include SD characteristics, they have others business before joining franchising business. Generally they are the real entrepreneurs. Their business more than two sectors. Become franchisees just for invest their idle funds. While B,D,MA,R, could be said that they are the real franchisees. Generally, become franchisees as their economics living sources. They are focus on one business, and difficult to arrange many business. They are not agile like franchisees in SD category. Therefore they are prefer to choose the franchise where they come running daily business operation. Latest, F, YF,IM which OI characteristic, actually they have regularly jobs before joining as franchisee. Therefore their goal becomes franchisees are to earn their money and income. They don't have enough time to manage their outlets. From dept interviews they prefer to choose franchise with good operating systems, good franchisors track records and prospective brand name. They are wily to catch the opportunity and dare to be the first franchisee in one area. They are not too fear with risk, because having permanent jobs.

In order to understand how to promote franchisee endurance based on interviews above and entrepreneurial profile from Boulay and Stand (2013), then 12 franchisees who have been interviewed, could be grouped into three types, there are: System Developer (SD), In-Store Craftperson (ISC) and Opportunistic Investor (OI). The result shown in the following table:

Table 3. The participants and their personality characteristics associated with their EO

Class	Participants	Years as franchisee	Personality characteristics (specific vocabulary)
SD	AM	33	Entrepreneur, independent autonomy, not only as franchisee but they have other business, opportunity catcher, leader, internal locus of control, risk making, first, innovativeness, pro-active, mobile
	AW	4	
	FM	14	
	AR	3	
	JH	17	
ISC	B	15	Become a franchisee with expectation, it will be their livelihood funding, risk taking, focus, devote their time and give more attention for outlet, opportunity catcher, detail, in store
	D	7	
	MA	2	
	RCP	2	
OI	FF	4	Become a franchisee just for earn their money, because they have had a stable job (government office), risk taing, opportunity catcher, not enough time to manage the business, information up date
	YF	4	
	IM	5	

All interviewed franchisees have been answered that they feel that themselves have entrepreneurship souls and spirits. All of them have the same reasons, that if someone has entrepreneurial spirit, they will always looking for business opportunities, seeking and up date information pro-actively, dare to take the risks.

Five of twelve interviewed franchisees (AM, AW,FM,AR,JH) have SD personality characteristics. They are the real entrepreneurs, because first they have their owns (independent) business before joint as franchisees. They have not only one business sectors but engaged in some business sectors. Their average ages were 45 years and over. Their economics have been established. They have high spirit of leaderships, high internal locus of control, high confidence, considering that failure was a valuable experience to success. They are not easily to be satisfied, even though getting successes. Franchisees in this category prefer to joint franchising with well-known brand, standardized system, because basically for them become a franchisee just for sideline investment.

Next, four of twelve interviewed franchisees (B,D,MA,R) have ISC personality characteristics. Basically becomes a franchisee because of their circumstances, especially as source of their economics living. Like Boulay and Stan (2013) described, actually they want to set up their own business by opening a retail outlet. They are

focused to manage their outlet. There is a difference with Boulay and Stan (2013) resulted that ISC profiles looking for a second career. But here franchisees will looking for the second career if their outlet failed. But if their outlet success they will focus on the progress of their outlet. Their business ambitions are not as high as the franchisees with SD profile. Generally they are good and thorough workers, happy to intervene managing their outlet. Two of four franchisees in this category are business beginners, who choosing became a franchisee as a place to study business. Franchisees in this category prefer to joint franchising with tolerance system, because they want to participate actively in managing outlet. Generally they prefer to buy a cheaper franchise, but confidence with franchise prospect. They need good communication (collaboration communication) between franchisor-franchisee.

Then three of twelve interviewed franchisees (F,YF,IM) have OI characteristics. Actually they are opportunities catchers and the real investors. All of them have a regular job as government employees. Their motivate as stated by Boulay and Stand (2013), are to earn (money) and first. Therefore they prefer to buy franchise with neat system, franchisor with good track record because they don't have enough time to manage their outlets. The third are the first franchisee for a particular brand in Aceh province. So, specific vocabulary from Boulay and Stan (2013) for this class is proven.

5. Discussion

From depth interviews and three grouping, there is something to be discussed. First, from personality characteristics, it can be said that all participants have entrepreneurial orientation. But there are some differences in levels or degrees of their entrepreneurial orientation, which affect their behaviors. The problem is how they adjust their entrepreneurial orientation behavior with the given system in the franchise business system.

The grouping by Boulay dan Stan (2013) directed to how franchisor choose their franchisees, but the facts are they are often did not meet directly with their prospective franchisee and even during the franchise contract lasts. Therefore, this research more suitable for prospective franchisee, what type of franchise system should they choose, to get match with their entrepreneurial characters and if its were, so their endurance will be better.

Through this discussion, the author would like to introduce a new term associated with entrepreneurship degree required by franchisee, that is 'kw-preneur' or 'entrepreneur kw2'. It's mean entrepreneurship with lower level than the real entrepreneur. This level of entrepreneurship more suitable for franchisee, because franchisees must following a given business system, so they can't express their entrepreneurial orientation at all. Garg (2005:58) said that franchising is cooperative entrepreneurship than independent entrepreneurship.

6. Conclusion and Recommendation

Based on results that explanation above, we take conclusion that for promote franchisee endurance based on franchisee entrepreneurial orientation, then franchisees in the system developer (SD) class, will have a high endurance by giving independent autonomy, allowing them to innovate and operating system with multi outlets. Franchisees in the in-store craftsperson (ISC) class will have a high endurance by detail and clear standard operating procedure and developing collaborative communication. And franchisees in the opportunistic class will have high endurance by strengthening brand.

Even though this research is intended for franchisee in order to promote their outlet endurance, but also provides some useful recommendation for scholars, prospective franchisees, and franchisors. Understanding of entrepreneurial orientation in franchise system bring us to one variable that rarely studied namely 'cooperative entrepreneurial'. For future researcher, can continue this research with larger sample and quantitative research approach, also associated about cooperative entrepreneurial with franchiser-franchisee endurance. So it can be enrich the knowledge and determine which indicators most influencing franchisees endurance based on entrepreneurial orientation.

Further, for prospective franchisees, this research provides some important information as a guide in determining which type franchise should be purchased which is associated with their entrepreneurial profile (SD,ISC or OI). It is important to consider in order to their endurance later. Whereas for franchisors, this research provides some information related to background and motivate of prospective franchisees, because it's will contribute to the success of franchisee as well as a success indicator measurement for franchisors.

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