Jurnal Entrepreneur dan Entrepreneurship, Vol. 14, No. 2, September 2025, 101–120
ISSN 2302-1802 print / ISSN 2580-9393 online

Driving Franchisee Success in Indonesia's F&B MSMEs: The Strategic Role of Entrepreneurial Orientation, Relationship Quality, and Franchisee Innovation

Heri Paski*), Ratih Dyah Kusumastuti
Universitas Indonesia, Depok, Indonesia
*)Corresponding Author: heri.paski@ui.ac.id

Abstract

Although the franchise business has shown rapid growth, the failure rate in this sector remains relatively high. This condition presents a distinct challenge for franchisors and franchisees in enhancing franchise performance to maintain competitiveness and business sustainability in an increasingly dynamic environment. However, existing studies on franchise performance have predominantly focused on the franchisor's perspective, while giving limited attention to the franchisee's role. This research aims to examine the roles of entrepreneurial orientation (EO), the relationship quality, and innovation in influencing franchisee performance. The research employed a quantitative survey method, collecting data from 70 franchisees in Indonesia's MSME-scale food and beverage (F&B) sector. The data were analyzed using the Structural Equation Modeling–Partial Least Squares (SEM–PLS) approach. The results indicate that EO positively affects franchisee performance directly and indirectly through the mediating roles of relationship quality and innovation. While the quality of the franchisor–franchisee relationship significantly enhances performance, its influence on franchisee innovation creation is not statistically significant. In contrast, innovation is a key mediator that transforms EO into performance advantages by generating relevant innovations. This study contributes to the theoretical development of franchise and entrepreneurship by positioning EO as a key strategic driver of franchisee performance, directly and indirectly through relationship quality and franchisee innovation, while contextualizing its relevance in MSME-scale F&B franchises in emerging markets.

Keywords: entrepreneurial orientation, franchisee innovation, franchisee performance, MSME, relationship quality

INTRODUCTION

Franchising has become a preferred business model for entrepreneurs aiming to start and expand their ventures, due to its structured support system, relatively lower capital requirements, and faster market entry (Naidu, Singh, & Narayan, 2023; Burlaud & Simon, 2024). The franchise model makes a significant contribution to job creation, the expansion of Micro, Small, and Medium Enterprise (MSME) ownership, and national economic growth (Naidu, Singh, & Narayan, 2023; International Franchise Association, 2024). In Indonesia, the franchise industry has recorded annual growth of 10–15% since 2019, with more than 60,000 outlets contributing approximately IDR 200 trillion to the national economy in 2023 (Kusumo,

Submitted: 16 June 2024, Revised: 15 August 2024, Accepted: 25 August 2025
DOI: https://doi.org/10.37715/jee.v14i2.5895

2024; Anggela, 2024). This growth reflects the strong interest of entrepreneurs in the franchise business model, particularly in the food and beverage (F&B) sector, which accounts for 47.92% of total franchise businesses in the country (Wisnubroto, 2024).

Despite its substantial economic contribution, the long-term sustainability of a franchise system depends mainly on franchisee performance. However, failure rates among franchisees remain significant (Asgharian, Tasavori, & Andersén, 2023; Boulay et al., 2023; Dada, 2021; Colla, Ruiz-Molina, Chastenet De Gery, & Deparis, 2020). This challenge has intensified as franchisees operate in an increasingly competitive environment, driven by easier business entry and rising entrepreneurial activity. The failure of a single franchise unit can negatively impact the outlet and overall network performance (Naidu, Singh, & Narayan, 2023; Dada, 2021). Therefore, sustaining franchisee engagement in daily operations is essential to ensuring the franchise's long-term viability.

Previous studies have examined various determinants of franchise success, including governance mechanisms, brand strength, and partnership quality (Dada, 2021). However, most of these studies adopt a franchisor-centric perspective (Dermonde, Fischer, & de Moraes, 2024; Le Nadant, Perdreau, Chaudey, & Fadairo, 2019; Dada & Watson, 2013), while research from the franchisee perspective, especially in emerging markets, remains limited (Naidu, Singh, & Narayan, 2023). This study explores how EO can enhance franchisee performance through the mediating effects of franchisor–franchisee relationship quality and innovation. EO has been shown to influence firm performance in various contexts positively. It enables franchisees to identify and pursue competitive market opportunities within the franchise context, which can significantly improve their performance (Asgharian, Tasavori, & Andersén, 2023; Naidu, Singh, & Narayan, 2023; Colla, Ruiz-Molina, Chastenet De Gery, & Deparis, 2020; Chien, 2014).

On the other hand, franchisor–franchisee relationship quality refers to the extent to which the relationship is characterized by trust, commitment, effective communication, and mutually beneficial collaboration, creating value and supporting the success of both parties (Dada & Watson, 2013). Boulay et al. (2023) found strong positive effects of relationship quality on franchise success. Similarly, Bui, Jambulingam, & Amin (2022) confirmed that relationship quality is among the most consistent and significant factors influencing franchisee performance, fostering long-term, mutually beneficial partnerships and enhancing overall franchise system performance. These findings underscore the importance of strong, positive interactions between franchisors and franchisees in driving business outcomes.

In today's competitive environment, franchise systems must also be capable of innovating to grow and survive (Watson, Senyard, & Dada, 2020). Le Nadant, Perdreau, Chaudey, & Fadairo (2019) found that franchises with higher levels of innovation tend to perform better. Karmeni, de La Villarmois, & Bel (2018) noted that franchisors and franchisees play key roles in the innovation process, while Croonen et al. (2021) emphasized that franchisees are entrepreneurs motivated to seek autonomy and opportunities for innovation in running their outlets. Thus, franchisee innovation is a critical factor in ensuring business sustainability.

Previous research indicates that EO can enhance relationship quality, positively affecting franchisee outcomes (Dada & Watson, 2013; Watson, Dada, López-Fernández, & Perrigot, 2020; Bui, Jambulingam, & Amin, 2022; Boulay et al., 2023). Moreover, innovation has been recognized as a critical capability for franchise survival and adaptation (Watson, Senyard, & Dada, 2020; Le Nadant, Perdreau, Chaudey, & Fadairo, 2019). By adopting a contextual approach, this study aims to provide a clearer understanding of how franchisee innovation impacts performance outcomes. Focusing on the franchisee perspective and the MSME context in Indonesia, this research not only addresses calls for more contextually grounded franchise studies but also offers practical implications for enhancing franchise system sustainability and fostering broader economic growth through the empowerment of local entrepreneurs (Naidu, Singh, & Narayan, 2023).

Entrepreneurial Orientation and Franchisor-Franchisee Relationship Quality

EO, which includes risk-taking, innovativeness, proactiveness, competitive aggressiveness, and autonomy, drives entrepreneurial activities among franchisees and encourages their active engagement in business strategies (Lumpkin & Dess, 1996). Franchisees with high EO tend to set ambitious goals, demonstrate consistent performance, and build perceptions of competence and reliability that strengthen trust and cooperation with franchisors. EO enhances relationship quality as franchisors perceive entrepreneurial franchisees as adaptive partners capable of navigating uncertainty (Watson, Dada, López-Fernández, & Perrigot, 2020).

According to Dada & Watson (2013), high-quality relationships are influenced by franchisees' ability to demonstrate initiative and flexibility in aligning their goals with those of the franchisor. Franchise systems with high EO are likelier to experience improved relationship quality, as franchisees tend to welcome greater autonomy, fostering a collaborative entrepreneurial partnership between franchisor and franchisee (Dada & Watson, 2013). While franchisors often aim to standardize and control franchise operations, franchisees who invest their resources in the business expect a degree of freedom to act and implement their own ideas (Asgharian, Tasavori, & Andersén, 2023). Altinay, Brookes, Yeung, & Aktas (2014) also emphasize that relationship quality improves when franchisors support entrepreneurial activity, and conversely, declines when franchisee autonomy is constrained. The following hypothesis is proposed:

H1: EO has a positive influence on franchisor–franchisee relationship quality

Entrepreneurial Orientation and Franchisee Performance

EO is a strategic process that provides a foundation for firms to engage in entrepreneurial decision-making and actions (Lumpkin & Dess, 1996). In today's rapidly changing business environment, characterized by shorter product lifecycles, evolving business models, and high levels of uncertainty, organizations are increasingly required to seek new opportunities continuously. In this context, adopting EO is beneficial for sustaining competitiveness. Salih, Alsalhi, & Abou-Moghli (2024) further emphasize EO as a key driver of organizational performance. It describes it as a strategic approach that enables firms to identify promising opportunities, make strategic investments, and effectively manage challenges to enhance and sustain performance.

Franchisees who exhibit high levels of EO are better equipped to pursue opportunities in increasingly competitive markets, making EO a key foundation for franchisee performance

(Chien, 2014). Empirical studies have consistently shown a positive relationship between EO and franchisee performance. Naidu, Singh, & Narayan (2023), in their study of retail franchises in Fiji, found that EO positively influenced both financial and non-financial aspects of performance. Similarly, Asgharian, Tasavori, & Andersén (2023) explored EO within fast-food franchises in Sweden and Iran, addressing a gap in the literature where franchisor-driven systems often limit entrepreneurial behavior. Their findings revealed that encouraging EO among franchisees significantly enhances their performance. Colla, Ruiz-Molina, Chastenet De Gery, & Deparis (2020) also examined the relationship between EO and franchisee outcomes by focusing on the individual dimensions of EO, concluding that EO positively affects franchisee performance. However, the strength of this effect varies across dimensions. The reviewed literature supports the hypothesis that EO contributes to improved and superior franchisee performance. Therefore, the following hypothesis is proposed:

H2: EO has a positive influence on franchisee performance

Entrepreneurial Orientation and Franchisee Innovation

Innovation is the implementation of ideas or behaviors in the form of systems, policies, programs, devices, processes, products, or services that are new to the adopting organization (Damanpour, 1992). The need for innovation has become even more pressing given that franchise businesses operate in a highly competitive business environment (Watson, Senyard, & Dada, 2020). According to Karmeni, de La Villarmois, & Bel (2018), franchisors and franchisees play essential roles in innovation. This is further emphasized by Watson, Senyard, & Dada (2020), who highlight the critical role of franchisees in generating innovations at the outlet level.

Conversely, EO is associated with behavioral processes essential for entering new or existing markets with new or existing goods, particularly in dynamic competitive environments. It plays a crucial role in ensuring a firm's sustainability and serves as a key mechanism linking EO to organizational performance, including in the context of franchising, where its close association with innovation becomes particularly evident. EO is characterized by five dimensions, with innovativeness inherently connected to the innovation process (Lumpkin & Dess, 1996). Since its inception, EO has been conceptually linked to innovation through product development and market exploration (Watson, Senyard, & Dada, 2020).

However, Le Nadant, Perdreau, Chaudey, & Fadairo (2019) argue that EO research often blurs the distinction between innovativeness and actual innovation outcomes, without examining whether EO genuinely drives those outcomes. EO serves as a strategic orientation. It does not generate action itself, but provides a framework for action. Therefore, it is important to distinguish between innovativeness and innovation, prompting this study to treat innovation as an independent construct to explore how EO translates into real innovation, particularly innovation created by franchisees (Oduro, 2022). In addition, other EO dimensions such as proactiveness and risk-taking are also closely linked to innovation. Pérez-Luño, Wiklund, & Cabrera (2011) found that proactive firms initiate innovation to gain a competitive advantage, while risk-taking firms are more willing to pursue uncertain but potentially high-return innovation activities. These findings support the view that EO is a key driver of franchisee innovation within franchise contexts, forming the basis for the following hypothesis.

H3: EO has a positive influence on franchisee innovation

Franchisor-Franchisee Relationship Quality and Franchisee Innovation

When franchisors maintain strong relationships with their franchisees, it fosters high levels of mutual trust, allowing franchisees to have greater voice and influence in franchise system innovation. Trust facilitates the exchange of information, enhancing the firm's ability to successfully exploit entrepreneurial opportunities. Therefore, a high-quality relational network is essential for managing innovation effectively (Watson, Senyard, & Dada, 2020). Innovation requires trust-based relationships that encourage knowledge sharing. Similarly, Colla, Ruiz-Molina, Chastenet De Gery, & Deparis (2020) suggest that the quality of the franchisor–franchisee relationship influences the franchisee's propensity to innovate. Based on this, the following hypothesis is proposed:

H4: Franchisor-franchisee relationship quality has a positive influence on franchisee innovation

Franchisor-Franchisee Relationship Quality and Franchisee Performance

Franchising can be understood as a form of relational exchange. The relationship between franchisor and franchisee is not just a sub-contractual agreement, but also involves a system alliance and partnership. Building a strong relationship helps franchisees handle uncertainty in their interactions with franchisors (Dada & Watson, 2013). Therefore, the relationship managed by the franchisor with its network of franchisees plays an important role in achieving long-term success. In contrast, when the relationship quality is poor, it can lead to uncertainty and conflict, which may adversely affect the franchise system, both financially and strategically.

Empirical evidence shows that to reduce the risk of franchisee failure, franchisors need to develop mechanisms to manage disagreements, conflicts, and ineffective relationships (Dada, 2021). A structured review by Boulay et al. (2023) found strong and consistent results showing that the quality of the franchisor–franchisee relationship positively influences franchise success. Bui, Jambulingam, & Amin (2022) also emphasized that relationship quality is one of the most consistent and significant factors affecting franchisee performance. It helps create a long-term, mutually beneficial relationship and improves the overall success of the franchise system. These findings highlight the importance of strong and positive interactions between both parties in building cooperation that supports better franchisee outcomes. Based on the reviewed literature, the following hypothesis is proposed:

H5: Franchisor-franchisee relationship quality has a positive influence on franchisee performance

H5a: EO mediated by franchisor–franchisee relationship quality, has a positive effect on franchisee performance.

Franchisee Innovation and Franchisee Performance

Innovation is essential for business survival and serves as a key differentiator to create competitive advantage. This becomes even more critical in today's increasingly competitive business environment. Therefore, franchise systems must be capable of innovating to sustain and grow (Watson, Senyard, & Dada, 2020). Le Nadant, Perdreau, Chaudey, & Fadairo (2019) found that innovation positively affects franchise network performance, meaning the more innovation introduced by franchisors, the better the overall system performance. This is supported by Watson, Senyard, & Dada (2020), who emphasized that innovations contribute directly to outlet performance, primarily through improved processes and customer service.

To avoid business decline, franchisors must invest in innovation and continually update their business concepts (Le Nadant, Perdreau, Chaudey, & Fadairo, 2019). However, franchisors and franchisees play important roles in innovation (Karmeni, de La Villarmois, & Bel, 2018). Franchisors often develop new solutions and distribute them throughout the franchise system. Meanwhile, franchisees, who interact directly with customers, can offer valuable insights and innovations (Watson, Senyard, & Dada, 2020). Many franchisors recognize franchisees as a source of innovative ideas due to their daily contact with customers. Based on this explanation, the following hypothesis is proposed:

H6: Franchisee innovation has a positive influence on franchisee performance

H6a: EO mediated by franchisee innovation positively affects franchisee performance

METHOD

This study examines the influence of EO, franchisor–franchisee relationship quality, and franchisee innovation on franchisee performance within the context of MSME-scale F&B franchises in Indonesia (Table 1). EO is conceptualized as the independent variable, while franchisor–franchisee relationship quality and franchisee innovation serve as mediating variables. Franchisee performance is treated as the dependent variable (Appendix 1). The focus on the F&B sector is based on the dominance of this sector in the franchise industry, which accounts for 47.92% of the national franchise market and demonstrates consistent annual growth (Wisnubroto, 2024; Kusumo, 2024). Furthermore, the franchise model is highly relevant for MSME development due to its structured and efficient support systems (Naidu, Singh, & Narayan, 2023).

This research adopts a quantitative approach with a survey method for data collection. The questionnaire was closed-ended and

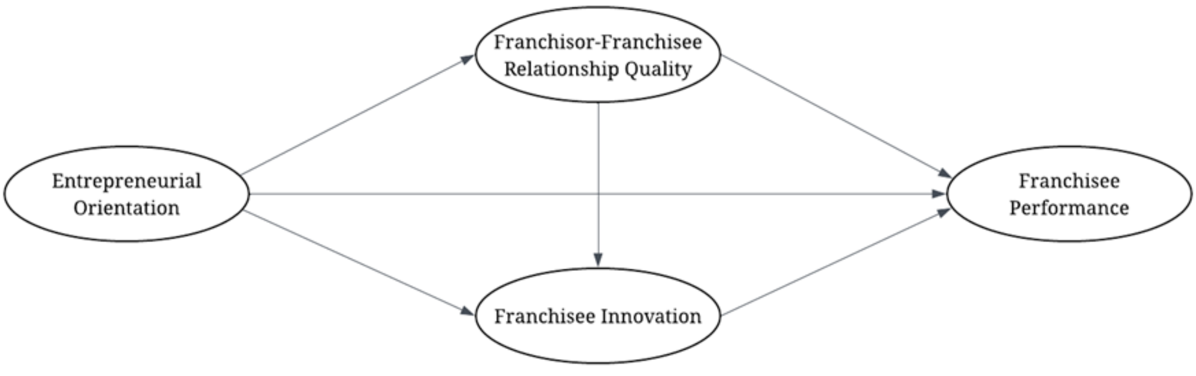

Figure 1 Research Model

Table 2 Variables and Items

Construct	Items	Sources
Entrepreneurial Orientation	**Risk-taking** My franchise outlet chooses to take calculated risks based on new ideas My franchise outlet tends to take risks to seize opportunities The notion of being a risk-taker is considered a positive value for my franchise outlet. **Innovativeness** My franchise outlet actively initiates improvements and innovations in business. When facing challenges, my franchise outlet prefers new and creative over traditional solutions. My franchise outlet continuously seeks new approaches in advertising, customer relations, distribution, etc. **Proactiveness** My franchise outlet consistently strives to be the first to take initiative in various situations. My franchise outlet excels at identifying business opportunities. My franchise outlet initiates actions that are eventually followed by competitors. **Competitive Aggressiveness** In general, my franchise outlet takes bold steps in competing with rivals. Rather than avoiding competition, my franchise outlet strives to outperform competitors. **Autonomy** My franchise outlet pursues business opportunities and makes independent decisions without constantly referring to the franchisor. My franchise outlet has the authority and responsibility to make independent decisions when such decisions are believed to be in the best interest of the business. The franchisor allows me to make or initiate changes in how I conduct my business.	Asgharian, Tasavori, & Andersén, 2023; Hughes & Morgan, 2007
Franchisor-Franchisee Relationship Quality	My franchise outlet is generally aligned with my franchisor. Discussions between my franchise outlet and the franchisor are usually light and constructive. My franchise outlet and the franchisor collaborate on important issues. My franchise outlet and the franchisor work together effectively.	Watson, Senyard, & Dada, 2020
Franchisee Innovation	**Administrative Innovation** Compared to competitors, my franchise outlet excels in the novelty of administrative systems Compared to competitors, my franchise outlet strives to more frequently develop new administrative methods. Compared to competitors, my franchise outlet makes changes to administrative methods more frequently. **Process Innovation** Compared to competitors, my franchise outlet excels in the novelty of work practices. Compared to competitors, my franchise outlet strives to more frequently develop new work practices. Compared to competitors, my franchise outlet implements changes in work practices more frequently. **Product Innovation** Compared to competitors, my franchise outlet excels in the novelty of products or services Compared to competitors, my franchise outlet strives to more frequently develop new products or services. Compared to competitors, my franchise outlet implements changes in products or services more frequently.	Karmeni, de La Villarmois, & Beldi, 2018
Franchisee Performance	Compared to competitors, my franchise outlet has achieved better revenue growth. Compared to competitors, my franchise outlet has achieved better net profit growth. By managing my franchise outlet, I am able to meet my customers' needs. My franchise outlet provides a source of employment that is beneficial for both my employees and myself	Chien, 2014

structured, utilizing a 6-point Likert scale. The instrument was pre-tested through face validity and wording tests to ensure clarity and reliability. The measurement items for EO were adapted from Asgharian, Tasavori, & Andersén (2023), franchisor–franchisee relationship quality from Watson, Senyard, & Dada (2020), franchisee innovation from Karmeni, de La Villarmois, & Beldi (2018), and franchisee performance from Chien (2014) (Table 2). The study population includes all MSME-scale F&B franchise outlets operating in Indonesia, estimated at approximately 28.000 outlets (Anggela, 2024; Wisnubroto, 2024), with individual franchisees as the unit of analysis.

The sample size in this study was determined using the inverse square root method developed by Kock and Hadaya (2016), which estimates the minimum required sample based on the ratio between the path coefficient and its standard error to achieve a specified level of statistical significance. This method is practical and easy to implement (Hair et al., 2021). However, using a minimal path coefficient as input may yield unrealistic sample size estimates. Therefore, researchers are advised to use a more reasonable coefficient, based on either a pilot study or previous research, depending on whether the expected effects are generally weak or strong (Hair et al., 2021). This study used a path coefficient from a pilot study involving 30 respondents. As shown in Table 3, the method recommends using the upper bound of the expected effect range due to its conservative nature. For instance, detecting a path coefficient between 0.11 and 0.20 would require approximately 155 respondents at a 5% significance level, while a coefficient between 0.31 and 0.40 would require only 39.

Data were analyzed using the PLS-SEM technique, which facilitates the estimation of complex models involving numerous constructs and indicators without relying on strict data distribution assumptions (Hair, Risher, Sarstedt, & Ringle, 2019). As a predictive and causal modeling approach, PLS-SEM focuses on forecasting and explaining causal pathways. The outer model was assessed for validity and reliability using factor loadings, composite reliability, average variance extracted, and the Heterotrait-Monotrait Ratio. Path coefficient estimation was performed using a one-tailed test at a 5% significance level in the structural model analysis, with a bootstrapping procedure based on 5,000 subsamples. The analysis assessed both direct and indirect effects to evaluate the statistical significance of the hypothesized relationships between constructs (Hair et al., 2021).

RESULTS

A total of 93 responses were initially collected. However, only 70 were deemed valid for further analysis. Invalid responses were excluded

Table 3 Sample Size

Path Coefficient	Significance level		
	1%	5%	10%
0.05-0.1	1004	619	451
0.11-0.2	251	155	113
0.21-0.3	112	69	51
0.31-0.4	63	39	29
0.41-0.5	41	25	19

due to respondent ineligibility (non-franchise outlets) or incomplete questionnaire submissions. The minimum required sample size was determined using the inverse square root method developed by Kock and Hadaya (2016), with the path coefficient estimated at 0.260 based on a pilot study involving 30 respondents. Hair et al. (2021) state that this coefficient corresponds to a minimum sample requirement of 69 (see Table 2). With 70 valid cases, the study fulfilled the sample adequacy criteria. The respondents' franchise outlets were primarily located on the islands of Java and Sumatra, with the vast majority (87.14%) based in Java, particularly in the provinces of DKI Jakarta (34%), West Java (33%) and South Sumatra (9%).

Regarding business characteristics, respondents were classified by operational age and annual revenue. The results indicate that 62.86% of outlets had been in operation for less than three years, suggesting the predominance of early-stage businesses. Only 11.43% had operated for more than five years. Based on revenue classification in accordance with Government

Table 4 Validity and Reliability Test

Construct	Items Code	Outer Loading Indicator	Outer Loading Dimension	Composite Reliability	AVE
Entrepreneurial Orientation (X)	X.01	0.653	0.676	0.833	0.503
	X.02	0.865			
	X.03	0.836			
	X.04	0.807	0.689		
	X.05	0.555			
	X.06	0.574			
	X.07	0.813	0.796		
	X.08	0.785			
	X.09	0.826			
	X.10	0.905	0.787		
	X.11	0.826			
	X.12	0.891	0.575		
	X.13	0.886			
	X.14	0.650			
Franchisor-Franchisee Relationship Quality (M1)	M1.01	0.824	-	0.870	0.627
	M1.02	0.840			
	M1.03	0.737			
	M1.04	0.761			
Franchisee Innovation (M2)	M2.01	0.846	0.824	0.883	0.716
	M2.02	0.884			
	M2.03	0.839			
	M2.04	0.851	0.871		
	M2.05	0.876			
	M2.06	0.630			
	M2.07	0.733	0.843		
	M2.08	0.862			
	M2.09	0.788			
Franchisee Performance (Y)	Y.01	0.754	-	0.845	0.577
	Y.02	0,819			
	Y.03	0.719			
	Y.04	0.743			

Table 5 Discriminant Validity Heterotrait-Monotrait (HTMT)

Construct	HTMT
Entrepreneurial Orientation (X) <-> Franchisor-Franchisee Relationship Quality (M1)	0.705
Entrepreneurial Orientation (X) <-> Franchisee Innovation (M2)	0.741
Entrepreneurial Orientation (X) <-> Franchisee Performance (Y)	0.749
Franchisor-Franchisee Relationship Quality (M1) <-> Franchisee Innovation (M2)	0.551
Franchisor-Franchisee Relationship Quality (M1) <-> Franchisee Performance (Y)	0.706
Franchisee Innovation (M2) <-> Franchisee Performance (Y)	0.640

Regulation No. 7 of 2021 concerning the Facilitation, Protection, and Empowerment of Cooperatives and MSMEs, 94.29% of the outlets reported annual income below IDR 2 billion, indicating their categorization as micro-enterprises. The remaining 5.71% had annual revenues ranging from IDR 2 billion to IDR 15 billion and were therefore classified as small enterprises. No respondents represented medium enterprises.

Based on Table 4, all indicators met the minimum factor loading value threshold of 0.50. Nevertheless, several items (X.01; X.05; X.06, X.14, and M2.06) exhibited loading values below the preferred level of 0.70 but remained above 0.50. These indicators were retained and considered valid, as their inclusion was theoretically justified and their measurement properties were still acceptable for further analysis. The analysis showed that all HTMT values were below the 0.90 threshold, and the upper bounds of the 95% confidence intervals did not exceed 0.90 (Table 5), indicating that discriminant validity was established. Therefore, each construct is empirically distinct and appropriate for further analysis.

Direct Effect

Most structural paths between constructs indicated a positive and statistically significant effect on franchisee performance, except for the path from M1 to M2 (Table 6, Figure 2). The relationship between X and Y, while positive and significant (O = 0.240; p = 0.033), showed a relatively higher p-value compared to other paths. This suggests that the direct effect of EO on franchisee performance may be less stable across the sample. This may occur because, in the context of MSME-scale F&B franchises, performance is not solely influenced

Table 6 Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics (O/STDEV)	P values
Direct Effect					
X -> M1	0.560	0.574	0.070	8.029	0.000
X -> Y	0.240	0.246	0.131	1.836	0.033
X -> M2	0.505	0.504	0.113	4.413	0.000
M1 -> M2	0.163	0.163	0.124	1.314	0.095
M1 -> Y	0.311	0.310	0.113	2.749	0.003
M2 -> Y	0.253	0.251	0.113	2.235	0.013
Indirect Effect					
X -> M1 -> Y	0.174	0.178	0.070	2.468	0.007
X -> M2 -> Y	0.127	0.127	0.067	1.896	0.029

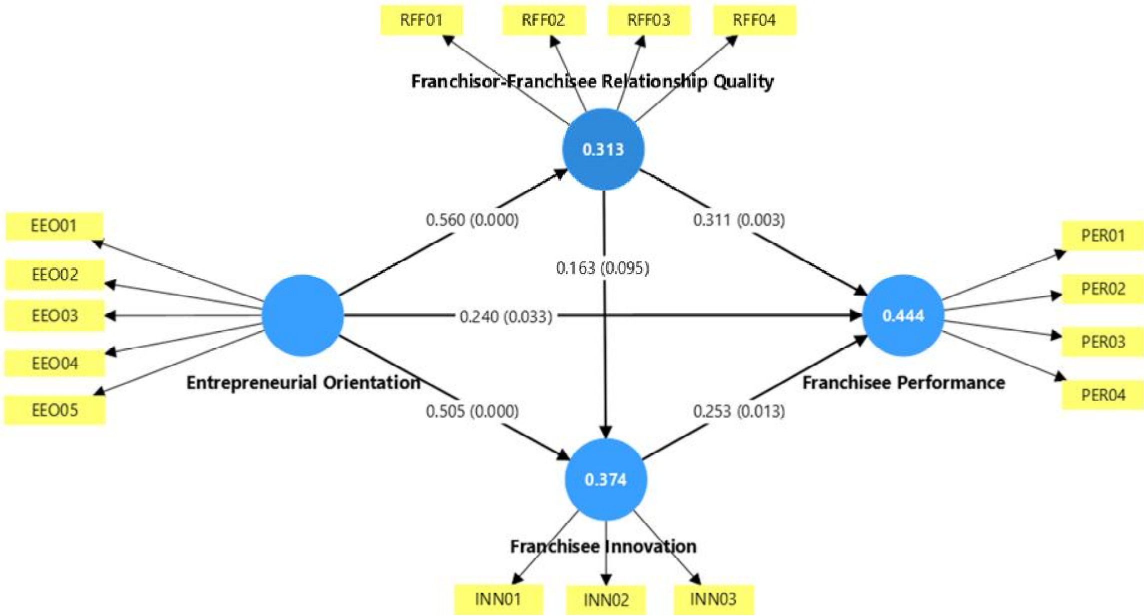

Figure 2 Hypothesis Testing

by EO, but also by external factors such as franchisor support or local market dynamics.

Similarly, the relationship between M2 and Y also demonstrated a comparable pattern, where, despite being statistically significant (O = 0.253; p = 0.013), the p-value was higher than that of the path from M1 to Y. This implies that the contribution of franchisee innovation to performance may depend on effective execution and time, or may be indirect. When compared, the paths from X → Y (O = 0.240; p = 0.033), M1 → Y (O = 0.311; p = 0.003), and M2 → Y (O = 0.253; p = 0.013) suggest that franchisor–franchisee relationship quality is the strongest and most stable predictor of franchisee performance. This is reflected in its higher path coefficient and the lowest p-value among the three, reinforcing the crucial role of cooperative relationships in MSME-scale franchise systems.

In contrast, the path from M2 to M1 was not significant (O = 0.163; p = 0.095). This suggests that, in this study, a strong relationship between the franchisor and franchisee does not automatically translate into increased franchisee innovation. The variation, such as the relationship or cooperation and the level of autonomy granted to franchisees, may contribute to the instability and lack of statistical significance in this relationship. Therefore, while relationship quality is important for franchisee performance, its impact on innovation may require additional supporting factors to become statistically significant.

Indirect Effect

The mediating effect of EO on franchisee performance through franchisor–franchisee relationship quality and franchisee innovation demonstrates differing characteristics. The mediation pathway X → M1 → Y exhibited a more substantial effect (O = 0.174) and higher statistical significance (p = 0.007) compared to the X → M2 → Y pathway (O = 0.127; p = 0.029). These findings suggest that relationship quality acts as a more effective and stable mediator in enhancing the impact of EO on franchisee performance. This stability is reflected in the lower p-value, suggesting that the role of relationship quality is more consistent across MSME-scale F&B franchisees in Indonesia. Although franchisee innovation also functions as a mediator, its effect on performance is relatively weaker and less stable. This may be attributed to accumulated error variance along the mediation path and the time-dependent nature of innovation outcomes, which often require longer implementation to yield measurable performance improvements.

Furthermore, the analysis reveals that the strength of the mediating effects, both through relationship quality and franchisee innovation, exceeds the direct effect of EO on franchisee performance (O = 0.240; p = 0.033). While the direct influence of EO remains statistically significant, the magnitude and significance levels of the mediation effects collectively suggest that the presence of mediators enhances and clarifies the pathway through which EO impacts franchisee outcomes. These findings underscore that, in the context of MSME-scale F&B franchises, EO alone is insufficient; instead, effective mediating mechanisms, such as strong franchisor–franchisee relationship quality and franchisee innovation processes, are essential to fully leverage the potential of EO in improving business performance.

DISCUSSION

The findings of this study highlight the critical role of EO in shaping key organizational outcomes within MSME-scale food and beverage (F&B) franchises in Indonesia. EO was found to enhance the quality of franchisor–franchisee relationships significantly. Proactiveness emerged as the strongest contributor among its dimensions, reflecting franchisees' tendencies to initiate action and pursue ambitious goals. This behavior aligns with prior research that fosters trust and credibility in the eyes of franchisors and reinforces cooperation and mutual support (Watson, Dada, López-Fernández, & Perrigot, 2020). While autonomy showed a lower statistical contribution, it remains theoretically significant. Many franchisees reported limited decision-making authority, indicating that although they engage in entrepreneurial behavior, their independence within the system remains constrained. This aligns with prior research suggesting that granting greater autonomy can enhance franchisee commitment and elevate the relational quality between parties (Altinay, Brookes, Yeung, & Aktas, 2014; Dada & Watson, 2013).

EO also demonstrated a direct and positive influence on franchisee performance, supporting prior findings that suggest entrepreneurial behaviors are essential for franchisee success (Asgharian, Tasavori, & Andersén, 2023; Naidu, Singh, & Narayan, 2023; Chien, 2014). Particularly through the dimensions of proactiveness and competitive aggressiveness, the most influential contributors are in the MSME F&B franchise context. Franchisees who actively seize market opportunities and adopt bold competitive strategies tend to outperform others (Anwar & Shah, 2020; Isichei et al., 2020; Aftab et al., 2022). However, the relatively modest path coefficient suggests that EO's impact may be amplified when mediated by relationship quality and franchisee innovation. Direct efforts to enhance EO, particularly in other dimensions such as risk-taking, innovativeness, and autonomy, should be supported by system-level enablers, including strategic guidance and flexible operational policies. While EO is foundational, its impact can be significantly amplified when paired with enabling relational and innovation-based mechanisms.

The influence of EO on franchisee innovation further reinforces this dynamic. Innovativeness, one of EO's core dimensions, drives franchisees to improve processes, develop new offerings, and respond creatively to challenges (Lumpkin & Dess, 1996; Pérez-Luño, Wiklund, & Cabrera, 2011). These proactive behaviors are crucial in MSME F&B contexts, where franchisees are at the forefront of customer interaction and market feedback. The study's results align with the work of Le Nadant, Perdreau, Chaudey, & Fadairo (2019); Watson, Senyard, & Dada (2020), confirming that EO promotes innovation, which in turn can differentiate outlets in competitive markets.

Interestingly, despite the theoretical linkage between relationship quality and innovation (Watson, Dada, López-Fernández, & Perrigot, 2020; Colla, Ruiz-Molina, Chastenet De Gery, & Deparis, 2020), the findings did not support a direct relationship between the two. Instead, the results support the notion that good relationship quality may facilitate the adoption of franchisors' innovations rather than stimulate independent innovation by franchisees (Watson, Dada, López-Fernández, & Perrigot, 2020). This aligns with the view that franchise systems function not merely as contractual arrangements, but as strategic alliances, where trust and alignment support the systematic diffusion of innovation (Dada & Watson, 2013). The non-significance may be partly explained by the limited scope of innovation dimensions employed in this study, which excluded marketing and strategic innovation dimensions; relational dynamics may have a more direct influence on these aspects. Furthermore, low factor loadings for indicators related to strategic collaboration (M1.03) suggest that most interactions remain administrative and lack depth. Deeper involvement in joint strategic issues could promote more meaningful innovation outcomes.

The study also reaffirmed the importance of relationship quality as a determinant of franchisee performance. The findings of this study confirm that the quality of the franchisor–franchisee relationship significantly contributes to franchisee performance, supporting prior evidence by Boulay et al. (2023), who identified this variable as a consistent success factor in franchise systems. In the MSME-scale F&B context, relational aspects such as alignment, constructive communication, and cooperation are essential in fostering performance outcomes (Watson, Senyard, & Dada, 2020). However, the relatively low factor loadings on indicators related to joint strategic involvement suggest that franchisee–franchisor relationships often remain administrative rather than strategic in nature. This limits their potential to strengthen trust and commitment, which are crucial for enhancing performance, as also noted by Bui, Jambulingam, & Amin (2022), particularly in resource-constrained environments. Building high-quality, trust-based relationships is a critical strategy for sustaining franchisee competitiveness.

Franchisee innovation significantly enhanced franchisee performance, particularly through process improvements that drive operational efficiency (Jiménez-Jiménez & Sanz-Valle, 2011; Le Nadant, Perdreau, Chaudey, & Fadairo, 2019). Within the context of MSME-scale F&B franchises, innovation often emerges from franchisees adapting to specific local market demands (Watson, Dada, López-Fernández, & Perrigot, 2020). These findings underscore the importance for franchisors to provide franchisees with a certain degree of autonomy and operational flexibility, thereby supporting franchisee innovation tailored to their specific business context. Although administrative and product innovations were found to have a weaker impact (possibly due to resource limitations and organizational structure), the results emphasize that the success of innovation relies not only on generating ideas but also on their practical implementation. Therefore, innovation should be viewed as a reflection of entrepreneurial initiative and a strategic approach to remain competitive in challenging market environments (Watson, Dada, López-Fernández, & Perrigot, 2020).

The mediating roles of relationship quality and franchisee innovation further illuminate how EO translates into performance. The indirect pathway through relationship quality was more potent than the direct effect, suggesting that EO contributes to franchisee success primarily by fostering cooperative relationships with franchisors (Dada & Watson, 2013; Boulay et al., 2023). Similarly, franchisee innovation emerged as a significant mediator, showing that EO drives performance by enabling franchisees to implement novel and effective practices. This is particularly relevant in the MSME context, where intense competition and limited resources demand high levels of creativity and responsiveness (Le Nadant, Perdreau, Chaudey, & Fadairo, 2019). These findings emphasize that EO should not be viewed in isolation but as part of an interdependent system that includes relational trust and franchisee innovation capacity. For EO to effectively enhance performance, it must be supported by strong collaborative dynamics and an innovative environment. This integrated approach is essential for MSME-scale F&B franchises seeking to thrive in increasingly dynamic and competitive markets.

CONCLUSION

This research indicates that entrepreneurial orientation (EO) significantly improves franchisee performance in Indonesia's MSME-scale food and beverage franchise industry, both directly and through its impact on relationship quality and innovation. It emphasizes EO as a vital strategic element influenced by entrepreneurial characteristics, robust franchisor–franchisee connections, and a supportive environment for innovation. The study expands EO theory to franchisees in developing markets and proposes that franchisees should develop EO and work closely with franchisors. Policymakers are encouraged to back EO via training, innovation incentives, access to technology, and fair regulations. Constraints include industry-specific emphasis, a reduced sample size, and the absence of moderating factors. Future studies should encompass various sectors and incorporate more comprehensive contextual evaluations.

REFERENCES

Aftab, J., Veneziani, M., Sarwar, H., & Ishaq, M. I. (2022). Entrepreneurial orientation and firm performance in SMEs: the mediating role of entrepreneurial competencies and moderating role of environmental dynamism. *International Journal of Emerging Markets*, *19*(10), 3329–3352. https://doi.org/10.1108/ijoem-07-2021-1151.

Altinay, L., Brookes, M., Yeung, R., & Aktas, G. (2014). Franchisees' perceptions of relationship development in franchise partnerships. *Journal of Services Marketing*, *28*(6), 509–519. https://doi.org/10.1108/JSM-09-2013-0240

Anggela, N. L. (2024, October 25). Jumlah waralaba di RI capai 60.000 gerai, omzet Rp200 triliun. *Bisnis.com*. https://ekonomi.bisnis.com/.

Anwar, M. & Shah, S. Z. A. (2020). Entrepreneurial orientation and generic competitive strategies for emerging SMEs: Financial and nonfinancial performance perspective. *Journal of Public Affairs*, *21*(1). https://doi.org/10.1002/pa.2125.

Asgharian, E., Tasavori, M., & Andersén, J. (2023). Should Fast-Food franchisees pursue entrepreneurial orientation? *Entrepreneurship Research Journal*, *13*(2), 185–220. https://doi.org/10.1515/erj-2019-0377

Boulay, J., Caemmerer, B., Chanut, O., Magali, C., & Fadairo, M. (2023). It takes two to tango: A taxonomy of franchise success determinants. *International Journal of Retail & Distribution Management*, *51*(6), 807–825. https://doi.org/10.1108/IJRDM-05-2022-0174.

Bui, T. T. H., Jambulingam, M., & Amin, M. (2022). A literature review of franchisee performance: Insights for further research. *Cogent Business & Management, 9*(1), 2044573. https://doi.org/10.1080/23311975.2022.2044573.

Burlaud, A. & Simon, F. (2024). Opening the black box of capabilities to renew the organizational and business know-how of franchises. *Journal of Business & Industrial Marketing, 39*(3), 651–666. https://doi.org/10.1108/JBIM-12-2022-0531.

Chien, S. Y. (2014). Franchisor resources, spousal resources, entrepreneurial orientation, and performance in a couple-owned franchise outlet. *Management Decision*, *52*(5), 916–933. https://doi.org/10.1108/MD-07-2013-0368.

Colla, E., Ruiz-Molina, E., Chastenet De Gery, C., & Deparis, M. (2020). Franchisee's entrepreneurial orientation dimensions and performance: Evidence from France. *The International Review of Retail, Distribution and Consumer Research, 30*(5), 538–554. https://doi.org/10.1080/09593969.2020.1768576.

Croonen, E., Van Der Bij, H., Perrigot, R., Akremi, A. E., & Herrbach, O. (2021). Who wants to be a franchisee? Explaining individual intentions to become franchisees. *International Small Business Journal Researching Entrepreneurship*, *40*(1), 90–112. https://doi.org/10.1177/02662426211013669.

Dada, O. (2021). Curbing franchisee failure: A systematic review of the empirical evidence. *Journal of Small Business Management*, *61*(4), 1991–2037. https://doi.org/10.1080/00472778.2021.1883039.

Dada, O. & Watson, A. (2013). The effect of entrepreneurial orientation on the franchise relationship. *International Small Business Journal*, *31*(8), 955–977. https://doi.org/10.1177/0266242612446035.

Damanpour, F. (1992). Organizational size and innovation. *Organization Studies*, *13*(3), 375–402. https://doi.org/10.1177/017084069201300304.

Dermonde, M., Fischer, B. B., & de Moraes, G. H. S. M. (2024). Entrepreneurial and international? The role of entrepreneurial orientation in the Brazilian franchises' internationalization process. *International Journal of Emerging Markets*. https://doi.org/10.1108/ijoem-01-2024-0171.

Hair, J. F., Hult, G. T. M., Ringle, C. M., Sarstedt, M., Danks, N. P., & Ray, S. (2021). *Partial Least Squares Structural Equation Modeling (PLS-SEM) using R*. Cham: Springer.

Hair, J. F., Risher, J. J., Sarstedt, M., & Ringle, C. M. (2019). When to use and how to report the results of PLS-SEM. *European Business Review, 31*(1), 2–24. https://doi.org/10.1108/EBR-11-2018-0203.

Hughes, M. & Morgan, R. E. (2007). Deconstructing the relationship between entrepreneurial orientation and business performance at the embryonic stage of firm growth. *Industrial Marketing Management*, *36*(5), 651–661. https://doi.org/10.1016/j.indmarman.2006.04.003.

International Franchise Association. (2024, March 3). Open for opportunity – Franchising supports economic growth. *International Franchise Association*. https://www.franchise.org/.

Isichei, E. E., Agbaeze, K. E., & Odiba, M. O. (2020). Entrepreneurial orientation and performance in SMEs. *International Journal of Emerging Markets*, *15*(6), 1219–1241. https://doi.org/10.1108/ijoem-08-2019-0671.

Jiménez-Jiménez, D. & Sanz-Valle, R. (2011). Innovation, organizational learning, and performance. *Journal of Business Research*, *64*(4), 408-417. https://doi.org/10.1016/j.jbusres.2010.09.010.

Karmeni, K., de La Villarmois, O., & Beldi, A. (2018). Impact of control on innovation: the case of franchising. *Management Decision*, *56*(7), 1485-1505. https://doi.org/10.1108/MD-09-2015-0428.

Kock, N. & Hadaya, P. (2016). Minimum sample size estimation in PLS SEM: The inverse square root and gamma exponential methods. *Information Systems Journal, 28*(1), 227–261. https://doi.org/10.1111/isj.12131.

Kusumo, R. (2024, September 13). Tumbuh 15 persen per tahun, industri waralaba didominasi bisnis makanan dan minuman. *Franchiseindonesia.id*. https://franchiseindonesia.id/.

Le Nadant, A. L., Perdreau, F., Chaudey, M., & Fadairo, M. (2019). Entrepreneurial orientation and performance in franchise networks: The mediating role of innovation. *Revue de l'Entrepreneuriat*, *18*(3), 199–226. https://doi.org/10.3917/entre.183.0199.

Lumpkin, G. T. & Dess, G. G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *The Academy of Management Review*, *21*(1), 135–172. https://doi.org/10.5465/amr.1996.9602161568.

Naidu, S., Singh, G., & Narayan, J. (2023). Revisiting the contingency theory: Dissection of entrepreneurial orientation elements in retail franchisee performance. *International Journal of Emerging Markets, 18*(9), 2343–2362. https://doi.org/10.1108/IJOEM-03-2021-0467.

Oduro, S. (2022). Entrepreneurial orientation and innovation performance of social enterprises in an emerging economy. *Journal of Research in Marketing and Entrepreneurship*, *24*(2), 312–336. https://doi.org/10.1108/jrme-02-2021-0023.

Pérez-Luño, A., Wiklund, J., & Cabrera, R. V. (2011). The dual nature of innovative activity: How entrepreneurial orientation influences innovation generation and adoption. *Journal of Business Venturing*, 26(5), 555-571. https://doi.org/10.1016/j.jbusvent.2010.03.001.

Salih, A., Alsalhi, L., & Abou-Moghli, A. (2024). Entrepreneurial orientation and digital transformation as drivers of high organizational performance: Evidence from Iraqi private banks. *Uncertain Supply Chain Management, 12*(1), 9–18. http://dx.doi.org/10.5267/j.uscm.2023.10.022.

Watson, A., Dada, O., López-Fernández, B., & Perrigot, R. (2020a). The influence of entrepreneurial personality on franchisee performance: A cross-cultural analysis. *International Small Business Journal, 38*(7), 605–628. https://doi.org/10.1177/0266242620914520.

Watson, A., Senyard, J., & Dada, O. L. (2020b). Acts of hidden franchisee innovation and innovation adoption within franchise systems. *Industrial Marketing Management, 89*, 431–445. https://doi.org/10.1016/j.indmarman.2020.03.005.

Wiklund, J. & Shepherd, D. (2005). Entrepreneurial orientation and small business performance: a configurational approach. *Journal of Business Venturing*, *20*(1), 71–91. https://doi.org/10.1016/j.jbusvent.2004.01.001.

Wisnubroto, K. (2024, June 22). Memahami bisnis waralaba: Persyaratan, proses, dan peluang di pasar. *Indonesia.go.id*. https://indonesia.go.id/.

Appendix 1
Theoretical Framework Summary

Construct	Definition	Dimension	Definition	Direct of Relationship
Entrepreneurial Orientation	A conceptual framework that illustrates the attitudes, strategies, and decision-making processes of an organization or individual in carrying out entrepreneurial activities, enabling them to operate autonomously and exhibit a tendency to innovate, take risks, act aggressively toward competitors, and respond proactively to opportunities (Lumpkin & Dess, 1996).	Risk-Taking	Reflects a firm's willingness to accept uncertainty and its tendency to support projects and allocate resources despite a high risk of failure (Wiklund & Shepherd, 2005).	Positive effect on Franchisee Performance
		Innovativeness	Refers to a forward-looking perspective that anticipates future market opportunities by introducing new products or services ahead of competitors, thereby creating first-mover advantages (Lumpkin & Dess, 1996).	
		Proactiveness	Denotes a firm's tendency to directly and intensely challenge competitors to gain or improve market position (Lumpkin & Dess, 1996).	
		Competitive Aggressiveness	Reflects a firm's willingness to accept uncertainty and its tendency to support projects and allocate resources despite a high risk of failure (Wiklund & Shepherd, 2005).	
		Autonomy	Refers to a forward-looking perspective that anticipates future market opportunities by introducing new products or services ahead of competitors, thereby creating first-mover advantages (Lumpkin & Dess, 1996).	
Franchisor-Franchisee Relationship Quality	The extent to which the franchisor–franchisee relationship is characterized by trust, commitment, effective communication, and mutually beneficial collaboration that creates value and supports the success of both parties (Dada & Watson, 2013).			Mediates EO and Franchisee Performance

Franchisee Innovation	Innovation is defined as the implementation of ideas or behaviors in the form of systems, policies, programs, devices, processes, products, or services that are new to the adopting organization (Damanpour, 1992) and are created at the outlet level.	Administrative Innovation	Involves changes in organizational structure and managerial processes that are not directly related to core production activities (Jiménez-Jiménez & Sanz-Valle, 2011).	Mediates EO and Franchisee Performance
		Process Innovation	The implementation of new production or delivery methods that enhance efficiency and effectiveness (Jiménez-Jiménez & Sanz-Valle, 2011).	
		Product Innovation	The introduction of new goods or services, or significant improvements in the characteristics of existing products (Jiménez-Jiménez & Sanz-Valle, 2011).	
Franchisee Performance	The outcomes achieved by a franchisee in terms of revenue growth, net profit growth, customer satisfaction, and the creation of employment opportunities for both employees and business owners (Chien, 2014)			Dependent Variables