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# Franchising Performance from Franchisee Perspective: Case in Education Franchising in Indonesia

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**Lim Sanny<sup>1</sup>**  
**Edi Abdurachman<sup>1</sup>**  
**Boto Simatupang<sup>1</sup>**  
**Pantri Heriyati<sup>1</sup>**

## Abstract

This article assesses the impact of transactional, relational, entrepreneur orientation on satisfaction and performance from the viewpoint of franchisee. The methodology includes an empirical study that was conducted in education franchising in Indonesia. The results show that the quality of relational relation is important in improving franchisee performance results. Meanwhile, entrepreneur orientation as a moderator variable gives an effect towards the improvement of franchisee performance. From the four indicators of entrepreneur orientation, in education franchise context in Indonesia, the most required indicator is the courage to take risks. This quality is required by franchisee in increasing franchisee performance because without courage to try new things and find creative ideas, franchisee performance will not improve. This article also discusses managerial implications, research limitation and future research.

## Keywords

Franchise, performance, Indonesia

## Introduction

In this globalization era, partnership strategy is one of the fastest method in business development (Muthusamy & White, 2005). Partnership strategy is used by organizations to overcome the lack of resources, either in capital form and also human resources (Brookes & Altinay, 2011). The quality of partnership determines the success of partnership strategy (Das & Teng, 2002; Doherty, 2009). Partnership strategy has been used in franchising strategy since years ago until now. Franchising is one of the most effective methods for business acceleration, and it has been proven in several countries

<sup>1</sup> School of Business and Management, Bina Nusantara University, Jl. K. H. Syahdan Kemanggisian, Palmerah, Jakarta Barat, Indonesia.

## Corresponding author:

Lim Sanny, School of Business and Management, Bina Nusantara University, Jl. K. H. Syahdan No. 9 Kemanggisian, Palmerah, Jakarta Barat- 11480, Indonesia.

E-mail: [lsanny@binus.edu](mailto:lsanny@binus.edu)

(Campbell, Datar & Sandino, 2009). Franchising is also the simplest method for the creation of employments and entrepreneurship (Hoy & Stanworth, 2003). The benefits of cooperation in a franchise system for a franchisor as the owner and the holder of the franchise rights is the ability to do business expansion to enter a new market, create a wider distribution system which results in a cheaper price and build a brand image by doing supervision towards distribution system (Brookes & Altinay, 2011; Felstead, 1993). For the franchisee, as a recipient of franchise rights, the benefits are to find an easier way to enter the business world by using a renowned brand and to achieve motivation; there is also the need for franchisor training and obtaining the advantages of an independent businessman (Baucus, Baucus & Human, 1996; Dant, Grunhagen & Windsperger, 2011; Michael, 2000; Norton, 1988). The success of franchise business is proved in the development of several products in many countries. One of the biggest ice cream retailers in the world is RB, a premium ice cream retailer which has become one of the world's largest chains of ice cream specialty stores with more than 5,800 stores throughout the globe. The company set up its operations in India in 1993 with its own manufacturing plant near Pune; it operates through 100 per cent franchisee parlours and modern food retail channels such as hotels, malls and restaurants. However, despite a huge potential, the sector is fairly competitive and tough to crack, for majority of consumers are still unfamiliar with the concept of premium ice creams and purchase local brands from unorganized players. Even with the growth of parlours, majority of volume sales happen via impulse purchase and take-home products. Given the presence of a multitude of players in the Indian ice cream market, most of them through multi-brand outlets and vending carts, RB faces a tough situation due to its business model and franchisee operations (Tripathi, Tandon & Gupta, 2015).

The partnerships quality between franchisor and franchisee determines the success of cooperation in a franchise system (Monroy & Alzolla, 2005). The quality of partnerships in a franchising strategy is very significant and also an interesting research (Brookes & Altinay, 2011), but until now this research is still conceptual. The quality of partnerships is divided into two different points of view, but there are still many presumptions as the franchisor is the key to success in a franchising system. As a result, the quality can be seen from all research works that have been conducted until now. There are limited numbers of research from the franchisee's viewpoint (Grunhagen & Mittelstaedt, 2005). Though in reality, the franchisee is the key to success in a franchising system as a franchisee does the daily activities and is also the closest person to the consumer. Since the franchisee does the daily activities, franchisee knows and understands the needs of the consumer (Brookes & Altinay, 2011). Hence, this research uses the franchisee's viewpoint.

This research is an empiric study about the education industry in Indonesia. A large number of population growth, a high increase in the GDP every year, as well as excellent business opportunities are the reasons for the fast-growing education franchising in Indonesia. Moreover, a rapid growth of the middle-class economy which reaches 75 million is a magnificent business opportunity. However, this business opportunity cannot be taken by all people because the franchisee must have a passion in education. The franchisee is the closest person with the consumer, so the franchisee must understand about that business which run in the education sector. Therefore, this research will explain how entrepreneurship orientation affects a franchisee's performance.

## Literature Review

Research on franchising has focused on the rationale for franchising from two dominant viewpoints: from agency theory and social exchange theory (Castrogiovanni & Justis, 2002). Agency perspective proposes that franchising reduces agency costs including adverse selection, a condition in which agents

misrepresent information regarding their skills and moral hazard. Eisenhardt (1989) divides agency theory into two: positivist agency theory and principal agent theory, in which both of them use the same unit of analysis, the cooperation contract between principal and agent. The two theories complete each other and they have the same assumption which is uncertain results, the probability of risks and asymmetric information. Jensen and Meckling (1976) explained agency theory by evaluating partnerships based on managerial deeds, agency cost and capital structure. Agency theory explains that franchisee will help reduce supervision cost because franchisee knows the condition of the market and also manage directly. As a result, the franchisor is not required to pay additional costs to supervise the company (Hing, 1999; Michael, 2000). The disadvantages of agency theory are very universal, too simple and use many assumptions. Therefore, it does not explain the real business environment (Lan & Heracleous, 2010). It also does not consider social aspects, whereas in fact, social aspects affect the partnership between franchisor and franchisee (Miles, 2012).

Social exchange theory views interpersonal relations as a trade transaction, where a person will cooperate with another in the hope for something in return to fulfil their needs (Thibaut & Kelley, 1959). The basic assumption in social exchange theory that voluntarily enters and dwells in a social relation is whether it is satisfactory (Lam & Lau, 2008; Sweeney & Webb, 2007). Compared to the arm's length contract of agreement (transaction agreement through market mechanism), cooperation in the franchise has a longer time perspective, which is a characteristic of social exchange. Accordingly, cooperative acts in alliance tend to be reciprocal and depends on the positive act of the other side where this reciprocal form is an important element in social exchange. Moreover, relation and trust are critical factors in the franchise system and social exchange. Even though the measurement of trust and relationship in the form of economic values is a difficult factor, these two are the key to success of the franchise. There are many applications of social exchange theory in an individual context, organization and between the organizations including the base of franchise strategy (Muthusam & White, 2005).

Kaufmann and Stern (1988) used social exchange theory in their research to see the relations between two different parties. They view franchise as a prototype for social exchange, and it turns out that the identification of relation problems is difficult. Then the research in a franchise company is focused on conflict, caused by the dissatisfaction that comes from strength unbalance between involved parties. Franchise relationship will occur if both parties assume that the efficiency produced in the relation has a benefit. The benefit is based on larger profit potential through group membership rather than through independent operation (Pizanti & Lerner, 2003).

According to Schul, Little and Pride (1985), franchisee satisfaction is related to how the franchisee sees the partnership with the franchisor. Moreover, it is also related with the quality of support from the franchisor, and trust and commitment in a business partnership. Most research about the partnership in franchise context only uses the franchisor's viewpoint, whereas the franchise performance is different if seen from the franchisee's viewpoint. However, social exchange theory still has some disadvantages. For instance, in a relation between two parties in a partnership, it is also determined by the orientation of each respective parties to get into a partnership (Cropanzano & Mitchell, 2005). Katila, Chen and Piezunka (2012) state that an organization with entrepreneur orientation will be more successful than an organization that only invests. So in this research, the entrepreneur theory will also be used to explain entrepreneur orientation that will affect the partnership between franchisor and franchisee in an education franchise or not.

Joseph Schumpeter initially did the research about entrepreneurship during 1883–1950 (Maritz, 2005). The research explains that entrepreneurship is a creative process, in which an entrepreneur continuously makes several changes to the previous system. Schumpeter also states that the goal of that change is to increase economic values. The goal can be achieved by introducing new products, new

methods and several innovations that support economic activities (Schumpeter, 1936, 1950, in Maritz, 2005). Rumelt (1987) defines entrepreneurship as a process of creating a new business. Whereas there is not only a duplicate of the previous successful business, but there is also a new problem that has not existed before in a new business.

Sharma and Chrisman (1999) state that entrepreneurship includes actions from the beginning of the creation of the organization, which is an upgrade or innovation occurring outside of that successful organization. Hisrich, Peters and Sheperd (2008) define entrepreneurship as a process of creating something new. Using time and effort needed, make a profit, physical and social risks that follows, receiving monetary rewards, individual satisfaction and freedom.

From the definitions of entrepreneurship, franchise system can be categorized as an example of entrepreneurship activities. However, until now there is still a conflict because some researchers state that in a franchise system, a franchisee does not do entrepreneurship activities. Instead, franchisee is doing the daily business according to the regulations defined by the franchisor. In fact, a person who has his/her own business does not want to get into a franchise system (Williams, 1999). On the other hand, some other researchers state that a franchisee has two categories: one that only invests, and one which has entrepreneur orientation. Therefore, the success of a franchise is determined by the entrepreneur orientation of a franchisee. A franchise is succeeded because franchisee does all daily activities, which directly affects the success of franchise business (Clarkin & Rosa, 2005; Grunhagen & Mittelstaedt, 2005).

## Research Methodology

In general, the purpose of this research is to test the relation of several factors of transactional relation quality and relational relation quality towards franchisee's satisfaction and performance, moderated by an entrepreneur orientation factor. This research uses a quantitative method for its methodology. The analysis method used in this research is a structural equation model (SEM) using a hypothesis test of several relations between variables used in this research. Data analysis is done in this research using the structural equation model (SEM). Structural equation model is a statistic technique which can be used for simultaneous testing and estimation of the relation between some constructs which consists of independent variables and dependent variables. Structural equation model can be called as the second generation of multivariate analysis because it has a higher flexibility for researchers, compared with multivariate analysis (Fornell, 1987). Data processing uses WarpPLS 3.0 program (Kock, 2012). Analysis unit for the respondent in this research is the owner of franchise brands, which means a person who has one franchise brand but has more than one franchise. The respondent will fill up one questionnaire for all the variables in this research, as shown in Table 1. Then, a respondent who has more than one franchise brands may fill up more than one questionnaire according to the number of franchise brands owned. Sampling technique used in this research consists of two stages of simple random sampling, wherein the sample is selected in a simple and random way. In the first stage, franchise brands are selected; then from the questionnaires filled up by franchisors, samples are selected randomly.

The research is done by giving out online questionnaires to franchisees in Indonesia. Online selection of questionnaires is done to make the data collection easier which is not limited with distance and time (Dillman, 2009). Besides, the online selection of questionnaires is also done because the education franchisees are distributed in many regions of Indonesia. As a result, the data obtained are different from one another from all regions in Indonesia, not only in a certain region. Another reason is that the average of educated franchisees is high enough, so that the online selection of questionnaires does not have any obstacle in the workplace.

**Table 1.** Variable, Theory and Dimension Used in Research

Variable	Theory	Dimension	Literature
Transactional relation quality	Agency theory	Content Support	Baucus (1996), Hing (1995), Lee (1999), Kaufmann and Dant (2001), Pitt and Napoli (2003), Monroy and Alzolla (2005), Choo and Bowley (2007), Roh and Yoon (2009)
Relational relation quality	Social exchange theory	Trust Commitment Relationalism Communication	Blau (1964), Bagozzi (1975), Dwyer (1987), Chiou, Hsieh and Yang (2004), Monroy and Alzolla (2005), Harmon and Griffiths (2008), Croonen (2010), McDonnell (2011)
Satisfaction	Social exchange theory	Social interaction Finance Warranty Competency	Abdullah (2008) Bagozzi (1975) Hunt and Nevin (1974)
Entrepreneur orientation		Innovative Proactive Risk-taker Aggressive	Miller and Friensen (1978), Covin and Slevin (1989), Miller (1983), Lumpkin and Dess (1996)
Performance		Increasing number of student Increasing number of outlet Increasing number of assets Market-share growth Increasing number of employees Increasing number of teachers	Venkatraman and Ramanujam (1986)

**Source:** Authors' own.

The population in this research are franchisees from 137 different education franchises in Indonesia, a total of 1,730 franchisees, and there are 3,012 outlets in all regions in Indonesia. Based on the data above, the number of samples used in this research is calculated using Levine, Stephan and Szabat's (2011) formula:

$$n = Z^2 \sigma^2 / e^2$$

in which  $z$  is the average standard error based on pretest result (0.21).  $\sigma$  is the standard deviation obtained from the normal curve (1.96 when  $\alpha = 5$  per cent).  $e$  is the confidence level interval, 95 per cent for social research.

Based on the calculation done using the above formula, the obtained value of  $n$  is 68 samples. A total of 400 questionnaires are distributed, of which 121 questionnaires are returned and 70 questionnaires are processed. The calculation fulfils the minimum number of sample criteria.

The type of data collected is quantitative and qualitative. Data obtained are primary data, the method of data collecting by interviewing, questionnaires and secondary data. Interviews are done with the Head of Asosiasi Franchising Indonesia (AFI), Head of International Franchise Business Management Consultant (IFBM), Asosiasi Waralaba dan Lisensi Indonesia (WALI—Waralaba and License Indonesia) and some education franchisor and franchisees. Franchisees used the questionnaires given as the source for the research. Secondary data are collected from the Department of Commerce, Commerce Services,

Consultant of International Franchise Business Management (IFBM), Asosiasi Franchising Indonesia (AFI), Asosiasi Waralaba dan Lisensi Indonesia (WALI—Waralaba and License Indonesia) and data accessed through the Internet.

The steps in conducting this research started by interviewing the heads of associations and franchise consultants so as to know generally the condition of franchise systems in Indonesia, and also the opportunities and problems happening. The next process is interviewing franchisors and franchisees in the education field to know the problems happening in franchise systems, especially in education franchise in Indonesia, from every point of view. So, the different perception between the two can be seen.

The next step is based on the results of the interview and industrial phenomenon that is happening. There will be a comparison with the supporting theories, and the questionnaires are made to know further about things that happen to the franchisee<sup>3</sup> his research views from the franchisee's point, so the thing that will be observed is the effort done by the franchisor through the franchisee's business success, satisfaction and franchisee performance.

The next step is making a pretest to see if the franchisees understand the questionnaires. Then, validity and reliability test is done to obtain the results. The validity of the measuring instrument has a purpose of expressing the concept. The types of validity checked in this research are convergent validity and discriminant validity, which has a purpose to know the accuracy of measurement (Sekaran, 2014). The reliability of a measurement shows how far the measurement<sup>4</sup> without deviation, and assuring a measurement that is consistent at different times and places. In other words, the reliability of a measurement is an indication of the stability and consistency in which the instrument measures concept and helps to check the accuracy of a measurement (Sekaran, 2014).

The result of the validity and reliability tests is good enough. Whereas the criteria of the reliability test is measured using Cronbach's alpha, there liability coefficient shows how good an item in a group is positively correlated with one another. Cronbach's alpha is calculated in an average of inter-correlation between items that measure the concept. The nearer the value of Cronbach's alpha to 1, the higher the internal consistency reliability. However, for social research, a variable is reliable if the value of Cronbach's alpha is  $\geq 0.60$  (Sekaran, 2014). Validity measurement is done by comparing the value of  $r$  from the table and the value of  $r$ . If the value of  $r$  is more than the value of  $r$  from the table, the indicator used to measure the variable is valid (Sekaran, 2014). If the two criteria are fulfilled, the survey is continued, and the result from the questionnaire is processed and the previous hypothesis is tested.

## Discussion

The first step is to observe the measurement model from the result of data processing using WarpPLS 3.0. While analyzing the measurement model, the measurement is done with two criteria that must be fulfilled: convergent validity and discriminant validity. The purpose of the validity analysis is to show how good is the result obtained from the measure that matched with the theory, and this becomes the test base of each variable.

The result of Cronbach's alpha from each indicator is more than the minimal criteria, that is, 0.6 (Sekaran, 2014). The value shows that the instrument used in this research model is reliable and so all questions from each variable may be considered as a good question, free from mistakes and consistent. So it can be used for the research without omitting questions from the existing variables. The value of Cronbach's alpha from each variable is shown in Table 2.

The next step after the analysis of the measurement model explains the relation between indicator and dimension, the observed latent variable and the relation between the indicator and other variables, as

well as on how the structural model analysis is done. In a structural model analysis, the main criteria must fulfil the model of fit adjustment. The measurement that showed a model has a matching model must fulfil the following three categories: average path coefficient (APC), average R-square (ARS) and average variance inflation factor (AVIF) as shown in Table 3. The  $p$ -value for APC and ARS in this research shows  $p < 0.001$ , in which it must be less than 0.005, so the structural model and measurement in this search are matching each other. Besides, the third category, that is, AVIF has a value of 2.462 in which the criteria of a model has a matching model if the value of AVIF is less than 5. So the model testing has fulfilled the matching criteria (fit) and may proceed to the next test.

From Figure 1, it is seen that for the variable of transactional relation quality, the effect of content dimension and the support has the value of  $R^2 = 0.84$ . This means that the content and support selection is very good because 84 per cent of each dimension can explain the variable of transactional relation quality (KHT). Each of the two dimensions also significantly affects transactional relation quality ( $\beta = 0.91$ ). Based on the calculation result, there are two ways having a weak influence, that is, the quality of transactional relation towards the franchisee performance variable and entrepreneur orientation towards franchisee performance. For medium influence, the methods are the quality of relational relation towards franchisee performance, franchisee satisfaction towards franchisee performance and the combination of entrepreneur orientation and franchisee satisfaction towards franchisee performance. The other methods show a strong influence among the variables.

The relational quality (KHR) variable, which consists of four dimensions, trust, commitment, relationalism and communication, is also correct. It is correct if seen from the value of  $R^2$  for each dimension, in which the greatest value is in relationalism (0.70) and the smallest is trust and communication (0.56). Effect of relationalism to KHR is 0.84, whereas trust and communication affects 0.75 each. So, the relational relation variable is already represented by the four dimensions. The result of this research shows that relational relation quality is affected by transactional relation quality in which the case of transactional relation quality is an operational relation quality based on a contract between franchisor and franchisee. The content and support given by franchisor to the franchisee determines the franchisee's success. The result strengthens the previous research done by Poppo and Zenger (2002) and this research also

**Table 2.** Result of Cronbach's Alpha from Each Variable

Variable	Cronbach Alpha	Reliability
Transactional relation quality	0.828	Reliable
Relational relation quality	0.847	Reliable
Franchisee satisfaction	0.923	Reliable
Entrepreneur orientation	0.964	Reliable
Franchisee performance	0.9	Reliable

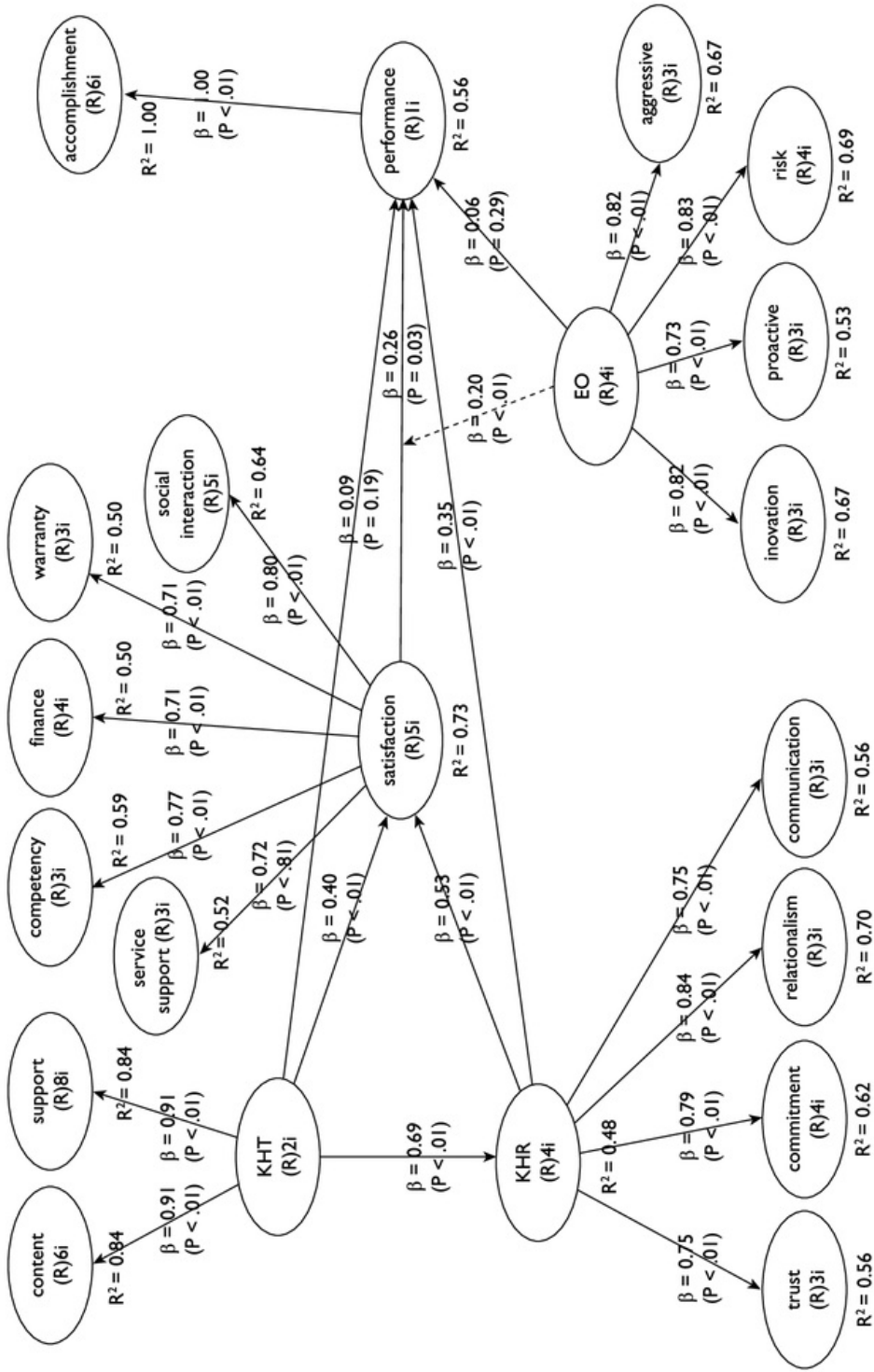
**Source:** Primary data which have been developed, 2015.

**Table 3.** Model Fit and P-Value

	Value	$p$ -value
APC	0.643	< 0.001
ARS	0.642	< 0.01
AVIF	2.462	

**Source:** Primary data which have been developed, 2015.





**Figure 1.** Variable, theory and dimension used in research  
**Source:** Prepared by the authors, 2015.

contributed because until now there is no empiric research which states that transactional relation quality determines relational relation quality in the franchise context, especially education franchise in Indonesia.

The franchisee satisfaction variable, which consists of five dimensions, is also an accurate selection of variables. This is because all of them have the value of  $R^2 > 0.50$  in which the greatest effect is social interaction and the smallest effect is finance and warranty, but the five dimensions can represent the variables of franchisee satisfaction significantly. So, the five dimensions selected are very suitable and represent the franchisee satisfaction variable. Effects of transactional relation quality and relational relation quality towards franchisee satisfaction also made a big influence on this research. Therefore, this research strengthens the previous research conducted by Monroy and Alzolla (2005), in which the research is still conceptual. This research has been proven to be empirically applied in the franchise context, especially the franchise in Indonesia. This research also aims to evaluate the influence of transactional relation quality and relational relation quality towards franchisee performance. However, from the calculation result, transactional relation quality does not affect franchisee's performance directly. This result contradicts with the previous research conducted by Baucus et al. (1996) and Roh and Yoon (2009). However, on the other hand, relational quality affects the franchisee performance, even though it only influences the medium. This theory strengthens the previous research conducted by Chiou, Hsieh and Yang (2004) and Harmon and Griffiths (2008). So, franchisee performance is only affected directly by the relational relation quality, but both transactional and relational relation quality also affects franchisee performance through franchisee satisfaction. Besides, the influence of transactional and relational relation quality through franchisee satisfaction turns out to be greater than the direct influence to franchisee performance. So, this research contributes in researching relations in the franchise context, because the previous research has not studied about the effects towards franchisee satisfaction and performance.

The entrepreneur orientation variable consists of four dimensions. These dimensions have the value of  $R^2 > 0.53$  and a significant entrepreneur orientation variable which consists of four dimensions. Moreover, all the dimensions represent the value of  $R^2$  more than 0.53 and significant. So, all of the dimensions fit enough and the greatest effect is risk ( $\beta = 0.83$ ) and the smallest effect is proactive ( $\beta = 0.73$ ). So, we can conclude that the selection of the four dimensions is accurate for explaining the entrepreneur orientation variable.

Research about the relation of satisfaction towards performance shows that there is a medium influence. The research contradicts the previous research which stated that there is a strong influence in the relation of satisfaction towards performance (Morrison, 1997). So, foreign education franchise context, especially in Indonesia, is not valid. The relation between franchisee satisfaction towards franchisee performance is also affected by entrepreneur orientation from the franchisee. As a result, the effects of entrepreneur orientation are researched as a moderator variable, in which the effects influence satisfaction towards franchisee performance and direct effect towards franchisee performance. Based on the analysis result, entrepreneur orientation innovates franchisee satisfaction to improve franchisee performance. This research result gives a contribution because until now there is no research that studies the effects of entrepreneur orientation as a moderator variable between franchisee satisfaction and performance. On the other hand, this research states that the direct effects of entrepreneur orientation towards franchisee performance are not significant. This research contradicts with the previous research conducted by Clarkin and Rosa (2005), Coulthardt (2007) and Grunhagen and Mittelstaedt (2005). So for education franchise context, especially in Indonesia, franchisee performance is not affected directly by entrepreneur orientation.

If seen from the effects of variables, the effect of the transactional relation quality variable towards the relational relation quality variable is 0.69 and it is significant. But for franchisee satisfaction,

relational relation quality gives more effect rather than transactional relation quality. The greatest effect for franchisee performance is from the relational relation quality, and the smallest is from transactional relation quality. Then the entrepreneur orientation moderator variable only strengthens the effect of franchisee satisfaction towards franchisee performance, but it does not directly affect franchisee performance. So, it is clear enough that the effect of the relational relation quality variable and the transactional relation quality variable will be greater if we use the franchisee satisfaction variable and entrepreneur orientation as a moderator variable, rather than the direct impact.

## Conclusion

The result of this research proved that relational relation quality is important in improving franchisee performance. The result of this research supports the conceptual research conducted by Monroy and Alzolla (2005) which states that transactional relation quality determines relational relation quality. The result of that research turns out to be real in education franchise in Indonesia. Besides, the result also states that there is an effect of entrepreneur orientation as a moderator variable towards the effect of franchisee satisfaction in the relation between relational relation quality and franchisee performance. The result of that analysis indicates that entrepreneur orientation gives an effect towards the improvement of franchisee performance. This study strengthens Clarkin and Rosa (2005) and Copenhagen and Mittelstaedt's (2005) statement that a franchisee must have entrepreneur orientation. From the four indicators of entrepreneur orientation in this research, education franchise context in Indonesia, the most required one is the courage to take risks. The courage is required by franchisees for increasing franchisee performance because without courage to try new things and find creative ideas, franchisee performance will not improve. This result also states that in the franchise context the activities done by franchisee are already structured by the franchisor, as written in the cooperation contract. However, in doing their business, franchisees have the freedom to have creative ideas for advertising their products, which has to be definitely done in the limit of space and not against the laws and regulations.

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