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Dans Revue de l'Entrepreneuriat / Review of Entrepreneurship 2019/3 Vol. 18 , pages 199 à 226
Éditions Académie de l'Entrepreneuriat et de l'Innovation

**ISSN 1766-2524**

**ISBN 9782807393080**

**DOI 10.3917/entre.183.0199**

**Date de mise en ligne : 04/12/2020**

Revue de l'Entrepreneuriat

N° 3-4, vol. 18, 2019





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*Acknowledgments*

*We gratefully acknowledge the financial support of the French Franchise Federation (FFF). We thank Editors Didier Chabaud and Sylvie Sammut and the anonymous reviewers for their comments.*

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**This paper investigates the mediating role of innovation in the relationship between franchisors' entrepreneurial orientation and performance within franchise networks. Franchising is an entrepreneurial partnership between franchisors who have responsibility for developing the system, and franchisees who execute standardized practices and procedures set out by their franchisors**

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**whilst seeking to improve their unit performance through local adaptations. We employed a questionnaire survey to collect data from a sample of franchisors operating in France. Using path analysis, a sub-part of structural equation modelling, we provide evidence that franchisors' entrepreneurial orientation is positively related to franchise network performance. In addition, we show that this relationship is mediated by innovation outputs. These relationships are moderated by the network's experience in franchising, which suggests that being new is a liability for young networks. These relationships also depend on the type of innovation introduced—"front-office" versus "back-office" innovations. In particular, our results show that the positive relationship between front-office innovations and franchise network performance is negatively moderated by the franchising rate. Overall, these results suggest that franchisors should achieve a strategic alignment between entrepreneurial orientation and organisation structure in order to manage entrepreneurial tensions and enhance network performance.**

- *Keywords: entrepreneurial orientation, franchising, innovation, path analysis, performance*
- *JEL classifications: L25, L26, O31*

## Introduction

Entrepreneurial orientation (EO) has been shown to have positive effects on firm performance within different organisational contexts (Rauch, Wiklund, Lumpkin and Frese, 2009; Saeed, Yousafzai and Engelen, 2014), such as in small and medium-sized firms (Baker and Sinkula, 2009; Lechner and Gudmundsson, 2014; Runyan, Droge and Swinney, 2008), in young innovative ventures (Renko, Carsrud and Brännback, 2009), in spin-offs (Helm, Mauroner and Dowling, 2010), or in established firms (Su, Xie and Li, 2011). Despite the recent increase in the number of studies devoted to exploring EO in the franchising context (Dada and Watson, 2013a-b; Dada, Watson and Kirby, 2015; Grünhagen, Wollan, Dada and Watson, 2014; Watson, Dada, Grünhagen and Wollan, 2016), questions remain unanswered concerning the EO–performance relationship. In particular, despite a few recent studies (e.g. Lisboa, Skarmeas and Saridakis, 2016), we still do not know much about how EO is related to performance.

Focusing on business-format franchising, this study extends recent research by Dada and Watson (2013a) and Grünhagen, Wollan, Dada and Watson (2014) in which EO was found to have a positive impact on the performance of franchise networks, by investigating the mediating role of innovation in the EO–performance relationship. The context of franchising is arguably unique because "franchising is an entrepreneurial paradox" (Watson and Dada, 2017: 17). Franchisees are neither full-time employees nor independent entrepreneurs, which can create entrepreneurial tensions between franchisors and franchisees. In particular, innovation management in franchising is paradoxical because franchisors have to maintain system standardisation and integrity without thereby limiting the franchisee's desire to innovate (Dada and Watson, 2013b). Thus, a central challenge for franchise networks is to find the right balance between, on the one hand, developing an EO and enhancing innovations in the network for the purpose of adaptation and, on the other, maintaining uniformity of the system through conformity.

Helm, Mauroner and Dowling (2010) argue that innovation is the mechanism that links EO and performance. Innovation is often perceived as a key factor for firm survival (Hamel, 2000; Schumpeter, 1942). Innovations may involve the launch of a new product or service into the market, the use of new procedures, or the creation of a new organisation or new marketing methods (OECD Oslo Manual, 2005). In the retail and service industries, commercial innovations are

particularly important, notably affecting areas such as promotional events, concepts, and customer interfaces.[1]

This paper contributes to the literature on EO and performance in three ways. First, in developing our hypotheses, we build on the EO literature to explore variables that drive franchise networks to introduce innovations. The EO literature represents an extensive and coherent body of work dealing with innovation as a central issue. Innovation is by itself a component of the EO construct, but, as discussed by Bénézech, Karcher and Garcia (2013), this component was originally confined to product innovation and does not encompass all the facets of innovation. Furthermore, following Pérez-Luño, Wiklund and Valle Cabrera (2011), we argue that the innovativeness and innovation dimensions are not sufficiently disentangled in the EO research. This stream of research has put both innovation outputs and innovativeness—the firm's innovation orientation or readiness to support creativity, novelty, technological leadership and R&D—on equal footing, without considering if these innovation outputs are the result of an EO. In other words, the EO literature has not discriminated between the willingness to innovate and the capacity to innovate—measured through innovation outputs. Our research helps re-examine this issue. It also includes a broad measure of innovation as mediator in the EO–performance relationship. This broad measure allows distinguishing between two types of innovations. Front-office innovations—innovations that are visible to customers and based on competences at the outlet level—may impact the uniformity of brand image and may be more risky for the franchisor than back-office innovations.

Second, our study of the triad EO–innovation–performance extends previous studies that have focused on the direct relationship between an organisation's strategic orientation and its capacity to produce innovations or to improve performance (Hakala, 2010; Paladino, 2007). It complements other studies that focus on EO and innovation (Bénézech, Karcher and Garcia, 2013) and shows that innovation can be considered as a mediator in the EO–performance relationship in some contexts. Following recent works by Dada and Watson (2013a-b) and Grünhagen, Wollan, Dada and Watson (2014), we study these relationships in the context of franchise networks, in which entrepreneurial tensions have to be managed. Indeed, it is unknown whether a franchisor's EO can facilitate the introduction of a particular type of innovation, or whether such innovation leads to an improvement in the franchise network performance. Using self-reported data from a sample of 98 franchisors from France, the present paper broadens the scope of prior franchising studies. The aforementioned studies measure system EO (that is, network EO) at the franchisee level. We consider that the franchisor's EO and the franchisees' EO have to be distinguished and we focus on franchisor's EO. Faced with franchisees who seek autonomy in the operation of their local outlets (Kidwell, Nygaard and Silkoset, 2007), the issue is to know whether the franchisor's EO, by stimulating the overall network EO, can impact network innovation and performance. In SMEs, the answer might appear to be positive, as EO is by nature and construction linked to innovation (Bénézech, Karcher and Garcia, 2013) and as there is a tendency to view entrepreneurship as something that is fundamentally good, which firms should always pursue (Wiklund, 1999). In franchise networks the issue is more uncertain, due to the contradiction between, on the one hand, innovation and the unleashing of franchisees' desire to innovate as allowed by a strong EO, and, on the other, the need to maintain system standardisation.

1. In this paper, we use the term 'innovation' to describe major changes aimed at enhancing the firm's competitive position, performance, know-how, and capabilities for future enhancements. Innovation is thus considered as a purposive action or deliberate project that franchisors pursue voluntarily or involuntarily (following changes in regulatory policies).

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The proposition that the strength of the relationship between EO and performance is dependent on internal characteristics of the firm (Wiklund and Shepherd, 2005) is hence particularly relevant in the franchising field. As a third contribution, we complement previous studies by considering the moderating impacts of the franchising rate and the franchisor's experience in the relationships between EO, innovation and performance. A high use of franchising in the network can threaten the franchisor's control over its network and the successful introduction of innovation (Gillis, Combs and Ketchen, 2014), whilst a weak experience in franchising can impede the transformation of EO into innovation and performance.

The article is organised as follows. In the next section, we present the theoretical background and define testable hypotheses. We then describe the data and the methodology used for the econometric estimations. The results are subsequently presented and discussed. A concluding section presents the managerial implications and the limitations of our findings, and highlights avenues for future research.

## 1. Theoretical background and hypotheses

We provide a review of existing literature regarding the relationships between EO, innovation and performance in franchise networks and then develop our hypotheses that guide our empirical strategy.

### 1.1. Innovation and performance in franchise networks

Several studies have highlighted the positive relationship between a company's innovation and its performance (Geroski, Machin and Van Reenen, 1993; Gunday, Ulusoy, Kilic and Alpkan, 2011; Han, Kim and Srivastava, 1998; Rosenbusch, Brinckmann and Bausch, 2011; Therrien, Doloreux and Chamberlin, 2011). However, to the best of our knowledge there is no previous study dealing with innovation and performance within the franchising context. To avoid a decline in business, franchisors must invest in innovation and the renewal of their business concepts. According to Szulanski and Jensen (2008), the exact replication of existing know-how engenders greater growth than innovation and adaptation to local markets. These authors assert that innovation in franchise networks can only succeed if there is an in-depth understanding of the know-how and conditions required to implement this innovation in new markets. Other studies have shown that change and innovations are often sources of tension in franchise networks (Kaufmann and Eroglu, 1999; Watson, Stanworth, Healeas, Purdy and Stanworth, 2005), and therefore have negative effects on the long-term success of the franchise system (Dada and Watson, 2013b). Moreover, it is relevant to assume that some types of innovations may be more beneficial than others (Damanpour, Szabat and Evan, 1989; Rosenbusch, Brinckmann and Bausch, 2011).

Hence, in the light of the above discussion, we expect that innovation will be positively related to franchise network performance, but that this relationship will prove to be substantially context dependent. Thus, we hypothesise a positive relationship between innovation and franchise network performance (H1):

> H1: Innovation introduced by the franchisor is positively related to the franchise network performance.

The outcomes of innovation may differ depending on the franchising rate of the network. In the context of mixed franchise networks—including both franchised and company-owned

units—Bradach (1997, 1998) has pointed to the advantages generated by this structural mix in terms of innovation. Indeed, according to Bradach, this organisational form allows global adaptation to create a new generation of concepts. A process of mutual adaptation takes place: company-owned units make it easy for the franchisor to test innovations before they are extended to the franchisees. Thus, this process facilitates the creation, testing, selection, and application of new ideas. Franchisees who monitor the local competition and possess an intimate knowledge of their market (Weaven and Frazer, 2007), put pressure on franchisors to secure the necessary adaptations, thus favouring innovation. Gillis and Combs (2009) emphasised the ability of franchisees to create value through the generation of innovations. Therefore, mixed networks should influence not only the introduction of new innovations, but also the relationship between innovation and performance. Indeed, if plurality facilitates innovation management within the network, then it should also have a positive effect on the relationship between innovation and the franchisor's performance.

However, "a disproportionate increase of the proportion of franchised units can make it difficult for the franchisor to reap additional values by leveraging the advantages of each organizational form" (El Akremi, Perrigot and Piot-Lepetit, 2015: 152). The authors add that when the franchising rate increases, the franchisors' risk of losing control over business processes also rises. Further, too much franchising can increase variability among units to the point that it weakens a franchisor's ability to sustain and leverage organisational assets (Gillis, Combs and Ketchen, 2014). A high level of company ownership, in contrast, promotes standardisation and guarantees valuable replication. This may help to diffuse novelty in the entire network while maintaining uniformity.

Watson, Dada, Grünhagen and Wollan (2016) suggest that organisational identification by franchisees has important implications for franchise performance. Organisational identification occurs when an individual's (franchisee's) beliefs about the organisation (franchise system) becomes self-referential or self-defining (Ashforth and Mael, 1989). In their empirical study, the authors find that the franchise system performance is positively affected where the franchisor seeks to select franchisees whose entrepreneurial values are congruent with those of the system. Following Gillis and Combs (2009), Watson, Dada, Grünhagen and Wollan (2016) suggest that different franchise strategies may lead to differences in the most appropriate levels of innovation. For mixed franchise networks (chain builders), developing an entrepreneurial identity (with many innovations) should be most appropriate, whilst turnkeys (entirely franchised) will benefit from maintaining a highly standardised system (with few innovations). Chain builders, who juggle the competing needs for standardisation and innovation, attempt to develop a resource mix that helps achieve innovation and adaptation while maintaining standardisation. To benefit from their franchise strategy, these systems should promote innovation and change and encourage franchisees "to unleash their entrepreneurial spirit by experimenting and finding new ways to meet local demand" (p. 558). In contrast, turnkeys perform better by investing in operating routines and should, hence, maintain a highly controlled system (low level of innovation) because their critical strategic resource is a set of valuable operational routines.

Hence, the following hypothesis can be formulated:

H1a: The franchising rate negatively moderates the relationship between innovation and performance.

This negative impact of franchising rate on the innovation–performance relationship should be especially strong where innovations are visible to customers (front-office innovations) and directly affect the interaction between the franchisees and the customers. Conversely,

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the moderated impact of the franchising rate may be attenuated regarding nonvisible innovations (back-office innovations), where the interaction between the franchisees and customers, although potentially indirectly affected, is not at the core of the product or service sold.

### 1.2. Franchisor's entrepreneurial orientation and innovation

EO relates to the behavioural processes that are essential to penetrate new or existing markets with new or existing goods, particularly in dynamic competitive environments. There has been some debate in the entrepreneurship literature regarding the dimensions of EO (Basso, Fayolle and Bouchard, 2009; Hansen, Deitz, Tokman, Marino and Weaver, 2011). However, the strongest academic consensus (Wiklund and Shepherd, 2005) appears to be around the following three dimensions, originally posited by Miller (1983), and on which most EO studies have focused (Grünhagen, Wollan, Dada and Watson, 2014; Miller, 2011): innovativeness, proactiveness, and risk-taking (Covin and Lumpkin, 2011; Wiklund and Shepherd, 2005). Innovativeness is thus a dimension of EO. Furthermore, in the original construct, it is measured through elements akin to product innovation. Consequently, EO and innovation are related by definition from the outset.

The three attributes of innovativeness, proactiveness, and risk-taking form the framework of EO in the context of this research. However, as outlined by Harms (2013: 412), EO refers to a strategic orientation and, as a construct that reflects a type of dominant logic, "EO itself is inert; it does not 'act', but it provides a framework for action". As a consequence, it is important to disentangle innovation (the "act") and innovativeness (readiness to innovate). This distinction leads us to use innovation as an independent construct, in a broader sense, and to examine the issue of the transformation of an EO into innovation outputs.

To shed light on the role of EO in the context of franchising, two predominant perspectives on EO have been adopted in previous studies: the unidimensional perspective and the multidimensional perspective. Consistent with the recommendations of Bénézech, Karcher and Garcia (2013) in the study of the EO–innovation relationship, and with the vast majority of the extant EO research (Wales, 2016) and previous studies of EO within franchise organisations (see Dada and Watson, 2013a-b and Grünhagen, Wollan, Dada and Watson, 2014), we consider a unidimensional perspective on EO, which emphasises the common effect of the dimensions of EO on performance.

Few studies have focused on the issue of EO in the franchising context (Dada and Watson, 2013a; Falbe, Dandridge and Kumar, 1998; Grünhagen, Wollan, Dada and Watson, 2014). However, a positive relationship between EO and innovation has been shown in different contexts. Bénézech, Karcher and Garcia (2013) have found a positive link between EO and all innovation activities (from R&D to new marketing methods) in SMEs. As outlined by these authors, the relationship between EO and innovation is quite obvious if we consider the innovativeness dimension of EO, and there is no need to mobilize theoretical arguments on this point. Nevertheless, other dimensions of EO can also be linked to innovation. Pérez-Luño, Wiklund and Valle Cabrera (2011) have shown that proactiveness and risk-taking influence the number of innovations generated by innovative firms. The authors argue that, since proactiveness is defined as the willingness to initiate actions that competitors respond to, proactive firms will be involved in innovative processes (Covin and Slevin, 1989) and will tend to promote innovation adoption and generation. Further, innovation generation is fundamentally risky (Zhou, 2006) and firms that have an orientation towards risk-taking will weigh the potential benefits of innovation generation more positively than more risk-averse firms (Pérez-Luño, Wiklund and Valle Cabrera, 2011). Although standardisation is at the core of franchising, these arguments also apply to franchisors.

Hence, building on these arguments and previous EO literature, we predict that the franchisor's EO has a positive impact on the introduction of innovations in their networks. Therefore, we formulate the following hypothesis:

H2: The franchisor's EO is positively related to network innovation outputs.

The relationship between EO and innovation outputs may depend on the network's experience in franchising. Indeed, their newness is a liability for young companies (Freeman, Carroll and Hannan, 1983; Stinchcombe, 1965). According to Stinchcombe, new organisations suffer from the liability of newness in so far as they face different barriers that must be overcome to succeed. They have less developed knowledge of the markets and customers, which may lead them to adopt inefficient practices (Ramaswami, Srivastava, and Bhargava, 2009). Moreover, they have fewer resources to develop innovative projects. In contrast, well-established companies benefit from specific knowledge of their sector, significant financial resources and greater experience, which may enable them to transform their EO into innovative capabilities and to introduce more innovations. This means that experience in franchising may have a moderating effect on the relationship between EO and the innovation outputs. Hence, we formulate the following hypothesis:

H2a: The experience in franchising positively moderates the relationship between the franchisor's EO and innovation outputs.

### 1.3. Franchisor's entrepreneurial orientation and performance

The theoretical relationship between EO and performance has received a great deal of attention (Alegre and Chiva, 2013; Zahra and Covin, 1995). Firms may benefit from adopting an EO because most of them evolve in an environment of rapid change and shortened product and business model lifecycles. Hence, the future profit streams from existing operations are uncertain and businesses need to constantly seek out new opportunities (Rauch, Wiklund, Lumpkin and Frese, 2009). Companies with a high EO adopt behaviours that are stimulated by the search for higher profits (Li, Zhao, Tan and Liu, 2008) in a way that promotes and supports their competitive positions (Covin and Miles, 1999; Knight, 1997). High EO is closely related to first-mover advantages and the tendency to take advantage of emerging opportunities, which ultimately may have a positive influence on performance (Michael, 2003).

Several empirical studies have confirmed that there is a positive link between EO and firm performance. Based on a meta-analysis of 51 empirical studies, Rauch, Wiklund, Lumpkin and Frese (2009) conclude that the correlation between EO and performance is quite significant and that this relationship is robust in respect to the different operationalisation and cultural contexts. However, building upon 177 studies with data from 41 countries, Saaed, Yousafzai and Engelen (2014) have shown that national cultural and macroeconomic drivers impact the EO–performance relationship. Moreover, some studies find no significant relationship between EO and performance (Li, Zhang and Chan, 2005; Stam and Elfring, 2008), others a negative effect (Hart, 1992), and yet others a curvilinear relationship (Tang, Tang, Marino, Zhang and Li, 2008). This ambiguous empirical evidence suggests that the effect of EO on performance may be context-specific, or that there are mediators in the relationship between EO and performance (Harms, 2013; Lumpkin and Dess, 1996).

Despite the recent works by Dada and Watson (2013a) and Grünhagen, Wollan, Dada and Watson (2014), the relationship between EO and performance has received little attention in the specific context of franchise networks. While franchisors endeavour to maintain

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standardisation and control over their franchisees to protect the brand reputation, franchisees look for autonomy in operating their local units (Dada, 2018; Kidwell, Nygaard and Silkoset, 2007). However, increased levels of autonomy for franchisees may raise the costs associated with the agency problems (free-riding in particular) associated with all franchisor–franchisee dyads (Cochet, Dohrmann and Ehrmann, 2008). Free-riding behaviour damages the brand reputation and can thus impact the network survival. Thus, free-riding can negatively impact the performance of the franchise network.

An alternative view of franchisees' behaviours is offered by stewardship theory and organisational identity theory. Unlike agency theory, which views the franchisee as a cheating and untrustworthy agent (Dada and Watson, 2013b), stewardship theory "defines situations in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals" (Davis, Schoorma and Donaldson, 1997: 21). Franchisees may become stewards of the system when they identify with it (Watson and Dada, 2017), accepting its missions, vision and objectives. In a franchise, identification is strong because franchisees select their franchisor from an array of different franchise opportunities.

Dada and Watson (2013b) used stewardship theory and organisational identity theory to study the quality of franchise relationship (a non-financial measure of performance). The authors show that franchise systems that develop an EO, and recruit entrepreneurial franchisees, enjoy better relations with their franchisees. Entrepreneurial tensions are intrinsic in franchising and they have to be managed to maximise network performance. The franchisor's desire for standardisation across the franchise network and the franchisee's desire for entrepreneurial behaviour needs to be balanced in order to maximise the performance of the entire system. These entrepreneurial tensions should be lower when the franchisors develop an EO because the EO of the franchise system is positively related to relationship quality, which is a central aspect of system performance (Dada and Watson, 2013b). However, not all franchisees are entrepreneurial, and in cases of mismatch between franchisor's and franchisees' EOs, a higher EO of the franchisor might not lead to high performance.

Hence, it is not clear whether the positive relationship between EO and performance should extend to the franchising context. However, building on previous arguments, and despite there being some factors which might attenuate the positive relationship between EO and performance in the specific franchising context, we propose the following hypothesis:

H3: The franchisor's EO is positively related to the franchise network performance.

As mentioned above, young companies may suffer from a liability of newness and the EO–performance relationship differs between young and well-established companies. Young franchise networks may lack resources and may not have the necessary means to back up a high EO. Furthermore, these networks have not yet been able to build up their legitimacy and social links, two highly important dimensions in making the most of EO (Zimmerman and Zeitz, 2002). Conversely, well-established franchise networks require an EO to identify new opportunities in the market and further develop their competitive advantages.

We therefore suppose that the positive direct impact of EO on performance will differ depending on the franchisor's experience in franchising, which will thus have a moderating effect. Hence, the following hypothesis can be formulated:

H3a: Experience in franchising positively moderates the direct relationship between the franchisor's EO and performance.

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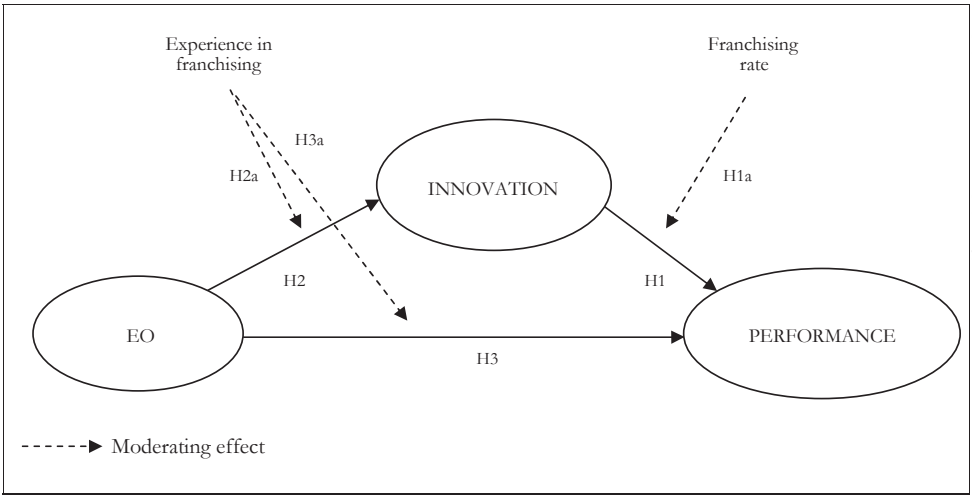
Elsewhere, studies have shown that innovation acts as a variable that mediates the effect of EO on performance in the context of small companies (Baker and Sinkula, 2009), fast growth technology-based ventures (Harms, Reschke, Kraus, and Fink, 2010), ceramic tile producers (Alegre and Chiva, 2013), or spin-offs (Helm, Mauroner and Dowling, 2010).

Drawing on these analyses and on the development of hypotheses H2 and H3, we expect that a franchisor with a high EO will look for new opportunities, which may lead to high performance if that innovation process succeeds and the innovations are effectively introduced in the network. Accordingly, we propose that the relationship between a franchisor's EO and performance is partly mediated by innovation outputs, and we will test this.

Figure 1 presents our research model.

**Figure 1.** The research model




## 2. Method

We describe the data and explain the methodology used in this research. We first describe where and how we collected the data and then we describe the variables used. Next we present and explain the specification tests and the choice of the relevant models.

### 2.1. Sample and data collection

We use a unique primary data set, based on a survey of French franchisors conducted between December 2013 and May 2014 (see Appendix for questionnaire excerpts). During the first two weeks of December 2013, questionnaires were sent by email to the CEO or founders of all of the franchisors listed in the directory compiled by the French Federation of Franchising. A total of 600 networks' CEOs were contacted. Two follow-up emails and/or messages via the social network LinkedIn were sent around 20 December 2013 and at the beginning of January 2014. One of the research team members also attended a Franchise Show in March 2014 to administer questionnaires to franchisors with stands at the event. In total, we received 98 completed questionnaires (response rate of 16.3%). The response rate was considered adequate

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and consistent with the 10–12% response rate typical for similar surveys (Hambrick, Geletkanycz and Fredrickson, 1993; Grünhagen, Wollan, Dada and Watson, 2014; Simsek, Heavey and Vega, 2010). Two important issues associated with the survey methodology are non-response bias and common method variance. A non-response bias analysis was conducted by comparing early versus late responses. We also conducted T-test comparisons between mail survey respondents and face-to-face survey respondents. We found no statistically significant differences in the mean responses for the constructs that were measured in the study.

A common method variance problem can occur from collecting both dependent and independent variables from the same respondent in the same survey (Li, Zhao, Tan and Liu, 2008) and can threaten the psychometric properties of questionnaire measures (Tepper and Tepper, 1993). Since this study relied on single respondents to assess all of our study's constructs, this approach may introduce a common method bias. Various procedural and statistical techniques have been recommended in the literature in order to address concerns relating to common method biases. For our study, response anonymity and confidentiality was guaranteed to reduce respondents' evaluation apprehension, a procedural technique suggested by Podsakoff, MacKenzie, Lee and Podsakoff (2003), and adhered to in prior studies such as Wang (2008). Although the use of procedural techniques can minimise or completely eliminate the potential effects of common method variance on research findings, we also employed an additional statistical technique involving the Harman one-factor test (Podsakoff and Organ, 1986; Podsakoff, MacKenzie, Lee and Podsakoff, 2003), which has been used in several studies (e.g. Avlonitis and Salavou, 2007; Li, Zhao, Tan and Liu, 2008; Rhee, Park and Lee, 2010; Wang, 2008). As described in Podsakoff, MacKenzie, Lee and Podsakoff (2003), all items from all of the constructs in our study were included in a factor analysis. The results yielded 3 factors, which accounted for 89% of the total variance, with the first factor accounting for 46% of the variance[2]. Therefore, no single factor emerged from the factor analysis and none of the factors accounted for the majority of the variance. These results demonstrate that common method variance is unlikely to be a major problem in our data, and provide support for the validity of the measures used in this study.

**Table 1.** Characteristics of the sample

| Franchise networks characteristics | Mean (N = 98) | Std. Dev. | Min | Max |
|---|---|---|---|---|
| Network age | 14.93 | 12.42 | 0 | 56 |
| Number of employees | 2005.92 | 10594.52 | 0 | 100000 |
| Number of retail outlets | 307.83 | 1422.37 | 1 | 14000 |
| Number of owned units | 85.29 | 509.66 | 0 | 5000 |
| Number of franchised units | 204.26 | 928.96 | 1 | 9000 |
| Percentage of new franchisees | 48.49 | 33.40 | 0 | 100 |

The various sectors of the franchise networks included "services to individuals" (23%), "hotels and restaurants" (16%), "trade" (12%), "construction" (9%) and "prêt à porter" (9%). This

2. This test also supports the discriminant validity of the constructs, as the first factor relates to the 6 performance items, the second factor to the 7 innovation items, and the third factor to the 7 EO items (including innovativeness).

is a good representation of the total franchise market in France. Additional characteristics of the sample are presented in Table 1.[3]

## 2.2. Variables and measures

The independent variable, franchisor's EO, was measured taking into account three dimensions: innovativeness, proactiveness, and risk-taking (Lee, Lee and Pennings, 2001; Wiklund and Shepherd, 2005). Following Dada and Watson (2013a-b) and Grünhagen, Wollan, Dada and Watson (2014) in the organisational context of franchising, we adopted a unidimensional and reflective approach to EO. A 7-point Likert scale (see Appendix) was used for each of the seven components that measure EO in constructing this variable (alpha = 0.74; Composite reliability (CR) = 0.90; Average Variance Extracted (AVE) = 0.59). To measure this EO variable, we adapted the scale from Covin and Slevin (1991) by re-wording it to specifically fit the franchisor perspective. However, for the innovativeness dimension we retained only one item.[4] Our construct, focused on the three dimensions of EO, appears to be the one that enjoys the strongest consensus in the literature (Grünhagen, Wollan, Dada and Watson, 2014).

To measure innovation in franchise networks, we adopt a systemic or integrative approach to service innovation, which allows us to consider innovation in product and services in the same framework (Gallouj and Weinstein, 1997; Gallouj and Toivonen, 2011). All retail networks comprise two dimensions (Dioux and Dupuis, 2009): (i) the front-office, which can be directly perceived by the consumer and might include a new store concept, new types of customer relations or advice, or a new type of service; and (ii) the back-office, of which the consumer is in most cases unaware and which might include supply methods such as e-market places, cold chains, systems for the distribution and breakdown of goods, or data-processing systems. Different types of innovation can be identified within franchise networks (product, service, process, organisational innovations, etc.), so it is possible to apply this distinction to innovation outputs in franchise networks. This distinction between front-office and back-office innovation is also found in the literature on innovation (e.g. Gallouj and Weinstein, 1997) and our measurement is close to the division proposed by Gallouj and Toivonen (2011) for services innovation. This distinction is important for our study of the EO–performance relationship because back-office innovation, invisible to consumers and not essentially based on franchisee competence, will therefore not impact the uniformity of brand image. Back-office innovation is mostly related to the franchisor's competences, even if the franchisee–customer relationship can be affected by this innovation. In contrast, front-office innovation is directly perceived by the consumer and is more likely to impact the uniformity of brand image. Front-office innovation, more than back-office innovation, is also based upon franchisees' competences and characteristics and dependent on it. This innovation is thus riskier as the franchising rate increases, in particular because the diffusion of innovations to all franchised units might not be uniform.

3. Although the sample includes networks with different experience in franchising (network age), low-experience networks are not different from high-experience networks regarding their EO and performance. High-experience networks (more than 5 years of experience) are only slightly more innovative than low-experience networks.

4. In the original scale of Covin and Slevin (1991), innovativeness includes 3 items, but 2 of these 3 items directly relate to innovation, not to innovativeness. To test if the inclusion of the innovativeness item alone affects the consistency of our measure, we compared our measure with a measure including one supplementary item very close to the original measure of Covin and Selvin (1991). This item asks each respondent if "compared to initial products and services offers, changes introduced by innovation [in the last five years] in products or services have been of minor or major nature". All our statistics confirm that inclusion of this item does not fundamentally change the measure and does not bring any improvement. So, we kept our seven-items measure, which clearly distinguishes between innovation and innovativeness.

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We constructed an overall innovation variable based on the different categories of innovation introduced by each franchisor over the last five years (or since the network was created) (see Appendix). Similarly to the EO measure, we adopted a unidimensional reflective approach to innovation. A 7-point Likert scale ranging from 1 (no innovation introduced) to 7 (a large number of innovations introduced) was used to measure the intensity of the different innovation types and thereby determine an overall innovation scale (Cronbach's alpha = 0.82; CR = 0.87; AVE = 0.50). All the items of innovation load on to a unique factor, and our innovation measure is unidimensional. However, because front-office innovation is visible to customers, it may impact the uniformity of brand image more than back-office innovation. Hence, for front-office innovation more may be at stake regarding uniformity of the network concept. So we also distinguished between front-office innovations (product, service, commercial, format/concept: alpha = 0.67; CR = 0.80; AVE = 0.51) and back-office innovations (process, organisational, logistical: alpha = 0.74; CR = 0.85; AVE = 0.66).

We used a subjective growth-oriented measure of performance (De Clercq, Dimov and Thongpapanl, 2010; Tang, Tang, Marino, Zhang and Li, 2008; Wang, 2008). This measure was based on an assessment of the growth of business indicators over the last five years (or since the network was first established), whether in commercial or accounting terms (revenue, recruitment, number of customers, market share, profits and number of retail outlets). The items that reflect this scale refer to different facets of network's growth. They exhibit conceptual unity and thus provide a coherent set to apply our unidimensional (reflective) measurement (see Appendix; Cronbach's alpha = 0.94; CR = 0.96; AVE = 0.79). Since our dependent variable is a subjective growth-oriented measure of performance, we adopted one supplementary step to ensure its measurement validity. This involved correlating the subjective growth-oriented measure with one objective financial measure of growth: the average growth of the total assets of the franchisors over the 2010–2013 period (calculated from Diane-Bureau Van Dijk database). Consistent with our expectations, the measures were significantly and positively correlated (0.3268) at the 0.05 (2-tailed) significance level.

The Cronbach's alpha and the composite reliability (CR) are used to test the reliability of our scale. The alpha is very close to (for front-office innovation) or above (for all others) the recommended value (0.7) for each measure, and the CR is systematically above this threshold. Average extracted variances are all above the acceptable level of 0.5, and very good (> 0.7) for the performance scale. These assess the convergent validity of our scales. Discriminant validity can be assessed by comparing the square of correlations between pairs of constructs and the average variance extracted of each construct (Fornell and Larcker, 1981). Table 2 presents the correlation matrices between our main variables and reports the CR and AVE. Clearly the squared correlation between pairs is far from the AVE of each construct, which assesses the discriminant validity of our constructs.

The franchising rate was measured as the number of franchised units divided by the overall number of outlets in the network.

The experience in franchising measures the number of years since the franchising network was first opened. To distinguish between young and well-established networks, we applied a threshold beyond five years to create two network categories. When a franchise network has been in existence for more than five years, it was categorised as well-established; otherwise, it was categorised as young.

We controlled for the network size and for the business sector. The network size was measured using the total number of units (franchised and company-owned units). In terms of

business sector, we created 8 dichotomous variables using the following categories: domestic goods, prêt à porter, other trade, automobile services, construction and real estate, services to individuals, business services, and hotels and restaurants.

Table 2 presents the matrix of correlation for the main variables included in the regression relating to overall innovation. The correlations between the main variables are moderate and multicollinearity should not be of concern.[5]

**Table 2.** Correlation Matrix, Composite Reliability and Average Variance Extracted

| | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| 1. Entrepreneurial Orientation | 1.000 | | | | | |
| 2. Performance | 0.275* | 1.000 | | | | |
| 3. Overall Innovation | 0.245* | 0.142 | 1.000 | | | |
| 4. Franchising rate | -0.031 | 0.059 | 0.176 | 1.000 | | |
| 5. Experience (dummy) | -0.100 | -0.133 | 0.188 | 0.268* | 1.000 | |
| 6. Size | 0.094 | -0.143 | 0.170 | -0.035 | 0.080 | 1.000 |
| Composite Reliability | 0.907 | 0.957[6] | 0.873 | | | |
| Average Variance Extracted | 0.585 | 0.790 | 0.500 | | | |

* Significant at the 5% confidence level.

## 2.3. Specification tests and choice of the relevant models

We first test our hypotheses using the overall innovation variable, and in a second step by distinguishing the two categories of innovation: front-office versus back-office innovation (Table 4). To estimate our research model we used path analysis, a sub-part of Structural Equation Modeling (SEM), with no latent variable. SEM was originally developed to examine multiple causal links. In the context of estimating theoretical relational models, the main contribution of this method is to enable a simultaneous estimation of several relationships of dependency. Thus, SEM is suitable for testing complex causal models—in other words, for testing hypotheses capturing a network of real complex interactions. We conducted estimations with Stata software.

The models were estimated on the sample with 98 franchisors.[7] We tested different models, both without any interaction and by including one or two interacting variables. The likelihood ratio tests showed that the models without interaction are nested in the models with full interac-

5. Of course, as we consider interactions in our models, correlations between the interaction variables and their components are higher. To limit this, we introduced the interaction variables not directly as a product but as the residuals of the regression of each Independent Variable on the product of these variables. As multicollinearity could still be an issue, we calculated Variance Inflation Factors (VIFs) for each variable and interaction variable in our models. In the overall innovation model, all the VIFs except one (for the "overall innovation X franchising rate", which is 5.35) are under the threshold of five. All the correlations matrixes and associated VIFs are available upon request.

6. Hair, Hult, Ringle and Sarstedt (2017) argue that composite reliability values of more than 0.9 are deemed not desirable. However, in our study, for our measure of performance, the items in the scale are not redundant as each item corresponds to a different dimension of growth.

7. One questionnaire could not be used because of missing data.

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tions. Thus, we had to analyse the relationships between our core variables (EO, innovation, and performance) not in a linear way, but in interaction with the franchisor's experience in franchising and with the franchising rate. For the sake of clarity, we nevertheless present the results of the basic model (without interaction: model 1) alongside those of the model with full interactions (model 2). This presentation allows us to highlight the impact of the variables in isolation, and their impact more accurately taking into account the interaction variables.

## 3. Results

The results are presented in Table 3.

For overall innovation, the performance equation shows that, without considering interaction (model 1), the estimated EO coefficient is positive and significant (H3 corroborated). Considering interactions between EO and the experience variable (model 2), the estimated EO coefficient for young networks is not significant ($\beta = 0.076$; $p > 0.1$). However, in the case of well-established networks, the additional effect is positive and weakly significant ($\beta = 0.671$, $p < 0.1$); H3a is thus confirmed. Overall, a Wald (non-linear) test shows that the relationship between EO and performance in well-established networks is positive and very significant ($\beta = 0.749$ (sum of the two previous coefficients), $p < 0.01$).

Innovation is positively related to franchise network performance (H1 corroborated). However, this relationship is not linear, and is moderated by the franchising rate: the more the franchising rate increases, the weaker the relationship (H1a is confirmed). The relationship between innovation and performance is therefore only significant in the case of a relatively low franchising rate when compared to the average rate in our sample. The other estimated coefficients in the performance equation show that the experience in franchising is negatively correlated with franchise network performance. This indicates that young networks do better than well-established ones in terms of growth. As the EO × experience interaction coefficient is positive and significant, the negative relationship between experience and performance becomes not significant when the level of EO increases. By setting a low level for EO (the mean, 4.56, minus one standard deviation, 0.99), we observe a direct negative correlation between experience and performance.[8] A Wald test shows that this coefficient is significant ($p < 0.05$). When EO approaches or exceeds the sample average, the relationship between experience and performance is no longer significant. Finally, our results show that the franchising rate is positively related to franchise network performance, but this relationship is not linear as it interacts with innovation. The size of the network has a negative impact on performance.

If we now observe the innovation equation, without considering interaction (model 1), EO exhibits a positive significant impact on innovation (H2 corroborated). Actually, the effect of EO varies depending on the network experience. Including interaction between EO and experience (model 2), the results show no significant effect of EO on innovation in the case of young networks ($\beta = -0.060$; $p > 0.1$). However, well-established networks stand out from their younger counterparts with an additional positive effect ($\beta = 0.650$; $p < 0.05$); thus, H2a is confirmed. Overall, the effect of EO on innovation in well-established networks is therefore positive and very significant ($\beta = 0.590$, sum of the two previous coefficients; $p < 0.01$), and H2 is confirmed.

8. Setting EO to this low level of 3.57, we get an estimated coefficient for experience of $\beta = -3.558 + (4.56\text{-}0.99) * 0.671 = -1.16$.

In summary, our results are as follows: (i) Innovation is positively related to franchise network performance, but only for networks with a moderate franchising rate. (ii) EO also has a direct impact on performance, but mainly for well-established networks. (iii) EO has a positive impact on innovation, but mainly for well-established networks. In light of these relationships, one would expect EO, in addition to its direct impact, to have an indirect influence (through innovation) on performance, at least when conditions are favourable: i.e. a moderate franchising rate and experience in franchising. This is indeed the case (Table 4), but only when the requisite conditions have been met—in other words, when the franchising rate is low (less than 10%) and the network is well established.

In the case of front-office innovation, our results are clearly similar to those obtained for the overall innovation. The only slight difference is, as expected, a more significant moderator impact of the franchising rate on the innovation–performance relationship. Additional tests show that the impact of innovation on performance is positively significant for a very low level of franchising rate (coef = 0.410; $p < 0.05$ when the franchising rate < = 10%), but it becomes negatively significant when the franchising rate approaches 100% (coef = -0.625; $p < 0.05$).

In the case of back-office innovation, this is less distinct because some coefficients do not reach the 5% confidence level. However, the only difference in comparison with the other measures of innovation outputs is that the franchising rate is less significant in moderating the positive relationship between back-office innovation and performance. A Wald test shows that the effect of innovation on performance is positive and weakly significant (10% percent level) only when the franchising rate is low (mean minus 2 standard deviations, which is less than 10% of franchised units). Beyond this threshold there is no longer a positive effect of innovation on performance. This means that the back-office innovation effect on performance is only positive when the franchising rate is below average (H1 and H1a are partially confirmed).

Among the other explanatory variables, it is worth looking at the effect of the network's experience in franchising. Regardless of how innovation is measured, experience in franchising has a negative impact on performance. This result confirms that young networks grow faster than established ones. But experience interacts negatively with EO. The negative effect of experience on growth is significant only when EO is low. In model 2 of the back-office regression, fixing the EO level to its mean minus one standard deviation (i.e. to 4.56 - 0.99 = 3.57), the direct effect of experience on performance is negative[9] and significant ($p < 0.05$). Beyond this threshold, the effect is no longer significant. When EO approaches or exceeds its sample average, experience no longer has a significant effect on performance. The same effect is observed in the model regarding front-office innovation. Finally, size has a slightly negative impact on performance.

If we look at the innovation equation, the EO has a greater effect in well-established networks (H2a is confirmed). The effect of EO on innovation is therefore positive and very significant in well-established networks, both in terms of front-office ($\beta$ = -0.051+ 0.572 = 0.521; $p < 0.001$) and back-office innovation ($\beta$ = -0.072 +0.753 = 0.681; $p < 0.001$); H2 is thus confirmed.

9. The estimated effect of experience when EO is fixed to 3.57 is $\beta$ = -3.29 + 3.57*0.585 = -1.14.

**Table 3.** SEM results

| | Overall innovation | | Front-office innovation | | Back-office innovation | |
|---|---|---|---|---|---|---|
| | Without interaction (1) | With all interactions (2) | Without interaction (1) | With all interactions (2) | Without interaction (1) | With all interactions (2) |
| Structural Equation Models (SEM) | | | | | | |
| Innovation Equation | | | | | | |
| EO | **0.379 (3.14)*** ** | -0.060 (-0.26) | **0.336 (2.73)*** ** | -0.051 (-0.21) | **0.437 (3.04)*** ** | -0.072 (-0.26) |
| Experience in franchising | **0.586 (1.99)** ** | 0.068 (0.18) | **0.673 (2.24)** ** | 0.216 (0.57) | 0.472 (1.34) | -0.129 (-0.29) |
| EO * Experience in franchising | | **0.650 (2.20)** ** | | **0.572 (1.90)*** | | **0.753 (2.14)*** |
| Size | 0.0001 (0.99) | 0.0001 (0.87) | 0.0001 (1.13) | 0.0001 (1.02) | 0.0001 (0.67) | 0.0001 (0.54) |
| Cst | **2.584 (3.62)*** ** | **5.155 (3.79)*** | **2.960 (4.08)*** ** | **5.224 (3.76)*** ** | **2.084 (2.45)** ** | **5.064 (3.13)*** ** |
| Sector | yes | yes | yes | yes | yes | yes |
| $R^2$ (Bentler-Raykov squared multiple corr. coef) | 0.271 | 0.306 | 0.276 | 0.301 | 0.2250 | 0.2597 |
| Performance Equation | | | | | | |
| Innov. | 0.132 (0.98) | **0.465 (2.13)** ** | 0.062 (0.47) | **0.492 (2.18)** ** | 0.160 (1.40) | **0.301 (1.85)*** |
| EO | **0.465 (2.80)*** | 0.076 (0.25) | **0.494 (3.01)*** ** | 0.050 (0.17) | **0.445 (2.70)*** ** | 0.103 (0.34) |
| Innov. * franchising rate | | **-0.928 (-2.15)** ** | | **-1.090 (-2.50)** ** | | -0.533 (-1.49) |
| EO * Experience in franchising | | **0.671 (1.70)*** | | **0.719 (1.85)*** | | 0.585 (1.48) |
| Franchising rate | 0.395 (0.524) | **1.282 (1.96)** ** | 0.470 (0.91) | **1.571 (2.34)** ** | 0.309 (0.58) | 0.970 (1.42) |
| Experience in franchising | -0.596 (-1.49) | **-0.935 (-1.92)*** | -0.573 (-1.42) | **-0.916 (-1.89)*** | -0.579 (-1.47) | **-0.944 (-1.92)*** |
| Size | -0.0001 (-1.65) | **-0.0002 (-1.83)*** | -0.0001 (-1.59) | **-0.0002 (-1.81)*** | **-0.0002 (-1.66)*** | **-0.0002 (-1.81)*** |
| Cst | 1.785 (1.72) | 1.855 (0.86) | **1.889 (1.78)*** | 1.597 (0.73) | **1.856 (1.85)*** | 2.704 (1.31) |
| Sector | yes | yes | yes | yes | yes | yes |
| $R^2$ | 0.179 | 0.323 | 0.161 | 0.366 | 0.1731 | 0.2540 |
| Overall $R^2$ (Coef. of determination for the whole model) | 0.382 | 0.478 | 0.388 | 0.508 | 0.340 | 0.400 |
| Standardised root mean squared residual (SRMR) | 0.053 | 0.056 | 0.050 | 0.058 | 0.053 | 0.052 |

In bold: * significant at the 10 percent level; ** significant at the 5 percent level; *** significant at the 1 percent level. Z statistics in brackets.



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Finally, dividing the overall innovation into two sub-components—front-office (directly observable by the consumer) and back-office (not observable by the consumer)—leads to quite close results:

(i) There is a positive and significant effect of innovation on performance, moderated by the franchising rate. This effect is clear in the case of front-office innovation. As for back-office innovation, the effect on performance, as well as the extent to which the franchising rate acts as a moderator, are far less significant. However, a general result holds for both measures of innovation: innovation has a positive effect on performance only where the franchising rate is low. When the franchising rate is higher, there is no evidence for a link between innovation and performance (overall innovation, back-office innovation) and a negative relationship can even occur (front-office innovation).
(ii) There is a positive effect of EO on performance, especially in well-established networks.
(iii) There is a positive effect of EO on innovation: this effect is positive when no distinction is made in terms of experience in franchising, and it is even greater in the case of well-established networks.

**Table 4.** Indirect effect of EO on performance for different franchising rates (Well-established networks)

| | Overall innovation | Front-office innovation | Back-office innovation |
|---|---|---|---|
| Above-average franchising rate<br>Average + 1 std deviation (close to 100 percent) | -0.286<br>(-1.50) | -0.326*<br>(-1.81) | -0.167<br>(-0.86) |
| Average franchising rate<br>Average (60–70 percent) | -0.113<br>(-0.99) | -0.146<br>(-1.43) | -0.052<br>(-0.42) |
| Below-average franchising rate<br>Average – 1 std deviation (30–40 percent) | 0.060<br>(0.75) | 0.034<br>(0.50) | 0.063<br>(0.77) |
| Very Low franchising rate<br>Average – 2 std. deviation (less than 10 percent) | 0.233*<br>(1.81) | 0.213*<br>(1.75) | 0.178<br>(1.63) |

In bold: * significant at the 10 percent level; ** significant at the 5 percent level; ***: significant at the 1 percent level. Z stats in brackets.
Note. Reading of the first row: if we focus on established networks, for a franchising rate close to 100 percent, the indirect effect of EO on performance (via innovation) is -0.286 (not significant) for overall innovation. The indirect effect of EO on performance is negatively significant for front-office innovation. The same tests were conducted for young networks. The results are not reported here because EO has no significant indirect effect on performance via innovation when networks are young, whatever the franchising rate.

Overall, beyond the direct effect of EO on performance, one can expect EO to have an indirect effect on performance through innovation. In favourable circumstances (low franchising rate in well-established networks), part of the effect of EO on performance depends on innovation, but this effect is only significant with a confidence level of 10 percent (Table 4). Table 4 shows that, for well-established networks, there is indeed a positive indirect (mediated by innovation) effect of EO on performance, but only when the franchising rate is low (last row). This indirect effect does not hold for back-office innovation, as the relationship between innovation and performance is weak for this kind of innovation. When the franchising rate is higher, this indirect

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relationship becomes non-significant because the franchising rate has a negative impact on the innovation–performance relationship. Finally, regarding front-office-type innovations, the first row of this table clearly highlights the negative moderator impact of the franchising rate on the innovation–performance relationship, and consequently on the indirect impact of EO on performance. In regards to front-office innovations, a very high level of franchising rate could result in a negative impact of innovation on performance, and in a negative indirect impact of EO on performance. In all other cases (especially for inexperienced networks), EO has only a direct effect on performance because the relationships between EO and innovation, and between innovation and performance, are too weak to account for an indirect effect.

Table 5 summarises the relationships between EO, innovation, and performance. EO is positively related to innovation. Moreover, EO has a direct positive impact on performance as well as an indirect impact (through innovation) in some cases.

**Table 5.** Summary results for the relationships between EO, innovation and performance

| | Relationship between EO and innovation | Direct relationship between EO and performance | Indirect relationship between EO (via innovation) and performance | Relationship between innovation and performance |
|---|---|---|---|---|
| Overall innovation | + +<br>Positively moderated by experience | + +<br>Positively moderated by experience | +<br>Only for established network, when franchising rate is low | + + to 0<br>Negatively moderated by franchising rate |
| Front-office innovation | + +<br>Positively moderated by experience | + +<br>Positively moderated by experience | + or -<br>Only for established network, depending on franchising rate | + to --<br>Negatively moderated by franchising rate |
| Back-office innovation | + +<br>Positively moderated by experience | +<br>Not moderated by experience | 0<br>Not significant | + to 0<br>+ only when franchising rate is low |

Note: +: positive significant at the 10% level, ++ positive significant at the 5% level; - : positive significant at the 10% level, -- positive significant at the 5% level.

## 4. Discussion

Our results show that franchisor's EO is directly positively related to performance and, in some cases, indirectly related to performance through innovation.

In addition, a franchisor with a very low EO becomes less innovative as he/she becomes more experienced, whereas this negative experience influence does not appear for moderate levels of EO. This result emphasises the importance of maintaining an EO in order to introduce innovations. It further underlines the role of experience in franchising in the EO–innovation relationship. For networks with little experience in franchising, EO is not related to innovation outputs. As the influence of EO becomes more important when the network gains experience in franchising, maintaining the franchisor's EO becomes crucial for innovations and ultimately for performance. This result provides empirical support for our hypothesis regarding the moderating impact of experience in franchising, and it appeals to an experience-contingent explanation.

The liability of newness can explain this result (Freeman, Carroll and Hannan, 1983; Stinchcombe, 1965). Networks that benefit only from a weak experience in franchising may suffer from liability of newness, in as far as they face different barriers that they must overcome to succeed. They have less developed knowledge of the markets and customers, which may cause them to adopt inefficient practices (Ramaswami, Srivastava, and Bhargava, 2009). Moreover, they have fewer resources to develop innovative projects. For more experienced networks, EO can enhance innovation and performance; thus they should advance their EO. Overall, our results support the argument of Harms (2013) according to which the EO by itself does not entail higher performance. The EO provides the necessary conditions under which some organisational activities—such as innovation for Helm, Mauroner and Dowling (2010) or, in the franchising context, human resource operational autonomy for Grünhagen, Wollan, Dada and Watson (2014)—will serve as the transmission mechanism between EO and performance.

These results highlight that some experience and learning are necessary to reach the benefits of EO, but overall they are in line with stewardship theory, which suggests that developing a franchise with a stronger EO can enable franchisees to exploit their entrepreneurial talents. Franchise networks with EO are thus more likely to develop committed strong relationships with their franchisees, which in turn can increase network performance (Dada and Watson, 2013b). Nevertheless, this global picture has to be qualified, as certain types of innovation entail some risks in franchise networks. The distinction between front-office and back-office innovation, although not new to the literature (e.g. Gallouj and Weinstein, 1997), is particularly relevant in the franchising context because it permits a distinction to be made between two innovation types that are really different regarding their risk for the networks. Front-office innovation impacts the interface between customers and network at the outlet level. As such, it relies on competences at the outlet/franchisee level. For these reasons, front-office innovation may impact brand image and is particularly risky for franchisors, in particular if the network makes a high use of franchising. Our results are in line with this argument and support the relevance of this analytical framework. When innovation is visible to customers, that is when it relies on competences and characteristics actually mobilised face-to-face with customers—i.e. front-office innovation—only a moderate use of franchising in the network enables a successful implementation of the innovation. In contrast, when the franchising rate is high, front-office innovation is detrimental to network growth.

Hence, our results clearly highlight the significance of the balance between innovation and standardisation/uniformity within franchise networks, and they show that, where innovation relates to customer relationship, this balance must be judged with great caution if the franchisor does not exercise control over the franchisees in his/her network. Front-office innovation, which is visible to consumers, can impact the uniformity of brand image if the diffusion of innovations to franchised outlets is not uniform, and as such is more likely to negatively influence network performance (growth) when the franchising rate is high.

Thus, the introduction of innovation outputs in the EO–performance relationship leads to a tempering of organisational identity theory because results show that, although franchisees can identify with the network, innovation entails some risks for network performance when the franchising rate is high. In that case, the global positive effect of EO on performance is reduced for experienced networks because, beyond its direct positive effect on performance, EO has an indirect (i.e. mediated by innovation) negative effect on performance.

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## Conclusion

Despite the increasing interest in EO (Rauch, Wiklund, Lumpkin and Frese, 2009; Saeed, Yousafzai and Engelen, 2014), only a few studies have investigated the EO–performance relationship in franchise networks and none of them has investigated how EO is related to performance (Harms, 2013). Our study attempted to fill this gap in the literature by examining the mediating role of innovation in the EO–performance relationship for franchise networks. Franchising is an interesting context to study the relationship between EO, innovation and performance, given that the opportunity to maintain an EO and the necessity of innovating are counterbalanced by the need to maintain network unity (Dada and Watson, 2013a). Franchising thus represents an entrepreneurial paradox, which generates tensions that have to be managed in order to maximise network performance.

The results indicate that, although standardisation is the keystone of franchising (Kidwell, Nygaard and Silkoset, 2007), franchise networks that develop an EO and introduce innovations achieve better performance. These results are in line with stewardship theory and organisational identity theory (Dada and Watson, 2013b) but this overall picture must be qualified regarding innovation types and the use of franchising in networks.

Although our results highlight the existence of positive relationships between EO, innovation, and performance, we also show that these relationships are slightly different according to the categories of innovation outputs (front- or back-office) and the use of franchising in the network. Completing the organisational identity perspective, we provide evidence that resorting to franchising on a huge scale can reduce and even reverse the relationship between innovation and performance, and indirectly adversely impact the relationship between EO and performance. This is especially the case for front-office innovations, which are directly perceived by the consumer and rely on competences at the outlet level, and therefore might impact the uniformity of brand image if the diffusion to franchised units is not uniform. A high resort to franchising does not allow for a successful transformation of front-office innovation into network growth, which might adversely affect the relationship between EO and performance. In contrast, network unity is not threatened when the use of franchising in the network is low or moderate. Identification of franchisees with their network may have beneficial effects, but it is not a panacea in a front-office innovation context, as it does not allow all the issues related to network uniformity to be handled.

This result should not disguise that maintaining a high EO is essential for innovation as networks grow in experience. In line with the liability of newness argument, our results also provide evidence that experience results in improved performance if the franchisor maintains a minimum level of EO. For a low to moderate use of franchising, EO doesn't have a negative role in the franchisor's striking a balance between innovating and maintaining uniformity in the network. Rather, it seems important to maintain a minimum level of EO to observe a positive impact of innovation outputs on franchise network performance.

This study enriches our understanding of direct and indirect effects through innovation of EO on performance in the specific context of franchising. However, the findings also provide interesting and inspiring inputs for corporate entrepreneurship researchers who strive to look into the "black box" of corporate entrepreneurship and provide answers to the question: how is EO linked to performance?

Our study contributes to the current debate on the concept of EO by providing a more nuanced understanding of the relationship between EO and performance. Previous studies

(Bénézech, Karcher and Garcia, 2013; Pérez-Luño, Wiklund and Valle Cabrera, 2011) have outlined that innovation has to be distinguished from EO and that EO is positively related to innovation. Our results support their claim. We show that distinguishing innovativeness, that is the willingness to innovate as one item of the EO, from innovation, allows a better understanding of how EO is linked to performance. This is the case in particular because it enables the introduction into the analysis of a wide range of innovations as well as the competences they mobilize. In our study, it enables us to distinguish between different innovation types that raise different issues for the EO–performance relationship.

Further, the results of our study highlight the paradox of developing an EO and innovating in franchise networks, but they also enable us to define the scope of this paradox. By analysing innovation, which enables us to define the limits of the risk to front-office innovation, and by our contingent analysis, which underlines the risks associated with a high use of franchising, we show that, in many cases, there is no contradiction between innovation and franchise network performance.

From a practical perspective, this study advances our understanding of the performance implications of EO by highlighting that the impact of EO on performance is not unconditional. A strategic alignment of network partners (franchisor and franchisees) is required to manage the entrepreneurial paradox of franchising, which concerns balancing novelty and conformity. EO can enhance innovation and network performance under certain circumstances. More generally, our study has interesting managerial implications for different types of organisations. Overall, our results are in line with the concept of strategic alignment (Trevor and Varcoe, 2017), which refers to how all elements of a business (strategies, organisational capabilities, resources, or management systems) are to be arranged in such a way as to best support the fulfilment of its long-term purpose. Our results suggest that organisations should create a strategic alignment between EO, organisation experience, the competences mobilized in innovations, and structure. If there is a misalignment, not only can innovation not enhance organisation performance, but it may also hurt it. Hence, managers should not focus on one area to the exclusion of others, as what really matters for performance is how they all fit together.

Certain limitations potentially constrain the generalisability of the findings. First, our analysis relies on data from a single country, France. This raises concerns about the generalisability of our results to other countries, particularly those with a different entrepreneurial culture. Recent results suggest that national culture plays a major role in shaping the EO–performance relationship (Saeed, Yousafzai and Engelen, 2014) and on the EO rhetoric contained within franchisee recruitment promotional materials (Watson, Dada, Wright, Perrigot, 2017). It would therefore be interesting to extend our research to contrasting cultures, to determine if the positive relationships between EO and innovation and between EO and performance are universal. Second, the sample was drawn from across several sectors, which increases the generalisability of our results; however, significant differences may be hidden. We did not focus on a single industry sector, because it may have generated few respondents within each sector. Sector dummies were included as control variables to account for the issue of generalisability. Third, future research could investigate performance at the franchisee level to complement our findings of positive relationships between EO, innovation and performance at the franchise-system level and the franchisor level.

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# Appendix

## Questionnaire

Items used in the construction of the EO, innovation outputs, and performance (growth) variables (excerpts from the survey):

***Entrepreneurship Orientation:***

### 1. Innovativeness

| In general, your franchise network emphasizes | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| The sale of products or services | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ | 6 ☐ | 7 ☐ | R & D, technological leadership and innovations. |

### 2. Proactiveness

| In reacting to your competitors, your franchise network | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Typically responds to actions that competitors initiate | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ | 6 ☐ | 7 ☐ | Typically initiates actions to which competitors then respond |
| Is very seldom the first to introduce new products/services, administrative techniques, operating technologies, etc. | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ | 6 ☐ | 7 ☐ | Is very often the first to introduce new products/services, administrative techniques, operating technologies, etc. |
| Typically seeks to avoid competitive clashes, preferring a "live-and-let-live" posture | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ | 6 ☐ | 7 ☐ | Typically adopts a very competitive, "undo-the-competitors" posture |

### 3. Risk-taking

| In general, your franchise network has | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| A strong proclivity for low-risk projects (with normal and certain rates of return) | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ | 6 ☐ | 7 ☐ | A strong proclivity for high-risk projects (with chances of very high returns) |
| In general, your franchise network believes that: | | | | | | | | |
| Owing to the nature of the environment, it is best to explore it gradually via cautious, incremental behavior | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ | 6 ☐ | 7 ☐ | Owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives |
| When confronted with decision-making situations involving uncertainty, your franchise network: | | | | | | | | |
| Typically adopts a cautious, "wait-and-see" posture to minimize the probability of making costly decisions | 1 ☐ | 2 ☐ | 3 ☐ | 4 ☐ | 5 ☐ | 6 ☐ | 7 ☐ | Owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives |

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***Innovation outputs:***

Items for the different types of innovation outputs and the aggregate innovation variable:

Over the last five years, you introduced:

| *No* | *1* | *2* | *3* | *4* | *5* | *6* | *7* | *A very large number of* |
|---|---|---|---|---|---|---|---|---|
| new products | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |
| new services | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |
| new processes | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |
| organizational innovations | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |
| commercial innovations | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |
| new concepts or store formats | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |
| logistical innovations | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |

***Performance (franchise network growth):***

On a scale from 1 (no growth) to 7 (very strong growth), how would you rate the network's development over the last five years (or since the network was first established) in terms of the following?

| *Stagnation* | *1* | *2* | *3* | *4* | *5* | *6* | *7* | *Very significant development* |
|---|---|---|---|---|---|---|---|---|
| Revenue | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |
| Employment | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |
| Number of clients | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |
| Market share | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |
| Profit | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |
| Size (number of retail outlets) | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | |