

Franchise Business Sustainability Model: Role of Conflict Risk Management in Indonesian Franchise Businesses

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Abstract

Franchising is one of the most trustworthy strategic alliance formations to start or expand businesses. Like many other business formations, franchise businesses need a sustainable and long-term running, these objectives can be reached by a proper relationship between partners—the franchisor, and the franchisee—in the alliances. Both partners' perspectives are valuable inputs to provide insight in understanding the sustainability of the franchise businesses in Indonesian franchise businesses. Furthermore, in any types of strategic alliances conflict is risk that need to be managed properly. The aim of this study is to examine the relationships of determinants that have influence on the franchise businesses' sustainability, the determinants are risk management, trust, satisfaction, and sustainability. The study applies confirmatory factor analysis using structural equation modelling (SEM) AMOS software. Respondents in this study are franchisors and franchisees in the Indonesian retail and food and beverages (f&b) sectors, the study accommodate 204 respondents. Based on the analysis the study reveals that there is a positive relationship between risk management and satisfaction (CR: 5.288, sig: 0.000 < 0.005); risk management also has positive relationship with survivability (C.R:2.482, sig :0.013 < 0.05); trust and satisfaction also have positive relationship (C.R 2.535, sig : 0.011 < 0.05); meanwhile there is no relationship between satisfaction and survivability (C.R 1.403, sig 0.161>0.05) and the last relationship is between trust and survivability (C.R 0.550, sig 0.583>0.05) that has no positive relationship between the determinants. This study provides clearer insight to understand the relationships between determinants which have influence on the franchise business survivability in Indonesia, especially based on both parties' perspectives.

Keywords: Survivability; Risk Management; Satisfaction; Conflict; Franchisor; Franchisee.

GEL: M20, M21, M31

Introduction

Proper relationship in franchise business formation builds proper cooperation between partners, the franchisor, and the franchisee. Both parties are expected to maintain their relationship to establish survivability and sustainable businesses. Along the business progresses, the franchise businesses might and surely will encounter any disputes that can lead to failures. The conflict between partners generally related to moral hazard and path dependency (Gant & Buchan, 2019), lack of entrepreneurial orientation (Botha & Prawlall, 2017), the next is loan issue (Alon et al., 2015), and trust (Dube et al., 2020; Sanny et al., 2017). Previous studies in franchising

area were in western context, so it is a need to develop study to examine determinants that have influence on the franchise business survivability in Indonesia. Mostly, Indonesian franchisee businesses are in food and beverages sectors or the food and beverages (f&b) and retail sectors. Indonesia's franchise survivability has not been profoundly examined, therefore require a research regarding franchise business survivability issue. The ability to survive is related with business problems solving and cooperation trust; therefore, ability to maintain proper relationship between franchisee and franchisor is pertinent. Previous research has not examined the influence of trust on survivability; therefore, this study aims to examine this effect especially in the franchise businesses. Business risk mitigation is also needed to reduce failure in franchise business relationship. Franchisee risk mitigation should establish information seeking to both parties, the franchisee, and the franchisor. The risk in doing business using the franchise formation can be on form of conflict between franchisor and franchisee, the conflict will cause instability in the relationships, and it can lead to business termination (Grace & Weaven, 2011). The main question that needs to resolve is "How risk management, trust and satisfaction influence the franchise business survivability in Indonesia?". This study aims to examine the determinants' relationships based on the two parties' perspectives who are bound in a franchise agreement. Second, this study also aims to develop a risk management scheme in non-financial businesses to increase the survivability of Indonesia's franchise business.

Literature Review

Franchising is an agreement in a business strategic alliance in which the a party-the franchisor provides a license to an individual or other company-the franchisee to run a business as determined in a certain period, where the franchisor gives the right and business license and in return the franchisor will earn royalties and other types of payments (Lee et al., 2015). In the sense of the modern business world, the franchise agreement covers several important concepts, they are: market-testing business packages, self-financing of franchises, and corporate franchises or multi-unit franchisees (Hodge et al., 2013). Moreover, franchising is a form of relations exchange in which the parties in the franchise agreement are commercially dependent on each other and create an continuing 'tense and ease action' between them (A. R. Grace et al., 2016).

All type of business formations bear risk, and risk is a decisive factor in business, especially in a strategic business alliance such as franchising where parties are involved in managing the businesses. Managing risk of business is a challenging task for managers. One of potential risks that may arise in a business alliance is the bankruptcy of the alliance, one of the main trigger is

due to conflicts between parties in the alliance (Das & Kumar, 2010). Cultural barriers and mismatches of 'chemistry' between persons in a strategic alliance might cause the business failure (Wu, 2015)

Hypotheses Development

Risk between parties in strategic alliances such as franchise business arrangement should be managed properly. Business managers in a franchise carry out process of identifying risks and various challenges in business, including how to manage the relationship between partners, which has become a routine activity for them. In paradigm of proper business-to-business (B2B) relationships, companies can create and maintain their competitive advantage by acquiring several actions to ensure that the alliances are still intact cohesivel . In practice, there is a possibility that one of the parties has a more dominant role than the partner (Blois, 2009). This more dominant role can be in the form of a greater influence so that the other party acts according to what he wants, therefore, that term 'equal' rights and obligations in B2B relationships are important to ensure good relationships. In a franchise agreement, the perception of equity is based on the franchisor and franchisee (A. R. Grace et al., 2016). The issue of equity is still a debate (Blois, 2009), therefore normative expectations of equity are related to the correlation between input and output which is considered "fair" in a partnership (Blois, 2009). Proper relationships between partners will lead to the formation of a successful business, where delivery of product or service is improved and maintained for the partners' benefit (Wang & Lee, 2009). Franchise agreements have characteristics indicated by a series of relational exchanges, the success of which depends on how to manage and maintain costs and profits from partners (Harmon & Griffiths, 2008). Maintaining a good relationship between partners is very essential so that the advantages expected from this franchise cooperation will not be realised if there is no goodwill or goodwill from the partners (Antia et al., 2013). As with other business alliances, the selection of potential business partners is seen as something hazardous, furthermore, once the business is formed, the risk exists in the form of how to manage the collaboration or cooperation. The types of risks that arise in the franchise business are generally related to conflict occurrence (Doherty et al., 2014).

An effort to resolve conflicts between franchisors and franchisees is to understand the conflict's initiates (Weaven et al., 2012). This type of conflict arises when a lack of cooperation between partners can lead to opportunistic actions between them, in which these actions can manifest in several ways, such as incompatibility with the franchise system, misunderstanding, suitability of outlet locations, problems with marketing areas, profitability, communication

problems and franchise fees (A. R. Grace et al., 2016). The risk of this conflict can provoke proper relations between partners, resulting in the emergence of misunderstandings. If the misunderstanding will result in conflict between partners and can be fatal, the parties to the franchise agreement need to have the means to maintain good relational relationships and minimise the emergence of opportunistic behaviour (Ishida & Brown, 2013). To minimise the potential for conflict, partners need to be aware of the possibility of conflict (Weaven et al., 2012). By minimising potential conflict, the level of relational or relationships between partners will reach a level of satisfaction for both of them, and this ideal condition will create a productive relationship from a business perspective (Frazer et al., 2012; Wright & Grace, 2011). Satisfaction with the relationship between the franchisor and the franchisee is thought to influence survivability, therefore further testing is needed.

A productive business relationship in a strategic alliance such as a franchise is important, given the market competition's very intensive level (Wright & Grace, 2011). The level of pressure in the relationship between businesses needs to be maintained, meaning that if the pressure increases to lead to an inharmonious relationship, it needs to be resolved in an appropriate way to reduce the level of tension between the parties doing business (Altinay et al., 2014; Davies et al., 2011). The management of this relationship is crucial, considering that business in strategic alliances is seen as vulnerable to conflicts between partners or partners in it. Dada & Watson (2013) also emphasised that in a franchise agreement, personal relationships between franchisors and franchisees are very important to be maintained at a good level to ensure the sustainability of the business. The improvement of relationships has an important role in determining the success of alliance businesses such as franchising, and if there is no agreement between the two parties in the franchise, it can have negative consequences for this collaborative, relational relationship (Doherty, 2009; Altinay & Brookes, 2012). Fostering proper relationships between parties in a franchise agreement is quite challenging, considering that each person has their characteristics, which is why increasing relational relationships play an important role in maintaining good relational relationships between franchisors and franchisees (Altinay et al., 2014).

The relationship between partners is dynamic, and throughout the business activity there will be up and down in the relationships, in this context, trust have become a factor that can provide each party with a minimum amount of doubtfulness that can bring the solid relationship into vulnerable state (Atinay and Brooks, 2012). Furthermore, in alliances such as franchising, actions done by each parties would have impact on their trust, in several occasion the actions can be little bit to far out of the course. This kind of things can reduces the level of trust and in

the forthcoming, it can have negative impact on the business performance. If the business performance deteriorates it will affect the business relationship between parties, trust between them will decrease as well (Barney and Clark, 2009). According to previous study by Davies et al (2011) if there is a strong trust between partners they will obey their agreement, each partner will perform the business as it should be based on their rights and obligations and more over business performance will increase and the business will survive in the future. Barney and Clark (2009) also emphasised that trust is a significant foundation of competitive advantage and Frazer et al (2012) added that trust also plays huge role in decreasing the level of conflict and it can lead to the business survivability.

This study aims to examine the determinants' relationships based on the two parties' perspectives who are bound in a franchise agreement. Second, this study also aims to develop a risk management scheme in non-financial businesses to increase the survivability of Indonesia's franchise business.

Based on the previous descriptions, this study develops hypotheses as follow:

- H1: Risk management has positive influence on franchise business survivability.*
- H2: Risk management has positive impact on parties' level of satisfaction.*
- H3: If each partner satisfies with the relationship the level of business survivability increases.*
- H4: Trust increases the level of parties' satisfaction in the franchise business formation.*
- H5: The level of trust between parties increases the level of franchise business survivability.*

The study develops model as follow:

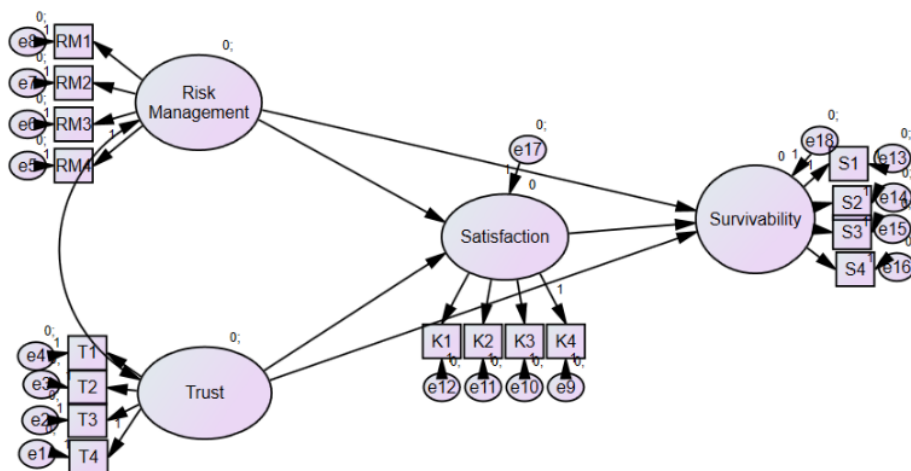


Figure 1. Research Model

Method

This study applies quantitative method, using confirmatory analysis (Hair et al., 2014) with SEM AMOS as the software analysis. This study population is owners and managers of franchise businesses in the retail and f&b sectors in Indonesia. Population of this study are the managers and business owners of franchise businesses in retail and f&b sector in Indonesia. There are 204 franchisor and franchisee as population, based on the formula, when degree of significance is 0.05, the sample needed is $204 / 1 + 204 (0.05)^2 = 204 / 1.525 = 135$. Therefore, minimum sample which needed is 135.

$$n = \frac{N}{1 + N * (e)^2}$$

Based on the sampling method, this study acquires 138 Samples. This study uses a non-probability sampling technique. This sampling method is based on selecting respondents based on certain criteria there are f&b Owner or manager of a franchise business; at least one year of experience managing a franchise business; an entrepreneur who legally have a franchise business. The indicators for the construct determinant of conflict risk management are pre-investment screening; due diligence; opportunistic behaviour; and market demand (Anderson & Weitz, 1992; Blut et al., 2011; Grace et al., 2013). Based on Rodrigues & Wilson (2002) and Johnston et al., (2004) indicator for trust are goodwill trust, 'competence trust', 'cognition-based trust' and 'affect-based trust'. Satisfaction have several indicators, there are 'resource access', 'communication openness', 'perceived conflict' and 'support' (Palmatier, 2006; Davies et al., 2011). Survivability have several indicators, there are 'franchise expectations core competency fit or misfit', '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).

Research Results

Validity Test Results

The first step is to test the validity to find out that the data is valid, and then it can be tested using the reliability test. The validity test uses Pearson correlation to obtain the value of the data that has been obtained. The results of the Pearson correlation test shown in Table 1.

Table 1 Validity Test Results

| | Pearson Correlation Value |
|-----|---------------------------|
| T1 | 0.736 |
| T2 | 0.723 |
| T3 | 0.782 |
| T4 | 0.696 |
| RM1 | 0.894 |
| RM2 | 0.917 |
| RM3 | 0.857 |
| RM4 | 0.869 |
| Sa1 | 0.678 |
| Sa2 | 0.746 |
| Sa3 | 0.754 |
| Sa4 | 0.702 |
| Su1 | 0.862 |
| Su2 | 0.841 |
| Su3 | 0.771 |
| Su4 | 0.714 |

Note: T (Trust); RM (Risk Management); Sa (Satisfaction); Su (Survivability)

Table 4.1 shows that the Pearson correlation value shown has met the research rules at the 5% significance level. This indicates that the data obtained during the study shows a valid value. The reliability test is shown in Table 2.

Reliability Test Results

Table 2 Reliability Test Results

| Reliability | Cronbach Alpha |
|-----------------|----------------|
| Trust | 0.714 |
| Risk Management | 0.906 |
| Satisfaction | 0.682 |
| Survivability | 0.81 |

All variables have met the reliability criteria because have Cronbach alpha value > 0.6 (Hair et al., 2014)

Table 3 Research Result

| Variable Relationship | Estimate | S. E | CR | P | Results |
|--------------------------------|----------|------|-------|-------|---------------|
| Risk Management->Satisfaction | .511 | .097 | 5.288 | *** | Supported |
| Trust -> Satisfaction | .356 | .140 | 2.535 | 0.011 | Supported |
| Risk Management->Survivability | .568 | .229 | 2.482 | 0.013 | Supported |
| Trust ->Survivability | -.129 | .234 | -.550 | 0.583 | Not Supported |
| Satisfaction ->Survivability | .541 | .386 | 1.403 | 0.161 | Not Supported |

Based on hypothesis testing, three hypotheses are supported, and two hypotheses are not supported. There is a positive and significant effect of risk management on satisfaction with a CR value of 5.288 (sig 0.000), it is indicated risk management implementation build a satisfaction. Trust has a positive and significant effect on satisfaction (C.R 2.535, sig 0.011 < 0.05), when trust establishment encourage satisfaction for both franchisee and franchisor. Risk management has a positive and significant effect on survivability (C.R 2.482, sig 0.013 < 0.05). Trust has no effect on survivability (C.R 0.550, sig 0.583 > 0.05) and satisfaction does not impact survivability (C.R 1.403, sig 0.161 > 0.05)

This study proves trust positively affects the satisfaction of the relationship between the franchisor and the franchisee. This study strengthens previous research, which shows a positive and significant relationship between trust and cooperation satisfaction, a collaboration that is built needs to be based on trust so that there are no spaces that lead to dissatisfaction, suspicion can be reduced and eliminated (Dickey et al., 2007; A. R. Grace et al., 2016). A contract must be kept, an agreement that both parties have agreed should be implemented so that no interpretation can lead to a conflict. This can reduce the sense of satisfaction of both parties for the emergence of a disharmony that arises. In addition, business partners, especially franchisors, need to be relied on to improve relational relationships in franchise relationships. This study proves that trust does not directly affect survivability but tends to result in the satisfaction generated from the cooperation between the franchisor and the franchisee. This study proves that satisfaction is not always the main basis for determining business survivability. This study has shown that risk management can be positively and significantly related to the satisfaction of the cooperation relationship between franchisees and franchisors. This study has proven that the ability to mitigate risk well has a positive effect on satisfaction

Discussion

The relationship between the franchisor and the franchisee is a business relationship that exists to cooperate in a franchise business. This relationship has two possibilities: mutual support between two parties or opportunistic behaviour that can harm either party (Watson & Johnson, 2010). A contract is a tool in guiding the franchisor and the franchisee relationship. But even so, it does not rule out the possibility of an improper relationship. Therefore, trust in establishing business relationships is essential (Davies et al., 2011). Relationships based on opportunistic behaviour between the two parties can reduce the sense of trust and stretch the relationship in the future. For example, when a franchisor tries to enter the business area, the franchisee's satisfaction will decrease, resulting in suspicion from the franchisee because opportunistic actions can injure a relationship and affect future cooperation. Suspicion can lead to dissatisfaction on the part of the franchisee

Relational contract theory is a theory that explains that some contracts or agreements cannot be fully carried out by either the maker or the other party so that suspicions can arise from other parties (Baker et al., 2002). This study strengthens relational contract theory in which an agreement that has been agreed upon by both parties, in this case, is a franchisor with franchisees and is carried out properly, it has implications for increasing the sense of trust that arises from both parties and a sense of satisfaction over the existing cooperation so far (A. R. Grace et al., 2016; Wright & Grace, 2011). A collaboration in any business relationship needs further discussion to discover detail in the contracts that have been established so that the trust that arises can increase with the points of agreement carried out by both parties, a contract needs an explanation that can allow multiple interpretations to emerge. This can have implications for increasing the satisfaction of cooperation that exists between the franchisor and the franchisee.

Perception can play an important role in increasing trust and satisfaction so that both parties can provide mutual trust and ensure that the contract that has been agreed upon can run smoothly. Franchisees who feel that the franchisor gives goodwill or goodwill will provide a sense of trust and increase the cooperation established so far (Weaven et al., 2012). Franchisees require ongoing guidance and training to improve the performance or performance of a franchise. The existence of good intentions from the franchisor will increase satisfaction with the currently built cooperation. The broader implication is cooperation in the future. Besides, trust is needed in businesses, therefore franchise businesses can operate smoothly without any disruption in a collaboration.

Franchisors need to provide the support that is considered important to franchisees so that the performance that appears is getting better and increasing continuously. Trust is essential for growing a business and can be beneficial for both parties. Cooperation based on trust can provide a satisfying collaborative relationship that can have positive implications in running a business (Altinay et al., 2014). If a business is not satisfied, then the franchisor and franchisee, the relationship they have does not work harmoniously. However, there is a continuous effort without the satisfaction of the cooperation agreement. In principle, a harmonious relationship is a key to exchanging knowledge that a party has (Nyadzayo et al., 2015). Franchisors who provide knowledge about the management of a business can be put to good use by franchisees, so that satisfaction arises and can encourage business survivability.

Satisfaction reflects the relationship that exists between both parties. Dissatisfaction with the relationship indicates a conflict that can cause a franchise business to continue in the future but ruin the relationship. The franchisor's role is very important in providing knowledge and business development to make the franchisee able to perform better business performance in the future consistently and continuously, along with the strengthening of the franchisor's reinforcement. Satisfaction is an indication that reflects a harmonious relationship between franchisees and franchisors, so the implication is business survivability. When a business can run continuously in the future, this is due to the development of materials and business strategies needed to improve the performance and performance. A collaboration owned by the franchisor and franchisee can encourage business survivability formed on the strategic achievement of a business in the franchise concept that cannot be separated from the existence of a strategy to encourage the achievement of a goal (Stanworth et al., 2001). One of the business objectives is to encourage an increase in expansion and an increasing number of market shares to increase sales, the expected result is an increase in the number of sales and is directly proportional to the amount of income that is owned. A business with a belief can builds a strategic achievement so that both the franchisor and the franchise can implement the planned strategy in the implementation stage. This achievement is inseparable from the trust and satisfaction during the collaboration between parties along with the cooperation that reflects the balanced relationship that can achieve a strategy by exchanging knowledge through knowledge sharing.

The cooperation relationship between the franchisor and franchisee is an expectation built based on trust to achieve predetermined goals, namely the wider market share that is owned and the income that continues to increase (White, 2010). A business is conjoined with the potential risks that might arise from cooperative relationships with other parties so that a franchisee who wants to have a franchise business and wants to work with other parties, namely

the franchisor, needs to mitigate a relationship. The risks that can arise as a consequence of a business can be mitigated by earlier screening in the contract agreement and franchisees can identify in advance through other parties in gathering information about the franchisor's reputation who has a franchise business (Aliouche & Schlenrich, 2011). A franchisee who collects information in advance regarding franchisor license can minimise a risk. Business legality and information is beneficial for franchisee consideration to create decision, therefore it's being the first screening to establish cooperation (Mainardes et al., 2019). The agreement contract is a vehicle for franchisees to recognise in advance through other parties in gathering information about the franchisor's reputation who has a franchise business. This study has shown that risk management can have a positive and significant relationship to the satisfaction of the cooperative relationship between the franchisee and the franchisor.

This research has proven that the ability to mitigate risk well has a positive effect on satisfaction, meaning that a franchisee who first collects information about the franchisor who has a franchise license can minimise a risk that can arise so that a franchisor is not easy to believe and risk management. The information collected can strengthen the initial information that can increase awareness in managing a business's risks. A business partner needs to know its reputation before signing a contract (Aliouche et al., 2012). Therefore, if a content fan already knows in advance about the franchisor's reputation, this can encourage satisfaction because the information obtained is complete enough so that the possibility of default is getting smaller. Therefore, the satisfaction possessed by the franchisee in a business cooperation relationship increases when carrying out an information search, franchisee needs to conduct research market information so that the information obtained is not only about the reputation of the franchisor, in result the franchisee can predict demand for goods produced or sold when the agreement or contract signed.

A larger market share is an attraction that encourages franchises to make a contract with the franchisor; the wider the market share they have, the greater the business opportunities will be (Doherty, 2009). Cooperation implementation encourages better performance; hence, it reduces opportunistic behaviour from franchisors or franchisees. Risk management is a suitable strategy when one party is not able to conduct according to the signed contract (Liu, 2016). This study indicates that risk management regarding opportunistic behaviour can encourage cooperation carried out by both parties.

This study has proven that risk management does not directly affect business survivability but the satisfaction of the cooperation that exists between the franchisor and the franchise fully mediates the relationship between risk management and business survivability. This study

proves that satisfaction with cooperation reflects the harmonious relationship between franchisors and franchisees, but it does not always have a positive effect on business continuity. Franchises can survive from time to time with a harmonious relationship between franchisors and franchisees. A franchisee needs to mitigate the relationship between the franchisee and the franchisor to avoid opportunistic behaviour. Risk management has a direct effect on business survivability. Cooperation satisfaction that exists between the franchisor and the franchisee does not mediate the relationship between risk management and business survivability (Madanoglu et al., 2019)

Risk management business formation can strengthen franchisees against losses caused by testing new business formulations, testing business formulations does not necessarily show success in several circumstances (Perrigot et al., 2014). Risk management is also a significant factor to reduce a loss from incomplete information. Franchisees should look for a franchisor with a good reputation. When a franchisor has a good reputation, this can be related to the business survivability. When a franchisee cannot maintain the current business capital or the number of requests is decreasing, this can encourage a business to close faster than the time predicted. A franchisee needs to obtain comprehensive information to obtain the capabilities and capacities of the franchisor in assisting the transition of the business survivability (Nugroho, 2015). Adaptability and an ideal business model are important components in determining the sustainability of a business in the future. Risk management attempts to collect complete information regarding business reputation with a significant relationship with the business survivability of one party (Fraser & Simkins, 2016). The results of this study are consistent with previous research, namely strengthening the relationship between risk management on cooperation satisfaction and business survivability. A business cannot stand by itself, so there is a need of support from other parties-the franchisors or the franchises to rectify risk management and relationship to sustain the business in the long term.

Conclusion

This study has addressed the problems in examining the relationship between determinants on the franchise business survivability in Indonesia, especially in the retail dan f&b sectors. There are some evidence based on both parties' perspectives that by acquiring risk management scheme in assessing risk of conflict will have a positive influence on the franchise business survivability. The next is that the study also shed a light in how the other determinants, the risk management also have a positive contribution in obtaining the partners' satisfaction in enduring their relationships, this shows that if each partner or party aware of conflicts that may occurred, they will comply with the contract and provide the alliances with feeling of contentment in each

party. Trust also plays a positive role in providing each partner with level of satisfaction, this will affect in how they will work together in the alliances to reach the goals of the businesses. On the other hand, there are two hypotheses that are not supported, these are the relationship between satisfaction and survivability and the relationship between trust and survivability, this phenomenon provides franchise business formation with evidence that led to provide more and continuous risk management scheme in the strategic alliances such as franchising. The risk management, especially in non-financial aspects can be a strategic and pertinent determinant to ensure the franchise formation reaches its goals and objectives as a continuous business. This study also demonstrates that trust and satisfaction perhaps is not sufficient in ensure the businesses will survive in long term period, it needs risk management schemes and approach to provide partners with insight in identifying risks to avoid conflict that can lead to businesses termination.

Suggestions

This research can be a valuable source for franchise businesspeople to build a solid relationship between franchisors and franchisees Franchise businesses are encouraged to adopt a risk management scheme to enhance their franchise business survivability. This research provides a guideline to strengthen their business strategy and achieve continuous business performance. This research also examined antecedents of business survivability; in the future, another research needs to offer analysis using other determinants so that it can provide the franchising area with more broad variations of determinants that might have impact on improving the franchise business survivability

Appendix A. Research Instrument

Risk Management

| Indicator | Code | Statement | Reference |
|--------------------------|------|--|------------------------|
| Pre-investment screening | Pre | The business reputation of a potential business partner is important before starting a business partnership. | Grace et al., 2013 |
| Due diligence | Due | Before signing a franchise agreement, I must find information about potential business partners (via the internet, business colleagues, business associations etc.). | Blut et al., 2011 |
| Market demand | Mrk | Before starting a franchise there is no need to conduct a market survey. | Anderson & Weitz, 1992 |
| Opportunistic behaviour | Opp | Opportunistic behaviour (behaviour that is not in accordance with the franchise agreement) sometimes appears in franchise agreements. | Winsor et al., 2012 |

Franchisor Franchisee Satisfaction

| Indicator | Code | Statement | Reference |
|------------------------|------|---|--|
| Resource Access | Acc | There are no problems accessing my colleague's resources | Palmatier, 2006 |
| Communication openness | Com | My business associates are available for open communication | Grace et al., 2013; Bordonaba-Juste et al., 2011 |
| Perceived Conflict | Con | I am aware that conflicts can arise in franchise agreements | Grace et al., 2013 |
| Support | Sup | I get enough support from my business partners. | Palmatier, 2006; Grace et al., 2013 |

Survivability

| Indicator | Code | Statement | Reference |
|-----------|------|-----------|-----------|
| | | | |

| | | | |
|--|--------|--|---|
| Strategic Achievement | S. Acv | Periodically setting business targets and milestones is not important | Stanworth et al., 2001 |
| Business formula testing | BFtest | The business formula test is important in a franchise business | Stanworth et al., 2001 |
| Franchise expectations and core competency fit or misfit | FECC | The expectations and competencies of my business associates are immaterial | Holmberg dan Morgan, 2004; Davies et al., 2011; Winsor et al., 2012 |
| Partners' complaint and legal action | PrtcL | If there are complaints and disputes, I will seek legal advice | Holmberg dan Morgan, 2004; Boulay, 2010; Davies et al., 2011; Winsor et al., 2012 |

Appendix B. Questionnaire and Scale

| No | Question | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|----|--|-------------------|----------|---------|-------|----------------|
| 1 | The business reputation of a potential business partner is important for me before starting a business partnership. | | | | | |
| 2 | Before signing a franchise agreement, I must find information about potential business partners (via the internet, business colleagues, business associations etc.). | | | | | |
| 3 | Before starting a franchise there is no need to conduct a market survey. | | | | | |
| 4 | Opportunistic behaviour (behaviour that is not in accordance with the franchise agreement) sometimes appears in franchise agreements | | | | | |
| 5 | There are no problems accessing my colleague's resources | | | | | |
| 6 | My business associates are available for open communication | | | | | |
| 7 | I am aware that conflicts can arise in franchise agreements | | | | | |
| 8 | I get enough support from my business partners | | | | | |
| 9 | Periodically setting business targets and milestones is not important | | | | | |
| 10 | The business formula test is important in a franchise business | | | | | |
| 11 | The expectations and competencies of my business associates are immaterial | | | | | |
| 12 | If there are complaints and disputes, I will seek legal advice | | | | | |

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