

Revisiting the contingency theory: dissection of entrepreneurial orientation elements in retail franchisee performance

Revisiting the
contingency
theory

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Abstract

Purpose – This study aims to analyze how various contingencies within the contingency theory influence the entrepreneurial orientation (EO) elements and performance of retail franchisees in a South Pacific Island nation.

Design/methodology/approach – This study employs a quantitative approach of data collection from 203 managers in a total of 89 retail franchise outlets. Convenience and snowball sampling techniques were used with data analysis through SPSS AMOS and covariance-based structural equation modelling (CB-SEM).

Findings – The results confirmed that technology, innovation and promotion; competitive edge and value co-creation; high return opportunity capitalization; and empowerment and support influenced franchisee performance, while responsive customer focused leadership and competitor knowledge proved to be insignificant. The findings supported EO's influence on both financial and non-financial indicators, with greater influence on financial indicators. The result revealed that EO accounts for partial impact on franchisee performance, while the remaining impact could be attributed to organization and environment contingencies.

Originality/value – The study proposes a novel context of EO in franchising, where we dissect key elements within the EO dimensions. It also adds to the extant literature on how the broader context of environmental and organizational factors termed as “strategic fit” affects entrepreneurial franchisee performance.

Keywords Contingency theory, Entrepreneurial orientation, Franchisees, Performance, Retail, Fiji

Paper type Research paper

1. Introduction

Franchising contributes meaningfully to the performance of the economy. In the past few decades, franchising has turned into one of the most popular business practices in many countries (Croonen and Brand, 2015; Song *et al.*, 2019) as it can contribute to economic development (Calderon-Monge *et al.*, 2019; Rodriguez-Gutierrez *et al.*, 2015). A report by the International Franchise Association (2021) revealed that franchising has a compelling relationship with the economy, particularly the USA, which is one of the leading countries that has a developed and well-structured franchise system. For example, the report revealed that in 2020, franchised businesses contributed US\$670bn of economic output to the US economy and represented 3% of the total nominal gross domestic product (GDP). The report further stated that the projected economic output for 2021 is US\$780bn, with total nominal GDP increasing to 7%.

The franchise industry is also responsible for creating huge opportunities for small business ownership and millions of jobs for employees. The International Franchise Association (2021) anticipates that franchise employment will add approximately 800,000 jobs to the US market by hiring 8.3 million workers by the end of 2021. Franchisees have helped workers secure jobs through relevant business skills and career progression opportunities, which generate economic stability (International Franchise Association, 2021). Thus, franchisees have become an interesting area of study.

Franchisees operate in an increasingly competitive environment where entrepreneurial activity is likely to increase. Entrepreneurial activities have been examined as an antecedent



of growth, competitive advantage and superior performance (Tajeddini *et al.*, 2020). The link between franchisees and entrepreneurial orientation (EO) is evident in extant literature (Dada *et al.*, 2015; Watson and Dada, 2017). EO could possibly be a critical condition for the success or failure of the franchise system (Gupta and Sebastian, 2017; Rosado-Serrano *et al.*, 2018). EO is considered one of the significant resources that helps an organization to pursue innovative ways to improve revenue streams, enhance possibilities of success and utilize organizational resources effectively (Raju and Phung, 2019).

Despite franchisees' contribution to economic development, franchisees are often faced with fluctuations in the economic environment, leading to a short and volatile life where many franchisees are unable to achieve sustainable growth (Croonen *et al.*, 2016). The issue of "fit" arises between EO and franchisee performance, in that franchisees have to deal with organization and environment contingencies. Franchisees have to adapt, change and align their business strategies to these contingencies to survive (Croonen *et al.*, 2016). Prior studies have, to a lesser degree, been concerned with investigating how performance is affected by fit (Romero-Silva *et al.*, 2018).

The discussion above sheds light on several gaps in existing research related to EO and franchisee performance. The present study aims to address these gaps and makes theoretical contributions as follows. While there is a sizable body of theoretical and empirical work produced on EO, dissection of its individual elements remains under-explored (Colla *et al.*, 2020). In fact, although it is widely accepted that EO improves firm performance, scholars have advised that particular attention should be placed on the context (Asgharian *et al.*, 2021). In this research, we explore a novel context of EO in franchising, where we dissect key elements within EO dimensions (innovativeness, proactiveness, risk-taking, competitive aggressiveness and autonomy). The key elements being technology, innovation and promotion (TIP); competitive edge and value co-creation (CEVC); high return opportunity capitalization (OC); responsive customer-focused leadership and competitor knowledge (CFLCK); and empowerment and support (ES). We also argue that preceding studies (Alon *et al.*, 2017; Giudici and Reinmoeller, 2013; Lafontaine and Slade, 2014) have considered single moderators, mainly environment factors or organizational factors' effect on franchisee performance. It is not clear how the broader context of environmental and organizational factors termed as "strategic fit" affects entrepreneurial franchisee performance. This study, therefore, has sought to conceptualize the moderation effect of environment and organization contingencies on EO and franchisee performance.

The next section reviews the literature on franchisee performance and EO elements followed by hypotheses development. Research methodology is then discussed, and thereafter, research results are presented. The paper concludes with several study implications, limitations and future research directions.

2. Literature review and theoretical background

2.1 Franchising and entrepreneurial orientation

Franchising is "a strategy for cloning a business through the replication of proven business and management systems" (Hoy *et al.*, 2017, p. 1). Franchisees are granted the right to operate the business in a prescribed manner, within a specified geographic area, in return for royalty contributions and/or other fee payments (Watson *et al.*, 2020). Although franchisees are independent owners that exhibit entrepreneurial behaviours, the extent to which franchisees can be deemed entrepreneurial is still debatable (Watson *et al.*, 2020; Watson and Dada, 2017). Further, EO is "an attribute of management style that supports change and activities related to exploiting different forms of innovation and creation of superior customer value (Tajeddini and Trueman, 2016, p. 573). As such, EO has been examined as an antecedent of growth, competitive advantage and superior performance (Tajeddini *et al.*, 2020). Hence, the study of franchisees provides an interesting context to explore the impact of EO on franchisee performance.

2.2 The contingency theory

The foundations of the contingency theory can be found in the early organizational theory literature (Galbraith, 1977; Lawrence and Lorsch, 1967; Pugh *et al.*, 1968; Van de Ven, 1976; Van de Ven and Delbecq, 1974). The contingency theory suggests that contextual factors affect the way a business unit is organized, which in turn affects the performance of a company (Weill and Olson, 1989). Thus, certain ways of organising a business unit will produce better performance results when dealing with certain contextual factors, producing what is called a “good fit” (Romero-Silva *et al.*, 2018; Williams *et al.*, 2017).

The notion of fit is central in the field of the contingency theory, as it suggests that there are certain organizational structures and practices, i.e. business processes and policies, which are more suited to particular organizational environments (Romero-Silva *et al.*, 2018). Therefore, organizations seek to improve their performance by improving fit and alignment with a set of contingencies and the changing external environment (McAdam *et al.*, 2019). This process of fit is viewed as a dynamic and ongoing process especially in fast-moving business environments (Daft *et al.*, 2010; Donaldson, 2006).

The contingency theory is especially useful when there is a lack of an established overarching theoretical framework (De Clercq *et al.*, 2014; Simpson *et al.*, 2012), with an emphasis on contextually grounded approaches based on contingency fit rather than a single best way to manage an organization (Donaldson, 2006). The contingency theory has been used in sectors like manufacturing (Romero-Silva *et al.*, 2018), small and medium-sized enterprises (SMEs) (McAdam *et al.*, 2019) and even franchising (Croonen and Broekhuizen, 2019; Roberts *et al.*, 2020) with different focus areas (e.g. customer relationship management, operations management, quality management, franchisor–franchisee relationships, etc.). Prior studies have, to a lesser degree, been concerned with investigating how performance is affected by fit (Romero-Silva *et al.*, 2018).

The contingency theory is suitable for the present study for a key reason. It depicts an environment–structure–performance relationship for most organizations (Williams *et al.*, 2017). This enables us to conceptualize the relationship between EO elements and franchisee performance, and how potential contingencies affect the relationship. The present study, therefore, examines fit in terms of organization contingencies and how franchisees cope with the environment to attain certain performance levels.

3. Conceptual framework and hypotheses development

Franchisees bring financial capital, knowledge of geographic locations and labour markets to the system (Tsung-Chi *et al.*, 2014). A franchisee must have better knowledge and understanding of its local business environment, as well as understand the needs of consumers and the potential risks that can be minimized as a consequence of this familiarity (Colla *et al.*, 2019; Ghantous and Das, 2018). Since the five EO dimensions, namely, innovativeness, proactiveness, risk-taking, competitive aggressiveness and autonomy have been studied (e.g. Rosado-Serrano *et al.*, 2018; Watson and Dada, 2017), in relation to franchisee performance, this study examines the key elements within the five dimensions in terms of: (1) TIP, (2) CEVC, (3) high return OC, (4) responsive CFLCK and (5) ES.

3.1 Technology, innovation and promotion (TIP)

TIP is a key element of EO through which many firms pursue and promote new opportunities (Anjum *et al.*, 2018, 2019). TIP is built on current knowledge and skills that the workforce possesses and takes many forms such as conception of a new product, use of a new technological system and solutions to adapt to local market conditions (Khan *et al.*, 2020). Some studies have discussed the influence of innovation on firm performance. For instance,

Harel *et al.* (2020) found that managers in small businesses implement innovation promotion through internal processes of collaboration and knowledge transfer, and in creating an organizational culture that promotes innovation. Colla *et al.* (2019) attributed increase in firm performance to technological innovation invested in the business. Similarly, Kim *et al.* (2018) found innovation (i.e. technological and organizational) as drivers of market and eco-performance in the food service industry. Hence, we propose the following hypothesis:

H1a. Technology, product innovation and promotion positively influence franchisee performance.

3.2 Competitive edge and value co-creation (CEVC)

A unique competitive edge enables firms to capture new market opportunities, ensuring that firms are always ahead of competitors and able to respond to market challenges (Baah *et al.*, 2020). In other words, this element of EO promotes opportunity identification, which may increase market share and thus lead to value co-creation for firms (Jelenc *et al.*, 2016). Value co-creation involves firms choosing competitive strategies to enhance customer engagement, approval, loyalty and happiness (Chathoth *et al.*, 2016). Hence:

H1b. Unique CEVC positively influences franchisee performance.

3.3 High return opportunity capitalization (OC)

High return OC denotes organizational decision-making in an environment with high degrees of uncertainty and changing customer needs where firms explore risks (Dwivedi and Weerawardena, 2018; Seth *et al.*, 2020). To achieve organizational innovation and growth strategies, organizations may invest in high-risk opportunities by making decisions amidst uncertainty and substantial resource commitment, without considering the consequences of strategic decisions and behaviours (Mishra and Mishra, 2019). Accordingly, we propose the following hypothesis:

H1c. Capitalizing on opportunities of high returns positively influences franchisee performance.

3.4 Responsive customer-focused leadership and competitor knowledge (CFLCK)

A responsive customer focused strategy is crucial in fast-changing environments and assists performance in some contexts (e.g. banks) (Stambaugh *et al.*, 2020). Organizations that are focused on being responsive to customer needs and market conditions exchange market information between different departments. This creates value for the customer and, at the same time, differentiates the organization from its competitors (Murillo Oviedo *et al.*, 2020). For instance, hotel management requires flexibility and customer responsiveness to deal with increasingly demanding customers and competitiveness of the market (Nazarian *et al.*, 2017). Thus, we propose the following:

H1d. Responsive CFLCK positively influences franchisee performance.

3.5 Empowerment and support (ES)

ES is considered important entrepreneurial motivations and affords organizational members the freedom and flexibility to develop and perform entrepreneurial initiatives (Dada, 2018). In that, the level of management flexibility within the outlet and the extent of empowerment to make business decisions directly impacts business performance. Previous research (Hoy *et al.*, 2017) highlighted that if franchisees receive trust and support from their franchisor,

they will engage in entrepreneurial behaviour that is beneficial to the system. Thus, we propose that:

H1e. ES positively influences franchisee performance.

3.6 Entrepreneurial orientation and performance

Franchisee performance has been frequently positively related to EO dimensions in prior studies (Coulthard, 2017; Khan *et al.*, 2020). EO is “underpinned by distinct but intertwined elements, which together influence the extent of entrepreneurial focus within an organization” (Martin and Javagi, 2016, p. 4). Further, EO is viewed as either a unidimensional or multidimensional construct, where the former is viewed as a sum of EO elements, and the latter where each element in EO will show a different relationship with organizational performance (Nuvriasari *et al.*, 2020). Several researchers suggest treating EO as a multidimensional concept. Therefore, we intend to examine the relationship between EO elements and performance, and propose the following:

H2a. EO has a positive influence on franchisee performance.

H2b. EO, a multidimensional concept, has greater influence on franchisee performance.

What is important is to consider the potential link between EO and firm performance. Performance measurement is crucial for all companies because it helps in knowing the level of success or failure of all company activities (Nuvriasari *et al.*, 2020). It is multidimensional in nature, i.e. both the financial and non-financial measures need to be considered in a study. Financial measures focus on short-term business goals and solutions, e.g. profit figures, while non-financial measures are more strategic in the long term e.g. customer portfolio (Mashovic, 2018). Hence, the present study proposes the following hypotheses:

H3a. EO has a positive influence on key financial indicators.

H3b. EO has a positive influence on key non-financial indicators.

3.7 Organization and environment contingencies

Finally, in line with the contingency theory, we consider the moderation hypothesis to investigate how the relationship between EO and firm performance is contingent on organization and environment factors (Escamilla-Fajardo *et al.*, 2018). In today’s globalized, changing and uncertain environments, companies of all types and contexts must evolve from a focus on internally owned and controlled resources to a focus that is open to external complementarities (Aulakh *et al.*, 2016). For instance, organizational culture affects organizational behaviour and determines how an organization relates to its external environment (Otache and Mahmood, 2015). Prior studies (Buli, 2017) revealed that integrating EO into the operation of SMEs contributes to superior performance, which in turn enables them to thrive in institutionally complex and economically turbulent environments. Thus, we propose that:

H4. Organization and environment contingencies influence EO and performance relationship of franchisees.

Based on the literature and theoretical background review, a conceptual model is formulated that comprises four hypotheses. Figure 1 depicts the hypothesized relationships of the five EO elements and franchisee performance.

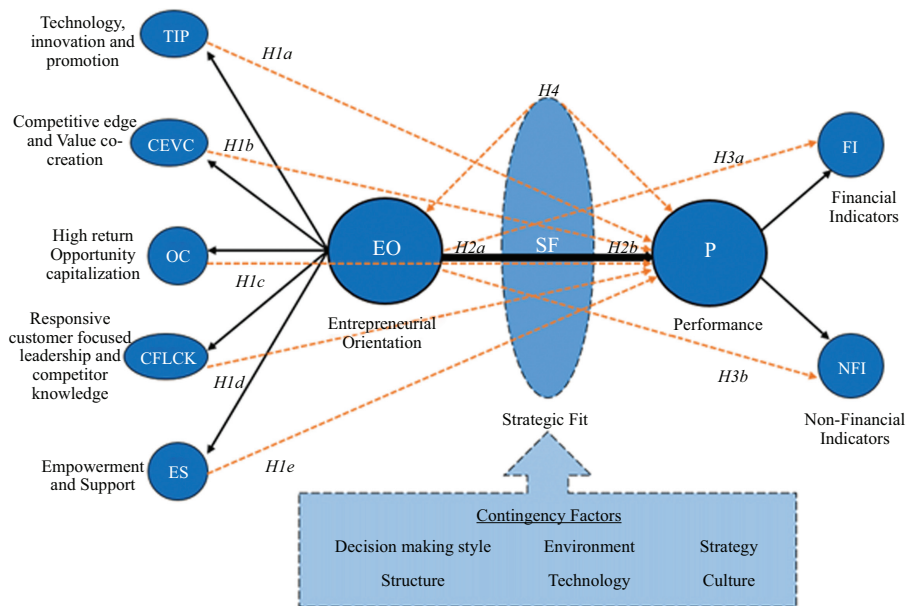


Figure 1.
Conceptual model

4. Research methodology

4.1 Participants and procedure

This study aims to analyze the contingencies that influence EO elements and performance of retail franchisees in Fiji. Fiji is a developing island nation in the South Pacific Island region. This study used questionnaires to collect data, with the target population being managers at different managerial levels of retail franchisees. The unit of analysis in this empirical investigation is managers because they have better knowledge of their franchisee's performance and how EO elements are reflected in franchisee activities. Franchisees sampled within the retail sector were generally representative of different industry categories, including restaurants (e.g. fast food, wine and dine, food/beverage), hotels, store retailing (e.g. supermarkets), personal services (e.g. hair and beauty), pest control services, transport and vehicle services (e.g. car hire), oil companies/gasoline service stations, automobile dealerships, soft drink bottlers and business and communication services. Hence, managerial level and industry category were controlled in this study, similar to several previous studies (e.g. Andersen and Dejoy, 2011), to increase the generalizability of the findings.

Due to the absence of a franchise body or any other entity that records franchisee data in Fiji, the researchers drew a list of franchisees operating in Fiji that were known to them. Using the convenience and snowballing technique (Pentina *et al.*, 2016), franchisees in the greater Suva area were visited first, as these were conveniently located for the researchers. Franchisee outlets within the Western and Northern divisions were visited next. Participants were then requested to provide names of other retail franchisees within their networks that were not previously known to the researchers (Browne, 2005). This snowballing technique assisted in increasing sample size, given that franchisee numbers are low in Fiji. The use of both convenience and snowballing techniques have been used in previous studies (e.g. Brownhilder, 2016) on EO and franchisees.

Upon receipt of telephone and email confirmation and consent to participate (Tandon *et al.*, 2020), questionnaires were physically distributed to managers at various managerial levels in retail franchisees. Prior ethics clearance was also taken from the University of the South

Pacific. A pilot study was then carried out with 20 franchisee managers in Suva, to test for clarity and understandability of the survey instrument. All pilot study participants understood the content and structure of the questionnaire and filled them appropriately. Thus, no changes were made to the questionnaire, and distribution continued for other franchisees. Participation was voluntary without any monetary incentive provided, and participants were assured complete anonymity and confidentiality of their responses (Farooq *et al.*, 2021). The pilot study questionnaires were incorporated in the final sample as they were deemed valid and useable for the research. Also, there were no missing data as all filled questionnaires were screened after conducting the survey at every franchisee outlet. The aforementioned procedures have ensured a high level of rigor during the data collection phase. Data collection was done in Fiji from January to July 2019.

4.2 Measures

The measurement items employed in this study were adopted and revised from extant literature that included: TIP (Anjum *et al.*, 2018, 2019), CEVC (Chathoth, *et al.*, 2016; O’Cass and Wetzels, 2018), high return OC (Dada *et al.*, 2015; Evanschitzky *et al.*, 2017) responsive CFLCK (Watson *et al.*, 2019), ES (Lumpkin *et al.*, 2009), firm performance in terms of financial indicators (Dada and Watson, 2013) and non-financial indicators (Grunhagen *et al.*, 2014) and organization and environment contingencies (Lumpkin and Dess, 1996). All scale items were measured through a five-point Likert scale (as used in recent studies, e.g. Bhutto *et al.*, 2020; Farooq *et al.*, 2021; Tandon *et al.*, 2020), ranging from “strongly disagree (1)” to “strongly agree (5)”. A five-point Likert scale was used as it increases the response rate and response quality, and reduces participants’ frustration levels (Babakus and Mangold, 1992; Sachdev and Verma, 2004).

4.3 Data analysis

SPSS and AMOS (V26) were used to perform the data analysis, and covariance-based structural equation modelling (CB-SEM) was used (as discussed by recent studies, e.g. Kaur *et al.*, 2021; Talwar *et al.*, 2020a, b) to test the hypothesized relationships. Following the two-step method, we first used the confirmatory factor analysis (CFA) to analyze the measurement model and assess the reliability and validity of the data before proceeding to study the structural path to test the proposed hypotheses (Cheah *et al.*, 2020; Homburg *et al.*, 2010; Luqman *et al.*, 2021). We conducted moderation analysis in SPSS.

This study collected 203 responses from managers in a total of 89 retail franchise outlets in Fiji. A response rate of 95.5% was achieved. The approximate completion time for the questionnaire was 10 min. Before analysis, we checked the data for missing values and outliers, of which none was found (Bhutto *et al.*, 2020). Suitability of data for SEM is an important consideration. The estimation method of maximum likelihood used for SEM assumes multivariate normality of the observed data (Talwar *et al.*, 2020a, b). Confirmation of normality of data was obtained by examining the kurtosis and skewness values, which also declared that all data scores were unbiased, efficient and within the specified range of normality. Variance inflation factors and tolerance values confirmed the absence of multicollinearity issues among the constructs (Hair *et al.*, 2020; Talwar *et al.*, 2020a, b).

4.4 Demographic profile

The gender distribution of managers in franchisees shows that data are more skewed towards males (63.1%) than females (36.9%). This finding is consistent with other franchisee studies (Baena, 2012; Weaven *et al.*, 2018). Majority of managers (36.9%) are aged between 42 and 49 years, followed by 26 and 33 years (26.6%), 34 and 41 years (22.7%), 50 years and over (11.8%),

and 2.0% between 18 and 25 years. Majority of managers (30%) earned an annual gross income of more than FJD\$61,000, followed by 22.2% earned between FJD\$31,000 and FJD\$40,000.

5. Results

5.1 Common method bias

Due to use of self-reported data, it was important to address the potential occurrence of common method bias (CMB) (Podsakoff *et al.*, 2012). As such, Harman's single-factor test was applied to examine the data for potential threat of CMB (Tandon *et al.*, 2020). The variance was computed to be 37.50% and was within the recommended value of 50% (Tandon *et al.*, 2020); therefore, CMB was not a potential threat to the study.

5.2 Measurement model

The measurement model generated through CFA returned acceptable model fit indices ($\chi^2/df = 1.82$, CFI = 0.95, NFI = 0.91, IFI = 0.96, TLI = 0.95, PNFI = 0.79, PCFI = 0.82, RMSEA = 0.05), in line with the recommended values (Hair *et al.*, 2014). The reliability of the constructs was confirmed since the values of Cronbach's alpha for all constructs were greater than 0.70. The relevant values are reported in Table 1. Factor loading values were in the range of 0.51–0.92, thereby exceeding the threshold limit of 0.5 (Field, 2016). We confirmed the convergent validity of all the constructs (Table 2) since the standardized path coefficient exceeded the required cut-off point of 0.4 (Hair *et al.*, 2010). Similarly, we confirmed the discriminant validity through the following measures: (1) the co-variances between constructs were less than 0.85 (Table 3) (Blunch, 2016) and (2) the heterotrait-monotrait (HTMT) value of each pair of the construct was less than 0.9 (Table 4), as recommended (Henseler *et al.*, 2015).

5.3 Structural model

Figure 2 as well as Table 5 represents the results of the structural path analysis. H1a proposed a positive influence between TIP and FP, which was supported ($\beta = 0.13, p < 0.05$). H1b, proposing a direct influence between CEVC and FP, was also supported ($\beta = 0.27, p < 0.05$). Similarly, H1c proposed a positive influence between OC and FP, which was supported ($\beta = 0.26, p < 0.05$). However, H1d predicting a positive influence between CFLCK and FP was not supported ($\beta = 0.01, p > 0.05$). H1e, on the contrary, posited a positive influence between ES and FP, which was statistically significant ($\beta = 0.89, p < 0.05$). H2 proposed a positive influence between EO and FP, which was supported ($\beta = 0.59, p < 0.05$). H2 further posited EO to have a greater influence on FP when it was observed as a multi-

Initials	Construct full name	No. of items Retained	Composite mean	Cronbach's alpha
CFLCK	Responsive customer-focused leadership and competitor knowledge	8	4.494	0.936
FI	Financial indicators	8	4.448	0.912
TIP	Technology, innovation and promotion	7	4.582	0.931
EO	Entrepreneurial orientation	5	4.356	0.886
OC	High return opportunity capitalization	4	4.000	0.922
NFI	Non-financial indicators	4	4.144	0.868
CEVC	Competitive edge and value co-creation	4	4.425	0.857
ES	Empowerment and support	3	4.088	0.788

Note(s): The reliability of the constructs was confirmed since the values of Cronbach's alpha for all constructs were greater than 0.70

Table 1.
Construct reliability analysis

			Estimate	Standardized	SE	CR	<i>P</i>
CFLCK01	<—	CFLCK	1.000	0.990	—	—	—
CFLCK02	<—	CFLCK	0.792	0.901	0.028	28.027	0.000
CFLCK04	<—	CFLCK	1.010	0.838	0.048	21.187	0.000
CFLCK05	<—	CFLCK	0.825	0.693	0.061	13.446	0.000
CFLCK06	<—	CFLCK	0.669	0.745	0.043	15.597	0.000
CFLCK07	<—	CFLCK	0.820	0.680	0.063	13.004	0.000
CFLCK09	<—	CFLCK	0.858	0.643	0.073	11.789	0.000
CFLCK10	<—	CFLCK	0.996	0.984	0.017	59.339	0.000
FI01	<—	FI	1.000	0.961	—	—	—
FI02	<—	FI	0.977	0.956	0.031	31.723	0.000
FI03	<—	FI	0.848	0.720	0.061	13.841	0.000
FI04	<—	FI	0.848	0.804	0.049	17.474	0.000
FI05	<—	FI	1.080	0.745	0.073	14.800	0.000
FI06	<—	FI	0.806	0.681	0.064	12.514	0.000
FI07	<—	FI	1.110	0.626	0.102	10.919	0.000
FI08	<—	FI	1.183	0.723	0.085	13.968	0.000
TIP01	<—	TIP	1.000	0.675	—	—	—
TIP02	<—	TIP	1.395	0.941	0.115	12.154	0.000
TIP03	<—	TIP	1.095	0.827	0.101	10.879	0.000
TIP04	<—	TIP	1.001	0.595	0.124	8.054	0.000
TIP05	<—	TIP	1.326	0.965	0.107	12.411	0.000
TIP06	<—	TIP	1.120	0.819	0.104	10.783	0.000
TIP07	<—	TIP	1.417	0.902	0.121	11.726	0.000
SF01	<—	SF	1.000	0.858	—	—	—
SF02	<—	SF	0.665	0.643	0.066	10.099	0.000
SF03	<—	SF	1.122	0.856	0.073	15.435	0.000
SF04	<—	SF	0.974	0.887	0.060	16.348	0.000
SF05	<—	SF	0.869	0.645	0.086	10.148	0.000
OC01	<—	OC	1.000	0.914	—	—	—
OC02	<—	OC	0.997	0.971	0.037	27.085	0.000
OC03	<—	OC	1.044	0.962	0.040	26.286	0.000
OC04	<—	OC	0.482	0.618	0.046	10.390	0.000
NFI01	<—	NFI	1.000	0.843	—	—	—
NFI02	<—	NFI	0.782	0.753	0.063	12.352	0.000
NFI03	<—	NFI	0.735	0.616	0.078	9.430	0.000
NFI04	<—	NFI	0.895	0.914	0.055	16.272	0.000
CEVC01	<—	CEVC	1.000	0.533	—	—	—
CEVC02	<—	CEVC	0.835	0.425	0.123	6.760	0.000
CEVC03	<—	CEVC	2.268	1.170	0.253	8.957	0.000
CEVC04	<—	CEVC	1.092	0.537	0.139	7.856	0.000
ES01	<—	ES	1.000	0.815	—	—	—
ES02	<—	ES	0.566	0.747	0.053	10.629	0.000
ES03	<—	ES	0.805	0.743	0.076	10.580	0.000

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Table 2. Convergent validity analysis

Note(s): Convergent validity of all the constructs through regression path coefficient

dimensional construct. **H3a**, which proposed an association between EO and FI, was statistically significant ($\beta = 0.55, p < 0.05$). Similarly, **H3b** proposed a positive influence between EO and NFI, which was supported ($\beta = 0.38, p < 0.05$).

5.4 Moderation analysis

The moderation analysis involved examining the moderation effect of SF on the association between EO and FP, and is presented in **Figure 2**. The analysis was performed through SEM and further supported by SPSS. To begin with, the effect of a moderating latent factor, the

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			Estimate	SE	CR	P
CFLCK	<->	FI	0.121	0.021	5.854	0.000
CFLCK	<->	TIP	0.125	0.019	6.464	0.000
CFLCK	<->	SF	0.111	0.023	4.864	0.000
CFLCK	<->	OC	0.170	0.042	4.086	0.000
CFLCK	<->	NFI	0.149	0.031	4.756	0.000
CFLCK	<->	CEVC	-0.035	0.014	-2.544	0.011
CFLCK	<->	ES	0.105	0.040	2.654	0.008
FI	<->	TIP	0.083	0.015	5.483	0.000
FI	<->	SF	0.061	0.019	3.288	0.001
FI	<->	OC	0.175	0.037	4.793	0.000
FI	<->	NFI	0.209	0.030	6.901	0.000
FI	<->	CEVC	0.014	0.011	1.249	0.212
FI	<->	ES	-0.005	0.033	-0.151	0.880
ES	<->	SF	0.063	0.015	4.116	0.000
ES	<->	OC	0.177	0.032	5.500	0.000
ES	<->	NFI	0.100	0.022	4.542	0.000
ES	<->	CEVC	0.044	0.011	3.913	0.000
ES	<->	ES	0.102	0.028	3.665	0.000
OEC	<->	OC	0.226	0.042	5.313	0.000
OEC	<->	NFI	0.088	0.029	3.072	0.002
OEC	<->	CEVC	0.040	0.014	2.911	0.004
OEC	<->	ES	0.180	0.040	4.443	0.000
OC	<->	NFI	0.235	0.056	4.202	0.000
OC	<->	CEVC	0.124	0.030	4.108	0.000
OC	<->	ES	0.376	0.077	4.876	0.000
NFI	<->	CEVC	-0.008	0.017	-0.490	0.624
NFI	<->	ES	-0.197	0.054	-3.652	0.000
CEVC	<->	ES	0.033	0.023	1.428	0.153

Table 3.
Discriminant validity
analysis

Note(s): Co-variances between constructs

	CFLCK	FI	TIP	EO	OC	NFI	CEVC	ES
CFLCK	-	-	-	-	-	-	-	-
FI	0.22	-	-	-	-	-	-	-
TIP	0.35	0.19	-	-	-	-	-	-
EO	0.20	0.08	0.09	-	-	-	-	-
OC	0.11	0.19	0.20	0.19	-	-	-	-
NFI	0.14	0.22	0.12	0.13	0.18	-	-	-
CEVC	0.13	0.12	0.16	0.07	0.11	-0.002	-	-
ES	0.12	-0.02	0.12	0.14	0.15	-0.21	-0.08	-

Table 4.
HTMT factor
correlation

Note(s): HTMT analysis

composite scores for SF, as well as FP and EO were computed. This was followed by the transformation of these composite scores into z-scores, and then establishing the interaction effect between SF and FP (SF*FP), as well as the interaction effect between SF and EO (SF*EO), as recommended (Dugard *et al.*, 2010). Effectively, the moderation effect of SF on the relationship between EO and FP was statistically significant ($\beta = 0.31, p < 0.05$). However, the effect was higher than the moderation effect of SF on the relationship between FP and EO ($\beta = 0.18, p < 0.05$). Thus, the moderation effect of SF was supported. Similarly, a regression analysis was done in SPSS to further prove SF results. The value of R-square ($R^2 = 0.53$) indicated that EO partially impacts FP (Table 6). The remaining impact could be attributed to

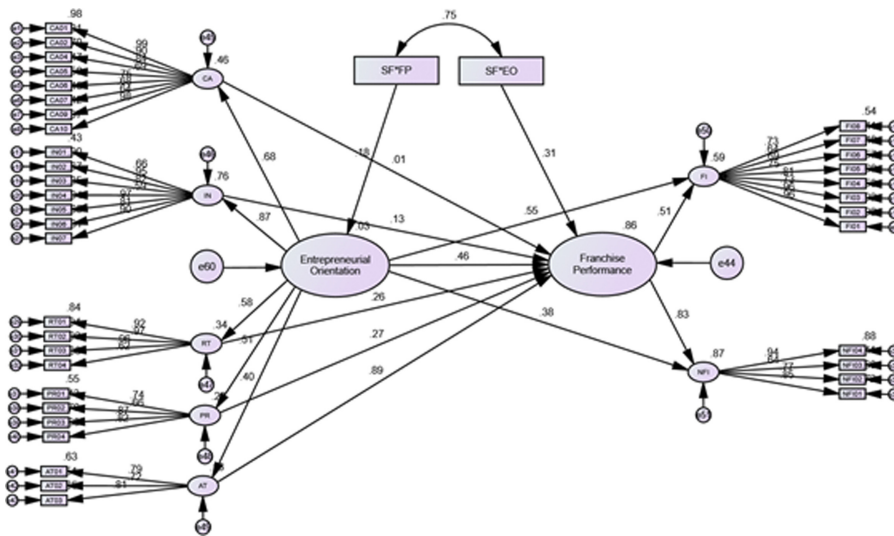


Figure 2. SEM

			Estimate	Standardized	SE	CR	P
EO	<—	SF_FP	0.066	0.184	0.029	2.274	0.023
FP	<—	EO	1.000	0.594	0.130	7.901	0.000
FP	<—	CFLCK	0.006	0.005	0.109	0.055	0.956
FP	<—	TIP	0.234	0.131	0.154	2.121	0.037
FP	<—	OC	0.165	0.264	0.052	3.171	0.002
FP	<—	CEVC	0.292	0.265	0.092	3.163	0.002
FP	<—	ES	0.637	0.887	0.072	8.828	0.000
FP	<—	SF_EO	0.237	0.309	0.047	5.007	0.000
NFI	<—	EO	1.000	0.383	0.129	5.254	0.000
FI	<—	EO	1.117	0.548	0.128	7.206	0.000

Note(s): Structural path analysis of hypothesized relationships

Table 5. Structural equation model results

Model summary				
Model	R	R-square	Adjusted R-square	Std. error of the estimate
1	0.726 ^a	0.527	0.519	0.63879

Note(s): a. predictors: (constant), EO. Regression analysis of the moderator SF on EO and FP

Table 6. Moderation analysis

SF (organization and environment contingencies). As such, H4, hypothesizing the moderation effect of SF on the association between EO and FP, was supported.

6. Discussion, theoretical contributions and implications

6.1 Discussion of results

As seen from the results presented in Section 5.3 and Figure 2, H1a, which proposed a positive influence between TIP and franchisee performance, was supported by the study results.

Although TIP is a new element that we proposed within the EO dimension of innovativeness, innovativeness has previously been documented as having a positive impact on franchisee performance (Colla *et al.*, 2019; Dada *et al.*, 2015; Ghantous and Das, 2018). Thus, our finding is in consonance with the prior studies. The finding implies that franchisee performance can improve if franchisees introduce new products and make changes to current products to appeal better to consumers. Therefore, the EO element of TIP can be improved if franchisees channel more effort towards promoting product and service quality, and acquire new technology that is relevant in delivering quality results.

H1b posited a positive influence between unique CEVC and franchisee performance. CEVC also being a new element within the EO dimension of proactiveness has been found to impact franchisee performance in extant literature (Dada *et al.*, 2015; Thammassane, 2018). Franchisees that possess CEVC are able to offer unique products and services. Having the right resources and technologies at the right time, which competitors may lack, will enable franchisees to create demand for their products. The aspect of value co-creation enables franchisees to forecast future product demands and make necessary changes, as well as create new policies that would assist franchisees in achieving competitive edge and improve business performance.

Similarly, H1c proposed a positive influence between OC and franchisee performance, and was supported by the findings. This finding suggests that franchisees could capitalize on opportunities yielding high returns for improved performance and franchisee satisfaction. Working with a trusted franchisor brand makes it easier for franchisees to invest in risky opportunities. Nonetheless, franchisees are likely to take calculated risks based on local market conditions, interest rates and return on investments, as depicted in previous research (Coulthard, 2017; Dada *et al.*, 2015; Evanschitzky *et al.*, 2017; Lopez-Fernandez and Lopez-Bayon, 2018).

The results did not support H1d. Although there was a positive influence between CFLCK and franchisee performance, this element was not statistically significant. CFLCK being a new element within the EO dimension of competitive aggressiveness has received mixed results for the dimension in extant literature (e.g. weak association in Rauch and Frese (2006) and Rauch *et al.* (2009) studies; strong association in Dada *et al.* (2015) and Colla *et al.* (2020) studies). The reason for this could be attributed to CFLCK being an attitudinal and behavioural characteristic that differs in franchisees. Hence, franchisees need to be more responsive to customer needs and problem-solving. The result also implies that franchisees cannot rely on internally controlled resources alone to pursue advantageous strategies for improved firm performance. They need to strengthen collaboration with other firms to outcompete rivals.

H1e, positing that ES influences franchisee performance, was supported, in line with past studies (Colla *et al.*, 2020; Grunhagen *et al.*, 2014; Rauch, *et al.*, 2009). Franchisees require ES from the franchisor in terms of carrying out business operations, e.g. what they want to sell. However, the trade-off lies in the balance between franchisor–franchisee control and how much ES is necessary for the franchisee to aid in improved business performance.

The results supported H2 and H3. H2 proposed a positive influence between EO and franchisee performance. Similarly, H3 posited a positive influence between EO and financial and non-financial indicators. These findings concur with previous studies (Chien, 2014; Coulthard, 2017; Dada *et al.*, 2015; Dada and Watson, 2013). Franchisees need to implement EO to achieve higher performance outcomes. Despite the result indicating that franchisees focus more on financial indicators such as profits and sales turnover, to improve firm performance, non-financial indicators, such as corporate social responsibility and customer loyalty, need to be given consideration too.

Finally, our results supported the existence of the moderation effect of SF on the association between EO and franchisee performance (H4), which is a novel association that has not previously been examined. Preceding studies have considered single moderators, such as environment factors (Giudici and Reinmoeller, 2013) and organization factors

(Chuang *et al.*, 2012) impact on franchisee performance. The result indicates that EO accounts for partial impact on franchisee performance, while the remaining impact could be attributed to SF, inclusive of organization and environment contingencies.

6.2 Theoretical contribution

This study makes three key theoretical contributions. First, the study proposed five novel constructs (TIP, CEVC, OC, CFLCK and ES) within the five-dimensional EO, which influence franchisee performance. By doing so, the study extends the EO literature, focusing on the dissection of individual elements within the five-dimensional EO. Previous studies have mainly examined the conceptualization and importance of EO dimensions (Chien, 2014; Coulthard, 2017; Dada *et al.*, 2015; Dada and Watson, 2013; Lopez-Bayon and Lopez-Fernandez, 2016) in franchisee performance.

Second, by conceptualizing the moderation effect of SF on EO and franchisee performance, we bring forth the dynamics of the relationship between EO and franchisee performance, where franchisee performance is not only impacted by EO elements but also by the development of new contingent factors (organization and environment) that are country specific.

Third, research on EO and franchisee performance has mainly focused on countries where franchising is common, e.g. France, The Netherlands, the USA, Canada and Taiwan. Our study is the first to extend research on franchising in a developing country context, particularly focusing on a South Pacific Island nation, where franchisee numbers are low. Also, while there have been several studies conducted on Fiji's retail sector (Singh and Slack, 2020; Singh *et al.*, 2021; Slack *et al.*, 2020), this study extends the context in terms of franchising, by adding value to these locally conducted retailing research. Theory building literature argues the importance of testing instruments and models in a different context to enhance generalizability and understanding of context's influence on theories (Brown *et al.*, 2010).

6.3 Implications for practice

The findings of this study will enable franchisees to better understand key elements (TIP, CEVC, OC, CFLCK and ES) within EO that can improve franchisee performance. First, our study reveals that franchisees need to focus on enablers such as technology, which will improve product and service delivery. Having appropriate technology will assist franchisees to forecast future product demands, thereby achieving greater competitive edge.

Second, our findings indicate that capitalizing on risky opportunities will yield high returns, thereby increasing franchisee performance. As such, we suggest franchisees invest in potential opportunities for business growth. However, franchisees need to make calculated decisions based on local market conditions.

Finally, our study reveals that franchisees need to develop more sustainable strategies to be more responsive to customer needs and problem-solving. Franchisees need to collaborate with other firms to attain better knowledge of their customers and competitors. By doing so, franchisees will be in a better position to respond to innovation or challenges. For instance, a quick-response strategy may provide a source of sustainable competitive advantage if imitation and substitution are difficult for competitors; however, being too quick in responding to innovation or challenges, may lead to failure of integrating important feedback from the marketplace. Therefore, franchisee performance is likely to improve when EO elements are combined with both the appropriate strategy and the right contingencies.

7. Conclusion, limitations and directions for future research

This study examines the influence of EO elements on franchisee performance and how this relationship is affected by several contingencies. Through the participation of 203

respondents in the survey, this study confirmed that TIP, CEVC, OC and ES influenced franchisee performance, while CFLCK proved to be insignificant. The findings supported EO's influence on both financial and non-financial indicators, with greater influence on financial indicators. Lastly, we confirmed the moderation effect of SF on the association between EO and franchisee performance. The result revealed that EO accounts for partial impact on franchisee performance, while the remaining impact could be attributed to organization and environment contingencies.

Despite its notable contributions, this study has some limitations that must be acknowledged. First, the study primarily focused on franchisees in the Fijian market, so the findings may not be applicable to franchisees in other cultural contexts. This limited generalizability can be addressed by future researchers trying to validate the findings of this study in other cultural backgrounds and geographies (Kaur *et al.*, 2021), using a cross-country design methodology. Second, the study collected data from the retail sector. As such, the findings of the study may not be generalizable to other sectors. However, the constructs and relationships explored in our study are relevant to other sectors, be they manufacturing, service, etc. (Bhutto *et al.*, 2020). Future studies can, thus, replicate our model in different contexts to generate related findings. Lastly, our study is based on self-reported information, including various methodological biases and lack of information on causality. Future studies could address this limitation by adopting longitudinal and experimental research designs (Talwar *et al.*, 2020a, b).

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