Enhancing Survivability in Indonesian Franchise Businesses in the Restaurant and Retail Sectors

by

Dorojatun Prihandono

A thesis submitted to the University of Gloucestershire in accordance with the requirements of the degree of Doctor of Philosophy (Ph.D.) in the Faculty of Business Education and Professional Studies

September 2015

Abstract

Franchise businesses are popular both in practice and, as a result, in academic study. In particular, much research has been devoted to franchise business survivability. This thesis discovers and examines key determinants that have influences on franchise business survivability in Indonesian franchise businesses in the restaurant and retail sectors.

This research produces a franchise business survivability model that is based on previous research and theories. The researcher performs confirmatory factor analysis structural equation modelling (CFA-SEM) to test and analyse the relationships between the five key determinants which are: trust; commitment; dispute risk management; relationship satisfaction; and franchise business survivability.

Based on the empirical analysis, the research reveals that trust and commitment as key determinants do not have significant influences on relationship satisfaction. The other key determinant, dispute risk management, has a significant influence on relationship satisfaction. This research also reveals that relationship satisfaction has significant influence on franchise business survivability. This study made a contribution to knowledge by building a salient model of key determinants to enhance business survivability within the context of Indonesian franchise businesses in the restaurant and retail sectors. Furthermore, this thesis also closes some gaps in previous research into franchise business survivability.

Another unique contribution made by this research is that the author looked at the issue of survivability from both perspectives of franchisors and franchisees, whilst previous research has predominantly performed analysis from the perspective of only one of the partners in franchise business arrangements. Therefore, it provides a holistic analysis on key determinants that have influences in enhancing franchise business survivability in the Indonesian restaurant and retail sectors.

Keywords: franchising, strategic alliance, CFA-SEM analysis; trust, commitment, dispute risk management, relationship satisfaction, franchise business survivability; franchise business survivability model

Declaration

I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas.

Any views expressed in the thesis are those of the author and in no way represent those of the University.

Signed …… Date ……

(Dorojatun Prihandono)

Acknowledgement

I would like to express my special appreciation and thanks to my first supervisor Dr. Xiaoling Hu for her valuable guidance, scholarly inputs and consistent encouragement I received throughout this research work. I also would like thank you my second supervisor, Dr.Gianpaolo Vignali for his valuable suggestions and concise comments on this research. Their advices on this research have been priceless. Without their support, encouragement, and dedication to assist me, this dissertation would not have been possible.

In the Business Education and Professionals Studies Faculty of University of Gloucestershire, I would like thank Dr.Philippa Ward, the director of the Ph.D Business School for her great support and help throughout the process of my study from the very beginning until the last phase of my study.

I would like thank Dr. Ross Jennings and Dr. John Hockey for their valuable knowledge of research philosophy and research methodology which provide solid foundation for my study.

In the university student achievement team, I would like thank Crispin Wassel for his support to enhance my academic English writing skills.

I also thank all of the faculty staffs of the University of Gloucestershire who have been very kind enough to extend their help at various phases of this study.

To my Indonesian colleagues, Dwi Nita Aryani, Maulana M Muhammad, Feri Taufiqurahman, Aldo S Sudjanasastra, Andika Vinianto, Dandi Supriadi, thank you for all your good wishes and friendships throughout my lonely days of study in Cheltenham. I also would like thank my Merrodown Annexe Hall's friends, Ryan Wilken, Sarah Poulie, Giulia Pandolfi,, Quincy, Sungel, and Drew Graeber, for their friendship at the first year of my study.

Thank you to heads and staff at Semarang State University, Semarang, Indonesia; Faculty of Economics, Department of Management; Project Management Unit Islamic Development Bank who provides me with their permission, recommendations, funding and supports that allows me to undertake this study.

Thank you for all of the franchise business practitioners in Indonesian restaurant and retail sectors who participated as valuable respondents in this research.

I just cannot describe how grateful I am to my beloved wife Anis Ulfa Apriliana,S.H., my daughter Ratna Pramesthi Alifia, and my son, Anandana Tya Isvara for their sacrifices that you've made on my behalf. Your prayer and good wishes for me was what sustained me thus far.

Special thanks to my mother Prof.Dr.Sri Redjeki Hartono, S.H., for her prays and good wishes in conducting my study. I also thank my sister Dr. Paramita Prananingtyas, S.H., LLM; my brother in law Sutomo, M.Sos, my nieces Indira Ahimsari and Pradnya Paramita for all their good wishes

Thank you to my father and mother in law Bp.Ibu Ridwan Mus'at and all the big family members: my brothers-in-law and their families, sisters- in- law and their families for their good wishes.

To all my friends backhome in Semarang and Jakarta, Adirudianto; Andry BS, Prima WJ; Sri Wartini; Andhi Wijayanto; Endang Sutrasmawati; Samuel ED Tampubolon; Mona Subagja; Dendy Nugroho; Meldy Septiawan; Sunarna Hendra, I truly thankful for all your supports and good wishes.

I also would like to dedicate this thesis to my late father Prof.Drs.Hartono Kasmadi, M.Sc and my late son Andika Widhi Laksana.

Above all, I owe it all to Almighty God for granting me the wisdom, strength and health to undertake this study and enabling me to its completion.

The author
Cheltenham, September 2015

CONTENTS

List of Tables

List of Figures

Chapter 1
Introduction

1.1 Introduction

This research focuses on the relationship between partners in franchise arrangements. The franchisor and the franchisee relationship will be the main focus of this study. The relationship in franchise arrangements plays a major and substantial role in enhancing franchise firm survivability (Wright & Grace, 2011; Elmuti & Kathawala, 2001; Weaven et al., 2010). In this chapter, the author would like to provide an overview of how this study has been conducted to answer the research questions, and reach the research objectives.

1.2 Background of the research

As a form of business-to-business relationship, a franchise arrangement is based on the formation of strategic alliances (Grant & Baden-Fuller, 2003). This form of strategic alliance requires a solid relationship between partners to enable survival in competitive markets (Todeva & Knoke, 2005). In Indonesia, the rate of franchise business survivability is around 50% from the perspectives of the franchisees and around 30% for the franchisors (Karamoy, 2009 as cited in Sudarmiatin, 2011 p.3). The number of franchise businesses in Indonesia is still growing, although the failure rate is around 40%-50% in all sectors (Sudarmiatin, 2011).

Franchising has become one of the most desirable forms of business, which was started in Indonesia in the 1970s by a shoe retailer company, Bata (Asosiasi Franchise Indonesia, 2013). Since then the growth of franchise business in Indonesia has rapidly expanded with the entrance of several large foreign companies such as Kentucky Fried Chicken, Burger King and Seven Eleven (AFI, 2013). Beside foreign franchise businesses, the local franchise businesses in the restaurant and retail sectors have also been expanding rapidly since 2009 (AFI, 2013). These local small and medium enterprises (SME) are the backbone of the Indonesian franchise businesses,

especially in the restaurant and retail sectors. Several brands of local restaurant and retail franchise businesses such as Es Teler 77, Waroeng Steak, Mister Burger, Quick Chicken, Rocket Chicken, Alfamart, Indomaret, etc are popular brands in Indonesia (AFI, 2013).These SME firms dominate the number of franchise businesses in the restaurant and retail sectors. The incentive programmes for developing the franchise business in Indonesia was initiated in 1991 by the Indonesian management development and education institution (AFI, 2013). There are two main sectors which are quite dominant in Indonesian franchise businesses, they are the restaurant and retail sectors (Chandra, 2011; AFI, 2013). These two sectors dominate the amount of franchise business value, outlets and employees growth in Indonesia (AFI, 2013). Besides that, the rapid economic growth of Indonesia also plays a focal role in attracting local and foreign franchise businesses to invest their capital in Indonesia (Chandra, 2011).

1.2.1 Relationships in Franchise Arrangements

Franchising as a form of collaboration has attracted many business individuals and entities. As a form of strategic alliance, franchising offers several advantages which are quite distinctive in many areas. These distinctive features of franchising have also attracted scholars to conduct some research into the franchising area, especially in franchising relationships (e.g. Weaven et al., 2010; Bordonaba-Juste et al., 2011; Altinay and Brookes, 2012; Dant et al., 2013).

The relationships in franchise arrangements are crucial and potentially beneficial in maintaining the franchise system. However, the relationship can also be hazardous in franchise business arrangements. Because there is a possibility of opportunistic behaviour such as misrepresenting revenues, failing to meet contractual stipulations, or reducing service quality (Gidings et al., 2009; Weaven et al., 2010) which can arise from both sides (Frazer et al., 2012).

The researcher has a view that the relationship between partners in franchise business arrangements sometimes is taking for granted. The Indonesian people have common characteristics which can be a flaw in a business. They tend not to take things seriously when it comes to relationship bonding, especially at the beginning stages; they tend to look only at the result, such as the profit, and all the good things in a business relationship (Riyadi, 2012). Therefore, it is quite crucial to have a deeper view and analysis on the relationship between partners in franchise arrangements.

Individuals or business personal can have high expectations on a franchise business formation. Some of them are not ready or capable of coping with maintaining a standard of operating in a franchise business (Puspitawati, 2012). The Indonesian business person, typically the small business entity, is sometimes unwilling to establish a formal bonding with their partners. This kind of attitude can be destructive for a business relationship, which may lead to the end of the business itself (Riyadi, 2012).

The relationship between partners in franchise business arrangements also requires dealing with each party's behaviour, such as the reasons why the franchisee is eager to enter franchising, and in some cases the franchisee already has an established business (Rubin, 1978; Frazer et al., 2012).
Previous research by Frazer et al. (2012) revealed that several determinants which can generate conflicts have not been fully discovered. Hence, it is of critical importance to examine the determinants which generate a sound relationship between partners. Furthermore, it is also quiet pertinent to develop a conflict management system suitable for franchise arrangements (Levingston, 2008; Giddings et al., 2009 cited in Frazer et al., 2012, p.89).

1.3 Research Gaps

This research is conducted to respond to and attempt to fill certain research gaps, as follow:

1) This study responds to a call for more research on franchise failure (Holmberg and Morgan, 2004); in this study, the researcher aims to investigate franchise business survivability within an Indonesian context. Another focus of the study is to respond to calls to pay more attention to the perspectives of both franchisors and franchisees (Wright, 2008).
2) Previous research in franchising mainly was conducted in western countries such as the United States, Western Europe and Australia. In this study, the researcher intends to examine the evolution of franchise business arrangements and progress, especially in the restaurant and retail sectors in Indonesia, particularly the relationship between franchisors and franchisees (Wright & Grace, 2011; Altinay & Brookes, 2012).
3) This study also attempts to provide a risk management scheme in non-financial companies in order to enhance franchise business survivability in Indonesia. A risk management scheme in franchise arrangements is quite pertinent (Weaven et al., 2010). In order to reduce or minimise the amount of risk that a company can bear, especially in the Indonesian restaurant and retail business sectors, it is important to apply a risk management scheme. Within this, risks cannot be viewed as financial aspects only, there are an abundance of non-financial aspects that can occur also, such as moral hazards (Doherty & Alexander, 2006), which can be a potential threat to the survivability of the firm.

1.4 Research Questions

Although franchising has been proven to be one of the most preferable ways to conduct a business, the issue of franchising business survivability has attracted the attention of some scholars. Franchise business, in some cases, does not guarantee success for both partners (Stanworth et al., 2001). Altinay and Brookes (2012) revealed that managing the relationship between franchisor and franchisee will ensure the survivability of the firm. In addition, the risk of conflict between partners in business-to-business alliance is also likely to endanger the relationship. Frazer et al. (2012) provided the solid base for further conflict management research in franchise relationship.

Franchise expectations, confirmation, trust and relationship satisfaction are pertinent to minimize the potential for conflict in a franchise relationship (Frazer et al., 2012).

Based on the previous, this study attempts to answer several research questions, as follow:

1. What are the key determinants that influence the survivability of Indonesian franchise businesses in the restaurant and retail sectors?
2. How can trust, commitment, and dispute risk management influence relationship satisfaction between partners in Indonesian franchise businesses in the restaurant and retail sectors?
3. How can relationship satisfaction enhance the survivability of Indonesian franchise businesses in the restaurant and retail sectors?

1.5 Research Objectives

Business practitioners and scholars need a clearer picture of franchising business survivability in restaurants and retail sectors in Indonesia. This research attempts to provide a fuller picture in order to enhance the survivability rate of franchise business firm in the restaurant and retail sectors, particularly in Indonesia. Along with the previous research questions, this study also has several objectives, which are:

1. To discover the key determinants affecting the survivability of Indonesian franchise businesses in the restaurant and retail sectors.
2. To examine the influence of trust, commitment and dispute risk management on relationship satisfaction in Indonesian franchise businesses in the restaurant and retail sectors.
3. To examine the influence of relationship satisfaction on franchise business survivability in Indonesian franchise businesses in the restaurant and retail sectors.
4. To develop and test a structural equation model to be used in potentially enhancing survivability in Indonesian franchise businesses in the restaurant and retail sectors.

1.6 The Structure of This Thesis

This thesis consists of seven chapters; the following chapters are outlined below.

Chapter two begins with literature review of strategic alliance, followed by discussion on resource-based-view theory which focuses on resource-based theory as the basis for strategic alliance formation in the businesses. Relationship marketing as a strategy to form strategic alliance is the next discussion of this chapter. The following literature review considers of managing risks in strategic alliance and discusses the equity in business-to-business relationship. This literature review also considers definition, basic concept and the theoretical underpinnings of franchising. The end part of this chapter highlights several previous pertinent empirical researches conducted in franchising area. The discussion in the literature review leads to the development of literature review map, research framework and the research theoretical model.

Chapter three provides the reader with the evolution of franchising in the restaurant and retail businesses in Indonesia. This chapter begins with franchising in restaurant and retail businesses in general. This chapter considers the development of franchising development in Indonesia that includes the growth of business value, number of outlets and employees. The final part of this chapter provides the challenges faced by franchising businesses in Indonesia.

Chapter four discusses in detail of the chosen methodology that will be adopted in this research. It begins with the philosophical position, the research approach, conceptual framework and model building. The model will be empirically tested using Structural Equation Modelling (SEM) analysis. The next part of this chapter discusses the definition and details of this research's variables and their indicators. The development of hypotheses is also discussed in this chapter, which will be tested using SEM analysis. The

discussion in determining the population, sampling, and data collection technique is also provided in this chapter. This chapter also considers the data analysis used in this research that includes the basic concepts, technique and steps in conducting SEM analysis. This chapter highlights the most appropriate methodology for handling the data to answer the research question and meets the aims and objectives of this research.

Chapter five considers in detail the empirical analysis of this study. This chapter begins with the results of the descriptive analysis that shows the respondents' characteristics. They include the position of the respondents in the franchise business arrangements; company base; business location; origin of the base company, line of business; and the business life-span. This chapter also shows the respondents' answers composition that shows the percentage of each answers provided by the respondents. The next part of this chapter is the SEM analysis that consists of measurement and structural model analysis. Before conducting SEM analysis, the researcher conducted normality, outliers data and multicollinearity assessments. This chapter provides the model goodness of fit testing for models, the measurement model and the structural model. The model goodness of fit is tested by comparing the obtained values and determined cut-off values of the goodness of fit indices. Next empirical analysis provided by this chapter is the significance test of indicators in measuring their constructs. By using SEM analysis, this chapter also provides the hypotheses testing that can be derived from the relationships significance test between constructs in the structural model.

Chapter six of this study is research findings and discussion, it begins with research's main findings, contribution of this study and managerial implication of this study for franchise business. The discussion of this chapter considers relationship rigidity and flexibility between partners in Indonesian franchise business in the restaurant and retail sectors, followed by discussion of managing relationships satisfaction in enhancing franchise business survivability, managing proper recruitment to limit dispute between partners and more eligible training scheme provided by the franchisors. This

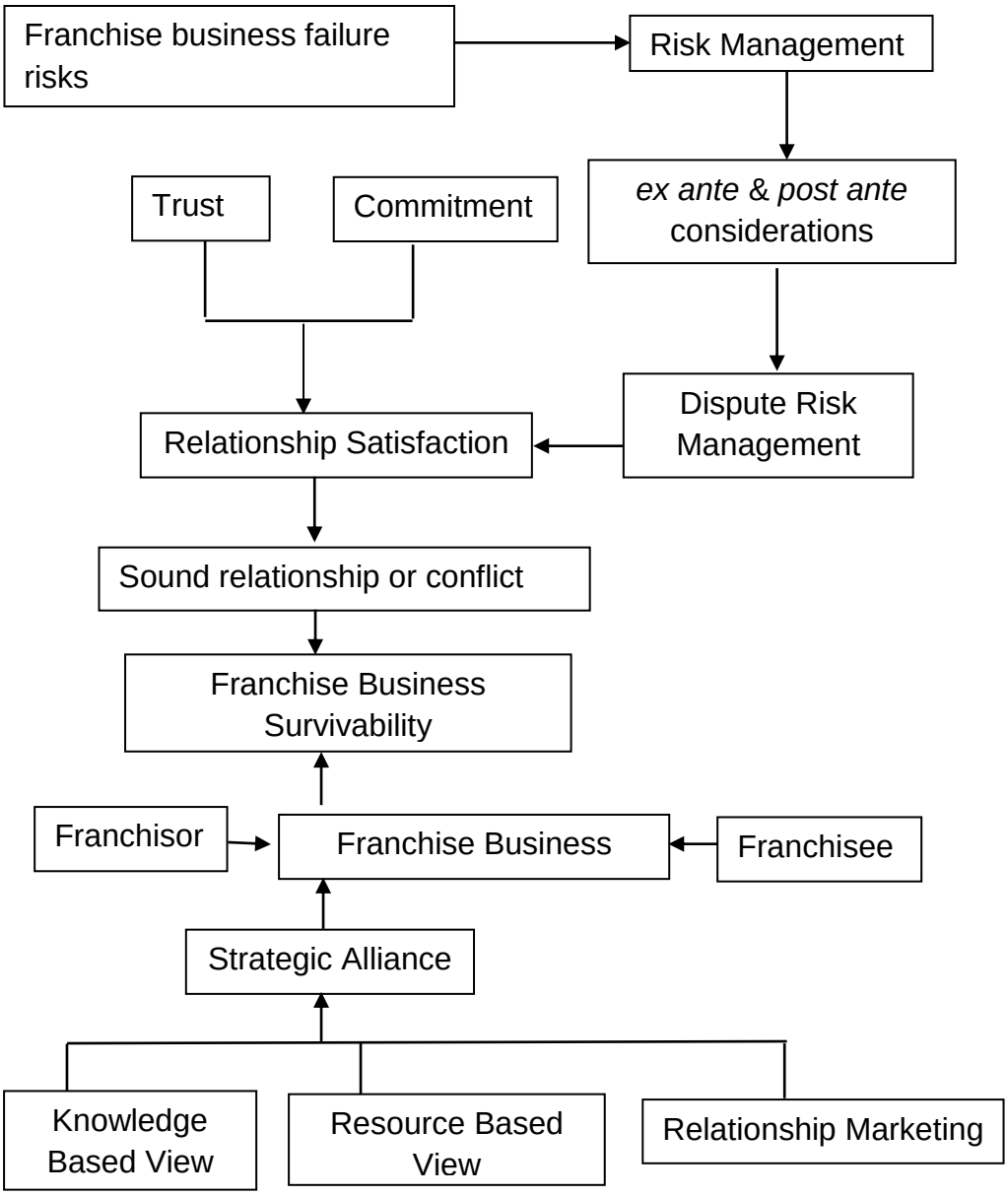
chapter also considers the discussion of the managing and implementation of dispute risk management in Indonesian franchise business in the restaurant and retail sectors. The following discussion is concerning the relationship satisfaction to enhance the survivability of the franchise businesses. And finally this chapters discusses important elements in franchise business survivability in Indonesian restaurant and retail sectors.

The final chapter of this research draws conclusions from the whole research based on this research's aim, objectives, methodology and main findings. This chapter is also considered the contributions of this research to knowledge and practise. Limitations of this research are also acknowledged along with consideration of future research in franchise business area.

1.7. Research Conceptual Framework

The author offers a conceptual framework (Figure 1.1 below) which depicts the relationships between the theories and constructs.

Figure 1.1 Research conceptual framework



Source: the author

As Figure 1.1 shows, strategic alliance formation is based on several theories, such as resource based theory, knowledge based theory and relationship marketing. This applies to franchising businesses too, as the formation of franchise business arrangements can be stimulated by the resource scarcity of a firm. In order to increase its competitiveness in the market, a firm needs to access other firm's resources, such as knowledge,

methods, money or human resources (Barney & Clark, 2009). As a form of strategic alliance, franchise business arrangements are also prone to failure (Grant and Baden-Fuller, 2004; Frazer & Winzar, 2005; Bordonaba-Juste et al., 2011). The failure of franchise business arrangements can be caused by conflict between partners (Das & Kumar, 2010).

In running a franchise business, the relationship between the franchisor and the franchisee affects the survivability of the businesses. Hence, it is important to be aware of the importance of relationship marketing. In addition, it is also very pertinent in a franchise arrangement for each party to initiate risk identification and take precautions in a form of a risk management scheme for their business, especially risks that can potentially deteriorate the relationships between partners.

Franchise relationships in franchise businesses are prone to conflict (Das & Kumar, 2010). This conflict in relationship satisfaction between partners may be affected by several determinants such as trust (Morgan & Hunt, 1994; Frazer et al., 2012), commitment (Morgan & Hunt, 1994; Bordonaba-Juste et al., 2008) and dispute risk management (Weaven et al., 2010; Winsor et al., 2012). In running the business, a franchise arrangement also bears huge amounts of risk just as any other form of alliance formation (Das & Teng, 1999; Winsor et al, 2012). The important issue in franchise relationship risk is the extent to which both parties are aware of the risk *ex ante* and *ex post*, which is to say the state of awareness before and after signing the contract (Blut et al., 2011; Grace et al., 2013).

Finally, relationship satisfaction in a franchise arrangement also plays a role in the survivability of the franchise business itself (Davies et al., 2011).

1.8 Chapter Summary

This chapter has provided a clear picture of the issues pertinent to the research, such as the research background and focus. Furthermore, it also described the research gaps, questions, aims and objectives, so the reader can have a clear view of the determinants that have an influence on franchise relationships and franchise business survivability, especially from an Indonesian perspective.

Chapter 2
Literature Review

2.1 Introduction

Based on the research background, research questions and research objectives set out previously, this literature review will guide the research by discussing the previous research in the study's area and considering studies relating to the franchise business in general and the relationship between partners in franchising and franchising business survivability in particular. This literature review will help establish a conceptual framework for the research topic.

2.2 Strategic Alliance

Since this research is intended to investigate the determinants of franchise business survivability, and franchising is a form of strategic alliance (Grant & Baden-Fuller, 2003), the literature review starts from an analysis of strategic alliances.

Tsang (1998) and Hynes and Mollenkopf (1998) point out that a strategic alliance is a long-term cooperative arrangement between two or more independent firms that engage in business activities for mutual economic gain to achieve their strategic objectives. The phrase "long-term" does not refer to any specific period of business time operation, but reasonably, and for the purposes of the partners in strategic alliances, the arrangement is not going to be a transient one (Tsang, 1998).

A strategic alliance creates strategic value for firms, as firms form strategic alliance for several strategic reasons, which are to overcome a weakness in the resources available to the firm and also to establish a competitive position and neutralise threats (Gibbs & Humphries, 2009; Lowensberg, 2010). Furthermore, by forming a strategic alliance a firm can acquire new skills, knowledge, and gain new competences through inter-organisational learning (Tokuda, 2004; Gibbs & Humphries, 2009). Strategic alliances also enable firms in the partnership to generate new customer values by using

synergistic combinations of previously separate resources, generating new innovative solutions, more distinctive-competitive products and enhancing the competitiveness of both partners (Gibbs & Humphries, 2009). Besides enhancing competitiveness, a firm also can form a strategic alliance to increase its efficiency and to avoid market uncertainties and hierarchical rigidities (Todeva & Knoke, 2005).

The Boston Consulting Group describes four types of alliance (Gibbs & Humphries, 2009). The first is the expertise alliance, where companies share expertise and capabilities such as in the licensing of pharmaceutical products. The second type is new business alliance partnership, where non-competing firms look to exploit a new business or market. The third is cooperative alliance, in the form of purchasing groups, trade and industry associations or political lobby groups. The final one is merger and acquisition, where the alliance is the substitute for a merger that is inhibited by legal or commercial factors. Strategic alliances can be in the form of franchising, licensing, coproduction agreements, R&D coalitions, marketing and distribution agreements, consortia, or joint ventures (Tsang, 1998).
Grant and Baden-Fuller (2004) also point out that strategic alliances are one of the collaboration forms that are being used by firms. They report several forms of strategic alliance, such as supplier-buyer partnerships, outsourcing agreements, technical collaboration, joint research projects, shared new product development, shared manufacturing arrangements, distribution agreements, cross selling, and franchising.

As one form of strategic alliance formation, franchising is also prone to failure that is why it is really important to maintain the relationships between partners (Elmuti & Kathawala, 2001). There are three factors that can be seen as pertinent to successful partnerships: the ability to control resources, the capability to learn from and exploit the knowledge gathered from a partnership, and the skills and competence in managing the partnerships and its resources (Gibbs & Humphries, 2009).

2.2.1 Strategic alliances as a form of business to business relationship

Based on the definition of strategic alliances, firms which are involved in a collaboration have an advantage of being able to accommodate their resources and governance by sharing them in order to reach their goals and objectives (Sheth & Parvatiyar, 2000). In addition, in strategic alliances each firm can exchange, join or combine their scarce resources, in order to reduce the uncertainty of day-to-day business operations; for example, specific knowledge held by one firm can be useful to the other (Drago, 1997).

Resources, governance, legal agreements, and long-term planning can be defined as key elements in strategic alliances (Drago, 1997). A firm that is bound in a strategic alliance can combine its own resources and those of its partner to make things more efficient, and furthermore by combining the structure of each firm can also provide the collaboration with more adequate information management advantages (Elmuti & Kathawala, 2001). Strategic alliances bring advantages to partners in the form of administrative control and monitoring capabilities, so that the alliances can develop a superior means to provide access to other kind of capabilities (Vyas et al., 1995).

Todeva and Knoke (2005) point out that alliances are the new business forms that give capabilities for partners to enhance and control their business relationships in several ways. Firms which are bound in partnerships can gain direct and timely results, in return for the effort and physical resources they invest in the relationship (Gibbs & Humphries, 2009). Also it can be emphasised that strategic alliances have to be a symbiotic mutualism relationship between partners, firms or businesses, to achieve their strategic goals and objectives (Elmuti & Kathawala, 2001). This means that the relationship between the partners has to be favourable to both sides. Strategic alliances have several key success factors (Vyas et al., 1995) such as goal compatibility, which can ensure the terms of the relation. The second issue is synergy among partners; if the strength of each partner is different, one partner perhaps is stronger than the other, that is the way it should be, to complement the other partner's weakness. The next is value chain; this factor will be the foundation of strategic alliances on which trust and

relationships are built for the incoming success. Furthermore, the tension between partners in a strategic alliance needs to be well maintained (Clarke-Hill et al., 2003) in order to maintain alliance survivability in a long-term relationship.

It was noted that strategic alliances also face some barriers, such as failures in understanding and adapting to new ways of management. Furthermore, it is recognised that strategic alliances in a franchise arrangements sometimes suffer failure (Frazer, 2005; Bordonaba-Juste et al., 2011).

2.2.2 Reasons for strategic alliances

Strategic alliances can be in various forms of inter-organisational relationship or cooperation. The form of inter-organisational relationship and cooperation varies. In the real world firms tend to run their business on a constant strategic policy. A firm has to be flexible with its strategy in order to be able to adapt to its environment and provide positive effects for their market surroundings (Hynes & Mollenkopf, 1998). In order to adapt and provide effects to their surroundings, firms need to establish strategic alliances (Das & Teng, 2000).

There are several theories that can be relevant in establishing strategic alliances. The first is transaction cost theory, which has the basic idea of reducing firms' costs and risks (Hynes & Mollenkopf, 1998; Varey, 2002). In strategic alliances, a firm is able to reduce the risks of price fluctuations, and to benefit from greater negotiating strength. In other words it can be stated that forming strategic alliances is one of the alternative ways used by firms to adapt to an uncertain world (Hynes & Mollenkopf, 1998). The second is resource dependence theory. Managing resource dependency is all about reducing environmental uncertainty; a collaboration based on resource dependencies will enable firms to survive over a long-term period of time (Hynes & Mollenkopf, 1998). The third is organisational theory. Organisational theory provides the differentiation between tacit and specific knowledge. These two types of knowledge will always be at the centre of discussion in firms' collaborations such as strategic alliances, because they

provide an understanding of transferring knowledge in strategic alliances (Mowery et al., 1996; Hynes & Mollenkopf, 1998).

Specific knowledge is quite easy to transfer by using licensing, as opposed to tacit knowledge, which is knowledge that is implanted in a person. This kind of knowledge can only be transferred by learning alongside the person him or herself (Hynes & Mollenkopf, 1998; Grant & Baden-Fuller, 2004). Tacit knowledge has a close relationship with the culture and philosophy of a business rather than certain specific measurements or guidance (Becerra et al., 2008). In short, the previous theories, which are transaction cost theory, resource dependency theory and organisational theory are the bases for strategic alliances formation. They will help the study to provide a comprehensive understanding of the importance of the inter-firm collaboration in order to enable franchise firms to be more competitive in an uncertain market.

2.2.3 Rationale in forming strategic alliances

Developing or producing a new product from scratch is a huge investment for a firm, but collaborating with other firms reduces costs and time. This kind of collaboration is usually conducted between firm that are in the same industry (Haynes & Mollenkopf, 1998); for instance, in the automotive industry, when Mazda collaborated with Suzuki to enter the lower market car segment in Indonesia (thejakartapost.com, 2013). In other industries, especially service businesses, the standard of service plays a major role in gaining competitive advantage. In industries such as retail, food and beverages, banking, hotels and other sectors, in order to achieve a high standard and reduce outlets monitoring problems (Hoover et al., 2003), franchise business arrangement is a form of alliance which has the potential to form of alliance for a firm or individual to enter a new market (Florey et al., 2006). Pappu and Straton (2001) emphasise that collaboration between firms across countries makes it easier for the entering firms in areas such as distribution and legal aspects. Strategic alliances can provide firms with first-mover advantage in a particular foreign or local target market.

Strategic alliance is an appropriate alternative in entering global markets and creating competitive advantages (Yu et al., 2010). Of course the alliance ought to be based on formal contracts, whether it is a joint venture, franchise, merger or any other form, in order to secure a long-term relationship and ensure survivability (Elmuti & Kathawala, 2001). In previous research, Thorne and Wright (2005) emphasised that commitment is quite pertinent in securing a long-term relationship, and it has to be the partners' responsibilities to preserve commitment. Furthermore, this alliance also has to be able each partner to reach their common objectives (Lowensberg, 2010) and utilise each partners' resources in a long-term business relationship (Das & Teng, 2000).

Several motives for establishing relationship between partners can be defined into five types of motive, which are: cost reductions; lowering the level of uncertainty and risk; organisational learning; managing the industry structure; and timing (Hynes & Mollenkopf, 1998). Risk is usually in the form of financial risk, which occasionally can be huge hurdles for a small firm to bear (Elmuti & Kathawala, 2001). Furthermore, there are also several advantages to strategic alliance formation, such as developing and introducing a new product and service, sharing and establishing technical standards, keeping up with rapid changes in technology, and also expanding globally (Pappu & Strutton, 2001). Strategic alliance partners also select a certain kind of alliance that can provide partners with operational flexibility and market potential realisation. These two things arise from newly-shared skills, knowledge, resources and investment risks (Todeka & Knoke, 2005).

2.2.4 Knowledge-based view in strategic alliances

Collaboration between or among firms has become an important trend. Companies with different core activities form alliances in order to engage in activities and access resources across their own boundaries. Scholars such as Lavie (2006) and Wang et al., (2009) have stated that to enter a global market, firms have to consider the cost and risk. Mesquita et al. (2008) also

added that one way to contribute to alliance competitiveness is by acquiring knowledge from partners, which is called a knowledge-based approach.

In order to have a clearer understanding of why the knowledge-based approach is important in alliances, there are two relevant assumptions concerning knowledge and its role in production. The first is: knowledge is subject to economies of scale and scope; this assumption deals with the creation or replication of knowledge and the variants of products or services. For instance, information is quite cheap to reproduce but expensive to produce (Grant & Baden-Fuller, 2004). The second is the transferability of the knowledge. Tacit knowledge such as knowledge of cultures and philosophy of business is difficult to transfer among partners, whereas explicit knowledge is codified and relatively easy to transfer (Nonaka et al., 2000; Becerra, 2008). Furthermore, a knowledge-based view is derived from resource-based theory and organisational learning, and in addition, by having, exploring, and using knowledge to produce consumer value it enhances the firm's competitive advantage (Nonaka, 1994; Hsung & Tang, 2010). There are two main ideas in explaining the knowledge-based view in strategic alliances; the first thing is that companies that are bound in an alliance are based on the primary motive, which is knowledge acquisition by mean of organisational learning. The second is by applying the efficiency advantages of strategic alliances in exploiting knowledge assets (Grant & Baden-Fuller, 2004).

The basic steps of integrating between or among partners are processes, systems and agreements that span boundaries (the so-called boundary spanners). These spanners need to be strongly attached to ensure the minimum level of conflict and to enhance the directions of collaboration (Wang et al., 2009). Furthermore, the boundary spanners act as core roles due to their function in decision making, coordination between or among partners and enabling the adoption of various solutions to maintain a partnership (Wang et al., 2009).

An alliance is a request for resources (Grant & Baden-Fuller, 2004). Firms in alliances are seeking for other firms' resources. For instance, in an international collaboration, one firm with capability in technology will try to access other partners overseas, which have a sufficient amount of capability in marketing and distribution channels. In relation to accessing knowledge, each strategic alliance partner seeks ways to have a faster learning pace in order to achieve a positive balance of trade in knowledge. The faster they gain the other partner's knowledge the faster they will get the idea of how to improve their strategic competitiveness with other companies in the market.

There are two key distinctions in the ways that knowledge is shared between or among partners in strategic alliances; the first is knowledge generation, which is the vehicle of learning used by the members of alliances to absorb the other partner's knowledge; the second is knowledge application, which is the form of knowledge sharing used in order to complement the special knowledge bases of the alliance (Grant & Baden-Fuller, 2004). Prior to the establishment of strategic alliances, the components of the firms' knowledge bases can be in the form of information and knowledge pieces. These pieces of information and knowledge can be combined after the formation of a strategic alliance between firms is established (Schulze & Brojerdi, 2012) and provide the alliance with enough products and services to penetrate a market respectively.

Accessing knowledge among partners continuously (Mesquita et al., 2008) also equips strategic alliances with abundant innovative methods and breakthroughs. Accessing knowledge is an important issue, because markets are so dynamic and full of boundaries (Wang et al., 2009). The market changes rapidly, whether it is a global or local market (Plazibat & Filipovic, 2010), and a company has to be able to keep up with those changes. Examples of these changes include consumer taste, legal regulations and political issues. Hence, the firm has to be prepared for these changes, they have to develop several back up plans, and sufficient and efficient strategy has to be well prepared in order to be able to maintain and preserve market competitiveness (Plazibat & Filipovic, 2010).

Grant (1996) defines the characteristics of knowledge and emphasises four integration mechanisms, which are: rules and directives, which are the efficient means of integrating and exploiting knowledge; sequencing, which organises every activity of sequential interdependence; routines, which support complex patterns of interaction by mutual adjustment; and group problem solving and decision making, the forms of intensive integration of personal communication for unusual, complex and important tasks. Grant and Baden-Fuller (2004) emphasise that the mechanism of accessing knowledge is by using the alliance formation itself; in addition, for better knowledge access between partners, Wang et al. (2009) suggest that relational capabilities are valuable resources, due to their abilities to adjust and adopt the type of communication between or among partners in order to gain a better alliance performance.

In addition to the above, there are types of knowledge that are relevant in a strategic alliance knowledge transfer. A study of franchising, which was conducted by Paswan and Wittmann (2009), stated that explicit and tacit knowledge are two types of knowledge which partners access in franchise arrangements. Tacit knowledge is rather difficult to codify and transfer, while explicit knowledge on the contrary is easy to codify and transfer (Paswan & Wittmann, 2009). In addition, Hsu and Tang (2010) observed that the pertinent resources in a knowledge-based view are tacit and usually reside in a person or in a firm's operations, which is the reason why a firm with that kind of resources is able to maintain its core competitiveness, (i.e. due to difficulties in imitating those resources). Research by Hsu and Tang (2010) found that a strategic marketing alliance provides the allied firms with potential synergies to integrate capabilities and resources from each partner, including benefits and risks.

However, accessing knowledge between or among partners also requires prioritisation in choosing what kind of knowledge should be accessed. For some reasons in some cases, firms only access is to the partners' explicit knowledge, and for other objectives accessing tacit knowledge is more

preferable if the firm is eager to enhance its advantages (Mesquita et al., 2008). Based on the previous theories and studies (Grant & Baden-Fuller, 2004; Mesquita et al., 2008; Hsung & Tang, 2010; Wang, et al.,2009; Schulze & Brojerdi, 2012; Plazibat & Filipovic, 2010; Paswan & Wittmann, 2009), a knowledge-based perspective plays a major role in strategic alliance formation (Grant & Baden-Fuller, 2004). Explicit or tacit knowledge gives each partner additional distinctive features (Paswan & Wittmann, 2009). A new idea, such as production process, service standard, and any other kind of fresh innovation will assist the firm to provide a service and/or product that suits the consumers' taste and requirements (Plazibat & Filipovic, 2010).

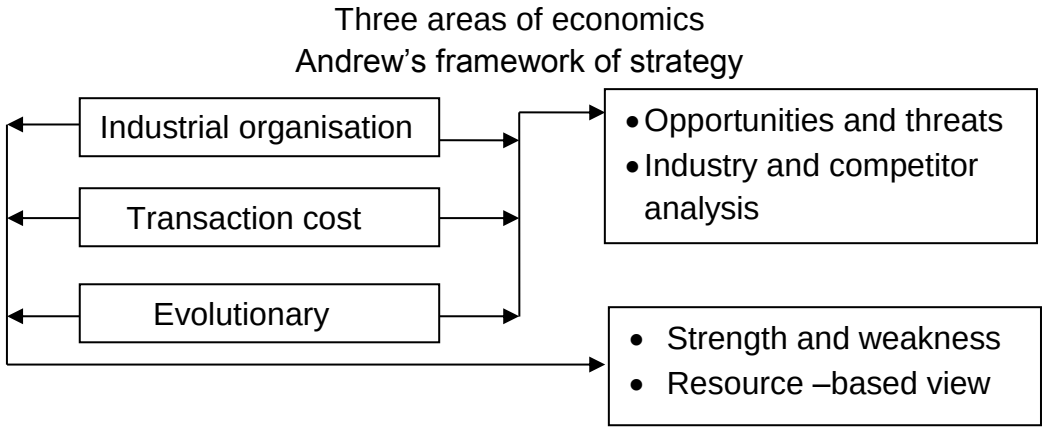
2.3 Resource-based theory

There are two fundamental basics approaches for sustaining competitive advantages in the strategic management of firms, which are evolutionary theory and resource-based theory approach (Montgomery, 1995). Evolutionary theory that applies to the strategic management of firms applies several concepts of biological concepts such as variation, heredity and selection (Montgomery, 1995). In an evolution theory framework, firms are conceptualised to possess routine bases of dependable knowledge (Montgomery, 1995). Evolutionary approach can still be a relevant theory in sustaining firms' competitive advantage, as this theory encompasses routine process aspects of the firms (Nelson & Winter, 1982 as cited in Montgomery, 1995, p.6). The evolutionary theory is based on industry level unit analysis instead of firms; it also relies only on limited types of resources, which are intangible resources (Montgomery, 1995). Alongside the evolutionary theory approach, resource based theory also has pertinent role in the strategic management of firms, and this theory relies on all resources that are owned by firms, such as assets, knowledge, organisational structure, procedures, and almost anything that is controlled and possessed by the firm (Montgomery, 1995; Tsang, 1998). Resource-based theory defines that firms possess different resources and that these resources enable some firms to implement valuable strategies that other firms will find too costly to

implement, and also that these difference among firms can be long lasting (Barney & Clark, 2009).

There were seminal writings on business strategy by Andrew (1971), Christiansen and Chandler (1971), and Edith Penrose's (1959) writing, which concentrated on characterising the company as a bundle of productive resources (as cited in Montgomery, 1995, p. 7). Andrew's framework of strategy (1971 as cited in Montgomery 1995, p. 2) becomes a valuable reference for scholars to understand that a firm is a collection of productive resources instead of being the sum of its product-market positions (Penrose, 1959; Wernerfelt, 1984 as cited in Montgomery, 1995, p. 7). In addition, resource-based view theorists tend to see performance among firms in terms of the differences in efficiency rather than the differences of market power. These productive resources ensure the firms' competitive advantages in the market (Montgomery, 1995).

Figure 2.1 Cross-Fertilization between economics and strategy



Source: Montgomery (1995, p. 2).

As can be seen from Figure 2.1 above, Andrew (1971) characterised a strategic manager is a person who can find a match between what a firm can do (i.e. a firm's strengths and weaknesses) and what it might do (i.e. environmental opportunities and threats) to create competitive advantages (Montgomery, 1995; Barney & Clark, 2009). The strategic manager has to be

able to manage industrial organisation, transaction cost and evolutionary aspect of the firms to determine the firm's strengths and weaknesses. After that stage, the strategic manager can examine what kind of resources the firms possess. At the following stage, the strategic manager can manage the resources of the firm to cope with its external environment, such as industry, competitors, opportunities and threats.

2.3.1 Resource-based theory as the basis for strategic alliances

Resource-based theory holds an important role in forming strategic alliances between or among firms, so that these alliances can maintain their competitive advantages (Tsang, 1998). In terms of maintaining long-term competitive advantages, resource-based theory has several relevant determinants in terms of a firm's resources and capabilities, which are: durability, transparency, transferability, and replicability (Grant, 1991).

Durability means that the longevity of a firm's competitive advantages depends on the rate at which the resources and capabilities depreciate. Depreciation in this sense means that over the period of time the firm's resources and capabilities become out of date (Grant, 1991).The second determinant of a firm's resource and capabilities is transparency. Transparency means the length of time over which a firm can sustain its competitive advantages based on the pace at which its competitors are able to keep up and imitate the firm's strategy (Grant, 1991). Thirdly is transferability; this is the ability of a firm to acquire the resources to replicate the competitive advantages of a successful competitor (Grant, 1991). Transferability will transfer influences in how long a firm can maintain its competitive advantages. There are also disturbance factors in the transferability of those resources, such as geographical mobility, imperfection of information, firm-specific resources, and the immobility of capabilities (Grant, 1991). The last determinant is replicability: this determinant is dependent on the firm's regular basis activities, such as complex organisational routines. Replicability is rather difficult to apply to many complex activities, although the concept is so simple; for instance, the

Japanese “just-in time” approach and the “high quality circle” are examples of concepts that are simple to understand but difficult to replicate (Grant, 1991).

In an extension of the traditional resource-based view concept (Grant, 1991), Lavie (2006) emphasised that interconnected firm such as alliance can extract more potential resources from each firm or partner. This previous research provides this study with the observation that resource-based theory is pertinent in alliance formation. Resource-based view addresses several economic and behavioural interpretations, and some versions of this theory perceive that the firm’s sustainable superior competitive performance is derived from its resources and the firm’s capability to produce economic rents by virtue of its value, scarcity, imperfect imitability and rent appropriability (Powell, 2001). A resource-based view is pertinent to franchising because competitive advantage is based on the unique intangible assets and the various economies associated with operating franchise arrangements (Mariz-Perez & Garcia-Alvarez, 2009; Welsh et al., 2011). According to Tsang (1998), there are five key motives in forming a strategic alliance from the resource-based view perspective, which are:

a. Creation of rents

   Rents in this sense is the Ricardian rents, which is the result of owning valuable scarce resources such as trade copyrights, patent secrets, and cutting edge technologies, (Tsang, 1998). When compared with other widely available resources owned by firms, these scarce resources can produce similar products at a lower cost, better products at a similar cost, or better products at a lower cost, and thus generate rents for the firms which possess them (Tsang, 1998). These resources are scarce in the sense that their supply of productive services is inadequate to meet the demand; by forming strategic alliance the degree of heterogeneity among firms in the market increases, as the result the chance of creating rents also increases (Tsang, 1998).

b. Expansion of resource usage

Penrose (1959 cited in Tsang, 1998, p. 211) assumes that firms attempt to increase total long-run profits and want to expand whenever profitable opportunities exist. For instance, firms which possess cutting-edge technology can transfer their technology through franchising, licensing, coproduction, joint ventures, and any other options. Each transfer mode comprises at least one partner, who must be able to contribute the resources that the firm lacks, such as marketing, network or managerial resources (Tsang, 1998). In other word, by forming a strategic alliance firms can combine their resources to expand resource usage.

c. Diversification of resource usage

   Diversification can reduce the amount of finance or any other risk, especially in projects or investments that contain highly uncertain outcomes: by forming a strategic alliance, a firm can spread its risks to another firm (Tsang, 1998).

d. Imitation of resources

   In the previous key motive, the expansion of resource usage is achieved by transferring a specific resource such as brand name, technology or other knowledge, from the firm to their partner in the strategic alliance. In this key motive, the direction of the resource flow is the opposite – the firm attempts to gain a definite resource or resources from the alliance, or more accurately, from its partner through the alliance (Tsang, 1998).

e. Disposal of resources

   This motive can be implemented as alternative ways when a firm would like to sell its non-core business units (Tsang, 1998). However, selling a business unit can have several negative impacts for firms, which are: price determination, unhealthy impact on the selling process for the firm, and time needed to form new administrative networks (Tsang, 1998). By using strategic alliances, a firm can cope with those negative impacts, due to the ability of strategic alliances to transfer resources gradually to its partner (Nanda &Williamson, 1995).

2.4 Relationship marketing as a strategy to form alliances

In order to describe and explain the formation of business alliances, in this study franchise business arrangements, the researcher would like to add the literature review with relationship marketing. The objectives of relationship marketing are to identify and establish, maintain and enhance, and when necessary, terminate relationships with customers and stakeholders at a profit, so that the objectives of the parties involved are met; and this is done by mutual fulfillment of promises (Egan, 2008).

2.4.1 The concept and components of relationship marketing

Relationship marketing refers to all marketing activities directed toward establishing, developing and maintaining successful relational exchanges (Morgan & Hunt, 1994) Relationship marketing is a concept covering a diverse set of ideas of relationships in marketing, which consist of: contracting; buyer/seller relationships; working partnerships; and strategic alliances (Gibbs & Humphries, 2009).

Relationship marketing generates not only customer satisfaction but also allows firms to fully adopt the establishment, development and maintenance of a long-term period of relationship with several key enabling partners (Gibbs & Humphries, 2009). This basic concept suits the whole and basic principle of business alliances such as franchising, which is going to be the subject of this study. Relationship marketing develops a ‘network paradigm’ which recognises that global competition occurs increasingly between networks of firms. This is specifically true in global competition, which has increased in recent decades (Morgan & Hunt, 1994). This network can be achieved through local or global relationships, crossing firm boundaries. According to Morgan and Hunt (1994, p. 21) to be able to recognise relationship marketing requires distinguishing between separate transactions involving short duration, longer duration and ongoing processes.

The previous description provides a perspective that relationship marketing is a network of firms that work together in a certain amount period of time in order to gain their objectives.

2.4.2 Theoretical aspect of relationship marketing

Morgan and Hunt (1994) put trust and commitment at the centre of their relationship marketing theory, and those constructs have been a key for relationship marketing based study (Gil-Saura, 2009).

A high level of trust and commitment provides the basis for a long-term relationship (Morgan & Hunt, 1994), and furthermore trust and commitment are the critical determinants of business relationships due their ability to encourage exchange partners to work on preserving the relationship and achieving mutual gains (Morgan & Hunt, 1994; Bordonaba-Juste et al., 2008). Hence, parties that have a relationship with a firm are not considered as passive objects anymore, relationship marketing views that the parties act as active agents. It means that the relationships will provide the firms with a set of inputs that help determine the way it delivers services and produces products. As Gumesson (1999 as cited in Varey, 2002, p. 21) highlighted, several marketing values are needed in a sound relationship marketing, such as long-term collaboration for mutual value creation, which put greater emphasis on factors like commitment for an extended duration. Another value is that all parties are recognised as active agents. Finally, relationship marketing provides relational and service value, discarding bureaucratic-legal values in favour of treating customers as differing exchangers of value (Gumesson, 1999 cited in Varey, 2002, p. 21).

The Nordic school perspective also highlighted that when relationships between partners have been established they will proceed over time (Sheth & Parvatiyar, 2000). In relationship marketing, the relationship between partners formed in a strategic alliance can be explained by several theories. The first theory is the transaction cost theory. Transaction cost theory states that costs in transactions can be minimised by selecting a certain type of relationship governance, which is to transact and execute tasks (Altinay &

Brookes, 2012). Governance mode ranges from arm's length spot-market governance, which is usually called the external governance mechanism; and vertical integration, the so called internal governance mechanism (Sheth & Parvatiyar, 2000). The second theory is resource dependence theory. Resource dependence theory is based on the premise that while firms may lack resources, they also have asymmetric abilities to acquire resources (Sheth & Parvatiyar, 2000). Therefore, these firms are very likely to form strategic alliance and survive (Xia, 2011). This theory may lead to a strategic alliance formation. The last theory in relationship marketing that can be used to explain strategic alliance formation is the resource-advantage theory. This theory explains that a firm formed through alliance which has acess to several resources, such as financial, physical, human, organisational, informational and relational, will attain a competitive advantage and likely be able to survive in a competitive market (Varey, 2002).

2.5 Managing risks in strategic alliances

Risk is an important factor in business, especially in strategic alliance business formation. How to manage risk to the minimum level is a challenging task for every manager in a firm. Firms need to avoid, manage, treat, and transfer potential risks (Williams & Heine, 1985). One of the most likely potential risks in a strategic alliance is the failure of the alliance itself, which can be caused by conflict between partners (Das & Kumar, 2010). Previous research has revealed that cultural barriers and incompatible personal chemistry can be the cause of alliance failure (Elmuti & Kathawala, 2001).

In addition, risk sharing is the primary bonding in a strategic alliance (Elmuti & Kathawala, 2001). Thorne and Wright (2005) added that identifying risks and challenges in a strategic alliance has become a daily-basis activity for managers

2.6 Equity in business- to-business relationship

Good business-to-business relationships can maintain a company's competitive advantage and last for a long period of time. In practice there is a

probability that one party will have a more dominant role in the relationship (Blois, 2009). This dominant role can be in a form of power by one party over the other party in order to influence the other partner to act in a way they would have not done if left to themselves (Thompson, 1956; Emerson, 1962; Crozier, 1963 as cited in Blois, 2009, p.452). Therefore, equity in a business-to-business relationship is important to ensure the sustainability of sound relationships between or among partners.

Equity is quite complex from a conceptual perspective; despite this complexity, equity can be defined as a principle where each partner in a relationship expects to gain advantages from a state in proportion to its input (Jap, 2001). In franchise arrangements, the perceptions of equity are based on the expectations of parties in the relationship (Grace et al., 2013). The constituents of equity might be argued by scholar (Blois, 2009): thus, there exist normative expectations of what constitute correlations between inputs and outcomes in a 'being fair' concept of a partnership (Jap, 2001). A partner's expectations are hugely dependent upon with whom they choose to compare themselves. Equity exists for each partner when they expect to gain benefits from a situation in relation to their inputs (Jap, 2001) and in making a judgment of equity each partner takes into consideration whether or not this ratio of benefits is relative to their inputs or out of balance. They then compare their cost-benefit ratio with relevant others (Blois, 2009).

There are also two pertinent questions regarding this fairness concept: the first is who they choose as the comparator, for instance whether an alliance partner chooses to compare the supplier with its customer or the supplier with its competitor. Furthermore, disputes between partners occasionally arise due to the fact that one partner does not use an appropriate comparator (Blois, 2009). The second question is regarding the length of time that a partner can be expected to accept what they perceive to be a significant inequality to continue. The bigger the inequality is perceived to be, the bigger the challenge to the future continuance of the partnership (Blois, 2009).

Business relationships do not necessarily live up to the expectations placed upon partners in a business strategic alliance (Gibbs & Humphries, 2009, p. 65). Firms which are successful in managing a relationship are likely to be successful in managing other issues. This is because a firm that can manage obstacles in a partnership can cope with more technical issues in its operations. In an inappropriate relationship, the operations of a firm can be disturbed (Plazibat & Fiipovic, 2010). The factors that are considered to be critical in successful partnerships are the ability to leverage assets, the ability to learn from and exploit the knowledge collected gradually from a partnership, the competence and skills in managing the partnership and its resources, and finally the measurement of inputs and outputs (Gibbs & Humphries, 2009).

In a business-to-business (B2B) relationship where inequity sometimes arises, one partner will take action to rectify the situation. This action is probably initiated by either the aggrieved partner and/or the other partner (Blois, 2009). The action will be taken by those parties which are 'injured', and for some reasons it is the other partner who tries to calm the 'injured' partner (Blois, 2009). This particular kind of inequity in some cases will derive from tensions between partners. How to manage those tensions is of considerable importance in maintaining the relationships between partners in a strategic alliance (Clarke-Hill et al., 2003).
Several scholars have stated that in order to build a successful relationship between partners, managers must have a clear understanding of each partner's contributions and goals, beside which those managers also have to rely on a structure that ensures an equitable balance of benefits (Morgan & Hunt, 1994; Blois, 2009).

Equity in strategic alliances such as franchising plays a dominant role (Raimondo & Costabile, 2008). If inequity is felt by one of the partner there will be a possibility of dispute (Blois, 2009). Furthermore, disputes such as conflict in a strategic alliance can jeopardise the relationship and furthermore the operations of the company as a whole (Das & Kumar, 2010).

In strategic alliances such as franchising, inequity between the franchisor and franchisee can occur if one of the partners performs actions which infringe on the agreements between them. For instance, if the franchisee performs below service standards, or violates the standard of procedure required by the franchisor, or takes advantage of “free riding” (Frazer et al., 2012) and takes advantage of any other kinds of opportunistic behaviours that exist in a franchise arrangement (Akremi et al., 2011).

The franchisor on the other hand also has a possibility of performing such un-standardised actions, such as withholding pertinent information from the franchisee that should be shared with its partner (Croonen, 2010). The threat of inequity will require some kind of precautionary actions to avoid dispute between the partners (Boulay, 2010), although misunderstanding in some way is always unavoidable. Despite that, precautionary actions can minimise the probability of dispute (Boulay, 2010).

2.7 Franchising

2.7.1. Introduction

A franchising business arrangement is one of the most desirable business arrangements that can be applied by firm to firm collaborations or alliances with other business entities (Drago, 1997; Goodman et al., 2005). Franchising arrangements are considered a form of strategic alliance. This type of partnership involves two parties. Each party has its own part in a legally agreement contract. Pappu and Stratton (2001, p. 112) stated that “as a special type of inter-organisational (IOR), franchising systems mirror the same structural and behavioural characteristics that are associated with mainstream organisational relationship such as joint ventures, strategic partnerships, or strategic alliance.” In addition, as well as the other forms of collaboration, such as partnerships in supplier-buyer, joint manufacturing, distribution and cross-selling arrangements, franchising is also included as a strategic alliance (Grant & Baden-Fuller, 2004). Franchising is also considered as a cooperative arrangement between two entrepreneurs, which are the franchisor and the franchisee (Hoy & Shane, 1998).

In a franchise business arrangements there are several actions. The franchisor supplies the franchisee not only with a proven model, brand and trademark, but also with the resources for competitive advantage, a certain kind of know-how, and a package of management and skills training and structure, all of which are in exchange for a specific fee (Welsh et al., 2011). Several scholars (Felstead, 1993; Kaufmann & Dant, 1999; Welsh et al., 2011) also add that franchise arrangements have some points that can enhance competitive advantage, such as being valuable, scarce and inimitable, and compared to wage and salary employment, the franchise business arrangement offers greater autonomy of the partners. The previous points are able to provide new-comers in a business with better startup acceleration. A firm does not have to build a brand image for its product or services from the very beginning. Resources, such as brand image, needs time to be recognised by customers. Not all brands become well-known, only a few really stand out among the crowd in the business domain. And it takes time to reach this status; applying franchise business arrangements is one of the ways to manage this resource issue in competitive markets. In relation to franchising, the resource-based view suggests that firms use franchise arrangements to relieve financial and managerial constraints in order to enhance growth (Jong et al., 2011).

2.7.2 Basic concept of franchising

There are several definitions of franchising that have been provided by some scholars. One definition of franchising is provided by Elango and Fried (1997, p. 68), who wrote “franchising is an organisational firm in which a company grants an individual or another company the right to do business in a prescribed manner over a certain period of time in a specified place in return for royalties or the payment of other fees.”

Dictionary of Marketing defines franchising as “an arrangement whereby an organisation which has developed a successful retail product or service extends to others for a fee the right to engage in the business, provided they agree to follow the established pattern” (Shapiro, 1981 as cited in Vignali et al., 2006, p .13).

In modern business, franchise business arrangements include several important points such as market-testing business package, franchisee self-financing, and also multi-unit franchisee or corporate franchisee (Hoy & Stanworth, 2003).

Based on the above definitions of franchising, it can be concluded that franchising includes the main idea of granting someone else the right to do business following the same pattern as the franchisor has established. The pattern also has to be proven to be successful in the market; that is the key thing in franchising arrangements. On the other hand, as a reward for the right to gain the advantages of an established brand, the franchisee gives a sum of money, which is named the royalty, to the franchisor (Rubin, 1978; Hoy & Stanworth, 2003).

The key element of branding is included in products or service, a process, or just a name having a specific significance. Nowadays, they exist in a so called ‘package’. This is a combination of products or services, techniques, *modus operandi* and ancillary services of the business system (Vignali et al., 2006). Frazer et al. (2012) emphasised that franchising is a form of relational exchange, in which franchising members are commercially interdependent and manage to create collectively through ongoing negotiation and exchange.

2.7.3 Franchising development

Some references suggest that the origin of franchising is from the United States. Despite the fact that its roots are often claimed to be in the 1850s in the United States, the original franchise system started in England during the middle ages (Felstead, 1993). This ancient franchise was in the form of granting various rights and obligations from the sovereign which would otherwise be reserved for the Crown (Felstead, 1993). Historically speaking therefore, the principle of franchising started in the Middle Ages in England not in the United States (Hall & Dixon, 1989). This ancient franchising appeared in a form when certain powerful nobles would pay a lump sum to the Government and would agree to provide continuing personal support and

services in return for the right (i.e. franchise) to collect local taxes (Hall and Dixon, 1989). Franchising started to spread to the United States via a sewing machine company called Singer around 1850 (Welsh & Alon, 2004).

In recent decades, franchise arrangements have become a part of everyday life in United States. There is an abundance of firms in a variety of industries that have adopted franchising as one of the key business strategies.

According to the International Franchise Association Educational Foundation, franchise businesses were expected to grow faster in 2014 compared to the year 2013; in the United States the franchise industry created more than 229,000 jobs in 2013 alone (franchiseeconomy.com,2014).

2.7.4 Classification of franchising

Starting a new business from scratch carries abundant challenges for a small business entity or entrepreneur. Especially when it comes to managing the business, since many entrepreneurs do not have any previous knowledge or experience of running a business. The alternative way to start a new business is to buy an established business; the chances for success are bigger than starting from nothing. However, it also has its drawbacks, which includes the complicated process of buying it (Goodman et al., 2005). Forming a franchise arrangement is the third way to establish a new business; this is a business-to-business relationship. The buyer of the franchise, who is called the franchisee, becomes a part of the business itself. The franchisee has the rights to use the brand, the way of selling, distribution channel and other specific rights. It gives the firm or entrepreneur the right to use the business's name, products and systems (Goodman et al., 2005).

Felstead (1993) categorised franchising into two main types: the first type of franchise arrangement is product or trademark franchising; in this type of franchise arrangement the franchisor is usually a manufacturer or product component manufacturer who is looking for a franchisee to be its partner in order to sell its product and/or to make-up and distribute the finished product (Felstead, 1993). The second type of franchise arrangement is called business format franchising, which is the most commonly applied format in

the business. In this type, the franchisee not only sells the products or services but is also involved in the whole process, which is in the form of a set of procedures (Felstead, 1993; Srinivasan, 2006). Business format franchising grows more quickly than product or trademark franchising. The reason for this reality is that business format franchising offers more opportunities for entrepreneurs to be their own head of business (Felstead, 1993).

In parallel, Maitland (1991) classified three types of franchise arrangements based on the amount of money that needs to be invested by a franchisee to establish the franchise operation. The first is job franchise; in this type of franchise arrangement a person, by him or herself, is starting and running his own small franchise venture (Maitland, 1991) and only a small amount of money is invested. As a result, the operation requires a minimum level of equipment, limited inventory and a vehicle. Consequently, a modest income is usually derived. However, according to franchisedirect.co.uk (2013) the average amount of investment in a franchise business today is in the range of £15,000 up to £400,000. The second type of franchising arrangement defined by Maitland (1991) is called the business franchise. In this category the franchisor and the franchisee form a more substantial and costly concern, in terms of their products and services deliverance to the customers. They provide or hold the business activities in commercial premises such as stores, shops, and offices (Maitland, 1991). This kind of franchise arrangement is popular in the restaurant business. The franchisee owns and manages one or several units of an outlet or chain, and the franchisor provides operations and marketing support in return for a royalty income (Srinivasan, 2006). The money invested in this kind of franchise arrangement is also usually more than in the first type; consequently, the financial rewards also should be greater than in the job franchise type. As a result, the return of investment may be higher. For illustration, in 2013, a fast food franchise like McDonald's required $750,000 as a non-borrowed personal resource before considering an application to become a franchisee; another company (Taco Bell) required $1 million, while Burger King required

$1.5 million (Lutz, 2013). The third type of franchise arrangement is the investment franchise. A firm or company that is seeking a long-term return on investment rather than a regular income will apply this type of franchise arrangement (Maitland, 1991). Normally, they will install a management team to deal with daily business activities.

Mendelsohn (1992) provided a classification of franchising businesses based on the sectors in which the franchising business is operating. According to Mendelsohn (1992), four types of franchising business can be identified:

1) Manufacturers and wholesalers
2) Manufacturers and retailers
3) Wholesalers and retailers
4) Retailer and retailer (Mendelsohn, 1992, p. 20).

As an example of franchising arrangements between manufacturers and wholesalers, Mendelsohn (1992) provided when a soft drink manufacturer franchises its bottling facilities. This kind of mechanism is widely used by several big names in the soft drinks industry such as Coca-Cola, Pepsi-Cola and Schweppes. The company grants a license for its partner in a specific area to produce the soft drinks using technical materials such as concentrated syrup, and the production must be in accordance with the manufacturer's requirements and specifications. In addition, the distribution of the product also becomes the wholesalers' responsibility (Mendelsohn, 1992). The second category of franchise is between manufacturers and retailers; this kind of transaction is considered as the "first generation" of franchising (Mendelsohn, 1992). The automobile manufacturers and their dealership networks have been using this mechanism since the early years of the automobile industry, such as the Ford Dealership network (Mendelsohn, 1992). Since initially there were a lot of confrontations between the manufacturers and the dealerships, franchised dealer networks were established. A further development in this transaction was the relationship between the petrol companies and their filing station proprietors, which

operated in a certain kind of region or area (Mendelsohn, 1992; Watson et al., 2005).

Franchise relationships between wholesalers and retailers are considered not so clearly identifiable (Mendelsohn, 1992); it can be said that this type has similarities with the manufacturers and retailers' relationship. In this relationship the franchisors are usually the wholesalers whilst the retailers are franchisees. Businesses that fit this type are supermarkets, hardware stores, and convenience stores, usually in multi-unit chain stores (Kaufmaan et al., 2007). The fourth franchising arrangement is between retailers and other retailers. In this arrangement, the franchisor uses its partner, the franchisee, to expand. Expanding in this circumstance means that the franchisor multiplies the number of its stores or outlets using this arrangement (Mendelsohn, 1992; Brown Jr, 1998; Kaufmann, 2007).

2.7.5 Theoretical underpinnings for franchising

There are several theoretical underpinnings of franchising that can be a pertinent in franchise business arrangements.

2.7.5.1 Factors influencing the development of franchising

Stanworth and Curran (1999) studied franchising from three different levels. These levels were: societal level; organisational level; and individual level. The factors influencing franchise arrangements at these level of franchising are listed in Figure 2.2

Figure 2.2 Factors influencing the development of franchising

Franchising at the societal level Cultural Economic Political
Franchising at the organisational level Rapid market penetration Divergent economies of scale Format permanence Relationship management Franchise failure rates
Franchising at the individual level: Route into self-employment Unemployment push Prior self-employment Complexity of franchise motivation Intrinsic/extrinsic goals System innovation

Source: Stanworth and Curran (1999, p. 339).

Based on Figure 2.2 above, Stanworth and Curran (1999) stated a general theory of franchising from three different levels. The general theory of franchising, which relates to the societal level, is explained as follows:

1. In the cultural context, when economic individualism is an appreciated means of initiating economic activity, franchising is of considerable importance.
2. In the economic context, the development and persistence of the franchised business arrangements will be dependent upon the structure of the economy.
3. In the political context, the emergence and survival of the franchised business form depends to a large extent on government policies to small firm.

At an organisational level, Stanworth and Curran (2009) also emphasised a general theory of franchising that consists of several prepositions, as follows:

1. Franchise organisations seek rapid market penetration through multiple outlets spread over an extensive geographical area. This above propensity will be enhanced where the franchisors finds franchisees as the most attractive source of capital to fund fast expansion.
2. Franchised organisational form may appear when the linked production and marketing processes associated with the product or service involve strongly divergent or split economies of scale.
3. The franchised arrangement business form is a relatively permanent and genuine form rather than provisional.

4. Relationships between franchisors and franchisees contain elements of agreement and disagreement, harmony and disharmony. This can be a source of issues ranging from profit levels, fees, and contract enforcement on to territorial encroachment, patterns of monitoring, and reassignment rights, where all of these have potential for causing conflict.
5. Failure rates in franchise business arrangements will be the result of an interaction between factors such as age of franchise business system, quality of franchisees' prior experience, sector, and position in the market. All of these may play a major role in determining failure.

Stanworth and Curran (1999) also offer a general theory of franchising at individual level, which is explained as follows:

1. The franchise business form will exist in societies where there is a supply of individuals positively committed to economic individualism in the form of small business ownership and in which the government policy and regulations permit its expression.
2. Franchising may also be attractive to individuals less fundamentally devoted to economic individualism but who find themselves forced into ownership by the wider labour market as a result of economic restructuring.
3. Franchisees as one of the partners in the franchise business relationship, will not be drawn from risk-averse sections of the population and therefore will be distinct from those entering other methods of self-employment.
4. Franchisee motivation will be more complex than being simply an expression of profit maximisation desires, such as the need to establish a business with a proven trade mark.
5. Among franchisees with zero prior experience of self-employment, things such as independence and autonomy normally act as solid early motivations. For those with experience of self-employment, intrinsic goals may merge to extrinsic goals such as security and profitability, but intrinsic goals are still in existence. Franchisor

advertising will typically acknowledge the prominence of both types of goals.

6. Franchisees are able to make a substantial contribution to an existing franchise system's innovation aspects, which can range from developing new products or services to pioneering ways of adapting to local conditions, such as cultural differences. As the franchise business systems grows and becomes more mature, this contribution will be formalised by both partners.
7. The franchise business in some ways realises the cultural values of independence, autonomy, material rewards, and even creativity, more effectively than older forms of economic autonomy patterns, such as the nineteenth century competitive capitalist economy.

2.7.5.2 Distinctive franchisor and franchisee relationship

Mendelsohn (1992) provided a clear view of the true concerns within the relationship between partners in the franchise business relationship by comparing several business methods, which are: agencies, distributorships, licensing, and know-how agreements.

Firstly agencies; in agencies, an agent is a person with either expressly given authority to act on behalf of another person or one, who by the nature of his relationship with that person, is implicitly authorised to act on his or her behalf. This authority is generally restricted to one or two specific acts (Mendelsohn, 1992). Mendelsohn (1992) noted that the relationship between franchisee and franchisor is often compared to the relationship between the principal and its agent; however, this is a misunderstanding of a franchise relationship. He went on to comment that, if one discusses the principal and agent relationship, the third party will see that the agent is in fact acting on the principal's behalf, whether it is limited to several specific acts or across of wide array of acts. Their relationship will depend on the agreement between them. However, Mendelsohn stressed that franchise arrangements do not embrace any kind of agency relationship because "…invariably in franchise agreements there is a specific provision to establish that the franchisee is not

the franchisor's agent or partner and has no power to represent himself as the franchisor's agent or as being empowered to bind the franchisor" (p.39).

Secondly is distributorship; a distributor in principle is a completely independently owned and financed wholesale process that is granted certain distribution rights in relation to a product (Mendelsohn, 1992). The relationship between parties is that of buyer and seller. Mendelsohn (1992) also noted that in distributorship, the distributor buys for his own account and takes the full risk of whether or not he will be able to resell at a sufficient profit.

Thirdly is licensing and know-how agreements; these two types of relationship are basically the same thing (Mendelsohn, 1992). Mendelsohn stated that a licensing agreement is descriptive of the nature of a business transaction by which one party authorises another to carry out of perform certain functions, while a know-how agreement is a particular type of licensing and widely used in manufacturing processes.

Based on the definitions of business methods above, Mendelsohn (1992) stressed that a franchisee is not an agent, the franchisee is not acting on behalf of the franchisor and most importantly the franchisee owns his or her own business as an independent business person. Furthermore, the franchisee is not a distributor because the franchisee performs business activities as a principal, usually performing a distinctive process before resale of the product and or services (Mendelsohn, 1992).

Licensing and know-how agreements have considerably closer relations with franchising because these business methods entail elements which also endow franchising, which include the fact that the franchisee is granted a permit to trade under the trade name and particular format of a franchisor, and also there is a know-how agreement (Mendelsohn, 1992). However, there are several basic elements that makes franchise business arrangements unique. Mendelsohn (1992) stated that in franchising, the franchisee is assumed to have no skills and experience, so the franchisor has to provide training for the franchisee. In other arrangements such as

agencies, distributorships, licensing and know-how agreement, each partner has to have their own skills and experience in order to operate as the other party's branch and employee (Mendelsohn, 1992).

Based on the description above, franchise arrangements are quite unique, because they have their own distinctive characteristics.

2.7.5.3 Resource scarcity theory

Resource scarcity theory can be applied in understanding franchising. Michael (2003, p. 64) stated that resource scarcity theory in franchising encompasses assumptions that that mutual benefit is possible; for example "one regarding the market for resources required by the franchise chain and one regarding the market for the products of the franchise chain. In the first case, resources required by the franchise chain must be scarce". Based on this theory, franchisors utilise franchising as a means to overcome constraints to chain or outlet growth, including the shortage of trained managers and financial capital (Michael, 2003). These constraints can also be overcome by acquiring pertinent information, usually from the franchisee, on specific locations and the availability of human resources in a particular area, which can be necessary in developing and managing a new chain or outlet (Brown, 1998; Michael, 2003). In reality, franchising has been utilised worldwide, and it is very common for a foreign company that wants to enter a new market in a certain country to apply this business mechanism. Despite the fact that it has been applied by numerous large and well-known brands, franchising is also applicable for entrepreneurs or individuals who want to establish their business (Pruett & Winter, 2011). Hence, in common terms, it can be emphasised that franchising is a form of market approach, under which a firm that is the franchisor grants another independent business entity the right to run the business in a particular way (Stone & McCall, 2004). Furthermore, the right can be in the form of selling the products and services of the franchisor by using its name, production and marketing techniques or business approach, or a combination of these, and the franchisee also benefits from the company's advertising (Stone & McCall, 2004). On the other hand, the reasons for franchisees to enter into franchisee business

agreements is that they lack several necessary resources for starting businesses, which are: brand image, know-how to process the service and products and also a trade mark that is already owned by the franchisor (Morrison, 2003; Watson, 2008).

2.7.5.4 Administrative efficiency theory

Besides resource scarcity theory, administrative efficiency theory is able to provide an additional theoretical explanation for franchise arrangements. The administrative efficiency theory suggests that firms own the benefits of franchisee motivation and a willingness to share the risks at every stage of franchise development (Lilis et al., 1976 cited in Inma & Debowski, 2006, p. 3). Administrative efficiency theory assumes that the growth and expansion strategy of franchise firms changes at each stage of franchise development (Inma & Debowski, 2006). This theory also suggests that franchise firms go through different stages by engaging their "best fit" strategies to suit their business environment in order to survive in the competitive market (Inma & Debowski, 2006).

As a form of strategic alliance, a franchise arrangement needs to manage several basic steps in order to secure its business survivability. These include legal, marketing, strategic management and risks. The survival of a business is a complex issue, and the precautions taken by the parties, which are bound in an arrangement, remains as a foundation in keeping a sound relationship between the parties. As Lowensberg (2010, p.1099) stated, in an effective franchise arrangement "…the pertinent alliance issues are detected in time, marketing and other decisions and actions can then be taken before such issues turn into major problems, or trigger crises that jeopardize the partners' and/or the alliance's survival".

2.7.6 Challenges of franchising

The relationship in general will lead to the formation of a successful business format, whose quality is enhanced and maintained for the benefits of both parties (Yu-Ping Wang et al., 2010). Franchise arrangements are

characterised by a series of relational exchanges, the success of which is dependent upon managing and maintaining perceived costs and especially benefits amongst party entities (Harmon & Griffiths, 2008). The relational exchanges between the parties in a franchise arrangement will decide whether the collaboration is going to be a success or a failure. It can be predicted by looking at the advantages of forming a franchise arrangement. From the franchisor's point of view, this can be represented in a list of several advantages such as that of forming a small and compact organisation, gaining a reasonable profit, the ability to expand rapidly, finding it easier to exploit areas of growth, and fewer staff problems (Mendelsohn, 1992). On the contrary, there are also downsides to franchise business arrangements, such as a franchisee's desire to be more independent, which can lead to different approaches in all the outlets and chains of a franchise and mistakes in partner selection (Mendelshohn, 1992; Weaven et al., 2010). The relationship between parties is in jeopardy if one of the parties does not have a full commitment to bringing the collaboration into an understanding relationship continued on behalf of the company's success (Wright & Grace, 2011).

Although there are several advantages to franchising, the results are always unpredictable through the period of time.
The maintenance of the relationship between parties is extremely important (Clarke-Hill et al., 2003); so much so that previous advantages will not become a reality if each party does not have sufficient goodwill in their mind set. Based on the previous advantages which were provided by the franchise arrangement, each party will have possibilities to exhibit a specific behaviour which could compromise the relationship's stability.

2.7.7 Franchising for developing Small and Medium Enterprises (SMEs)

Franchising business arrangements play a pertinent role in the development of Small and Medium Enterprises (SMEs). The use of franchise business arrangements contributes to increasing management knowledge and skills, improving productivity, creating efficient distribution channels, and the ability

to enhance product and service development (Sanghavi, 1998). Franchise business arrangements provide market-testing business packages and franchise self-financing (Hoy & Stanworth, 2003).

Franchising allows the franchisors to keep investment relatively low in expanding their businesses by utilising the capital of the franchisees, this advantage is suitable for SMEs (Sanghavi, 1998). Furthermore, the other advantage is that the owner of a franchise business is effectively self-employed (Sanghavi, 1998). Franchise business arrangement allows SMEs to make substantial contributions to the innovation aspects of existing franchise procedures. This innovation ranges from developing new products and services to adapting to local conditions, for instance cultural differences (Stanworth & Curran, 1999). Mendelsohn (1992) stated that franchise business arrangements provide the two parties with licencing and know-how agreement that allows the franchisees to trade under the name and particular format of the franchisor.

SMEs can use franchise business arrangements to overcome their resource scarcity; the franchisors utilise franchising to overcome constraints to chain and outlet growth, such as shortage of trained managers and financial capital (Michael, 2003). On the other hand, the franchisees provide the franchisors with better knowledge of specific market locations, which are very important in managing and developing a new chain or outlet (Brown Jr, 1998). In addition, franchise business arrangements also enable entrepreneurs or individuals to establish their own business (Pruett & Winter, 2011). In emerging countries such as Indonesia, the number of local franchise businesses are in steady growth, especially in the restaurant and retail sectors (Chandra, 2011).

2.8 Empirical studies on franchising

Franchising is a well-researched area; a range of empirical studies are introduced in this section:

2.8.1 Trust in franchise arrangements

Trust is one of the elements crucial to providing a proper relationship between parties. There is a body of literature on the importance of trust in maintaining a good relationship in a franchise business arrangement. Trust will give a solid base for a promising sound mutual relationship; an individual, for instance, cannot start a relationship if he or she does not have even a small amount of trust in his or her partner. Furthermore, trust is also an important element for franchise business relationships, as it includes the goals and objectives of the two parties. In reaching goals and objectives in a franchise business, trust is not only used at the beginning of relationship, but also acts as a media for both parties in learning from each other (Morgan & Hunt, 1994; Altinay & Brookes, 2012). In addition, as a trusting relationship progresses the doubt between partners is reduced and the relationship gains more benefits (Morgan & Hunt, 1994; Altinay & Brookes, 2012).

Trust can also be a pertinent source of sustainable competitive advantage (Barney & Clark, 2009). The reason for this is that the exchange relationships in strategic alliances such as franchising are constantly under threat of opportunistic behaviour (Barney & Clark, 2009; Weaven et al., 2010; Frazer et al., 2012). Davies et al. (2011) further pointed out that trust emerges when a person can rely on someone's words and actions. The manifestation of trust between parties in franchising is highly contingent due to being based on a relationship of mutual interdependence. Trust is a state that is critical to mutual profitability between partners in franchise relationships (Davies et al., 2011), and it also acts as the bond that strengthens the alignment of interest between the relational parties. In addition, trust is also important to preserve the stability of a relationship (Altinay & Brookes, 2012). Within a system distinguished by mutual interdependence but asymmetrical control, the success of franchise arrangement is basically dependent upon significant manifestations of trust between the partners. In practical terms, the franchisor relies upon the franchisee to carry out, at expected levels and within rigidly specified guidelines, the tasks stated in the contract or agreements, while the

franchisee relies upon the franchisor for both promotional and managerial support (Davies et al., 2011). All the elements of trust play a big role in maintaining and developing a proper and sound relationship in franchising business arrangements. At some point, where there is a lack of trust and goodwill in franchise arrangements, the brand and the systems of the franchise will be in danger and weaken (Davies et al., 2011). Moreover, a shift in the level of trust in franchise arrangements will reflect the relationship condition between partners. Trust is quite essential in maintaining mutual advantages in a franchise system; therefore franchisors and franchisees have an economic interest in maintaining the trust between them (Davies et al., 2011).

Barney and Clark (2009) also stressed that trust holds a strategic role in alliance relationships such as franchising. Trust can be defined as a mutual confidence that no party to an exchange will exploit another's vulnerabilities. It has been suggested that if there is no mutual confidence between parties that one party can exploit any adverse selection, moral hazard, holdup and any other vulnerability that occurs in the other (Barney & Clark, 2009; Doherty & Alexander, 2006). Hence, trust in a franchise relationship is always at threat from opportunistic behaviour that is triggered by moral hazard (Doherty & Alexander, 2006) and the differences between the partners involved also can be a potential threat to the maintenance of trust (Weaven et al., 2010). This kind of behaviour can be the opposite to trust and in a franchise arrangements it can take several forms. From the franchisor's point of view it can be in the form of withholding some important information from the franchisee; for example, information about a marketing campaign that is not shared equally with the franchisee (Frazer et al., 2012). The other kind of opportunistic behaviour can be derived from the franchisee's side, for instance the action of 'free-riding' performed by the franchisee. Free riding in a franchise arrangements means that the franchisee as a partner does not comply with or obey the franchisor's rules and specifications, which are written in the contract. Hence, to minimise the level of future conflict between partners, it is necessary to establish

franchisee expectation confirmation, to establish trust and relationship satisfaction between partners (Frazer et al., 2012). In addition, it is possible for both sides to perform free riding (Brickley & Dark, 1987). Free riding by a franchisor can be in the form of demanding some increased amount of incentive for assuring the quality and quantity of the brand in general. This issue will give the franchisee financial difficulty since the amount of the incentive is always increasing (Kidwell et al., 2007). While on the other hand, beside the previous free ridding example, the franchisee in some cases substitutes a lower quality of products and services to the customers than that specified in the franchise arrangement (Kidwell et al., 2007)

The partnership between two sides in a franchise arrangement has to be in some way an equal, mutual relationship (Grace et al., 2013), although asymmetric information or transaction of resources between partners is always unavoidable in any kind of relationship in strategic alliances such as franchise arrangements (Doherty & Alexander, 2006)

Trust in franchise arrangements is occasionally difficult to maintain. The partners' behaviours, whether in *ex* or *post ante* stages, are burdensome to predict and maintain. The good will (Altinay & Brookes, 2012) of each partner plays a dominant role in deciding whether the relationship will last over a long period of time. Confidence and expectations are the elements of trust in assessing the competence of a partner's behaviour and both parties should also possess a high degree of awareness of the franchise business arrangements (Johnston et al., 2004), as this provides each party with peace of mind in doing their business. A previous study by Rodriguez and Wilson (2002) added goodwill as an element of trust, which can be applied by both parties to have confidence and realistic expectations in a partner's goodwill. As stated by Mendhelson (1992, p.27) "good will in franchise arrangement is very essential in maintaining a long term relationship".

Both parties need to build a cognition-based trust, which consists of peer reliability and dependability (Rodriguez & Wilson, 2002) to accomplish their goals and objectives properly. In addition, affect-based trust also has a big role for each party to be aware of his or her partner's behaviour in their day

to day business (Rodriguez & Wilson, 2002). This kind of trust is important to build a solid business relationship.

2.8.2 Commitment in franchise arrangements

Previous studies of commitment in franchise arrangements which were conducted by scholars such as Altinay and Brookes (2012) and Wright and Grace (2011) have emphasised the importance of trust and commitment in franchise relationships. A sound relationship in a strategic alliance such as franchising business formation also depends on commitment between two parties, which can reduce the level of doubt between partners, so in a long term relationship the alliance relationship will lead to a positive direction (Altinay & Brookes, 2012). Commitment can be explained as a continued determination to preserve a sound relationship in alliances such as franchise arrangements (Moorman et al., 1992).

Maintaining ongoing relationships is very important in franchise arrangements as commitment also acts as a determinant that has to be owned by both parties. Furthermore, it provides each party with an important feeling called “an exchange partner believing” (Altinay & Brookes, 2012). This notion of believing between partners is prone to be disregarded by each partner if they feel or experience some absence of honesty over a long period of time.

This kind of feeling is important because it provides a willingness to keep the relationship moving in the right direction. In essence, one party is committed to the other throughout a relationship, and mutual commitment is developed. Furthermore, commitment to the franchise arrangement potentially avoids relationship conflict, and provides an antecedent to broader franchisee acceptance of organisational norms and structures (Wright & Grace, 2011).

In any form of relationship, the dynamic and chemistry between the partners can also potentially give their commitment a demanding test throughout the franchise arrangement’s day-to-day activities due to the tension that arises between partners (Altinay et al., 2013). Even though in all kinds of strategic

alliance formation are based on and equipped with legal contracts (Boulay, 2010), the commitment of both parties also plays a major role in developing a sound relationship (Altinay and Brookes, 2012), because as a person we cannot predict what other people are going to do. Commitment also plays a major role in sustaining the relationship between partners in franchise agreements (Morgan & Hunt, 1994; Wright & Grace, 2011).

Commitment is based on behavioural indicators such as explicitness, revocability, volition and publicity (Salancik & Pfeffer, 1977 as cited in Rodriguez & Wilson, 2002, p. 59). The first of these is explicitness: explicitness in a relationship is a proof of an action has been done: to an extent a certain kind of behaviour can be said to have taken place (Rodriguez & Wilson, 2002). Commonly speaking, the commitment of both parties is reflected in a certain kind of partner behaviour. If this behaviour occurs in a regular pattern, it will direct the relationship in a positive way. The second component of commitment is revocability or reversibility of the behaviour or action: Rodriguez and Wilson (2002) state that when behaviour cannot be undone, commitment is present. The actions and behaviour that have being done cannot be changed, and by both partners agreeing to that their commitment is reflected. The next component of commitment is volition; according to Rodriguez and Wilson (2002) when commitment is present both parties should accept responsibility for their behavior and act. The last component of commitment is publicity. This component explains that all of the actions performed by both parties in a strategic alliance have to be acknowledged by the other party (Rodriguez & Wilson, 2002). In other words, each party has to coordinate every strategic action with its partner.

2.8.3 Dispute risk management in franchise arrangements

In franchise business formation, the existence of enormous risk is unavoidable. The risks also exist before and even after signing the contract agreement. It means that as long as the business alliance is still in operation, risks are always in existence. And just like many other alliances, the selection of partners in franchising is a considerably risky stage (Das & Teng,

1999); furthermore, after the alliance is established, the risks are in the form of how to manage the collaborations (Das & Teng, 1999).

The type of risk in a strategic business alliance such as franchising is commonly related to the probability of conflict emerging (Elmuti & Kathawla, 2001). In order to cope with conflict between franchisor and franchisee, a better understanding of the antecedent triggers of conflict is required (Weaven et al., 2010). This kind of conflict emerges when a there is a lack of cooperation between partners (Das & Teng, 1999). It also tends to trigger opportunistic behaviour between them instead of competitive behaviour, and conflict usually appears as a result of it. As Frazer et al. (2012) revealed, causes of disputes in a franchise arrangement can be related to compliance with the system, misrepresentation issues, profitability, site suitability, territorial issues, communication problems and franchise fees.

Risk of conflict can harm the relationship between partners. This condition can result in misunderstanding between partners, and unusual behaviour will probably occur. As a result, the relationship between parties will worsen. In a long run this condition will not be suitable for the business itself, and at the end of conflict accumulations, dispute might emerge. Parties in franchise arrangements need to apply an integrative monitoring tool to ensure a sound and satisfactory relationship and to reduce the level of opportunistic behaviour (Ishida & Brown, 2013). So in order to minimise the potential for conflict, franchise business arrangements need to be more aware of the risk of conflict in the relationship (Weaven et al., 2010). By minimising the probability of conflict, the level of relationship between partners will achieve cooperative intent toward relationship satisfaction (Frazer et al., 2012). The ideal conditions of a relationship in any form of alliance will generate productive relationships between partners (Wright & Grace, 2011). However, the behaviour that occurs from each individual who represents each party can be quite unpredictable. This is a demanding challenge that each party has to consider, but in particular the risk of entering franchise business arrangements is considered difficult to manage for the franchisee (Mendelsohn, 1990).

Weaven et al. (2010) pointed out that there are several pertinent factors to minimise risk of conflict in franchise business arrangements. These factors are: pre-investment screening; due-diligence; market demand and opportunistic behavior. These factors are often taken for granted by both parties (Riyadi, 2012). For instance, in pre-investment screening, experience plays a major part for both parties in the relationship. The franchisor often thinks that in pre-investment screening the franchisee's previous business or employment experience is not important, but in many cases the franchisee who has no experience whatsoever will struggle to drive the business forward (Weaven et al., 2010). On the other hand, a franchisor that may have a lack of experience will not have sufficient capability and resources in providing support such as training for the franchisee (Weaven et al., 2010). Due diligence is the next factor that can trigger the emergence of conflict in franchise arrangements (Weaven et al., 2010). This indicator can be described as actions such as the willingness to perform proper legal requirements prior to signing the contract. Legal requirements are not just an administration process; they will give prominence to the protection of both parties. The next important factor that also can trigger conflict in franchising agreements is opportunistic behaviour (Weaven et al., 2010). This kind of behaviour can be performed by both parties. Any behaviour or action that reflects a lack of commitment to the agreement is considered to be opportunistic behaviour (Elmuti & Kathawala, 2001). Market demand is also an important factor that can trigger conflict in a franchise relationship (Weaven et al., 2010). If each party does not provide any intensity to the provision of a proper continuous market analysis, conflict will arise. For example, this can occur due to the miscalculation and incorrect forecasting of sales targets. One party can blame the other party about the market demand of a specific geographical area and as a result can deteriorate the relationship between partners (Weaven et al., 2010)

2.8.4 Relationship Satisfaction in franchise arrangements

Research by Wright and Grace (2011) which focused on the relationship in franchise arrangements revealed that a productive relationship is influenced by two major determinants, which are trust, and commitment. Due to the competitiveness of the market, business organisations are prone to failure, especially when a number of parties are involved in managing and/or owning a business organisation such as in a franchise arrangement (Das & Teng, 1999). Previous studies by some scholars (Clarke-Hill et al., 2003; Davies et al., 2011; Altinay et al., 2013) have revealed an important issue, which is the tension between partners in strategic alliances. The research discovered that the tension in the relationship between partners in franchise arrangements should be resolved in a proper way.

This relationship maintenance is so crucial due to the fragility of a business that is based on a strategic alliance. Although there are details in agreements to solve disputes, there is always the possibility of misunderstanding between partners. The personal relationship between franchisor and franchisee, and the way in which it is managed, is crucial to the success of the franchise business arrangement (Mendelsohn, 1992). Relationship development has a major importance in deciding the viability and success of franchising firm alliances, and the absence of mutual understanding between partners can result in the failure of a collaborative relationship, with serious strategic and monetary effects (Clarkin & Swavely, 2006; Doherty, 2009; Altinay & Brookes, 2012). It is quite obvious that maintaining a proper relationship is not an easy task for both parties. Typically, individuals in an alliance have their own personal ideas. These personal ideas, if not managed appropriately, can be a threat to the relationship. That is the reason why relationship development has its role as a factor that preserves a proper relationship between parties (Altinay & Brookes, 2012).

A legal contract will be the rigid basis of partners' relationship in franchise arrangements (Boulay, 2010). However, relationship development will

provide more flexibility in order to give room for each party to communicate in a directional and positive way (Altinay & Brookes, 2012). This directional and positive way of communication will drive the relationship development towards making the alliance more competitive (Das & Teng, 1999). This kind of relationship will have positive impacts for the alliance; it will create a positive atmosphere and propel the organisation to gain more competitive advantages to ensure its survivability in the market. In a sound alliance relationship, as stated previously, maintaining the tension between partners is important (Clark-Hill et al., 2003); therefore, the ability to access knowledge and resources is more important than acquiring them.

A sound relationship between or among partners will direct the business organisation's objectives in its path. In addition, interactions and coordination among partners needs to be carefully maintained to accomplish the survivability of a business alliance (Elmuti & Kathawala, 2001). Resolving the tension between partners in franchise arrangements can be a challenge. In some cases, as time goes by, the franchisee will gradually learn how the operational methods and strategies are conducted by the franchisor. This can give rise to tension between partners, due to the belief of the franchisee that their success in business is caused by their entrepreneurial ability only; sometimes they forget that their success is also assisted by the franchisor's business opportunities (Davies et al., 2011). Furthermore, a certain kind of communication also plays a major role in developing a proper and sound relationship. This communication is called open communication. Previous research by Bordonaba-Juste et al. (2011) has revealed that without this kind of communication, the relationship between partners is in jeopardy and this has an effect on organisation failure. Communication openness can be defined as the degree to which the franchisee perceives that the communication between both parties is accurate, up to date, in context, and complete (Grace et al., 2013). This ensures that each party has the obligation to provide transparent communication between them, as long as it complies with their legal agreements. Franchising business arrangements involve two parties; each of them should have a description about what they

are going to face, in relation to conflict or dispute. Given the existence of two contrary motivations in franchise arrangements, the possibilities of risks in the relationship between partners is likely to occur. The balance between the two crucial elements in franchise relationship arrangements, which are the simultaneous conformity and autonomy of the entrepreneur, has become a massive challenge in franchise arrangements (Davies et al., 2011). Previous research by Bordonaba-Juste et al. (2011) revealed that without proper communication, the relationship between the franchisor and the franchisee will be in jeopardy and will contribute to organisational failure. Good communication is essential in partners' relationships, because if this component in absent, there will always be mishaps between them, affecting the relationship and also the business survivability negatively (Davies et al., 2011).

In a franchise arrangement, the franchisor will specify the assets required for assigning a contract to the potential franchisee; this will be the essential key to the relationship's development and ensure the business's survivability (Altinay & Brookes, 2012). Maintaining a relationship means that both partners achieve a productive relationship (Wright & Grace, 2011) and reach a stage where both partners are satisfied and come to a mutual satisfaction (Frazer et al., 2012). The relationship satisfaction between partners is a certain level at which both partners perceive the relationship between them to be satisfying, equitable and strong (Grace et al., 2013). The relationship satisfaction in franchise business arrangements can be indicated by several points, such as the resource access of each partner (Altinay & Brookes, 2012), the communication between the partners, conflict which may have occurred, and support from one to another party (Grace et al., 2013).

2.8.5 Franchise business survivability

The survivability of franchise businesses is becoming an issue of interest in franchise business research (Weaven et al., 2010; Bordonaba-Juste et al., 2011). Davies et al. (2011) state that particular hazards exist within franchising because the profitable and comprehensive exploitation of market

opportunities depends heavily upon the dedicated and unconditional compliance of all parties.

In order to cope with the survivability issues in franchise business arrangements, Holmberg and Morgan (2004) stressed that there are several pertinent factors that influence franchise business survivability; they are: franchisee core competency fit/misfit; franchisee-franchisor dissatisfaction; franchisee discontent; royalty delinquency; franchisee-franchisor complaints to Federal Trade Commission (FTC) and/or conducting legal actions; turnover/termination; defaults or other losses to creditors; and closure. Holmberg and Morgan (2004) also discovered that retail channel franchise growth and success prospects would be enhanced by strategically identifying and managing franchisee failure and turnover.

Stanworth et al. (2001) pointed out that the survival of firms in a franchise business arrangement can also be predicted by the maturity level of the business. The franchisor has to spend at least two years in testing the business's concepts, such as the sales, marketing, product or service, price determining and the staff strategy (Stanworth et al., 2001). It also needs time for testing and making several adjustments to its business concepts (Stanworth, 2001). Alongside that, the franchise business also has to be able to achieve the strategic targets of the firm, such as market sales, geographical coverage, target market occupation etc. (Stanworth et al., 2001).

2.9 Previous empirical research on franchising

Previous empirical research on franchising, specifically those studies on franchising that have relevance to this study are summarised below. These studies are pertinent because they provide direction and a foundation for this research.

<u>'Franchisor failure risk analysis'</u>

Bordonaba-Juste, Lucia-Palacios & Polo-Redondo (2011) examined pertinent number of factors, which were: size, growth proportions of company-owned outlets, upfront fee, royalty rate, age, sector, and

competition regulation, to assess which could explain organisational failure and franchise discontinuance. The study applied franchise systems data in Spain derived from the catering and fashion sectors and applied the Cox Survival Model to test the hypotheses. This research discovered that determinants such as age, and proportions of company-owned outlets were capable of explaining organisational failure. Furthermore, franchise discontinuance could be explained by several pertinent determinants, which were: size, growth, age, proportions of company-owned outlets, upfront fee, royalty fee, competition regulation, and sector of the franchise businesses.

‘Conflict within interorganisational relationships’

Winsor et al., 2012 studied the conflict within interorganisational relationships that has been demonstrated to impair the mechanisms by which cooperation results in mutually beneficial outcomes for partners. The focus of this research is upon the landmark legal battle that occurred within the Meineke franchise organization in the 1990s. A case that includes a potentially devastating demonstration of manifest conflict encompassing overtly opportunistic behavior, contentious class-action litigation, and a demoralizing reversal of a half-billion dollar verdict. The effects of conflict on franchisee satisfaction and compliance are revealed to be long-lasting and substantial. Path analysis and mediation tests are used in this study, these scholars examine both the immediate and long-term impacts of manifest conflict on channel partner perceptions. They discovered that episodes of manifest conflict can, through the increased salience of this conflict, have long-lasting negative impacts on franchisee satisfaction with the relationship and willingness to comply with franchisor regulations, even when the original conflict was remediated in a manner that yielded highly positive outcomes to the aggrieved parties. As a result, their study provides unique and valuable perspectives to the understanding of franchises and other forms of interorganisational relationships.

‘Identifying risk franchise businesses’

Wadsworth and Cox (2011) focused on an objective, which was to construct an investment risk index of franchise systems in Indiana and Virginia, United States. The index was intended to serve as a starting point for prospective franchisees in evaluating the relative riskiness of different systems. They argued that the index could also be used to identify factors more strongly linked to business investment risk. Their study applied discriminant analysis on several determinants, which were: profit margin, unit growth, debt-to-equity ratio, years franchising, litigation/in the process of taking legal action, bankruptcy, earnings claims, domestic franchises with fewer units than 20, total movement as a percentage of total units, and franchised units as a percentage of total units. The study discovered that from ten determinants, there were six determinants which could be applied in determining the risk level of a franchise business purchase decision, these determinants were: profit margin, unit growth, bankruptcy, earnings claims, total movement as a percentage of total units, and franchised units as a percentage of total units.

<u>'Franchisee non-compliance behaviours'</u>

Davies, Lassar, Manolis, Prince and Winsor (2011) conducted a study that was based on several objectives, which were to construct and test a model that demonstrated how two distinct forms of trust were developed, based upon perceptions of franchisor integrity and franchisor competence. This study tested the model using Structural Equation Modelling analysis. Their research clarified the interrelated roles of satisfaction, conflict, and trust as they related to levels of compliance. The study applied trust, satisfaction, conflict and compliance as determinants of franchise relationship. This study revealed that a franchisee's trust in the integrity of the franchisor is significantly damaged by relational conflict, and this form of trust is essential for franchisee compliance with organisational norms. Conversely, franchisee's trust in the competence of the franchisor is not significantly influenced by relational conflict, and this form of trust has a

less substantial influence on compliance. The study suggests that franchisors, who are generally eager to improve conformity with operational guidelines, would greatly benefit from a richer understanding of the role that multiple forms of trust play as preconditions to franchisee compliance, and should endeavor to develop relational forms of governance in order to augment contractual norms and encourage reciprocal behaviours.

‘The role of franchisee normative expectations in relationship evaluation’

Weaven, Frazer & Giddings (2013) examined the influence of normative expectation (dis)confirmation on franchising relationships between key antecedent and outcome variables that characterise the franchisee/ franchisor relationship. In the study there were several determinants applied, which were communication openness, perceived support, perceived conflict, relationship satisfaction, and normative expectation. This study conducted structural equation modelling analysis based on a database of Australian franchisees. These scholars discovered that (dis)confirmation of a franchisee’s normative expectations play a significant role in mediating the effect of a franchisee’s assessment of the nature and effectiveness of franchisor-provided services (i.e., perceived support, communication openness) on subsequent relational outcomes (i.e., perceived conflict, relationship satisfaction).

‘Franchisee personality behaviours and franchisee-franchisor relationship quality’

Dant, Weaven, and Baker (2013) extended current inter-organisational approaches to understand franchise relationships through the inclusion of interpersonal constructs like personality dimensions. In effect, their study required a marriage of B2B and B2C perspectives to examine franchise business arrangements and more generally the relationship marketing phenomenon. This study applied a self-reported online survey to collect data from a sample of franchisees drawn from across franchise systems in Australia. The study used regression analysis to

test the hypothesized relationships, and applied several determinants, which were agreeableness, conscientiousness, emotional stability, extraversion, and relationship quality. The study discovered that four of the five personality dimensions had the predicted effect on the outcome variable of relationship quality. Dimensions of “agreeableness”, “conscientiousness”, “emotional stability” had a positive effect on relationship quality, while “extraversion” had a negative effect on the relationship quality.

‘Relationship between franchisors and franchisees’

This piece of research by Wright & Grace (2011) aimed to extend the idiosyncratic dynamics of the franchisor-franchisee relationship and the influence of such constructs from a distance perspective. This study applied a qualitative, case-based approach to four Australian retail franchises with holdings in New Zealand. This research conducted In-depth interviews with 20 franchisees: they found that trust and commitment were universally identified as antecedents for strong and productive relationships.

‘Relationship development between franchise business partners’

Altinay and Brookes (2012) identified and evaluated the factors which influence relationship development between franchisors and franchisees. In their study, they examined the relationship development within two types of franchise agreements: direct and master franchising. This study adopted case studies, and two international franchised US-based hotel firms were the focus of the enquiry. This study applied interviews and document analysis as the data collection techniques. Furthermore, they discovered that role performance, asset specificity and cultural sensitivity influenced relationship development in franchise partnerships. Their further discovery was that in every business context, trust and commitment were recognised as important elements of relationship development.

‘The importance of manager awareness on strategic alliance entire life cycle to minimise failure’

Lowensberg (2010) argued that managers need to apply a holistic and long-term approach in their understanding of strategic alliance paradigms to inform decisions. His also discovered that motivational paradigms could be viewed as an interrelated web of issues throughout a strategic alliance’s entire lifecycle – and not just at their formation stage when, often, they are used separately and in isolation of one another. It is proposed that their continuous and holistic use contributes to a manager’s awareness of possible issues and helps his/her strategic management and decision taking to minimise failure. This study reviewed the pertinent literature and, with the help of previously published cases, also suggested a new conceptual perspective of the paradigms of strategic alliances.

‘Important factors influencing conflict in franchising’

Weaven, Frazer and Giddings (2010) extended the research in conflict literature in dyadic or group exchange relationships through investigating the causes of conflict in franchising. Their inductive research approach enabled them to provide a preliminary snapshot of the factors influencing franchising conflict within the highly regulated Australian franchising environment. They identified the major causes of franchising conflict proposed by government and industry representatives. The key findings suggest that a lack of due diligence is associated with the formation of unrealistic expectations, which increases the potential for future relational conflict. This research also emphasised that, although franchising experience impacts upon operational approaches and conflict, the role of third parties and market conditions appear to worsen dissatisfaction in most franchise systems.

‘Complexity and dynamics conflict between franchisors and franchisees’

Frazer, Weaven, Giddings and Grace (2012) focused on exploring the antecedent factors associated with conflict in franchising, providing

unique knowledge regarding the complex issues surrounding conflict in franchising and informing future research with regards to the dynamic of conflict in franchise business arrangements. The study conducted a series of multiple case studies, involving 30 protocol discussions with franchisors and franchisees, and undertaken across a variety of Australian franchise systems. This research discovered several themes that emerged from their investigation, which led to the development of research propositions that include constructs such as trust, expectation confirmation, openness, perceived support, and relationship satisfaction in attempting to explain the antecedent causes of conflict in franchising.

‘Partner selection process in franchising’

Doherty and Alexander (2006) focused on exploring the market and partner selection processes in international retail franchising by examining qualitative evidence from six fashion retailers based in the United Kingdom. Furthermore, this research found that market and franchisee selection was about much more than simply applying scientific criteria to determine markets and franchise partners. In fact, a dynamic process involving a range of actors and circumstances results in market selection and partner selection.

‘New strategic management perspective on franchise business failure’

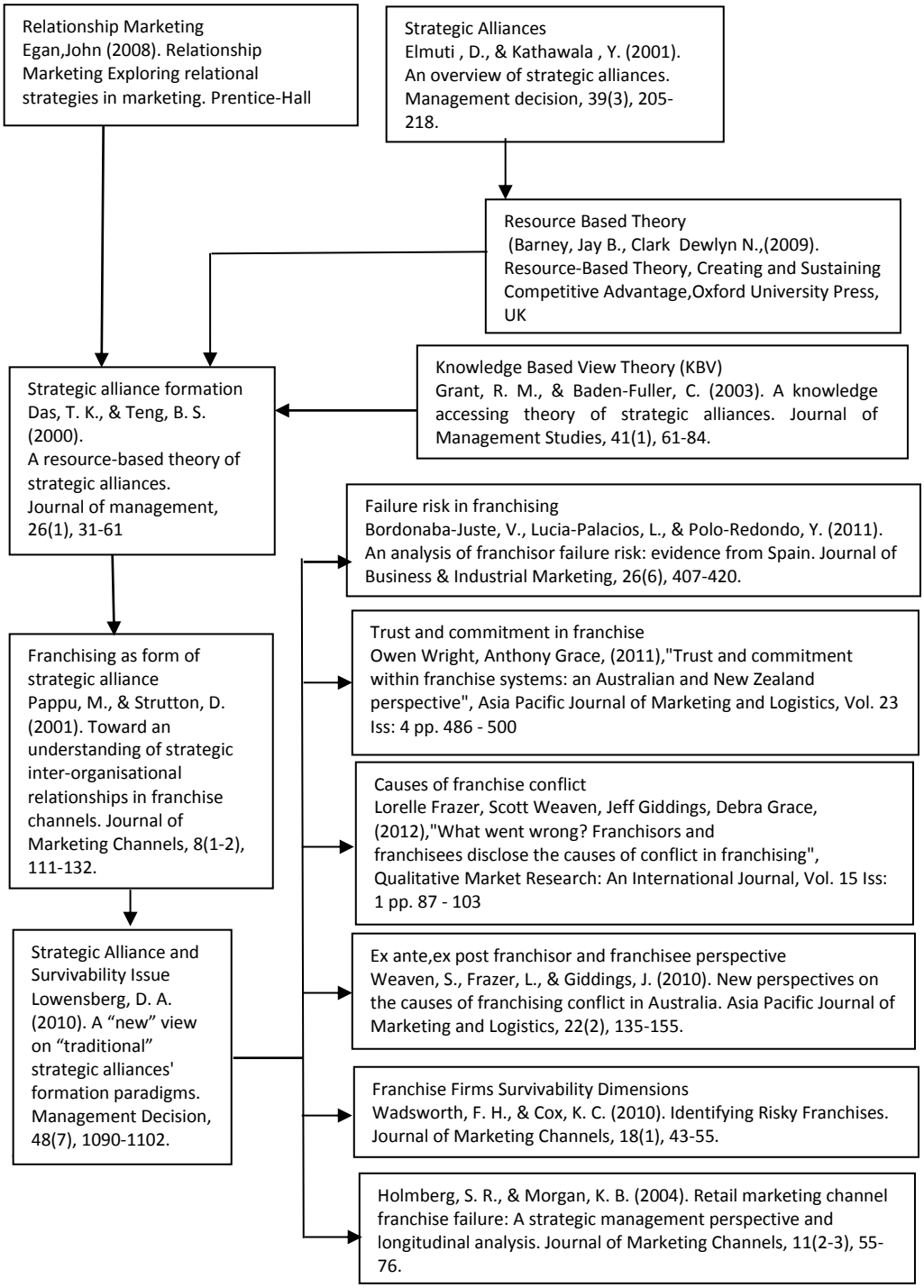
Holmberg and Morgan (2004) focused on franchisee failure identification and avoidance by developing a new strategic management perspective. This study conducted qualitative analysis on United States franchise businesses in the food and retail sectors. Through this research, Holmberg and Morgan were able to discover that retail channel franchise growth and success prospects would be enhanced by strategically identifying and managing franchisee failure and turnover. Reducing franchisee failure hinges on retail franchise systems adopting a strategic management failure perspective where failure mitigation strategies are developed for each of eight Holmberg-Morgan franchise failure continuum phases. This research also

developed an eight-step franchise failure model, suggesting that the first indicators of failure can often be seen very early. The following progression in franchise business arrangement failure is described as: (1) franchisee core competency misfit; (2) franchisee–franchisor dissatisfaction; (3) franchisee discontent; (4) royalty delinquency, etc.; (5) complaints to FTC, (6) turnover/termination; (7) defaults/other losses to creditors; and (8) closure.

The empirical research studies described above provide this study with gaps and directions to conduct research with a distinctive perspective, so that the researcher can be able to close these gaps in the literature and make a contribution to knowledge of the franchise industry in general.

The literature review map is presented in Figure 2.3 below. This literature review map provides a clear flow of theories and previous empirical research as the foundation of franchise business formation. Furthermore, it also provides a clear view of previous empirical research as the foundation of this study's research topic.

Figure 2.3 Literature Review Map



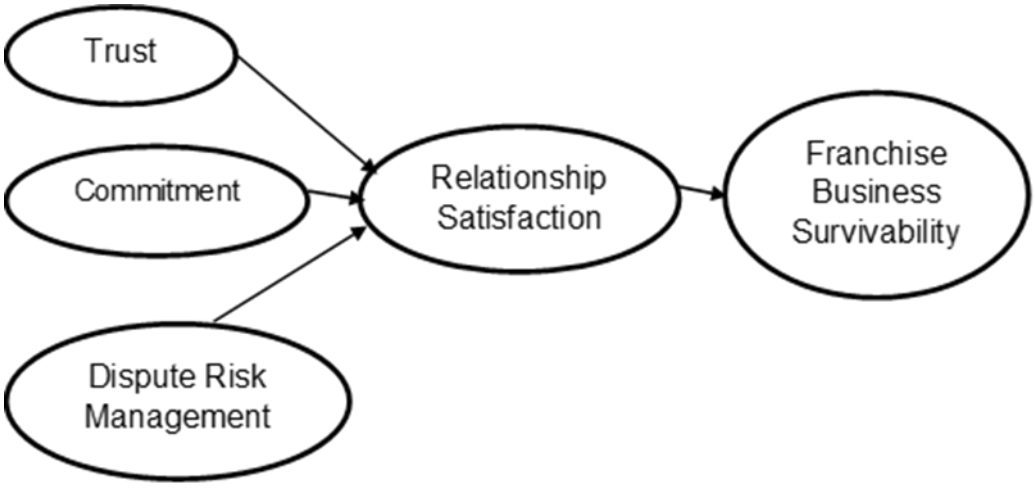
Source: the author

2.10 Research theoretical model

Based on the literature review, a franchise business survivability theoretical model can be constructed as presented in Figure 2.4 below. In this research, there are three determinants associated with relationship satisfaction, which are: trust, commitment, and dispute risk management. These determinants (trust, commitment and dispute risk management) influence the next determinant, which is relationship satisfaction.

Furthermore, relationship satisfaction also acts as a determinant which influences a further determinant, which is franchise business survivability. Each of the determinants will be measured by respective indicators, which will be described and explained in the methodology chapter. Furthermore, the theoretical model in Figure 2.4 below can be developed into a more sophisticated model in the form of a path diagram, which will be presented and explained in the methodology chapter.

Figure 2.4 Franchise Business Survivability Theoretical Model



Source: the author

2.11 Chapter Summary

This chapter provides a clear picture of the theories and previous empirical studies that are the foundation for the research framework and topics of this study. These theories, frameworks and empirical studies provide a clear view of the formation of strategic alliances such as franchise business arrangements. This chapter provides discussion and explanation of the research determinants. The determinants in this research, which are trust, commitment, dispute risk management and franchise business survivability, are the main determinants that are going to be analyzed in the next stage of this research. This chapter also provides a literature review map and research theoretical model to illustrate the flow of thinking about franchise business arrangements, the research topic formation and the relationships between determinants of this study.

Chapter 3
The Evolution of Franchising in the Restaurant and Retail Sectors in Indonesia

3.1 Introduction

This chapter provides an overview of the evolution of franchising in the restaurant and retail businesses in Indonesia. It also reveals the characteristics and development of restaurant and retail franchise businesses in general.

Moreover, this chapter also describes issues and challenges of Indonesian franchising business faced by practitioners. These issues and characteristics affect the relationships between the strategic partners in the franchising business and franchise business survivability.

3.2 Franchising in restaurant and retail sectors

Franchising business formation has also become a preferable form of business for initial entry into the restaurant and retail sectors (Michael, 2003). Furthermore, Michael (2003) also emphasises that by using a franchise arrangement, services such as retailing and restaurants can make themselves prominent. In previous research by Michael (2003), under the resource scarcity perspective, franchisors were found to use franchise arrangements as a way to deal with constraints to expansion. Franchise arrangements also provide access to several resources such as financial, information, and managerial expertise (Michael, 2003).

In retailing the selection of site is an important issue, especially in multi-unit site selection. In addition, improved planning, management of time brackets, and the amount of discount rates should be embedded in proper market penetration retail planning (Kaufmann et al., 2007). In recent years, retail businesses have provided consumers with a wide array of product categories. The product diversification in retail business enables retailers to utilise economies of scale, which can be established by standardising

product categories and brand support activities (Etgar & Rachman-Moore, 2010). Furthermore, by using franchising, the franchise business practitioners are able to formulate their medium and long term strategic objectives in terms of market penetration (Kaufmann et al., 2007). In addition, franchise business practitioners in both sectors can utilise or accommodate their partners' resources, knowledge and supports (marketing and management) in managing their businesses (Srinivasan, 2006; AFI, 2013).

Retailers find that franchising is one of the most dependable forms of arrangement to establish and expand their business (Quinn & Alexander, 2002). Just like any other sector, franchise arrangements in retail also require both parties' acceptance of responsibilities in order for the arrangement to work properly (Quinn & Alexander, 2002). Franchising has become a valuable means to develop a business both domestically and abroad for both restaurant and retail business (Watson et al., 2005). A large number of high street names in the United Kingdom have applied franchising as a means of accessing international markets, such as Mothercare, Debenhams and Marks and Spencer (Watson et al., 2005).

In order to provide some common view about the franchising business in restaurant sector it is important to give a brief overview of the basic characteristics of franchise restaurants in general. According to Bradach (1998); Quinn and Alexander (2002); Michael (2003) and Kaufman et al. (2007), wherever they operate, there are three basic characteristics of chain restaurant and retail organisations operating in a form of franchising, which are:

1) The shared identity of the physical outlets' appearance.
2) The standarisation of product and service process and delivery.
3) The use of various sizes and geographically dispersed outlets or units.

These three basic characteristics provide four management challenges in franchising restaurant business organisations, which are discussed below.

First, the issue of shared identity literally means that all of the restaurant and retail chain or its outlets will have a similar identity. Cave and Murphy (1976 as cited in Bradach, 1998, p.16) stated that “the operators of a unit cloaks himself in the identity of the chain’s trademark. For instance it can be appeared in a distinctive physical appearance of outlets, such as golden arches for McDonald’s, red roof top for Pizza Hut, red and white bucket for Kentucky Fried Chicken outlet, and many other specific form of distinctive symbols, colors, shapes and brands”. These chain’s trademark also can be seen on the local franchise businesses such as Es Teler 77, Waroeng Steak, Pecel Lele Lela, Quick Chicken, Rocket Chicken, Mister Burger, etc. In retail businesses, the logos of Carrefour, Alfamart and Indomart, which are the local retail franchise businesses are prominent in their outlets, which also share the same identity throughout their chain networks.

Second, the standardisation of the product and service asserts that all the outlets in the restaurants and retail s operating in franchising are able to deliver a standard product and service to the customers (Jayakumar & Samad, 2011). For instance, restaurants in franchise business chain organisations display the standard nature of the organisational activities, such as the preparation of dough, which is done twice a day, and producing biscuits from scratch every day at 5 a.m. in Pizza Hut and Hardee’s restaurant chain stores (Bradach, 1998). This standardisation in the production of product or service delivery ensures the quality of the products and services provided through specific knowledge, so that all the outlets and chains will produce and deliver the same product and service delivery, using the same sizes, time scales, and other specific processes (Hoover et al., 2003).

Third, the spread of the chains or outlets for a franchising business is usually over a widely spread area. The spread of the franchise business outlets in the restaurant and retail sectors can involve outlets spreading locally, regionally, or even internationally (Bradach, 1998; Michael 2003). This provides convenience for the customers because the customers have convenient access when the locations of the restaurants or retail businesses

are widely spread (Kaufman et al., 2007). Furthermore, the spread of the franchise business's outlets can also regional or international. The product and services are part of the same process, so that quality is ensured and the customers can easily identify the brand's distinctive product and also the location is convenient for the customers (Mendelsohn, 1992; Frazer et al., 2012).

Franchise business arrangements in Indonesia have been in existence for more than 40 years (AFI, 2013); however, this type of business collaboration formation has developed significantly over the last two decades (AFI, 2013; Chandra, 2011).

3.3 Franchising development in Indonesia

Indonesian franchising businesses started to develop around the 1970s. This period was marked by the market penetration of several foreign franchise businesses such as Kentucky Fried Chicken, Swensen, Shakey pizza, which were followed by Burger King and Seven Eleven. However, franchise businesses had already existed in Indonesia, a form that was pioneered by shoe retailer company Bata (AFI, 2013). In 1991, International Labour Organisation (ILO) financed a baseline study which was conducted by the Indonesian Management Development and Education Institution. In this study the ILO also invited franchise guru Martin Mendelsohn to observe and recommend comprehensive programmes to develop franchising in Indonesia (AFI, 2013). The result of this study was to develop the Indonesian Franchise resource centre, which has several objectives such as: socialising franchise systems in Indonesia; building libraries; supervising and training franchise experts; developing private franchise associations; and developing franchise networks (AFI, 2013).

Later on, the Indonesian government launched regulations to encourage and protect investors in franchise business relationships. The regulation included PP No. 42/2007 regarding franchising and Permendag No.31/2008 of franchise business conduct. These regulations were released by Indonesian government to provide stronger legal assurance in franchise business conduct (Sudarmatin, 2011). As a result the growth of franchise businesses

value in 2008 was increased to 15% in the following year and the value of the franchise businesses reached £ 6.3 billion in 2009 (Sudarmiatin, 2011). Indonesian government also held several franchising exhibitions to attract foreign franchise businesses and a franchise mentoring programme for Indonesian small and medium businesses. Besides that, the Indonesian government also provided facilities for around 400 Indonesian franchise businesses practitioners to join a franchise exhibition in the ASEAN region in 2014 (Agustina, 2014).

The economic growth of Indonesia in 2010 was led by a positive relationship with the level of franchise investment in Indonesia, especially franchising (Chandra, 2011). In addition to China, Singapore, Vietnam and Malaysia, where American brands are successful, Indonesia has become an attractive market with an economy growing at a steady pace of 6% (Chandra, 2011). Indonesia was the third fastest growing market economy in Asia in 2010 (Chandra, 2011); this fact attracted large numbers of local and foreign businesses, and franchise businesses were no exception. The number and projection of franchise business in Indonesia is provided in Table 3.1 below.

Table 3.1 Number of franchise businesses in Indonesia

	2009	2010	2011 (estimation)	2012 (estimation)
Local Franchise	87	92	97	102
Foreign Franchise	265	278	293	308
Total	352	370	390	410

Source: International Franchising Association 2012

Based on the table 3.1 above the number of franchise businesses, both local and foreign, increased from 2009 to 2010.

The service sector, especially in the food and beverages industry, are the best opportunities for investors in the Indonesian market. Most Indonesian

franchise seekers are interested in well-established and innovative food and beverage business concepts such as fine-dining restaurants, fast food and coffee shop chains, ice cream shops, and others. Other attractive prospects include education, especially children's education, and retail, or specialty convenience stores (Chandra, 2011).

In order to start a franchise businesses in Indonesia in general, the startup cost is between ten million rupiahs to four billion rupiahs, around £500 up to £200,000. The royalty fee varies between £250 up to £100,000 (AFI, 2013). This royalty fee is paid by the franchisees to the franchisors monthly, and it is compulsory for the first three years of their franchise business relationship. This royalty fee is usually used for marketing or promotion expenses (AFI, 2013). In addition, local experts have stated that franchise businesses are maintaining a steady positive growth in Indonesia, despite domination by foreign franchise businesses. According to Karamoy (2009 as cited in Sudarmiatin, 2011, p. 3) the chairman of Indonesian Franchising and Licensing Association, the average growth of local franchising business is around 8-9% per year, while the foreign franchising is around 12-13% per year. However, despite these growths, the number of failures provides a contrast. The local franchising firm failure rate is 50-60%, but amongst foreign franchising it is only 2-3% (Firdaniaty, 2007 as cited in Sudarmiatin, 2011, p. 3). Furthermore, the level of failure in local franchising business is relatively large for each party in the franchise arrangements, around 50% for franchisees and 30% for franchisors (Karamoy, 2009 as cited in Sudarmiatin, 2011, p. 3).

Researchers such as Bradach (1998), Kaufmann et al. (2007), and Frazer et al. (2012) have argued that in managing franchise restaurant and retail organisations formed in franchise business arrangements, managers are faced with four management challenges. These four management challenges are: growing outlets for business expansion; uniformity of the standard operating procedures; local responsiveness; and system wide adaptation

The first challenge is to achieve growth by adding outlets. There are several factors which encourage the addition of more units. Firstly, addition increases a a chain's market presence, whereby each new unit or outlet benefits from the accumulated experience of the chain. Secondly, the chain's life cycle will be longer due to spreading the cost of research and development; and finally, the accumulated expertise gained in the cloning process will improve the criteria for selecting sites, speed up plans for building new outlets, develop more efficient operating strategies and all of them will enable the chain's management to upgrade the chain's performance overall (Bradach, 1998).

However, Holmberg and Morgan (2004) point out that adding units or outlets in franchise arrangements also produces technical challenges, especially in the medium to long term future of the operation. These challenges include issues such as the increasing level of standardised operations, quality consistency, brand name recognition, and advertising effectiveness.

The second challenge is that of the uniformity of the standard operating procedures. The outlets or chains in a franchised restaurant or retail business have to share the same form of products and service delivery (Gillis et al., 2014). The question is how to obtain local production and product or service delivery, which has the same standard as the franchisor's requirements (Bradach, 1998; Frazer et al., 2012). In some cases there are regions which do not have any potential local product or service deliverance which meets the required standards, but on the other hand the market potential is quite promising. This particular issue will require another supply of material from another region, and these may cost more.

The third challenge is the local responsiveness, which may also become a potential challenge for a manager in a franchising business, particularly in the restaurant and retail business sectors. Each locality or region has its own characteristics. If the McDonalds's outlets in UK and in Indonesia are compared, although the service and product standard and delivery are quite similar, there are some differences in the menu. In the UK, customers do not get a fried chicken menu on the list, and rice, but McDonald's outlets serve

fried chicken and rice in Indonesia. In the retail sector, in order to adapt with local responsiveness, franchise business arrangements allow flexibility in determining the location of the outlets or units (Gillis & Combs, 2009). This kind of local response is called a strategic local response (Bradach, 1998), which involves adapting some business policies and practices to a specific market. Another type of local response is the tactical local response (Bradach, 1998); in this kind of response, the outlets or chain will adapt to the local vendors, pricing and local employment issues. The researcher assumes that in order to meet the franchisor's standard, the local vendors, pricing and employment issue have to pass the franchisors requirements such as uniformity (Doherty, 2009) and standardized customer service (Welsh et al., 2006).

The fourth challenge is that of system wide adaptation (Bradach, 1988; Gillis & Combs, 2009). This issue covers the elements of outlets growth strategy, such as employees, managers and technical requirements, which have to be well prepared to adapt to new ideas. This kind of system wide adaptation is challenging in some way because as a franchise business formation the outlets have to maintain their uniformity (Frazer et al., 2012) and on the other hand the outlets also have to respond to the local market. The four challenges of managing a franchised restaurant business and retail business provide a clear illustration of how complex the system is to manage. In relation to this research, it also can provide issues that are pertinent to franchising that have to be fulfilled by each party in franchise arrangements, especially in the restaurant businesses.

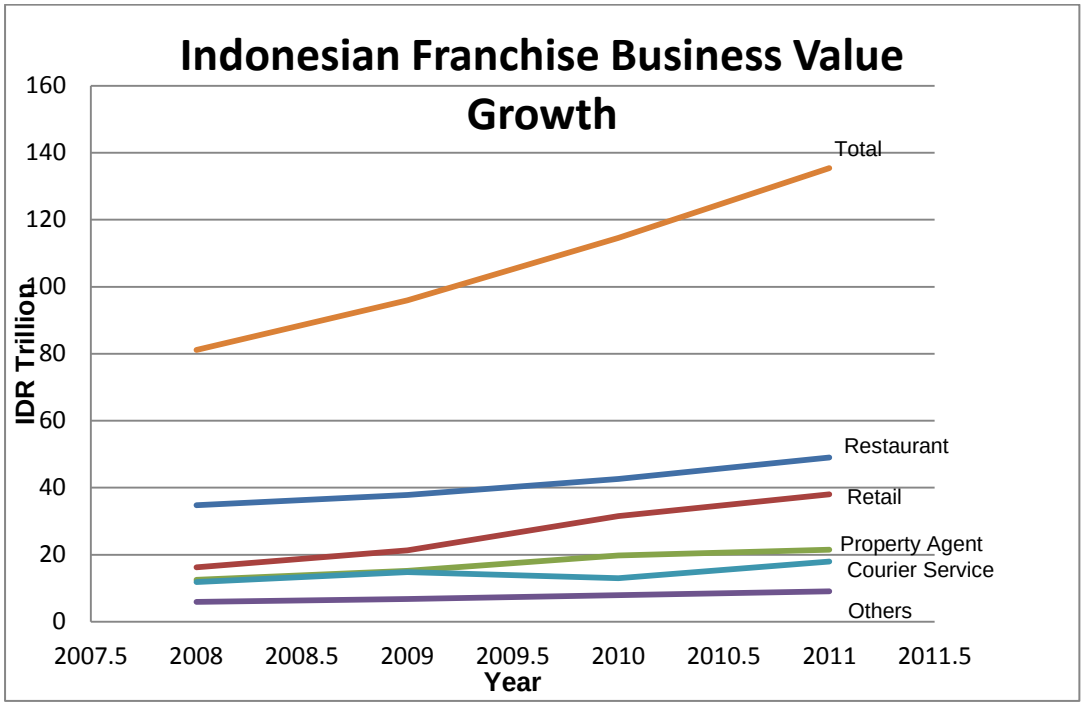
The Indonesian franchise businesses are faced with several obstacles, such as: lack of proper managerial skills in managing franchise businesses; insufficient managerial capability; and minimum capability in planning, organizing, actuating and controlling of a business (AFI, 2013). It has been pointed out that if businesses do not possess any proper management systems, goals and objectives are quite hard to achieve. As a business is founded and operated to be able to satisfy customers, a proper relationship

between the franchisors and the franchisees in the Indonesian franchise business is very important. This sound relationship between them provides the necessary team approach to achieve the franchise businesses' goals and objectives (Altinay & Brookes, 2012; AFI, 2013).

To establish a proper and sound relationship between franchise business partners, the managers of franchise businesses need to possess professional managerial skills. A manager has to be able to manage people under his or her management to perform as best they can in order to achieve the franchise businesses' goals and objectives. In the franchise business, a standard operating procedure in the form of manual operation instructions has to be prepared properly alongside other preparations such as a strategic business plan and financial business plan (Bradach, 1998). In planning a franchise business strategic plan, managers working in franchise business need to develop an effective plan based on financial conditions and the target market of the franchise businesses (Pappu & Straton, 2001). Furthermore, in franchise arrangements, the franchisors have to provide proper training schemes for the franchisees (Weaven et al., 2010). In Indonesia, this training scheme includes initial and continuous training; the initial training is targeted at inexperienced franchisees and the continuous training is targeted at experienced franchisees in order to improve both the product and its associated service delivery (AFI, 2013). As a franchise business is destined to operate for an indefinite period of time, franchise business arrangements have to be able to facilitate sound relationships between the partners. This is because franchise business failure issues in Indonesia can not only be triggered by the franchisor, it can be triggered by either partner (Lowensberg, 2010).

The following section provides several potential dispute issues in the Indonesian franchise businesses relationships that can be triggered by both partners. Figures 3.1 to Figure 3.3 below provide some figures that demonstrate the development of Indonesian franchise business sectors. These figures describe the dynamics in the Indonesian franchise business, specifically in terms of the growth of franchise business value; number of franchise business outlets; and number of employees.

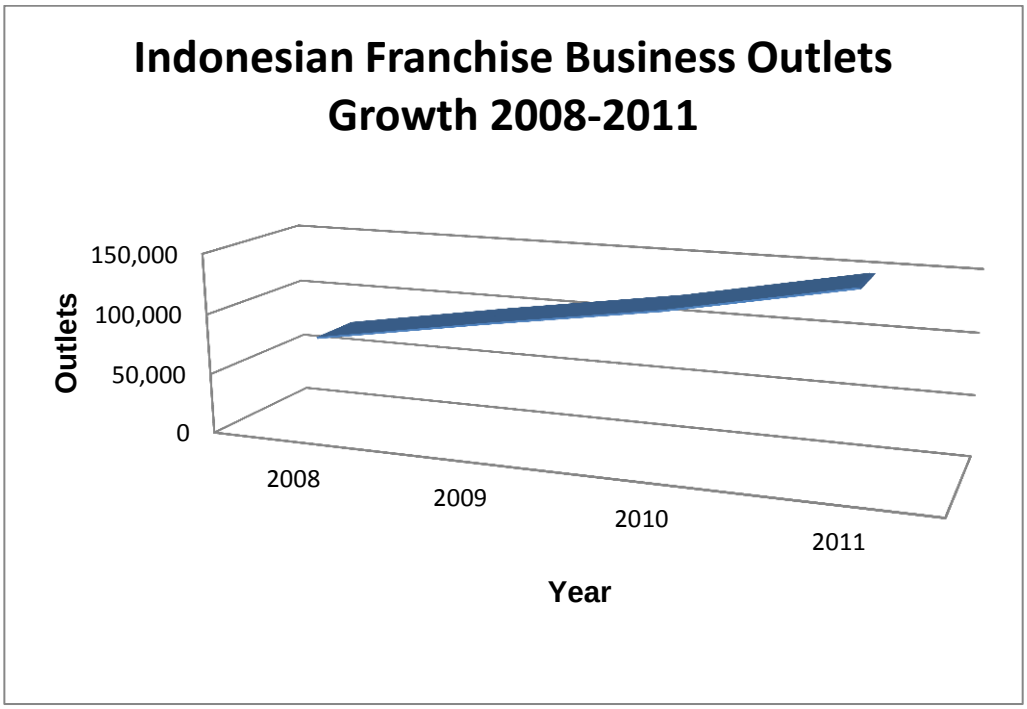
Figure 3.1 Indonesian franchise business value growth 2008-2011



Source: AFI, 2013, p.11

It can be seen from Figure 3.1 above that restaurant and retail franchises dominate Indonesian franchise businesses in terms of business value. The value of franchise businesses in the restaurant sector alone was between 34.8 and 49 trillion IDR in 2008-2011, approximately £1.74 to £2.5 billion. The retail sector was worth between 16.2 and 38 trillion IDR in 2008-2011 which was around £8.1 and £12.5 billion (AFI, 2013).

Figure 3.2 Indonesian franchise business outlets growth 2008-2011

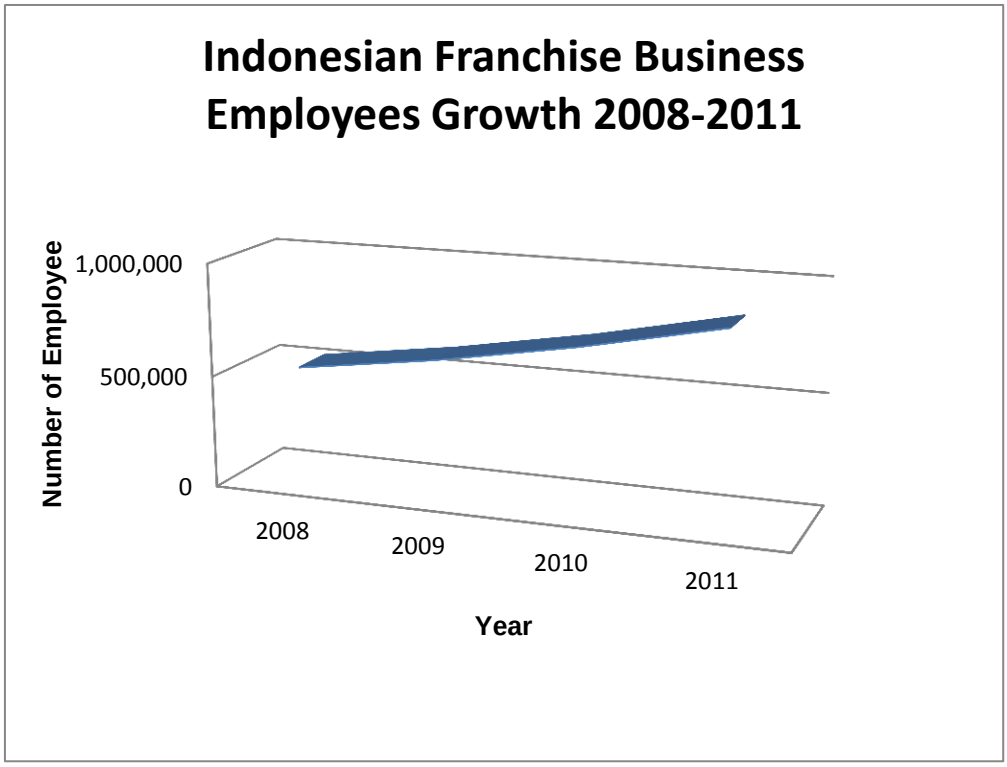


Source: AFI, 2013, p.11

Figure 3.2 above shows that from 2008 to 2011, the growth of franchise business outlets in Indonesia grew quite progressively; the number of franchise businesses increased from 76,500 to 150,000 outlets (AFI, 2013).

Figure 3.3 below shows the rapid increase in the number of employees in Indonesian franchise businesses. They grew from 523,162 employees in 2008 to 850,243 employees in 2011 (AFI, 2013). It shows that franchise businesses in Indonesia contributed significantly to the Indonesian economy by providing employment opportunities.

Figure 3.3 Indonesian franchise business employees growth2008-2011



Source: AFI (2013, p.11).

3.3.1 Challenges in Indonesian franchise businesses

As mentioned previously, franchises are affected by both franchisors and franchisees. There are several issues that can lead to disputes between partners in franchise business relationships that are triggered by franchisors' errors, as described below.

Firstly, there can be disputes if franchisors "over promise-under deliver". Occasionally, the franchisors provided the franchisees with unrealistic promises that lead to the franchisees' misconception that in conducting franchise businesses they just have to sit down and wait for their profits to accrue (AFI, 2013). This issue also leads to over expectation by the franchisees, and as a result misunderstanding occurs, sometimes triggering the emergence of dispute. If dispute emerges, the trust and commitment between both partners will potentially fade and lead to franchise business failure (Weaven et al., 2010).

Secondly, some franchisors are too greedy: there are some franchisors who attempt to take more than their royalty fees. They take advantage of their franchisees by crossing their obligatory limit (AFI, 2013). For instance, in several cases franchisors also get involved too deeply in the process of renting or buying future outlet properties. As a result, the franchisees can become more burdened financially (AFI, 2013) and they may feel that their future partners are taking advantage on them.

The third is a situation when the franchisor compromises with their own standards. The franchise business has to be conducted with a certain standard of procedure that both partners have to obey (Bradach, 1998). In some cases, franchisors might be tempted to violate their own standards in order to attain sales targets. For instance, in determining outlet locations, the franchisor may have certain standards such as maintaining a certain distance between outlets. In some cases, they violate this standard in order to gain more sales (AFI, 2013).

The fourth common mistake is improper business prototypes. The franchise bushiness concepts have to be based on proper business prototypes that ensure the businesses perform as they should in the market (Gilis & Combs, 2009). In reality, some franchisors have a lack of experience and are only able to develop unproven franchise business concepts (AFI, 2013). This often leads to dispute and business failure in the relationship between partners.

Fifth is a lack of support to the future franchisees. Conducting franchise business alliances, each partner has to support each other in terms of resources and knowledge (Weaven et al, 2010; Davies et al., 2011; Grace et al., 2013). From the franchisors' perspective, he or she has to develop a reliable process that enables proper support, monitoring and a franchisees' complaint channel system to provide a sound relationship between them (Verbieren et al., 2008; AFI, 2013).

The sixth issue is a condition when the franchisors are not willing to accept their franchisees' ideas and inputs (AFI, 2013). The franchisors needs to listen and consider their partners' inputs, in order to achieve more proper management of the franchise business to enable it to compete in the market

(Mowery et al., 1996; Hynes & Mollenkopf, 1998). Furthermore, in many cases, the franchisees have more knowledge and understanding of certain types of market characteristic because they live in the area they are conducting business (Weaven et al., 2010).

The seventh common mistake is a condition when the franchisors are too eager to expand their businesses and exceed their capacity and capability (Holmberg & Morgan, 2004). This issue will often lead to the failure of some of the business units for the franchisors, because they are not able to provide optimum support and service for their franchisees (AFI, 2013).

Eighthly is the incompetence of franchisors, which may lead to an unfocused business plan and management, which can be quite dangerous for the franchise businesses (AFI, 2013).

The last issue in terms of the franchisors' errors is a condition where the franchisors do not have any business plan. A business plan is extremely important in ensuring proper relationships between partners and also to limit dispute risks between them (Altina, 2012). Furthermore, the franchisors' business plan can be a very valuable guidance on how to conduct franchise business concepts properly and also to provide reassurance that the franchisor has a proper and sound business orientation (AFI, 2013).

According to *Asosiasi* Franchise Indonesia (AFI), there are several important issues that have to be notified by the franchisors in conducting proper franchise businesses (AFI, 2013). These issues are: proper capability in evaluating future outlet locations and rent or purchase negotiating skills; having hygienic outlet management systems; sufficient amount of quality and economical material resources; capability in identifying quality human resources; mastering high quality product and services delivery; capability to be a professional trainer for the franchisee and his or her future staff; and possession of skills to monitor and control the franchise business without deterioration of the sound relationship with the franchisee.

On the other hand there are also a few common mistakes or errors that are often made by franchisees. For example, some franchisees feel that their businesses are already proven by their partners (Weaven et al., 2010) therefore they expect that they do not have to work hard to achieve their

businesses' goals and objectives. In some cases, the franchisees think that if their franchisors' businesses have already succeeded somewhere else, so the franchisees assume that it follows automatically and they will succeed too. Because of this kind of thinking, there can be several errors that can be potential issues in deteriorating the relationship between the franchise partners.

First, there can be an ignorance of business information; in some cases, franchisees tend to neglect the business information provided by the franchisors (AFI, 2013). This kind of behaviour can be hazardous for their relationships and the survivability of their franchise business.

Secondly, there have been situations when the franchisee gives all responsibility to their franchisors, including all day-to-day basic operations (AFI, 2013). In fact, it is important that the day-to-day business activities are managed by franchisees.

Thirdly, there is the issue of emotion-based business selection. There have been many franchisees who selected their franchise businesses based on their emotional response instead of rationally derived business analysis (AFI, 2013). This behaviour can lead to the relationship between partners being prone to dispute because there will be a failure to live up to unrealistic expectations after the contract has been signed (Elmuti & Kathawala, 2001).

Fourthly, the franchisee has no ability to conduct certain types of business. Every franchise business has its own characteristics. Based on this, every franchisee has to consider carefully which business is most suitable to them (AFI, 2013).

Fifthly is a situation when the franchisees neglect two important issues before signing a business contract. There is a possibility that franchisees do not conduct proper pre-investment screening and due-diligence before they select franchisors, and this can trigger disputes between the partners (Weaven et al., 2010; AFI, 2013).

Sixthly, there is a possibility that during their relationship, the franchisee is too willing to accept any contract terms set by their franchisor (AFI, 2013). This issue should be taken into serious consideration, since the contract binds both of them legally, so there will be legal consequences if franchisees

decide later that they disagree with parts of the contract (Boulay, 2010). The franchisee should ask their franchisors if they have any questions about details in the contract before signing.

Seventhly, there can be a situation when franchisees select their partners without business consideration. In some cases, they select the franchisors because they are their relatives (AFI, 2013). This is very common in Eastern countries such as Indonesia. As a matter of fact, partners should clarly understand their core competencies in conducting franchise business concepts, because a franchise business concept encompasses several relevant characteristics (Holmberg & Morgan, 2004). Consequently, a lack of awareness of these characteristics can jeopardize the franchise business's survivability (Weaven et al., 2010).

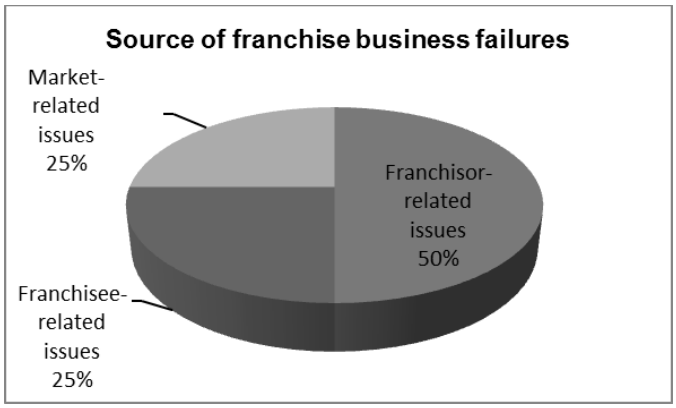
Eighthly, the franchisee does not comply with their franchisor's regulations (AFI, 2013). These issues can be reflected in the form of behaviours such as a failure to comply with the franchisor's standard operating procedure, adding new products beyond the franchisors' regulations, selecting a new location for an outlet without considering the franchisor's requirements, etc. (AFI, 2013). This kind of behaviour can be classified as "free-riding" in franchise business relationships, and it has the potential to trigger disputes between the partners (Frazer et al., 2012).

Finally, there is also a need to conduct more proper communication between partners both before and after contract signing (AFI, 2013). A franchisee should be told by his or her partners if there are any unfavourable details in the contracts, and he or she also should ask for third party opinions before signing legal contracts from advisors such as franchise associations, business consultants and legal advisors (AFI, 2013). In some cases, franchisees do not state their objections when there are details in the contract which can put them in weak positions. Furthermore, if there are any inconvenient matters in terms of day-to-day basic operations, the franchisees sometimes just do not tell their partners about them before signing the contract (AFI, 2013).

The previous description of common mistakes made by both partners in Indonesian franchise businesses show that there are some important factors

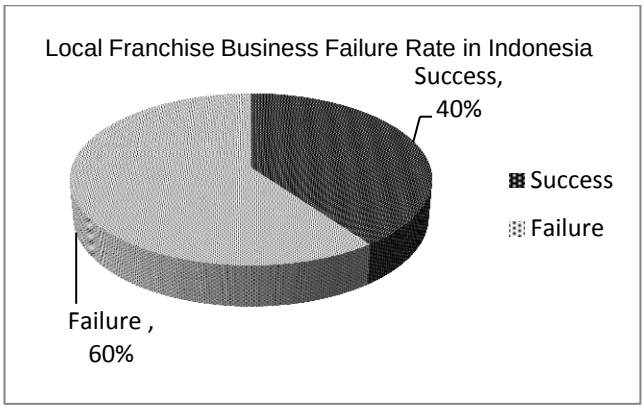
that must be considered to ensure the successful formation and survivability of franchising business arrangements. These include pre-investment screening, due diligence in partners selection; core competence of partners, proper communication; and maintaining a good relationship between partners. According to figure 3.4 below, 75% of the source of franchise business failure was caused by issues related to one or other partner (AFI, 2013).

Figure 3.4 Source of franchise business failures



Source: Asosiasi Franchise Indonesia, 2013, p.30

Figure 3.5 Local Franchise Business Failure Rate in Indonesia

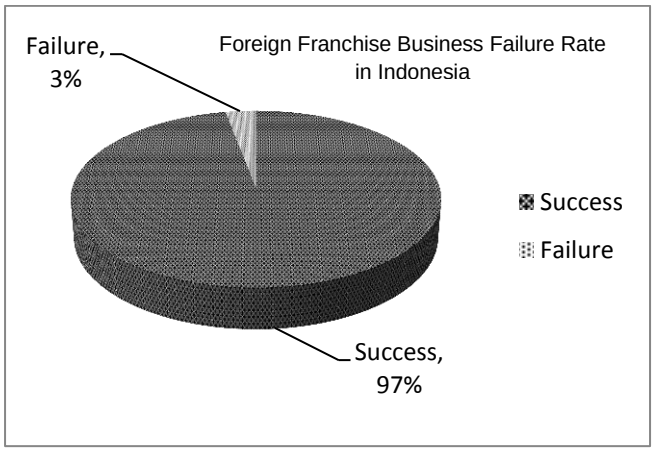


Source: Firdaniaty (2007 as cited in Sudarmiatin, 2011, p. 3).

Based on figure 3.5 above, the failure rate of local franchise business in Indonesia is quite high, around 60%. On the contrary, based on Figure 3.6

below, the failure rate of foreign franchise business in Indonesia is very low, which is only 3%.

Figure 3.6 Foreign Franchise Business Failure Rate in Indonesia



Source: Karamoy (2009 as cited in Sudarmiatin, 2011, p. 3).

This fact may occur because foreign franchise business firms have a proven market of standard operating procedures in conducting franchise business arrangements, and the local franchise business tend to neglect to test their franchise business concepts (Sudarmiatin, 2011). As a result their survivability rate is higher than the local franchise business arrangements.

According to the Indonesia Franchise Association or *Asosiasi Franchise Indonesia* (AFI), in 2013 there were 128 local restaurant franchise businesses and 16 local retail franchise businesses listed in the Indonesian Franchise Business Directory (AFI, 2013). Among which, there were 56 foreign restaurant franchise businesses and four foreign retail franchise businesses (AFI, 2013). Based on the issues and facts given, the researcher intends to examine the determinants which influence the survivability of franchise businesses in the restaurant and retail sectors in Indonesia.

3.4 Chapter Summary

This chapter provides an overview of the developments and characteristics of franchise businesses in the restaurant and retail sectors in Indonesia. This chapter also discusses challenges faced by Indonesian franchise businesses. Furthermore, this chapter also describes common mistakes that are often made by both franchise business partners that can potentially deteriorate their relationships, and also provides average rates of Indonesian franchise business survivability, which are most affected by an unfavorable relationship between franchise partners. The recent progress of franchise businesses development in Indonesia is also presented in this chapter. The AFI's monitoring of the latest developments of franchise businesses in the restaurant and retail sectors in Indonesia provides an important database for the research and also provides realistic descriptions of franchise business problems in Indonesia.

Chapter 4
Research Philosophy and Methodology

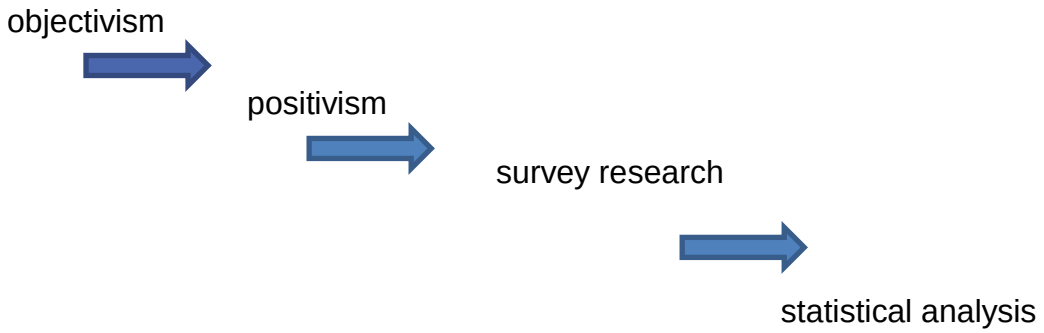
4.1 Introduction

This chapter explains the philosophical position and methodological perspectives of this research. Specifically, the logic of using a quantitative research approach and positivism paradigm as a philosophical position in conducting this research is discussed. Furthermore, the author will describe the variables and the development of the hypotheses. Finally, this chapter also discusses the research methods, which include data collection, sampling techniques and the analysis tool used in this research.

4.2 Philosophical Position

There are two main paradigms in business research, whether it is strategic or marketing research. These two paradigms are the positivist paradigm and the phenomenological/interpretivist paradigm (Nancarrrow & Spackman, 2001). This study adopts the positivist paradigm. Positivism pertains to a philosophy that scientific investigation should be empirical, which leads to antirealism and instrumentalism (Yu, 2003). Studies that are conducted in the positivist paradigm choose to establish a survey research and engage the quantitative method of statistical analysis (Despandhe, 1983).

Figure 4.1 Positivism paradigm



Source: Adopted from Crotty (1998, p. 6)

As seen in Figure 4.1 above, a positivism paradigm consists of four elements. Crotty (1998) pointed out that objectivism is an epistemological view that things exist as meaningful entities independently of consciousness and experience, and that they possess truth and meaning which are inherent in them as objects. A scientific research can attain that objective truth and meaning. Furthermore, objectivism is the epistemological underpinning of a positivist stance, and this paradigm typically conducts research using surveys and employs quantitative methods of statistical analysis (Despandhe, 1983). Crotty (1998) also added that these four elements, which are the objectivism, positivism, survey research, and statistical analysis, are able to support in ensuring the soundness of the research and make its outcomes convincing.

The positivist paradigm is sited within the epistemological tradition of objectivism, which means that objects in the world hold substance, which occurs independently from any subjective awareness of them (King & Horrock, 2010). Crotty (1998) also pointed out that objectivism embraces the idea that it is useful to objectify the understandings and values in people to discover the objective truth. The objective reality in positivism paradigm refers to so called the “truth”, a perspective in relation with knowledge which can be proven to exist (King & Horrock, 2010).

Positivism is a paradigm approach, which emerged out of practices in the natural sciences and which presumes that the subject of the research is susceptible of being investigated objectively, and that its veracity can be provided with a certain degree of certainty (Brand, 2009).

In addition, positivism is also quite dominant in social science; this theoretical approach embraces the natural science and is often viewed as a naive form of realism that believes that human beings and human behaviour are reducible to variables that can be measured and subjected to statistical analysis (Despandhe, 1983; King & Horrock, 2010).

This positivism paradigm approach develops general laws of principles to explain a specific phenomenon in the real world, that is the reason it is called

nomothetic (King & Horrock, 2010). From the methodology point of view, this positivism paradigm approach applies experiment and hypotheses verification of causal determinant relationships (Caldwel, 1980; Despandhe, 1983; Perry et al., 1999; Brand, 2009). Furthermore, it also includes primary data collection, restrained experiments, output oriented sample surveys and theory testing (Perry et al., 1999). A positivist paradigm is used in this research, because it attempts to examine determinant relationships based on theory and empirical arguments that can be combined into a model. The factors or determinant relationships in the model can be analysed using specific software (Yu, 2003).

In applying this paradigm, the researcher constructs a theoretical model that is based on theoretical and empirical arguments found in the literature review. This theoretical model is the franchise business survivability model (Figure 2.4, p. 60). This theoretical research model acts as a base for more sophisticated Structural Equation Modelling (SEM) analysis, which is the franchise business survivability structural model that will be displayed and explained in the model building section in this chapter. The theory-driven structural model will be tested using an analysis tool to test the model's fitness and the hypotheses.

4.3 Quantitative approach in this research

One of the reasons this research adopts SEM is due to of SEM's capability to make a clear distinction between unobserved theoretical constructs and erroneous empirical measures (Steenkamp & Baumgartner, 2000).

Quantitative research commonly is related to measurement, specifically to apprehend aspects of the social world which are then expressed in the form of numbers such as probability values, variance ratios, percentages, etc. (King & Horrock, 2010). Quantitative methodology is also a specialised field, and with any specialised field, working through idiosyncratic language can be challenging, especially when concepts are couched in the language of mathematics and statistics (Kaplan, 2004). Moreover, the quantitative approach describes and solves problems and cases using numbers.

Therefore, in this study emphasis will be given to the set of numerical data such as the summary of the data and then, conclusions will be drawn from the data (Curwin & Slater, 2002).

Based on the researcher's positivist philosophical position, this research conducts a quantitative study and hypotheses testing. The hypothesis-testing process is a logical sequence of stages to conduct the statistical analysis in a quantitative research study (Martin & Bridgmon, 2012). Several hypotheses will be tested. The hypotheses that will be developed in this research are based on theoretical and empirical findings in the previous studies.

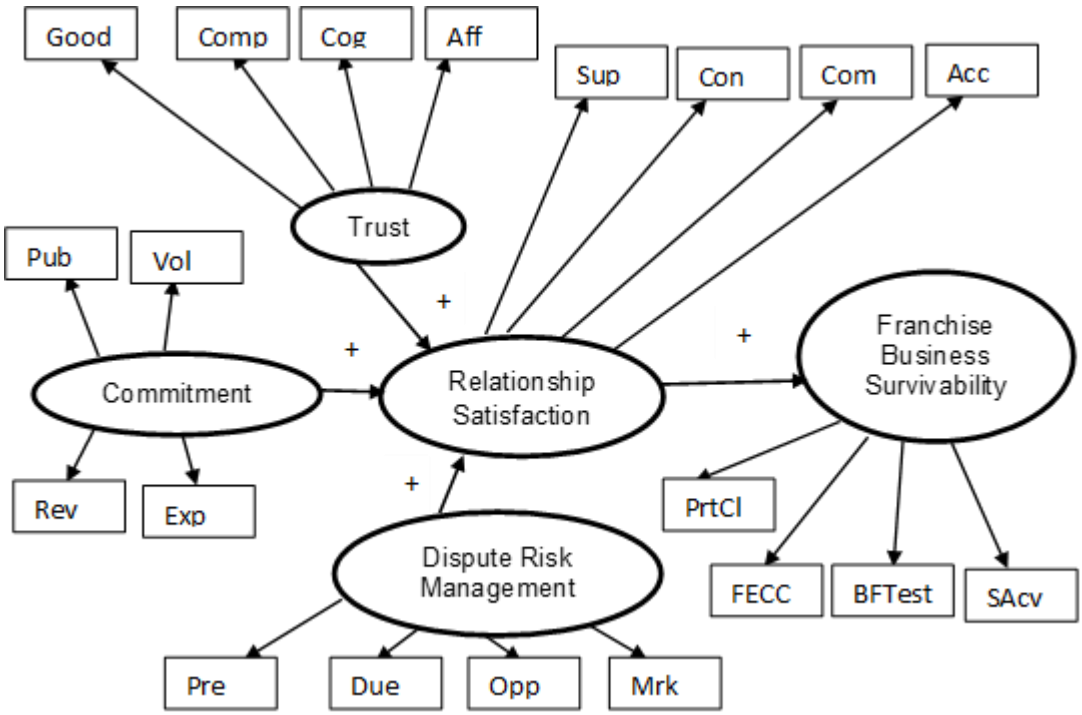
4.4. Model building

This research examines the factors affecting franchise relationships and franchise business survivability in the Indonesian restaurant and retail sectors.

This research attempts to examine the determinants of relationship satisfaction in franchise arrangements and its influence on franchise business survivability from both perspectives, which are those of the franchisor and the franchisee.

Based on theories and previous empirical studies, the researcher is able to develop a Franchise Business Survivability Structural Model, as presented in figure 4.2 below.

Figure 4.2 Franchise Business Survivability Structural Model



Source: the author

There are five latent variables or constructs in the franchise business survivability model, which are *'trust'*, *'commitment'*, *'dispute risk management'*, *'relationship satisfaction'* and *'franchise business survivability'.* As an endogenous variable, *relationship satisfaction'* is affected by the other three exogenous variables: *trust, commitment,* and *dispute risk management* (Mendelsohn, 1992; Morgan & Hunt, 1994; Barney & Clark, 2009; Rodriguez & Wilson, 2002; Johnston et al., 2004; Weaven et al., 2010; Wright & Grace, 2011; Altinay & Brookes, 2012; Altinay et al., 2013). These three exogenous variables are assumed to have a positive impact on *relationship satisfaction*. The latent variable *relationship satisfaction* acts as an endogenous variable as well as an exogenous variable. As the exogenous variable, the *relationship satisfaction* variable is assumed to have a positive influence on the latent variable *franchise business survivability* (Weaven et al., 2010; Wright & Grace, 2011).

All of the latent variables are measured by several indicators or manifest variables (Ferdinand, 2006; Byrne, 2010). There are four indicators for each

latent variable. The latent variable or construct *trust* has four indicators, which are: Comp (competence trust), Good (good-will trust), Cog (cognition-based trust) and Aff (affect-based trust) (Rodriguez and Wilson, 2002; Johnston et al., 2004). Construct *commitment* has four indicators, which are: Exp (explicitness), Rev (revocability), Vol (volition), and Pub (publicity) (Salancik & Pfefer, 1977 as cited in Rodriguez & Wilson, 2002, p. 59). Construct *dispute risk management* also has four indicators, which are: Pre (pre-investment screening, Due (due-diligence), Opp (opportunistic behavior) and Mrk (market demand) (Anderson & Weitz, 1992; Blut et al., 2011; Winsor et al., 2012; Grace et al., 2013). Construct *relationship satisfaction* has four indicators, which are: Acc (Access), Com (communication), Con (conflict) and Sup (support) (Mohr et al., 1996; Palmatier, 2006; Grace et al., 2013). And the last latent variable is *franchise business survivability.* This latent variable or construct has four indicators, which are: SAcv (strategic achievement), BFTest (business formula testing), FECC (franchise expectations and core competency fit or misfit) and PrtCL (partners' complaint and legal action) (Stanworth et al., 2001; Holmberg & Morgan, 2004; Davies et al., 2011; Winsor et al., 2012).

Based on the Franchise Business Survivability Structural Model shown in Figure 4.2 above, the structural and measurement equations of this study are:

Structural Equations:

$$1.\ RS = \beta_1 Tr + \beta_2 Comm + \beta_3 DRM + \delta_2$$
$$2.\ FBS = \gamma_1 RS + \delta_1$$

Where, RS : Relationship Satisfaction
Tr : Trust
Comm : Commitment
DRM : Dispute Risk Management
β : Regression weight
ɣ : Regression weight
δ : Disturbance

Measurement equations:

$$1.\ Comp = \lambda_1 Tr + \varepsilon_1$$
$$2.\ Good = \lambda_2 Tr + \varepsilon_2$$
$$3.\ Cog = \lambda_3 Tr + \varepsilon_3$$
$$4.\ Aff = \lambda_4 Tr + \varepsilon_4$$

Where, Comp : Competence trust

Good : Goodwill trust

Cog : Cognition-based trust

Aff : Affect-based trust

Tr : Trust

λ : Loading factor

ε : Error term

$$5.\ Acc = \lambda_5 RS + \varepsilon_5$$
$$6.\ Com = \lambda_6 RS + \varepsilon_6$$
$$7.\ Con = \lambda_7 RS + \varepsilon_7$$
$$8.\ Sup = \lambda_8 RS + \varepsilon_8$$

Where, Acc : Access

Com : Communication

Con : Conflict

Sup : Support

RC : Relationship Satisfaction

λ : Loading factor

ε : Error term

$$9.\ \Pr tCL = \lambda_9 FBS + \varepsilon_9$$
$$10.\ FECC = \lambda_{10} FBS + \varepsilon_{10}$$
$$11.\ BFTest = \lambda_{11} FBS + \varepsilon_{11}$$
$$12.\ SAcv = \lambda_{12} FBS + \varepsilon_{12}$$

Where, PrtCL : Partners' complaint and legal action

FECC : Franchise expectations and core competency fit or misfit

BFTest : Business formula testing

SAcv : Strategic Achievement

FBS : Franchise Business Survivability

λ : Loading factor

ε : Error term

13. $Mrk = \lambda_{13} DRM + \varepsilon_{13}$
14. $Opp = \lambda_{14} DRM + \varepsilon_{14}$
15. $Due = \lambda_{15} DRM + \varepsilon_{15}$
16. $\Pr e = \lambda_{16} DRM + \varepsilon_{16}$

Where, Mrk : Market demand

Opp : Opportunistic behaviour

Due : Due-diligence

Pre : Pre-investment screening

DRM : Dispute Risk Management

λ : Loading factor

ε : Error term

17. $Pub = \lambda_{17} Comm + \varepsilon_{17}$
18. $Vol = \lambda_{18} Comm + \varepsilon_{18}$
19. $\mathrm{Re}\, v = \lambda_{19} Comm + \varepsilon_{19}$
20. $Exp = \lambda_{20} Comm + \varepsilon_{20}$

Where, Pub : Publicity

Vol : Volition

Rev : Revocability

Exp : Explicitness

Comm : Commitment

λ : Loading factor

ε : Error term

4.5 Research variables and hypotheses development

This research has five determinants that can be identified as the variables. The variables of this research are *trust*, *commitment*, *dispute risk management, relationship satisfaction* and *franchise business survivability.* These variables are the latent variables or constructs, which can be measured by the manifest variables or indicators (Ferdinand, 2006; Byrne, 2010). Latent variables are variables that are not directly observed but are inferred (through a mathematical model) from other variables that are observed (manifest variables or indicators) (Ferdinand, 2006), while manifest variables or indicators are variables that can be directly measured or observed (Ferdinand, 2006).

The latent variables and the manifest variables are the basis for constructing a structural model (Ferdinand, 2006). This structural model will be tested for the causal relation among the latent variables and for model fitness. The manifest variables or indicators measure the latent variables or constructs (Ferdinand, 2006; Byrne, 2010). The manifest variables are the foundation for the questions put to the respondents in this study. The descriptions of the manifest variables or indicators for each latent variable guide the relationship between the latent variables and their indicators.

4.5.1 Variable *trust* and hypothesis

Trust is the first latent variable or construct in the model. As a quality within a relationship, trust acts as a solid base for a sound relationship in franchise arrangements. A sound relationship in a franchise arrangement needs trust to hold the objectives and goals in the alliance. Both parties should preserve the trust between them. There will be no alliance formation if trust in franchise business agreement does not exist from the very beginning until the process of leaving each other in an alliance. Trust can also decrease the level of doubt felt by each partner in a franchise arrangement (Morgan and Hunt, 1994; Altinay & Bookes, 2012). The relationship in a franchise arrangement can be in an unfavourable state if each partner has a minimum level of trust. This state affects the strategic position of the firm, and can make it un-competitive (Barney & Clark, 2009). Each partner needs to rely on

the other partner's words and action, so both partners can develop trust between them. Trust also acts as a contributor to mutual profitability in franchise relationships. Moreover, along with that, trust bonds the two parties in order to preserve a sound relationship. This sound relationship provides partners with firm stability and furthermore produces their satisfaction in the relationship (Davies et al., 2011).

Trust stimulates each partner in the franchise arrangements to perform properly. The franchisor and the franchisee are obliged to perform their obligations properly. By performing their obligations properly, each partner will be satisfied with their partner's performance (Davies et al., 2011). Another trust function is to maintain the mutual relationship advantages in the franchise arrangements (Davies et al., 2011). Franchise arrangements are quite vulnerable if the relationship between partners is not based on trust. The previous description is the reason that trust plays a strategic role in alliances. The exploitation of each partner is based on an adequate mutual confidence, because of that a sound relationship can be obtained and other vulnerabilities of alliances such as moral hazard and information hold-up can be minimised (Barney & Clark, 2009; Doherty & Alexander, 2006). Trust also can minimise the level of opportunistic behaviour of each partner. This kind of behaviour threatens the relationship and triggers conflict between partners (Weaven et al., 2010). The establishment of each partner's expectation confirmation and the relationship satisfaction decreases the level of conflict in their relationship (Frazer et al., 2012).

Relationship satisfaction is heavily dependent on the trust between partners in franchise arrangements. Previous theory and research (e.g Mendelsohn, 1992; Barney & Clark, 2009; Rodriguez & Wilson, 2002; Johnston et al., 2004; Weaven et al., 2010; Altinay & Brookes, 2012) all emphasised that trust affects relationship satisfaction. Objectives and goals such as the firm's competitive advantages and stability can be established by building a proper level of trust. Barney & Clark (2009) also state that trust plays a strategic role in alliance relationships such as franchising. Trust also acts as a valuable source of sustainable competitive advantage (Barney & Clark, 2009),

because relationships in strategic alliances such as franchising are constantly under threat of opportunistic behaviour (Barney & Clark, 2009; Weaven et al., 2010; Frazer et al., 2012).

Hence, it is expected that the level of *trust* between partners in franchise arrangements will provide a certain level of *relationship satisfaction* a priori. Based on this description of the variable, the first hypothesis is:

H_1: The greater the level of *trust* in franchise arrangement the greater the level of *relationship satisfaction* between franchise partners

4.5.2 Indicators for latent variable *trust*

Four manifest variables or indicators can be used to measure the latent variable *trust*. Based on previous studies (Rodriguez & Wilson, 2002; Johnston et al., 2004), the latent variable or construct of *trust* can be measured by four manifest variables, which are: 'goodwill trust', 'competence trust', 'cognition-based trust' and 'affect-based trust'.

The goodwill of each partner is a solid foundation in a productive relationship (Rodriguez & Wilson, 2002). Therefore, 'goodwill trust' is the first manifest variable or indicator for the latent variable *trust*. The level of confidence and expectations, which can be derived from the 'competence trust' acts as the second indicator for the variable *trust* (Johnston et al., 2004) .The third and fourth measurement indicators for the variable *trust,* are 'cognition-based trust' and 'affect-based trust. Cognition-based trust is about the peer reliability and dependability of partners (Rodriguez & Wilson, 2002). Affect-based trust measures the level of awareness of partners' behaviour; affect-based trust may build social responsibility in the franchise business arrangement and need-based monitoring mechanisms to predict interpersonal behaviour (Rodriguez & Wilson, 2002). Data on all the manifest variables described above were obtained through a set of questions in a questionnaire. The description of the data collection is provided in a later part of this chapter.

4.5.3 Variable *commitment* and hypothesis

Commitment is the second latent variable or construct in this study. This variable is one of the three variables (*trust, commitment*, and *dispute risk management*) that are assumed to have an influence on *relationship satisfaction*. Any form of doubts that occur between partners in franchise arrangements contribute on relationship degradation. Commitment in strategic alliances such as franchising can be defined as a need to maintain and preserve a solid and sound relationship among parties (Moorman et al., 1992; Altinay & Brookes, 2012).). A sound and solid relationship is a state where the partners in franchise agreements reach a satisfactory level of satisfaction with the relationship. This can be in a condition where each of the parties, who are the franchisor and the franchisee, perform their duties as written in the contract (Rodriguez & Wilson, 2002).

A franchise firm tends to operate in an un-definite period-of-time. Altinay and Brookes (2012) pointed out that that "An exchange partner believing" notion should exist in each partner in order to keep the relationship in a solid and productive state. This state can be obtained by commitment between partners in franchise arrangements. The franchisor and the franchisee often neglect this kind of notion, due to dishonesty, which can occur in the relationship (Weaven et al., 2010; Ishida & Brown, 2013). Dishonest kinds of action by the partners can generate an unfavourable effect in the relationship, because they disregard the need for reciprocal action between them. Hence, the notion of "an exchange partner believing" is pertinent in franchise partners' relationship. The notion can provide the willingness to preserve a sound relationship that is moving on the right path. In addition, the literature suggests that commitment in strategic alliances such as franchising has a potential to minimise the level of conflict in the relationship. Furthermore, Wright and Grace (2011) argue that commitment provides an antecedent to each party's broader acceptance to organisational structure and norms, which are crucial to franchise arrangements.

A business entity such as a franchise business cannot avoid business fluctuations. Such fluctuations can occur in the internal relationships of the

franchise firm, such as a dynamic struggle in the relationship between partners (Altinay & Brookes, 2012). This dynamic struggle within a franchise firm can be in a form of a clash of personalities or a dynamic atmosphere between the franchisor and the franchisee. Altinay and Brookes (2012) state that this can affect the relationship between them, and point out that commitment in franchise business arrangements plays a vital role in establishing the sound relationship, especially during the difficult times. Although in any form of strategic alliance all the details of each party's rights and obligations are established in the form of a formal contract (Boulay, 2010), commitment has the ability to reduce the probability of conflict between partners (Altinay & Bookes, 2012). Therefore, commitment contributes towards establishing a satisfactory relationship between partners and commitment has an influence on relationship satisfaction in a franchise business arrangement (Morgan & Hunt, 1994; Wright & Grace, 2011). As a result, it can be emphasised that commitment influences relationship satisfaction in a franchise business arrangement a priori. Hence, based on the previous variable description, the second hypothesis is:

H_2: The greater the level of *commitment* in franchise arrangements the greater

the level of *relationship satisfaction* between franchise partners.

4.5.4 Indicators for latent variable *commitment*

Manifest variables or indicators can be measured to proxy the construct *commitment.* The indicators for commitment in previous studies have included 'explicitness', 'revocability', 'volition' and 'publicity' (Salancik & Pfefer,1977 as cited in Rodriguez and Wilson, 2002, p. 59). Explicitness is a proof of action that has been performed by each partner. The second indicator is the revocability of the action. Revocability of an action means that if a certain kind of behaviour cannot be undone, then commitment is considered to be present or has occurred (Salancik & Pfefer, 1977 as cited in Rodriguez & Wilson, 2002, p. 59). The third indicator for measuring commitment is volition. Volition can be seen as a situation in which the

franchisor and the franchisee have to accept responsibility for their behaviours and actions, as the result of that; commitment is present or has occurred (Haunschild & Rhee, 2004). The fourth indicator is publicity: in a social-implication context, publicity is important in order to build convincing communications between partners, as Rodriguez and Wilson (2002) state that the franchisor and the franchisee should acknowledge every action which has been performed by the other partner.

4.5.5 Variable *dispute risk management* and hypothesis

The third latent variable used in the model is *dispute risk management.* Introducing the variable of *dispute risk management* is the author's contribution towards knowledge in this field. Risk is one thing that has a definite existence in a business operation. Strategic alliances such as franchise businesses bear a burden of high-level risks due to their nature as a business with several partners in command (Das & Teng, 1999). Moreover, risk can manifest itself in various forms, depending on the business sector and the formation of the business itself.

There are two main stages in the formation of a franchise alliance, which are the *ex-ante* and the *ex-post* stages. The *ex-ante* stage is prior to the signing of a franchise business legal contract; and *ex-post* is after the franchise business legal contract has been signed (Weaven et al., 2010). Risk usually appears both before and after the partners sign their contract or agreement. Parties in the strategic alliance play a vital role in bringing risk to the attention of the other party in the franchise business relationship (Das & Teng, 1999). Due to this condition, partner selection is considered as one of the deciders of risk in an alliance. Partners in franchising, who are the franchisor and the franchisee, have to be aware that the behaviour of their partners is not in a static position, in other words they always in a dynamic condition (Altinay et al., 2013). These dynamic behaviours of each partner affect the relationship between the franchisor and the franchisee. Furthermore, one of the main risks which can potential occur is conflict between partners (Elmuti & Kathawala, 2001), because risk is regarded as an antecedent that triggers conflict in a franchise business relationship.

The conflict between the franchisor and the franchisee arises when there is a lack of understanding (Das & Teng, 1999). This misunderstanding can be in the form of opportunistic behaviour; this behaviour reflects that there is no competitive or supportive notion between the partners (Frazer et al., 2012). Dispute management can be seen as an alternative solution to minimise the level of conflict in franchise business arrangements and improve relationship satisfaction (Elmuti & Kathawala, 2001; Weaven et al., 2010). Dispute or conflict between partners can be harmful to the relationship. The parties who bind themselves in a legal contract should take risk into deep consideration before they sign the contract. The consequences of ignoring risk can be very damaging. If dispute between partners appears, the relationship will become worse and the business itself may be in a vulnerable position. Dispute risk management can be an integrative tool to comprehend the risk of conflict. When the level of conflict is minimised, the partners in a franchise arrangement can gain a solid and satisfactory relationship (Ishida & Brown, 2013).

The need to minimise the probability of conflict (Weaven et al., 2010) in franchise arrangements can be seen within the issue of dispute risk management. A minimum level of conflict will intensify the cooperation between partners and establish relationship satisfaction (Wright & Grace, 2011). Even if there is a legal contract that binds the parties in franchise business arrangements to minimise their opportunistic behaviour, dispute risk management can help to minimise the level of conflict in the relationship. It is quite challenging to manage people, because the behaviour of each party in franchising is unpredictable (Mendelsohn, 1992).

Based on the above discussion, in this study *dispute risk management* can be considered to have an influence on *relationship satisfaction* a priori. Therefore, the *dispute risk management* variable is introduced in the model to examine whether it has an influence on the creation of a sound relationship between the two partners in a franchise business arrangement. Hence, it is expected that the level of dispute risk management between

partners in franchise arrangements will provide a certain level of relationship satisfaction a priori. Based on that, the third hypothesis is:

H_3 : The greater the level of *dispute risk management* in franchise arrangement the greater the level of *relationship satisfaction* between the partners.

4.5.6 Indicators for latent variables *dispute risk management*

As mentioned previously, this variable is an unobserved variable. However, several indicators or the manifest variables can be used to measure the construct *dispute risk management.* Following Anderson and Weitz (1992); Blut et al. (2011); Winsor et al.(2012); and Grace et al. (2013) the indicators for the construct *dispute risk management* include 'pre-investment screening', 'due-diligence', 'opportunistic behaviour' and 'market demand'. These indicators are tested by constructing questions for the respondents via a questionnaire.

The first indicator is the 'pre-investment screening'; although franchisees possess non-experiential expectations regarding the future performance of their franchise outlet unit and system, they can measure these against ongoing assessments of how effectively their franchisor delivers upon promises or of the franchising business arrangement (Grace et al., 2013). Both parties in the franchise business arrangement should undertake pre-investment screening before signing a contract. The franchisees' and franchisors' record in previous business should be a valuable indicator for them to consider whether they are going to bind themselves together or not (Grace et al., 2013).

'Due-diligence' acts as the second indicator for the construct *dispute risk management*. 'Due-diligence' is an indicator of the willingness to perform proper investigation on their future partners prior to the contract or agreement signing (Blut et al., 2011). The franchisors and the franchisees need to conduct proper due diligence on their future partners to ensure that they meet their expectations (Blut et al., 2011). 'Due-diligence' also provides

both partners about technical aspect in conducting a certain type of franchise businesses. If each party has conducted its due-diligence, each partner can form a more cooperative relationship. As a result, future partners are highly recommended to perform due-diligence actions before signing a contract.

The third indicator to measure the construct *dispute risk management* is 'opportunistic behaviour'. Opportunistic behaviors by both partners in the franchise business arrangements can cause perceptions of unfairness (Winsor et al., 2012). Furthermore, when a resolution process fails to resolve a dispute between franchisors and franchisees it can lead to conflict and as a result deteriorate the relationship between partners (Winsor et al., 2012). It is necessary for both partners to be aware of opportunistic behaviours that occur in their franchise business relationships.

The fourth indicator for the construct *dispute risk management* is 'market demand'. This indicator leads to the firm's targets. The franchisor and the franchisee as partners in a franchise business arrangement have targets to reach; for example, a condition of when the firm is going to reach its break-even point and attain the firm's main objective, to reach a profit. Both partners should establish a proper marketing coordination to ensure that the business is moving in a right direction (Anderson & Weitz, 1992).

4.5.7 Variable *relationship satisfaction* and hypothesis

The fourth latent variable in the model is *relationship satisfaction*. This variable acts as both an endogenous and also exogenous variable in this research. In other words, this variable has both functions as a dependent and an independent variable (Ferdinand, 2006). As an endogenous variable, *relationship satisfaction* is influenced by the three other latent variables, which are: *trust, commitment* and *dispute risk management*. *Relationship satisfaction* is a condition where both partners in the franchise arrangement can settle their tension and reconcile their relationship to achieve a more cooperative and productive relationship (Clarke-Hill et al., 2003; Davies et al., 2011; Altinay et al., 2013). *Relationship satisfaction* in a franchise business plays a vital role in maintaining a sound relationship between

franchisor and franchisee. Hence, this study adopts *relationship satisfaction* as one of the constructs of the model. As an exogenous variable, *relationship satisfaction* is assumed to have an influence on *franchise business survivability*.

Maintaining a relationship in a franchise business arrangement decreases the fragility of the business itself. As the possibility of conflict always is in existence, the relationship between partners should be treated in a way to minimise the level of misunderstanding (Mendelsohn, 1992). The absence of a mutual understanding between the franchisor and the franchisee can result in an unfavourable relationship condition. Furthermore, it can have a negative effect on the business itself, even leading to the failure of the collaboration (Clarkin & Swavely, 2006; Altinay & Brookes, 2012).

There is flexibility in the relationship between partners compared to the rigidity of the franchise contract (Boulay, 2010; Altinay & Brookes, 2012). Relationship satisfaction provides more flexibility in order to give room for both parties to communicate in a directional and positive way (Altinay & Brookes, 2012). However, a legal contract in a franchise business arrangement forms a rigid basis for the partners' relationship to ensure both partners' rights and obligations are fulfilled as stated in the franchise business contract (Boulay, 2010). A satisfactory relationship between partners can be facilitated by several factors, such as proper resource access (knowledge, materials, methods, capital, etc.) between the franchisor and the franchisee, sound communication, level of conflict between partners, and the support from each partner (Das & Teng, 1999; Clarke-Hill et al., 2003; Altinay & Brooke, 2012; Grace et al., 2013). All of these factors influence the relationship between partners in a positive and cooperative way. As a good relationship provides positive impacts on the franchise firm, the firm will gain in competitive advantage and the probability of failure decreases (Elmuti & Kathawala, 2001). As a result, it can be emphasised that relationship satisfaction influences franchise business survivability in a franchise business arrangement a priori.

Therefore, the fourth hypothesis is:

H_4: The greater the level of *relationship satisfaction* between partners in franchise arrangements the greater the level of *franchise business survivability*.

4.5.8 Indicators for latent variable *relationship satisfaction*

Accessing resources between partners provides each partner with the notion of satisfaction. Due to a favourable resource access between them, each partner gains a mutual cooperation to manage the firm properly (Clarke-Hill et al., 2003). Conflicts that may occur between partners in the franchise relationship can obviously trigger tension between them. This tension provides an unfavourable condition in the relationship, and can be caused by their behaviours. These behaviours can be in forms such as a desire to manage the business dominantly, or a tendency to reduce the level of support to their partners (Davies et al., 2013).

Resource access, communication, and the level of conflict and support determine how *relationship satisfaction* can be established in a franchise business arrangement.

As an unobserved variable, several manifest variables or indicators can be used to measure the construct *relationship satisfaction.* The first manifest variable to proxy *relationship satisfaction* is the extent of 'resource access' that can be performed by each partner in a franchise arrangement. The level of resource access provide by both partners ensures each party in the franchise arrangement with a sufficient level of satisfaction in their relationships (Palmatier, 2006).

The second manifest variable to measure *relationship satisfaction* is 'communication openness' between partners in franchise business arrangements (Grace et al., 2013). Communication holds a vital position in establishing a sound relationship, which is needed to ensure the stability of the firm in a way that has a positive effect on the organisation as a whole

(Bordonaba-Juste et al., 2011). Communication openness is the degree to which both parties perceive that the communication between them is accurate, up to date, in context, complete and accurate (Grace et al., 2013). The communication openness between partners provides a condition that each party will ensure transparency between them. This condition will satisfy both because they are receiving complete and accurate business information from each other.

The third manifest variable is the indicator 'perceived conflict'. This variable is based on the degree of conflict perceived by each partner in a franchise relationship (Grace et al., 2013). Conflict in the relationship is likely to exist when two parties are bound in an alliance, which requires a lot of mutual cooperation. Despite that, the relationship in franchise business collaboration faces dynamic situations. Therefore, 'perceived conflict' between partners contributes to *relationship satisfaction* in franchise business arrangements (Grace et al., 2013).

The final indicator for the *relationship satisfaction* is 'support'. This variable is based on the perceived support provided by each party in the franchise arrangement (Grace et al., 2013). The franchisor supports the franchisee with specific assets needed to conduct the business (Winsor et al., 2012). On the other hand, the franchisee also needs to provide supportive action to the franchisor. The supportive action by the franchisee includes acts such as conducting the business in a way which meets the franchisor's requirements (Davies et al., 2011). The support by the parties drives the relationship to become a mutual goal and this leads to relationship satisfaction (Palmatier, 2006).

To summarise the discussion above, the manifest variables for *relationship satisfaction* are 'resource access', 'communication openness', 'perceived conflict' and 'support'.

4.5.9 Variable *franchise business survivability*

The last latent variable in the model is *franchise business survivability*. This variable is the endogenous variable or the dependent variable (Byrne, 2010).

Franchise business survivability can be linked with the partner relationship (Davies et al., 2011; Bordonaba-Juste et al., 2011). As described in the previous latent variable *relationships satisfaction* hypothesis development, the latent variable *franchise business survivability* is assumed to be influenced by the latent variable *relationship satisfaction*.

4.5.10 Indicators for latent variable *franchise business survivability*

This latent variable embraces several concepts from previous research by Stanworth et al. (2001) and Holmberg and Morgan (2004), which focused on franchise business failure. There are eight factors that the franchisor and the franchisee can be aware of in determining *franchise business survivability,* these eight observed factors of failure can be guidance in configuring business survivability. These eight-failure factors are: 'franchisee core competency fit/misfit'; 'franchisee-franchisor dissatisfaction'; 'franchisee discontent'; 'royalty delinquency'; 'franchisee-franchisor complaints to Federal Trade Commission (FTC) and or conducting legal actions'; 'turnover/termination'; 'defaults or other losses to creditors'; and 'closure'.

This research applies two factors of franchising failure factors derived from Holmberg and Morgan's eight franchise failure factors (2004) as the first two indicators for the latent variable *franchise business survivability*. These two factors are: 'franchisee core competency fit/misfit' and 'franchisee-franchisor complaints and legal actions'.

The reason why the researcher applies these two factors is that they are relevant to the conditions and facts that face both partners in Indonesian franchise business agreements (Sudarmatin, 2011; AFI, 2013). The core competencies fir/misfit not only has to be achieved by the franchisee (Holmberg & Morgan, 2004), in addition the franchisor also has to possess this competency in order to be able to improve *franchise business survivability* (Sudarmiatin, 2011; AFI, 2013). Furthermore, the 'core competencies fit/misfit' needs to be in existence before and after signing a franchise contract to ensure good performance of the franchise businesses (Davies et al., 2011; Winsor et al., 2012).

The research perspective is examined from both the franchisor and the franchisee's side, the core competency of partners is viewed from both perspectives, which are those of the franchisor and the franchisee. The reason why this indicator is so pertinent is that both partners' competencies and their fitness with the franchise businesses' sectors are important in determining the businesses' survivability before and after signing the contract (Weaven et al., 2010, AFI, 2013).

Based on the discussion above, the first indicator for latent variable *franchise business survivability* is 'franchise expectations core competency fit or misfit'.

The second indicator is 'partners' complaint and legal action'. Both parties need to be aware that complaints and legal actions conducted by their partners may occur in the course of franchise business activity (Boulay, 2010; AFI, 2013). The indicator 'partners' complaints and legal action' can be an indication of each partner's willingness to comply with the legal franchising contract, which in turn influences *franchise business survivability* (Holmberg & Morgan, 2004). This indicator will show the level of legal awareness of each partner, which is pertinent in measuring the latent variable *franchise business survivability* (Holmberg & Morgan, 2004).

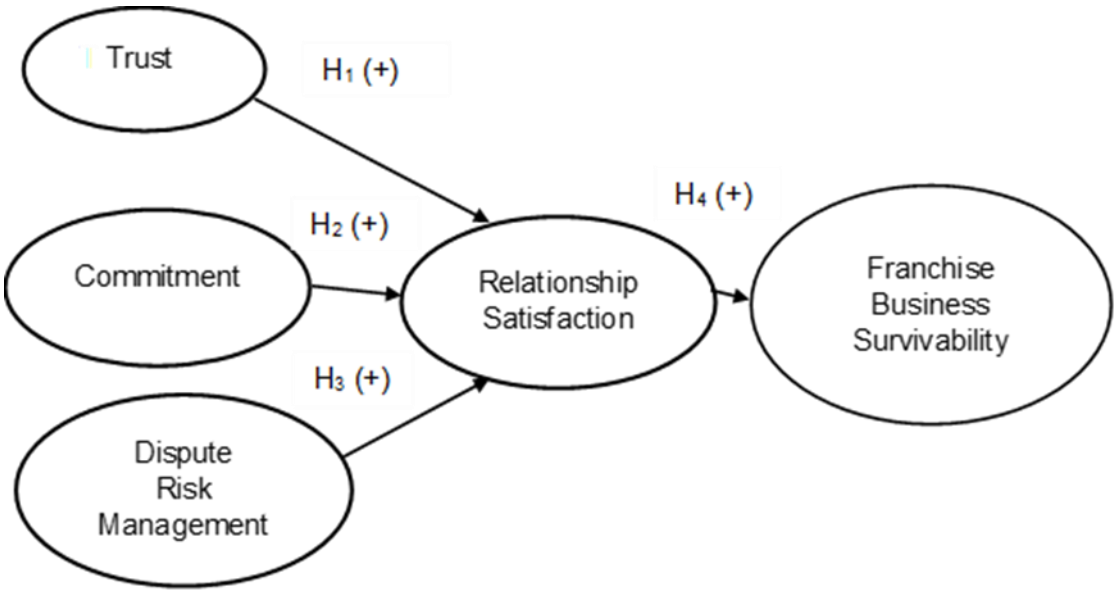
The construct *franchise business survivability* can also be measured with the variable 'strategic achievement' of franchise business firms. Strategic achievements such as such as market sales, geographical coverage, target market occupation etc. indicate whether the franchise business can survive in the market or fail to comply with market demand (Stanworth et al., 2001). The awareness level of strategic achievement is essential in determining *franchise business survivability.* As the result, 'strategic achievement' can act as the third indicator to proxy the latent variable *franchise business survivability*.

The fourth indicator for this latent variable is 'business formula testing'. Stanworth et al. (2001) stressed that in order to be able to survive competition, a franchise business has to be able to maintain a proper business formula testing. When business formula elements in a franchise

business arrangement such as sales, marketing, product or service delivery, price determining, and staff strategy are able to fulfil the market's demand, a franchise firm can survive competition in the market (Stanworth et al., 2001). Conducting business formula testing is essential in determining *franchise business survivability*. As a result, the indicator 'business formula testing' can be used as a proxy latent variable to *franchise business survivability.*

To summarise the previous discussions above, as a latent variable, *franchise business survivability* is measured by four indicators, which are: 'franchise expectations and core competency fit or misfit', 'partners' complaints and legal actions', 'strategic achievement', and 'business formula testing' (Stanworth,et al., 2001; Holmberg & Morgan, 2004; Davies et al., 2011; Winsor et al., 2012).

Figure 4.3 Research Hypotheses Diagram



Source: The author

Figure 4.3 above illustrates the relationships of the research's determinants and their hypotheses.

4.6 Research Population

A research population defines the elements, units, area or coverage and time (Moutinho et al., 1998) that a piece of research covers. In the case of this

study, population also refers to the entire group of franchising practitioners whom this study requires to provide its information (McDaniel & Gate, 2006). The target population (Morris, 2000) of this study is the owners or managers of local and foreign franchising firms in the restaurant and retail sectors in Indonesia, which are listed in the Indonesian Franchise Association Directory, 2013.

According to the 2013 Indonesian Franchising Association Directory (Asosiasi Franchise Indonesia - AFI) there were 128 local restaurant business and 16 local retail businesses (AFI, 2013) in this sectors. In addition, there were 56 foreign restaurant businesses and 4 foreign retail businesses (AFI, 2013). Altogether, there are 184 franchise restaurant businesses and 20 franchise retail businesses. Based on this number, the researcher will collect data from each side of the franchise arrangement, who are the franchisors and the franchisees. The number of the population is the owners and the managers of the franchise firms in the restaurant and retail sectors. There are potentially two respondents from each firm, so the total sum of the population is 204 x 2 = 408 individuals.

4.7 Sample and Sampling Method

Business research has several constraints, such as cost and time (Curwin and Slater, 2002). In order to overcome these constraints, this research applies a sample design to select the sample, which represents the population (Curwin & Slater, 2008; Westland, 2010). Sampling method refers to a process of acquiring information from a subset of a larger group (McDaniel & Gates, 2006). The main objective of conducting a sampling method is to reduce the estimation time of the larger group or population and to be more economical (McDaniel & Gates, 2006).

There are several sampling methods in quantitative research. They are two main types of sampling method, which are probability sampling and non-probability sampling (Curwin & Slater, 2008). In probability sampling the main procedure is that every individual is given a known chance of inclusion in the selection of the individuals that provide data (Curwin & Slater, 2008). In other

words, each person has the same chance in participating in the survey or as an interviewee. Under non-probability sampling the calculable chance of inclusion cannot be fixed, and an element of judgement is involved in this sampling method (Curwin & Slater, 2008). Non-probability sampling also embraces a notion that specific elements from the larger group are selected in a non-random manner (McDaniel & Gates, 2006). There are several types of non-probability sampling, such as convenience sample, judgement sample and quota sample (Moutinho et al., 1998). Convenience samples are usually used for convenience reasons when a large sample is required. It can be an efficient and effective means of acquiring a large set of information but it is prone to bias (McDaniel & Gates, 2006; Curwin & Slater, 2008). Another type of non-probability sampling is snowball sampling; this type of non-probability sampling starts from an initial starting point, who is then used to identify other possible respondents. For example, if a research would like to interview jobless people, then the researcher has to find the right contacts and an initial unemployed person to start data collection (Curwin & Slater, 2008).

The alternative type of non-probability sampling is judgemental sampling. This type of sampling is suitable for this research, due to its nature in selecting respondents based on specific criteria (Curwin & Slater, 2008). This research therefore applies a non-probability sampling method. This research also applies judgement and purposive sampling methods. Purposive sampling methods are also suitable when the sample size is considerably small and the researcher wants to obtain local knowledge (Curwin & Slater, 2008). In this sampling method, which is purposive sampling, the researcher decides the individual criteria for choosing who is included in the survey. These selected individuals are assumed to have knowledge, strong opinions and experiences (Wisniewski & Stead, 1996). In constructing these criteria, the researcher comes to a consideration that the criteria are scientifically set and represent the larger group (McDaniel & Gates, 2006).

The researcher has set up the following criteria for the target sample as follows:

1) Owners or managers of foreign and local franchise firms in the restaurant and retail sectors (franchisors and franchisees), in Indonesia.
2) Individuals or firms with at least one year's experience of owning or managing a franchise firm in Indonesia.
3) Foreign or local franchise firms that have a legal franchise license.

This research applies SEM in data analysis. Due to the application of SEM in this research, the sample size can also be determined by a specific formula (Boomsma,1982 as cited in Westland, 2010, p. 478) using formula r = p/k; where p is the amount of indicators and k is the amount of latent variables, therefore r is the ratio of indicators to latent variables.

Boomsma (1982 as cited in Westland, 2010, p. 478) also suggested a formula for the minimum sample size requirement in SEM research as follows:

$$n \geq 50r^2 - 450r + 1100$$

where r is the ratio of indicators to latent variables.

This study uses 20 indicators and five latent variables, so based on the previous formula for the suggested minimum sample size it can be determined that the minimum requirements for sample size for this study is :

$$n \geq 50\left(\frac{p}{k}\right)^2 - 450\left(\frac{p}{k}\right) + 1100$$

$$n \geq 50\left(\frac{20}{5}\right)^2 - 450\left(\frac{20}{5}\right) + 1150$$

$$n \geq 50.16 - 450.4 + 1150$$

$$n \geq 100$$

The sample size of this study needs to be at least 100: the study's proposed model has 20 indicators and five latent variables, so based on the formula for the suggested sample size (Boomsma,1982 cited in Westland, 2010, p. 478) it can be determined that the minimum requirement for sample size for this study is : 100.

4.8 Data Collection and Questionnaire

The sample for the primary data collection of this study is based on secondary data provided by the Indonesian Franchise Business Association (AFI). AFI publishes a directory of franchise businesses in Indonesia in all sectors, including restaurants and retail businesses. The list of the franchise businesses provided by AFI in 2013 perhaps has inherit limitations, such as it only concentrates on certain geographical area, which is Java, where such businesses mainly operate. Nonetheless, the AFI's data on franchise businesses provided this study with valuable information of where to contact and trace the business details such as addresses, telephone numbers, etc.

There are two main methods for data collection, which are postal survey and the interview survey (Bancroft & O'Sullivan, 2000), and recently there have been two addition data collection methods developed, which are telephone and online or internet survey (Oakshoot, 2012). Each of these methods of data collection has its own advantages and drawbacks. For instance, using a postal survey may lower the cost of the data collection, but the response rate may be low and it is also time consuming (Oakshott, 2012). The response rate of 20% in postal survey is considered a good result (Bancroft & O'Sullivan, 2000). The advantages and drawbacks of various other data collection methods are listed in table 4.1 below.

Table.4.1 Methods of data collection

	Postal questionnaire	**Telephone interviewing**	**Face-to-face interviewing**	**Online**
Cost	Low	Moderate	High	Low
Response rate	Low	Moderate	High	Moderate
Speed	Slow	Fast	Fast, however, travelling time should be considered	Fast

Quantity of information collected	Limited	Moderate	High	Limited
Quality of information collected	Depends on how well the questionnaire has been designed	Good	High	Depends on how well the question naire has been designed

Source: adopted from Oakshott (2012, p. 37).

This study uses primary data as the source for the analysis, which is data that is specifically collected for the purpose of a piece of research (Bancroft & O'Sullivan, 2000). Beside the primary data, this study also uses secondary data. The secondary data comprises a set of data that already exists in a form such as data compilation and generally are collected for other purposes (McGivern, 2006; Curwin & Slate, 2008). This source of secondary data can be a basis for collecting the primary data, giving an indication of the type of data that need to be collected (Oakshott, 2012). In this study the secondary data is from the Indonesia Franchise Directory and/or The Indonesia Ministry of Industry and Trade. The data from both sources provides the latest information of the names and addresses of franchise businesses in the restaurant and retail sectors in Indonesia, thus it is also used as a sampling guide for obtaining the primary data.

This study conducts the primary data collection by using a questionnaire. Questionnaires are a list of carefully structured questions, selected after considerable testing, with a perspective of stimulating reliable responses derived from the sample (Collis & Hussey, 2003). Brace (2004) added that questionnaire is a structured set of questions in which every respondent is asked for answers using the same series of questions. A structured questionnaire is very common in quantitative research, and it can be used as a researcher administered process or by sending the questionnaire to respondents remotely (for example, by post or email). If researcher

administered the questionnaire can be left with the interviewee or respondent to finish and complete by themselves (Burns & Bush, 2008), it also can be posted to the respondents, and the questionnaire can be accessed by the respondents via internet media, which is quite popular these days (Cameroon & Price, 2009).

In collecting the primary data, the researcher conducted a mixed-mode survey. This survey method applies multiple primary data collection methods. The multiple primary data collection consisted of two survey methods, which were the self-administered survey and the researcher-administered survey method (Burns & Bush, 2008). This use of mix-mode method was employed to ensure an adequate response rate for the primary data collection (Curwin & Slater, 2008; Oakshott, 2012). In addition, the main purpose of conducting the mixed-mode methods of data collection was to cope with the time and cost constraints of this research.

In conducting the self-administered survey, the researcher applied a mail survey and a drop-off survey (Burns & Bush, 2008). The researcher conducted the mail survey in order to provide early notice for the respondents and to have broader geographical coverage. In some cases, the mail or postal survey is considered the optimum way in collecting data from the field, particularly to cover a large area (Frazer, 2001; Oakshott, 2012). The drop-off survey is the other form of self-administered survey method. In this type of method, the researcher leaves the questionnaire with the respondent. The researcher can return later to pick up the filled out questionnaire (Burns & Bush, 2008).

The second type of the primary data collection method was the researcher-administered survey. This type of survey method consists of two methods, which are face-to-face and over the telephone collection of data via the questionnaire (Burns & Bush, 2008). The interviewer-administered survey or the researcher-administered allows the researcher to have face-to-face interaction with the respondents. Furthermore, the interviewer also can gather some feedback from the respondents. Although it was quite time

consuming and costly, the researcher conducted this method to ensure a good response rate for the primary data collection (Oakshott, 2012). Therefore, in addition to the researcher-administered face-to-face survey method, the researcher also conducted a telephone survey.

In order to design and develop the questionnaire properly, there were pertinent aspects that should be considered in order to increase the response rate, which were:

a. Questionnaire Structure

   The first pertinent aspect is the structure of the questionnaire (Dillman, 1991). The questionnaire of this research consisted of four pages. The first page of a questionnaire often tends to be the title of the research. On this page, besides the title of the research, there are also the identification of the researcher, and the institution where the researcher studied (Brace, 2004). The researcher provided an illustration in this page that was in a form of graphic design; this idea was derived from the Total Design Method by Dillman (1991). The purpose of this illustration was to attract the respondents' willingness to answer the questions properly. The second page of the questionnaire was the introduction section. This section explained and described the research's objectives and the role of the respondents in this research (Collis & Hussey, 2003; Millar & Dillman, 2011). This section also provided more awareness to the respondents. By improving the level of the respondents' awareness, the response rate also increases (Brace, 2004). In the second page of the questionnaire, the researcher also provided assurances as to the ethical consideration of the respondents to ensure that the respondents' information would be kept confidential. The list of questions was in the third and fourth page of the questionnaire. The questionnaire consisted of 20 statements that represented the research's indicators and five demographical and classification questions.

b. Type of question

The second pertinent aspect of designing the questionnaire is the type of questions. Since the researcher and the respondents had never met before, in order to have a proper media of communication, this research applied a structured questionnaire to communicate with the respondents. The questionnaire needed to have a logical structure and well-thought out questions. This was to ensure there were no jumps between questions to questions and topics to topics (Curwin & Slater, 2008). A questionnaire with closed questions is the most appropriate for performing quantitative analysis. Closed question enhance the comparability of answers, making it easier to show the relationship between variables and make comparisons between respondents or types of respondents (Bryman & Bell, 2008).

There were two types of question in the questionnaire, which were the open questions and the closed questions. An open question is a type of question in which the range of possible answer is not suggested in the question and for which respondents are expected to answer in their own words (Collis & Hussey, 2003). This type of question seeks for the respondents to be spontaneous. On the contrary, the closed question questionnaire or forced choice questionnaire has a list of questions and a limited range of responses from which to choose (Cameroon & Price, 2009). This is because there is a predictable range of responses and generally, the respondents are asked to choose a set of answers that are already provided (Brace, 2004). In this research the researcher used the five point Likert scale in the questionnaire to capture the respondents' answers.

In relation to this research, the researcher attempted to examine a certain kind behaviour pattern, which was reflected by a group of people. Therefore, a closed question questionnaire was more appropriate in collecting the data. Furthermore, in relation to the analysis method that was applied, which was structural equation modelling, closed question with a scoring scale using a Likert scale is considered appropriate for this method. Closed questions enhance the

comparability of answers, making it easier to show the relationship between variables and make comparisons between respondents or types of respondents (Bryman & Bell, 2008). Also, by using closed questions, a researcher can find it less time consuming to process the answers. It is easy to process answers. For example, the respondent in a self-completion questionnaire or the researcher using a structured questionnaire schedule will place a tick or circle an answer for the appropriate response (Bryman & Bell, 2008; Cameroon & Price, 2009). The questions or statements in the questionnaire should avoid some ambiguous words such as 'all', 'always', 'any', 'anybody', 'best', 'ever', 'every', 'most', 'never', and 'worst' (Burns & Bush, 2008). These ambiguous words tend to place the respondents in a situation where they are more likely to fully disagree and agree with the questions listed in the questionnaire (Burns & Bush, 2008).

In this research, the closed questions were provided in the form of behavioural statements that needed to be answered by the respondents. The questionnaire in this research also had to comply with measurement rules. The indicator had to be semantically logical; that is the logical meaning of a phrase or concept; and there was no causal relationship between indicator and its latent variable (Ferdinand, 2006; Tuleja et al., 2011). It is suggested that all of the indicators must have some certain "key words" in order to be able to be quantified in number s: such as " intensity" , "intention", "willingness" , " effort to do a certain kind of task", "the continuity of effort", "the level frequency of a certain kind of action", "how quick of : responses, actions, etc." (Ferdinand, 2006). In quantitative research questionnaire development, there are two rules that have to be applied in constructing indicators, which are:

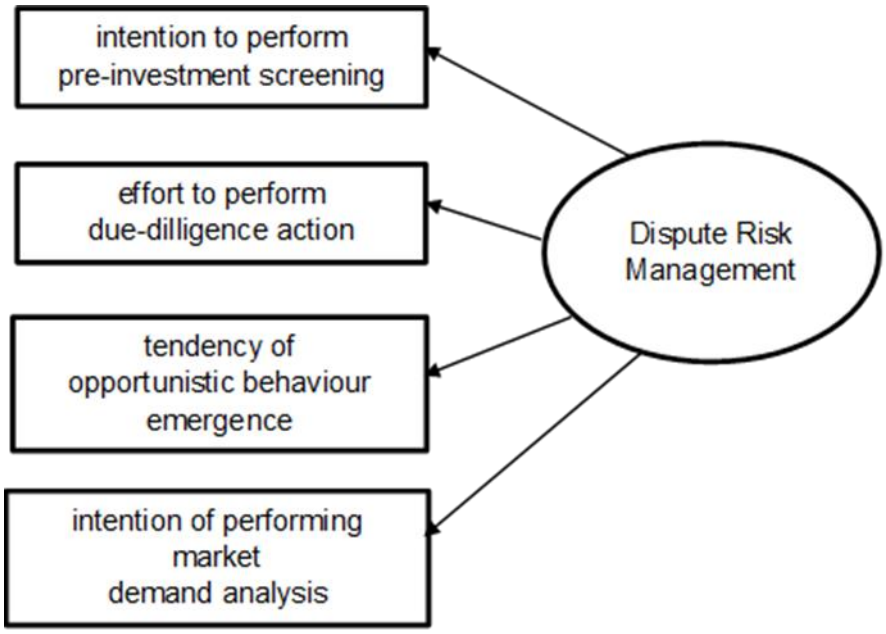
1. The indicator has to be an indication, sign or definition of its latent variable (Ferdinand, 2006). For instance, the sentence as follows: "people who eager to find information about their future partners indicates that they possess high willingness in performing dispute

risk management", while an unsuitable sentence would be: "A proper pre-investment screening is a sign that there are willingness in performing dispute risk management".

2. The indicator has no causal relationship with its latent variable (Ferdinand, 2006). For instance, the sentence as follows is suitable: "people who have great awareness of their partners' opportunistic behaviours occurrence, indicates that they have high willingness to perform dispute risk management", while an unsuitable sentence in developing an indicator is: "As the level of opportunistic behaviour grows, the higher the level of willingness to perform dispute risk management"

Taking into consideration the indicator statement development rules above, figure 4.4 below illustrates how the indicators were used to measure the construct *dispute risk management.*

Figure 4.4 Dispute risk management and its indicators



Source: the author

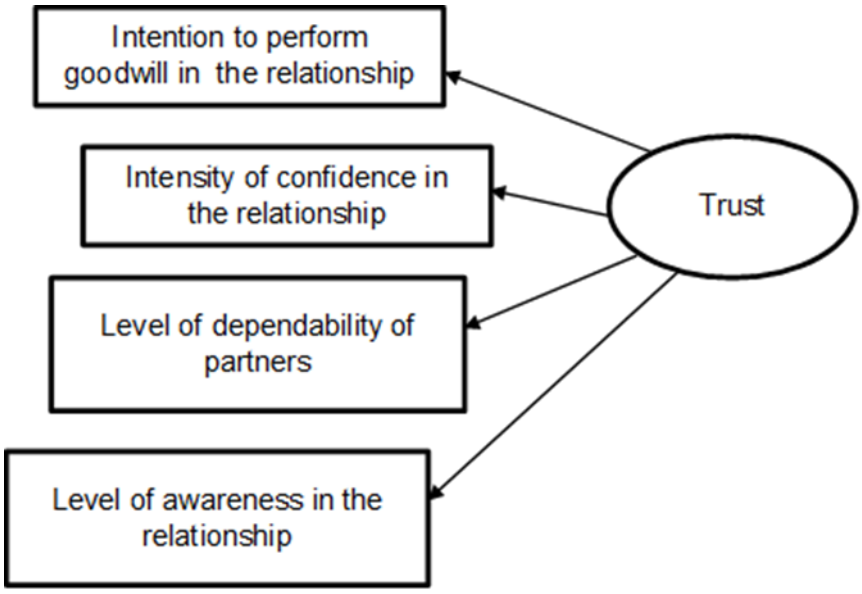
Based on the discussion above, the statements of indicators for the latent variable *dispute risk management* are:

1. My partner's previous business and personal records are important before conducting a business relationship (Grace et al., 2013).
2. Before signing a franchise agreement, I have to explore the franchise business or my future partners' details (via business colleagues, business associations and or web) (Blut et al., 2011).
3. Opportunistic behaviours emerge in franchise business occasionally (behaviours which do not comply with the franchise agreement) (Winsor et al., 2012).
4. Before signing the franchise agreement, there is no need to conduct a market survey (Anderson & Weitz, 1992).

The other statements in the questionnaire used as indicators to measure the latent variables or constructs are provided throughout the figures as follow.

Figure 4.5 below illustrates how the indicators were used to measure the construct *Trust*.

Figure 4.5 *Trust* and its indicators



Source: the author

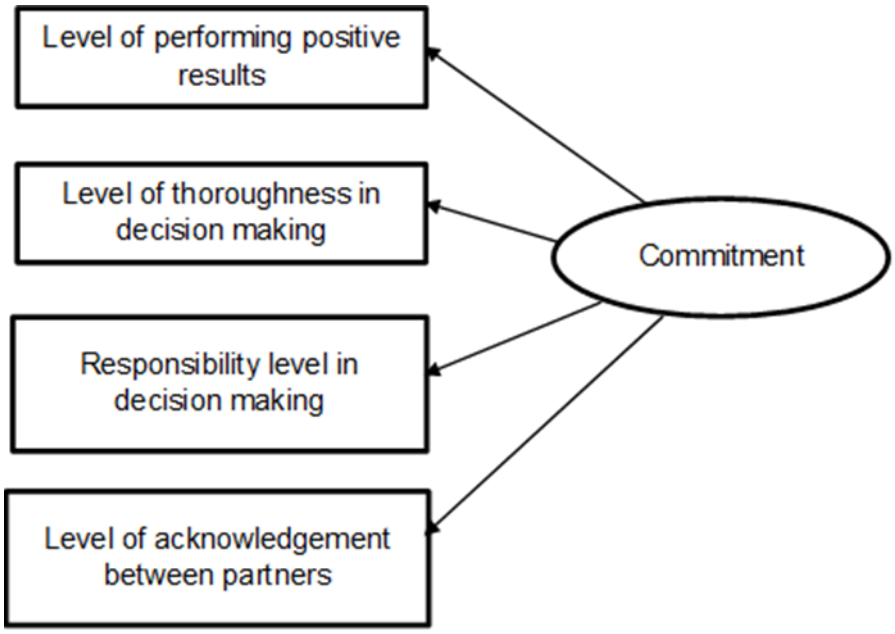
The statements of indicators for the construct *trust* are:

1. Goodwill is important in maintaining proper relationship between partners (Rodriguez & Wilson, 2002).

2. Confidence between partners determines the success of the business (Johnston et al., 2004).
3. Partner dependability provides a sound relationship in this business (Rodriguez & Wilson, 2002).
4. A proper partner's awareness of each other creates a solid relationship (Rodriguez & Wilson, 2002).

Figure 4.6 below illustrates how the indicators were used to measure the construct *commitment*.

Figure 4.6 *Commitment* and its indicators



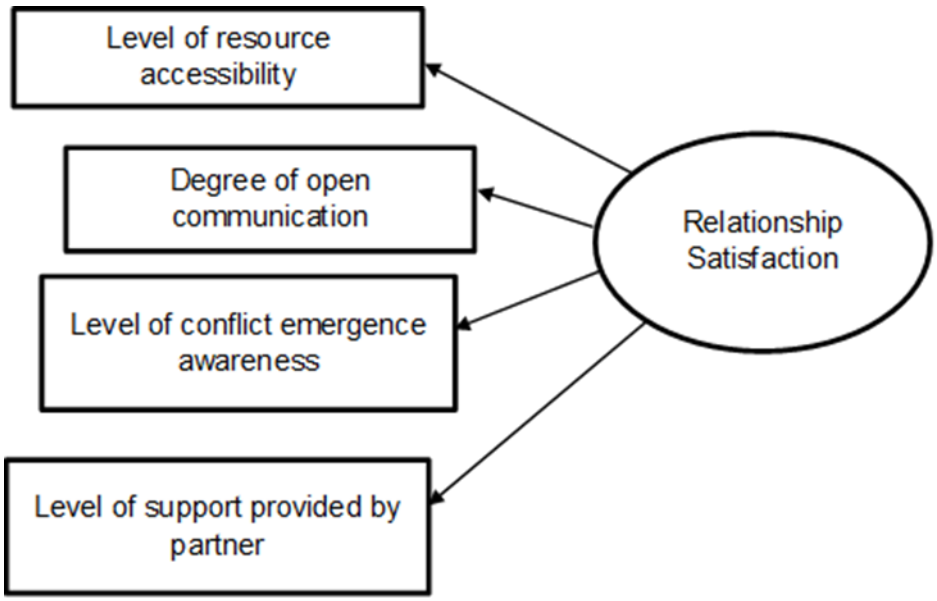
Source: the author

1. The positive result of partners' strategic decision will maintain a sound relationship (Salancik & Pfefer, 1977 as cited in Rodriguez & Wilson, 2002, p. 59).
2. Partners should think thoroughly before making decisions (Salancik & Pfefer, 1977 as cited in Rodriguez & Wilson, 2002, p. 59).

3. Partners have to be responsible for decisions they have made (Salancik & Pfefer, 1977 as cited in Rodriguez & Wilson, 2002, p. 59; Haunschild & Rhee, 2004).
4. Acknowledgements of partners' strategic decisions are not important in this business (Salancik & Pfefer, 1977 as cited in Rodriguez &Wilson, 2002, p. 59).

Figure 4.7 below illustrates how the indicators were used to measure the construct *relationship satisfaction*.

Figure 4.7 *Relationship satisfaction* and its indicators



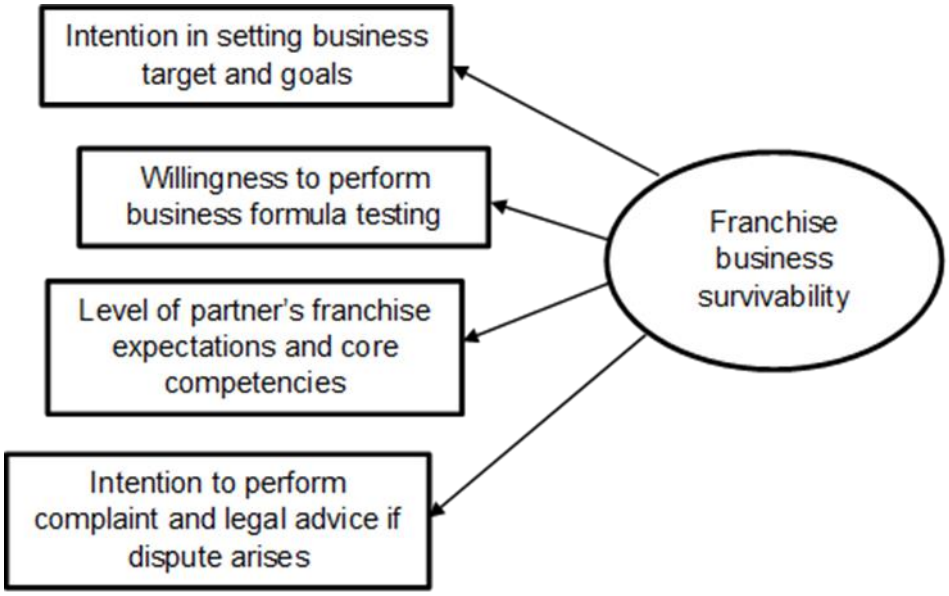
Source: the author

1. It is easy to access my business partner's resources (Palmatier, 2006).
2. My business partner provides open communication (Grace et al., 2013; Bordonaba-Juste et al., 2011).

3. I am aware that conflict between partners is likely to occur (Grace et al., 2013).
4. The support from my partner is sufficient (Palmatier, 2006; Grace et al., 2013).

Figure 4.8 below illustrates how the indicators were used to measure the construct *franchise business survivability*.

Figure 4.8 *Franchise business survivability* and its indicators



Source: the author

1. Setting business targets and goals periodically is not really important (Stanworth et al., 2001).
2. The business formula testing is quite important in a franchise business (Stanworth et al., 2001).

3. My partner's business expectations and competencies are not important (Holmberg & Morgan, 2004; Davies et al., 2011; Winsor et al., 2012).
4. If complaints or disputes arise, I should ask for legal advice (Holmberg & Morgan, 2004; Davies et al., 2011; Grace et al., 2012).

It can be noted that the level of attitudinal statements in the questionnaire is measured using a five point Likert scale, usually known as an agree-disagree scale, and this kind of measurement is common for factor analysis (Ferdinand, 2006; Cameroon & Price, 2009). The Likert scale is one of the attitudinal rating scales. The other attitudinal rating scales are the semantic differential scale and the staple scale (Brace, 2004). The Likert scale is also known as the 'agree-disagree' scale. Rensis Likert published this scale in 1932. This technique provides the respondents with a set of attitude dimensions (Brace, 2004).

Wording in the questionnaire was quite important: since the survey instrument was originally developed in English, the researcher translated it into Indonesian and from Indonesian back to English again. This was to avoid problems in translation and to make sure that the intended meanings of the questions could be fully understood by the respondents. Appropriate translations should be able to define relevant messages of the statements in the questionnaire (Dean et al., 2007). Furthermore, Tuleja et al. (2011) noted that there are several pertinent aspects relating to the translation of questionnaires, such as specific cultural context to achieve accuracy in measurements; adapting the language to suit the situation of the target language or culture; back and forth translation between the languages; checking for cultural and linguistic accuracy in preparing the actual translation.

By adapting these aspects, the statements in the questionnaire were appropriately designed and this enabled them to be understood by the respondents.

Brace (2004) noted that there are four pertinent issues when the researcher is using a five point Likert scale. The first is the order effect. This effect tends to show when a bias arises in the specific side of the order. The second is the acquiescence or the tendency of the respondents to agree with the statements rather than disagree (Kalton & Schuman, 1982 cited in Brace, 2004, p. 88). To avoid having the first order effect and acquiescence effect compound each other, the 'disagree' response should be put to the left. The third is the central tendency. It is a condition where the respondents are reluctant to use an extreme condition (i.e to circle response 1 or 5), and the fourth is pattern answering. These conditions arise when a respondent is maybe bored and tends to answer diagonally or straight down (Brace, 2004). In order to overcome these issues, the researcher attempted to construct a series of questions that included one or two short paragraph on the second page of the questionnaire. This short paragraph provided a brief description about the importance of relationships and survivability in franchising businesses, and this brief description had an objective to raise the respondent's awareness of the particular issue (Curwin & Slater, 2008), so that the response issues in using a Likert scale could be minimised.

Furthermore, to minimise the possible issues which might arise in using a Likert scale, the researcher also provided a brief description concerning the relevance of the respondents' contribution in answering the questionnaire thoroughly. This kind of approach provides a general feeling of cooperation (Curwin & Slater, 2002) with the franchise relationship and survivability issues. In addition, to minimize biases in answering the questions, both positive and negative statements were included (Brace, 2004).

c. Order of the statements

The flow of statements in a questionnaire development is important because it puts the respondents' concentration on the main statements of the questionnaire (Burns & Bush, 2008). The main statements of the questionnaire were the 20 statements that represented the indicators of constructs of the model. Based on that explanation, the researcher provided the respondents' demographical and classification questions afterwards.

The respondents' demographical and classification questions were:

1. Name of the company
2. Position in franchise arrangement

   The position in the franchise arrangement consists of franchisor and franchisee (Mendelsohn, 1992).
3. Company base

   Company base of the respondents provides the research with information of the franchisee's business in terms of its origin, and whether it was a local franchise business or a foreign franchise business.
4. Franchise business location

   The franchise business location provides the research with the information of where the franchise business is located.
5. Origin of the base country

   It is pertinent to discover the information of the franchise business's country of origin in order to have an overview about where the franchise business originally came from.
6. Line of business

   This question provides the research with information of the franchise business's line of business, i.e. restaurant or retail sectors business.
7. Length of business operation (lifespan)

This question provides the research with information on the franchise businesses' date of establishment.

4.8.1 Piloting the questionnaire

This study conducted a pilot survey on a small number of participants or respondents. This pilot survey attempted to test the clarity of the questionnaire for the first time. This pilot survey had an objective of confirming and adjusting the language used in the questionnaire to ensure it was well accepted by the interviewees (Curwin & Slater, 2002).

A pilot survey allows the researcher to determine whether there are any problems in the preliminary stages. These things are usually related to the data, questionnaire design, and the selection of sample respondents (Wiesniewski & Stead, 1996). The main objective of this stage was to have some input and correction on the questionnaire prototype. The pilot survey's small group of eligible respondents were a group of local franchise business owners or managers who provided valuable input on several technical issues in data collection. Furthermore, they also provided the researcher with pertinent adjustments such as wording and question sequence before conducting the major or the full survey (Brace, 2004). The research conducted the pilot survey with ten respondents, who were local franchise business owners or managers in Semarang, Central Java.

4.8.2 Ethical Considerations and Culture Issues.

This research study conforms to the Handbook of Research Ethics of The University of Gloucestershire. The respondents in this research were the owners of franchise businesses in the restaurants and retail sectors, and were either the franchisor or the franchisee. These respondents answered a set of questions in the questionnaire.

The respondents' participation in this study was completely voluntary. The researcher was responsible to ensure the quantity of data met the analysis requirements. The respondents were assured their identity would be kept anonymous and confidential, and their factual details will be kept by the

researcher just for the duration of this study only. Although the research output based on the information collected will be published in research journals or presented at research seminar, this research is not for commercial use, so it is quite important to inform the respondents that this research is for academic and knowledge contribution purposes only.

Brace (2004) suggested that a questionnaire should not include some sensitive subjects. These sensitive subjects can be varied in some regions or countries. In this case, the country is Indonesia, the sensitive subject matters included may involve matters such as SARA (*Suku, Agama dan Ras*). In English it can be translated as ethnicity-race-religion (Budianta, 2002). As a larger country than its neighbours such as Malaysia and Singapore, Indonesia has around 1000 ethnic and sub-ethnic groups, with the five largest ethnic groups consisting of Javanese, Sundanese, Malay, Batak and Madurese (Ananta et al., 2005). Most Indonesians are Muslims, while others embrace Christianity (Catholic and Protestant), Hinduism, and Budhism (Van Klinken, 2003). Based on this fact, it is appropriate that the questionnaire does not include any sensitive subjects such as religion, beliefs, or political opinions.

Cameroon and Price (2009) noted that the researcher should inform the respondent of the likely length of the questionnaire. This time bracket allows respondents to think and then inform the researcher the perfect time to conduct the survey, or even better, he or she is willing to have the questionnaire administered at that time. In some occasions the respondents complain that completing the questionnaire is too time consuming, so it is quite important to conduct a pilot project to figure how long will it take to collect data from a respondent. The researcher informed the respondents the time approximately needed to fill in the questionnaire by telling them to spare five minutes of their time. Brace (2004) also noted that the respondents have a right to acknowledge how the researcher obtained their names and address. On the other hand, if the respondents know where the researcher obtained their company name and details, their answers may be biased. Therefore, there is a way to comply with this situation. The researcher can

reveal the source of the database after the data collection is over. The questionnaire anyway will cost the respondents time. In order to make sure that their time is worth spending it is quite common to promise a copy of the results, because a survey gives the respondents an image of something not very interesting to do, but the outcomes could be very useful.

4.9 Data Analysis

This research conducts two types of data analysis. The first is the descriptive statistics analysis and the second is the Structural Equation Modelling (SEM) analysis.

4.9.1 Descriptive Statistics Analysis

The descriptive statistics analysis provides the frequency distribution of the questionnaire result. Furthermore, the descriptive statistics analysis also provides the description of the respondents, such as the number of foreign and local franchise firms that are included in this research. This analysis also provides the number of foreign franchise businesses compared to the local franchise firms, the percentage of each type of firm in the sectors, and also the percentage or the duration of business operations among firms. This analysis provides this research with an illustrative picture of the restaurant and retail franchise firms in Indonesia.

4.9.2 Structural Equation Modelling Analysis

This research applies Structural Equation Modelling analysis in conducting the inferential statistical analysis. For this purpose, the researcher has constructed a research franchise business survivability theoretical model (Figure 2.4, p. 53), which is the basis for the Structural Equation Modelling analysis. The theoretical model will be the basis for developing research structural model that demonstrates the relationships between all the constructs or latent variables with their indicators. The structural model is shown in section 4.4.2 (p.75). The researcher applied AMOS 21 software to analyse the research structural model.

4.9.2.1 The Basic Concepts of Structural Equation Modelling

Structural Equation Modelling (SEM) has two basic aspects, which are: the causal processes under a study are constituted by a series of structural equations; the researcher can draw these structural relations in order to make a concept of the theory under study (Byrne, 2010). The basic concepts in SEM include several terms such as latent variable versus the observed variables. Latent variables in this study included *trust, commitment*, *dispute risk management, relationship satisfaction*, and f*ranchise business survivability*, which cannot be measured directly. The researcher had to find indicators that were capable of representing the latent variables (Byrne, 2010). In this study, the latent variables are measured using scoring, which is based on attitudinal scale. Five point Likert scale was used to measure scores, these measured scores were also defined as the manifest variables (Ferdinand, 2006).

In addition, there are other specific terms used in SEM analysis, which are exogenous and endogenous latent variables in SEM analysis. The exogenous variable is the independent variable, which contributes to the fluctuations of the endogenous variable (Byrne, 2010). The synonym of the latent endogenous variable is the dependent variable (Ferdinand, 2006; Byrne, 2010).

Steenkamp and Baumgartner (2000) point out that SEM has three main principles that are of philosophical and practical value to any model builder. Firstly, SEM can provide an adequate focus on construct operationalisation for its capability of analysing multiple variables and their multiple indicators. Secondly, SEM directs the researcher to form an explicit component of the management models. These models provide a proper theory development model testing and empirical generalisations; and thirdly, a model in SEM is a simplified representation of what a researcher can call reality and before any conclusions are derived from the model, the fitness degree between model and data can be determined.

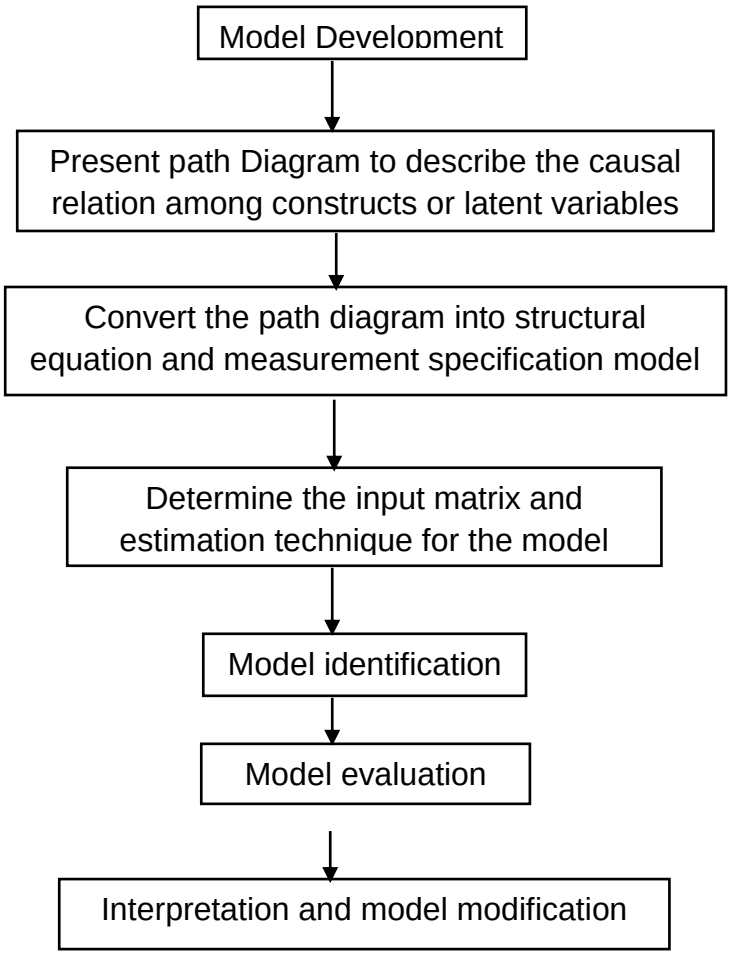
In order to examine the causal relationship among various constructs that are represented by variables, the researcher applied a multivariate analytical tool. In SEM analysis, the flexibility in constructing a causal relations model is quite high (Chan, 2011). The hypothesized causal model in SEM provides the specific directional path which links all of the research variables. These links between research variables are postulated by the researcher based on the theoretical arguments (Ferdinand, 2006). The SEM also consists of measurements details that specify the relations linking the indicators and the constructs (Chan, 2011). In conducting the SEM analysis, the hypothesized causal model is fitted to the study data using the variance-covariance matrix of the observed variables as data input (Ferdinand, 2006). Various practical model fit indices (e.g., adjusted goodness of-fit index, non-normed fit Index, etc.) are computed by SEM software, such as Amos, Lisrel and Mplus (Chan, 2011). These indices provide pertinent information that reveals the extent to which the model provides a good fit to the observed data, thus these indices are used as evidence to make a conclusion as to whether the hypothesised causal model is a good or poor representation of the data and therefore, supports or does not support the hypotheses empirically (Santoso, 2012).

Another basic concept of SEM is the full latent model analysis. The term full latent model analysis indicates that the SEM analysis consist both the measurement model and the structural model analysis (Ferdinand, 2006; Byrne, 2010). By applying this full latent model, the researcher is able to hypothesise the influence of one construct on another construct in the modelling of causal relationships. Furthermore, the researcher is also able to analyse the relationships of constructs and their indicators (Byrne, 2010). The measurement model is a model that describes the relationships between latent variables or constructs with their manifest variables or indicators (Byrne, 2010). The structural model is a model that describes the relationships among latent variables or constructs (Ferdinand, 2006).

4.9.2.2 Steps in Structural Equation Modelling Analysis (SEM)

There are seven steps in conducting SEM analysis (Kline, 1998; Ferdinand, 2006), which are:

Figure 4.9. Steps in SEM Analysis



Source: Ferdinand, 2006; Byrne, 2010

Explanation of the steps in SEM analysis are provided below.

1. Model Development

   Model development has to be based on theories and empirical research which have a solid justification. In this step, the researcher conducts a scientific approach and an intensive literature study in order to gain the justification for the model that has been developed (Ferdinand, 2006), the researcher has the independence to build causal relations among variables as long they have a solid theory justification. SEM does not have the ability to build a model, rather SEM confirms a model by using empirical data (Ferdinand, 2006). Furthermore, SEM does not establish the causal relations; instead its function is to confirm the theoretical causal relations between and among determinants using empirical data. SEM is best suited for confirmatory analysis of theoretically sound, measurement structured, and parsimonious structural models (Swimberghe, 2008).

   There is no limitation in determining how many determinants/factors/constructs a researcher can put in the model. But a researcher has to consider the limitation of the computer software analysis. If number of constructs exceeds 20 it will be quite difficult to determine the level of statistical significance (Ferdinand, 2006).

2. Present a path diagram to describe the causal relation among constructs or latent variables.

   In this step, the developed model is converted into a path diagram. This path diagram provides a distinct causal relation between or among constructs or latent variables. The path diagram also provides a clear visualisation of the constructs' causal relationships (Byrne, 2010). Path diagram is an applicable technique when the researcher has a-priori hypotheses concerning the causal relationships among constructs or latent variables based on theories and previous research (Kline, 1998; Byrne, 2010). There are two important constructs or latent variable types in the path diagram. They are: exogenous and endogenous constructs or latent variables (Ferdinand, 2006). The exogenous latent variables represent constructs that are not influenced by other latent variables (Schreiber et al., 2006). The exogenous latent variables are similar to independent variables in regression analysis (Ferdinand, 2006). In the

model it can be described with arrows pointing from the exogenous latent variable to the endogenous latent variable (Schreiber et al., 2006).). On the other hand, the endogenous constructs are latent variables that are predicted by one or more independent variables, in a way similar to dependent variables in regression analysis (Ferdinand, 2006). In the SEM model they can be described with arrows pointing to these variables; they are the endogenous variables (Santoso, 2012).

3. Convert the path-diagram into structural equation and measurement specification model.

   The researcher is able to convert model specification after the model development has been done and constructed into a path diagram (Ferdinand, 2006). The structural equation defines the causal relation between variables or constructs (Byrne, 2010). In addition, the measurement specification model equation defines that the variables measure a specific construct or latent variable (Ferdinand, 2006).

4. Determining the input matrix and estimation technique of the model.

   SEM only applies variance or covariance matrix and correlations matrix as the input data for the estimation process analysis (Ferdinand, 2006). The pertinent reasons for applying covariance as the data input is that SEM focuses on the relation pattern among respondents, instead of the individual data. This covariance matrix data input is the most suitable input data for theory testing research (Ferdinand, 2006). This step also describes the optimum sample size required in SEM analysis. In general, the optimum size of sample in SEM depends on the sum of the indicators that are applied to latent variables. For instance, if the number of indicators in the model is 20, the sample number should be between 5-10 times the numbers of indicators, which is around 100-200 sample (Ferdinand, 2006). There are no absolute methods in SEM regarding the relation between sample size and the model complexity, but there are two recommendations in this issue; firstly, that the ratio between subject and parameter is around 5:1 up to 10:1 (Kline, 1998). The second is to use a formula for more adequate sample size calculation that is also provided (Westland, 2010). The formula for a minimum sample size for SEM

analysis has been described in the previous section, and based on the formula, the minimum sample size of this research is 100 samples.

The model estimation in SEM analysis can be in several stages. The AMOS software provides several estimation techniques, such as: maximum-likelihood estimation (MLE); generalised least square estimation (GLS); un-weighted least square estimation (ULS); scale free least square estimation (SLS); and asymptotically distribution-free estimation (ADF) (Ferdinand, 2006). As the minimum sample size of this research is 100 samples, the most optimum and proper estimation for this research model is the maximum-likelihood estimation (Ferdinand, 2006).

5. Model identification

This stage is the first stage of the SEM analysis. The model identification stage determines whether the model can be solved or not for further analysis (Ferdinand, 2006). The model needs to pass the identification stage. The model is considered to be identified if it is theoretically possible to calculate the unique estimate of each its parameters (Kline, 1998). In more common terms, the identification problem resolves whether or not there is a unique set of parameters consistent with the data (Byrne, 2010). When the unique solution for the values of the structural parameter can be found, the model is identified. The parameters are considered to be estimable and the model can proceed to be tested (Byrne, 2010).

There are three conditions in the model identification stage, which are: the model is determined as just-identified, under-identified, or over-identified (Ferdinand, 2006; Byrne, 2010). A just-identified model is when the number of data variances and covariances equals the number of parameters to be estimated (Byrne, 2010). This type of model is not considered scientifically interesting, because its condition has no degrees of freedom and as a result, the model can never be rejected because the value of degree of freedom (DF) is 0 (Ferdinand, 2006; Byrne, 2010). The under-identified model is when the number of estimated parameters exceeds the number of variances or covariances of the observed variables

(Byrne, 2010). If this condition occurs, the DF value is negative and SEM software is unable to proceed to identify the model because the model lacks sufficient information to determine a solution of parameter estimation (Ferdinand, 2006; Byrne, 2010). The last condition is the over-identified model. In this condition, the number of estimable parameters in a structural model is less than the number of variances or covariances of the observed variables. As the result, the DF value is positive; furthermore, with the over-identified model SEM analysis can proceed, as the aim of SEM is to specify the model which meets the over-identification criterion (Ferdinand, 2006; Byrne, 2010).

There is a formula to identify whether the structural model is just-identified, under-identified or over-identified. The formula is: DF = Sample Moments – Estimated Parameters (Ferdinand, 2006, p. 50). Sample moments can be calculated using the formula: p (p+1)/2; where p is the number of observed variables (Ferdinand, 2006, p. 50). The estimated variables or estimated parameters can be calculated by the sum number of regression coefficient or the factor loadings, variances (error and factor variances) and factor covariance (Byrne, 2010).

This research structural model (figure 4.3, p. 75) has 20 observed variables, which represent the numbers of indicators, so the p value is 20; it can be calculated that the value of sample moments is 20(20+1)/2= 210, the estimated parameters in the model consist of 19 factor loadings, 25 variance (20 error variances and 5 factor variances) and 3 factor covariance, the total is 47 estimated parameters.

Based on that, the calculation is: DF = 210 – 47

= 163

The value of DF is positive, so the structural research model in this research is over-identified and the next SEM analysis can proceed (Ferdinand, 2006; Byrne, 2010).

6. Model evaluation

The evaluation of model fitness to a series of goodness-of-fit criterions is the main idea of this step. The first thing is to evaluate if the data fit with the SEM assumptions. The SEM assumptions are:

a. Sample size

The minimum sample size in SEM analysis is 100 samples. Generally in SEM analysis the ratio between subject and parameter is 5:1 (Kline, 1998).

b. Data Normality

The data spread has to be analysed. The data in SEM has to fit with the normality assumptions (Ferdinand, 2006). Statistical analysis can be used to test the data normality in the AMOS 21 software. At significance level of 1%, z value of ±2.58 can be applied in determining whether the observed data are normally distributed or not (Ferdinand, 2006).

c. Outliers data

Outliers data are those data that have extreme value compared with the other data (Santoso, 2012). This type of data might occur for several reasons, such as procedure error in data input; for instance, an error in typing the data input such as 3 is typed 300. In this study, the researcher applied the Mahalanobis table from the AMOS 21 output files to confirm the existence of outlier data (Santoso, 2012).

d. Multicollinearity

The researcher applied correlation values among exogenous latent variables or constructs in the model to confirm the existence of multicollinearity in the model (Grewal et al., 2004). Furthermore, the researcher also performed a discriminant validity test to confirm if there was multicollinearity in the model (Bogazzi & Philips, 1982 cited in Ferdinand, 2006, p.196).

The evaluation of the model includes the model fit assessment. The objective of the model assessment is to test whether the model fits with the observed data sample or not (Ferdinand, 2006). The model fit assessment can be tested by using several indices in SEM analysis, which are:

a) Chi-square discrepancy test (CMIN test).

In CMIN test, SEM analysis aims not to reject the null hypotheses. By not rejecting the null hypotheses, it means that observed sample data has no difference from the population (Ferdinand, 2006). A low value of chi-square and its non-significance, would point to a good fit with the observed data sample, due to the function of the chi-square test to assess actual and predicted matrices (Hoe, 2008). Non-significance means that there is no considerable difference between the actual population and the predicted observed sample data; the preferable p value of chi-square is > 0.05 (Hair et al., 1998).

b) Chi-square minimum discrepancy function (CMINDF).

CMINDF is the minimum sample discrepancy function divided by the degree of freedom. In other words it is the χ^2 divided by degree of freedom, and it is called the relative χ^2 (Ferdinand, 2006). A small or low χ^2 value relative to its degree of freedom is indicative of good fit. A value of χ2/ DF ratio of 2 or less is a reasonably good indicator of model fit (Kline, 1998; Byrne, 2010).

c) Root Mean Square (RMR).

RMR is the root mean square residual. This index describes the average residual value resulting from the fit of the variance-covariance matrix for the hypotheses model to the sample data variance-covariance matrix (Byrne, 2010). A low value of RMR is a good indicator of model fit. If RMR value is null, the model is a perfect fit (Ferdinand, 2006).

d) Goodness-of-fit index (GFI).

GFI is the goodness of fit index, which is the relative sum of variance and covariance in sample data. GFI is non-statistical measure that ranges between null, which is the poor fit; to a value of 1.00, which is the perfect fit (Kline, 1998).

e) Adjusted Goodness-of-fit index (AGFI).

AGFI is the analog of the R^2 in the multiple regression analysis (Kline, 1998). The recommended value of AGFI is ≥ 0.90 (Hair et al., 2011). GFI and AGFI are a criterion which calculates a weighted proportion of variance in a covariance sample matrix (Ferdinand, 2006).

f) Parsimony-adjusted goodness-of-fit index (PGFI), Normed fit index (NFI), and Incremental fit index (IFI).

PGFI is the parsimony-adjusted goodness-of-fit index; this index indicates the model's complexity. The recommended value of this index is ≥ 0.50 (Mulaik et al., 1989 as cited in Byrne, 2010, p. 78). NFI is the Normed Fit Index; this index has a recommended value of ≥0.95 (Hu & Bentler, 1999 cited in Byrne, 2010, p. 78). NFI indicates the proportion of the improvement of the overall fit of the model to a null model (Kline, 1998). IFI is the incremental index of fit: this index was developed by Bollen in 1989 (as cited in Byrne, 2010). IFI addresses the issue of parsimony and sample size, which are related to NFI (Byrne, 2010).

Alongside the previous indices, the next model assessment is to compare the indices values of the default model (hypothesized model) with that of baseline models (Byrne, 2010). There are two baseline models, which are: saturated model and independence model (Ferdinand, 2006; Byrne, 2010). The saturated model is the one in which the number of estimated parameters equals the number of data points. This kind of condition is called the least restricted or 'perfect model' (Ferdinand, 2006; Byrne, 2010). On the contrary, the independence model is a model of complete independence of all variables in the model, in which all the variables are uncorrelated. This model has poor fit with the data, in other words it is the most 'unfavourable' or restricted condition (Byrne, 2010).

The indices which act as model fit measurements compared to the baseline model are:

a) Tucker and Lewis index (TLI).

TLI is the old name for the Non-Normed Fit Index (NNFI). This index is included to measure model complexity, just like AGFI (Kline, 1998). The recommended cut-off value of TLI is exceeding 0.95 (Hair et al., 2006).

b) Comparative fit index (CFI).

CFI is derived from the comparison of the model or the hypothesized model with the independence model (Byrne, 2010). The value range of

this index is between null to 1.00. The recommended cut off value of this index is close to 0.95 (Ferdinand, 2006).

c) Parsimony ratio index (PRATIO), Parsimony Adjustment to NFI (PNFI) and Parsimony adjustment to CFI (PCFI)

PRATIO is the parsimony ratio index. This index was developed by James et al., (1982 as cited in Byrne, 2010, p. 79). The value of this index can be calculated by dividing the DF of the hypothesised model with the DF of the independence model (Ferdinand, 2006). The PNFI is the Parsimony Adjustment to NFI. The value of PNFI is (PRATIO x NFI), and PCFI is the Parsimony adjustment to CFI, the value of PCFI is (PRATIO x CFI). These two parsimony fit indices were developed by Mulaik et al., (1989 as cited in Hooper et al., 2008, p. 55). The recommended value of both is exceeding 0.50 (Ferdinand, 2006).

d) Non-centrality parameter index (NCP).

NCP is the non-centrality parameter index. Essentially, the function of this index is to measure the model fit by calculating the value χ^2-degree of freedom, after which the value can be compared with the value of LO90 and HI90 in the output of AMOS (Ferdinand, 2006; Byrne, 2010).

e) Root mean square error of approximation (RMSEA).

RMSEA is the root mean square error of approximation. This model fit index value is provided in the AMOS output table. The recommended value of this index is as high as 0.08 (Browne & Cudeck, 1993 as cited in Byrne, 2010, p. 80).

f) Akaike's Information Criterion (AIC), consists of AIC (CAIC), Browne-Cudeck Criterion (BCC), Bayes Information Criterion (BIC), expected cross validation index (ECVI), and modified ECVI (MECVI)

AIC index is the Akaike's Information Criterion and CAIC is the consistent version of AIC. Both indices address the problems of parsimony in the assessment of model fit (Byrne, 2010). The BCC index is the Browne-Cudeck Criterion and BIC is the Bayes Information Criterion. The statistic fit of these indices can be determined when the default model's indices values are smaller than the baseline models (Ferdinand, 2006).

Furthermore, ECVI is the expected cross validation index, and the MECVI is a modified ECVI. The application of these indices assumes a comparison of all models' ECVI values. The smallest ECVI value indicates that the model is replicable (Byrne, 2010). It is recommended that the AIC, CAIC, BCC BIC, CAIC and ECVI value of the hypothesised or default model is the smallest compared with the baseline models, which are the saturated and independence models (Ferdinand, 2006; Byrne, 2010).

g) Hoelter index

This index focuses on the adequacy of the sample size (Byrne, 2010). The cut off value of this index is 200; if the Hoelter values are below 200; the model fits with the observed data (Ferdinand, 2006; Byrne, 2010).

The model assessment indices in SEM analysis are summarised in table 4.2 below.

Table 4.2 Goodness of fit indices

Goodness of fit Index	**Cut off value**
χ^2 –Chi-square	Smaller value is preferred or better
Significance probability	≥ 0.05
CMIN/DF	≤2.00
GFI	≥0.90 or ≥0.80
AGFI	≥0.90 or ≥0.80
PGFI	≥0.50
NFI	≥0.95
RFI	≥0.95
IFI	Closer to 1.00
TLI	≥0.95
CFI	≥0.95
PNFI	>0.50
PCFI	>0.50
NCP	Refer to χ^2
RMSEA	≤0.08
AIC,CAIC,BCC,BIC,ECVI,MECVI	Smaller than independence model
Hoelter	< 200

Source: Adopted from Ferdinand (2006, p. 69); Hair et al (2006); Byrne (2010); Muenjohn and Amstrong (2008); Yu et al. (2005 as cited in Saxena, 2011, p. 107).

7. Interpretation and model modification.

   This is the final step in SEM analysis. This step might enable the researcher to make some modification to the model; the model modification might include adding or deleting parameters (constructs and/ or indicators) and should consider several pertinent points (Hair et al., 2006). The pertinent points are that the additional parameters have to be substantively meaningful; the model has to fit; and expected parameter changes which are associated with the model modification have to be substantial (Byrne, 2010). And the most important thing, if the modification is made, is that a strong and solid theoretical justification is needed (Schereiber et al., 2006; Ferdinand, 2006). However, with regard to the model modification, in this study the researcher conducted a Confirmatory Factor Analysis (CFA), which was to confirm theories and previous research by forming a proposed model. According to Scheriber et al. (2006) if a CFA SEM analysis has been conducted and then a researcher decides to conduct model modifications or re-specifications, the analysis is no longer CFA; it will become exploratory factor analysis (EFA) research. Based on that, there was no attempt at model modification in this study.

8. Indicators' reliability and construct relation analysis of the measurement model

   This stage analyses the relation between indicator and construct. The purpose of this stage of analysis is to verify whether the indicator is part of the construct and can be applied to measure its construct (Ferdinand, 2006; Byrne, 2010). This analysis can be obtained using two methods, which are: convergent validity test, and discriminant validity test (Ferdinand, 2006; Santoso, 2010). This stage also verifies whether each construct has its own characteristics, and are constructs that can be reliably applied to the proposed model (Ferdinand, 2006).

9. Relationship significance test between constructs of the structural model.

This stage verifies the significance relations between constructs in the structural model, or in other words it performs hypotheses testing (Ferdinand, 2006).

4.10 Chapter Summary

This chapter provides a clear and systematic description of the conceptual framework of the research, which lays the foundation for the identification of the variables and the hypotheses development. This chapter also discusses the philosophical position of the research and the chosen methodology, including the model building, and explanations of the choices of the latent variables and their indicators. This chapter also provides explanations of how the population and the sampling were determined. Furthermore, the data collection process, ethical considerations, and the procedure for data analysis were also discussed.

Chapter 5
Empirical Analysis

5.1 Introduction

This chapter provides the empirical analysis that acts as a base for the next chapter, the research findings and discussion. It will introduce the constructs or variables used in the research. They are five constructs or variables, which are: *trust*, *commitment*, *dispute risk management*, *relationship satisfaction* and *franchise business survivability*. These constructs or variables are called latent variables in the model. The latent variables cannot be measured directly (Hair et al., 2006).

In this chapter, the author also describes and provides inference statistical analysis. This inference statistical analysis is based on results of SEM analysis. SEM analysis is used to examine the determinants of franchise business survivability in Indonesia. The first stage of the analysis provides data examination. It determines whether the data that is collected in this research meet the requirements for the next stage in SEM analysis or not, including measurement model reliability and validity. In the last section of this chapter, the author performs the structural model analysis in order to be able to test the model fit and hypotheses.

5.2 Constructs used in the analysis

In order to be able to measure the latent variables, the researcher applied five attitudinal Likert scale scoring measurements. The details of the measurements used in this study are described as follows.

5.2.1 Trust

Trust as a construct or latent variable is measured by four manifest variables or indicators. The indicators of *trust* are good-will trust (Rodriguez & Wilson, 2002), competence trust (Johnston et al., 2004), cognition-based trust (Rodriguez & Wilson, 2002), and affect-based trust (Rodriguez & Wilson, 2002). Table 5.1 below provides the reader with details of the construct *trust* and its indicators.

Table.5.1 The construct *trust* and its indicators:

Indicators	Code in the model	Statement item	Reference
Good-will Trust	Good	Goodwill is important in maintaining proper relationship between partners	Rodriguez and Wilson, 2002
Competence trust	Comp	Confidence between partners determines the success of the business.	Johnston et al., 2004
Cognition-based trust	Cog	Partner dependability provides a sound relationship in this business.	Rodriguez and Wilson, 2002
Affect-based trust	Aff	A proper awareness of each partner creates a solid relationship	Rodriguez and Wilson, 2002

Source: the author

5.2.2 Commitment

The next construct or latent variable of this study is *commitment*. As a latent variable, *commitment* is measured by four indicators, which are: explicitness, revocability, volition, and publicity (Salancik & Pfefer, 1977 as cited in Rodriguez & Wilson, 2002, p.59; Haunschild & Rhee, 2004). The details of *commitment* and its indicators are provided in Table 5.2 below:

Table.5.2 The construct *commitment* and its indicators

Indicators	Code in the model	Statement item	Reference
Explicitness	Exp	The positive result of partners' strategic decision will maintain a sound relationship.	Salancik and Pfefer,1977 as cited in Rodriguez and Wilson, 2002, p. 59
Revocability	Rev	Partners should think thoroughly before making decisions	Salancik and Pfefer,1977 as cited in Rodriguez and Wilson, 2002, p. 59
Volition	Vol	Partners have to be responsible for decisions they have made	Haunschild and Rhee, 2004
Publicity	Pub	Acknowledgements of partners' strategic decisions are not important in this business	Salancik and Pfefer,1977 as cited in Rodriguez and Wilson, 2002, p. 59

Source: the author

5.2.3 Dispute Risk Management

The third latent variable of this study is *dispute risk management*. This variable has four indicators, which are: pre-investment screening, due-diligence, opportunistic behaviour, and market demand (Anderson & Weitz, 1992; Blut et al., 2011; Winsor et al., 2012; Grace et al., 2013). Details of *dispute risk management* and its indicators are provided in Table 5.3 below:

Table 5.3 The construct *dispute risk management* and its indicators

Indicators	Code in the model	Statement item	Reference
Pre-investment screening	Pre	My partner's previous business and personal records are important before conducting a business relationship.	Grace et al., 2013
Due-diligence	Due	Before signing a franchise agreement, I have to explore the franchise business or my future partner's details (via business colleagues, business associations and or web).	Blut et al., 2011
Market demand	Mrk	Before signing the franchise agreement, there is no need to conduct a market survey.	Anderson & Weitz, 1992
Opportunistic behaviour	Opp	Opportunistic behaviours emerge in franchise business occasionally (behaviours which do not comply with the franchise agreement)	Winsor et al., 2012

Source: the author

5.2.4 Relationship Satisfaction

Relationship satisfaction is the next latent variable in the model; this variable has four indicators, which are: resource access, communication openness, perceived conflict, and support (Palmatier, 2006; Bordonaba-Juste et al., 2011; Grace et al., 2013). The details of this construct are provided in Table 5.4 as follow.

Table 5.4 The construct *relationship satisfaction* and its indicators

Indicators	Code in the model	Statement item	Reference
Resource Access	Acc	It is easy to access my business partner's resources.	Palmatier, 2006
Communication openness	Com	My business partner provides open communication	Grace et al., 2013; Bordonaba-Juste et al., 2011
Perceived Conflict	Con	I am aware that conflict between partners is likely to occur.	Grace et al., 2013
Support	Sup	The supports from my partner are sufficient.	Palmatier, 2006 ; Grace et al., 2013

Source: the author

5.2.5 Franchise Business Survivability

The last latent variable used in this study is *franchise business survivability*. This latent variable is measured by four indicators, which are: strategic achievement, business formula testing, franchise expectations and core competency fit or misfit, and the last indicator is partner's complaint and legal

action (Stanworth et al., 2001; Holmberg & Morgan, 2004; Boulay, 2010; Davies et al., 2011; Winsor et al., 2012). The details of this construct are provided in Table 5.5 as follow.

Table 5.5 The construct *franchise business survivability* and its indicators

Indicators	Code in the model	Statement item	Reference
Strategic Achievement	S.Acv	Setting business targets and goals periodically is not really important	Stanworth et al., 2001
Business formula testing	BFtest	The business formula testing is quite important in a franchise business	Stanworth et al, 2001
Franchise expectations and core competency fit or misfit	FECC	My partner's business expectations and competencies are not important.	Holmberg and Morgan, 2004; Davies et al., 2011; Winsor et al., 2012
Partners' complaint and legal action	PrtcL	If complaints or disputes arise, I should ask for legal advice.	Holmberg and Morgan, 2004 Boulay, 2010; Davies et al., 2011; Winsor et al., 2012

Source: the author

5.3 Data Analysis

This section consists of two main parts: the first is descriptive data analysis and SEM analysis. These two types of data analysis results act as a platform for the discussion of the research findings.

5.3.1 Data collection

The data collection started from the beginning of August 2014 and continued until October 2014. The researcher distributed questionnaires by applying a multiple primary data collection method (Oakshot, 2012). The data was collected from franchise businesses in Indonesia in the restaurant or retail sectors. The method consisted of self-administered and person-administered surveys (Burns & Bush, 2006). For franchise business locations outside the city of Semarang, where the researcher lives, a mail survey was conducted. This method of survey is considered to be the most optimum way in collecting data from the field, particularly when attempting to cover a large area (Frazer, 2001; Oakshott, 2012). For the franchise business locations in Semarang, a drop off survey (Burns & Bush, 2008) was conducted by the researcher. When using this method, the researcher left the questionnaires with the respondents and returned later to pick up the filled out questionnaires.

After sending rounds of sixty questionnaires by mail, there was not much response from the respondents. Hence, in order to fulfil the study's sample requirements, the researcher improvised a data collection method by hand, delivering the questionnaires directly to the respondents in Jakarta and Semarang. Furthermore, a telephone survey was also attempted. Unfortunately, this last method met a lot of resistance from potential respondents.

Hence, direct distribution was the only way of meeting the sample requirements of the survey. On some occasions, the researcher took his family and colleagues to have dinner or lunch at restaurants or businesses which operated in the restaurant sector to distribute the questionnaire and ask the manager or owner of the business to participate in the survey. There were also two franchise trade fairs, which afforded a great opportunity to gather data. The franchise trade fairs were organised by Indonesia Franchise Association (AFI) to promote franchise businesses opportunities to their future partners. Specifically, these fairs were: Info Franchise Business Concept Expo 2014, it was held in 29-31 August 2014 in Semarang; and

Franchise License Expo 2014 which is held 12-14 September 2014 in Jakarta.

The researcher distributed a total of 280 questionnaires, and made 25 telephone attempts. Overall, the questionnaire survey yielded 130 responses at a response rate of 42.66%. From that amount, there were 130 completely filled out questionnaires; after conducting questionnaire screening using both sample and statistical requirements, there were 119 valid questionnaires. 11 questionnaires were discarded due to not being suitable for this study. For example, some companies had only operated for less than a year. This final amount of samples formed the raw data for the subsequent analysis.

It was hoped that the ideal respondent would be chosen from several franchisors and at least one from their franchisees. In reality, however, this ideal situation was rather unlikely to happen and beside that, the researcher was also faced with money and time constraints, and the need to reach at least the minimum amount of samples. However, the researcher finally reached the minimum sample requirement, which was 100 (Boomsma, 1982 cited in Westland, 2010, p. 478).

5.3.2 Descriptive Data Analysis

Descriptive data analysis provides the reader with a brief and general view of respondents' characteristic, such as position in franchise business relationship, whether as franchisor or franchisee. The descriptive data analysis also describes the geographical location of franchise businesses, and the origin and location of those businesses. Furthermore, it also provides the reader with a general description of Indonesian franchise business characteristics in the restaurant and retail sectors.

5.3.2.1 Respondent characteristics

In this study respondent characteristics consist of the position in the franchise arrangement, company base, and franchise business location, origin of the base company, line of business and length of business

operation. By providing this descriptive data analysis, the researcher is able to offer a profile of the respondents to this study.

Table 5.6. Numbers of franchise business based on their demographic aspects

	Franchisor	Franchisee	Local	Foreign	Jakarta	Central Java	Others	Indonesia	Others	Restaurant	Retail	1-5 years	>5 years
Position	53	66	-	-	-	-	-	-	-	-	-	-	-
Company base	-	-	114	5	-	-	-	-	-	-	-	-	-
Location	-	-	-	-	53	53	13	-	-	-	-	-	-
Origin	-	-	-	-	-	-	-	113	6	-	-	-	-
Line of Business	-	-	-	-	-	-	-	-	-	82	37	-	-
Business life span	-	-	-	-	-	-	-	-	-	-	-	87	32

Source: the author

5.3.2.1.1 Position in franchise arrangement

The sample of this study was 119 respondents, who operated in the restaurant and retail sectors in Indonesia. The position in the franchise arrangement consisted of franchisor or franchisee (Mendelsohn, 1992). Table 5.6 above provides descriptions of franchise businesses based on their demographic aspects.

Due to the almost equal number of franchisors and franchisees there was a proper balance between parties in franchise business relationships. Although the numbers do not represent the perspectives of both sides in every restaurant and retail franchising business, they do provide a representative sample of both side's opinion regarding this study's constructs and their indicators.

5.3.2.1.2 Company base

Company base of the respondents provides the reader with distribution of the franchisee business in terms of its origin; in other words, whether it is a local franchise business or a foreign franchise business. Table 5.6 provides the distribution of franchise business company base.

This study distribution of company base consists of 114 local franchise businesses and 5 foreign franchise businesses which operated in the restaurant and retail sectors in Indonesia. Based on that of the total amount

of 119 respondents, 95.8% were local franchise businesses and 4.2% were foreign franchise businesses.

It can be seen from Table 5.6 that the restaurant and retail sectors in Indonesia was dominated by local franchise businesses, which mainly are SMEs. This reflected the overall picture of Indonesian franchise businesses. Generally speaking, in terms of company base, the number of local franchise businesses was higher than foreign franchise businesses (AFI, 2013). The domination of local business in Indonesian franchising may be because of Indonesian government policy and regulation. Prior to the data collection these regulations were aimed at stimulating local businesses growth (UU No.20, 2008).

5.3.2.1.3. Franchise business location

This study classifies the franchise business location into six categories of region, which are: Jakarta, West Java, Central Java, East Java, Yogyakarta, and Riau. This classification of franchise business location provides readers with a general idea of franchise business location spread in Indonesia in the restaurant and retail businesses sectors. Table 5.6 provides the distribution of franchise business locations.

Table 5.6 shows that the distribution of franchise business locations in the restaurant and retail sectors in Indonesia. The number of franchise business locations in Jakarta and Central Java was the same, reflecting to some extent the limitations on the researcher in terms of time, coverage and funding. The data were collected mainly in Semarang, Central Java, where the researcher lives and Jakarta, where the greatest concentration of franchise businesses are to be found. As the capital of Indonesia, and being a city of more than 8 million people, Jakarta is the centre of Indonesia's economy (tradexpoindonesia.com, 2015).

5.3.2.1.4 Origin of the base country

The next concern is the origin of the base country (or country of origin of the franchise business). As mentioned in the previous chapter, this study's target samples or respondents consisted of local and foreign businesses in the

restaurant and retail sectors in Indonesia. Hence, it is pertinent to discover the distribution of franchise businesses' country of origin in order to have an overview of where some of the franchise businesses originally came from. Table 5.6 shows the distribution of origin of the base country.

The distribution of origin of the base company in this study is dominated by Indonesian franchise businesses. The fact that in most cases the country of origin was from Indonesia's region could be the result of ASEAN Free Trade Area (AFTA) agreement among Southeast Asia nations. As a result, companies which operate in South Asia have a range of trading advantages in this region, especially for the local SMEs franchise businesses.

5.3.2.1.5 Line of business

This research consists of two lines of business sectors, which are the restaurant and retail sectors. Table 5.6 provides distribution of franchise businesses based on their line of businesses.

Based on Table 5.6, the number of respondents from franchise restaurant businesses was higher than those from retail businesses. This is again in line with the whole population. According to Indonesian Franchising Association, in terms of franchisors, the number of franchising companies established in the restaurant sector is higher than in retail (AFI, 2013). Therefore, the result shown in Table 5.6 reflects the distribution of Indonesian franchise business by proportion; it also suggests that restaurant businesses could be more in demand by franchise business players in Indonesia. This phenomenon may be due to a wide array of franchise businesses selections available in the restaurant sector. A franchisee may choose from low, middle or high investment options in establishing a franchise business (AFI, 2013). This fact possibly also reflects that there are greater opportunities in the restaurant sector, so that business people are eager to enter the restaurant sector using franchise business arrangements.

5.3.2.1.6 Length of business operation (Lifespan)

This study classifies the lifespan of the respondents' businesses into three categories, which are: 'less than one year', 'one to five years' and 'above five

years'. This study does not include respondents who had less than a year of business operation. The reason was that the first 30 months of the franchise business operation period are crucial for the franchise business survivability. Within this period there are some adjustments on targets, such as sales, marketing campaigns, product/services packages, pricing changes, and staffs recruitment strategies and businesses are not sufficiently stable to survey in this period (Storey, 1994; Stanworth et al., 2001). There were eleven respondents who had less than one year's length of business operation, so the researcher disregarded the questionnaires filled out by these respondents. Table 5.6 provides the distribution of franchise businesses in the restaurant and retail sectors in Indonesia based on their length of business operation.

The distribution presents that from 119 respondents, 87 businesses or 73.1% had been established between one to five years, and the rest, amounting to 32 businesses and 26.9% of total respondents, had more than five years of business operation. The lifespans of 1-5 years and more than 5 years are quite pertinent, because at that certain amount of lifespan, partners in franchise business relationships already have adequate experience to answer the research questionnaire.

The result reflects that most of the franchise businesses were relatively new; their business lifespans were predominantly between 1-5 years. This proportion may be due to the enormous growth of franchising business, especially in the restaurant and retail sectors, which has in part been fuelled by the emerging small business loan scheme instigated under Indonesian banking policy (Indonesian Banking, 2008).

5.3.2.2 Constructs and their indicators

All the constructs used in this study were measured by several indicator statements. A five point Likert Scale was applied. The Likert scale is also known as the "agree-disagree" scale (Cameroon & Price, 2009). The respondents were given statements and asked to state the extent to which they disagreed or agreed using a five point scale ranging from score one for

“strongly disagree” up to score five for “strongly agree”; this method was used to record respondents’ answers (Brace, 2004)

5.3.2.2.1 Trust

There are four indicators of the construct *trust,* which are good-will trust (Rodriguez & Wilson, 2002), competence trust (Johnston et al., 2004), cognition-based trust (Rodriguez & Wilson, 2002), and affect-based trust (Rodriguez & Wilson, 2002). Table 5.7 below presents the distribution of respondents’ answer for the construct of *trust*.

Table 5.7 Distribution of respondents’ answers for construct *trust*

	Goodwill-Trust		**Competence Trust**		**Cognition-based Trust**		**Affect-based Trust**	
Score	F	Percent	F	Percent	F	Percent	F	Percent
5	40	33.6	35	29.4	39	32.8	33	27.7
4	41	34.5	41	34.5	40	33.6	39	32.8
3	30	25.2	32	26.9	28	23.5	34	28.6
2	8	6.7	11	9.2	12	10.1	12	10.1
1	0	0	0	0	0	0	1	0.8
Total	119	100	119	100	119	100	119	100

F: Frequency

Source: the author

The goodwill-trust indicator was “goodwill is important in maintaining a proper relationship between partners” (Rodriguez & Wilson, 2002). From 119 respondents of the research, 8 respondents or 6.7% disagreed, 30 respondents or 25.2% were neutral, 41 respondents or 34.5% agreed, and 40 respondents or 33.6% strongly agreed with the statement. No respondent strongly disagreed with this question. Based on the results, most of the respondents agreed that goodwill-trust was really important in forming a sound relationship satisfaction between franchisor and franchisee in a franchise relationship. Some respondents chose the neutral answer about goodwill-trust as a factor in maintaining a proper relationship between partners in franchise agreements. There were also eight respondents who disagreed with the statement; however, no respondents strongly disagreed with the statement.

This result may have been affected by the high degree of awareness among partners that good will can act as a base in maintaining *trust* between them (Rodriguez & Wilson, 2002). From 119 respondents, 68.1% of the respondents choose to agree and strongly agree. It also can be inferred that based on the relatively high amount of neutral answers, some of the respondents thought that goodwill trust was not really important in maintaining *trust* in a franchise relationship.

The next statement item for competence trust was “confidence between partners determines the success of the business” (Johnston et al., 2004). From 119 respondents, 11 respondents or 9.2% disagreed, 32 respondents or 26.9% chose to be neutral, 41 respondents or 34.5% agreed, and 35 respondents or 29.4% strongly agreed with the statement. Most of the respondents agreed that if their partners were dependable in positive ways it provided a sound basis to their franchise businesses relationships. The second largest group of the respondents strongly agreed with the statement. The third largest group of the respondents gave a neutral answer about their partner’s dependability providing a good relationship in the business. And the second smallest group of the respondents agreed that their partner’s dependability had no effect on their relationship in the businesses. In addition, these respondents may have thought that their level of confidence did not comply with their requirements, so they might not have been able to decide whether they agree or disagreed with this statement. However, there were no respondents who answered for score one (strongly disagree). Overall the result was consistent with research conducted by Rodriguez and Wilson (2002).

The statement item concerned cognition-based trust; the measuring statement was “partner dependability provides a sound relationship in this business” (Rodriguez & Wilson, 2002). From 119 respondents, 12 respondents or 10.1% disagreed, 28 respondents or 23.5% chose to be neutral, 40 respondents or 33.6% agreed, and 39 respondents or 32.8% strongly agreed with the statement. Based on the results, most of the respondents agreed that dependability between partners determined the

success of their businesses. The third largest group of respondents felt neutral concerning whether dependability was able to determine the success of their franchise businesses, and there were 12 respondents who thought that dependability had no relevance in determining the success of their businesses; however, no respondents strongly disagreed with this cognition-based trust statement.

In addition, most of the respondents agreed that if their partners were dependable, a sound relationship between them would be maintained. This result was consistent with Rodriguez and Wilson (2002). There were neutral answers in these statements, it can be inferred that these respondents did not really regard their partner's dependability as an important factor in maintaining trust between them.

The measuring statement of affect-based trust was "a proper partner's awareness of each other's rights and obligations creates a solid relationship" (Rodriguez & Wilson, 2002). From 119 respondents, 1 respondent or 0.8% strongly disagreed, 12 respondents or 10.1% disagreed, 34 respondents or 28.6% chose to be neutral, 39 respondents or 32.8% agreed, and 33 respondents or 27.7% strongly agreed with the statement. Most of the respondents agreed that their partner's awareness of each other's rights and obligations created a solid relationship. The second largest group of the respondents answered neutral, which means they were not really sure whether their partner's proper awareness of each other rights and obligations created a solid relationship in their franchise businesses arrangements. Furthermore, it could be implied that these respondents might not have been able to decide whether they have already complied with contracts which they had already signed previously. The third largest group of the respondents answered that they strongly agreed with the statement. And furthermore, there were 12 respondents who did not think that their partner's awareness of each other rights and obligations created a solid relationship. And there was one respondent who strongly disagreed with this affect-based trust statement.

5.3.2.2.2 Commitment

Within the construct of *commitment* there are four indicators: explicitness, revocability, volition, and publicity (Salancik & Pfefer, 1977 as cited in Rodriguez and Wilson, 2002, p. 59; Haunschild & Rhee, 2004): these are indicators of *commitment*. Just as for previous indicators, there were measuring statement items for these indicators. The distribution of respondents' answers for construct *commitment* is provided in the table 5.8 below:

Table 5.8 Distribution of respondents' answers for construct *commitment*

	Explicitness		**Revocability**		**Volition**		**Publicity**	
Score	F	Percent	F	Percent	F	Percent	F	Percent
5	41	34.5	25	21	26	21.8	26	21.8
4	28	23.5	27	22.7	32	26.9	27	22.7
3	27	22.7	53	44.5	50	42	51	42.9
2	21	17.6	14	11.8	11	9.2	15	12.6
1	2	1.7	0	0	0	0	0	0
Total	119	100	119	100	119	100	119	100

F: Frequency

Source: the author

The measuring item statement for explicitness was "the positive result of partners' strategic decision will maintain a sound relationship" (Salancik & Pfefer, 1977 as cited in Rodriguez & Wilson, 2002, p. 59). As shown in table 5.8 above, from 119 respondents, 2 respondents or 1.7% strongly disagreed, 21 respondents or 17.6% disagreed, 27 respondents or 22.7% chose to be neutral, 28 respondents or 23.5% agreed, and 41 respondents or 34.5% strongly agreed with the statement. Based on the result, most of the respondents strongly agreed with the statement of this indicator; they felt that if their partners' strategic decision obtained positive outcomes it would maintain a sound relationship between them. The second largest group of the respondents agreed with the statement, and the third largest group felt that their partners' positive result might or might not be able to maintain a sound relationship in the franchise agreement. It could be inferred that this kind of respondent was a little bit skeptical about the positive result that can bring more commitment between them. Furthermore, there were 21 respondents who responded skeptically to the statement, and two

respondents who strongly disagreed that the positive result of partners' strategic decision would maintain a sound relationship.

The next measuring statement item for revocability was "partners should think thoroughly before making decisions" (Salancik & Pfefer, 1977 as cited in Rodriguez & Wilson, 2002, p. 59). From 119 respondents, 14 respondents or 11.8% disagreed, 53 respondents or 44.5% chose to be neutral, 27 respondents or 22.7% agreed and 25 respondents or 21% strongly agreed with the statement. Based on the result, most of the respondents chose score three, which was neutral, which could imply that these groups thought that their partners should or should not think thoroughly before commencing decisions. Or it could imply that based on their experiences, the decisions that their partners already made did not obtain a result that they were hoping for (Rodriguez & Wilson, 2002). So they chose to be neutral in this statement. The second largest group of respondents agree that their partners should think thoroughly before making a decision, the third largest group answered for score 5, meaning that they strongly agreed with the statement. And there were 14 respondents who disagreed that their partners should think thoroughly before making decisions. However, there were no respondents who strongly disagreed with this statement.

"Partners have to be responsible for decisions they have made" (Salancik & Pfefer, 1977 as cited in Rodriguez & Wilson, 2002, p.59; Haunschild & Rhee, 2004) was the measuring statement item for volition. From 119 respondents, 11 respondents or 9.2% disagreed, 50 respondents or 42% chose to be neutral, 32 respondents or 26.9% agreed and 26 respondents or 21.8% strongly agreed with the statement. Based on Table 5.8 above, most of the respondents gave a neutral answer to this statement, which suggests that these respondents did not really take their partners responsibility seriously. And furthermore, based on the most chosen answers, it might be that most of the respondents did not want to take responsibility for their decisions, and they might or might not have wanted to be responsible on the decisions they made. The second largest group the respondents agreed that their partner should be responsible for the decisions they had made. The third largest

group of the respondents answered that they strongly agreed with the statement. And there were 11 respondents who disagreed that their partners had to be responsible for the decisions they made. Lastly, there were no responses for score one for this statement.

The measuring statement item was “acknowledgements of partners’ strategic decisions are not important in this business” (Salancik & Pfefer, 1977 as cited in Rodriguez & Wilson, 2002, p. 59). From 119 respondents, 15 respondents or 12.6% agreed, 51 respondents or 42.9% were neutral, 27 respondents or 22.7% disagreed and 26 respondents or 21.8% strongly disagreed with the statement. Most of the respondents were neutral with the statement, it can be deduced that these respondents felt that their partners’ acknowledgement of strategic decisions was in some way important or perhaps in other way did not really bother them in conducting the franchise business relationships. Based on the result, perhaps most of the respondents were holding some pertinent information from their partner. So they may share or may not share the information with their partners. While the second largest group of the respondents disagreed that acknowledgements of partners’ strategic decisions ware not important in this business; these respondents thought that as a partner in a franchise business relationship, each partner must share and acknowledge every strategic decisions they made. The third largest group of respondents strongly disagreed with the statement. There were 15 respondents who agree with this statement, and there were no respondents who strongly agreed that acknowledgements of their partner’s strategic decisions were not important in franchise businesses.

5.3.2.2.3 Dispute Risk Management

Dispute risk management as a construct has four indicators, which are: pre-investment screening, due-diligence, opportunistic behaviour and market demand (Anderson & Weitz, 1992; Blut et al., 2011; Winsor et al., 2012; Grace et al., 2013). Each of the indicators had measuring statement items to

measure respondents' opinions. Tables 5.9 below present the distribution of respondents' answers for this construct.

Table 5.9 Distribution of respondents' answers for construct *dispute risk management*

	Pre-investment screening		**Due-diligence**		**Opportunistic Behaviour**		**Market Demand**	
Score	F	Percent	F	Percent	F	Percent	F	Percent
5	33	27.7	29	29.4	30	25.2	32	26.9
4	36	30.3	40	34.5	52	43.7	48	40.3
3	39	32.8	40	33.6	29	24.4	33	27.7
2	10	8.4	10	33.6	8	6.7	6	5
1	1	0.8	0	0	0	0	0	0
Total	119	100	119	100	119	100	119	100

F: Frequency

Source: the author

The measuring statement item for pre-investment screening was "my partner's previous business and personal records are important before conducting a business relationship" (Grace et al., 2013). From 119 respondents, 1 respondent or 0.8% strongly disagreed, 10 respondents or 8.4% disagreed, 39 respondents or 32.8% were neutral, 36 respondents or 30.3% agreed and 33 respondents or 27.7% strongly agreed with the statement. Based on the result in Table 5.9 above, most of the respondents were neutral, which means that their partners' previous businesses records was not really important for them before conducting franchise businesses, although in some way they might think that it could be useful as a consideration factor. In addition, perhaps these respondents did not conduct any pre-investment screening activities before signing an agreement with their franchise business partners. While the second largest group of the respondents agreed with the statement, and the third largest group of the respondents strongly agreed that before conducting a business relationship, they should take their partners' previous businesses records seriously. And

furthermore, based on the result there were 10 respondents who disagreed and one respondent who strongly disagreed that their partners' previous businesses records were important before conducting a business relationship.

The next indicator was due-diligence; the measuring item for this indicator was "before signing a franchise agreement, I have to explore the franchise business or my future partners' details (via business colleagues, business associations and or web)" (Blut et al, 2011). From 119 respondents 10 respondents or 8.4% disagreed, 40 respondents or 33.6% were neutral, 40 or 33.6% respondents agreed, and 29 respondents or 24.4% strongly agreed with the statement.

In this statement, the number of respondents who gave the neutral answer and agreed was the same. Based on table 5.9 above, 40 respondents choose to be neutral with regard to the statement; it can be inferred that they did not really take their future partner's details into consideration before signing franchise business contracts or agreements. Alternatively, these respondents may have taken their future partners details into consideration before signing franchise business agreements but did not regard their research as particularly important or revealing. The next 40 respondents agreed with the statement, which means that their future partner's details were important to them before signing franchise business arrangements. The second largest group of respondents strongly agreed that they would not sign a franchise business agreement before they discovered the details of their future partners. And there were respondents who disagreed with the statement; they think that they did not need to discover about their future partners details before signing a franchise business agreement. There were no respondents who answered that they strongly disagreed with the statement.

Table 5.9 above shows the distribution for the opportunistic behavior statement; the measuring statement item was "opportunistic behaviors emerge in franchise business occasionally (behaviors which do not comply with the franchise agreement)" (Winsor et al., 2012). From 119 respondents,

8 respondents or 6.7% disagreed, 29 respondents or 24.4% were neutral, 52 respondents or 43.7% agreed and 30 respondents or 25.2% strongly agreed with the statement. Based on Table 5.9 above, most of the respondents agreed that opportunistic behavior could emerge in franchise business relationships. The second largest group of the respondents strongly agreed that this kind of behavior could emerge in franchise business arrangement. Furthermore, it could be inferred that 65.9% (Score 5 and 4) of respondents were aware that opportunistic behaviours probably could emerge in their business relationships. The third largest group of respondents chose to be neutral with the statement, which may imply that whether this kind of behavior emerges or not in a franchise business relationship, it did not really concern this group of respondents. Furthermore, there were 8 respondents who disagreed with the statement, suggesting that these respondents thought that their partner would comply with the agreement that they had signed before. However, there were no respondents who strongly disagreed with the statement.

The next indicator for dispute risk management is market demand. The measuring statement item for this indicator was “before signing the franchise agreement, there is no need to conduct a market survey” (Anderson & Weitz, 1992). From 119 respondents, 6 respondents or 5% agreed, 33 respondents or 27.7% were neutral, 48 respondents or 40.3% disagreed, and 32 respondents or 26.9% strongly disagreed with the statement. Most of the respondents disagreed with the statement; and the majority of respondents thought that it was important to conduct a market survey prior to signing a franchise business agreement. The second largest group of the respondents were neutral with the statement, it could be inferred that whether or not a market survey was conducted, they were willing to sign the franchise business contract. The third largest group of the respondents strongly disagreed with the statement, they thought that it was really important to conduct a market survey to observe customers preference before signing franchise business agreement. There were six respondents who thought that not conducting market survey would not stop them in signing a franchise

business agreement. And there were no respondents who strongly agreed with this statement.

5.3.2.2.4. Relationship Satisfaction

Construct *relationship satisfaction* has four indicators, which are: resource access, communication openness, perceived conflict and support (Palmatier, 2006; Bordonaba-Juste et al., 2011; Grace et al., 2013). Just as the other indicators, these indicators also have measuring statement items to measure respondents' opinion. Tables 5.10 below present the distribution of respondents' answers for this construct

Table 5.10 Distribution of respondents' answers for construct *relationship satisfaction*

	Resource Access		**Communication Openness**		**Perceived Conflict**		**Support**	
Score	F	Percent	F	Percent	F	Percent	F	Percent
5	37	31.1	30	25.2	47	39.5	52	43.7
4	48	40.3	47	39.5	54	45.4	39	32.8
3	26	21.8	35	29.4	18	15.1	27	22.7
2	8	6.7	7	5.9	0	0	1	0.8
1	0	0	0	0	0	0	0	0
Total	119	100	119	100	119	100	119	100

F: Frequency

Source: the author

The measuring statement item in for resource access was "It is quite easy to access my business partner resources such as know-how, business standards, marketing, etc." (Palmatier, 2006). Table 5.10 above shows that from 119 respondents, 8 respondents or 6.7% disagreed, 26 respondents or 21.8% were neutral, 48 respondents or 40.3% agreed and 37 respondents or 31.1% strongly agreed with the statement. Most of the respondents agreed, which means that they found it easy to access their franchise business partners' resources such as know-how, business standards, and marketing. The second largest group of the respondents strongly agreed with the statement, which could imply that they were able to access their business partners' resources more easily than the previous group of respondents. The third largest group of the respondents gave a neutral answer, which could imply that they might face certain obstacles in accessing their partners'

resources, although they might be able to access their partners' resources fairly. And there were eight respondents who disagreed with the statement, meaning that there was a possibility that they experienced some difficulties in accessing their partners' resources. However, there were no respondents who strongly disagreed with the statement.

The next indicator for relationship satisfaction was communication openness. The measuring statement for this indicator was "my business partner provides a routine open communication facility all the time, such as routine meetings, or any other form of communications, telephone or email" (Grace et al., 2013; Bordonaba-Juste et al., 2011). The respondents' answers which were derived from 119 respondents: 7 respondents or 5.9% disagreed, 35 respondents or 29.4% were neutral, 47 respondents or 39.5% agreed and 30 respondents or 25.2% strongly agreed with the statement. Most of the respondents agreed with the statement, it could be inferred that these respondents had relatively sound routine communications with their partners in their franchise business relationships. The second largest group of the respondents answered neutral, it could be inferred that they might have enjoyed communication with their franchise business partners but that it might be less intense and routine compared to the previous group of respondents. The third largest group of the respondents strongly agreed with the statement, it could be inferred that they have more intense and routine communications between them in the franchise business relationship compare to those who gave a neutral answer to this statement. Finally, there were seven respondents who disagreed with the statement, suggesting that they did not have any routine communication with their partners in their franchise business arrangements. However, there were no respondents who strongly disagreed.

Table 5.10 above presents the distribution of perceived conflict; the measuring statement item for this indicator was "I am aware that conflict between partners is likely to occur" (Grace et al., 2013). From 119 respondents, 18 respondents or 15.1% were neutral, 54 respondents or 45.4% agreed and 47 respondents or 39.5% strongly agreed with the

statement. Based on the result above, most of the respondents chose to agree with the statement, and it could therefore be inferred that conflicts were likely to occur in franchise business arrangements and their awareness of conflict emergence was quite high. The second largest group of the respondents strongly agreed that conflict between partners was likely to take place in franchise business relationships, while the third largest group of the respondents chose to be neutral with the statement. This type of respondents thought that conflict could be or could not occur in franchise business arrangements. However, there were no respondents who disagreed or strongly disagreed with this statement.

The measuring statement for indicator support was “the support from my partner complies with our business contract” (Palmatier, 2006; Grace et al., 2013). From 119 respondents, 1 respondent or 0.8% disagreed, 27 respondents or 22.7% chose to be neutral, 39 respondents or 32.8% agreed and 52 respondents or 43.7% strongly agreed with the statement. The largest group of the respondents strongly agreed with the statement; from this it could be inferred that most of the respondents received proper support from their partners in franchise business relationships. The second largest group of the respondents chose to agree with the statement. They and their partners conducted proper support for each other based on the franchise business contracts. The third largest group of the respondents gave the neutral answer; this type of respondent might find that their partners’ support was fairly provided. There was only one respondent who disagreed with the statement; this respondent may have found that his or her partner did not provide a proper support in their franchise business relationships. However, there were no respondents who strongly disagreed with the statement.

5.3.2.2.5. Franchise Business Survivability

Franchise business survivability is measured by four indicators, which are: strategic achievement, business formula testing, franchise expectations and core competency fit or misfit, and the last indicator is partners’ complaint and legal action (Stanworth, 2001; Holmberg & Morgan, 2004; Boulay, 2010).

Tables 5.11 below provides the respondents' answer distribution for each indicator

Table 5.11 Distribution of respondents' answers for construct *franchise business survivability*

	Strategic Achievement		**Business Formula Testing**		**Franchise Expectations and Core Competency Fit or Misfit**		**Partners' Complaint and Legal action**	
Score	F	Percent	F	Percent	F	Percent	F	Percent
5	29	24.4	33	27.7	25	21	38	31.9
4	38	31.9	45	37.8	42	35.3	46	38.7
3	38	31.9	33	27.7	39	32.8	28	23.5
2	14	11.8	8	6.7	13	10.9	7	5.9
1	0	0	0	0	0	0	0	0
Total	119	100	119	100	119	100	119	100

F: Frequency

Source: the author

Strategic achievement was measured by a statement item in the questionnaire. The statement item was "setting business targets and goals in franchise business periodically is not a main concern" (Stanworth et al., 2001). From 119 respondents, 14 respondents or 11.8% agreed, 38 respondents or 31.9% were neutral, 38 respondents or 31.9% disagreed and 29 respondents or 24.4% strongly disagreed with the statement. Based on Table 5.11 above, most of the respondents disagreed or were neutral for this statement. For the first group, which were the respondents who disagreed with the statement, it could be inferred that these respondents felt that setting business targets and goals in franchise business periodically was a main concern to ensure that their businesses were on the right path. While the other dominant group of respondents chose to be neutral with the statement,

it could be inferred that these respondents felt that whether they set business targets and goals or not was not really a concern for them in conducting a franchise businesses. The third largest group of respondents strongly agreed with this statement, they felt that it was quite important to set business targets and goals periodically. The next group of respondents agreed with the statement, they felt that setting business targets and goals in franchise business periodically was not really important. However, there were no respondents who strongly agreed with this statement.

Business formula testing was the next indicator of franchise business survivability, the measuring statement item was “the business formula testing is important in franchise business” (Stanworth et al., 2001). From 119 respondents, 8 respondents or 6.7% disagreed, 33 respondents or 27.7% were neutral, 45 respondents or 37.8% agreed and 33 respondents or 27.7% strongly agreed with the statement. Most of the respondents agreed that business formula testing was important in franchise business. The second largest group of respondents strongly agreed with the statement, it can be inferred that this group of respondents felt strongly that franchise business formula testing was necessary to ensure that the business was able to reach its targets and goals. The third group of the respondents, which was the same size as the previous group, chose to be neutral with the statement. This group of respondents did not really take the business formula testing idea seriously into their consideration. The next group of respondents disagreed, it could be inferred that they did not think that business formula testing was important in franchise business. However, there were no respondents who answered with score number one.

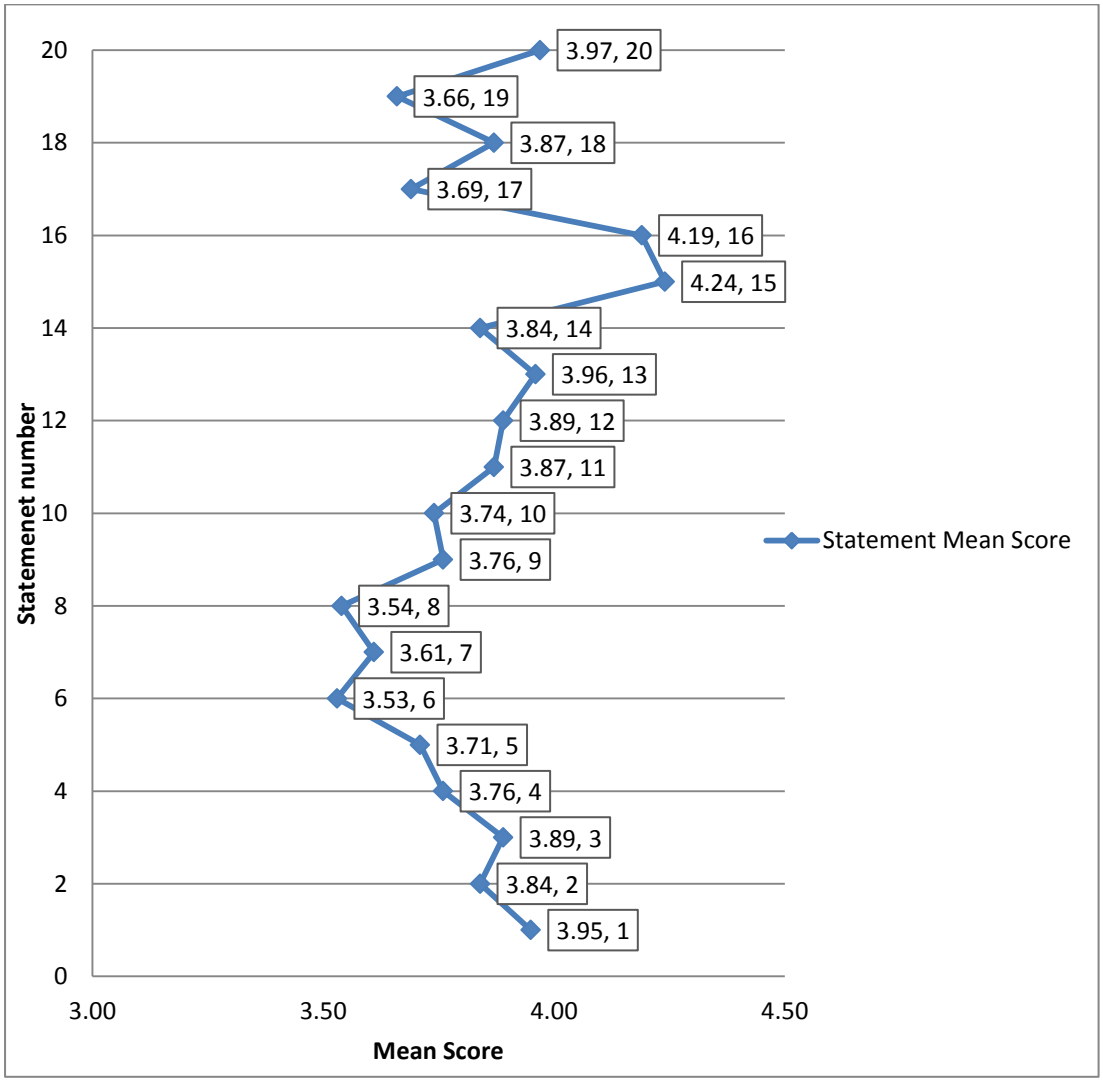
The measuring statement item for franchise partner core competence was “my partner’s business expectations and competencies are not significant in this business arrangement” (Holmberg & Morgan, 2004; Davies et al., 2011; Winsor et al., 2012). From 119 respondents, 13 respondents or 10.9% agreed, 39 respondents or 32.8% chose to be neutral, 42 respondents or

35.3% disagreed and 25 respondents or 21% strongly disagreed with the statement. Most of the respondents disagreed with the statement; they thought that their partners' business expectations and competencies were important to their business arrangement. In other words, these respondents thought that they should have a partner with adequate positive business expectations and competent to handle the franchise business relationship properly. The second largest group of respondents gave a neutral answer; possibly they thought that their partners' competencies were important or maybe not important in their business arrangements. The third largest group of the respondents answered that they strongly agreed with the statement, which suggests that this type of respondent really took their partners' competencies into consideration as a determinant of franchise business success. The next group of respondents answered that they disagreed; they may have thought that their partners' competencies in determining their franchise business arrangements success were not important However, there were no respondents who strongly disagreed.

Partners' complaint and legal act was the final indicator for franchise business survivability, the measuring statement was "If complaints or disputes arise, I would ask for legal advice" (Holmberg & Morgan, 2004; Boulay, 2010; Davies et al., 2011; Winsor et al., 2012). From 119 respondents, 7 respondents or 5.9% disagreed, 28 respondents or 23.5% choose to be neutral, 46 respondents or 38.7% agreed and 38 or 31.9% strongly agreed with the statement. Most of the respondents answered with score four, which means that they agreed that if something occurred, such as complaints or disputes, they would ask for legal advice. The second largest group of respondents strongly agreed that they would ask for legal advice if disputes and complaints emerged. The third largest group of the respondents were neutral with the statement, suggesting they may seek legal advice or would possibly use a non-legal advisor such as a mutual friend to settle down their disputes. The next group of respondents disagreed with the idea of using legal advice for solving their disputes. However, there are no respondents who strongly disagreed with this statement.

5.3.2.2.6 Statement Mean Score

Figure 5.1 Statement Mean Score



Source: the author

Based on the descriptive analysis, the researcher can describe the mean score for each statement. Figure 5.1 above illustrates the mean score for each statement, it shows a pattern of the opinions of Indonesian franchise business partners in the restaurant and retail sectors with regard to the statements used in this study. The figure describes that overall the franchise business partners had a positive opinion regarding every statement in the questionnaire. This can be inferred from the mean score result, which overall exceed score three. The lowest mean score of the statements was 3.53,

which was for statement number 6; ‘partners should think thoroughly before making decisions’. It can be inferred that the partners in the Indonesian franchise business relationships in the restaurant and retail sectors had an opinion between neutral and agree. They may not have taken their partners thinking in making decisions as a pertinent factor in maintaining their relationships. On the other hand, the highest score for the statements was a value of 4.24; this highest mean score was for statement number 15; ‘I am aware that conflict between partners is likely to occur’. From this result, it can be inferred that partners in Indonesian restaurant and retail business sectors were aware of the importance of this study’s determinants in enhancing their businesses’ survivability.

5.3.2.2.7 Summary of descriptive analysis

The descriptive data analysis of this research provides the reader with the characteristics of the respondents. This includes their position in the franchise relationship (the composition of position in the franchise business arrangements was almost equal; there were 44.5% of respondents who were franchisors and 55.5% of respondents who were franchisees. In terms of company based, from 119 respondents, 4.2% are foreign businesses, and 95.8% of them are local businesses. Most of the respondents were located in Semarang (53 respondents) and Jakarta (also 53 respondents), this was probably caused by the researcher’s hometown being Semarang and also because Jakarta, as Indonesia’s capital, is the centre of business. Most of the respondents were based in Indonesia as their home country, from 119 respondents; only six respondents were based outside Indonesia, in countries such as the United States, Singapore, Malaysia, The Philippines and Taiwan. In terms of line of business, most of the respondents were engaged in restaurant businesses; of 119 respondents, 82 of them are engaged in the restaurant business. Mainly, the respondents of this research had been in the business between 1-5 years; from 119 respondents, 73.1% of them had already been in a franchise business between 1-5 years. This indicates that most of the businesses were still relatively new to these sectors.

This research questionnaire consisted of 20 statements, the questionnaire applied a Likert 5 scale scoring, and this scoring ranged from strongly disagree to strongly agree (Brace, 2004). Based on the result from the previous sub chapters, most of the respondents responded for score 4. Furthermore, from 20 statements in the questionnaire, 12 statements were dominated by score 4. Those 12 statements were the statements for 'goodwill-trust', 'cognition-based trust', 'competence trust', 'affect-based trust', 'opportunistic behaviour', 'market demand', 'resource access', 'communication openness', 'perceived conflict', 'business formula testing', 'franchise expectations and core competency fit or misfit' and 'partners' complaint and legal action'. This fact indicates that most of the respondents agreed or disagreed with the statements in the questionnaire, depending on the statements provided in the questionnaire (due to the presence of negative statements).

The second most dominant answer for all of the statements was score 3, or neutral. There were four statements that were dominated by score 3. Those four statements that were dominated by score 3 (or neutral) were statements for revocability, volition, publicity and pre-investment screening. This fact indicates that concerning those four statements, the respondents were not taking them into serious consideration. Furthermore, those four statements seem not to have concerned them much in making decision concerning their franchise business relationships. This fact may have been caused by two possibilities. The first is that the respondents did understand the statements in the questionnaire, and they were doubtful about the statements; and as result they chose score 3 (neutral). The second possibility is generated by cultural aspect, as Chen et al., (1995) emphasised that midpoint usage might be influenced by their culture of being collectivist (Asian) and individualist (North American) people. Because this study was conducted in Indonesia, based on the previous research, there may have been a cultural effect on the responses given.

The third most dominant score was 5. From 20 statements there were two statements that were dominated by score 5. Those two statements were

statement number 5, which stated that “positive result of partners’ strategic decision will maintain a sound relationship” and statement number 16, which stated “the support from my partner complies with our business contract”. On those two statements, most of the respondents strongly agreed. It indicates that the respondents to this research thought that positive results of their partners’ strategic decision would maintain a sound franchise business relationship and also that the respondents felt they were already receiving sufficient support from their business partners.

There were two statements of the research which received the same amount of answers for two responses, they were statement number 10 and number 17. These two statements, which are statement number 10 “before signing a franchise agreement, I have to explore the franchise business or my future partners’ details (via business colleagues, business associations and or web)” and statement number 17 “setting business targets and goals in franchise business periodically is not a main concern”. These two statements received the same amount of answers for score 3 and score 4. This shows that on those two statements, the respondents were either neutral or agreed or disagreed with the statements. For statement number 10, there were the same amount of respondents who believed that they might or might not explore the details of their future partners’ details and respondents who agreed that it was necessary to explore their future partners’ details before signing a franchise agreement. Moreover, for statement number 17 there were the same amounts of respondents who disagreed with the statement, it reflects that these respondents felt that periodically setting business targets and goals in a franchise business was a main concern to ensure that the business was on the right path. The other dominant group of respondents was neutral with regard to the statement, reflecting that these respondents felt that whether business targets and goals were set or not was not really a concern for them in conducting their franchise businesses.

The mean score of each statement of the questionnaire describes that in general, the respondents of the research thought positively regarding this research’s main themes, which are the latent variables of this research (*trust,*

commitment, *dispute risk management*, *relationship satisfaction*, and *franchise business survivability*). The lowest mean score of 3.53 and the highest mean score of 4.24 reflects that the Indonesian franchise business partners in the restaurant and retail business response was positive or aware to the research variables.

5.3.3 Structural Equation Modelling Analysis

Structural Equation Modelling (SEM) allows the researcher to conduct a testing of theoretical prepositions regarding how variables or constructs are theoretically linked and how those construct are directionally of significant relationships (Schreiber et al., 2006). In this study, the researcher developed a proposed structural theoretical model to test a theory, which was the franchise business survivability model. Confirmatory factor analysis (CFA) SEM analysis consists of two major components, which are the measurement model and the structural model (Schreiber et al., 2006).

SEM data analysis comprises several steps (such as model development), which are based on theories and previous research, to determine the degree of freedom of the model, and ensure it is over-identified or positive. There is already a fixed parameter in value of 1 at one of the indicators in each of the constructs in the model, to provide confirmation that the model can be identified by SEM analysis software (Ferdinand, 2006; Santoso, 2012).

In this SEM analysis, the researcher conducted maximum likelihood estimates. The estimates were applied due to the size of the data sample, which was less than 200, with normally distributed data (Ferdinand, 2006; Byrne, 2010). Before conducting the SEM analysis, SEM assumptions assessment test, which are normality data distribution, outliers data, and multicollinearity.

5.3.3.1 Structural equation modelling assumptions assessment tests

Before conducting the SEM analysis, the researcher conducted SEM assumptions assessment tests, which comprise of normality data distribution test, outliers data assessment test and multicollinearity assessment test.

These tests are to confirm that the data used in this study meet requirement for the SEM analysis. The results of these assessment tests are provided as follows:

a. Normality data distribution assessment

In conducting CFA SEM analysis, one of the data requirements is normal data distribution (Byrne, 2010; Ferdinand, 2006; Santoso, 2012) Data distribution can be regarded as normal data distribution if the value of skewness = 0 (Byrne, 2010), albeit, this perfect value of normal data distribution is difficult to achieve in the field. In order to cope with this issue, the researcher applied z score as a reference value. At significance level of 1%, z value of ±2.58 can be applied in determining whether the observed data are normally distributed or not (Ferdinand, 2006). Critical value (c.r) values indicate that the observed data were normally distributed. The table of normality data distribution can be seen on appendix A page 304.

b. Outliers Data Assessment

CFA SEM analysis also requires the absence of outlier data (Ferdinand, 2006). To verify that there is no outlier data, table of Mahalanobis distance (see appendix A, p. 305) can be applied to confirm the existence of outlier data (Santoso, 2012).

The distance is measured using the Mahalanobis method (Ferdinand, 2006). The further the distance of the data from that specific central point and p2 value of 0.00, there is a possibility that the data can be categorised as outliers (Santoso, 2012). Based on that reference, it can be concluded that there were no outlier data in the observed data.

c. Multicollinearity

There was no multicollinearity in the model due to the correlation values among exogenous latent variables or constructs (double-headed arrows) in the model not exceeding the value of 0.9 (see figure 5.2, p.178). As Grewal et al. (2004) observed, even models with very high levels of multicollinearity

(correlations among the exogenous variables greater than 0.9) can be tolerated, as long as other model assessment such as pertinent indices and factor loading significance already comply with SEM analysis requirements.

Furthermore, the discriminant validity test revealed that the FBS model complied with the requirements of SEM analysis. The discriminant validity test showed that there was no multicollinearity in this model because the unconstrained measurement model chi-square value is lower than the constrained measurement model chi-square value. Therefore, all of the constructs of this model are not perfectly correlated (Bogazzi &Philips, 1982 as cited in Ferdinand, 2006, p.196) meaning that each construct has its own uniqueness and is independent (see table 5.26, p. 188).

Scholars such as Mason and Perreault (1991) observe that concerns about collinearity are perhaps less critical than bigger concerns about the overall power of the analysis, as collinearity by itself is of less concern than is often implied in the literature. Several approaches to deal with collinearity seems to be entirely unsatisfactory (Grewal et al, 2004). Furthermore, Mason and Perrelault (1991) emphasise that collinearity issues should not be considered in isolation, but rather in a broader context, such as in terms of the power of the overall analysis.

According to Malhorta, Peterson and Kleiser (1999) SEM analyses are robust enough, meaning that multicollinearity is not an estimation issue in SEM analysis. Furthermore, this model already passes two SEM assumptions, which are normally distributed data and outliers data screening. In addition, worries concerning the disadvantage effects of collinear predictors seem exaggerated in certain situations typically encountered in cross-sectional data (Mason& Perreault, 1991).

Furthermore, there is ambiguity on several guidelines when multicollinearity is likely to cause problems, and the procedures for mitigating multicollinearity are often of limited usefulness, and most importantly, very little is known about how to deal with multicollinearity in the context of statistical analysis such as SEM (Larwin & Harvey, 2012).

5.3.3.2 Measurement model analysis

Measurement model analysis fundamentally is the first stage of Confirmatory Factor Analysis (CFA), and the main objective of this analysis is to test the reliability of the observed variables or indicators (Schreiber et al., 2006). It examines the extent of interrelationship and covariation among latent variables (Schreiber et al., 2006). The confirmatory factor analysis also enables the researcher to confirm whether a theoretical measurement model is valid (Hair et al., 2006).

Prior to model fit analysis, the researcher needed to go through a model identification stage, which revealed that the measurement model was over-identified, given the level of degree of freedom of 160 shown in table 5.12 below; meaning the level of degree of freedom is positive. Therefore, according to Hair et al. (2006) further analysis can be commenced (Hair et al., 2006). The next analysis was to confirm whether the franchise business survivability measurement model fitted with the data. This analysis applied several goodness-of-fit indices to confirm whether the model fit. The description below presents the result of AMOS output concerning model identification. The output based on the AMOS 21 testing shows the measurement model identification.

Table 5.12 Measurement model identification

Computation of degrees of freedom and result (Default model)	Value
Number of distinct sample moments	210
Number of distinct parameters to be estimated	50
Degree of freedom	160
Minimum was achieved	

Source: AMOS 21 test output file

The research measurement model has 20 observed variables, so the value of sample moments is 20(20+1)/2= 210, the unknown parameters in the model consist of 20 factor loadings, 20 variance and 10 factor covariance, making a total of 50 estimated parameters.

Based on that, the calculation is: DF = 210 – 50
= 160

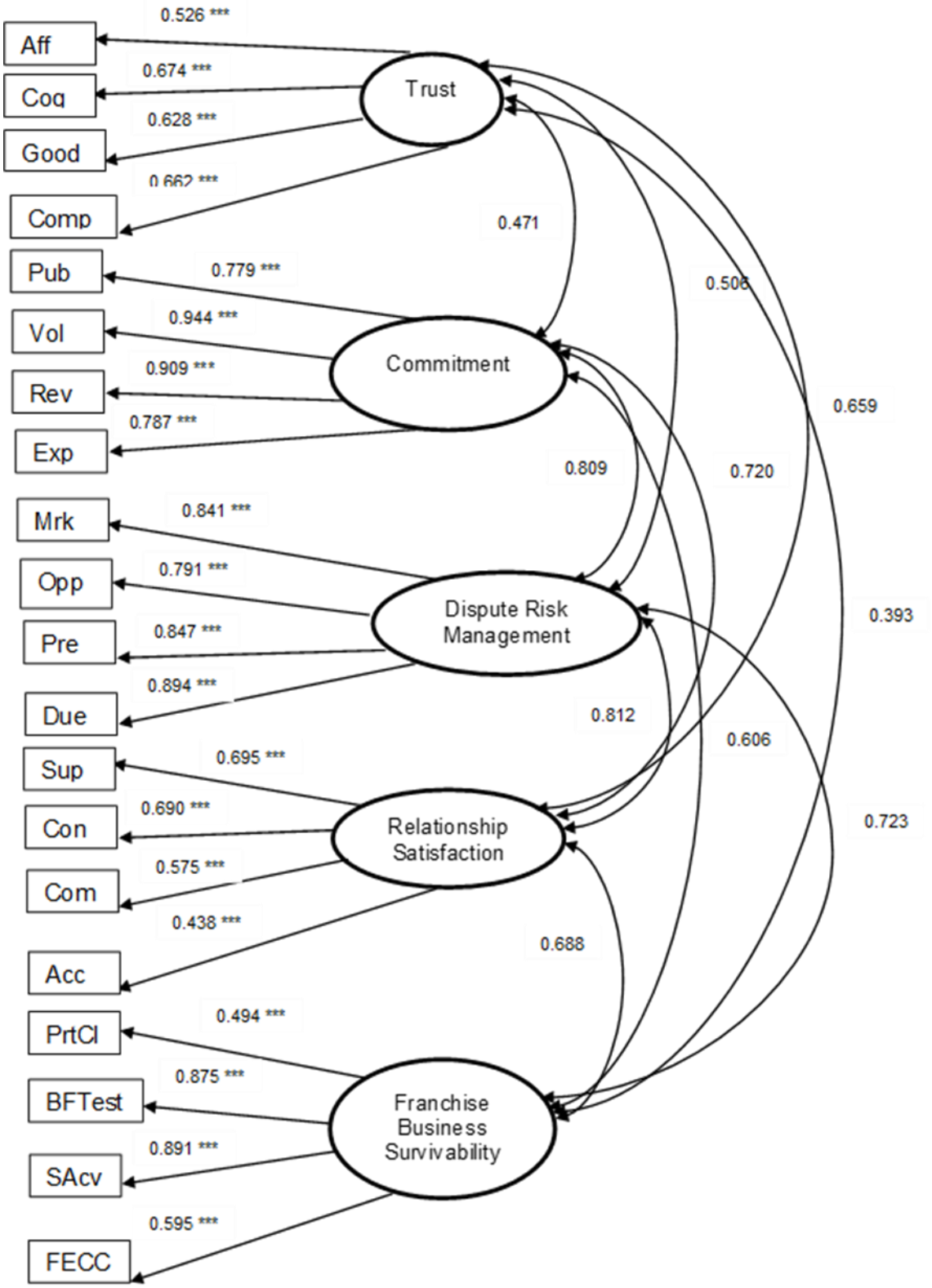
Therefore, the minimum was achieved, meaning that the minimum amount of data was achieved and the analysis can be commenced.

The model fit assessment was based on goodness of fit indicators. The researcher applied numerous goodness-of-fit indices to assess a model. Below are the explanations of these indices:

The researcher conducted CFA SEM analysis using AMOS 21 software, the franchise business survivability measurement model analysis result is presented below.

Figure 5.2 shows the Franchise Business Survivability (FBS) measurement model that represents the relations between constructs and their indicators.

Figure 5.2 Franchise Business Survivability Measurement Model



Source: the author

Legend:

*** : p < 0.001

Aff: Affect-based Trust ; Pub : Publicity
Cog: Cognition-based Trust ; Vol: Volition
Good : Good-will Trust ; Rev: Revocability
Comp: Competence Trust ; Exp: Explicitness
Mrk: Market Demand ; PrtCl: Partners' Complain and Legal Action
Opp: Opportunistic Behaviour ;BFTEst: Business Formula Testing
Pre: Pre-investment screening ;SAcv: Strategic Achievement
Due: Due diligence ;FECC: Franchise Expectations and Core Competency fir or misfit

Figure 5.2 shows that the single headed arrows pointed from construct to their indicators shows the value of factor loading of each indicator of its construct. It also shows that all of the factor loading is significantly valid at level p< 0.001 to measure its construct due the values are ≥ 0.40 (Ferdinand, 2006).

In addition, Figure 5.2 shows the correlation between constructs (double-headed arrows) in the measurement model indicates relatively strong relationships, because most of the obtained values are > 0.5 (Hair et al., 2006). For instance the correlation between *trust* and *relationship satisfaction* has a value of 0.659 indicating that there is a positive relationship between these two constructs. It can be concluded that if trust between partners in a franchise business increases then relationship satisfaction also increases. The correlation values between trust-commitment and trust-franchise business survivability are also relatively good but not as strong as the other construct correlations.

5.3.3.2.1 FBS Measurement Model Fit Summary

Table 5.13 below provides results of Minimum Chi-Square Discrepancy Test (CMIN test) of the Franchise Business Survivability measurement model

Table 5.13 Minimum Chi-Square Discrepancy Test (CMIN test)

Model	CMIN	DF	p	CMIN/DF
FBS Measurement Model	216.009	160	.002	1.350

Model	CMIN	DF	p	CMIN/DF
Saturated model	0.000			
Independence model	1501.941			

Source: the author

From Table 5.13 it can be seen that the FBS measurement model χ^2 – Chi square or CMIN is 216.009 with 160 degrees of freedom, meaning that the model is in a good-fit with the data, because the χ^2- Chi square value of default model, is between the χ^2 value of the saturated model, which is 0, and the independence model, which is 1501.941 (Santoso, 2010). The p=value of the FBS measurement model is 0.002, which indicates that there is a difference between the observed data sample and the population (Ferdinand, 2006), meaning that the model does not fit. Despite the p value result, the ratio of χ^2-chi square to degree of freedom (DF) or CMIN/DF is 1.350, which is ≤ 2, meaning that the FBS measurement model fits the observed data well (Schreiber et al., 2006; Ferdinand, 2006).

Table 5.14 RMR, GFI, AGFI, PGFI

Model	RMR	GFI	AGFI	PGFI
FBS Measurement Model	.049	.854	.809	.651

Source: the author

In previous research conducted by Schreiber et al. (2006), the smaller the root mean square residual (RMR) value, the better, where an RMR value = 0 indicates a perfect fit of the model with the observed data. The RMR value of the FBS measurement model is 0.049, which means that the model fits the observed data well. Goodness-of fit index (GFI) of the model is 0.854, meaning that the model fits the observed data marginally, due to the cut-off value of GFI ≥ 0.95 (Ferdinand, 2006; Byrne, 2010; Hair et al., 2006; Santoso, 2012; Schreiber et al., 2006). Adjusted goodness-of fit index (AGFI) of the model is 0.809, the cut-off value of AGFI is ≥ 0.95 (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010; Santoso, 2012; Schreiber et al., 2006), so the model fits the observed data marginally. The next index of Table 5.14 above is parsimony-adjusted GFI (PGFI): the model PGFI value is 0.651, cut-off

value of this index is that the closer it is to 1 the better (Schreiber et al., 2006) so the model fits the observed data only marginally.

Despite the marginal model fit according to the GFI and AGFI recommended values proposed by previous scholars, there are several scholars such as Yu et al. (2005, as cited in Saxena, 2011, p. 107) and Muenjohn and Amstrong (2008) who set the cut-off value of GFI and AGFI slightly differently. Yu et al., 2005 (cited in Saxena, 2011, p.107) set the GFI cut-off value of > 0.80, in reference to that cut-off value, the model GFI value of 0.854 indicates that the model fits the observed data well. In their study, Muenjohn and Amstrong (2008) set the AGFI cut-off value of > 0.80, the AGFI value of the model is 0.809, so according to this measure the model fits the observed data well.

Table 5.15 Baseline Comparisons

Model	NFI	RFI	IFI	TLI	CFI
FBS Measurement Model	.856	.829	.958	.949	.957

Source: the author

Baseline comparison indices are an index comparison to a baseline, which is the independence model or other model (Schreiber et al., 2006). Table 5.15 above indicates that the value of the model Normed fit Index (NFI) is 0.856. In reference of an NFI cut-off value of ≥ 0.95 (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010; Schreiber et al., 2006), it can be concluded that the model fits with the observed data marginally. Relative fit index (RFI) cut-off value is ≥ 0.95 (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010); the model RFI value is 0.829, so it can be deduced that the model fits with the observed data marginally. Next is Incremental fit index (IFI), the IFI recommended or cut-off value is ≥ 0.95 (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010; Schreiber et al., 2006); the model has an IFI value of 0.958, so it can be concluded that the model fits the observed data well. Tucker Lewis index (TLI) is one of the important indices in model fit assessment (Schreiber et al., 2006). This model has a TLI value of 0.949 ≈ 0.95, in reference to TLI cut-off value of ≥ 0.95 (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010; Schreiber et

al., 2006), it can be inferred that the model fits the observed data well. Next is comparative fit index (CFI), according to which the model fits the observed data well. This can be concluded because the model has a CFI value of 0.957, it meets the cut-off value of CFI ≥ 0.95 as a good model fit (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010; Schreiber et al., 2006).

Table 5.16 Parsimony-Adjusted Measures

Model	PRATIO	PNFI	PCFI
FBS Measurement Model	.842	.721	.806

Source: the author

Parsimony adjustment to the NFI (PNFI) and parsimony adjustment to the CFI (PCFI) are the parsimony indices in assessing the model fit (Schreiber et al., 2006). These indices reflect the parsimonious ratio of the model (Ferdinand, 2006). The SEM analysis of the model indicates that the value of PNFI is 0.721; by referring to the cut-off value of PNFI > 0.50 (Ferdinand, 2006; Byrne, 2010) as a good model fit, it can be concluded that the model fits the observed data well. The PCFI index value of the model is 0.806, by referring to the cut-off value of PCFI > 0.50 as a good model fit, it can be concluded that the model fits the observed data well.

Table 5.17 Non-centrality Parameter

Model	NCP	LO 90	HI 90
FBS Measurement Model	56.009	21.633	98.458

Source: the author

The non-centrality parameter (NCP) value of the model is 56.009, the result is derived by subtracting the $\chi 2$ value and the degree of freedom; 216.009 - 160. The 90% confidence interval for NCP is between LO 90 and HI 90; 21.633-98.458. It can therefore be concluded that the model fits the data well (Ferdinand, 2006).

Table 5.18 Minimum Discrepancy Function (FMIN)

Model	FMIN	F0	LO 90	HI 90
FBS Measurement Model	1.831	.475	.183	.834

Source: the author

The result of population discrepancy of the model is indicated by the F0 value of 0.475. Table 5.18 above indicates that there is a confidence at level 90% and that the population discrepancy is between LO 90 and HI 90; 0.183 and 0.834. The model fits with the observed data if the F0 value of the model is between LO 90 and HI 90 value of the model (Ferdinand, 2006), so it can be concluded that the model fits with the observed data well.

Table 5.19 RMSEA

Model	RMSEA
FBS Measurement Model	.054

Source: the author

The cut-off value of root mean square error of approximation (RMSEA) is ≤ 0.08 (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010; Schreiber et al., 2006). Based on Table 5.19 above, RMSEA value of the model is 0.054. The RMSEA value indicates a good-fit of the model.

Table 5.20 AIC

Model	AIC	CAIC
FBS Measurement Model	316.009	504.965
Saturated model	420.000	1213.616
Independence model	1541.941	1617.524

Source: the author

Akaike information criterion (AIC) and consistent AIC (CAIC) were applied to compare the two models from a parsimonious point of view (Byrne, 2010; Ferdinand, 2006). Smaller values indicate that the model is good-fitting or the model is parsimonious (Ferdinand, 2006). Based on table 5.20 above, it can be concluded that the model complies with the parsimony principle, because the values of the FBS measurement model AIC and CAIC are smaller than the saturated and independence model (Byrne, 2010; Ferdinand, 2006).

Table 5.21 ECVI

Model	ECVI
FBS Measurement Model	2.678

Model	ECVI
Saturated model	3.559
Independence model	13.067

Source: the author

Expected Cross-Validation Index (ECVI) is the next index to determine whether this model fits with the observed data or not. Based on table 5.21 above, the model fits with the data well, because the value of ECVI FBS measurement model is smaller than the independence and saturated models (Ferdinand, 2006; Santoso, 2010).

Table 5.22 Hoelter

Model	HOELTER .05	HOELTER .01
FBS Measurement Model	105	112
Independence model	18	19

Source: the author

Hoelter is a value that determines the level of a model's sample sufficiency (Ferdinand, 2006).This index estimates how large the model needs to be to obtain a model fit (Ferdinand, 2006). Based on table 5.22 above, the Hoelter index values of 105 and 112 are below 200, so it can be concluded that the model fits with the data well.

Therefore, it can be concluded that if most of the common indices meet the required cut-off value that the model fits with the observed data well (Schreiber, et al., 2006). The summary of obtained value and result of the common model fit indices of the franchise business measurement model are provided in table 5.23 as follow:

Table 5.23 The FBS measurement model goodness of fit results

Goodness of fit Indices	**Obtained value**	**Result**
Significance probability	0.002	Not good fit
CMIN/DF	1.350	Good fit
GFI	0.854	Good fit
AGFI	0.809	Good fit
PGFI	0.651	Marginal fit
NFI	0.856	Marginal fit

RFI	0.829	Marginal fit
IFI	0.958	Good fit
TLI	0.949	Good fit
CFI	0.957	Good fit
PNFI	0.721	Good fit
PCFI	0.806	Good fit
RMSEA	0.054	Good fit

Source: AMOS 21 output file and Ferdinand (2006, p. 69); Hair et al. (2006); Byrne (2010); Muenjohn and Amstrong (2008); Yu et al. (2005 as cited in Saxena, 2011, p. 107).

Based on table 5.23 above, it can be concluded that the FBS measurement model fits the observed data well. The next stage of the SEM analysis is to analyse the validity of the construct indicators.

5.3.3.2.2 Indicator-construct relation analysis and validity test

This stage analyses the relation between indicator and construct. The purpose of this analysis is to verify whether the indicator is part of the construct and can be applied to measure its construct (Ferdinand, 2006; Byrne, 2010). This analysis can be obtained using two methods, which are: convergent validity test; and discriminant validity test (Ferdinand, 2006; Santoso, 2010). The convergent validity test and discriminant validity test is conducted after factor loading significance test. The explanation and results are provided below:

a. Factor loading significance test

This stage examines the value of factor loading of each indicator to its related construct. Scholars such as Hair et al. (2006) propose that a factor loading value >0.5 proves that an indicator is part of the construct, while other scholars, for example Ferdinand (2006), state that a value of factor loading ≥0.4 is already sufficient to confirm that an indicator can be applied to measure its construct.

Table 5.24 Parameter Estimates Regression Weights

Cov			Cov. value	S.E.	C.R	p
Comp	<---	TRUST	1.000			
Good	<---	TRUST	.920	.178	5.159	***
Cog	<---	TRUST	1.043	.194	5.378	***

Cov			Cov. value	S.E.	C.R	p
Aff	<---	TRUST	.828	.183	4.523	***
Exp	<---	COMM	1.000			
Rev	<---	COMM	.947	.082	11.499	***
Vol	<---	COMM	.958	.080	12.034	***
Pub	<---	COMM	.827	.088	9.356	***
Due	<---	DISPT-RISK-MAN	1.000			
Pre	<---	DISPT-RISK-MAN	1.006	.080	12.650	***
Opp	<---	DISPT-RISK-MAN	.831	.075	11.125	***
Mrk	<---	DISPT-RISK-MAN	.876	.070	12.492	***
Acc	<---	REL-SATISFACTION	1.000			
Com	<---	REL-SATISFACTION	1.278	.325	3.929	***
Con	<---	REL-SATISFACTION	1.231	.290	4.243	***
Sup	<---	REL-SATISFACTION	1.445	.340	4.255	***
FECC	<---	FRAN-BUS-SURV	1.000			
S.Acv	<---	FRAN--BUS-SURV	1.560	.224	6.967	***
BFTest	<---	FRAN-BUS-SURV	1.421	.205	6.922	***
PrtCL	<---	FRAN-BUS-SURV	.793	.172	4.625	***

Cov: covariance between construct and its indicators; S.E.:standard error;C.R.:critical ratio;p:probability; ***: p < 0.001

Source: the author

Estimated values shown on table 5.24 above indicate covariance between the construct and its indicators (Byrne, 2010). Based on table 5.24 above, the covariance value between the indicator ‘good’ and the construct *trust* is 0.920. To observe whether this value is significant, or in other words if there is any relation between ‘good’ and *trust*, it can be concluded that the indicator ‘good’ can be applied to explain or measure the construct *trust*.

To observe that, Ferdinand, (2006) recommends a hypotheses test as follows:

H_0 : there is no significant relation between good and trust

H_a : there is significant relation between good and trust

If probability (p) > 0.001 accept H_0

If probability (p) < 0.001 reject H_0

Based on table 5.24 above, the value of probability (p) is *** or 0.000, the value is far below 0.05, so it can be deduced that there is a significant relationship between the indicator ‘good’ and its construct *trust* at the level of 1%. Therefore, the indicator ‘good’ can be applied to measure or explain its

construct. The regression weight for *trust* in the prediction of 'good' is significantly different from zero at a 1% level. This hypotheses test can be applied on all indicators.

Hence, based on table 5.24 above all other p values show that there are significant relations between indicators and their constructs. In other words, all of the indicators can be applied to measure their constructs in the model.

- **Convergent validity test**

Furthermore, based on table 5.24, the researcher is able to commence the convergent validity test. According to Anderson and Gerbing (1998 cited in Ferdinand, 2006, p. 192) if the coefficient value of the indicator is more than twice its standard error (SE) value, it can be concluded that the indicator dimension is significantly convergent. Or in other words, the indicator is valid for measuring or explaining the concept of its construct (Ferdinand, 2006). Furthermore, a convergent validity test also can be done by applying the value of Critical Ratio (CR); if the CR value is more than twice that of its SE, the indicator is valid to measure its construct (Ferdinand, 2006). For instance, in table 5.24, the indicator 'good' has a coefficient value of 0.920; this value is more than twice its SE, which is 0.356 (2 x 0.178). And also, the value of CR is 5.159; this value is higher than 0.356. Therefore, the indicator 'good' is significantly valid for measuring the construct *trust.* The other indicators also show the same pattern as the indicator 'good', so it can be implied that all of the indicators are significantly valid for measuring their constructs. After performing convergent validity test, the researcher performed discriminant validity test to be able to decide whether the constructs of this study had perfect correlations among them or not.

- **Discriminant validity test**

Discriminant validity test can be obtained by testing and comparing the constrained FBS Measurement model and the unconstrained (or default) FBS measurement Model (see table 5.26, p. 188) (Anderson & Gerbing, 1988 as cited in Ferdinand, 2006, p. 193). Based on the SEM CFA analysis test the unconstrained FBS measurement model has degrees of freedom (DF) value of 160, and chi-square value of 216.009. After performing test on

the constrained measurement model the results in table 5.25 below were obtained:

Table 5.25 Notes for constrained FBS measurement model

Computation of degrees of freedom and result	Value
Number of distinct sample moments	210
Number of distinct parameters to be estimated	40
Degrees of freedom	170
Minimum was achieved	-
Chi-square	300.021

Source: the author

Based on table 5.25, the researcher was able to perform a discriminant validity test. The difference of DF value between the two models (constrained franchise business survivability measurement model and the unconstrained franchise business survivability measurement model) was 10 (170-160). Based on the chi squared distribution table in Ghozali (2001), a DF value of 10 with significance value of 5% is 18.31, which is the critical value. The researcher performed this test to evaluate the likelihood of the constrained model under the assumption that the unconstrained model is correct. By using basic conclusion of DF=10; if the value of delta chi-square (λ^2) between unconstrained and constrained model > 18.31 the result is significant at the level of 5% (Ferdinand, 2006). Table 5.26 below provides the discriminant validity test details.

Table 5.26 Unconstrained-constrained Δ chi-square test

Unconstrained FBS measurement model		Constrained FBS measurement model ϕij=1		Δ chi-square
Chi-square	DF	Chi-square	DF	
216.009	160	300.021	170	84.012

Source: the author

Based on table 5.26 above, the value of Δ chi-square 84.012; meaning that the constrained model is rejected. The unconstrained model chi-square value shown is lower than the constrained model, which indicates that all of the constructs of this model are not perfectly correlated (Bogazzi &Philips, 1982

as cited in Ferdinand, 2006, p.196) meaning that each construct has its own uniqueness and is independent.

The detailed examination of each construct-indicator relationship is provided next.

b. Construct *trust*

The construct *trust* is built into the model based on previous research by several scholars such as Barney and Clark (2009) and Altinay and Brookes (2012). Trust is one of the most important variables in forming relationship satisfaction in business to business relationship such as franchising (Altinay and Brookes, 2012). In this research, the construct *trust* is explained or measured by four indicators or measurement variables, which are: good-will trust (Rodriguez & Wilson, 2002), competence trust (Johnston et al., 2004), cognition-based trust (Rodriguez & Wilson, 2002), and affect-based trust (Rodriguez & Wilson, 2002).

Based on the CFA SEM analysis, the equations of measurement for the construct *trust* were:

$$1.\ Comp = 0.662Tr + \varepsilon_1$$
$$2.\ Good = 0.628Tr + \varepsilon_2$$
$$3.\ Cog = 0.674Tr + \varepsilon_3$$
$$4.\ Aff = 0.526Tr + \varepsilon_4$$

Where, Comp stands for: competence trust
Good : Goodwill trust
Cog : Cognition-based trust
Aff : Affect-based trust
Tr : Trust
ε : Error term

Based on the first equation above, there was a positive relationship between the indicators ‘competence trust’ and ‘construct trust’. Namely, that if the intensity of ‘competence trust’ increases, the level of *trust* between partners in a franchise business also increases due to increased confidence and positive expectations. This result agrees with research by Johnston et al. (2004). Therefore, as a variable, competence trust can be used as a factor in determining *trust* between partners in a franchise business relationship.

Table 5.27 Squared Multiple Correlations Values for indicators of *trust*

Indicators	Squared Multiple Correlations
Affect-based Trust	.276
Cognition-based Trust	.454
Good-will Trust	.394
Competence Trust	.439

Source: the author

Furthermore, based on table 5.27 above, the 0.439 value of squared multiple correlation indicates that in this study 43.9% of competence trust variance can be explained by the construct *trust*, and the other variance (100% - 43.9% = 56.1%) is explained by other unexplained factors, expressed by the error term (ε_1).

The second equation concerns the relationship between the indicator 'goodwill trust' and 'construct trust'. There is a positive relationship between the indicators 'goodwill trust' and 'construct trust'. This result complies with previous scholars' research, such as that of Rodriguez and Wilson (2002). Based on table 5.27 above, the squared multiple correlation value of this equation is 0.394, meaning that 39.4% of goodwill trust variance can be explained by the construct *trust* and the other variance, which is (100% - 39.4% = 60.6%) is explained by other unexplained factors, expressed by the error term (ε_2).

The third equation concerns whether the relationship between the indicator 'cognition-based trust' and the construct *trust* is positive. This would indicate that if cognition-based trust intensity increases, then the *trust* between partners in the franchise business arrangement increases. This result supports previous research by Rodriguez and Wilson (2002). Based on table 5.27 above, the squared multiple correlation value of this equation is 0.454, meaning that 45.4% of cognition-based trust variance is explained by the construct *trust*. The other variance of (100% - 45.4% = 54.6%) is explained by other unexplained factors, expressed by the error term (ε_3).

The fourth equation is the relationship between the indicator 'affect-based trust' and the construct *trust*. There is also a positive relationship between

the indicator ‘affect-based trust’ and the construct *trust*; meaning that if the level of ‘affect based trust’ increases, the level of *trust* between partners also increases. This supports previous research by Rodriguez and Wilson (2002). The result of CFA SEM analysis reveals that based on table 5.27, the squared multiple correlation value for this equation is 0.276; meaning that 27.6% of affect-based trust variance can be explained by the construct *trust*. The other variance of (100% - 27.6% = 72.4%) is explained by other unexplained factors, expressed by the error term (ε_4)

The four indicators of the construct *trust* show that they are significant in explaining and measuring the construct. This result is the same as found by several previous researchers, such as Mendelsohn (1992); Rodriguez and Wilson (2002); Johnston et al. (2004)). The first indicator of the construct *trust* is ‘good will’. Previous research has indicated that goodwill has an influence or effect on building sound relationships between partners in business (Rodriguez & Wilson, 2002). Goodwill initiates positive behaviour throughout relationships between partners in franchise arrangements. Most likely, if goodwill is present in each partner, there will be a significant amount of trust between them in conducting a sound relationship. Although one partner cannot predict his or her future partner’s mind, goodwill can be a basic way of thinking in the way a person behaves and expects his or her partner to trust each other (Rodriguez & Wilson, 2002). Despite this, there is no guarantee that goodwill can last forever in a business arrangement. However, at least if good will is present, the level of confidence and positive expectations increases (Rodriguez & Wilson, 2002). As a result of that the level of trust increases. In the presence of trust, both sides are more likely to comply with business arrangements and confidence and positive expectations occur between partners (Johnston et al., 2004).

The research results of this study are also consistent with research by Johnston et al, 2004, which indicates that when partners feel confidence with their partner’s behaviour, peace of mind between partners rises and as a result the level of trust also increases.

The research results also consistent with research by Rodriguez and Wilson (2002), meaning that ‘cognition-based trust’ can be applied as an indicator for the construct *trust*; and that the level of dependability is important in franchise business relationships (Rodriguez & WIlson, 2002).

Furthermore, this research result is also consistent with previous research by Rodriguez and Wilson (2002), meaning that ‘affect-based trust’ can be applied as an indicator for the construct *trust*; and that awareness between partners also can be a factor in determining trust in franchise business relationship.

Overall, the respondents seemed to be aware that trust was of importance in their franchise business relationships. This is shown by the probability value of the relations between the construct *trust* and its indicators. All of the probability values of 0.000 or *** in table 5.24 (p.185) show that all the indicators are significant at 1% level.

c.* Construct *commitment

The researcher based the construct *commitment* on previous research by several scholars such as Moorman et al. (1992); and Altinay and Brookes (2012). Those scholars found that to preserve a sound relationship in a franchise business relationship, commitment had a pertinent role. For instance it can preserve sound relationship between partners and also provide a so called “exchange partner believing”; a feeling that provides a willingness to keep the relationship moving in the right direction (Altinay and Brookes, 2012). As franchise business relationships are prone to conflict, commitment is believed to have the capability to provide a partner’s acceptance of franchise norms and structures (Wright & Grace, 2011).

The construct *commitment* is explained or measured by four indicators or measurement variables, which are: ‘explicitness’, ‘revocability’, ‘volition’ and ‘publicity’ (Salancik & Pfefer, 1977 as cited in Rodriguez & Wilson, 2002, p. 59; Haunschild & Rhee, 2004). The partners’ behaviour, such as explicit proof of action, reflects the partner’s committment (Rodriguez & Wilson, 2002). This explicitness of action can be in the form of strategic decision

confirmation between partners in the franchise business relationship. 'Revocability' of partners in the franchise business relationship can be captured using statements about their partners in terms of thinking before making a decision. And the next measurement statement concerns the responsibility of partners regarding the decision they make in the franchise business relationship. According to Rodriguez and Wilson (2002) acknowledgement between partners should occur in order to form a sound relationship between them. All of those measuring statement in the questionnaire proved to be understood quite well by all respondents. Overall, based on the respondents' answers to *relationship satisfaction* statements, the respondents seemed to be aware of the importance of their relationship with their business partner. This is shown by the probability value of the relations between the construct *commitment* and its indicators or measurement variables. All of the probability values for the relations between construct *commitment* and its indicators of 0.000 or *** show that all the indicators were significant at 1% level (see table 5.24, p. 185).

Based on the CFA SEM analysis, the equations of measurement on the construct *commitment* are:

1. $Pub = 0.779Comm + \varepsilon_{17}$
2. $Vol = 0.944Comm + \varepsilon_{18}$
3. $\mathrm{Re}v = 0.909Comm + \varepsilon_{19}$
4. $Exp = 0.787Comm + \varepsilon_{20}$

Where, Pub stands for: Publicity
Vol : Volition
Rev : Revocability
Exp : Explicitness
Comm : Commitment
ε : Error term

Based on the first equation above, there was a positive relationship between the indicators 'publicity' and 'construct 'commitment'. This result is also consistent with research by Rodriguez and Wilson, 2002; that partners'

acknowledgement of their decisions increases commitment between partners in a franchise business relationship.

Table 5.28 Squared Multiple Correlations Values for indicators of *commitment*

Indicators	Squared Multiple Correlations
Publicity	.608
Volition	.890
Revocability	.827
Explicitness	.619

Source: the author

The result reveals that based on table 5.28 above, the squared multiple correlation value for this relationship is 0.608, which shows 60.8% of variance for the indicator 'publicity' can be explained by the construct *commitment.* The other variance of (100%-60.8% = 39.2%) is explained by other factors, expressed by the error term (ε_{17}).

The second equation is the relationship between the indicator 'volition' and the construct *commitment*: the result reveals a positive relation; meaning that if volition acts increase (such as responsibility intensity in making decisions), the *commitment* between partners in the franchise business arrangement also increases. This result is consistent with previous research by Haunschild and Rhee (2004). Based on table 5.28 above, the squared multiple correlation value of this equation is 0.89, meaning that 89% of volition variance can be explained by the construct *commitment*. Based on that, the other variance of (100% - 89% = 11%) is explained by other factors, expressed by the error term (ε_{18}).

The third equation is the relationship between the indicator 'revocability' and the construct *commitment*. The equation shows that there was a positive relationship between 'revocability' and *commitment*; meaning that if the intensity of thorough thinking in making decision increases, the commitment between partners also increases. This result is consistent with previous research by Rodriguez and Wilson (2002). Based on table 5.28 above, the squared multiple correlation value of this equation is 0.827, meaning that 82.7% of 'revocability' variance can be explained by the construct

commitment and other variance, which is (100%-82.7% = 17.3%) is explained by other factors, expressed by the error term (ε_{19}).

The fourth equations above shows that there was also a positive relation between the indicator 'explicitness' and the construct *commitment*; meaning that if the intensity of a positive result increases, commitment between partners in a franchise business also increases. This result is consistent with research by Rodriguez and Wilson (2002). Based on table 5.28, the 0.619 value of squared multiple correlation indicates that in this study, 61.9% of explicitness variance can be explained by the construct *commitment*, and the other variance (100%-61.9 = 38.1%) is explained by other factors, expressed by the error term (ε_{20}).

The following is a detailed examination of the relationship between the construct *dispute risk management* and its indicators

d. Construct d*ispute risk management*

Dispute risk management as a construct is applied by the researcher based on several previous pieces of research by scholars such as Weaven et al. (2010); Elmuti and Kathawala (2001); and Frazer et al. (2012). From the researcher's point of view this construct has a distinctive position in this study, because *dispute risk management* is the researcher's contribution to the application of risk in its relationship with other constructs, which are *relationship satisfaction* and *franchise business survivability*. This construct was formed by the researcher from elements of constructs in previous research, and attempts to derive a relationship between *risk* and *relationship satisfaction* based on previous studies. After conducting an intensive literature study, the researcher was able to form a variable, namely *dispute risk management,* as a complement to previous variables or constructs, which are *trust* and *commitment* to be related with *relationship satisfaction*. The hypothesis was that *dispute risk management* plays a role in determining franchise business *relationship satisfaction*.

Due to its nature as unavoidable, risk exists in all forms of business relationship, and franchise business relationships are no exception (Weaven

et al., 2010). After conducting the data analysis, it is clear the respondents were aware of the existence of risk in their business relationships. The risk in business relationship such as franchising can be in the form of dispute risk (Elmuti & Kathawala, 2001). In order to maintain a sound relationship, managing collaborations between partners in franchise business is challenging. This study applies several indicators which cover both ex ante and ex post periods in signing the franchise agreement (Weaven et al., 2010). In forming B2B relationships, potential franchise partners must pay attention to their future partners' details, previous business records and reputations. In this study these are represented by the indicators 'due diligence' and 'pre-investment screening statements'. Alongside that, before conducting a business relationship, there is a need to commence market demand surveys (Weaven et al., 2010). Furthermore, there is also possibility of opportunistic behaviour occurring from partners in a franchise business relationship (Weaven et al, 2010; Frazer et al., 2012). Overall, based on the respondents' answers to *dispute risk management* relationship statements it can be concluded that the respondents were aware that *dispute risk management* was one of the pertinent factors in conducting their franchise business relationships. This is shown by the probability value of the relationship between the construct *dispute risk management* and its indicators. Probability values of 0.000 or *** show that all indicators are significant at 1% level (see table 5.24, p. 185).

Based on the CFA SEM analysis, the equations of measurement on the construct *dispute risk management* were:

1. $Mrk = 0.841DRM + \varepsilon_{13}$
2. $Opp = 0.791DRM + \varepsilon_{14}$
3. $Due = 0.894DRM + \varepsilon_{15}$
4. $\mathrm{Pr}e = 0.847DRM + \varepsilon_{16}$

Where, Mrk stands for: Market demand
Opp : Opportunistic behaviour
Due : Due-diligence
Pre : Pre-investment screening
DRM : Dispute Risk Management

ε : Error term

The first equation specifies the relationship between the indicator 'market demand' and the construct *dispute risk management*. This result complies with research conducted by Anderson and Weitz (1992), which found that if the intensity of 'market demand survey' increases, the intensity of *dispute risk management* also increases.

Table 5.29 Squared Multiple Correlations Values for indicators of *dispute risk management*

Indicators	Squared Multiple Correlations
Market demand	.708
Opportunistic behavior	.625
Pre-investment screening	.717
Due diligence	.799

Source: the author

Based on table 5.29 above, the result reveals that the squared multiple correlation value for this relationship was 0.708, which indicates that 70.8% of market demand variance can be explained by the construct *dispute risk management*. While the other variance of market demand in value of (100%-70.8% = 29.2%) is explained by other factors, expressed by the error term (ε_{13}).

The second equation shows the relationship between the indicator 'opportunistic behaviour' and the construct *dispute risk management*; the result reveals a positive relationship between them. Therefore, as the awareness level of the emergence of 'opportunistic behaviour' in a franchise business increases, the intensity level of *dispute risk management* also increases. This result agrees with previous research by Winsor et al. (2012). Based on table 5.29 above, the squared multiple correlation of this equation is 0.625, meaning that 62.5% of opportunistic behaviour variance is

explained by the construct *dispute risk management*. Based on that, the other variance of (100%-62.5% = 37.5%) is explained by other factors, expressed by the error term (ε_{14}).

The third equation above indicates that there was a positive relationship between the indicator 'due diligence' and the construct *dispute risk management*. Therefore, if due diligence intensity increases, *dispute risk management* intensity also increases; this result is consistent with research by Blut et al., 2011. Based on table 5.29, the 0.799 value of squared multiple correlation indicates that in this study, 79.9% of due diligence variance can be explained by the construct *dispute risk management*, while the other variance of due-diligence in value of (100%-79.9 = 20.1%) is explained by other factors, expressed by the error term (ε_{15}).

The fourth equation is the relationship between the indicator 'pre-investment screening' and the construct *dispute risk management*. The equation reveals that there was a positive relationship between 'pre-investment screening' and *dispute risk management*; meaning that if the level of 'pre-investment screening' increases, the intensity level of *dispute risk management* also increases. This result agrees with research conducted by Grace et al, (2013). Based on table 5.29, the squared multiple correlation of this equation is 0.717 meaning that 71.7% of pre-investment screening variance can be explained by the construct *dispute risk management*, while the remaining variance, which is (100%-71.7% = 28.3%) is explained by other factors, expressed by the error term (ε_{16}).

There follows a detailed examination of the relationship between the construct *relationship satisfaction* and its indicators.

e. Construct *relationship satisfaction*

The next construct is *relationship satisfaction*. This construct is derived from several studies conducted by Clarke-Hill et al. (2003); Davies et al. (2011); Altinay et al. (2013) and is one of the constructs in this model. *Relationship satisfaction* is a state where both parties in the franchise business feel peace of mind in conducting their business relationship. In general, based on the

respondents' answers to *relationship satisfaction* statements, the respondents seemed to be aware of the importance of their relationship to their business. This can be justified by referring to the probability value of the relations between the construct *relationship satisfaction* and its indicators. All of the probability values of 0.000 or *** in table 5.24 (p. 185) show that all the indicators were significant at 1% level. In other words, there was a level of confidence of 99%. Therefore, these indicators can be applied to measure the construct *relationship satisfaction*.

Just like the other constructs in the model, *relationship satisfaction* was also measured by several indicators. Those indicators were: 'resource access', 'communication openness', 'perceived conflict', and 'support' (Palmatier, 2006; Bordonaba-Juste et al., 2011; and Grace et al., 2013).

Based on the CFA SEM analysis, the equations of measurement on the construct *relationship satisfaction* were:

1. $Acc = 0.438RS + \varepsilon_5$
2. $Com = 0.575RS + \varepsilon_6$
3. $Con = 0.690RS + \varepsilon_7$
4. $Sup = 0.695RS + \varepsilon_8$

Where, Acc stands for : Resource Access
Com : Communication Openness
Con : Perceived Conflict
Sup : Support
RS : Relationship Satisfaction
ε : Error term

Referring to the standardised regression weights or factor loading values in equation 1 above, it can be seen that parties in franchise business arrangements thought that accessing their partner's resources was pertinent. The regression weight or factor loading value is 0.438, which is acceptable as Ferdinand (2006) believes that factor loading values ≥0.04 are a considerable respectable factor loading value.

Table 5.30 Squared Multiple Correlations Values for indicators of *relationship satisfaction*

Indicators	Squared Multiple Correlations
Support	.484
Perceived Conflict	.476
Communication Openness	.330
Resource Access	.192

Source: the author

The first equation reveals that there was a positive relationship between the indicator 'resource access' and the construct *relationship satisfaction*. Namely, as 'resource access' intensity increases, *relationship satisfaction* intensity also increases; this result is consistent with research by Palmatier (2006). According to Palmatier (2012), accessing their partner's resources has a role in forming relationship satisfaction in franchise businesses. Moreover, franchising business relationships are about combining both partners' advantages and disadvantages in order to reach business goals and objectives. Based on table 5.30 above, the 0.192 value of squared multiple correlation indicates that in this study, 19.2% of resource access variance was explained by the construct *relationship satisfaction*, while the other variance of indicator resource access in value of (100%-19.2 = 80.8%) was determined by other factors, expressed by error (ε5).

The second equation is the relationship between the indicator 'communication openness' and the construct *relationship satisfaction*. The equation reveals that there was a positive relationship between 'communication openness' and *relationship satisfaction* with factor loading value of 0.575. This suggests that if the level of 'communication openness' increases, the level of *relationship satisfaction* also increases. This result complies with research which was conducted by Bordonaba et al., (2011) and Grace et al., (2013). The literature suggests open communication in franchise business is a key factor in maintaining relationship satisfaction (Bordonaba-Juste et al., 2011; Grace et al., 2013). However, in a certain way, one partner cannot expect that his or her partner will be willing to expose all of the information he/she possesses, especially about their resources. Partners can rely on their partners' resources in so far as they are

written into contracts or legal agreement letters. Based on table 5.30, the squared multiple correlation value of this equation was 0.330, meaning that 33% of communication openness variance can be explained by the construct *relationship satisfaction*, while the other variance, which is in value of (100%-33% = 67%) is explained by other factors, expressed by error (ε_6).

The third equation describes the relationship between the indicator 'conflict' and the construct *relationship satisfaction*; the result shows that there was a positive relationship between the indicator 'conflict' and the construct. This suggests that if the awareness level of conflict emergence in a franchise business increases, the intensity of *relationship satisfaction* also increases. Perceived conflict is the next factor which is quite pertinent in achieving relationship satisfaction (Grace et al., 2013). This result also agrees with previous research by Grace et al. (2013), who concluded that each partner has to be aware of any kind of conflict between them that is likely to occur. Therefore, in order to obtain *relationship satisfaction* each partner has to be more considered in making complaints to his or her partner. Based on table 5.30, the squared multiple correlation value of this equation was 0.476, indicating that 47.6% of conflict variance was explained by the construct *relationship satisfaction*. Based on that, the other conflict variance in value of (100%-47.6% = 52.4%) is explained by other factors, expressed by the error term (ε_7).

The fourth equation specifies the relationship between 'support' and the construct *relationship satisfaction*. Based on the positive correlation between 'support' and *relationship satisfaction,* as the intensity of support of each partner increases, the intensity of relationship satisfaction also increases. This result agrees with research conducted by Grace et al. (2013), who concluded that support from each partner is also influential in reaching relationship satisfaction. The kind of support that each partner can provide for their partner can be specified in agreements between franchise business partners. The support has to comply with the legal agreement and also each partner has to conduct his or her support role in accordance with a legal contract. Based on table 5.30, the squared multiple correlation for this

relation is 0.484, meaning that 48.4% of support variance can be explained by the construct *relationship satisfaction*. The other variance of support was in the value of (100% - 48.4% = 51.6%) is explained by other factors, expressed by the error term (ε_8).

f. Construct *franchise business survivability* (FBS)

The following is a description and interpretation of the construct *franchise business survivability* and its indicators

Franchise business survivability is the final construct used in the model. The indicators for franchise business survivability are derived from several studies by Stanworth et al. (2001) and Holmberg and Morgan, (2004). There are four indicators for measuring *franchise business survivability,* which are: 'strategic achievement', 'business formula testing', 'franchise expectations and core competency', and 'partners' complaint and legal action'. Based on the respondents' answers on relationship *dispute risk management* statements it can be concluded that the respondents were aware that *franchise business survivability* was one of the factors influential in conducting successful franchise business relationships. This is confirmed by the probability value of the relations between construct franchise business and its indicators. The probability values of 0.000 or *** shows that all indicators were significant at 1% level (see table 5.24, p. 185).

Based on the CFA SEM analysis, the equations of measurement on the construct *franchise business survivability* were:

$$1.\ \mathrm{Pr}tCL = 0.494FBS + \varepsilon_9$$
$$2.\ FECC = 0.595FBS + \varepsilon_{10}$$
$$3.\ BFTest = 0.875FBS + \varepsilon_{11}$$
$$4.\ SAcv = 0.891FBS + \varepsilon_{12}$$

Where, PrtCL stands for: Partners' complaint and legal action
FECC : Franchise expectations and core competency fit or misfit
BFTest : Business formula testing
SAcv : Strategic Achievement
FBS : Franchise Business Survivability
ε : Error term

Looking at the standardised regression weights or factor loading values, it can be seen that parties in a franchise business relationship believed that in order to survive in a franchise business, he or she should take into consideration a partners' complaint and legal action if one partner neglected the legal contract or agreement. The regression weight or factor loading value of the relations between the indicator 'partners' complaint and legal action' and the construct *franchise business survivability* was 0.494, which value is the second lowest factor loading of all indicators in the model FBS. However, the value still reflects a respective value according to Ferdinand (2006), for whom factor loading values ≥0.04 are considered a respective or good value.

The first equation above reveals that there was a positive relation between the indicator 'partners' complaint and legal action' and the construct *franchise business survivability*. Furthermore, when the willingness to make complaints and bring legal action increases, *franchise business survivability* intensity also increases; this result agrees with research by Holmberg and Morgan (2004); Davies et al, (2011); and Winsor et al. (2012). Therefore, the frequency and importance of the 'partners' complaints and legal action' is an indicator of franchise business survivability (Holmberg & Morgan, 2004; Boulay, 2010).

Table 5.31 Squared Multiple Correlations Values for indicators of *franchise business survivability*

Indicators	Squared Multiple Correlations
Partners, Complaint and Legal Action	.244
Business Formula Testing	.766
Strategic Achievement	.794
Franchise Expectations and Core Competency fit or misfit	.355

Source: the author

Based on table 5.31 above, the 0.244 value of squared multiple correlation indicates that 24.4% of 'partners' complaint and legal action' variance can be explained by the construct *franchise business survivability*, while the

remaining variance of ‘partners’ complaint and legal action’ in value of (100%-24.4% = 75.6%) is explained by other factors, expressed by the error term (ε_9).

The second equation concerns the relationship between the indicator ‘franchise expectations and core competency fit/misfit’ and the construct *franchise business survivability*. The equation shows that there was a positive relation between this indicator and the construct. Therefore, as the intensity level of partners’ expectations and competencies increases, the level of *franchise business survivability* also increases. Furthermore, the result agrees with research conducted by Holmberg and Morgan (2004); Davies et al. (2011); and Winsor et al. (2012), who found that franchise expectations and core competency fit/misfit have an influence in determining franchise business survivability. Based on table 5.31, the squared multiple correlation of this equation is 0.355, indicating that 35.5% of ‘franchise expectations and core competency fit/misfit’ variance can be explained by the construct *franchise business survivability*, while the other variance, which is in value of (100% - 35.5% = 64.5%) is explained by other factors, expressed by the error term (ε_{10}).

The third equation describes the relationship between the indicator ‘business formula testing’ and the construct *franchise business survivability*. The result reveals that there was a positive relationship between this indicator and the construct. As the intensity of ‘business formula testing’ increases, the level of *franchise business survivability* also increases. This result agrees with previous research by Stanworth et al. (2001) who found that business formula testing can be applied as a pertinent variable in determining franchise business survivability. Based on table 5.31, the squared multiple correlation of this equation was 0.766, meaning that 76.6% of business formula testing variance can be explained by of construct *franchise business survivability*. The other variance in value of (100% - 76.6% = 23.4%) is explained by other factors, expressed by error term (ε_{11}).

The fourth equation specifies the relationship between the indicator 'strategic achievement' and the construct *franchise business survivability*. The result reveals that there was a positive relation between 'strategic achievement' and the construct. As the intensity of 'strategic achievement' increases, the level of *franchise business survivability* also increases. This result agrees with research by Stanworth et al. (2001), who found that franchise business survivability can be linked with the strategic achievement of the franchise business firms, and help to determine whether the franchise business can survive in the market or fail to comply with the market demand (Stanworth, 2001). Based on table 5.31 above, the result shows that the squared multiple correlation for this relationship is 0.794, meaning that 79.4% of 'strategic achievement' variance can be explained by the construct *franchise business survivability*. The other variance in this construct was of the value of (100% - 79.4% = 20.6%) and is explained by other factors, expressed by the error term (ε_{12}).

The next step is to test the significant relationships between constructs in the model. The researcher applied covariance to perform this test (see table 5.32 below).

Table 5.32 Covariance between constructs

Covariance between constructs			cov.values	p
TRUST	<-->	COMM	.272	***
TRUST	<-->	REL-STFC	.162	.001
TRUST	<-->	FRAN-BUS-SURV	.137	.004
COMM	<-->	REL--STFC	.257	***
COMM	<-->	FRAN-BUS-SURV	.306	***
D-RISK-MAN	<-->	REL-STFC	.261	***
D-RISK-MAN	<-->	FRAN-BUS-SURV	.329	***
TRUST	<-->	DIS-RISK-MAN	.263	***
COMM	<-->	DIS-RISK-MAN	.608	***
REL-STFC	<-->	FRAN-BUS-SURV	.149	.001

cov.values:covariance values; *** : $p < 0.001$
Source: the author

In testing the relationship between constructs in the measurement model, probability value (p) plays a role in determining whether there were significant relationships between constructs or not. Table 5.32 above shows

three relationships between constructs that are significant at the level of 5%. Those relationships are:

- Constructs *trust* and *relationship satisfaction;* p: 0.001
- Constructs *trust* and *franchise business survivability;* p: 0.004
- Constructs *relationship satisfaction* and *franchise business survivability;* p: 0.001.

The other relationships between constructs are significant at the level of 1% (p: ***).

5.3.3.2.3 Summary of the FBS measurement model CFA SEM analysis

Using both the model fit and factor loading significance test, the measurement model fits with the observed data well. Most of the indices reflect that the FBS measurement model is a good fit with the observed data apart from the significance probability value, PGI, NFI and RFI indices. The result of the factor loading significance also shows that the indicators measured the construct in the model well.

5.3.3.3 Structural model analysis

After performing the CFA SEM analysis of the measurement model, the next step was to test the structural model (Hair et al., 2006; Byrne, 2010). This step conducted CFA SEM analysis on the structural model or the hypothesized model (Ferdinand, 2006). At this stage the researcher conducted two major steps: the first one was to test the overall model fit of the structural model; and the second was to test structural parameter estimates, which gives the relationship between constructs or latent variables in the structural model (Byrne, 2010).

Before conducting overall model fit, the researcher commenced a stage which is called model identification stage. CFA SEM analysis revealed that the structural model was over-identified given the level of degree of freedom (DF) of 163 shown in table 5.33 below; meaning the level of degree of freedom is positive. According to Hair et al. (2006) further analysis can be commenced. The next analysis was to confirm whether the franchise

business survivability structural model fits with the data. Table 5.33 below presents the result of AMOS 21 test output concerning structural model identification.

Table 5.33 FBS Structural Model identification

Computation of degrees of freedom and result	Value
Number of distinct sample moments	210
Number of distinct parameters to be estimated	47
Degrees of freedom	163
Minimum was achieved	-

Source: the author

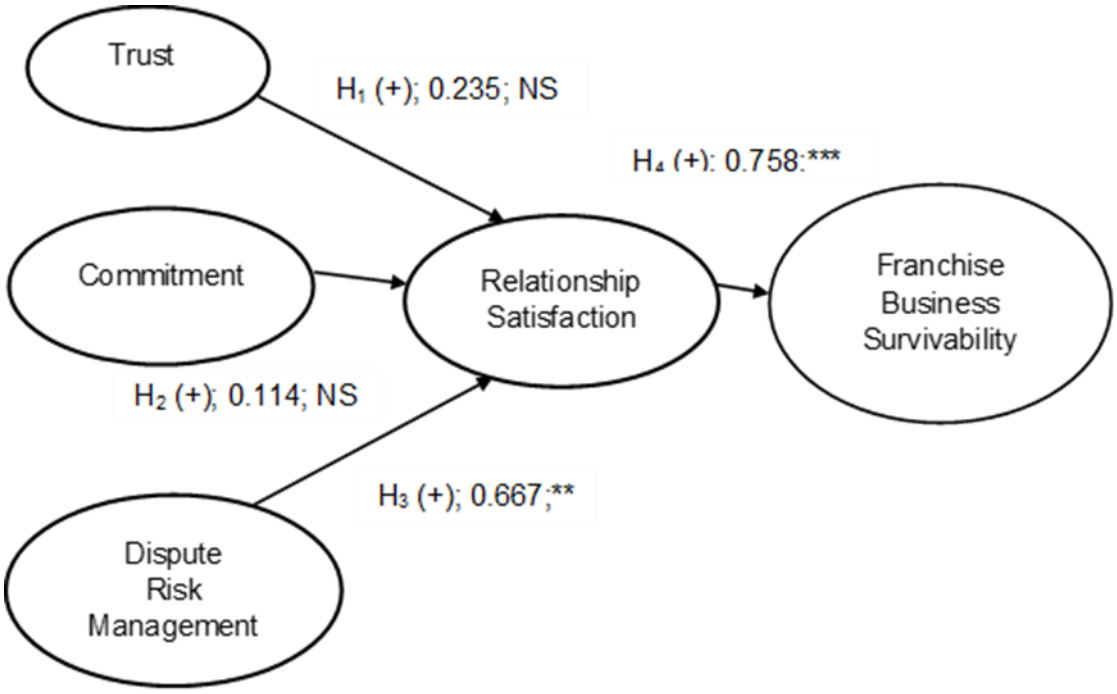
This structural research model has 20 observed variables, so the value of sample moments is 20(20+1)/2= 210, the unknown parameters in the model consist of 19 factor loadings, 25 variance (20 error variances and 5 factor variances) and 3 factor covariances, amounting to 47 estimated parameters. Based on that, the calculation is: DF = 210 – 47

= 163

The value of DF is positive, so the structural research model in this research is over-identified and the CFA SEM analysis can proceed.

Figure 5.3 below shows the Franchise Business Survivability Structural Model.

Figure 5.3 Franchise Business Survivability Structural Model



***: p<0.001;

**: p< 0.005;

NS: not significant
Source: the author

5.3.3.3.1 FBS structural model fit summary

Table 5.34 below provides description of Minimum Chi-Square Discrepancy Test (CMIN test) of the Franchise Business Survivability structural model

Table 5.34 Minimum Chi-Square Discrepancy Test (CMIN test)

Model	CMIN	DF	p	CMIN/DF
FBS Structural Model	222.614	163	.001	1.366
Saturated model	.000			
Independence model	1501.941			

Source: the author

From table 5.34 above it can be seen that the FBS Structural Model χ^2 – Chi square or CMIN is 222.614 with 163 degrees of freedom, meaning that the model is in good-fit with the data, because the χ^2- Chi square value of the FBS structural model is between the χ^2 value of the saturated model, which is 0, and the independence model, which is 1501.941 (Santoso, 2010). The p=value of the FBS structural model is 0.001, which indicates that there is a difference between the observed data sample and the population (Ferdinand, 2006), meaning that the model did not fit. However, the p value result, the

ratio of χ^2-chi square to degree of freedom (DF) or CMIN/DF is 1.366, which is ≤ 2; this value indicates that the FBS Structural Model fits the observed data well (Schreiber et al., 2006; Ferdinand, 2006).

Table 5.35 RMR, GFI, AGFI, PGFI

Model	RMR	GFI	AGFI	PGFI
FBS Structural Model	.052	.849	.805	.659

Source: the author

The smaller the Root Mean square Residual (RMR) value the better (Schreiber et al, 2006; Ferdinand, 2006). Where RMR value = 0 this indicates a perfect fit of the model with the observed data. The RMR value of the FBS structural model is 0.052, which means that the model fits the observed data well. Goodness-of fit index (GFI) of the model is 0.849, due to cut-off value of GFI ≥ 0.95 (Ferdinand, 2006; Byrne, 2010; Hair et al., 2006; Santoso, 2012; Schreiber et al., 2006).Therefore, the model fits marginally with the observed data. Next is the adjusted goodness-of fit index (AGFI); the AGFI value of the model is 0.805, since the cut-off value of AGFI is ≥ 0.95 (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010; Santoso, 2012; Schreiber et al., 2006), this indicates that the model fits the observed data marginally. The next index shown in table 5.35 above is parsimony-adjusted GFI (PGFI), the model PGFI value is 0.659, based on the cut-off value of this index a result that is closer to 1 is better (Schreiber et al., 2006) so it can be concluded that the model fits the observed data marginally.

Although there is only a marginal model fit, there are several scholars, such as Yu et al. (2005 as cited in Saxena, 2011, p.107) and Muenjohn and Amstrong (2008) who set the cut-off value of GFI and AGFI slightly differently. Yu et al. (2005 as cited in Saxena, 2011, p.107) set the GFI cut-off value of > 0.80 as model fit, in reference to that cut-off value, the model GFI value of 0.849 indicates that the model fits the observed data well. Muenjohn and Amstrong (2008) also set different cut-off values of AGFI at > 0.80; since the AGFI value of the model is 0.805, the model fits the observed data well.

The next indices are the baseline comparisons; the result and description of baseline comparison indices is provided in table 5.36 below.

Table 5.36 Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
FBS Structural Model	.852	.827	.955	.947	.955

Source: the author

According to Schreiber et al. (2006) baseline comparison indices are an index comparison to a baseline, which is the independence model or other model. Table 5.36 above presents the value of the model normed fit Index (NFI) of the structural model, which is 0.852. In reference to an NFI cut-off value of ≥ 0.95 (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010; Schreiber et al., 2006), the model marginally fits with the observed data. Next is the relative fit index (RFI): the cut-off value of RFI is ≥ 0.95 (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010); since the model RFI value is 0.827, the model fits with the observed data marginally. Next is incremental fit index (IFI), the IFI recommended value is ≥ 0.95 (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010; Schreiber et al., 2006), the model has an IFI value of 0.955, meaning that the model fits the observed data well. Next is the Tucker Lewis index (TLI), this is one of the most important indices in model fit assessment in CFA SEM analysis (Schreiber et al., 2006). The structural model has a TLI value of 0.947 ≈ 0.95, in reference to TLI cut-off value of ≥ 0.95 (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010; Schreiber et al., 2006), the model fits the observed data well. Next is comparative fit index (CFI): based on the result of CFI, the structural model fits the observed data well. This can be concluded because the model has a CFI value of 0.955, which meets the cut-off value of CFI ≥ 0.95 as a good model fit (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010; Schreiber et al., 2006).

The next indices are the parsimony-adjusted measures; the result and description of these indices is provided in Table 5.37 below

Table 5.37 Parsimony-Adjusted Measures

Model	PRATIO	PNFI	PCFI

Model	PRATIO	PNFI	PCFI
FBS Structural Model	.858	.731	.819

Source: the author

Parsimony adjustment to the NFI (PNFI) and parsimony adjustment to the CFI (PCFI) are the parsimony indices in assessing the structural model fit with the observed data (Schreiber et al., 2006). These indices reflect the parsimonious ratio of the model (Ferdinand, 2006). The CFA SEM analysis of the model shows that the value of PNFI is 0.731; by referring to the cut-off value of PNFI > 0.50 (Ferdinand, 2006; Byrne, 2010) as a good model fit, it can be concluded that the model fits the observed data well. The PCFI index value of the model is 0.819; by referring to the cut-off value of PCFI > 0.50 as a good model fit, the model fits the observed data well. Next is the non-centrality parameter (NCP): the result and description of this index is in table 5.38 below.

Table 5.38 Non-centrality Parameter (NCP)

Model	NCP	LO 90	HI 90
FBS Structural Model	59.614	24.520	102.770

Source: the author

The non-centrality parameter (NCP) value of the FBS structural model is 59.614, the result is derived by subtracting the $\chi 2$ value with degree of freedom; 222.614 - 163. The 90% confidence interval for NCP is between LO 90 and HI 90; 24.520 - 102.770. Therefore the model fits the data well (Ferdinand, 2006). Minimum discrepancy function is the next index in the overall model fit test, the result and description of this index is provided below.

Table 5.39 Minimum Discrepancy Function (FMIN)

Model	FMIN	F0	LO 90	HI 90
FBS Structural Model	1.887	.505	.208	.871

Source: the author

The result of population discrepancy of the model is indicated by the default model F0 value of 0.505. Table 5.39 above indicates confidence at a level of

90%, and that population discrepancy is between LO 90 and HI 90: 0.208 and 0.871. The model fits with the observed data if the F0 value of the model

is between LO 90 and HI 90 (Ferdinand, 2006), so it can be concluded that the model fits with the observed data well. Next is the RMSEA, the result and description of this index is provided below

Table 5.40 RMSEA

Model	RMSEA
FBS Structural Model	.056

Source: the author

The cut-off value of root mean square error of approximation (RMSEA) is ≤ 0.08 (Ferdinand, 2006; Hair et al., 2006; Byrne, 2010; Schreiber et al., 2006). The RMSEA value of FBS structural model is 0.056. The RMSEA value indicates a good-fit of the structural model.

Akaike information criterion is the next index that determines the structural model fit with the observed data.

Table 5.41 AIC and CAIC

Model	AIC	CAIC
FBS Structural Model	316.614	494.233
Saturated model	420.000	1213.616
Independence model	1541.941	1617.524

Source: the author

Akaike information criterion (AIC) and consistent AIC (CAIC) are applied to compare the two models from a parsimonious point of view (Ferdinand, 2006; Byrne, 2010). A smaller value indicates that the model is a good-fit or that the model is parsimonious (Ferdinand, 2006). Based on table 5.41 above, the model complies with the parsimony principle, because the values of FBS structural model AIC and CAIC of 316.614 and 494.233 are smaller than the saturated and independence models (Byrne, 2010; Ferdinand, 2006).

Expected Cross-Validation Index (ECVI) is the next index to determine whether this model fits with the observed data or not.

Table 5.42 ECVI

Model	ECVI
FBS Structural Model	2.683

Model	ECVI
Saturated model	3.559
Independence model	13.067

Source: the author

Based on table 5.42, the model fits with the data well, because the value of the ECVI FBS structural model is smaller than the independence and saturated models (Ferdinand, 2006, Santoso, 2010).

Hoelter is the next value that can be applied to determine the level of the model's sample sufficiency (Ferdinand, 2006).This index estimates a sufficient number for the model that can obtain a model fit (Ferdinand, 2006).

Table 5.43 Hoelter

Model	HOELTER .05	HOELTER .01
FBS Structural Model	103	111

Source: the author

Based on Table 5.43 above, the Hoelter index values of 103 and 111 are below 200, so it can be concluded that the model is a good fit.

There are seventeen goodness of fit indices that can be applied to determine the model fit. Several scholars such as Hair et al. (2006); Byrne (2010); and Ferdinand (2006) stress that researchers should apply several goodness of fit indices, which is fundamental for confirmatory factor analysis study.

Therefore, it can be concluded that if most of the common indices meet the required cut-off value, the model fits with the observed data well (Schreiber et al., 2006).

The summary of obtained value and result of the common model fit indices of the franchise business structural model are provided in table 5.44 as follow:

Table 5.44 The franchise business survivability structural model goodness of fit results

Goodness of fit Index	Obtained value	Result
Significance probability	0.001	Not good fit
CMIN/DF	1.366	Good fit
GFI	0.849	Good fit
AGFI	0.805	Good fit
PGFI	0.659	Marginal fit
NFI	0.852	Marginal fit
RFI	0.827	Marginal fit
IFI	0.955	Good fit
TLI	0.950	Good fit
CFI	0.955	Good fit
PNFI	0.731	Good fit
PCFI	0.819	Good fit
RMSEA	0.056	Good fit

Source: AMOS 21 test output file and Ferdinand (2006, p. 69); Hair et al.
(2006); Byrne (2010); Muenjohn and Amstrong (2008); Yu et al., 2005 cited in Saxena, 2011, p.107).

Based on table 5.44 above, it can be concluded that overall the structural model fits the observed data well. The next stage of the SEM CFA analysis is to analyse the validity of the construct relationships.

5.3.3.3.2 Relationship significance test between constructs

Overall the structural model fits well with the observed data. The next stage is the significance test between constructs. This stage verifies the significance relations between constructs in the structural model. To verify the relationship significance test, there are several hypotheses that need to be tested.

1. Relation between *trust* and *relationship satisfaction* hypothesis:

   H_1: The greater the level of *trust* in franchise arrangement the greater the level of *relationship satisfaction* between franchise partners.

2. Relation between *commitment* and *relationship satisfaction* hypothesis:

   H_2: The greater the level of *commitment* in franchise arrangements the greater the level of *relationship satisfaction* between franchise

partners.

3. Relation between the constructs *dispute risk management* and *relationship satisfaction* hypothesis :

   H_3 : The greater the level of *dispute risk management* in a franchise arrangement the greater the level of *relationship satisfaction* between the partners.

4. Relation between the constructs *relationship satisfaction* and *franchise business survivability* hypothesis:

   H_4: The greater the level of *relationship satisfaction* between partners in franchise arrangements the greater the level of *franchise business survivability*.

To verify the hypotheses, the researcher applied probability (p) value, whereby if p> 0.05, accept H_0 and if p< 0.05, accept H_a. Table 5.45 below can be applied to verify the relations between constructs that were hypothesized previously.

Table 5.45 Regression Weights of FBS Structural Model

Relation between constructs			p
REL-SATISFACTION	<---	TRUST	0.061
REL-SATISFACTION	<---	COMMITMENT	0.420
REL-SATISFACTION	<---	DIS-RISK-MAN.	0.001
FRAN-BUS-SURV	<---	REL-STFC	***

***: p < 0.001
Source: the author

Based on table 5.45 above, with regard to hypothesis 1, the p value of the relation between the constructs *relationship satisfaction* and *trust* is 0.061; this value is higher than 0.05, so H_0 is accepted. Therefore there is no relation between the constructs *trust* and *relationship satisfaction*.

Next is the relation between the constructs *commitment* and *relationship satisfaction.* Table 5.45 shows that the p value was 0.420, which is higher than 0.05, therefore H_0 is accepted, meaning that there is no relation between the constructs *commitment* and *relationship satisfaction*.

The third hypothesis is the relation between the constructs *dispute risk management* and *relationship satisfaction*. The p value of relation between

these constructs in table 5.45 above is 0.001, which is lower than 0.05. Based on the result, the researcher can reject H_0, and it can be implied that there is significant relationship between these two constructs at level of 5%.

The fourth hypothesis is between the constructs *relationship satisfaction* and *franchise business survivability*. Based on table 5.45, p value of this relationship is 0.000, so H_0 is rejected. Therefore there is a significant relationship between these two constructs at level of 1%.

The next stage was to verify how strong the relations between constructs in the structural model were. To be able to verify it, the researcher applied a regression weights table.

Table 5.46 Standardised Regression Weights of FBS Structural Model

Relation between constructs			Regression Weights
REL-STFC	<---	TRUST	.235
REL-STFC	<---	COMMITMENT	.114
REL-STFC	<---	DISPUTE_RISK_MAN.	.667
FRAN-BUS-SURV	<---	REL-STFC	.758

Source: the author

Since there were no significance relations between the constructs *trust* and *relationship satisfaction* or the constructs *commitment* and *relationship satisfaction*, there is no need to verify the value of standardised regression weights of the relationships (Ferdinand, 2006). The other two relations between constructs, which were between *dispute risk management* and *relationship satisfaction* and between *relationship satisfaction* and *franchise business survivability* need to be verified. Based on table 5.46 above, the estimated value of 0.667 and 0.758 were >0.05 (Byrne, 2010), so it can be concluded that there are strong relations between both pairs of constructs in the structural model.

5.3.3.3.3 Hypotheses testing

Based on the CFA SEM analysis, the structural equation of the structural model can be specified as:

Structural Equations:

$$1.\ RS = 0.235Tr + 0.114Comm + 0.667DRM + \delta_2$$
$$2.\ FBS = 0.758RS + \delta_1$$

Where, RS : Relationship Satisfaction
Tr : Trust
Comm : Commitment
DRM : Dispute Risk Management
β : Regression weight
ɣ : Regression weight
δ : Disturbance

The first equation reveals that there was a positive relation between the constructs *trust* and *relationship satisfaction*; the value of regression weight of 0.235 indicates that if the level of *trust* increases one point, the level of *relationship satisfaction* increases by 0.235 point.

a. The first hypothesis of the research

H_1: The greater the level of *trust* in franchise arrangement the greater the level of *relationship satisfaction* between franchise partners.

Basis for decision making:

H_0: There is no relation between construct *trust* and construct *relationship satisfaction*

H_a: There is a relation between construct *trust* and construct *relationship satisfaction*

If, $p > 0.05$, accept H_0

$p < 0.05$ accept H_a

Although the first equation indicates a positive relationship between the constructs *trust* and *relationship satisfaction*, based on CFA SEM analysis result, the relation between them is not significant due to the p value of 0.061(see table 5.45, p. 214). So it can be concluded that *trust* has no significant influence in enhancing *relationship satisfaction* between franchise business partners. There is a positive influence between *trust* and *relationship satisfaction*, however the p value is almost significant at level

5%. As the result, this study is not entirely agree with theory and research by several scholars such as Mendelsohn (1992); Barney and Clark (2009); Weaven et al. (2010); Frazer et al. (2012) and Altinay and Brookes (2012)**.** Furthermore, it is not possible to confirm the following theories from previous researchers in this area: trust is the solid foundation for conducting a sound relationship between partners in the franchise business arrangement (Altinay & Brookes, 2012); trust is a pertinent mutual profitability in obtaining relationship satisfaction in franchise business arrangements (Davies et al., 2011; Altinay & Brookes, 2012); trust can also act as a stimulant factor for each partner to perform properly and to maintain mutual relationship advantages in franchise business arrangement (Davies et al.,2011); trust is a pertinent factor in minimising the intensity level of opportunistic behaviour and conflict between franchise partners (Weaven et al., 2010); trust in B2B relationship like franchising is able to increase the level of each partner's expectation confirmation and relationship satisfaction in the relationship (Frazer et al., 2012).

Although in the CFA SEM analysis both measurement and structural model more or less achieved their goals, the researcher believes that these insignificant results may be caused by several factors. For example, in terms of the insignificant relation between *trust* and *relationship satisfaction* there is one probability that could account for this. It could be that the respondents or partners in franchise business arrangements rely entirely on the legal business contract for their relationships. Generally speaking, all legal alliance agreements such as franchising are based on and equipped with legal contracts (Boulay, 2010) to ensure both partners' rights and obligations in the franchise business arrangement (Elmuti & Kathawala, 2001). So there is a probability that partners who are bound in a franchise business relationship in the restaurant and retail sectors in Indonesia do not rely on trust to form their relationship satisfaction.

b. The second hypothesis of research:

H_2: The greater the level of *commitment* in franchise arrangements the greater

the level of *relationship satisfaction* between franchise partners.

Basis for decision making:

H_0: There is no relation between the construct *commitment* and the construct *relationship satisfaction*

H_a: There is a relation between the construct *commitment* and construct *relationship satisfaction*

If, $p > 0.05$, accept H_0

$p < 0.05$ accept H_a

From the first equation above, it can be interpreted that if commitment increases by one point, the level of relationship satisfaction will increase 0.114 point. Albeit, there is no significant relation between the constructs *commitment* and *relationship satisfaction*, because based on the CFA SEM analysis, the p value is 0.420 (see table 5.45, p. 214), which is way above 0.05, so the researcher accepts H_0. Based on the result, the theoretical foundations of several scholars such as Morgan and Hunt (1994), Wright and Grace (2011), and Altinay and Brookes (2012) of how commitment influences relationships satisfaction cannot be supported by this study. The relationship satisfaction between partners in franchise business relationship in the restaurant and retail sectors in Indonesia might be influenced by other factors. The researcher has several opinions about this fact: first of all, the partners in the Indonesian restaurant and retail businesses only depend on the legal contract (Boulay, 2012) to preserve their relationships in the franchise business relationships. Both the franchisor and the franchisee might think that the rigidity of the legal agreement between them is strong enough to maintain a sound relationship between them. Secondly, the partners in the franchise business relationship may have the opinion that it is not necessary to build proper commitment between them, contradicting somewhat the view of Altinay and Brookes (2012) that commitment between franchise business partners is important in enhancing a belief in an exchange partner. Moreover, Altinay and Brookes (2012) maintain the notion that belief can enhance the level of sound relationship between franchise

partners; however, in the sample surveyed the participants did not seem to place importance on building this kind of notion between them.

Furthermore, the findings of this study are not able to justify several other theories found in the literature, such as the following: commitment provides each party in the franchise business relationship with an antecedent to accept the franchise organisation's structure and form to establish a satisfactory relationship (Wright & Grace, 2011); commitment can enhance a positive form of emotion between partners to establish relationship satisfaction (Altinay et al.,2013); commitment is a necessity in any form of B2B relationship such as franchising to establish and maintain a solid and sound relationship between parties (Moorman et al, 1992); commitment in franchise business relationships can establish sound relationships (Altinay & Brookes, 2012); commitment between both partners decreases the probability of conflict between them (Altinay & Brookes, 2012); and finally, commitment in franchise business relationships is able to provide both partners with the ability to sustain their relationships (Morgan & Hunt, 1994; Wright & Grace, 2011).

This kind of phenomenon might also reflect the different points of view in franchising studies, specifically from an Indonesian perspective. The characteristics or cultural issues of the respondents might play a role in how this relation between *commitment* and *relationship satisfaction* became insignificant. *Commitment* as a pertinent factor in enhancing relationship satisfaction between partners in the franchise business relationships might have no significance in Indonesian restaurant and retail sectors. However, the researcher has provided data showing how the franchise business partners reflect their opinions regarding *commitment*. *Commitment* may not be the most important factor for them in deciding whether they are going to reach *relationships satisfaction*.

c. Cultural influence

In this study, there are several indicators that were dominated by neutral answers. These neutral answers could also be a prominent factor of how this

insignificant result between *trust* and *relationship satisfaction* occurred. Furthermore, despite the overall questionnaire answers being dominated by scores four and five, the neutral answer or score three, almost dominated the second most common answers to the indicators.

The insignificant result of the relationship between *trust* and *relationship satisfaction* and between *commitment* and *relationship satisfaction* may have been affected by the cultural backgrounds of the respondents (Smith et al., 2005; Roster et al., 2006; Hoffmann et al., 2013). Furthermore, Smith et al. (2005) emphasised that Asian subjects tend to use midpoint scores in Likert Scale questionnaire more often than other subjects, such as Americans.

The Western respondents, such as Americans, tend to answer in a more extreme response style. Chen et al. (1995) conducted research concerning response style and cross-cultural background and discovered that there was a tendency for Asian respondents to use midpoint responses more often than North American subjects.

Although this research is not able to confirm this suggestion, the researcher speculates that the tendency to use midpoints more often in the questionnaire might be affected by cultural influence

d. The third hypothesis of the research:

H_3 : The greater the level of *dispute risk management* in a franchise arrangement the greater the level of *relationship satisfaction* between the partners.

H_0: There is no relation between the construct d*ispute risk management* and construct *relationship satisfaction*

H_a: There is a relation between the constructs *dispute risk management* and construct *relationship satisfaction*

Basis for the decision making:

If, $p > 0.05$, accept H_0;

$p < 0.05$ accept H_a

The first equation shows a positive relation between the constructs *dispute risk management and relationship satisfaction*. Using regression weight of

0.667, it can be concluded that if *dispute risk management* increases by one point, the level of *relationship satisfaction* increases by 0.667 of a point. The CFA SEM analysis shows that the p value is this construct relationship is 0.001(see Table 5.45, p. 214), H_a is therefore accepted and there is a significant relation between the constructs *dispute risk management* and *relationship satisfaction*.

Based on this result, it is possible to support previous theories by several scholars such as: Das and Teng, (1999); Elmuti and Kathawala, (2001); Frazer et al., (2010); Weaven et al., (2010); and Ishida and Brown (2013) who found that there was a positive relationship between dispute risk management and relationship satisfaction.

The result reflects that the partners in Indonesian franchise businesses, specifically in the restaurant and retail sectors, were aware of the need to manage dispute risks was one of the prominent factors in determining and enhancing relationship satisfaction.

In addition, the result is also consistent with theories that state there is a positive relationship between dispute risk management and relationship satisfaction, such as: relationship in a business alliance such as franchising bears a high amount of risk (Das & Teng, 1999); partners in business alliances play a dominant part in creating their own risk, such as conflict between or among them (Das & Teng, 1999); conflict is the obvious risk that has potential to occur in a business alliance such as a franchise business arrangement (Elmuti & Kathawala, 2001); dispute risk is often in the form of conflict between franchise partners, and it can occur before or after contract signing (Weaven et al.,2010); dispute risk management can act as a pertinent factor in decreasing conflict level and as the result it also creates relationship satisfaction between partners (Wright & Grace, 2011; Ishida & Brown, 2013). Furthermore, these previous theories are supported due to the significant relationship between *dispute risk management* and *relationship satisfaction*.

e. The fourth hypothesis of the research

H_4: The greater the level of *relationship satisfaction* between partners in

franchise arrangements the greater the level of *franchise business survivability*.

H_0: There is no relation between the construct *relationship satisfaction* and construct franchise *business survivability.*

H_a: There is a relation between the constructs *relationship satisfaction* and construct *franchise business survivability.*

Basis for the decision making:

If, $p > 0.05$, accept H_0;

$p < 0.05$ accept H_a

The regression function shows a positive relation between these two constructs. The regression weight value of 0.758 shows that, if the level of *relationship satisfaction* increases by one point, the level of *franchise business survivability* increases by 0.758 of a point. Based on the CFA SEM analysis, the p value of 0.000 (see table 5.45, p. 214) indicates that there is a significant relation between the constructs *relationship satisfaction* and *franchise business survivability*.

The result reveals that *relationship satisfaction* is significantly related to *franchise business survivability*. This result is consistent with previous research by several scholars, such as: Clarke-Hill et al. 2003; Davies et al., 2011; Altinay et al., 2013), who stress that relationship satisfaction leads alliance business relationships such as franchising to better cooperation and more productive relationships. This condition can be achieved if there is a low level of tension between partners in franchise business relationships. Other theories that are related to the positive relation between relationship satisfaction include that of Mendelsohn (1992), who emphasised that if the relationship in a franchise business arrangement can be maintained well by the two partners, it is more likely that the relationship between them will be more durable and less fragile. Furthermore, relationship satisfaction is able to provide flexibility between partners, such as lowering tension, which allows for more understanding of each other's advantages and disadvantages, and a decreased probability of conflict emerging (Boulay, 2010; Altinay & Brookes, 2012). All the conditions which are the results of relationship

satisfaction will have positive effects on the survivability of a franchise business alliance (Altinay & Brookes, 2012). In addition Elmuthi and Kathawala (2001) also emphasise that as relationship satisfaction provides more cooperation between partners, there are gains in terms of competitive advantage and as a result the probability of failure decreases.

All of those theories can be supported by the result of this study; the partners in Indonesian franchise businesses in the restaurant and retail sectors were aware that if they had a satisfactory relationship, their business durability would increase significantly.

The following is the squared multiple correlations value for the structural model:

Table 5.47 Squared Multiple Correlations of FBS Structural Model

Constructs	Squared Multiple Correlations
RELATIONSHIP_SATISFACTION	.821
FRANCHISE_BUSINESS_SURVIVABILITY	.575

Source: the author

Based on table 5.47 above, the values of squared multiple correlations can be applied to describe the variance of independent variables on dependent variables (Jöreskog, 2000) in the structural model.

The value of squared multiple correlation of 0.821 in *relationship satisfaction* indicates that 82.1% of *relationship satisfaction* variance can be explained simultaneously by *trust, commitment,* and *dispute risk management*, while the other variance of (100%-82.1%) 17.9% is explained by other factors, expressed by the disturbance term (δ_2). This simultaneous relation between *relationship satisfaction* and *trust-commitment-dispute risk management* cannot be justified, due to the insignificant relations (p value of 0.061 and 0.420) between the constructs *trust* and *relationship satisfaction*; and the constructs *commitment* and *relationship satisfaction.*

Next is the relation between *franchise business survivability* and *relationship satisfaction.* Based on table 5.47 above, the squared multiple correlation value of franchise business survivability is 0.575. Therefore, 57.5% of *franchise business survivability* variance can be explained by *relationship*

satisfaction, while the other variance of (100%-57.5% = 42.5%) is explained by other factors, expressed by the disturbance term (δ_1).

5.3.3.3.4 Summary of the FBS structural model CFA SEM analysis

Most of the indices reflect that the FBS structural model is a good fit with the observed data apart from the significance probability value, PGI, NFI and RFI. The hypotheses testing indicates that two out of four hypotheses showed significant relationships between constructs, which were the relations between the constructs *dispute risk management* and *relationship satisfaction*; and between *relationship satisfaction* and *franchise business survivability*. Table 5.48 below shows the summary of hypotheses test results of this study.

Table 5.48 Summary of the Hypotheses Test Results

No	Hypotheses	Direction	RW	Results
1	H_1: The greater the level of trust in franchise arrangement the greater the level of relationship satisfaction between franchise partners.	Positive	0.235	NS
2	H_2: The greater the level of commitment in franchise arrangements the greater the level of relationship satisfaction between franchise partners.	Positive	0.114	NS
3	H_3 : The greater the level of dispute risk management in franchise arrangement the greater the level of relationship satisfaction between the partners.	Positive	0.667	**
4	H_4: The greater the level of relationship satisfaction between partners in the franchise arrangements the greater the level of franchise business survivability.	Positive	0.758	***

RW: Regression weights
***: p<0.001; **; p< 0.05; NS: not significant
Source: the author

5.4 Chapter Summary

The empirical analysis, which consists of descriptive data analysis and CFS SEM analysis, provides the reader with a clear description and adequate result of this study

Based on the CFA SEM analysis presented above, both the FBS measurement model and the FBS structural model fit the observed data well. Although it cannot be suggested that the result is perfect, most of the indices reflect that both models are a good fit. Furthermore, the values of factor loading or lambda (λ) for the measurement model are > 0.04, this shows that the indicators can be applied to measure or explain their construct appropriately (Ferdinand, 2006). Based on the correlation results of the model, the positive directions of construct relations can also be justified. Furthermore, based on the CFA SEM analysis for the structural model, two construct relationships, those between *trust* and *relationship satisfaction* and between *commitment* and *relationship satisfaction*, had no significant relationship. On the other hand, the relationships between the constructs *dispute risk management and relationship satisfaction*; and the constructs *relationship satisfaction* and *franchise business survivability* were significant.

Chapter 6
Research Findings and Discussion

6.1 Introduction

This chapter provides the reader with findings and discussion drawn from the empirical testing in the previous chapter. This chapter also highlights the research contribution to knowledge and practice with regard to franchising business. Furthermore, it also comprises additional theoretical implications for the study of franchise businesses failures and managerial implications for franchise businesses in terms of how the franchising partners can enhance their relationship satisfaction and improve franchise business survivability in general and in the Indonesian restaurant and retail sectors in particular. Furthermore, this chapter also highlights pertinent issues based on the research results, which are: rigidity and flexibility in franchise business relationships; relationships satisfaction; dispute risk management in franchise business dynamics; and expectations and reality in franchise business relationship towards business survivability. This chapter also includes a comprehensive discussion of how important the development of risk management schemes are for Indonesian franchise businesses in the restaurant and retail sectors.

6.2 Main Research Findings

Based on the empirical result shown previously in Chapter 5, table 6.1 below presents this research's main findings.

Table 6.1 The empirical test result for the construct relationships of Franchise Business Survivability structural model

No	Construct relationship	test result in this study
1	Trust ⟶ Rel.Satfcn	There is a positive relation between the constructs, but not strong enough to be determined as statistically significant
2	Commitment ⟶ Rel.Satfcn	There is a positive relation between the constructs, but not strong enough to be determined as statistically significant
3	DRM ⟶ Rel.Satfcn	Significant
4	Rel.Satfcn ⟶ FBS	Significant

Rel.Satfcn: Relationship Satisfaction
DRM: Dispute Risk Management
FBS: Franchise Business Survivability
Source: the author

This research was able to discover the key determinants which have an effect on Indonesian franchise businesses in the restaurant and retail sectors. These key determinants will be useful information for franchise business people in Indonesia to improve franchise businesses survivability in the restaurant and retail sectors. The research findings provide a contribution to the literature on franchising business failure research in the Indonesian context.

To highlight, as shown by table 6.1 above, this research contributes to the literature on franchising business failure by providing evidence on the influence of key determinants in enhancing franchise business survivability in the Indonesian restaurant and retail sectors. There is though a positive relation between construct *trust* and *relationship satisfaction* and also between construct *commitment* and *relationship satisfaction*. It is found that *trust* and *commitment* are not significant variables affecting *relationship satisfaction* between the franchise business partners, thus they do not

influence franchise business survivability. This may be because the franchise business partners in the Indonesian restaurant and retail businesses sectors might not be aware of those key determinants. Instead, in order to maintain their *relationship satisfaction* they rely only on business legal contracts or agreements. In addition, the findings may indicate that the franchisors and franchisees in the Indonesian franchise businesses only use *trust* and *commitment* in their social relationships instead in their business relationships.

Table 6.1 above also shows that in general both partners in Indonesian franchise businesses were aware that *dispute risk management* had a significant relationship with their *relationship satisfaction*. In turn, the *relationship satisfaction* between franchise business partners also played a significant part in enhancing *franchise business survivability*. This study could act as an initiator for the franchisors' partners and of franchise business people in Indonesia, to encourage them to give more attention to dispute risk management in conducting franchise businesses, and thereby use their relationship satisfaction to enhance their franchise business survivability, specifically in the restaurant and retail sectors.

6.3. Contribution of this study

This research contributes in introducing the variable *dispute risk management* into Structural Equation Modelling and testing it empirically. The result shows that *dispute risk management* is one of the key determinants in enhancing *franchise business survivability*. In addition, this research is significantly different from previous research conducted by Das and Teng (1999); Elmuti & Kathawala (2001); Weaven et al. (2010); Altinay et al., (2013). These researchers emphasised several pertinent aspects of conflict risk in strategic alliance and franchising in particular, which are:

a. The existence of high-level risks in strategic alliance because to its nature as a business with several partners in control (Das & Teng, 1999).
b. Parties in the strategic alliance play a vital role in managing risks in franchise business relationships (Das & Teng, 1999).

c. Partners in franchise business arrangements need to pay attention to the *ex-ante* and *ex-post* stages in signing a legal contract (Weaven et al., 2010).
d. Pre-investment screening, due diligence and market survey are important elements of managing risk in franchise business arrangements (Weaven et al., 2010).
e. Partners' opportunistic behaviour in franchising triggers conflict between partners (Elmuti & Kathawala, 2001).
f. The relationship between partners in a franchise business arrangement is in dynamic state (Altinay, 2013).

Based on the previous aspects in strategic alliance and franchise business arrangements, this study drew on some of their ideas in order to introduce the variable *dispute risk management* into the model.

Furthermore, a distinctive contribution made by this research is that of providing a holistic study to answer some scholars' calls for more research into franchise business failure and franchise business from the perspectives of both parties, the franchisors and the franchisees. Previously, franchise business research was commonly conducted from the perspective of the franchisors' side. This study helps to fill the gap in research identified in previous literature.

In addition, this research also contributes in enriching the literature on developing countries' franchise business studies. This study also provides important information for future franchise business partners in Indonesia that can assist with their planning, organising, actuating and controlling the potential risks that might occur before and after they conduct franchise business relationships.

This research also provides another contribution to the literature by studying franchise business research in an Indonesian context. Most studies about franchising have been conducted in western countries such as the United States, Australia, and the United Kingdom (Wright & Grace, 2011; Altinay & Brookes, 2012), Therefore, this research contributes to the literature by

revealing the determinants of Indonesian franchise business partners' relationships, and franchising survivability, which were captured by the research instruments and analysed by CFA SEM analysis.

This research also contributes in developing a model in franchising literature, named the Franchise Business Survivability Model. This research also has made a valuable contribution to the development of risk management schemes. This research has revealed that risk does not only exist in financial terms, risk can exist in the form of moral hazard. In businesses run under a franchise arrangement, this moral hazard can be in the form of unsuitable behaviour that has the potential to deteriorate relationships between franchise partners. The research result indicates that dispute risk management is significant for enhancing relationship satisfaction between partners. By using these research results, both franchisors and the franchisees in Indonesian restaurant and retail businesses can improve their awareness of moral hazards.

6.4 Managerial implications based on the research findings

The research empirical results show that *trust* and *commitment* are not significant variables affecting the *relationship satisfaction* between the franchise business partners, thus they do not influence *franchise business survivability*. Another variable, which is *dispute risk management*, was found to be significant in affecting *relationship satisfaction* between the franchisors and franchisees. In turn, the variable *relationship satisfaction* was found to influence *franchise business survivability* in the Indonesian restaurant and retail sectors. Furthermore, the empirical test also showed that all of the indicators of in this research were significant. This means that these indicators can be used to measure the constructs in the franchise business survivability model. Therefore, based on the research findings, these results provide several pertinent managerial implications for franchise business practitioners in the Indonesian restaurant and retail sectors. These managerial implications are summarised in table 6.2 as follow.

Table 6.2 Managerial implications for franchise businesses

No	Managerial implications	Reference
1	Managing rigidity and flexibility in franchise business relationships	Clarke-Hill et al. (2003); Altinay & Brookes (2012).
2	Managing relationship satisfaction in enhancing the business survivability.	Bordonaba-Juste et al. (2011); Altinay & Brookes (2012); Grace et al. (2013).
3	Managing more proper recruitment process to limit dispute between partners	Mendelsohn (1992); Weaven et al. (2010); AFI (2013).
4	Franchisors should provide more eligible training scheme for their future partners	Mendelsohn (1992); Welsh et al. (2011); AFI (2013).

Source: the author

A franchise business, as a business collaboration, encompasses several concepts that have to be managed properly by both partners in the business relationship. Based on the research findings, the researcher provides several pertinent issues based on the empirical result that can potentially be foundations for both partners in managing their business relationships to maintain franchise survivability. Discussion of managerial implications based on the research findings are provided below.

6.4.1 Relationship rigidity and flexibility between partners in Indonesian franchise business in the restaurant and retail sectors

The study shows that constructs *trust* and *commitment* do not have a significant relationship with construct *relationship satisfaction*. Rather than relying on trust and commitment as a basis for their relationship with their partners, the partners in franchise business arrangements might rely on other factors, such as a legal contract, to maintain their relationship. This suggests that there is a need for rigidity and flexibility in franchise business arrangements. In order to enhance and maintain the business relationship in

franchise business arrangements, trust and commitment should be considered as important factors. The researcher argues that the franchise business partners should start to build their trust and commitment between each other, in order to cope with the rigidity of their legal contract. In business alliance arrangements, one of the key factors is how to manage the tension between or among partners (Clarke-Hill et al., 2003). This is where relationship flexibility and rigidity play their part in providing business alliances such as franchising with dynamics (Altinay & Brookes, 2012). The dynamics in franchise business arrangements can be implemented in relationship development aimed at improving relationship satisfaction (Altinay & Brookes, 2012). However, in order to harness the dynamics in the franchise business arrangement, trust and commitment need to exist. It is obvious that this is one of the challenges for franchise business partners in the Indonesian restaurant and retail sectors.

If trust and commitment exist in the relationship between franchise business partners, their relationships will have flexibility when they experience any dispute during the partnerships. Trust and commitment allow both partners to ease their tension by discussing any problems that might occur between them, identifying the cause of their problems and resolving their dispute without compromising their relationships. On the other hand, if trust and commitment are absent, both partners might go straight to legally binding clauses to resolve their disputes. They may also invoke several penalty clauses in their legal contract, and because of this, the opportunity for problem solving between partners might be closed and the relationship between them may become rigid.

In contrast, relationship development geared towards relationship satisfaction provides flexibility, so that both partners have a space to communicate in a positive way (Altinay & Brookes, 2012). Partners in B2B relationships such as franchising should start to develop a plan to stabilise the relationship rigidity between them. This can be achieved by starting to develop their relationship by paying attention to several important issues such as resource access, communication openness, and perceived conflict

and support (Grace et al., 2013; Altinay & Brookes, 2012; Bordonaba et al., 2011). These issues can be important factors in overcoming relationship rigidity. These issues may be specified in the legal contract, but partners can negotiate about these issues before signing the legal contract.

The rigidity of the franchise business arrangements should be taken into further consideration by both partners. In addition, if one party, the franchisor, has advantages over their franchisee in terms of rights, the franchisee should be well aware of this fact and be willing to act accordingly; however, for some franchisees the knowledge of an advantage for the franchisor can be a source of tension between them (AFI, 2013). As emphasised by Martín-Herrán, (2011) these advantages, such as franchisors having full command in determining the product and service specifications and deciding the locations of new outlets (AFI, 2013) can be interpreted as the franchisor having more power than their partners, the franchisees.

To be able to maintain its competitive advantages, a business should be able to manage its reproducible and irreproducible competencies (Dev et al., 2002; Barney et al., 2009). These competencies are based on the capability-based approach: if the resources or capabilities of a firm are unique and difficult to imitate than they are called irreproducible resources (Dev et al., 2002), while on the other hand, reproducible resources are resources that are relatively easy to imitate (Dev et al., 2002). By managing these two types of resources properly, firms can manage and determine the capability of their competencies. In order to acquire irreproducible resources from other firms, firm can use strategic alliances such as franchising to transfer these irreproducible resources (Dev et al., 2002).

Based on these discussions, the franchisor and the franchisee should be aware that their bonding in a franchise arrangement will reveal one and the other's competitive advantages in the form of irreproducible resource transfers such as tacit knowledge (Nonaka et al., 2000; Becerra, 2008). When trust and commitment are present, both franchise business partners are able to define and manage the irreproducible and reproducible resources

to maintain their alliance competencies without compromising their relationship. By establishing trust and commitment between them, one of the partners, namely the franchisor, can enhance cooperation, creative actions and involuntary behaviour with the franchisees (Nyadzayo et al., 2011).

Grant (1996) stressed that by forging trust and commitment between the franchisors and the franchisees, they are able to understand each other's positions in terms of the personal relationship between them, because if they rely solely on a legal contract, it commits both partners only to the formal aspects of their relationship (Boulay, 2010), rather than including the input of their personal relationship. The franchise business partners in the Indonesian restaurant and retail businesses also need to bear in mind that any form of B2B relationship needs an acceptance of mutual obligations by both partners (Giddings et al., 2009). In order to reach relationship satisfaction between partners, trust must be supplemented by good-will from each partner (Altinay & Brookes, 2012). Although in the legal contract there are usually asymmetrical points between partners (Nyadzayo et al., 2011), in personal relationships both partners should be viewed as equal. In this way, some kind of flexibility may be introduced into the relationship between partners. And thus their relationship satisfaction may be increased. Moreover, the franchise legal contract can be validated and violated by both partners (Spinelli & Birley, 1998), and each partner has certain expectations that can either be met or not met (exceeded or under-delivered); for example, the franchisor usually has a responsibility to provide services such as training, and the franchisee has a calculation in mind of the likely costs of this service and its potential benefit (Spinelly & Birley, 1998). That is why trust and commitment in Indonesian franchise business relationships should be initiated. It is quite a challenging task for business people in the Indonesian franchise businesses in restaurant and retail sectors because the research respondents are dominated by local franchise businesses, and many of them are small and medium enterprises (SMEs) (AFI, 2013) and there is a lack of awareness of the importance of trust and commitment.

6.4.2 Managing relationships satisfaction to enhance franchise business survivability

The result shows that relationship satisfaction has a significant part in enhancing franchise business survivability. This result can be a positive reference for partners in the Indonesian restaurant and retail franchise businesses. It can bring a new perspective to the way a B2B relationship can be conducted. Partners should start to consider their relationship satisfaction state in order to minimise the risk of franchise business failure. While in social science nothing is considered absolute, the statistical result of this study provides a clear view of this perspective. The result of the study also can be a foundation for the partners in the Indonesian restaurant and retail franchise business to initiate a condition between them to resolve their relationship issues. Partners in the franchise business arrangements can start to identify what are the present conditions they are facing, how to cope with disputes and how to enhance their relationship in order to minimise the risk of failure (Altinay & Brookes, 2012).

Relationship satisfaction plays a significant part in enhancing franchise business relationships; that is the reason why both partners should take account of relationship indicators as pertinent elements in improving their franchise business relationship. These elements include their partners' resource access, communication openness, perceived conflict and support (Bordonaba-Juste et al., 2011; Altinay & Brookes, 2012; Grace et al., 2013). Can they access their partners' resources as they would want to? Are there any channels that provide open communication between them? Do they have serious awareness on any conflict that might occur? And how about their partner's support: is already sufficient or are there any omissions and deficits in the process? (Bordonaba-Juste et al., 2011; Altinay & Brookes, 2012; Grace et al., 2013) These questions should always be in their mind whether they are still in the process of conducting franchise business relationships or after they sign a franchise contract.

The empirical results of this study have provided evidence to answer the research questions. Moreover, this research provides both franchise

business partners with a pertinent long-term operational vision of conducting their businesses. Both partners need to take into serious consideration that surviving in the businesses is more important than chasing big profits in the short term at the risk of failure or bankruptcy later. These results are consistent with studies by Holmberg and Morgan (2004), Weaven et al. (2010), and Frazer et al. (2012), who also stated that business partners should take into account the importance of managing franchise businesses strategically in order to have clear view in enhancing their business survivability. Both partners need to undertake comprehensive steps in securing their business by referring to the research empirical results to be able to reduce the chance of failure. The study shows that *dispute risk management* and *relationship satisfaction* were important factors in enhancing franchise business survivability; therefore both partners should manage their businesses effectively and efficiently in adapting to market competition, government regulations, and other external factors that might interfere with their goals, objectives, and targets. These matters will provide a more acceptable and realistic description of a franchise business. Both partners will have a realistic perspective so that both of them can think realistically regarding the relationships they are conducting (Weaven et al., 2010). On the other hand, future franchisees should not be blinded with promotional words or materials provided by the future franchisors in their prospectus. They should be cautious in deciding which business is suitable for them. Of course, franchisors would not show their disadvantages in their prospectus to the future partners, but at least in the prospectus, the franchisor can reveal important matters that might have an influence on the target and objectives promoted in the prospectus. The future franchisees must also be more realistic in selecting future franchise business processes. They should conduct serious consideration in deciding which businesses are the most suitable for them (AFI, 2013). They have to consider a range of issues such as the amount of money invested, land and buildings procurement costs, royalty fees, settlement fees, training fees etc. (Welsh et al., 2011).

6.4.3 Managing a more proper recruitment process to limit dispute between partners

The indicators of the variables *dispute risk management,* which are 'pre-investment screening'; 'due diligence'; 'market demand'; and 'opportunistic behaviour', are significant in measuring their variable. Based on this result, both partners are advised to manage a more proper recruitment process by conducting systematic risk identification, assessments and risk management procedures in observing the potential dispute risk occurring in their relationships (Weaven et al., 2010; Tchankova, 2002; Alina, 2012). The franchisors and franchisees can adopt a systematic risk management procedure in order to limit the occurrence of disputes between them, so that they are not only considering risk in financial terms but also as non-financial, such as moral hazards. Furthermore, both partners in franchise business arrangements can use dispute risk management as a complement to their existing risk management programmes. If they do not have a risk management programme, they can adopt risk management procedures in the study to start a risk management scheme by using dispute risk management as a starting point.

This study also has managerial implications for future franchisors and future franchisees. It argues that they need to be more aware before conducting franchise businesses. In particular, they should recognise that *dispute risk management* and its indicators, which are 'pre-investment screening'; 'due diligence'; 'market demand'; and 'opportunistic behaviour', are significant in measuring their variable and that they should therefore take risk into serious consideration by regarding pre-investment screening, due-diligence, market demand surveys and opportunistic behaviour occurrence as pertinent elements before recruiting potential partners and signing franchise agreements (Weaven et al., 2010). In formulating a risk management programme, both partners in franchise business arrangements should conduct an intensive and continuous risk management process (Tchankova, 2002; Weaven et al., 2010). This action is necessary in order to be able to keep updating potential risks that might occur in their relationships (Alina,

2012). Furthermore, in the recruitment scheme, franchisors should also provide themselves with accurate information in terms of business formula testing, which has been proven over a certain period of time. They also need to acquire some valuable information on where the business has been marketed and established in several geographical areas (AFI, 2013). This will provide future franchisees with a more confident feeling in signing franchise agreements.

6.4.4 Franchisors should provide more eligible training schemes for their future partners

This study shows that indicator 'franchise expectations and core competence fit or misfit' was significant in measuring the construct *franchise business survivability*. In order to maintain their partner's core competencies, franchisors should provide a proper training scheme for their future franchisees (Welsh et al., 2011). They have to be aware that their future partners might not have any experience in conducting any form of business. The franchisors should provide a training scheme that is easy to follow and understand for their future franchisees (AFI, 2013). This simplicity in knowledge transfer must be present in franchise business relationships, since the basic core competence of franchising is an easy-to-follow process that enables other partners to duplicate a repeatable set of activities in providing products and services (Holmberg & Morgan, 2004). This study also provides a perspective that managers in Indonesian restaurant and retail franchise businesses need to conduct proper recruitment schemes. This matter should be taken seriously by both partners; a poor recruitment process in a franchising business can lead towards franchise business misconceptions and trigger disputes between partners (Weaven et al., 2010). And as the result, the relationship can deteriorate and business failure is likely to occur (AFI, 2013). In order to provide important information on his or her franchise business concepts, the franchisors should develop a more proper franchise business prospectus as a marketing tool for use in recruiting future potential franchisees. In the prospectus the franchisors should provide information on several issues that might answer franchisees' questions in terms of risk that might occur, including relationship issues such as dispute

resolutions, and negotiable franchise requirements such as royalty fees, exceeding target bonus etc. (Mendelsohn, 1992; AFI, 2013).

6.5 Managing dispute risk in Indonesian franchise business in the restaurant and retail sectors

Risk is one certain thing that can emerge in any business. There are several ways that businesses can deal with risk, such as avoiding, managing, and transferring risks (William & Heine, 1995). Alongside other determinants, this study finds that *dispute risk management* is the most important factor affecting franchise business survivability. By referring to several previous studies by scholars such as Weaven et al. (2010); Frazer et al. (2012); Wright and Grace, (2011); Mendelsohn, 1990; Elmuti & Kathawala, (2001), dispute or conflict risk between partners in business alliance such as franchising is extremely likley to emerge. Relationships in a franchise business involve interaction between partners, and as the relationships grow, the probability of dispute between them also gains potential to emerge (Weaven et al, 2010; Frazer et al., 2012). In a franchise business arrangement, it is important to limit the emergence of risk, which is involved in setting up a new business (Goodman et al, 2005; Giddings et al., 2009). In terms of the nature of the relationship, there are particular risks that can become major concerns for franchise business partners (Giddings et al., 2009). Furthermore, franchise business arrangements are formed on the basis that the franchisees will be working collaboratively with the franchisors, when in reality there is a range of aspects where both parties may potentially have directly competing interests (Giddings et al., 2009). To overcome these potential issues, dispute risk management can be applied as a tool to limit dispute risk issues. As a result, relationship satisfaction between partners in the franchise business arrangements can be obtained.

The study is consistent with studies such as Weaven et al. (2010), Frazer et al. (2012), Wright and Grace (2011), and Mendelsohn (1990), whereby dispute risk management plays a significant part in creating relationship satisfaction between partners in the Indonesian restaurant and retail franchise businesses. Dispute risk management can be an important factor

for both partners in franchise business relationships to prevent and rectify relationships issues between them (Weaven et al., 2010). These indicators can act as a foundation for both partners to limit the emergence of dispute risk between them. Despite this, the evidence for data collection seems to suggest that Indonesian franchise business people tend to take these issues for granted.

6.5.1 Pre-investment screening

In some cases, pre-investment screening is neglected by partners in franchise business relationships, which can often bring disaster for any partners who have little or no experience of conducting business (Weaven et al., 2010). This action can be implemented by observing business colleagues and business associations or their website. Since there is a formal franchising association in Indonesia, The Indonesian Franchising Association (AFI), this matter can be resolved. Future franchisees can research their future franchisors using the franchise association or the web. And for the franchisors, they can also find information about their future franchisee through their colleagues, because the future franchisee is likely to already be a small business or perhaps a group of business individuals. This can be a challenging issue for both partners, specifically if they do not have any reliable connections with other businesses. The alternative is to conduct the interviewing before moving to further steps toward contract signing. This interviewing process can be a useful tool for the franchisors in that they can absorb as much information as they can gather from their future partners (Justis et al., 1993). In addition, this approach can also be conducted by franchisees, although franchisors as are the party who owns the brand, reputation, and license are more likely to take this approach (Justis et al., 1993). However, the emergence of dispute risk cannot be eliminated entirely (Elmuti & Kathawala, 2001), but at least the interviewing stage can be utilised as a tool to limit the likelihood of dispute risk emerging. This kind of method can be categorised as managing risk (Williams & Heine, 1985).

6.5.2 Due-diligence

Concerning due-diligence, both partners should conduct due-diligence before entering into franchisee business arrangements, to limit the likelihood of dispute risk (Weaven et al., 2010). If the emergence of dispute risk between partners can be limited, relationship satisfaction can be fulfilled (Elmuthi & Kathawala, 2001; Weaven et al., 2010). Both parties need to understand their positions in the franchise business arrangements. For instance, franchisors need to conduct due diligence in terms of finding an approach for franchisee recruitment (Weaven, et al., 2010). In some cases, inexperienced franchisors tend to select franchisees on the basis of their financial capacity, rather than the franchisee's suitability to manage a franchise business (Weaven, et al., 2010). This may lead to the franchise business partners having a high-tension relationship in the long term (Clarke-Hill et al, 2003; Davies et al, 2011; Weaven et al, 2010). Although in terms of unit sales and promoted system a franchise arrangement can generate enormous growth, in terms of relationship satisfaction it has the potential to lead the franchise business into an unfavourable situation (Davies et al., 2011). On the other hand, franchisees also have to conduct proper due diligence in terms of the cost and time requirements provided by the franchisors to establish a supportive system such as initial and ongoing training, location selection and operation manuals or standard operating procedures for the business (Weaven, et al., 2010). This supportive system in a franchise business relationship is important, because it provides a foundation for an effective implementation of the franchising business concept. These issues seem to be taken for granted by franchisees in general (Riyadi, 2012), especially when the franchisee has too high an expectation of experiencing a boost in their lifestyle; the so called 'lifestyle benefit' (Weaven et al, 2010; AFI, 2013). Furthermore, franchisees might blame franchisors for using teaser advertisement which highlight lifestyle benefits that may not entirely represent the work commitments required when conducting a franchise business as a franchisee (Weaven, et al., 2010). Although it is quite normal to have high expectations of a relatively new business, business people can be overwhelmed by the gap between their expectations and reality. However,

conducting proper due diligence can also prevent this over-expectation in entering franchise business arrangements.

Overall, both franchisors and franchisees need to make dispute risk their priority in conducting franchise business arrangements. Their business is projected for a long term operation, not for a day or two. Furthermore, in conducting due diligence, franchisors should ensure that their partners, the franchisees, are recruited on the basis of being in the franchise business by themselves, not acting through agents of middle-men.

6.5.3 Opportunistic behaviour

In many cases, franchisors often recruit franchisees on the basis of a prior relationship through family or friendship, and as consequences there is a potential for non-compliance with business procedures to emerge. This issue can encourage franchisees to act independently in negative ways (Weaven et al., 2010; Puspitawati, 2012). If the franchisee conducts the business on the basis of just acting 'for themselves', conflict between them is likely to occur. In addition, non-compliance also can occur in the form of changes to outlets' opening hours, staff training, supplies procurement, and local area marketing (Davies et al., 2011). So it can be inferred that due diligence plays a pertinent role in limiting the emergence of conflict in franchise business arrangement.

Furthermore, this form of non-compliance practice can be categorised as opportunistic behaviour, due to the practice either party in an agreement employing opportunistic operational practices that by do not comply with the franchise's business agreement (Akremi et al., 2011). The franchisee might think that they are already familiar with the systems. The franchisee often thinks that their franchisors' support is not really necessary at a certain stage of their relationship (Weaven et al., 2010). In relation to opportunistic behaviours, each partner has to be aware of the emergence of their partners' opportunistic practice. As a potential risk, opportunistic behaviours can trigger conflict and deteriorate relationship satisfaction between franchise partners (Elmuti & Kathawala, 2001; Weaven et al, 2010). Scholars such as Weaven et al. (2010) and Frazer et al. (2012) emphasise that opportunistic

behaviours in franchise business arrangements can also occur when franchisees fail to replicate the franchise business concept and produce a situation where the franchisee is not able to comply with the standard operating procedure of the franchisor's systems. Opportunistic behaviours are also categorised as free riding, a failure to comply with the franchisor's standard operating procedure, adding new products beyond the franchisors' regulations, selecting a new location for an outlet without considering the franchisor's requirements, etc. (Frazer et al., 2012; AFI, 2013). However, this free riding issue cannot only be viewed from the franchisees' perspective, it can also be viewed from the franchisors' perspective. In order to minimise the level of dispute risk emergence between franchise business partners, the franchisee also has to be aware of franchisors' free riding behaviour. Franchisors' free riding behaviour can, for example, be in the form of a franchisor demanding some increased amount of incentive for assuring the quality and quantity of the brand (Kidwell et al., 2007). As a result, the franchisees can experience financial difficulty, since the amount of funds that the franchisor asks for increases. Hence, the researcher thinks it is important to use both perspectives on observing each disputer's risk aspect but not disregarding asymmetric issues between partners in franchise business arrangements (Doherty & Alexander, 2006). In addition, these behaviours also reflect the lack of willingness by both partners to understand the franchise business concept, which in itself can be seen as a potential risk in the establishment of relationships satisfaction (Elmuthi & Kathawala, 2001). These matters can be an alternative way of providing a clearer perspective on how a risk management scheme can be developed in the Indonesian restaurant and retail franchise business in particular, and Indonesian franchise businesses in general.

6.5.4 Market demand

Market demand is one of the significant indicators to measure the construct *dispute risk management*. This indicator can be used by both partners to minimise the dispute risk between them. The reason is that franchising as a business concept attracts many potential business people. As a business

concept, franchising tends to develop resources quickly to gather the people, location, and capital needed to expand (Mendelsohn, 1992; Hoy & Stanworth, 2003; Frazer et al., 2012). In addition, one of the essential things to a new business is rapid expansion, which is quite important in franchising. By establishing rapid expansion, a desirable real estate can be secured in order to gain high outlet share; high outlet share also results in high market share and high market share leads to high profitability for the franchise business (Michael, 2003). Based on the research result, market demand can be applied to be one of the indicators of dispute risk management. Dispute risk management on the other hand can lead to relationship satisfaction in a franchise business. Before entering into and while conducting a franchise business relationship, market demand is a pertinent issue (Anderosn & Weitz, 1992; Michael, 2003; Weaven et al, 2010). Partners in franchise business relationships can apply several methods in order to research their market demand. One of the methods they can conduct is a market survey. By using market surveys, franchise business people can identify how to learn to understand their market potential, such as what they can provide to the targeted market that is not available at the moment (Dunnings et al., 2007). This will lead the future partners into more visible goals and objectives, and as a result, as they bond in franchise business arrangements, the dispute risk can be limited. This can be achieved because they already understood the potentials of the market which they are going to enter. Furthermore, by knowing the target market, future partners can also identify attractive locations. This market survey can be conducted by each party in the franchise business arrangement so that they can compare their results to discuss the potential of the target market.

After conducting a market survey and both partners agreeing to bind themselves in franchise business arrangements, opportunistic behaviours triggered by market demand also need to be given serious consideration. For instance, from the franchisee's perspective, he or she may have a perception of how much or even whether he or she should pay the franchisor; franchisees might think that they already understand the market potential, so

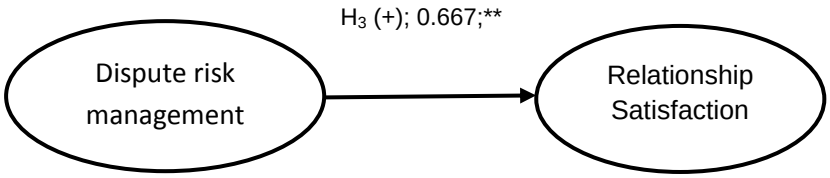
as the result a franchisee think that he or she can run their business by themselves (Weaven et al., 2010). This thinking can trigger dispute between partners in a franchise business arrangement (Weaven et al., 2010). Hence, both partners have to take these issues as serious matters: on one side they can be blind if they do not have access to their partner's information on market potentials; on the other hand they can be greedy if they already believe they know the market potentials. As franchising is based on a resource based view theory, in which one party is bound to the other because they have a resource scarcity (Barney & Clark, 2009), each partner should bear in mind that they are not able to enter a certain market without their partner's advantages. They enter the market in one business alliance, which is the franchising alliance, as the result they have to be aware that they have to conduct their relationship on a mutual business basis. In addition, the market survey provides both partners in franchise business arrangements with sufficient pertinent, targeted market information; so that they can understand what is the most appropriate marketing strategy and as a result can limit conflict between them to maintain a sound relationship. Although in any business alliance dynamic conflict is inevitable, it should be possible to manage the level of conflict quite reasonably to be able to establish relationship satisfaction between partners (Weaven et al., 2010). Market demand survey is also an important aspect for franchise business arrangements since it enables the business to adapt to their environment appropriately (Hynes & Mollenkopf, 1998).

6.6 Risk management implementation for Indonesian franchise businesses

Construct *dispute risk management* has a significant relationship with the construct *relationship satisfaction*. This result is consistent with previous studies; that risk in business alliances such as franchise businesses is likely to occur, especially dealing with the relationships between or among partners (Elmuti & Kathawala, 2001). As mentioned previously, there is no certainty in any kind of business; however, one thing for that is certain in business is risk itself (Williams & Heine, 1995). Figure 6.1 below describes the relationship

between construct *dispute risk management* and construct *relationship satisfaction.*

Figure 6.1 The relationships between *dispute risk management* and *relationship satisfaction*



**: p< 0.05
Source: the author

The researcher has attempted to develop a risk management scheme for Indonesian franchise businesses in the restaurant and retail sectors. Based on the research conceptual framework outlined previously, the risk management scheme can be applied by both partners in the franchise business relationship. The risk management scheme for franchise business that the researcher attempts to develop is in a general form. However, the researcher attempts to provide several rudimentary issues based on the research findings and several pervious empirical studies that can be foundations in forming risk management schemes for Indonesian franchise businesses, especially in the restaurant and retail sectors. Based on the research's empirical results, the indicators of *dispute risk management* (which are pre-investment screening, due-diligence, opportunistic behaviour and market demand (Anderson & Weitz, 1992; Blut et al., 2011, Winsor et al., 2012; Grace et al., 2013) are important issues in developing risk management schemes. The following descriptions provide several additional subjects that are potentially beneficial in franchise business arrangements, which both partners should consider before and after they enter into franchise business arrangements in the Indonesian restaurant and retail sectors.

In order to develop a risk management scheme, both partners should consider several practical supporting documents. These supporting documents are needed to clarify the rights and obligations of each partner

before they enter a franchise business arrangement. The pertinent practical issues in managing franchise dispute risk can be in the form of numerous practical supporting documents, such as: firstly, an operating manual. This operating manual is usually in the form of a written set of complete instructions for the guidance of franchisees when operating an outlet; secondly, franchise business contracts which stipulate legal rights and obligations of both franchise partners; thirdly, franchise prospectus as a marketing tool for use in the recruiting of franchisees (Gillis & Combs, 2009). These documents might need a great deal of effort, time, money and energy, since they have to be developed properly. And in order to develop them properly, usually external assistance from third parties is essential. The third parties here can be in the form of business consultants, accountants and lawyers (Gillis & Combs, 2009).

Both partners also should consider developing forms, such as a tick-box form that covers basic concepts of franchise business arrangements. For instance, is the training needed for the franchisee already conducted as it should be? And on the other hand, has the franchisee provided the required infrastructure specifically as a business outlet? The researcher is convinced that if both partners start their franchise business with a basic concept of franchising (Perrigot, 2008; Sudarmiatin, 2011), they are more likely to be able to limit the probability of conflict emerging between them, because franchise businesses include several concepts that should be taken into serious consideration between partners. Furthermore, as the franchise business operates, relationship dynamics are inevitable (Altinay & Brookes, 2012). The dynamics of franchise business relationships might have positive or negative impacts on the organisation itself. These dynamics can be generated by dispute between both partners. To a certain extent, dispute between partners might not have a serious effect on franchise business survivability; however, it might deteriorate the relationships satisfaction between them. Therefore, if there is no specific mechanism to limit the probability of dispute between partners, the survivability of the franchise business might be in jeopardy (Blut et al., 2011). The dynamics can provide

a positive impact on the franchise business entity, such as competition between partners in achieving franchise business targets and objectives. But as described previously, the dynamics of expectations and reality seem to have negative impacts on the partners' relationships and their business's survivability (Weaven et al., 2010). So it is pertinent to develop a risk management scheme in franchise business arrangements.

6.6.1 Risk Identification in Indonesian franchise businesses in the restaurant and retail sectors

First of all, in order to be able to develop a risk management scheme in franchise business arrangements, franchise business partners or franchise business people have to conduct a risk identification stage. Risk identification is the first stage in risk management to obtain a basis for the next stage, which is the analysis and control of risk management (Tchankova, 2002). In conducting risk identification, franchise business partners should be aware of several questions to identify risk in franchise businesses. The basic questions are "how can the franchise business organisation's resources be threatened?", "what kind and when can the disadvantageous effect inhibit the franchise business to achieve its goals and objectives?" and "what positive possibility can be discovered" (Tchankova, 2002; Hanna et al., 2013). In the franchise business context, franchise business partners should be able to identify several possible available resources and ensure continuity of supplies according to their positions in the franchise business arrangement. Concerning the disadvantageous effect on franchise businesses; franchise business partners can also comprise relationships issues such as dispute and the possibility of opportunistic behaviour risk emerging as one of the disadvantageous effects that can inhibit the franchise business from achieving its goals and objectives. Franchise business partners can also apply research indicators such as pre-screening, due-diligence, and market demand as tools to identify threats to resource availability in their businesses. Of course, as a human being it is quite impossible to be able to predict 100% what is going to happen in detail. That is the reason why the franchise business partners should be able to conduct risk identification at

the beginning and during the course of their franchise business arrangements.

Risk identification comprises several elements, which are: source of risk; hazard factors; perils; and exposures to risk (Gorzeń-Mitka, 2013). In regard to source of risk, elements of organisational environment can be positive or negative to the business (Tchankova, 2002). For instance, franchise business partners should be able to recognise the suitability of products and/or services provided to meet market demand. A hazard factor is a circumstance that can increase the possibility and severity of risk occurring (Williams & Heine, 1985). Regarding franchise business partners' relationships, the hazard of risks can be in form of opportunistic behaviours, such as free-riding by partners that can deteriorate relationships and the survivability of the franchise business itself (Davies et al., 2011; Weaven et al., 2010). Next is peril: peril is something close to risk and can cause negative outcomes (Williams & Heine, 1995). Peril in franchise business can be in the form of franchise distribution channel accidents, outlets' operational accidents, etc. Furthermore, peril causes losses and it is unpredictable and in many cases it is also unknowable (Tchankova, 2002). An additional element of risk identification is resource(s) exposed to risk; this can be defined as objects that may be lost or gained in the course of activities ((Williams & Heine, 1995; Tchankova, 2002). In franchise business arrangements, these objects can be in the form of outlets, buildings, vehicles, tools, etc.

Risk identification is not a one-off activity, it is a continuous process of seeking new risks that can emerge (Tchankova, 2002). Franchise business partners ought to seek for possible risks that can occur in their business relationships, and also need to make a risk identification process (*ex-ante* and *ex-post*) a part of signing a franchise business contract (Weaven et al., 2010). It is a continuous process, so that partners can predict potential risks that can occur from the very beginning of their franchise relationship. Furthermore, sources of risk can also be identified using an environmental basis, such as physical, social, political, operational, economic, legal and

cognitive (Williams et al., 1998 cited in Tchankova, 2002, p. 294). Based on the several environmental bases in risk identification, franchise business partners and franchise business people in general, have to be able to identify the physical environmental risks and opportunities that might affect their business, such as the possibility of natural disasters occurring, people's influence on the franchise businesses, and also positive effects such as climate, real estate's supportive conditions etc. Next is the social environment; franchise business partners should pay attention to the social environment such as varieties of human behaviours with regard to culture and social values such as attitudes to diet in different provinces, regions and countries (Tchankova, 2002). This social environment is pertinent since a franchise business is about maintaining the relationship between partners (Clarke-Hill et al., 2003). Furthermore, franchise business partners can apply their knowledge of the social environment to identify risks in terms of interaction and how to conduct proper relationships with his or her partners. So they can identify various risks in entering different markets. Next is the operational environment, as the risk identification based on operational environmental is quite pertinent in businesses.

Risk identification in the operational environment can be in the form of standardising the franchisors' operating procedures; this applies in manufacturing, hiring employees, production processes etc. (Tchankova, 2002). A franchise business encompasses this element, in which operational procedure has to be in accordance with the franchisor's standards (Perrigot, 2008; Sudarmiatin, 2011). Macro-economic environmental dynamics such as depression and recession can also be a basis to identify risk (Tchankova, 2002; Williams et al., 2006). The economic dynamics can assist franchise business partners to identify potential risks that might occur in certain conditions. The legal environment is the next environmental basis that can be used by franchise business partners to identify risks.

The legal aspect can cause risk and uncertainty in businesses (Tcahnkova, 2002). The legal aspect in Indonesian franchise businesses has already been reinforced by government regulations such as PP No. 42/2007 about

franchising and Permendag No.31/2008 of franchise business conduct; these regulations were released by the Indonesian government to provide stronger legal assurance in franchise business conduct (Sudarmatin, 2011). Based on that, franchise business partners can apply these regulations as a reference to identify the potential risks that might occur in conducting franchise business relationships. The next environmental aspect is the cognitive environment, which deals with perceptions and expectations in conducting business with regard to organisational uncertainty (Tchankova, 2002). As mentioned previously, franchise businesses are also prone to dispute risk, which is affected by inconsistency in expectations and reality between partners in terms of the performance they have to provide (Weaven et al., 2010).

6.6.2 The need for continuous risks assessment in managing franchise business risks in Indonesia

Risk management comprises a list of activities within the business process, which are meant to control strategic and operational risks within a business organisation in order to protect it against risks and their effects (Alina, 2012). Williams et al. (2006) noted that risk management is a range of activities undertaken by managers to control operational risks within the organisation. These activities can be defined as a business process to ensure that the organisation is protected against risks and their effects. In franchise business arrangements, conflict as one of the potential risks that can occur, and it should be viewed by both partners as a serious threat. Furthermore, both partners should be able to observe ways of continuing the process of risk identification. This task is challenging for both franchise business partners in Indonesia, especially in the restaurant and retail sector, due to the expectations they take into an agreement that might overcome their awareness of the risks (AFI, 2013). In this case, both partners might neglect the potential for conflict between them.

The research conducted for this study has revealed that one of the indicators for the construct *dispute risk management*, which is opportunistic behaviours,

was a significant indicator for this construct. Opportunistic behaviour occurs when each party behaves opportunistically by seeking to further their own interests and benefits at the expense of their partner (Cheung & Pang, 2012).

It can be inferred that both partners need to be aware of the possibility of their partners' opportunistic behaviour. Based on the result, the researcher believes that it is imperative to develop a risk management scheme for the Indonesian restaurant and retail franchise businesses and both partners should conduct a continuous process of risk identification that is strategic and operational in its scope. Strategic issues such as long term strategy should be translated into more operational targets and objectives in order to manage risk over shorter operational periods (Gillis & Combs, 2009). This short term operational strategy in managing risk acts as guidance for an operational manager or supervisor at a lower level of management.

Risk is about uncertainty in business; it should be managed effectively in order to maximise opportunities and minimise threats to an organisation so that they can reach their objectives and survive in a competitive market (Alina, 2012). As stated in *Risk Management: Principles and Guidelines* (ISO/IEC 31010, 2009 as cited in Alina, 2012, p. 777) "risk needs to become an integral part of how things are managed; it should not be an add-on, or a separate activity divorced from the mainstream management of the business". Therefore, in a franchise business arrangement, visible risk that might occur in conducting franchise business relationships should be viewed as an integral part of conducting the businesses. Risks such as dispute between partners should be included in the franchise business's risk management scheme. It is suggested that the franchise business should consider appointing a person who would be responsible for conducting a risk management reporting process. The risk management reporting process can be authorised by a person in line management to conduct a risk assessment and report (Williams & Heine, 1985). This will be another challenge for the Indonesian franchise business in the restaurant and retail sectors; perhaps in the initial period, the risk assessment and report could be conducted by the

franchisors and franchisees themselves. At the beginning phase of a franchise business, the risk management process, (consisting of identifying, analysing and managing) should be handled in a realistic and practical way (Williams et al., 2006). Action by both partners are needed to form real commitment to managing dispute risks (Elmuti & Kathawala, 2001).

A risk management scheme in a franchise businesses can be facilitated by key strategic risk identification and operational risk assessment. The key strategic risks are uncertain future events that could have an adverse impact on the business's strategic vision and objectives (Alina, 2012; Radomska, 2014). On the other hand, operational risks are the type of risks that could have an adverse impact on business performance and the efficiency of day-to-day operations (Alina, 2012). Franchise business partners' key strategic risks identification can be conducted by referring to environmental risk identification (Tchankova, 2002). This will provide franchise business partners with potential risks in regard to environmental threats and opportunities and this can contribute to their strategic business plan, such as business expansion; long-term business profit objectives and product or service strategic planning. Once the key strategic risks can be identified, the next phase is to translate the strategic risks, such as disputes, into more detailed risks identification at the operational business level (Williams et al., 2006; Cheung & Pang, 2012). Those steps of identifying key strategic risks and operational risk assessment can be adopted into the franchise businesses. Since a franchise business has specific concepts, both partners have to be more specific in identifying their franchise business's key strategic risks.

The researcher believes that in identifying key strategic risks in Indonesian franchise businesses in the restaurant and retails sectors; both partners should consider the research's significant key determinants and their indicators. These determinants can be act as basis for more technical and operational risks assessment. Operational risks assessment can be conducted by referring to risk universe tool (Alina, 2012). A risk universe tool comprises risk categories grouped under value chain and support titles. By

using the categories contained in risk knowledge, franchise business partners are able to conduct a risk assessment processes to obtain accurate and reliable outcomes (Williams et al., 2006; Alina, 2012). Examples of operational risks assessment can be categorised as value chain and management and support, which can be detailed as follows: Value chain consists of sales and marketing; procurement; manufacturing; health and safety; physical assets; warehousing and distribution, and invoice and customer service. The next element of operational risks assessment is management and support. This comprises several elements, which are: improvement and change; human resources; financial management; legal and compliance; taxation, information resources and technology; sustainable development and environment; and corporate affairs (Alina, 2012).

In general, franchise business arrangement risk assessment can also adopt the aforementioned risk universe tool. In addition, dispute risk can be an imperative element for ensuring the development of a risk management scheme in the Indonesian restaurant and retail franchise business is more comprehensive. This will require a long process of implementing this risk management scheme, since the franchise business partners might not have standard procedures in terms of risks management processes. In addition, to be able to survive in market competition, franchise businesses have to give serious attention to competition risk. This type of risk consists of threats and opportunities, which the franchise business partners have to decide whether they are going to reinforce, reinvent, ignore, deny, challenge, or amend their company management wherever there is uncertainty over their relevance to the risk management (Ojiako et al., 2012). And as for the consequences, if risk management is expected to cope with competition risk; then the franchise business partners should be able to develop their franchise business's core competencies (Ojiako et al., 2012; Radomska, 2014) to cope with the dynamic competition in the restaurant and retail sectors in Indonesia.

6.6.3 Process of dispute risk management scheme in franchise businesses

From the beginning of a franchise businesses operation, franchise business partners should also pay attention on the reality of risks involved in doing business in order to develop a proper risk management scheme (Williams et al., 2006; Weaven et al., 2010). This can be achieved by paying attention to environment dynamics where the franchise business operates.

The management of potential risks in a business can be achieved by using several steps such as risk recognition, risk prioritisation, and risk management (Williams et al., 2006). At the first step, the franchise business partners can conduct several actions such as understanding what is at risk, what events could potentially cause harm for the franchisee's business (Elmuti & Kathawala, 2001; Williams et al., 2006; Weaven et al., 2010). The potential risks here are risks which have potential to harm the relationship satisfaction between partners and which influences franchise business survivability. Furthermore, risk recognition comprises two stage: the first stage is to find out what is at risk; secondly, there is and risk identification, which covers the identification of uncertain events that could cause harm, associated causes of the events and consequences of risk occurrences to business entities (Williams et al., 2006; Cheung & Pang, 2012). In a franchise business context, specifically in this study, dispute risk can become a potential threat to franchise business entities. Dispute risk management can also be a complement to the risk management scheme development undertaken in Indonesian franchise businesses.

The second stage is to conduct risk prioritisation. This stage enables the franchise business partners to understand the nature and level of risk, so that they can manage risk suitably (Williams & Heine, 1985; Williams et al., 2006). Risk prioritisation comprises two stages, which are: risk analysis and risk evaluation. In the first stage, franchise business partners are able to conduct risk analysis based on likelihood and consequence. The likelihood depends on the probability of a risk occurring and the frequency of a risky activity, and risk consequence can be determined by effects on results or on

enablers of results (Williams et al., 2006; Cheung & Pang, 2012). In the risk evaluation stage, franchise business partners provide risk-acceptance criteria to rank a list of risk occurrences, which is based on the risk analysis. The criteria for the probability of a type of risk occurring, which can be applied by franchise business partners, can be low, medium and high (Williams et al., 2006). Alternatively, these criteria can be translated into three categories: tolerable risk; at least reasonably practicable risk; and intolerable risk. After risk prioritisation, risk assessment should be conducted (Williams et al., 2006). The aforementioned risk management scheme development can be applied in Indonesian franchise businesses in the restaurant and retail businesses sector to enhance the franchise business's survivability.

The next stage in managing potential risk is to develop a risk profile. A risk profile describes the scale and complexity of risk that a franchise business faces. It represents the risk exposure of the franchise business organisation (Williams et al., 2006). It can be used as a reference for the franchise business partners, to help them decide whether they are going to avoid, treat or manage and transfer the potential risks (Williams & Heyne, 1985; Williams et al., 2006).

A study by Williams et al. (2006, p.71) suggested several methods of managing risk that have been adopted from the European Foundation for Quality Management (2005). They are the four Ts, which are:

1. Terminate: cease activities related to risk;
2. Treat: add management control on measures to treat likelihood and consequences;
3. Tolerate : accept the risk and
4. Transfer: move impact of risk to another party.

The franchise business partners in Indonesia can apply this risk management approach to provide prioritisation of potential risks that may occur. Furthermore, it will be more appropriate if they can use their experience and knowledge in managing a risk process to cope with the main

franchise business organisational and environment changes (Williams et al., 2006).

In managing dispute risks in franchise business arrangements, franchise business partners consider *ex ante* and *ex post* stages of franchise contract signing. Risk management can improve the strategic capability of any business, such as franchise business arrangements, by estimating of risks on an *ex ante* basis if strategy is already planned and formulated (Ojiako, 2012). It is suggested that a risk management scheme in the Indonesian franchise businesses in the restaurant and retail sectors should be developed in a specific format that is easily understood by franchise business people in Indonesia, and which covers *ex ante* and *ex post* stages in franchise business arrangements (Weaven et al., 2010). As mentioned previously, in franchise business arrangements, both partners will experience dynamics in their relationships, which can be based on their expectations, partners' behaviours and competencies, and franchise business core concepts (Holmberg & Morgan, 2004; Weaven et al., 2010). In addition, each party in a strategic alliance formation such as franchising also tends to gain access to the other partners' resources and therefore spreads their own risk (Li et al., 2013).

Franchise business partners have a responsibility to maintain the trade mark or brand reputations in their franchise business arrangements, because the trade mark and brand reputation of a franchise is also subject to risk that has to be managed by both partners in order to be able to survive market competition (Verbieren, 2008).

In conducting franchise businesses, both partners should be aware of hazards that can deteriorate the trade mark or affect brand reputation. This type of risk can be triggered by several issues, such as opportunistic behaviours by either partner, which can result in misjudgement of the execution of franchise activities in business (Frazer et al., 2012). This misjudgement can be in the form of actions that do not comply with the franchise business arrangement contract. This issue can be valuable input

for both partners in terms of being an additional identification as part of the risk management scheme development in Indonesian restaurant and retail franchise businesses. In addition, for most business entities it takes years to gain a reputation; however, it only takes a single adverse event to destroy a franchise business's reputation, and as a result the relationship between partners can deteriorate and the franchise business survivability therefore faces more unfavourable conditions (Sobehart, 2014).

Sobehart (2014) proposed some fundamental aspects of partners' responsibilities in managing reputation risk hazards in franchise business relationships to limit the risk of dispute between partners. The first is the responsibility to society; franchise businesses have a responsibility to provide products and services with a clear social purpose. Second are the responsibilities to clients; this requires running a franchise business with a high integrity level, and putting clients' interests as a top priority; Third is the responsibility to the franchise, and to providing superior outcomes to shareholders and becoming a benchmark for the restaurant or retail sectors; fourth is responsibility to employees, to provide a working environment that create opportunities, rewards and an accountable promotion process.

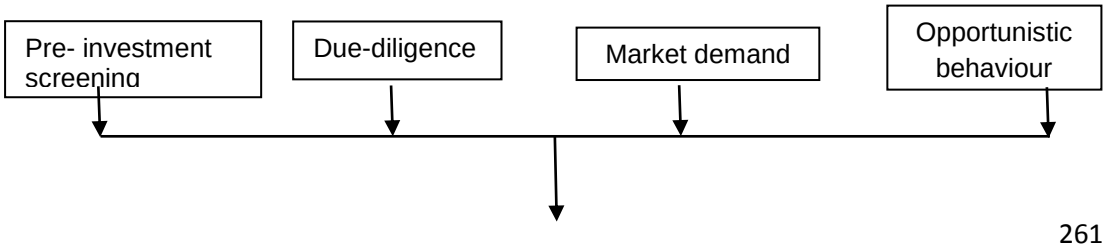
Williams et al. (2006), pointed out that in order to be able to conduct risk management scheme development properly, both franchise partners can apply several steps, which are:

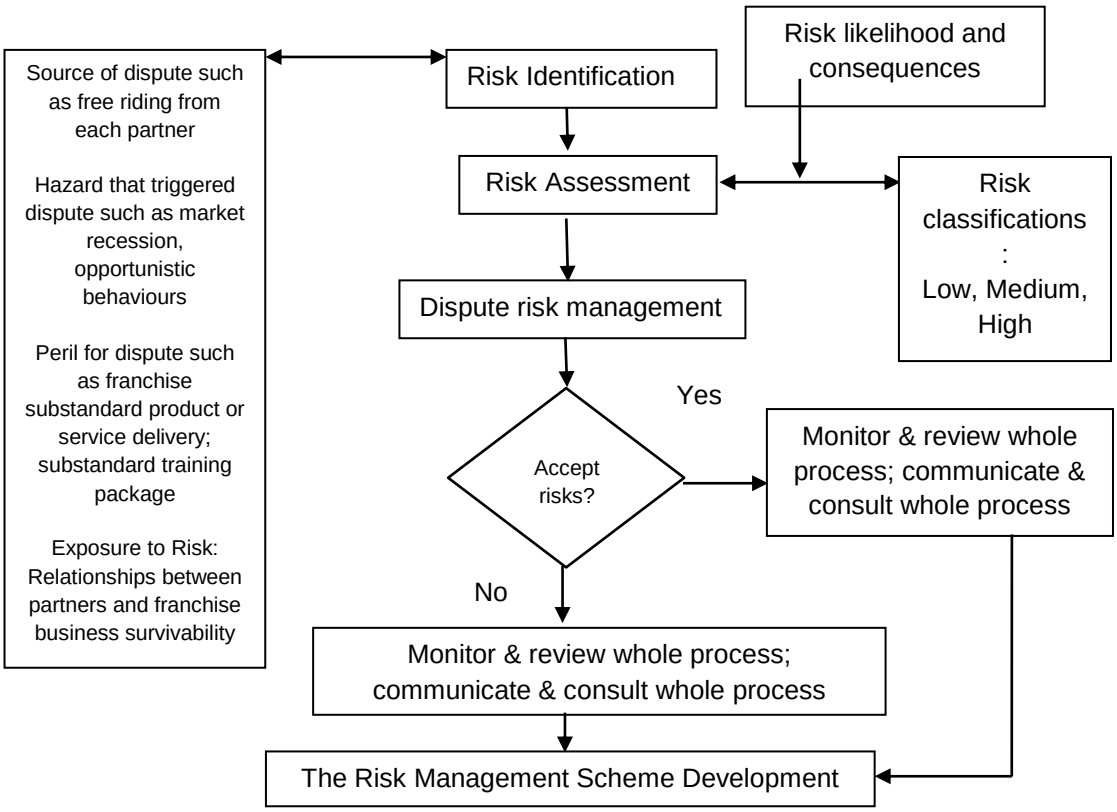
1) Businesses' policy statement of risk management intention, which describes the importance of the risk management scheme development in franchise business alliances;
2) Planning, to describe strategies in order to achieve risk management goals and objectives;
3) Implementation, which is an activities control mechanism for managing risk that potentially might occur in the relationships between partners in a franchise business arrangement or in conducting franchise businesses in general;

4) Monitoring, to obtain a monitoring mechanism for the risk management system to be able to provide review activities based on facts derived from organisational activities;
5) Review, actions to provide a review of the entire risk management system in order to create learning points and provide continuous improvement on the risk management scheme in franchise business relationships

These five fundamental aspects can be a reliable basic guidance for both partners to develop a risk management scheme in franchise business arrangements. They can also provide both partners with a systematic approach to risk identification, risk assessment and risk management. It is important to conduct risk management in any kind of business organisation, and franchise business arrangements are no exception. Referring to relational risk, which can deteriorate the relationship between partners in strategic business alliances such as franchising (Das & Teng, 1999), both partners should also aware of a franchise's basic core concept in conducting risk identification, assessment and management. Due to the distinguishing characteristics of the franchise business concept, the potential risks and hazards that might occur also require different terms and meanings, such as: free-riding, reputational risk, opportunistic behaviours, pre-screening, due-diligence, business formula testing etc. (Stanworth et al. , 2001; Weaven et al., 2010; Frazer et al., 2012;). Both franchise business partners should be able to identify, assess and manage potential moral hazards which can harm the relationship satisfaction between them. They can use indicators of the construct *dispute risk management* to commence this risk identification, as shown in figure 6.2 below:

Figure 6.2 Dispute risk management process for risk management scheme development in Indonesian franchise businesses in the restaurant and retail sectors.





Source: adapted from Tchankova (2002), Williams et al. (2006)

Figure 6.2 above illustrates the indicators of the variable *dispute risk management* which include 'pre-investment screening'; 'due diligence'; 'market demand'; and 'opportunistic behaviour'. These are all important elements in managing risk in order to minimise the potential of dispute occurring in the relationships between partners. Following the appropriate process of dispute risk management franchising partners can observe the source, hazard, peril and exposure of dispute risks that might occur in their business relationships. The stages of risks assessment illustrated in figure 6.2 explain that franchise business partners need to start to analyse identified risks in terms of their likelihood and consequences to be able to classify them as low, medium and high in terms of their probability of occurrence. The next stage is to manage the potential dispute risk. At this stage, the franchise business partners should decide whether they accept or reject risks. If they choose to accept risks, they also ought to monitor the whole process again as a continuous process of risk identification, assessment, and management process. The whole process can contribute to

developing risk management processes in the Indonesian franchise business and retail sectors.

6.7 Relationship satisfaction between partners determines the franchise business survivability in Indonesian restaurant and retail sectors

In this study the indicators of ‘resource access’; communication openness’; ‘support’; and ‘perceived conflict’ are used to measure the construct *relationship satisfaction*. The following section explains these relationship in details.

6.7.1 Resource access

As the franchise network becomes larger; it becomes more difficult to monitor franchise business arrangements (Kidwell et al., 2007). As a business alliance, a franchise business needs proper access to transfer knowledge and resources from each partner to the other (Mowery et al., 1996; Hynes & Mollenkopf, 1998). The resource access enables both partners to conduct their business properly; franchisors on one side are able to gain income from their franchisees and advantages in coping with new target markets. On the other hand, the franchisee gains valuable knowledge in the form of training and managerial expertise from the franchisors. Moreover, franchisees gain the right to use licenses, brands and trademarks (Palmatier, 2006; Altinay & Brookes, 2012).

6.7.2. Communication openness

The franchisor also has some obligations to meet. Franchisors have to provide standardised training, a standard operating procedure, advertising and a managerial scheme for their franchisees (Kidwell et al., 2007; Frazer et al., 2012). If these franchising obligations do not meet the requirements that both sides agreed, the probability is that conflict between them may occur. That is the reason why maintaining relationship satisfaction requires a consistent communication channel for monitoring both partners’ obligations.

Communication in franchise business can be measured in the form of communication openness between partners (Bordonaba-Juste et al., 2011;

Grace et al., 2013). This type of communication can be in the form of regular meetings that are held by both partners in the form of informal communications (Weaven et al., 2010). These meetings are great opportunities for both partners to discuss each of their problems and get them solved. As a franchise business operates, both partners' expectations of each other usually vary. Hence, expectations and reality in franchise business relationship should be taken into serious consideration by both partners (Holmberg & Morgan, 2004; Winsor et al., 2012). Communication can be an alternative way of collecting information, problems and complaints from each partner, so they can sit together, discuss and resolve their business issues (Weaven et al., 2010; AFI, 2013). Communication openness is an effective way to gain the information necessary to develop a plan for the franchise business (Grace et al., 2013; AFI, 2013). Although there are already legal contracts, this type of communication equips the franchise business with a more effective managerial strategy to survive in the market because each partner can anticipate and be aware of their managerial issues.

6.7.3 The level of support

Relationship satisfaction in franchise business arrangements can also be determined by the level of support provided by each partner (Grace et al., 2013); for example, the support in a franchise business can be in the form of managerial and promotional support by the franchisor (Davies et al., 2011). On the other hand, the franchisees provide support in the form of money or royalties for the franchisor (Rubin, 1978; Hoy & Stanworth, 2003). Based on the research's empirical result, franchising business partners in the Indonesian restaurant and retail business were aware that support from their partners was significant in their business relationship satisfaction. The understanding between partners should exist from the moment the contract is signed. The parties in the franchise business should be aware that their business relationship has several consequences. Moreover, it is important that the franchise business partners understand what is expected of them regarding the support from both side. That is the reason that they also have

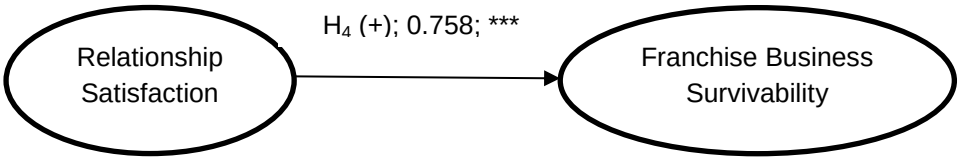
to be more aware of what their obligations to their partners are, in order to conduct the alliance properly. If partners in the franchise business relationship experience conditions where their partners' support is not compatible with the agreement, the relationship will deteriorate. Unfortunately, partners in franchise businesses tend to neglect these matters; they think that when they have signed an agreement formalising the franchise business, it will automatically runs as expected (Weaven et al., 2010).

6.7.4 Perceived conflict

Another result of this study, which is also consistent with a study by Grace et al. (2013), is that perceived conflict may have either positive or negative influence on relationship satisfaction. Franchise business partners tend to be aware that conflict between them is likely to emerge. At a certain level, conflict will provide the business relationship with a positive effect, such as competing with each other to reach targets in positive ways. On the other hand, if the conflict reaches a certain level, it will deteriorate the relationship between partners (Weaven et al., 2010). When both partners decided to enter into a franchise business arrangement, they were proceeding on the basis of promises of franchising business format benefits (Grace et al., 2013). Expectations of each partner often lead to questions of whether or not their partners have complied with performance requirements as written in the legal contract (Grace et al., 2013). Confirmation and disconfirmation in the franchise business relationship probably will occur in their business relationships. It is undeniable that as long as the franchise business operates, there are likely to be obligations that each partner might perform that the other finds unsatisfactory (Frazer et al., 2012). As mentioned previously, this disconfirmation can take the form of opportunistic behaviours that can be classified as free-riding (Frazer et al., 2012). In the franchise business relationship, franchisees might perform free-riding by lowering production cost on purpose to gain more profit. This action can result in producing a sub-standard product or services that do not comply with the franchisors' business concept (Kidwell et al., 2007). As a result, the product

or service will not pass the quality product or service standard. This will be a potential issue in triggering conflict in the franchise business arrangements.

Figure 6.3 Relationship between *relationship satisfaction* and *franchise business survivability*



***: p< 0.001
Source: the author

Figure 6.3 above predicates that *franchise business survivability* in Indonesian restaurant and retail sectors is significantly influenced by *relationship satisfaction* between franchise business partners. Franchise business survivability has become an interesting issue in Indonesia, specifically in the restaurant and retail sectors. Sudarmiatin (2011) revealed that approximately 40% of total turnover in franchise business sales were dominated by these two sectors. Indonesian franchise business is experiencing a steady growth, both for local and foreign franchise businesses. The average growth of local franchising businesses is around 8-9% annually at the time of writing and the foreign franchise businesses were growing 12-13% annually (Karamoy, 2009 as cited in Sudarmiatin, 2011, p. 3). However, there is revealing fact beside the steady growth of franchise businesses, which is that the number of failures was also surprisingly low. The level of franchise business survivability in Indonesian local franchise business is only around 50% for the franchisees and 70% for the franchisors (Karamoy, 2009 as cited in Sudarmiatin, 2011, p. 3). Furthermore, 75% of franchise business survivability issues are affected by franchisor-franchisee related issues (AFI, 2013), which is the reason why the relationship satisfaction between partners in franchise business arrangements should be a pertinent factor to enhancing Indonesian franchise business survivability in the restaurant and retail sectors.

6.8 Important elements in franchise business survivability in Indonesian restaurant and retail sectors

Based on the research results of this study, all indicators for the construct of *franchise business survivability* were significant. In order to manage the survivability of their business, both partners can apply indicators to measure *franchise business survivability* (Stanworth et al., 2001; Holmberg & Morgan, 2004; Davies et al., 2011; Winsor et al., 2012). These indicators are: 'strategic achievement': 'business formula testing': 'franchise expectations and core competency fit/misfit': and 'partners' complaint and legal action'. A discussion of important elements in franchise business survivability in Indonesian restaurant and retail sectors is provided below.

6.8.1 Strategic achievements

One of the indicators of franchise business survivability is strategic achievement, in forming franchise business arrangements both partners have to be aware that they have strategic achievements that they need to reach. These strategic achievements can be one if the indications of whether the franchise business that they are conducting is on the correct path or not (Stanworth et al, 2001). As a form of business alliance, franchising needs to expand its business network, and strategic achievement can be in the form of business expansion. It is the number of business units that in franchising terms can be translated into how many new outlets can be developed in a certain period (Kaufmann et al., 2007). The next strategic achievements that can be managed by both partners are sales, marketing, product or services pricing and staffing strategies (Stanworth et al., 2001). These issues might be more likely to succeed if there is relationship satisfaction between partners. However, there is a slim chance that both partners will work together harmoniously in setting strategic goals and objectives of their particular businesses due to asymmetrical matters in business alliances such as franchising (Doherty & Alexander, 2006).

Both partners, respectively, need to manage their strategic achievement as a whole business strategy to accomplish their objectives. For example, the franchisor needs to expand to reach a larger market, and on the other hand,

the franchisees also need to enhance their individual business's turnover (Gillis & Combs, 2009). In terms of business formula testing, both partners have to observe a period of time needed to comply with planned strategic objectives. The first 30 months of the business's operational period is crucial for the franchise businesses' survivability (Storey, 1994). At this stage, there might be need to be plenty of adjustments to the business's targets and objectives, such as sales, marketing campaigns, product/service packages, pricing changes, and staff recruitments strategy (Stanworth et al., 2001). Both partners should consider several issues such as the process in finding new outlet locations, personnel hiring process, and setting sales targets. The issue of business formula testing is essential, due to its function as a reference for both partners in the franchise business arrangements to be able to cope with a market that is very dynamic (Stanworth et al., 2001). This is especially true in the Indonesian market, where the restaurant and retail sectors are still growing rapidly (Chandra, 2011).

6.8.2 Business formula testing

Business formula testing also can act as additional information for the franchise business partners to translate their strategic plan into periodical plans (Gillis & Combs, 2009). This is important because to be able to implement a long term business strategic plan, the franchise businesses partners have to provide more technical plans that can be implemented in a shorter period of time, such as monthly or annually. This technical plan assists the franchise business to establish its goals and objectives. Furthermore, this technical and strategic plan will be an enormous advantage and can be implemented properly if the relationship between them is in a positive state. Furthermore, as a result the franchise businesses' targets will be achieved, and their survivability will be enhanced. In addition, both partners in the Indonesian restaurant and retail franchise businesses should also consider a chain-builder strategy in enhancing their business's strategic achievement and business formula testing (Gillis & Combs, 2009). This chain-builder approach is one of the appropriate ways of penetrating a culturally unique market. Furthermore, this type of strategy is already proven

to work best in markets where brand name and standardisation are relevant issues, such as restaurants, retail and hotel businesses (Gillis & Combs, 2009).

6.8.3 Franchise expectations and core competence fit or misfit

In this research, 'franchise expectations and core competence fit or misfit' was applied as an indicator to measure the construct *franchise business survivability*. Both partners should not only pay attention to their partner's performance in terms of rights and obligations, they should also have realistic expectations on their partners (AFI, 2013). As a business progresses, both partners gain experience in managing their part of the business. Partners in franchising might think that as they develop and more franchise outlets open the business's efficiency increases and as a result failure rate may decrease (Holmberg & Morgan, 2004). However, the opposite is true: as the business expands, the rights and obligations of each partner also increase (AFI, 2013). As a result, the expectations of each partner of their partner's competencies in coping with increasing obligations to ensure the business operates properly might be in jeopardy. This issue might occur if the franchisor only concentrates on rapid outlet growth and unintentionally neglects to provide their franchisees with proper assistance. Furthermore, this type of franchisor can find themselves in a situation where their resources are struggling to keep up with the rapid growth in their system size (Holmberg & Morgan, 2004). The franchisee on the other hand may find themselves to be neglected by their franchisors, due to franchisors' sub-standard performance in fulfilling their obligations (AFI, 2013). The sub-standard performance of obligations by franchisors, for instance, can be in the form of a lack of training provided for the growing number of outlets, irregularity of supplies for the existing outlets and poor marketing campaigns (Frazer et al., 2012; AFI, 2013). This issue can lead a franchise business arrangement into dispute if both partners' expectations and competencies experience enormous gaps. Furthermore, as dispute escalates, franchise business survivability can develop into a critical situation (Weaven et al., 2010; Winsor et al., 2012). In order to cope with this situation, both partners

need to allocate resources and time to developing failure avoidance strategies specifically for this issue. Despite the disadvantages that can be brought about by franchisors as a result of a rapid growth and size strategy, it also brings several advantages for both partners. With an increasing number of outlets, franchisors can utilise the outlets as training locations for the new franchisees, it can also enable them to run business formula testing such as on new products and/or services, and it can also be as used a tool to gain more experience for the franchisors, so that they can transfer that experience to their franchisees (Sen, 1998 as cited in Holmberg & Morgan, 2004, p. 65).

Franchise expectations and core competence also plays its role in the issue of outlet growth. From the franchisors' perspectives, they might have expectations that their franchisees can properly utilise the growing number of outlets as a place for knowhow and knowledge transfer. The risk that may occur is that if franchisees are not able to cope with the knowledge transfer issue then dispute might occur between them (Drago, 1997; Paswan & Wittmann, 2009). The franchisor might think that their franchisee is not able to understand the business concept, which is one of the basic competencies in conducting a franchise business relationship properly (Verbieren et al., 2008). In addition, both partners also need to consider methods for monitoring the competencies of the other partner; because at some point of rapid outlet growth, each partner might have difficulties in properly screening their partner's competencies relative to their franchise business concepts (Holmberg & Morgan, 2004; Samu et al., 2012). In order to cope with that situation, both partners should develop and enhance a coordination mechanism between them to minimise substandard performance. The supply chain between partners can be improved if both partners in a franchise business relationship are able to predict the sufficient amount and value of supply for the growing size of their business (Yang & Wang, 2012).

Franchise expectations and core competence should be viewed as basic concepts in conducting a franchise business. Partners in Indonesian franchise businesses in the restaurant and retail sectors need to pay more

attention to the definition of basic concepts of franchising and the core competence of their partners. Many franchise business people in Indonesia think that every single business can be expanded by so-called 'franchise arrangements', but obviously, such arrangements are only business opportunity concepts (Sudarmiatin, 2011).

That is the reasons why the Indonesian government provided new regulations for franchising, which are PP No. 42/2007 about franchising and Permendag No. 31/2008 of franchise business conduct; which were issued in order to strengthen franchise business regulation and improve the level of franchise business survivability in Indonesia (Sudarmiatin, 2011). There are several basic concepts of franchising in the regulations provided by the Indonesian government in order to limit the risk of failure, such as: the business has to be profitable over a certain period, must have written standard operating procedures for obtaining and serving goods and services that are provided; the know-how must be relatively simple to transfer and apply; there must be ownership of several legal licences from the authorised ministries; and the business must provide a comprehensive prospectus for future franchisees (Sudarmiatin, 2011). In addition, a franchise business concept must also comprise several crucial elements such as offering goods and services continuously, a solid connotation between products and brands, and uniformity of goods and services provided throughout the entire franchise business outlet network (Kosová & Lafontaine, 2010). By understanding the basic concept of franchising, both partners are able to conduct their business properly. In addition, concerning franchise business survivability, both parties in the franchise business should be aware of the opinion that a franchising businesses concept is not failure-proof, which is why both partners have to be aware of their partners' core competencies in franchise business arrangements (Perrigot, 2008).

The expectations of both partners in a franchise business relationship are in dynamic motion throughout their day-to-day business. At the early stage of their relationship when expectations are quite high, the level of conflict between them is likely to be relatively low (Blois, 2009; AFI, 2013). On the

other hand, as both parties gain more experience in conducting their business, the probability of dispute risk emerging will increase, due to the increasing size of the franchise network and consequent conflicts over the distribution of resources (Blut et al., 2011). The relationship satisfaction level between them can be at an unfavourable level as their business ages; this issue should be taken into serious consideration by franchise business partners in the Indonesian restaurant and retail business in order to enhance the survivability of their businesses. It is a complex situation, where both partners must balance the level of expectations and reality in conducting their businesses; and beside that each partner also has to hold on to the core competencies of franchise businesses concepts (Jap, 2001; Blois, 2009).

6.8.4 Franchise complaints and legal actions

Franchise business partners in the Indonesian restaurant and retail sectors should also provide more serious consideration of franchise complaints and legal actions. Disputes between partners can occur as the business operates, and if the dispute escalates, there is a probability that each partner might bring the dispute to a third party such as a franchise association or government body (Holmberg & Morgan, 2004). And if this further step has already been taken, the relationship between partners can deteriorate and as a result business survivability can also be jeopardized (Elmuti & Kathawala, 2001). It is important that the role of the franchise business association can be more responsive to Indonesian franchise businesses. The franchise business association could be a reference for the franchise business players to provide assistance if there is a dispute between franchise business partners, before they move on to further steps, such as legal action using solicitors, or bring the dispute or conflict to an arbitrating body (AFI, 2013). The franchise business association can deliberate and solve disputes between franchise business partners, and also it can build solidarity between them in order to prevent the dispute spiralling out of control and deteriorating the relationship between partners (Lawrence & Kaufmann, 2011).

Furthermore, the present role of the franchise business association can be improved by conducting more intensive monitoring of existing franchise businesses. This is important because of the high probability of failure among franchise businesses in Indonesia, especially local franchise businesses (Karamoy, 2009 as cited in Sudarmiatin, 2011, p. 3). In addition, the periodic monitoring of franchisors' identity is important, because it can be applied to determine the continued existence of the franchisors, in other words to monitor franchise business survivability in general (Lawrence & Kaufmann, 2011).

There are several ways of dealing with disputes in a franchise business alliance, such as legal action (Mangku, 2012). When a franchise takes legal action, each partner can refer to their legal contract and government regulations concerning franchise conduct. They can refer to government regulations and policies such as PP No. 42/2007 about franchising and Permendag No. 31/2008 of franchise business conduct (Sudarmiatin, 2011). Before commencing legal action for their disputes, both partners in franchise business arrangements should consider the cost and the length of time involved in commencing legal action on their partners for disputes or conflicts (AFI, 2013). Before commencing legal action, both partners should consider using negotiation for a win-win solution between them, which is the most simple and basic way of dealing with a dispute in any business relationship (Mangku, 2012). However, as the dispute between them may escalate, legal action might become the solution for dealing with this issue. As a result both partners should be aware of the several consequences they might bear. In particular, after the legal action commences, the conflict between them will intensify and the franchise business might not be able to survive due to a breakdown of relationships. In addition, government regulations provide both franchise business partners with adequate certainty of law enforcement, specifically in conducting franchise businesses in Indonesia. Furthermore, the restaurant and retail sector is the most desirable sector for Indonesian franchise businesses (Chandra, 2011; AFI, 2013) and holds an enormous potential to stimulate the franchise business economy. Therefore, it is

important that parties in franchise business relationships are able to conduct their business properly so that in general franchise business survivability can be enhanced.

6.9 Chapter summary

This chapter provides reader with the research's main findings, contributions to knowledge and managerial implications for the franchise business that can be drawn from this research's empirical results. Furthermore, this chapter also provides the reader with more thorough and detailed discussion of the research main findings, its contribution and the managerial implications of its findings to franchise businesses. The discussion comprises several pertinent issues, which are: managing rigidity and flexibility in franchise business relationships; managing relationship satisfaction in enhancing business

survivability; managing more proper recruitment process to limit dispute between partners; and franchisors should provide more eligible training scheme for their future partners. I addition, the importance and implementation of dispute risk management in Indonesian franchise business arrangements has also been discussed.

Chapter 7
Conclusion

7.1 Introduction

This chapter summarises this study by providing the main findings of this research, offering suggestions for further research, and explaining the limitations of this study. The limitations can be used as a reference for further research, which it is hoped can be complementary to this study in order to gain deeper understanding of the development of Indonesian franchise

businesses in general and franchising in the restaurant and retail sectors in particular. This chapter also highlights the main contributions towards knowledge in the field of franchise business, consisting of both theoretical and empirical perspectives.

7.2. Main research findings

The objectives of this research are:

1. To discover the key determinants affecting the survivability of Indonesian franchise businesses in the restaurant and retail sectors.
2. To examine influences of *trust*, *commitment* and *dispute risk management* on *relationship satisfaction* in Indonesian franchise businesses in the restaurant and retail sectors.
3. To examine the influence of *relationship satisfaction* on *franchise business survivability* in Indonesian franchise businesses in the restaurant and retail sectors.
4. To develop and test a structural equation model to be used in potentially enhancing the survivability of Indonesian franchise businesses in the restaurant and retail sectors.

Based on theory and previous empirical studies, the researcher developed a model named the Franchise Business Survivability Theoretical Model (see figure 2.4 p. 64). This model shows the relationships between constructs, which include *trust*, *commitment*, *dispute risk management*, *relationship satisfaction* and *franchise business survivability*. Based on the research's empirical results, the main findings of this research are:

1. This research has identified the key indicators to measure the determinants of franchise business survivability in the Indonesian restaurant and retail sectors. These include 'good-will trust'; 'competence trust'; 'cognition-based trust'; 'affect-based trust'; 'explicitness'; 'revocability'; 'volition'; 'publicity'; 'pre-investment screening'; 'due-diligence'; 'market demand; 'opportunistic behaviour'; 'resource access'; 'communication openness'; 'perceived conflict'; 'support'; 'strategic achievement'; 'business formula testing'; 'franchise

expectations and core competency fit or misfit'; and 'partners' complaint and legal action'.

2. Having examined the key determinants which have an effect on Indonesian franchise businesses in the restaurant and retail sectors using the primary data, this research found that the constructs *trust* and *commitment* had no significant relationships with the construct *relationship satisfaction*, which is a key mediating factor influencing the survivability in Indonesian franchise businesses in the restaurant and retail sectors. This result may be have been produced because both franchisors and franchisees rely heavily on the contract that frames their franchise business arrangement to achieve their relationship satisfaction.
3. This study finds that construct *relationship satisfaction* is significant in enhancing the *franchise business survivability* in the Indonesian restaurant and retail sectors.

7.3. Research contribution

Several research contributions are made in this study, which are listed below:

1. This study has made a distinctive contribution in closing the gaps in the literature by answering the calls by previous studies to conduct franchise business survivability studies from the perspectives of both franchisors and franchisees.
2. This study was able to identify the key determinants (*trust; commitment; dispute risk management; relationship satisfaction*) that have an influence on franchise business survivability in the Indonesian restaurant and retail sectors.
3. This study also has made contribution to knowledge by providing a holistic examination of how the key determinants (*trust; commitment; dispute risk management; relationship satisfaction)* affect franchise business survivability in the Indonesian restaurant and retail sectors.
4. This research contributes in introducing the variable *dispute risk management* into the Structural Equation modelling. This study found

that this variable is significant in enhancing *franchise business survivability* in the Indonesian restaurant and retail sectors.

5. This study was able to develop a model, named the Franchise Business Survivability Model. As a distinctive contribution, the model demonstrates the direction of relationships between and among constructs, and through the model, this study is able to explain how the key determinants, which are *trust, commitment, dispute risk management* and *relationship satisfaction* affect the survivability of Indonesian franchise businesses in the restaurant and retail sectors.
6. Since most of previous franchise business studies have been conducted in developed countries such as the United States, United Kingdom and Australia, this study contributes to the literature by providing a comprehensive study on the dynamics of Indonesian franchise business partners' relationships, specifically in the restaurant and retail sectors.
7. Through the franchise business survivability model, this study also demonstrates that the relationships among constructs can be confirmed by using behavioural measurements. These measurements, which are the indicators, can be valuable elements for the franchisors and the franchisees to plan and manage their strategic objectives and goals. Furthermore, it also enables them to translate their strategic objectives and goals into practical task to reach their short term objectives.
8. This research has made a valuable contribution to the development of risk management schemes in Indonesian franchise businesses in the restaurant and retail sectors. Furthermore, this study was able to provide an empirical test of how the moral hazards can be a potential threat to the survivability of franchise businesses.

The achievements of this study can be valuable contributions to literature and practice in the study of franchise businesses.

7.4. Managerial implications for franchise business

The empirical results of this study provide several important managerial implications for franchise businesses, which are listed below:

1. Managing rigidity and flexibility in franchise business relationships. The variables *trust* and *commitment* are not significant in affecting the variable *relationship satisfaction* between partners in Indonesian franchise business arrangements. This means that franchise business partners the Indonesian restaurant and retail sectors mainly rely on legal contracts to maintain their relationship rather than placing trust in their partners. To improve their business relationships, both partners should start to build trust and commitment between them to be able to cope with the rigidity in their relationships.
2. Managing and improve relationships satisfaction. The identification of the variable *relationship satisfaction* as a significant factor in enhancing *franchise business survivability* provides both partners with a clear perspective that their *relationship satisfaction* level throughout their business operations represents a crucial part of their business survivability. The indicators 'resource access', 'communication openness', 'perceived conflict' and 'support between partners in franchise business arrangements' act as importance factors for both partners in achieving relationship satisfaction between them. It is therefore recommended that partners set up a *dispute risk management* scheme to enhance their business's survivability. The study shows that the variable *dispute risk management* is another significant factor in enhancing the *franchise business survivability* of partnerships in the Indonesian restaurant and retail sectors. The identification of the variable *dispute risk management* as a significant factor in enhancing *franchising business survivability* means that risk management should be implemented by both franchise business partners.
3. Introducing a proper recruitment process to limit disputes between partners. The research shows that the variable *dispute risk management* is one of the keys determinants in affecting *franchise business survivability*. As a safeguard, both partners in franchise arrangements should introduce and manage a proper recruitment process in order to increase the likelihood of their franchise business

surviving. This recruitment process is important to enable both partners to identify the potential moral hazards of their relationship. Furthermore, it also can be the backbone of managing dispute risk in franchise business arrangements.

4. Franchisors should provide appropriate training schemes for their future partners. As one of the franchisors' obligations in the franchise business arrangement, training schemes play an important role in maintaining their future partner's core competencies. Proper training schemes secure the knowledge transfer process to the franchisees. And as a result, it eliminates misconceptions and minimises the risk of dispute between franchising partners.
5. The franchise business survivability indicators such as strategic achievement, business formula testing, franchise expectations and core competency, and partners' complaint and legal action are also approved to be important indicators for both partners in how to manage their businesses properly in order to enhance their survivability.

7.5 Research limitations

The researcher is aware that this research has several limitations.

The first limitation of this research is that, due to this study sector's focus, this research examined and confirmed the factors that influence Indonesian franchise business survivability in the restaurant and retail sectors only.

The second limitation of this study is the geographical coverage of this study. Due to the researcher's constraints of time and funding, the geographical coverage of this study is mostly limited to several major urban areas in Indonesia, which are Jakarta and Semarang, Central Java. Nonetheless, from these areas the researcher was able to collect data from 119 respondents, which was sufficient for the research to conduct CFA SEM analysis and covers franchise businesses from certain areas, which are: Jakarta, Central Java, West Java, East Java, Yogyakarta and Riau.

The third limitation of this study is that its sample included a wide range of franchise businesses of many different sizes. Therefore, the sample size of

this study included both small and medium enterprises and larger franchise firms; in the larger firms the franchisor may have had dozens or even hundreds of franchisees, whereas for most franchisors they were only dealing with a small number of franchisees, making the relationship between franchisor and franchisee much closer and more interdependent. This is because there are a large number of local franchise businesses that can be classified as SMEs and this type of businesses is viewed as a potential economic initiator in Indonesia.

7.6. Further research

This study provides potential avenues for future research to be conducted in the light of its findings. For example, firstly, other researchers may be interested to explore other determinants that affect the survivability of franchising businesses in Indonesia. These determinants could include factors such as: franchise partners' experience level; tension control management; and perhaps issues of corporate social responsibility could also be investigated.

Secondly, further research could be conducted by devising a comparative study on franchise businesses in Indonesia. For instance, further study to determine why foreign owned franchise businesses have higher survivability rates compare to local franchise businesses. Another example of a potential comparative study would be to investigate whether the survivability rate of franchise businesses is different in developed countries and developing countries, such as Indonesia. Such research might include the macroeconomic environment as a determinant, including government policy, and whether it affects franchise business survivability.

7.7 Chapter summary

This chapter provides the reader with the research's main findings, contributions and the managerial implications for franchise businesses. Furthermore, this research also highlights this research's limitations and makes suggestions for further research. The research limitations provide the

reader with possible further research that can be conducted in order to complement this study.

Overall, this study has accomplished its objectives of examining and confirming key determinants that influence franchise business survivability in the Indonesian restaurant and retail sectors. Furthermore, this research has also made a contribution towards the franchising literature by employing a holistic approach to studying franchise businesses from perspective of both partners.

Reference

Agustina, S, (2014), 30% Indonesian businesses are in franchise business formation, Medan Bisnis,

Anderson, E., & Weitz, B. (1992). The use of pledges to build and sustain commitment in distribution channels. Journal of marketing research, 18-34.

Ananta, A., Arifin, E. N., & Bakhtiar. (2005). Ethnicity and ageing in Indonesia, 2000–2050. Asian Population Studies, 1(2), 227-243.

Alina, S. (2012). Risk Management: An Integrated Approach To Risk Management And Assessment. Annals of Faculty of Economics, 1(2), 776-781.

Altinay, L., & Brookes, M. (2012). Factors influencing relationship development in franchise partnerships. Journal of Services Marketing, 26(4), 278-292.

Altinay, L., Brookes, M., & Aktas, G. (2013). Selecting franchise partners: Tourism franchisee approaches, processes and criteria. Tourism Management, 37, 176-185.

Anne Marie Doherty, Nicholas Alexander, (2006),"Power and control in international retail franchising", European Journal of Marketing, Vol. 40 Iss: 11 pp. 1292 – 1316.

Arend, R. J. (2003). Revisiting the logical and research considerations of competitive advantage. Strategic Management Journal, 24(3), 279-284.

Asosiasi Franchise Indonesia (AFI) (2013),Direktori Franchise and B.O. Indonesia,Edisi IV,Jakarta,Indonesia

Bancroft,G. & O'Sullivan,G,(2000), Foundations in Quantitative Business Techniques, Mc.Graw-Hil,England.

Barney, Jay B.,Clark Dewlyn N.,(2009). Resource-Based Theory, Creating and Sustaining Competitive Advantage,Oxford University Press, UK

Bates, T. (1998). Survival patterns among newcomers to franchising. Journal of Business Venturing, 13(2), 113-130.

Becerra, M., Lunnan, R., & Huemer, L. (2008). Trustworthiness, risk, and the transfer of tacit and explicit knowledge between alliance partners. Journal of Management Studies, 45(4), 691-713.

Blois, K. (2009). Equity within business to business relationships. Journal of Marketing Management, 25(5-6), 451-459.

Blut, M., Backhaus, C., Heussler, T., Woisetschläger, D. M., Evanschitzky, H., & Ahlert, D. (2011). What to expect after the honeymoon: testing a lifecycle theory of franchise relationships. Journal of Retailing, 87(3), 306-319.

Bordonaba-Juste, V., Lucia-Palacios, L., & Polo-Redondo, Y. (2011). An analysis of franchisor failure risk: evidence from Spain. Journal of Business & Industrial Marketing, 26(6), 407-420.

Boulay, J. (2010). The role of contract, information systems and norms in the governance of franchise systems. International Journal of Retail & Distribution Management, 38(9), 662-676.

Brace,Ian,(2004),Questionnaire Design,How To Plan, Structure, and Write Survey Material For Effective Market Research,Kogan Page,London & Sterling,VA

Bradach, Jeffrey L.,(1998), Franchise Organizations, Harvard Business School Press, USA

Brand, V. (2009). Empirical business ethics research and paradigm analysis. Journal of Business Ethics, 86(4), 429-449.

Brickley, J. A., & Dark, F. H. (1987). The choice of organizational form the case of franchising. Journal of Financial Economics, 18(2), 401-420.

Brown Jr, W. O. (1998). Transaction costs, corporate hierarchies, and the theory of franchising. Journal of economic behavior & organization, 36(3), 319-329.

Budianta, M. (2002). Plural identities: Indonesian women's redefinition of democracy in the post-Reformasi era. RIMA: Review of Indonesian and Malaysian Affairs, 36(1), 35.

Bürkle, T., & Posselt, T. (2008). Franchising as a plural system: A risk-based explanation. Journal of Retailing, 84(1), 39-47.

Burns,A.C.,and Bush,R.F.,(2008), Basic Marketing Research 2nd Edition, Pearson Education,New Jersey.

Byrne,B.M.(2010), Structural Equation Modeling with AMOS, Basic Concepts,Application and Programming,2nd Edition, Routledge,Taylor Francis Goup,New York.

Caldwell, B. (1980). Positivist philosophy of science and the methodology of economics. Journal of Economic Issues, 53-76.

Cameroon, Sheila and Price, Deborah. (2009), Business Research methods A practical approach, CIPD, London, England

Chan, D. (2011). Advances in statistical analytical strategies for causal inferences in the social and behavioural sciences. Information, Knowledge, Systems Management, 10(1), 261-278.

Chandra, S. (2011), Franchising in Indonesia, United States Commercial, International Franchising Association.

Chen, C., Lee, S. Y., & Stevenson, H. W. (1995). Response style and cross-cultural comparisons of rating scales among East Asian and North American students. Psychological Science, 170-175.

Cheung, S. O., & Pang, K. H. Y. (2012). Anatomy of construction disputes. Journal of Construction Engineering and Management.

Clarke-Hill, C., Li, H., & Davies, B. (2003). The paradox of co-operation and competition in strategic alliances: towards a multi-paradigm approach. Management Research News, 26(1), 1-20.

Clarkin, J. E., & Swavely, S. M. (2006). The importance of personal characteristics in franchisee selection. Journal of Retailing and Consumer Services, 13(2), 133-142.

Collis, Jill. & Hussey, Robert. (2003). Business Research A practical guide for undergraduate and postgraduate students. Palgrave Macmillan, Hampshire, England

Croonen, E. (2010). Trust and fairness during strategic change processes in franchise systems. Journal of business ethics, 95(2), 191-209.

Crotty, M. (1998), The foundations of social research: Meaning and perspective in the research process. Sage.

Curwin, John & Slater, Roger, (2008), Quantitative Methods for Business Decision, 6th Edition, South Western, Cengage Learning,UK

Curwin,Jon & Slater,Roger.,(2002),Quantitative Methods for Business Decisions,5th Edition, Thomson Learning,UK

Dant, R. P., Weaven, S. K., & Baker, B. L. (2013). Influence of personality traits on perceived relationship quality within a franchisee-franchisor context. European Journal of Marketing, 47(1/2), 279-302.

Das, T. K., & Kumar, R. (2010). Inter partner sense making in strategic alliances: Managing cultural differences and internal tensions. Management Decision, 48(1), 17-36.

Das, T. K., & Teng, B. S. (1999). Managing risks in strategic alliances. The Academy of Management Executive, 13(4), 50-62.

Das, T. K., & Teng, B. S. (2000). A resource-based theory of strategic alliances. Journal of management, 26(1), 31-61.

Davies, M. A., Lassar, W., Manolis, C., Prince, M., & Winsor, R. D. (2011). A model of trust and compliance in franchise relationships. Journal of Business Venturing, 26(3), 321-340.

De Jong, A., Jiang, T., & Verwijmeren, P. (2011). Strategic debt in vertical relations: Evidence from franchising. Journal of Retailing, 87(3), 381-392.

Dean, E., Caspar, R., McAvinchey, G., Reed, L., & Quiroz, R. (2007). Developing a Low-Cost Technique for Parallel Cross-Cultural Instrument Development: The Question Appraisal System (QAS-04). International Journal of Social Research Methodology, 10(3), 227-241.

Deshpande, R. (1983). “Paradigms Lost": On Theory and Method in Research in Marketing. Journal of marketing, 47(4).

Dev, C. S., Erramilli, M. K., & Agarwal, S. (2002). Brands across borders determining factors in choosing franchising or management contracts for entering international markets. Cornell Hotel and Restaurant Administration Quarterly, 43(6), 91-104.

Dillman, D. A. (1991). The design and administration of mail surveys. Annual review of sociology, 225-249.

Doherty, A. M. (2009). Market and partner selection processes in international retail franchising. Journal of Business Research, 62(5), 528-534.

Dunning, J. H., Pak, Y. S., & Beldona, S. (2007). Foreign ownership strategies of UK and US international franchisors: An exploratory application of Dunning's envelope paradigm. International Business Review, 16(5), 531-548.

Egan,John.(2008).Relationship Marketing Exploring relational strategies in marketing. Prentice-Hall

El Akremi, A., Mignonac, K., & Perrigot, R. (2011). Opportunistic behaviours in franchise chains: the role of cohesion among franchisees. Strategic Management Journal, 32(9), 930-948.

Elango, B, Fried, VH (1997), Franchising Research: A Literature Review and Synthesis, Journal of Small Business Management, Vol. 35 No.7,pp.68-81

Elmuti, D., & Kathawala, Y. (2001). An overview of strategic alliances. Management decision, 39(3), 205-218.

Etgar, M., & Rachman-Moore, D. (2010). Market and Product Diversification: The Evidence From Retailing. Journal of Marketing Channels, 17(2), 119-135.

Felstead, Alan, (1993). The Corporate Paradox, Power and Control in the Business Franchise, Routledge,London

Ferdinand,A.,(2006), Strutural Equation Modeling in Managemen Research, Diponegoro State University Publisher,Indonesia.

Florey, G., Greene, C., Hackett, L., Mitchell, C., Mosby, B., & Peralta, T. (2006). Global Business Entry: Strategies and Alliances.

Frazer, L. (2001). Causes of disruption to franchise operations. Journal of Business Research, 54(3), 227-234.

Frazer, L., & Winzar, H. (2005). Exits and expectations: why disappointed franchisees leave. Journal of Business Research, 58(11), 1534-1542.

Frazer, L., Weaven, S., Giddings, J., & Grace, D. (2012). What went wrong? Franchisors and franchisees disclose the causes of conflict in franchising. Qualitative Market Research: An International Journal, 15(1), 87-103.

Gibbs, R.,Humphries, Andrew. (2009). Strategic Alliances and Marketing Partnerships: gaining competitive advantage through collaboration and partnering. Kogan Page Publishers.

Giddings, J., Frazer, L., Weaven, S., & Grace, A. (2009). Understanding the dynamics of conflict within business franchise systems.

Gil-Saura, I., Frasquet-Deltoro, M., & Cervera-Taulet, A. (2009). The value of B2B relationships. Industrial Management & Data Systems, 109(5), 593-609.

Goodman,S, Bates, B,Botha M, Ladzani,W, de Vries,C De Vries, L, November,M, Southey, L. Miller,Matthew, 2005, Fresh Perspective, Business Management, Longman (Pty)Ltd, 2005, South Africa

Gordon, Ian H. (1998). Relationship Marketing. John Wiley and Sons Canada Ltd

Gorzeń-Mitka, I. (2013). Risk Identification Tools–Polish Msmes Companies Practices. Risk, 7, 6.

Grace, D., & Weaven, S. (2011). An empirical analysis of franchisee value-in-use, investment risk and relational satisfaction. Journal of Retailing, 87(3), 366-380.

Grace, D., Weaven, S., Frazer, L., & Giddings, J. (2013). Examining the Role of Franchisee Normative Expectations in Relationship Evaluation. Journal of Retailing.

Grace, Debra, et al., (2013), Examining the Role of Franchisee Normative Expectations in Relationship Evaluation, Journal of Retailing (xxx, 2013), http://dx.doi.org/10.1016/j.jretai.2012.12.002

Grant, R. M. (1991). The resource-based theory of competitive advantage: implications for strategy formulation (pp. 114-135). California Management Review, University of California.

Grant, R. M., & Baden-Fuller, C. (2004). A knowledge accessing theory of strategic alliances. Journal of Management Studies, 41(1), 61-84.

Gillis, W. E., & Combs, J. G. (2009). Franchisor strategy and firm performance: Making the most of strategic resource investments. Business Horizons, 52(6), 553-561.

Gillis, W. E., Combs, J. G., & Ketchen, D. J. (2014). Using Resource-Based Theory to Help Explain Plural Form Franchising. Entrepreneurship Theory and Practice, 38(3), 449-472.

Grewal, R., Cote, J. A., & Baumgartner, H. (2004). Multicollinearity and measurement error in structural equation models: Implications for theory testing. Marketing Science, 23(4), 519-529.

Grönroos, C. (1997). Keynote paper from marketing mix to relationship marketing-towards a paradigm shift in marketing. Management decision, 35(4), 322-339.

Hair,J.F.,Black,W.C.,Babin,B.J.,Anderson,R.E.,Tatham,R.L.,(2006),Multivariate Data Analysis,Prentice Hall,Pearson Education,USA

Hair,J.F.,Celsi,M.W.,Money,A.H.,Samouel,P.,Page,M.J.,(2011), Essentials of Business Research Methods,2nd Edition, M.E.Sharpe, Inc,New York.

Hall,Peter and Dixon,Rob,(1989), Franchising, Natwest, Pitman, Longman Group,UK

Hanna, A. S., Thomas, G., & Swanson, J. R. (2013). Construction risk identification and allocation: cooperative approach. Journal of Construction Engineering and Management, 139(9), 1098-1107.

Harmon, T. R., & Griffiths, M. A. (2008). Franchisee perceived relationship value. Journal of Business & Industrial Marketing, 23(4), 256-263.

Haunschild, P. R., & Rhee, M. (2004). The role of volition in organizational learning: The case of automotive product recalls. Management Science, 50(11), 1545-1560.

Hoe, S. L. (2008). Issues and procedures in adopting structural equation modeling technique. Journal of Applied quantitative methods, 3(1), 76-83.

Hoffmann, Stefan; Mai, Robert; Cristescu, Anamaria.(2013) Do culture-dependent response styles distort substantial relationships? International Business Review. Vol. 22 Issue 5, p814-827

Holmberg, S. R., & Morgan, K. B. (2003). Franchise turnover and failure: New research and perspectives. Journal of Business Venturing, 18(3), 403-418.

Holmberg, S. R., & Morgan, K. B. (2004). Retail marketing channel franchise failure: A strategic management perspective and longitudinal analysis. Journal of Marketing Channels, 11(2-3), 55-76.

Hooper, D., Coughlan, J., & Mullen, M. (2008). Structural equation modelling: guidelines for determining model fit. Articles, 2.

Hoover, V. L., Ketchen Jr, D. J., & Combs, J. G. (2003). Why restaurant firms franchise: An analysis of two possible explanations. The Cornell Hotel and Restaurant Administration Quarterly, 44(1), 9-16.

Hoy, Frank.,Stanworth, John.,(2003), Franchising: An International Perspective,Routledge,Taylor and Francis Group

Hoy,Frank. And Shane,Scott. (1998), Franchising as an Entrepreneurial Venture Form, Journal of Business Venturing, 13 (2): 91-94

Hsu, T. H., & Tang, J. W. (2010). A model of marketing strategic alliances to develop long-term relationships for retailing. The International Journal of Business and Information, 5(2), 151-172.

http://www.franchisedirect.co.uk/information/thefranchiseesperspective/ukprospectivefranchisingsurvey2013introductionbackground/2013,http://www.franchiseeconomy.com,retrieve 21-02-2014

Hunt, S. D., & Davis, D. F. (2012). Grounding Supply Chain Management in Resource-Advantage Theory: In Defense of a Resource-Based View of the Firm. *Journal of Supply Chain Management*, *48*(2), 14-20.

Hynes, N., & Mollenkopf, D. A. (1998). Strategic alliance formation: Developing a framework for research. Canterbury: Lincoln University.

Indonesian Banking, (2008), UU no 20 tahun 2008 tentang UKM, retrieved 10-2-2015

Inma, C., & Debowski, S. (2006). Analysis of franchise performance through use of a typology: An Australian investigation. Singapore Management Review, 28(2), 1-30.

Ishida, C., & Brown, J. R. (2013). A Taxonomy of Monitoring in Business-to-Business Relationships. The Journal of Marketing Theory and Practice, 21(2), 123-140.

Jap, S. D. (2001). “Pie sharing” in complex collaboration contexts. Journal of Marketing Research, 38(1), 86-99.

Jayakumar, G. D. S., & Samad, A. (2011). Services Quality Dimensions: Indian Food Retailers. SCMS Journal of Indian Management, 8(4), 104.

Johnston, D. A., McCutcheon, D. M., Stuart, F. I., & Kerwood, H. (2004). Effects of supplier trust on performance of cooperative supplier relationships. Journal of operations Management, 22(1), 23-38.

Jöreskog, K. G. (2000). Interpretation of R2 revisited. Interpretation.

Justis, R. T., Olsen, J. E., & Chan, P. (1993). Using marketing research to enhance franchisee/franchisor relationships. Journal of Small Business Management, 31(2), 121.

Kaufmann, P. J., & Dant, R. P. (1999). Franchising and the domain of entrepreneurship research. Journal of Business venturing, 14(1), 5-16.

Kaufmann, P. J., Donthu, N., & Brooks, C. M. (2007). An illustrative application of multi-unit franchise expansion in a local retail market. Journal of Marketing Channels, 14(4), 85-106.

Kidwell, R. E., Nygaard, A., & Silkoset, R. (2007). Antecedents and effects of free riding in the franchisor–franchisee relationship. Journal of Business Venturing, 22(4), 522-544.

King, N. & Horrocks, C. (2010) Interviews in qualitative research,London: Sage

Kline,R.B.,(1998), Structural Equation Modeling, Guilford Press,New York

Kosová, R., & Lafontaine, F. (2010). Survival and growth in retail and service industries: evidence from franchised chains. The Journal of Industrial Economics, 58(3), 542-578.

Larwin, K., & Harvey, M. (2012). A demonstration of a systematic item-reduction approach using structural equation modeling. Practical Assessment, Research & Evaluation, 17(8), 2.

Lavie, D. (2006). The competitive advantage of interconnected firms: An extension of the resource-based view. Academy of management review, 31(3), 638-658.

Lawrence, B., & Kaufmann, P. J. (2011). Identity in franchise systems: The role of franchisee associations. Journal of Retailing, 87(3), 285-305.

Li, F., & Nicholls, J. A. F. (2000). Transactional or Relationship Marketing: Detenninants of Strategic Choices. Journal of Marketing Management, 16(5), 449-464.

Li, L., Qian, G., & Qian, Z. (2013). Do partners in international strategic alliances share resources, costs, and risks?. Journal of Business Research, 66(4), 489-498.

Lowensberg, D. A. (2010). A “new” view on “traditional” strategic alliances' formation paradigms. Management Decision, 48(7), 1090-1102.

Lutz,Ashley, August 6, 2013, http://www.businessinsider.com/mcdonalds-franchise-owners-hold-meeting-2013

Mac.Daniel,C & Gates,R.,(2006),Marketing Reserch Essentials,5th Edition, John Wiley and Sons,United States.

Maitland, Iain.(1991). Franchising, A Practical guide for franchisors and franchisees, Mercury Books, London.

Malhotra, N. K., Agarwal, J., & Peterson, M. (1996). Methodological issues in cross-cultural marketing research: A state-of-the-art review. International Marketing Review, 13(5), 7-43.

Mangku, D. G. S. (2012). A General Review of International Dispute Settlement in the Body Including ASEAN. Perspektif, 17(3), 150-161.

Mariz-Pérez, R., & García-Álvarez, T. (2009). The Internationalization Strategy of Spanish Indigenous Franchised Chains: A Resource-Based View*. Journal of Small Business Management, 47(4), 514-530.

Martín-Herrán, G., Sigué, S. P., & Zaccour, G. (2011). Strategic interactions in traditional franchise systems: Are franchisors always better off?. European Journal of Operational Research, 213(3), 526-537.

Martin, William E & Bridgmon, Krista D, (2012), Quantitative and Statistical Research Methods From Hypothesis to Results, John Wiley and Sons, San Fransisco, United States

Mason, C. H., & Perreault Jr, W. D. (1991). Collinearity, power, and interpretation of multiple regression analysis. Journal of Marketing research, 268-280.

Mc.Givern,Y,(2006), The Practice of Maket ad Social Research An Introuction,2nd Edition, Pearson Education,Prentice Hall,Essex,UK.

Mendelsohn, Martin. (1990), How To Evaluate A Franchise,Special Edition for The British Franchise Associaton,Franschise World Magazine,London,UK

Mendelsohn,Martin.(1992), The Guide to Franchising,5th Edition, Cassel Publisher.Ltd,London

Mesquita, L. F., Anand, J., & Brush, T. H. (2008). Comparing the resource-based and relational views: knowledge transfer and spillover in vertical alliances. Strategic Management Journal, 29(9), 913-941.

Michael, S. C. (2003). First mover advantage through franchising. Journal of business venturing, 18(1), 61-80.

Millar, M. M., & Dillman, D. A. (2011). Improving response to web and mixed-mode surveys. Public Opinion Quarterly, 75(2), 249-269.

Montgomery, C. A. (Ed.). (1995). Resource-based and Evolutionary Theories of the Firm: Towards a Shynthesis. Springer.book.google.com

Moorman, C., Zaltman, G., & Deshpande, R. (1992). Relationships between providers and users of market research: The dynamics of trust within and between organizations. Journal of Marketing Research (JMR), 29(3).

Morgan, R. M., & Hunt, S. D. (1994). The commitment-trust theory of relationship marketing. The journal of marketing, 20-38.

Morrison, A., & Lashley, C. (2003). A franchise: a resource-rich small service firm?. The Service Industries Journal, 23(4), 135-149.

Mowery, D. C., Oxley, J. E., & Silverman, B. S. (1996). Strategic alliances and interfirm knowledge transfer. Strategic management journal, 17, 77-91.

Muenjohn, N., & Armstrong, A. (2008). Evaluating the structural validity of the Multifactor Leadership Questionnaire (MLQ), capturing the leadership factors of transformational-transactional leadership. Contemporary Management Research, 4(1).

Nanda, A., & Williamson, P. J. (1995). Use joint ventures to ease the pain of restructuring. Harvard Business Review, 73(6), 119.

Nancarrow, C., Barker, A., & Spackman, N. (2001). Informed eclecticism: a research paradigm for the twenty-first century. International Journal of Market Research, 43(1), 3-27.

Nonaka, I. (1994). A dynamic theory of organizational knowledge creation. Organization science, 5(1), 14-37.

Nonaka, I., Toyama, R., & Nagata, A. (2000). A firm as a knowledge-creating entity: a new perspective on the theory of the firm. Industrial and corporate change, 9(1), 1-20.

Nyadzayo, M. W., Matanda, M. J., & Ewing, M. T. (2011). Brand relationships and brand equity in franchising. Industrial Marketing Management, 40(7), 1103-1115.

O Brown Jr, W. (1998). Transaction costs, corporate hierarchies, and the theory of franchising. Journal of economic behaviour & organization, 36(3), 319-329.

Oakshott,L. (2012). Essential Quantitaive Methods,5th edition,Palgrave Macmillan,UK

Ojiako, U., Marshall, A., Luke, M. A., & Chipulu, M. (2012). Managing Competition Risk: A critical realist philosophical exploration. Competition & Change, 16(2), 130-149.

Palmatier, R. W., Dant, R. P., Grewal, D., & Evans, K. R. (2006). Factors influencing the effectiveness of relationship marketing: a meta-analysis. Journal of marketing, 70(4), 136-153.

Pappu, M., & Strutton, D. (2001). Toward an understanding of strategic inter-organizational relationships in franchise channels. Journal of Marketing Channels, 8(1-2), 111-132.

Paswan, A. K., & Wittmann, C. M. (2009). Knowledge management and franchise systems. Industrial Marketing Management, 38(2), 173-180.

Perrigot, R. (2008). Franchising networks survival: an approach through population ecology and survival analysis. Recherche et Applications en Marketing (English Edition), 23(1), 21-36.

Perry, C., Riege, A., & Brown, L. (1999). Realism's role among scientific paradigms in marketing research. Irish Marketing Review, 12(2), 16-23.

Plazibat, I., & Filipović, D. (2010, October). Strategic alliances as source of retailers competitive advantage. In Fifth International Conference"Economic Development Perspectives of SEE Region in Global Recession Context".

Powell, T. C. (2001). Competitive advantage: logical and philosophical considerations. Strategic Management Journal, 22(9), 875-888.

Pruett, M., & Winter, G. (2011). Why Do Entrepreneurs Enter Franchising and Other Share Relationships? 1. Journal of Small Business & Entrepreneurship, 24(4), 567-581.

Puspitawati, Evi Diah, April 11 2012, Pelayanan yang baik dan konsisten, http://www.konsultanwaralaba.com

Quinn, B., & Alexander, N. (2002). International retail franchising: a conceptual framework. International journal of retail & distribution management, 30(5), 264-276.

Raimondo, M. A., & Costabile, M. (2008). How Relationship Age Moderates Loyalty Formation The Increasing Effect of Relational Equity on Customer Loyalty. Journal of Service Research, 11(2), 142-160.

Radomska, J. (2014). Operational risk associated with the strategy implementation. Management, 18(2), 31-43.

Riyadi, Burang, December 27, 2012, Franchise Indonesia Payah, http://www.konsultanwaralaba.com

Rodríguez, C. M., & Wilson, D. T. (2002). Relationship bonding and trust as a foundation for commitment in US-Mexican strategic alliances: A structural equation modeling approach. Journal of International Marketing, 53-76.

Roster, C., Albaum, G., & Rogers, R. (2006). Can cross-national/cultural studies presume etic equivalency in responclents' use of extreme categories

of Likert rating scales? International Journal of Market Research, 48(6), 741-759.

Rubin, P. H. (1978). Theory of the Firm and the Structure of the Franchise Contract, The. JL & Econ., 21, 223.

Sanghavi, N. (1998). Franchising as a tool for small medium sized enterprises (SME) development in transitional economies-the case of central European countries. Management Research News, 21(11), 35-44.

Samu, S., Krishnan Lyndem, P., & Litz, R. A. (2012). Impact of brand-building activities and retailer-based brand equity on retailer brand communities. European Journal of Marketing, 46(11/12), 1581-1601.

Santoso,S.,(2012),SEM Analysis using AMOS,Elex Media Komputindo,Kompas Gramedia,Indonesia.

Saxena, A. (2011). Blogs and their impact on purchase intention a structural equation modelling approach. Paradigm (09718907), 15(1/2), 102-110.

Schreiber, J. B., Nora, A., Stage, F. K., Barlow, E. A., & King, J. (2006). Reporting structural equation modeling and confirmatory factor analysis results: A review. The Journal of Educational Research, 99(6), 323-338.

Schulze, A., & Brojerdi, G. J. C. (2012). The Effect of the Distance between Partners' Knowledge Components on Collaborative Innovation. European Management Review, 9(2), 85-98.

Sheth, Jagdish N, Parvatiyar, Atul. (2000) Relationship Marketing, Sage Publication Inc., London, New Delhi

Smith, A., Hume, E. C., Davis, A. B., & Zimmerman, R. (2005). The link between extreme response style, culture, and university students' ethical responses. Journal of Accounting & Finance Research, 13(4), 53-63.

Sobehart, J. R. (2014). Rumour has it: Modelling credibility, reputation and franchise risk. Journal of Risk Management in Financial Institutions, 7(2), 161-173.

Solís Rodríguez, V., & González Díaz, M. (2010). How to design franchise contracts: the role of contractual hazards and experience. Documentos de Trabajo FUNCAS, (554), 1.

Spinelli, S., & Birley, S. (1998). An empirical evaluation of conflict in the franchise system. British Journal of Management, 9(4), 301-325.

Srinivasan, R. (2006). Dual distribution and intangible firm value: Franchising in restaurant chains. Journal of Marketing, 70(3), 120-135.

Stanworth, J., & Curran, J. (1999). Colas, burgers, shakes, and shirkers: Towards a sociological model of franchising in the market economy. Journal of Business Venturing, 14(4), 323-344.

Stanworth, J., Purdy, D., English, W., & Willems, J. (2001). Unravelling the evidence on franchise system survivability. Enterprise and Innovation Management Studies, 2(1), 49-64.

Steenkamp, J. B. E., & Baumgartner, H. (2000). On the use of structural equation models for marketing modeling. International Journal of Research in Marketing, 17(2), 195-202.

Stone,Marilyn A.,Mc.Call, J.B. (2004). International Strategic Marketing A European Perspective, Routledge, London

Storey, D. J. (1994). Understanding the small business sector. University of Illinois at Urbana-Champaign's Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship.

Sudarmiatin, 2011, Franchising Business Practice In Indonesia, Business Opportunity and Investment, Pidato Pengukuhan Guru Besar sebagai Guru Besar dalam Bidang Ilmu Manajemen 39 pada Fakultas Ekonomi (FE) UM, Kamis, 28 April 2011, Malang State University, Indonesia

Swimberghe,K,(2008), Applications of Structural Equation Modeling in Marketing and Consumer Research: Did Researchers Heed Baumgartner and Homburg's (1996) Advice?,Issues in Innovation,Mar2008, Vol. 2 Issue 1, p65-82.

Tchankova, L. (2002). Risk identification-basic stage in risk management. Environmental Management and Health, 13(3), 290-297.

The New Mazda VX1 Hits The Road, Jakartapost.com, retrieved January,30,2014 from thejakartapost.com

Thorne, E. A., & Wright, G. (2005). Developing strategic alliances in management learning. Journal of European Industrial Training, 29(5), 383-404.

Todeva, E., & Knoke, D. (2005). Strategic alliances and models of collaboration. Management Decision, 43(1), 123-148.

Trade Expo Indonesia 2015, http://www.tradexpoindonesia.com/jakarta-facts, retrieved 2 February 2015

Tsang, E. W. (1998). Motives for strategic alliance: a resource-based perspective. Scandinavian Journal of Management, 14(3), 207-221.

Tuleja, E., Beamer, L., Shum, C., & Chan, E. K. (2011). Designing and developing questionnaires for translation tutorial. Professional Communication, IEEE Transactions on, 54(4), 392-405.

Tokuda, A. (2004). Amending the resource-based view of strategic management from an entrepreneurial perspective. Economic and Management Discussion Paper: Ref, (18).

Ullman, J. B. (2006). Structural equation modeling: Reviewing the basics and moving forward. Journal of Personality Assessment, 87(1), 35-50.

Van Klinken, G. (2003). 4 Ethnicity in Indonesia. Ethnicity in Asia, 64.

Varey, Richard J, (2002). Relationship Marketing: Dialogue and Networks in The E-Commerce Era, John Wiley & Sons, Ltd,England

Verbieren,Sofie, Cools,Martin, Van den Abbeele, Alexandra,(2008), Franchising: A Literature Review on Management and Control Issues, Review of Business and Economy vol.4,p399-442.

Vignali, C., Vranešević, T., Vignali Ryding, D., Vronoti, P., Vrontis, D., Pavičić, J., & Bunić, Ž. (2006).Retail Fashion Marketing: The Complete Strategic Guide. The CIRCLE series in Marketing & Management.

Vyas, N. M., Shelburn, W. L., & Rogers, D. C. (1995). An analysis of strategic alliances: forms, functions and framework. Journal of business & industrial marketing, 10(3), 47-60.

Wadsworth, F. H., & Cox, K. C. (2011). Identifying Risky Franchises. Journal of Marketing Channels, 18(1), 43-55.

Wang, Christina Yu-Ping.,Jaw, Bhih Siaw.,Chen, Yen Hao., (2009). Alliance Learning Process and Knowledge Integration, International Journal of Global Management Studies, 1(3), 37-52

Watson, A., Stanworth, J., Healeas, S., Purdy, D., & Stanworth, C. (2005). Retail franchising: an intellectual capital perspective. Journal of Retailing and Consumer Services, 12(1), 25-34.

Watson, A. (2008). Small business growth through franchising: A qualitative investigation. Journal of Marketing Channels, 15(1), 3-21.

Weaven, S., Frazer, L., & Giddings, J. (2010). New perspectives on the causes of franchising conflict in Australia. Asia Pacific Journal of Marketing and Logistics, 22(2), 135-155.

Welsh, D. H., Alon, I., & Falbe, C. M. (2006). An examination of international retail franchising in emerging markets. Journal of small Business management, 44(1), 130-149.

Welsh, Dianne.H.B., Davis, Amy.E., Desplaces,Daid.E.,Falbe, Cecilia McHugh,.(2011), Resource Based View of Three Forms of Business in The Stratup Phase: Implication for Franchising, Journal of Small Business Strategy

Welsh,Dianne, Alon,Ilan,(2004), Franchising Around The World in Developed Economies: A Historical Perspective, United States of Association for Small Business and Entrepreneurship ,USA, conference paper in proceedings.

Westland, J. C. (2010). Lower bounds on sample size in structural equation modeling. Electronic Commerce Research and Applications, 9(6), 476-487.

Williams, C. A., & Heine, R. M. (1985). Risk Management and Insurance/M. New York: McGraw-Hill.

Williams, R., Bertsch, B., Dale, B., van der Wiele, T., van Iwaarden, J., Smith, M., & Visser, R. (2006). Quality and risk management: what are the key issues?. The TQM magazine, 18(1), 67-86.

Wright, O., & Grace, A. (2011). Trust and Commitment within Franchise Systems: An Australian and New Zealand perspective. Asia Pacific Journal of Marketing and Logistics, 23(4), 486-500.

Xia, J. (2011). Mutual dependence, partner substitutability, and repeated partnership: the survival of cross-border alliances. Strategic Management Journal, 32(3), 229-253.

Yan, R., & Wang, K. Y. (2012). Franchisor–franchisee supply chain cooperation: Sharing of demand forecast information in high-tech industries. Industrial Marketing Management, 41(7), 1164-1173.

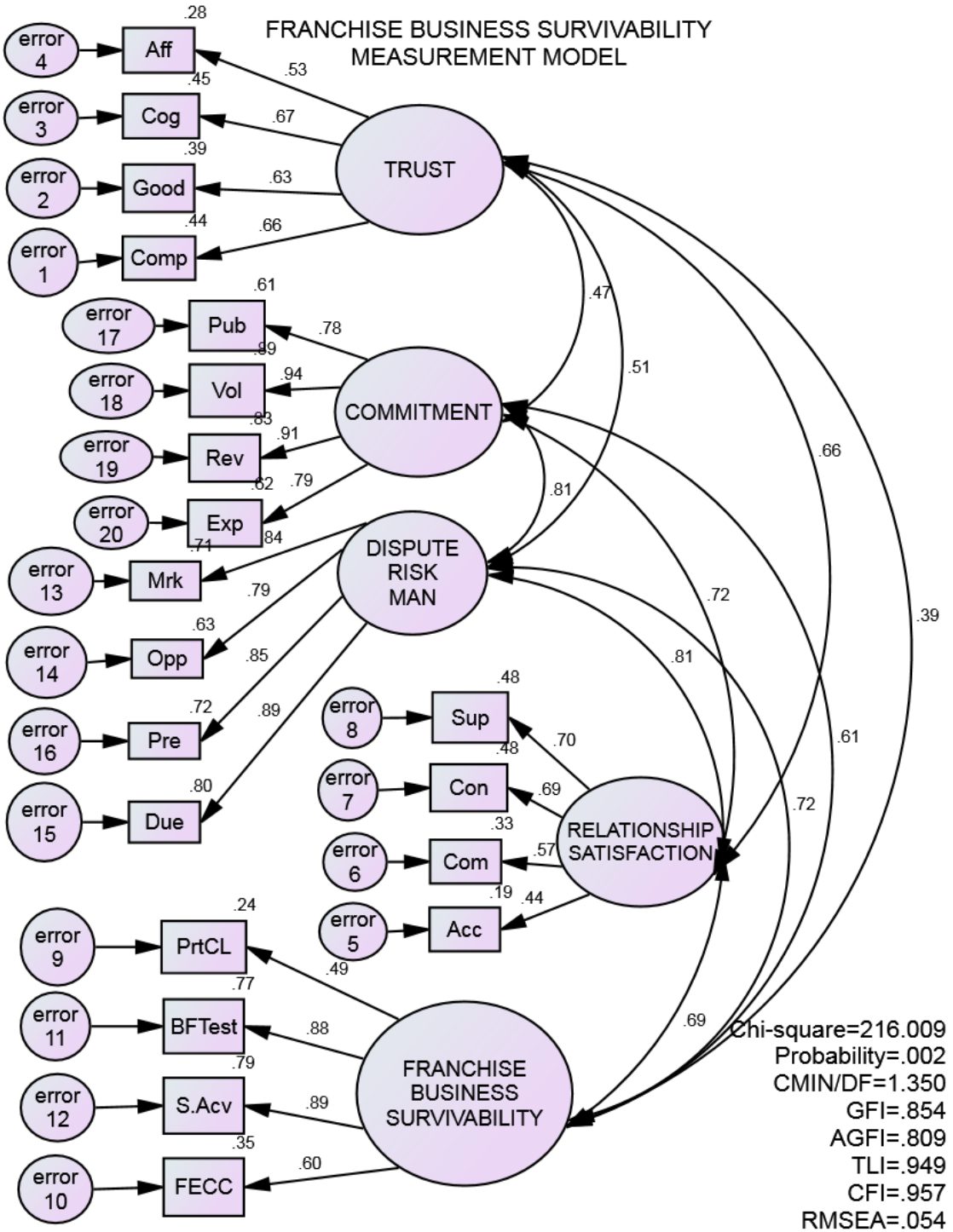
Yu, C. H. (2003). Misconceived relationships between logical positivism and quantitative research. In Research Methods Forum [On-line]. Retrieved September (Vol. 2, No. 2004, pp. 33620-7750).

Yu-Ping Wang, C., Jaw, B. S., & Chen, Y. H. (2010). Alliance Learning Process and Knowledge Integration. International Journal of Global Management Studies, 2(1).

Appendix A

Franchise Business Survivability CFA SEM 21 AMOS results

Measurement model



Notes for Model (Default model)

Computation of degrees of freedom (Default model)

Number of distinct sample moments:	210
Number of distinct parameters to be estimated:	50
Degrees of freedom (210 - 50):	160

Result (Default model)

Minimum was achieved
Chi-square = 216.009
Degrees of freedom = 160
Probability level = .002

Model Fit Summary

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	50	216.009	160	.002	1.350
Saturated model	210	.000	0		
Independence model	20	1501.941	190	.000	7.905

RMR, GFI

Model	RMR	GFI	AGFI	PGFI
Default model	.049	.854	.809	.651
Saturated model	.000	1.000		
Independence model	.339	.235	.155	.213

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.856	.829	.958	.949	.957
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

Parsimony-Adjusted Measures

Model	PRATIO	PNFI	PCFI
Default model	.842	.721	.806
Saturated model	.000	.000	.000
Independence model	1.000	.000	.000

NCP

Model	NCP	LO 90	HI 90
Default model	56.009	21.633	98.458
Saturated model	.000	.000	.000
Independence model	1311.941	1192.225	1439.097

FMIN

Model	FMIN	F0	LO 90	HI 90
Default model	1.831	.475	.183	.834
Saturated model	.000	.000	.000	.000
Independence model	12.728	11.118	10.104	12.196

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.054	.034	.072	.337
Independence model	.242	.231	.253	.000

AIC

Model	AIC	BCC	BIC	CAIC
Default model	316.009	337.658	454.965	504.965
Saturated model	420.000	510.928	1003.616	1213.616
Independence model	1541.941	1550.601	1597.524	1617.524

ECVI

Model	ECVI	LO 90	HI 90	MECVI
Default model	2.678	2.387	3.038	2.862
Saturated model	3.559	3.559	3.559	4.330
Independence model	13.067	12.053	14.145	13.141

HOELTER

Model	HOELTER .05	HOELTER .01
Default model	105	112
Independence model	18	19

Estimates (Group number 1 - Default model)
Scalar Estimates (Group number 1 - Default model)
Maximum Likelihood Estimates
Regression Weights: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
Comp	<---	TRUST	1.000				
Good	<---	TRUST	.920	.178	5.159	***	
Cog	<---	TRUST	1.043	.194	5.378	***	
Aff	<---	TRUST	.828	.183	4.523	***	
Exp	<---	COMMITMENT	1.000				
Rev	<---	COMMITMENT	.947	.082	11.499	***	
Vol	<---	COMMITMENT	.958	.080	12.034	***	
Pub	<---	COMMITMENT	.827	.088	9.356	***	
Due	<---	DISPUTE_RISK_MAN	1.000				
Pre	<---	DISPUTE_RISK_MAN	1.006	.080	12.650	***	
Opp	<---	DISPUTE_RISK_MAN	.831	.075	11.125	***	
Mrk	<---	DISPUTE_RISK_MAN	.876	.070	12.492	***	
Acc	<---	RELATIONSHIP_SATISFACTION	1.000				
Com	<---	RELATIONSHIP_SATISFACTION	1.278	.325	3.929	***	
Con	<---	RELATIONSHIP_SATISFACTION	1.231	.290	4.243	***	

			Estimate	S.E.	C.R.	P	Label
Sup	<---	RELATIONSHIP_SATISFACTION	1.445	.340	4.255	***	
FECC	<---	FRANCHISE_BUSINESS_SURVIVABILITY	1.000				
S.Acv	<---	FRANCHISE_BUSINESS_SURVIVABILITY	1.560	.224	6.967	***	
BFTest	<---	FRANCHISE_BUSINESS_SURVIVABILITY	1.421	.205	6.922	***	
PrtCL	<---	FRANCHISE_BUSINESS_SURVIVABILITY	.793	.172	4.625	***	

Standardized Regression Weights: (Group number 1 - Default model)

			Estimate
Comp	<---	TRUST	.662
Good	<---	TRUST	.628
Cog	<---	TRUST	.674
Aff	<---	TRUST	.526
Exp	<---	COMMITMENT	.787
Rev	<---	COMMITMENT	.909
Vol	<---	COMMITMENT	.944
Pub	<---	COMMITMENT	.779
Due	<---	DISPUTE_RISK_MAN	.894
Pre	<---	DISPUTE_RISK_MAN	.847
Opp	<---	DISPUTE_RISK_MAN	.791
Mrk	<---	DISPUTE_RISK_MAN	.841
Acc	<---	RELATIONSHIP_SATISFACTION	.438
Com	<---	RELATIONSHIP_SATISFACTION	.575
Con	<---	RELATIONSHIP_SATISFACTION	.690
Sup	<---	RELATIONSHIP_SATISFACTION	.695
FECC	<---	FRANCHISE_BUSINESS_SURVIVABILITY	.595
S.Acv	<---	FRANCHISE_BUSINESS_SURVIVABILITY	.891
BFTest	<---	FRANCHISE_BUSINESS_SURVIVABILITY	.875
PrtCL	<---	FRANCHISE_BUSINESS_SURVIVABILITY	.494

Covariances: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
TRUST	<-->	COMMITMENT	.272	.078	3.500	***	
TRUST	<-->	RELATIONSHIP_SATISFACTION	.162	.051	3.198	.001	
TRUST	<-->	FRANCHISE_BUSINESS_SURVIVABILITY	.137	.048	2.863	.004	
COMMITMENT	<-->	RELATIONSHIP_SATISFACTION	.257	.071	3.598	***	
COMMITMENT	<-->	FRANCHISE_BUSINESS_SURVIVABILITY	.306	.073	4.173	***	
DISPUTE_RISK_MAN	<-->	RELATIONSHIP_SATISFACTION	.261	.069	3.802	***	
DISPUTE_RISK_MAN	<-->	FRANCHISE_BUSINESS_SURVIVABILITY	.329	.071	4.646	***	
TRUST	<-->	DISPUTE_RISK_MAN	.263	.071	3.724	***	
COMMITMENT	<-->	DISPUTE_RISK_MAN	.608	.106	5.761	***	
RELATIONSHIP_SATISFACTION	<-->	FRANCHISE_BUSINESS_SURVIVABILITY	.149	.045	3.290	.001	

Correlations: (Group number 1 - Default model)

			Estimate
TRUST	<-->	COMMITMENT	.471
TRUST	<-->	RELATIONSHIP_SATISFACTION	.659
TRUST	<-->	FRANCHISE_BUSINESS_SURVIVABILITY	.393
COMMITMENT	<-->	RELATIONSHIP_SATISFACTION	.720
COMMITMENT	<-->	FRANCHISE_BUSINESS_SURVIVABILITY	.606

			Estimate
DISPUTE_RISK_MAN	<-->	RELATIONSHIP_SATISFACTION	.812
DISPUTE_RISK_MAN	<-->	FRANCHISE_BUSINESS_SURVIVABILITY	.723
TRUST	<-->	DISPUTE_RISK_MAN	.506
COMMITMENT	<-->	DISPUTE_RISK_MAN	.809
RELATIONSHIP_SATISFACTION	<-->	FRANCHISE_BUSINESS_SURVIVABILITY	.688

Variances: (Group number 1 - Default model)

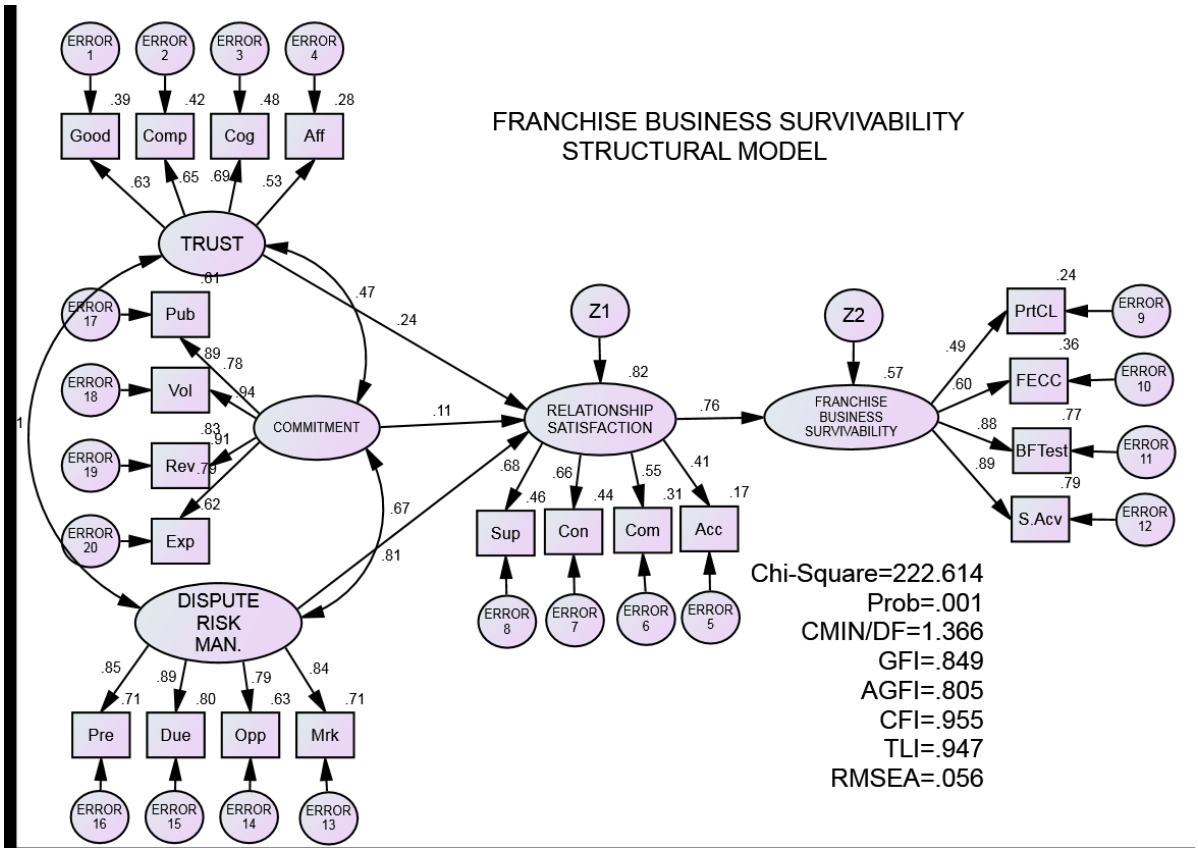
	Estimate	S.E.	C.R.	P	Label
TRUST	.398	.114	3.479	***	
COMMITMENT	.834	.165	5.048	***	
DISPUTE_RISK_MAN	.678	.111	6.130	***	
RELATIONSHIP_SATISFACTION	.153	.067	2.291	.022	
FRANCHISE_BUSINESS_SURVIVABILITY	.306	.090	3.404	***	
error_1	.509	.089	5.717	***	
error_2	.518	.086	6.051	***	
error_3	.521	.093	5.594	***	
error_4	.714	.106	6.737	***	
error_20	.513	.074	6.951	***	
error_19	.156	.029	5.327	***	
error_18	.094	.024	3.921	***	
error_17	.368	.053	6.987	***	
error_15	.170	.032	5.326	***	
error_16	.271	.044	6.193	***	
error_14	.281	.042	6.711	***	
error_13	.215	.034	6.259	***	
error_5	.644	.088	7.315	***	
error_6	.506	.073	6.901	***	
error_7	.255	.041	6.168	***	
error_8	.341	.056	6.117	***	
error_10	.556	.077	7.205	***	
error_12	.193	.048	3.984	***	
error_11	.189	.042	4.447	***	
error_9	.596	.081	7.404	***	

Squared Multiple Correlations: (Group number 1 - Default model)

	Estimate
PrtCL	.244
BFTest	.766
S.Acv	.794
FECC	.355
Sup	.484
Con	.476
Com	.330
Acc	.192
Mrk	.708
Opp	.625
Pre	.717
Due	.799
Pub	.608
Vol	.890
Rev	.827

	Estimate
Exp	.619
Aff	.276
Cog	.454
Good	.394
Comp	.439

Structural model



Notes for Model (Default model)

Computation of degrees of freedom (Default model)

Number of distinct sample moments:	210
Number of distinct parameters to be estimated:	47
Degrees of freedom (210 - 47):	163

Result (Default model)

<u>Minimum was achieved</u>

Chi-square = 222.614
Degrees of freedom = 163
Probability level = .001

Model Fit Summary

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	47	222.614	163	.001	1.366
Saturated model	210	.000	0		
Independence model	20	1501.941	190	.000	7.905

RMR, GFI

Model	RMR	GFI	AGFI	PGFI
Default model	.052	.849	.805	.659
Saturated model	.000	1.000		
Independence model	.339	.235	.155	.213

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.852	.827	.955	.947	.955
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

Parsimony-Adjusted Measures

Model	PRATIO	PNFI	PCFI
Default model	.858	.731	.819
Saturated model	.000	.000	.000
Independence model	1.000	.000	.000

NCP

Model	NCP	LO 90	HI 90
Default model	59.614	24.520	102.770
Saturated model	.000	.000	.000
Independence model	1311.941	1192.225	1439.097

FMIN

Model	FMIN	F0	LO 90	HI 90
Default model	1.887	.505	.208	.871
Saturated model	.000	.000	.000	.000
Independence model	12.728	11.118	10.104	12.196

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.056	.036	.073	.297
Independence model	.242	.231	.253	.000

AIC

Model	AIC	BCC	BIC	CAIC
Default model	316.614	336.964	447.233	494.233
Saturated model	420.000	510.928	1003.616	1213.616
Independence model	1541.941	1550.601	1597.524	1617.524

ECVI

Model	ECVI	LO 90	HI 90	MECVI
Default model	2.683	2.386	3.049	2.856
Saturated model	3.559	3.559	3.559	4.330
Independence model	13.067	12.053	14.145	13.141

HOELTER

Model	HOELTER .05	HOELTER .01
Default model	103	111
Independence model	18	19

Estimates (Group number 1 - Default model)
Scalar Estimates (Group number 1 - Default model)
Maximum Likelihood Estimates
Regression Weights: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
RELATIONSHIP_SATISFACTION	<---	TRUST	.147	.079	1.875	.061	par_16
RELATIONSHIP_SATISFACTION	<---	COMMITMENT	.047	.059	.807	.420	par_17
RELATIONSHIP_SATISFACTION	<---	DISPUTE_RISK_MAN.	.353	.109	3.248	.001	par_18
FRANCHISE_BUSINESS_SURVIVABILITY	<---	RELATIONSHIP_SATISFACTION	.918	.276	3.322	***	par_19
Good	<---	TRUST	1.000				
Comp	<---	TRUST	1.064	.221	4.813	***	par_1
Cog	<---	TRUST	1.163	.213	5.452	***	par_2
Aff	<---	TRUST	.912	.210	4.353	***	par_3
Exp	<---	COMMITMENT	1.044	.087	11.969	***	par_4
Rev	<---	COMMITMENT	.989	.056	17.587	***	par_5
Vol	<---	COMMITMENT	1.000				
Pub	<---	COMMITMENT	.863	.074	11.677	***	par_6
Due	<---	DISPUTE_RISK_MAN.	1.198	.108	11.114	***	par_7
Pre	<---	DISPUTE_RISK_MAN.	1.207	.117	10.300	***	par_8
Opp	<---	DISPUTE_RISK_MAN.	1.000				
Mrk	<---	DISPUTE_RISK_MAN.	1.056	.103	10.295	***	par_9
Acc	<---	RELATIONSHIP_SATISFACTION	1.000				
Com	<---	RELATIONSHIP_SATISFACTION	1.326	.354	3.747	***	par_10
Con	<---	RELATIONSHIP_SATISFACTION	1.272	.318	4.004	***	par_11
Sup	<---	RELATIONSHIP_SATISFACTION	1.524	.386	3.951	***	par_12
FECC	<---	FRANCHISE_BUSINESS_SURVIVABILITY	1.260	.268	4.697	***	par_13
BFTest	<---	FRANCHISE_BUSINESS_SURVIVABILITY	1.792	.328	5.457	***	par_14
S.Acv	<---	FRANCHISE_BUSINESS	1.958	.354	5.527	***	par_15

			Estimate	S.E.	C.R.	P	Label
PrtCL	<---	_SURVIVABILITY FRANCHISE_BUSINESS _SURVIVABILITY	1.000				

Standardized Regression Weights: (Group number 1 - Default model)

			Estimate
RELATIONSHIP_SATISFACTION	<---	TRUST	.235
RELATIONSHIP_SATISFACTION	<---	COMMITMENT	.114
RELATIONSHIP_SATISFACTION	<---	DISPUTE_RISK_MAN.	.667
FRANCHISE_BUSINESS_SURVIVABILITY	<---	RELATIONSHIP_SATISFACTION	.758
Good	<---	TRUST	.626
Comp	<---	TRUST	.647
Cog	<---	TRUST	.689
Aff	<---	TRUST	.532
Exp	<---	COMMITMENT	.787
Rev	<---	COMMITMENT	.909
Vol	<---	COMMITMENT	.944
Pub	<---	COMMITMENT	.779
Due	<---	DISPUTE_RISK_MAN.	.892
Pre	<---	DISPUTE_RISK_MAN.	.845
Opp	<---	DISPUTE_RISK_MAN.	.792
Mrk	<---	DISPUTE_RISK_MAN.	.844
Acc	<---	RELATIONSHIP_SATISFACTION	.406
Com	<---	RELATIONSHIP_SATISFACTION	.553
Con	<---	RELATIONSHIP_SATISFACTION	.662
Sup	<---	RELATIONSHIP_SATISFACTION	.680
FECC	<---	FRANCHISE_BUSINESS_SURVIVABILITY	.596
BFTest	<---	FRANCHISE_BUSINESS_SURVIVABILITY	.877
S.Acv	<---	FRANCHISE_BUSINESS_SURVIVABILITY	.889
PrtCL	<---	FRANCHISE_BUSINESS_SURVIVABILITY	.495

Covariances: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
TRUST	<-->	DISPUTE_RISK_MAN.	.201	.056	3.585	***	par_20
COMMITMENT	<-->	DISPUTE_RISK_MAN.	.485	.082	5.903	***	par_21
TRUST	<-->	COMMITMENT	.236	.067	3.541	***	par_22

Correlations: (Group number 1 - Default model)

			Estimate
TRUST	<-->	DISPUTE_RISK_MAN.	.507
COMMITMENT	<-->	DISPUTE_RISK_MAN.	.809
TRUST	<-->	COMMITMENT	.465

Variances: (Group number 1 - Default model)

	Estimate	S.E.	C.R.	P	Label
TRUST	.335	.104	3.228	.001	par_23
COMMITMENT	.765	.113	6.772	***	par_24
DISPUTE_RISK_MAN.	.470	.093	5.063	***	par_25
Z1	.024	.014	1.624	.104	par_26
Z2	.082	.032	2.542	.011	par_27
ERROR_1	.519	.087	5.973	***	par_28
ERROR_2	.528	.095	5.572	***	par_29
ERROR_3	.501	.098	5.136	***	par_30
ERROR_4	.708	.106	6.686	***	par_31
ERROR_20	.513	.074	6.909	***	par_32
ERROR_19	.156	.028	5.493	***	par_33
ERROR_18	.094	.024	3.996	***	par_34
ERROR_17	.368	.053	6.912	***	par_35
ERROR_15	.174	.034	5.175	***	par_36
ERROR_16	.273	.045	6.109	***	par_37
ERROR_14	.279	.042	6.677	***	par_38

	Estimate	S.E.	C.R.	P	Label
ERROR_13	.212	.035	6.018	***	par_39
ERROR_5	.665	.090	7.410	***	par_40
ERROR_6	.525	.074	7.097	***	par_41
ERROR_7	.274	.043	6.442	***	par_42
ERROR_8	.354	.053	6.631	***	par_43
ERROR_10	.555	.078	7.133	***	par_44
ERROR_11	.186	.041	4.584	***	par_45
ERROR_12	.197	.047	4.203	***	par_46
ERROR_9	.596	.081	7.379	***	par_47

Squared Multiple Correlations: (Group number 1 - Default model)

	Estimate
RELATIONSHIP_SATISFACTION	.821
FRANCHISE_BUSINESS_SURVIVABILITY	.575
PrtCL	.245
S.Acv	.790
BFTest	.769
FECC	.356
Sup	.463
Con	.438
Com	.306
Acc	.165
Mrk	.712
Opp	.627
Pre	.715
Due	.795
Pub	.607
Vol	.891
Rev	.827
Exp	.619
Aff	.283
Cog	.475
Comp	.418
Good	.392

Assessment of normality (Group number 1)

Variable	min	max	skew	c.r.	kurtosis	c.r.
PrtCL	2.000	5.000	-.438	-1.951	-.671	-1.494
S.Acv	2.000	5.000	-.124	-.554	-1.004	-2.235
BFTest	2.000	5.000	-.291	-1.297	-.797	-1.774
FECC	2.000	5.000	-.106	-.471	-.879	-1.958
Sup	2.000	5.000	-.461	-2.052	-1.072	-2.388
Con	3.000	5.000	-.373	-1.661	-.921	-2.051
Com	2.000	5.000	-.223	-.992	-.765	-1.703
Acc	2.000	5.000	-.485	-2.161	-.575	-1.280
Mrk	2.000	5.000	-.268	-1.194	-.736	-1.639
Opp	2.000	5.000	-.377	-1.679	-.545	-1.213
Pre	1.000	5.000	-.251	-1.118	-.757	-1.685
Due	2.000	5.000	-.108	-.480	-.933	-2.078
Pub	2.000	5.000	.199	.885	-1.010	-2.248
Vol	2.000	5.000	.142	.631	-.968	-2.155
Rev	2.000	5.000	.238	1.060	-.956	-2.129
Exp	1.000	5.000	-.365	-1.624	-1.105	-2.460
Aff	1.000	5.000	-.339	-1.511	-.726	-1.617
Cog	2.000	5.000	-.429	-1.911	-.878	-1.955
Comp	2.000	5.000	-.319	-1.420	-.903	-2.010

Variable	min	max	skew	c.r.	kurtosis	c.r.
Good	2.000	5.000	-.411	-1.829	-.829	-1.846
Multivariate					8.813	1.620

Observations farthest from the centroid (Mahalanobis distance) (Group number 1)

Observation number	Mahalanobis d-squared	p1	p2
100	32.411	.039	.991
92	32.410	.039	.949
79	32.349	.040	.856
18	31.987	.043	.764
81	31.119	.054	.771
49	30.830	.057	.686
73	30.638	.060	.579
47	30.550	.061	.449
16	30.285	.065	.376
37	30.063	.069	.304
78	30.044	.069	.201
108	29.199	.084	.296
7	28.594	.096	.356
112	28.542	.097	.266
118	28.147	.106	.278
15	27.949	.111	.241
113	27.706	.117	.221
114	27.669	.117	.158
80	27.095	.133	.227
61	26.899	.138	.205
41	26.855	.139	.150
63	26.562	.148	.158
101	26.487	.150	.120
86	25.778	.173	.238
46	25.463	.184	.267
22	25.265	.191	.259
71	25.087	.198	.247
110	25.085	.198	.183
96	25.009	.201	.148
116	24.836	.208	.141
19	24.729	.212	.120
64	24.691	.214	.089
55	24.496	.221	.090
21	24.296	.230	.092
93	24.285	.230	.064
58	24.016	.242	.077
115	23.826	.250	.079
38	23.513	.264	.106
24	23.455	.267	.084
60	23.008	.288	.147
111	22.987	.289	.112
109	22.896	.294	.096
82	22.851	.296	.075
32	22.833	.297	.053

Observation number	Mahalanobis d-squared	p1	p2
31	22.672	.305	.054
65	22.413	.319	.069
40	22.196	.330	.081
17	22.185	.331	.058
44	22.143	.333	.043
83	22.115	.334	.031
13	22.073	.337	.023
117	22.031	.339	.016
69	21.076	.393	.140
70	21.024	.396	.115
106	20.846	.406	.126
54	20.686	.416	.132
88	20.518	.426	.141
50	20.070	.454	.258
97	19.654	.480	.397
75	19.426	.494	.451
102	19.350	.499	.420
72	19.311	.502	.371
107	19.106	.515	.412
103	18.978	.523	.411
119	18.813	.534	.431
85	18.198	.574	.703
68	18.191	.575	.639
84	18.131	.579	.602
91	18.067	.583	.567
23	17.966	.590	.552
34	17.848	.597	.546
66	17.715	.606	.550
39	17.711	.606	.478
87	17.600	.614	.468
57	17.229	.638	.611
94	17.124	.645	.598
10	17.099	.647	.537
43	16.954	.656	.547
45	16.528	.683	.714
3	16.472	.687	.675
53	16.432	.689	.625
48	16.349	.695	.597
4	16.271	.700	.566
1	16.033	.715	.627
99	15.985	.718	.577
8	15.970	.719	.506
76	15.959	.719	.431
35	15.753	.732	.472
14	15.662	.737	.444
62	15.302	.759	.576
29	15.041	.774	.644
20	15.019	.775	.574
25	14.784	.789	.626
104	14.326	.814	.785
74	14.025	.829	.846

Observation number	Mahalanobis d-squared	p1	p2
59	13.819	.840	.864
26	13.038	.876	.980
33	12.914	.881	.976
56	12.901	.882	.960
77	12.896	.882	.934

Matrices (Group number 1 - Default model)

Implied (for all variables) Covariances (Group number 1 - Default model)

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
DISPUTE_RISK_MAN.	.470																								
COMMITMENT	.485	.765																							
TRUST	.201	.236	.335																						
RELATIONSHIP_SA	.219	.242	.132	.132																					

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
TISFACTION																									
FRANCHISE_BUSINESS_SURVIVABILITY	.201	.222	.121	.121	.193																				
PrtCL	.201	.222	.121	.121	.193	.789																			
S.Acv	.393	.436	.237	.237	.378	.378	.937																		
BFTest	.360	.399	.217	.216	.346	.346	.677	.805																	
FECC	.253	.280	.152	.152	.243	.243	.476	.436	.862																
Sup	.333	.369	.201	.201	.184	.184	.361	.330	.232	.660															
Co	.	.	.	.1	.15	.	.	.	.	.	.														

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
n	278	308	168	67	4	154	301	275	194	255	487														
Com	.290	.321	.175	.174	.160	.160	.314	.287	.202	.266	.222	.756													
Acc	.219	.242	.132	.132	.121	.121	.237	.216	.152	.201	.167	.174	.797												
Mrk	.496	.512	.213	.231	.212	.212	.415	.380	.267	.352	.294	.306	.231	.736											
Opp	.470	.485	.201	.219	.201	.201	.393	.360	.253	.333	.278	.290	.219	.496	.749										
Pre	.567	.585	.243	.264	.242	.242	.474	.434	.305	.402	.336	.350	.264	.599	.567	.957									
Due	.563	.581	.241	.262	.240	.240	.471	.431	.303	.399	.333	.347	.262	.594	.563	.679	.848								
Pub	.418	.660	.203	.209	.192	.192	.376	.344	.242	.319	.266	.277	.209	.442	.418	.505	.501	.938							
Vol	.485	.765	.236	.242	.222	.222	.436	.399	.280	.369	.308	.321	.242	.512	.485	.585	.581	.660	.859						
Rev	.480	.757	.233	.240	.220	.220	.431	.394	.277	.365	.305	.318	.240	.506	.480	.579	.575	.653	.757	.905					
Exp	.506	.799	.246	.253	.232	.232	.455	.416	.293	.386	.322	.335	.253	.535	.506	.611	.607	.689	.799	.790	1.347				
Aff	.184	.215	.306	.120	.110	.110	.216	.198	.139	.183	.153	.159	.120	.194	.184	.222	.220	.185	.215	.213	.224	.987			
Co	.	.	.	.1	.14	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.		

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
g	234	274	390	53	1	141	275	252	177	233	195	203	153	247	234	283	281	236	274	271	286	356	954		
Comp	.214	.251	.357	.140	.129	.129	.252	.230	.162	.214	.178	.186	.140	.226	.214	.258	.257	.216	.251	.248	.262	.325	.415	.907	
Good	.201	.236	.335	.132	.121	.121	.237	.217	.152	.201	.168	.175	.132	.213	.201	.243	.241	.203	.236	.233	.246	.306	.390	.357	.855

Implied (for all variables) Correlations (Group number 1 - Default model)

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
DISPUTE_RISK_MAN.	1.000																								
COMMITMENT	.809	1.000																							
TRUST	.507	.465	1.000																						
RELATIONSHIP_SATISFACTION	.879	.764	.627	1.000																					
FRANC	.667	.579	.475	.758	1.000																				

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
HISE_BUSINESS_SURVIVABILITY																									
PrtCL	.330	.286	.235	.375	.495	1.000																			
S.Acv	.592	.515	.422	.674	.889	.440	1.000																		
BFTest	.584	.508	.417	.665	.877	.434	.779	1.000																	
FECC	.398	.345	.284	.452	.596	.295	.530	.523	1.000																
Sup	.598	.520	.427	.680	.516	.255	.458	.452	.308	1.000															
Con	.582	.505	.415	.662	.502	.248	.446	.440	.299	.450	1.000														
Com	.	.	.	.5	.4	.	.	.	.	.	.	1													

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
m	486	422	347	53	19	207	373	368	250	376	366	.000													
Acc	.357	.310	.255	.406	.308	.152	.274	.270	.184	.277	.269	.225	1.000												
Mrk	.844	.683	.428	.742	.562	.278	.500	.493	.335	.505	.491	.410	.301	1.000											
Opp	.792	.641	.402	.696	.528	.261	.469	.463	.315	.474	.461	.385	.283	.668	1.000										
Pre	.845	.684	.429	.743	.563	.279	.501	.494	.336	.506	.492	.411	.302	.713	.670	1.000									
Due	.892	.722	.452	.784	.594	.294	.528	.521	.355	.533	.519	.434	.319	.752	.706	.754	1.000								
Pub	.630	.779	.363	.595	.451	.223	.401	.396	.269	.405	.394	.329	.242	.532	.499	.533	.562	1.000							
Vol	.764	.944	.439	.721	.546	.270	.486	.479	.326	.490	.477	.399	.293	.644	.605	.645	.681	.735	1.000						
Rev	.736	.909	.423	.695	.527	.260	.468	.462	.314	.473	.459	.384	.282	.621	.583	.622	.656	.709	.858	1.000					
Exp	.637	.787	.366	.601	.456	.225	.405	.399	.272	.409	.397	.332	.244	.537	.504	.538	.568	.613	.742	.715	1.000				

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
Aff	.270	.247	.532	.333	.253	.125	.225	.222	.151	.227	.221	.184	.136	.228	.214	.228	.241	.193	.234	.225	.195	1.000			
Cog	.350	.321	.689	.432	.328	.162	.291	.287	.195	.294	.286	.239	.176	.295	.277	.296	.312	.250	.303	.292	.252	.367	1.000		
Comp	.328	.301	.647	.405	.307	.152	.273	.270	.183	.276	.268	.224	.165	.277	.260	.277	.293	.234	.284	.274	.237	.344	.446	1.000	
Good	.318	.291	.626	.393	.298	.147	.265	.261	.178	.267	.260	.217	.160	.268	.252	.269	.283	.227	.275	.265	.229	.333	.432	.405	1.000

Implied Covariances (Group number 1 - Default model)

	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
PrtCL	.789																			
S.Acv	.378	.937																		
BFTest	.346	.677	.805																	
FECC	.243	.476	.436	.862																
Sup	.184	.361	.330	.232	.660															
Con	.15	.30	.275	.19	.2	.4														

	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
	4	1		4	55	87														
Com	.160	.314	.287	.202	.266	.222	.756													
Acc	.121	.237	.216	.152	.201	.167	.174	.797												
Mrk	.212	.415	.380	.267	.352	.294	.306	.231	.736											
Opp	.201	.393	.360	.253	.333	.278	.290	.219	.496	.749										
Pre	.242	.474	.434	.305	.402	.336	.350	.264	.599	.567	.957									
Due	.240	.471	.431	.303	.399	.333	.347	.262	.594	.563	.679	.848								
Pub	.192	.376	.344	.242	.319	.266	.277	.209	.442	.418	.505	.501	.938							
Vol	.222	.436	.399	.280	.369	.308	.321	.242	.512	.485	.585	.581	.660	.859						
Rev	.220	.431	.394	.277	.365	.305	.318	.240	.506	.480	.579	.575	.653	.757	.905					
Exp	.232	.455	.416	.293	.386	.322	.335	.253	.535	.506	.611	.607	.689	.799	.790	1.347				
Aff	.110	.216	.198	.139	.183	.153	.159	.120	.194	.184	.222	.220	.185	.215	.213	.224	.987			
Cog	.141	.275	.252	.177	.233	.195	.203	.153	.247	.234	.283	.281	.236	.274	.271	.286	.356	.954		
Comp	.129	.252	.230	.162	.214	.178	.186	.140	.226	.214	.258	.257	.216	.251	.248	.262	.325	.415	.907	
Good	.121	.237	.217	.152	.201	.168	.175	.132	.213	.201	.243	.241	.203	.236	.233	.246	.306	.390	.357	.855

Implied Correlations (Group number 1 - Default model)

	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good

	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
PrtCL	1.000																			
S.Acv	.440	1.000																		
BFTest	.434	.779	1.000																	
FECC	.295	.530	.523	1.000																
Sup	.255	.458	.452	.308	1.000															
Con	.248	.446	.440	.299	.450	1.000														
Com	.207	.373	.368	.250	.376	.366	1.000													
Acc	.152	.274	.270	.184	.277	.269	.225	1.000												
Mrk	.278	.500	.493	.335	.505	.491	.410	.301	1.000											
Opp	.261	.469	.463	.315	.474	.461	.385	.283	.668	1.000										
Pre	.279	.501	.494	.336	.506	.492	.411	.302	.713	.670	1.000									
Due	.294	.528	.521	.355	.533	.519	.434	.319	.752	.706	.754	1.000								
Pub	.223	.401	.396	.269	.405	.394	.329	.242	.532	.499	.533	.562	1.000							
Vol	.270	.486	.479	.326	.490	.477	.399	.293	.644	.605	.645	.681	.735	1.00						

	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
Rev	.260	.468	.462	.314	.473	.459	.384	.282	.621	.583	.622	.656	.709	0.858	1.000					
Exp	.225	.405	.399	.272	.409	.397	.332	.244	.537	.504	.538	.568	.613	.742	.715	1.000				
Aff	.125	.225	.222	.151	.227	.221	.184	.136	.228	.214	.228	.241	.193	.234	.225	.195	1.000			
Cog	.162	.291	.287	.195	.294	.286	.239	.176	.295	.277	.296	.312	.250	.303	.292	.252	.367	1.000		
Comp	.152	.273	.270	.183	.276	.268	.224	.165	.277	.260	.277	.293	.234	.284	.274	.237	.344	.446	1.000	
Good	.147	.265	.261	.178	.267	.260	.217	.160	.268	.252	.269	.283	.227	.275	.265	.229	.333	.432	.405	1.000

Residual Covariances (Group number 1 - Default model)

	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
PrtCL	.000																			
S.Acv	-.002	.000																		
BFTest	-.031	.012	.000																	
FECC	.140	-.026	-.027	.000																
Sup	-.052	-.065	-.052	.043	.000															
Con	.014	.010	.018	.039	.025	.000														
Com	.011	-.06	.019	.089	.00	.01	.00													

	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
Acc	.046	-.048	-.046	.002	-.066	.061	.088	.000												
Mrk	-.039	.039	.026	.074	.048	-.015	.030	.034	.000											
Opp	.030	.022	-.007	.091	.061	-.021	-.016	-.056	.003	.000										
Pre	.010	.047	.046	.041	-.019	-.016	-.027	-.047	-.020	-.009	.000									
Due	.053	.020	.038	.105	.004	-.068	-.028	-.088	-.018	.009	.030	.000								
Pub	.053	.136	.073	.099	.023	.023	-.040	-.086	.020	.069	.055	.101	.000							
Vol	-.042	.007	-.022	.052	.000	-.004	-.038	.027	.051	-.046	-.041	-.001	-.015	.000						
Rev	-.026	.019	-.004	.077	.003	.003	-.057	-.049	-.028	-.052	-.021	-.034	-.005	.011	.000					
Exp	.010	.070	.058	.023	.056	.000	-.053	-.013	.090	.054	.076	.016	.003	-.010	-.008	.000				
Aff	.050	.013	-.019	.051	.022	.014	-.020	.004	.083	.014	-.052	.004	.067	.081	-.029	.028	.000			
Cog	.007	-.057	-.015	.063	-.027	-.067	-.027	.111	.085	.038	-.082	-.032	.016	-.064	-.129	.010	.022	.000		
Comp	.017	-.058	-.025	-.065	.027	.046	.150	.164	.084	.051	.014	-.054	.139	.108	.097	.130	-.018	-.029	.000	
Good	-.106	-.084	-.106	.032	.011	-.012	-.031	.101	.042	.036	-.070	-.069	-.033	-.053	-.089	-.050	-.024	.050	-.012	.000

Standardized Residual Covariances (Group number 1 - Default model)

	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
PrtCL	.000																			
S.Acv	-.020	.000																		
BFTest	-.386	.121	.000																	
FECC	1.775	-.279	-.314	.000																
Sup	-.752	-.818	-.703	.591	.000															
Con	.240	.147	.283	.633	.445	.000														
Com	.150	-.837	.251	1.161	.003	.312	.000													
Acc	.621	-.582	-.598	.021	-.959	1.032	1.198	.000												
Mrk	-.537	.451	.327	.962	.662	-.243	.398	.455	.000											
Opp	.415	.254	-.086	1.177	.852	-.335	-.213	-.755	.034	.000										
Pre	.122	.478	.510	.469	-.229	-.225	-.323	-.561	-.213	-.101	.000									
Due	.679	.211	.447	1.259	.053	-1.022	-.342	-1.108	-.195	.103	.292	.000								
Pub	.654	1.462	.849	1.150	.293	.346	-.491	-1.046	.234	.806	.553	1.071	.000							
Vol	-.537	.078	-.259	.622	-.006	-.061	-.482	.342	.582	-.538	-.412	-.013	-.147	.000						
R	-	.2	-	.9	.	.0	-	-	-	-	-	-	-	.	.0					

	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
ev	.320	08	.042	05	039	45	.696	.608	.322	.589	.212	.348	.044	104	00					
Exp	.105	.626	.563	.224	.600	-.002	-.544	-.131	.861	.524	.636	.144	.021	-.080	-.066	.000				
Aff	.609	.147	-.228	.592	.289	.210	-.252	.054	1.031	.168	-.567	.051	.745	.927	-.328	.256	.000			
Cog	.086	-.632	-.174	.744	-.361	-1.034	-.339	1.363	1.062	.468	-.897	-.365	.173	-.738	-1.450	.096	.230	.000		
Comp	.219	-.657	-.307	-.780	.371	.718	1.921	2.069	1.079	.656	.153	-.647	1.588	1.275	1.123	1.240	-.200	-.309	.000	
Good	-1.385	-.991	-1.340	.403	.149	-.203	-.415	1.319	.562	.474	-.816	-.853	-.395	-.654	-1.060	-.497	-.265	.550	-.136	.000

Factor Score Weights (Group number 1 - Default model)

	PrtCL	S.Acv	BFTest	FECC	Sup	Con	Com	Acc	Mrk	Opp	Pre	Due	Pub	Vol	Rev	Exp	Aff	Cog	Comp	Good
DISPUTE_RISK_MAN.	.003	.016	.015	.004	.032	.035	.019	.011	.163	.118	.145	.226	.011	.049	.029	.009	.002	.003	.003	.003
COMMITMENT	.001	.005	.005	.001	.010	.011	.006	.004	.023	.017	.020	.032	.096	.434	.258	.083	.002	.003	.002	.002
TRUST	.003	.016	.016	.004	.034	.036	.020	.012	.007	.005	.006	.009	.003	.013	.008	.002	.104	.188	.163	.156
RELATIONSHIP_SATISFACTION	.006	.036	.035	.008	.074	.080	.044	.026	.037	.027	.033	.052	.006	.025	.015	.005	.010	.018	.016	.015
FRANCHISE_BUSINESS_SURVIVABILITY	.033	.193	.187	.044	.015	.017	.009	.005	.008	.006	.007	.011	.001	.005	.003	.001	.002	.004	.003	.003

Total Effects (Group number 1 - Default model)

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY
RELATIONSHIP_SATISFACTION	.353	.047	.147	.000	.000
FRANCHISE_BUSINESS_SURVIVABILITY	.324	.044	.135	.918	.000
PrtCL	.324	.044	.135	.918	1.000
S.Acv	.635	.085	.265	1.798	1.958
BFTest	.581	.078	.243	1.645	1.792
FECC	.409	.055	.171	1.157	1.260
Sup	.538	.072	.225	1.524	.000
Con	.449	.060	.188	1.272	.000
Com	.468	.063	.196	1.326	.000
Acc	.353	.047	.147	1.000	.000
Mrk	1.056	.000	.000	.000	.000
Opp	1.000	.000	.000	.000	.000
Pre	1.207	.000	.000	.000	.000
Due	1.198	.000	.000	.000	.000
Pub	.000	.863	.000	.000	.000
Vol	.000	1.000	.000	.000	.000
Rev	.000	.989	.000	.000	.000
Exp	.000	1.044	.000	.000	.000
Aff	.000	.000	.912	.000	.000
Cog	.000	.000	1.163	.000	.000
Comp	.000	.000	1.064	.000	.000
Good	.000	.000	1.000	.000	.000

Standardized Total Effects (Group number 1 - Default model)

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY
RELATIONSHIP_SATISFACTION	.667	.114	.235	.000	.000
FRANCHISE_BUSINESS_SURVIVABILITY	.506	.087	.179	.758	.000
PrtCL	.250	.043	.088	.375	.495
S.Acv	.450	.077	.159	.674	.889
BFTest	.444	.076	.157	.665	.877
FECC	.302	.052	.106	.452	.596
Sup	.454	.078	.160	.680	.000
Con	.441	.076	.156	.662	.000
Com	.369	.063	.130	.553	.000
Acc	.271	.046	.096	.406	.000
Mrk	.844	.000	.000	.000	.000
Opp	.792	.000	.000	.000	.000
Pre	.845	.000	.000	.000	.000
Due	.892	.000	.000	.000	.000
Pub	.000	.779	.000	.000	.000
Vol	.000	.944	.000	.000	.000
Rev	.000	.909	.000	.000	.000
Exp	.000	.787	.000	.000	.000
Aff	.000	.000	.532	.000	.000
Cog	.000	.000	.689	.000	.000
Comp	.000	.000	.647	.000	.000
Good	.000	.000	.626	.000	.000

Direct Effects (Group number 1 - Default model)

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY
RELATIONSHIP_SATISFACTION	.353	.047	.147	.000	.000
FRANCHISE_BUSINESS_SURVIVABILITY	.000	.000	.000	.918	.000
PrtCL	.000	.000	.000	.000	1.000
S.Acv	.000	.000	.000	.000	1.958
BFTest	.000	.000	.000	.000	1.792
FECC	.000	.000	.000	.000	1.260
Sup	.000	.000	.000	1.524	.000
Con	.000	.000	.000	1.272	.000
Com	.000	.000	.000	1.326	.000
Acc	.000	.000	.000	1.000	.000
Mrk	1.056	.000	.000	.000	.000
Opp	1.000	.000	.000	.000	.000
Pre	1.207	.000	.000	.000	.000
Due	1.198	.000	.000	.000	.000
Pub	.000	.863	.000	.000	.000
Vol	.000	1.000	.000	.000	.000
Rev	.000	.989	.000	.000	.000
Exp	.000	1.044	.000	.000	.000
Aff	.000	.000	.912	.000	.000
Cog	.000	.000	1.163	.000	.000
Comp	.000	.000	1.064	.000	.000
Good	.000	.000	1.000	.000	.000

Standardized Direct Effects (Group number 1 - Default model)

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY
RELATIONSHIP_SATISFACTION	.667	.114	.235	.000	.000
FRANCHISE_BUSINESS_SURVIVABILITY	.000	.000	.000	.758	.000
PrtCL	.000	.000	.000	.000	.495
S.Acv	.000	.000	.000	.000	.889
BFTest	.000	.000	.000	.000	.877
FECC	.000	.000	.000	.000	.596
Sup	.000	.000	.000	.680	.000
Con	.000	.000	.000	.662	.000
Com	.000	.000	.000	.553	.000
Acc	.000	.000	.000	.406	.000
Mrk	.844	.000	.000	.000	.000
Opp	.792	.000	.000	.000	.000
Pre	.845	.000	.000	.000	.000
Due	.892	.000	.000	.000	.000
Pub	.000	.779	.000	.000	.000
Vol	.000	.944	.000	.000	.000
Rev	.000	.909	.000	.000	.000
Exp	.000	.787	.000	.000	.000
Aff	.000	.000	.532	.000	.000
Cog	.000	.000	.689	.000	.000
Comp	.000	.000	.647	.000	.000
Good	.000	.000	.626	.000	.000

Indirect Effects (Group number 1 - Default model)

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY
RELATIONSHIP_SATISFACTION	.000	.000	.000	.000	.000
FRANCHISE_BUSINESS_SURVIVABILITY	.324	.044	.135	.000	.000
PrtCL	.324	.044	.135	.918	.000
S.Acv	.635	.085	.265	1.798	.000
BFTest	.581	.078	.243	1.645	.000
FECC	.409	.055	.171	1.157	.000
Sup	.538	.072	.225	.000	.000
Con	.449	.060	.188	.000	.000
Com	.468	.063	.196	.000	.000
Acc	.353	.047	.147	.000	.000
Mrk	.000	.000	.000	.000	.000
Opp	.000	.000	.000	.000	.000
Pre	.000	.000	.000	.000	.000
Due	.000	.000	.000	.000	.000
Pub	.000	.000	.000	.000	.000
Vol	.000	.000	.000	.000	.000
Rev	.000	.000	.000	.000	.000
Exp	.000	.000	.000	.000	.000
Aff	.000	.000	.000	.000	.000
Cog	.000	.000	.000	.000	.000
Comp	.000	.000	.000	.000	.000
Good	.000	.000	.000	.000	.000

Standardized Indirect Effects (Group number 1 - Default model)

	DISPUTE_RISK_MAN.	COMMITMENT	TRUST	RELATIONSHIP_SATISFACTION	FRANCHISE_BUSINESS_SURVIVABILITY
RELATIONSHIP_SATISFACTION	.000	.000	.000	.000	.000
FRANCHISE_BUSINESS_SURVIVABILITY	.506	.087	.179	.000	.000
PrtCL	.250	.043	.088	.375	.000
S.Acv	.450	.077	.159	.674	.000
BFTest	.444	.076	.157	.665	.000
FECC	.302	.052	.106	.452	.000
Sup	.454	.078	.160	.000	.000
Con	.441	.076	.156	.000	.000
Com	.369	.063	.130	.000	.000
Acc	.271	.046	.096	.000	.000
Mrk	.000	.000	.000	.000	.000
Opp	.000	.000	.000	.000	.000
Pre	.000	.000	.000	.000	.000
Due	.000	.000	.000	.000	.000
Pub	.000	.000	.000	.000	.000
Vol	.000	.000	.000	.000	.000
Rev	.000	.000	.000	.000	.000
Exp	.000	.000	.000	.000	.000
Aff	.000	.000	.000	.000	.000
Cog	.000	.000	.000	.000	.000
Comp	.000	.000	.000	.000	.000
Good	.000	.000	.000	.000	.000

Appendix B

Research Questionnaire

Enhancing Survivability in Indonesian Franchise Businesses in Restaurant and Retail Sectors

Research Questionnaire

by

Dorojatun Prihandono
Student Number : S1111392

Business and Management
Postgraduate Research Degree
University of Gloucestershire, United Kingdom

Introduction

Dear franchisor and franchisee of restaurant and retail sector in Indonesia,

My name is Dorojatun Prihandono, I am a postgraduate student from University of Gloucestershire, United Kingdom. Originally I am a lecturer from Semarang State University, Indonesia.

The main objective of this research is to enhance the franchise business survivability rate in Indonesia restaurant and retail sector. The franchisor and franchise relationship plays a

dominant role in franchise business survivability. This research conducts an examination which is based on the franchise business survivability model, which consists of five variables such as trust, commitment, dispute risk management, relationship contentment and franchise business survivability.

The franchisor and franchisee contribution in this research is quite pertinent. Your contribution and role in this research plays dominant role. Furthermore, it will have a positive impact on the franchise business survivability rate in Indonesia, especially in the restaurant and retail sectors. Furthermore, this research will initiate more research to pay more attention to the franchise business survivability in Indonesia.

Please spare your time for just only 5 minutes to fill this questionnaire.

Thank you so much.

Cheltenham, 28 April 2014
Gloucestershire
United Kingdom
Best Regards

Dorojatun Prihandono

Important notice : The respondents' identity will be anonymous and kept confidential, their factual details will be kept by the researcher just for the administration only. The information which is obtained in this study may be used in published research journals or presented at research seminars, participants' details such as their identities, will be kept confidential. This research is not for commercial use, this research is for academic and knowledge contribution purpose.

Questions List

Here are some statements of opinion about trust, commitment, dispute risk management, relationship contentment and franchise business survivability.
Please indicate how you feel about each of these statements by ticking (√) response for each statement.

1	Goodwill is important in maintaining proper relationship between partners	Strongly disagree	1	2	3	4	5	Strongly agree
2	Confidence between partners determines the success of the business.	Strongly disagree	1	2	3	4	5	Strongly agree

3	A proper partner dependability enhances a sound relationship in this business.	Strongly disagree	1	2	3	4	5	Strongly agree
4	A proper partner's awareness of each other rights and obligations creates a solid relationship.	Strongly disagree	1	2	3	4	5	Strongly agree
5	The positive result of partners' strategic decision will maintain a sound relationship.	Strongly disagree	1	2	3	4	5	Strongly agree
6	Partners should think thoroughly before making decisions.	Strongly disagree	1	2	3	4	5	Strongly agree
7	Partners have to be responsible on decisions they have made.	Strongly disagree	1	2	3	4	5	Strongly agree
8	Acknowledgements of partners' strategic decisions are not important in this business.	Strongly disagree	1	2	3	4	5	Strongly agree
9	My partner's previous business and personal records are important before conducting a business relationship.	Strongly disagree	1	2	3	4	5	Strongly agree
10	Before signing a franchise agreement, I have to explore the franchise business or my future partners' details (via business colleagues, business associations and or web).	Strongly disagree	1	2	3	4	5	Strongly agree
11	Opportunistic behaviours emerge in franchise business occasionally (behaviours which do not comply with the franchise agreement)	Strongly disagree	1	2	3	4	5	Strongly agree
12	Before signing the franchise agreement, there is no need to conduct a market survey.	Strongly disagree	1	2	3	4	5	Strongly agree
13	It is quite easy to access my business partner resources such as know-how, business standard, marketing, etc.	Strongly disagree	1	2	3	4	5	Strongly agree
14	My business partner provides a routine open communication facility all this time, such as routine meetings, or any other form of communications, telephone or email.	Strongly disagree	1	2	3	4	5	Strongly agree
15	I am aware that conflict between partners is likely to occur.	Strongly disagree	1	2	3	4	5	Strongly agree
16	The supports from my partner comply with business contract.	Strongly disagree	1	2	3	4	5	Strongly agree
17	Setting business targets and goals in	Strongly	1	2	3	4	5	Strongly

	franchise business periodically is not a main concern.	disagree						agree
18	The business formula testing is important in franchise business.	Strongly disagree	1	2	3	4	5	Strongly agree
19	My partner's business expectations and competencies are not significant in this business arrangement.	Strongly disagree	1	2	3	4	5	Strongly agree
20	If complaints or disputes arise, I should ask for the legal advisory.	Strongly disagree	1	2	3	4	5	Strongly agree

21. The name of your company is:

Please tick in the box to answer the following questions

22. In this franchise agreement, you are the: Franchisor ☐ Franchisee ☐

23. Your company is based in: Indonesia ☐ Foreign country ☐

Please specify:

Jakarta	☐	United States	☐
West Java	☐	United Kingdom	☐
Central Java	☐	Japan	☐
East Java	☐	China	☐
Others:……		Others:……	

24. The company engages in: Restaurant or f&b ☐ Retail ☐

25. How long the business has been established?

t < 1 year ☐

1<t<5 years ☐

t > 5 years ☐

Well, this is the end of the survey.
Thank you so much for spending your precious time to participate in this research.
God Bless You.