

Research Article

# Analysis of the Application of Franchising Systems on Business Performance in the Beverage Franchise Business: A Case Study of Ready-to-Drink Beverage Partners

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**Abstract:** This study aims to analyze the application of the franchising system on business performance in the beverage franchise business through a case study of Mitra Minuman Siap Saji. The approach used is qualitative with a case study design, with data collection techniques in the form of in-depth interviews, operational observations, and supporting documentation. The results show that the implementation of standardized Standard Operating Procedures (SOPs), franchisor support in the form of training, raw material supplies, and periodic monitoring contribute significantly to improving business stability, product quality consistency, and customer satisfaction. However, there are limitations in flexibility and several communication obstacles that have the potential to affect the effectiveness of the partnership. The relatively strict contract structure also impacts partners' perceptions of local innovation space, although it is generally still viewed as providing business security and business model clarity. These findings emphasize that a balance between franchisor control and partner autonomy, accompanied by open communication and fair contract design, is a key factor in creating sustainable business performance in a franchising system.

**Keywords:** Beverage Franchise; Business Performance; Franchising System; Franchisor; Relationship

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## 1. Introduction

Ready-to-drink beverage partners, the application of the franchising system is evident in daily operational aspects such as production procedures, recipe standards, and outlet layout, which directly affect the performance of franchisees, especially in terms of quality consistency and customer satisfaction. This standardization is a form of strategic control by the franchisor to maintain brand uniformity and process efficiency across the entire business network, as emphasized by Dant and Nasr (1998) and Lafontaine and Shaw (1999), who state that operational control is a key element in maintaining the quality of the franchise system. Other studies also show that standardization of

procedures has a positive correlation with outlet performance stability (Nyadzayo, Matanda, & Ewing, 2015; Bui, Jambulingam, & Amin, 2022; Alon, Madanoglu, & Shoham, 2020).

The quality of franchisor support, such as training, raw material distribution systems, and marketing assistance, has been shown to be closely related to brand image and short-term franchisee performance, especially in the food and beverage sector, which is highly dependent on product taste and appearance consistency. Nyadzayo et al. (2015) explain that franchisor support strengthens franchisees' positive perceptions of the brand, which in turn has an impact on customer satisfaction. Similar findings were also presented by Bordonaba-Juste and Polo-Redondo (2008), Aliouche and Schlenrich (2011), and Perrigot, López-Fernández, and Eroglu (2013), who emphasized that franchisor structural support is a major determinant of franchise business performance.

In addition to support, control mechanisms and communication flows between franchisors and franchisees play a crucial role in maintaining service quality and operational efficiency. Dant and Nasr (1998) emphasize that a combination of monitoring, quality audits, and reporting systems can reduce information asymmetry in franchise relationships. The imbalance between central control and partner autonomy often leads to role conflicts that negatively impact outlet performance, as revealed by Cochet and Garg (2008), López-Bayón and López-Fernández (2016), and Tikoo (2005), who state that coordination failures can reduce the effectiveness of operational standard implementation.

From a contractual perspective, the structure of franchising agreements covering royalties, franchise fees, and supply obligations affects franchisees' motivation to optimize business performance. Lafontaine and Slade (2007) explain that contract designs that are not aligned with franchisees' interests can create moral hazard and reduce service quality. This is reinforced by Rubia et al. (2015), Dant, Weaven, and Baker (2013), and Pizanti and Lerner (2003), who emphasize that a fair contract structure contributes to the sustainability of performance and stability of the partnership relationship.

In developing countries such as Indonesia, the performance of franchising systems is also greatly influenced by external factors such as consumer purchasing power, local competition, regulations, and distribution logistics. Alon et al. (2020) state that franchising models in emerging markets have different characteristics from those in developed countries because they are influenced by regulatory instability and more volatile consumer behavior. Other studies by Bretas, Alon, and Godinho Filho (2021), Welsh, Alon, and Falbe (2006), and Doherty (2009) confirm that the success of a franchise is closely related to its adaptation to the local context.

This study aims to analyze the application of the franchising system in the beverage franchise business, specifically Mitra Minuman Siap Saji, to understand how operational mechanisms, franchisor support, control systems, and contract design affect partner business performance. Specifically, this study examines the role of operational standards and franchisor support quality on product consistency and customer satisfaction, franchisor–franchisee working relationships, and the influence of managerial capacity and local context on performance variations between outlets, as a basis for developing recommendations for a more effective and sustainable partnership model.

## **2. Theoretical Review**

### **Theory of Franchising Systems**

The franchising system is academically defined as a form of business partnership in which the owner of the brand or business model (franchisor) grants a license to another party (franchisee) to

operate a business using a proven brand, system, and procedures, in exchange for a fee or royalty payment and a commitment to implement common standards (Watson, Michael & Johnson, 2010; Mishra, 2017). According to the literature, franchising enables business growth with relatively less capital and risk because the franchisor utilizes the franchisee network as a means of expansion, while the franchisee benefits from a proven "business format," including the brand, recipes, operating procedures, and managerial support (Mishra, 2017; Pfister, Deffains, Doriat-Duban & Saussier, 2006). Thus, franchising is defined not merely as a brand license, but as a comprehensive partnership system that legally and operationally binds two business units.

Franchising theory also emphasizes the aspect of mutual dependence between franchisors and franchisees as a key element of system sustainability. Within this theoretical framework, the quality of the relationship, which includes contract fairness, ongoing support, trust, and commitment, determines whether a franchise network can survive and thrive (Kim, Lee & Jang, 2018). Empirical studies show that when franchisors provide adequate technical, managerial, and operational support and maintain fairness in profit sharing, franchisees are more likely to be motivated to maintain outlet quality and performance standards (Kim et al., 2018; Pfister et al., 2006). Conversely, if the contract or support is considered biased or restrictive, the risk of conflict, decline in service quality, or even outlet failure increases — illustrating the importance of fair franchise structure design and healthy relationship mechanisms in franchising theory.

### **Business Performance Theory**

The theory of business performance places performance as a multidimensional construct that includes financial indicators, both of which need to be measured to comprehensively capture the success of an organization (Rojas-Lema et al., 2020). Contemporary approaches emphasize the integration of financial and non-financial metrics in performance measurement systems such as the Balanced Scorecard or performance frameworks that accommodate operational, customer, internal process, and learning aspects because long-term performance depends on the synergy between monetary results and the organization's non-monetary capabilities (Monteiro et al., 2022).

Determinants and implications for small businesses/franchise-based brands Contingency theory and the resource-based view (RBV) explain variations in performance between business units through differences in internal resources (capital, human resources, managerial capabilities) and external conditions (competition, regulations, local markets). therefore, performance measurement models and improvement strategies must be tailored to the contextual characteristics of the business unit, including F&B franchises that are highly dependent on operational consistency and network capabilities (Paweehirunkrai & Pankham, 2025).

### **Franchisor–Franchisee Relationship Theory**

The franchisor–franchisee relationship theory asserts that a franchise partnership is not merely a contractual bond, but rather a long-term relationship built on trust, commitment, fairness, and mutual dependence between the two parties (Dant & Schul, 1992; Kim, Lee, & Jang, 2018). The franchisor provides the brand license, operational standards, training, and support systems, while the franchisee carries out operational activities in accordance with established guidelines and pays royalties as compensation for the use of the business system (Cochet & Garg, 2008; Barthélemy, 2011). A harmonious relationship is characterized by effective communication, policy transparency, and perceptions of contractual fairness that encourage franchisee loyalty and continuous improvement in outlet performance (Kim et al., 2018; Watson, Stanworth, Healeas, Purdy, & Stanworth, 2005).

Stating that the quality of positive relationships between franchisors and franchisees contributes directly to the stability of the network and the overall success of the franchise system. Franchisee trust and satisfaction have been shown to increase long-term commitment and willingness to comply with brand standards (Dant, Weaven, & Baker, 2013; Nyadzayo, Matanda, & Ewing, 2015). Conversely, relationships dominated by excessive control or power imbalances have the potential to cause conflict, reduce franchisee motivation, and trigger opportunistic behaviors such as free-riding that damage the reputation of the parent brand (Cochet & Garg, 2008; Kim et al., 2018). Therefore, this theory emphasizes the importance of balancing formal control and social relations to create a sustainable franchise partnership model.

### **Contract Theory and Agency Theory**

Contract theory and agency theory view the relationship between owners (principals) and implementers (agents) as a contract that allows the delegation of authority to agents to run the business on behalf of principals—with the expectation that agents will act in the interests of principals (Jensen & Meckling, 1976; Hendrastuti & Harahap, 2023). Within this framework, a franchise agreement serves as a formal instrument that sets out rights, obligations, royalty/fee payments, as well as operational standards and controls. A clear and fair contract structure is important to minimize the risk of conflicts of interest, information asymmetry, and moral hazard between franchisors and franchisees (Hendrastuti & Harahap, 2023; Atmoko, 2022). This theory helps explain why franchising can be an efficient solution compared to direct ownership models—because franchisees have incentives to work hard, while franchisors minimize supervision costs through formal contracts and standard operating systems.

Agency Theory also shows that in order to maintain the effectiveness of franchisor-franchisee relationships within a franchise network, monitoring mechanisms, incentives, and contract designs that are adaptive to the specific conditions of each outlet are necessary, especially when operations are in sectors with high knowledge intensity or market variability (such as F&B, services, or small and medium enterprises) (Grafton & Mundy, 2017; Hendrastuti & Harahap, 2023). Contracts not only regulate payments and obligations, but also accommodate knowledge management, distribution of control, and adaptation to changes in the business environment so that moral hazard and agency costs can be minimized (Grafton & Mundy, 2017).

### **3. Methodologi**

This study uses a qualitative approach with a case study design to analyze in depth the application of the franchising system on business performance at Mitra Minuman Siap Saji. The study aims to understand the processes, dynamics of franchisor-franchisee relationships, and operational practices that affect business performance in a real-world context. Data were collected through in-depth interviews with franchise owners or managers, direct observation of outlet operational activities, as well as cooperation contracts, SOPs, and business reports. Data analysis was conducted using Miles and Huberman's interactive model, which includes data reduction, data presentation, conclusion drawing, and verification, with data validity reinforced through source triangulation and member checking. The focus of the study covers the franchising system, business performance, and franchisor-franchisee relationships as the main concepts analyzed descriptively and interpretively to produce a comprehensive understanding and strategic recommendations for the development of a more effective and sustainable partnership model.

## 4. Results and Discussion

### Overview of Ready-to-Drink Beverage Partners

Based on in-depth interviews with the owners and managers of Mitra Minuman Siap Saji, it is known that the partners have been running the franchise business for more than a year with a beverage-based franchise partnership model that has operational standards and branding determined by the franchisor. The outlet is located in an area with medium to high consumer traffic, which strategically supports daily sales potential.

In this cooperation system, partners act as daily operational implementers responsible for production, service, employee management, and quality control at the outlet level. Meanwhile, franchisors provide brand licenses, operational standards, main raw material supplies, as well as promotional and training support. The working relationship is formalized through a franchise agreement, but also reflects a pattern of operational and consultative communication in daily practice.

In addition to these structural aspects, the interview results also show that partners view the franchising system as a means of achieving business stability and business model certainty. The existence of clear operational guidelines makes partners feel more confident in running their businesses, especially in managing production processes, customer service, and raw material stock management. This shows that the franchise system not only functions as an operational framework but also as a strategic guideline in daily decision-making. Partners also revealed that the existence of a well-known brand in the market provides a competitive advantage over independent beverage businesses. The brand awareness attached to the product attracts new customers, especially from the young consumer segment that is interested in the latest beverage trends. This has led to an increase in sales volume and expanded the market reach of the outlets.

### Implementation of the Franchising System in Business Operations

The results of the observation show that the implementation of the franchising system is strongly reflected in the operational procedures carried out by partners, ranging from production process standards, raw material measurements, serving techniques, to customer service procedures. All of these activities refer to the Standard Operating Procedure (SOP) established by the franchisor, with the aim of maintaining consistency in taste and product quality across the entire franchise network.

Partners stated that the implementation of SOPs provides clarity in the workflow and facilitates the adaptation process for new employees. However, in some situations, partners were found to have limited flexibility in adjusting operations to local conditions, such as setting operating hours or adjusting promotional strategies. In general, the standardization system is considered to be able to increase work efficiency, minimize production errors, and maintain the brand's reputation in the eyes of consumers.

In addition, the results of the observation also show that communication between the franchisor and partners is quite intense through periodic monitoring, operational training, and routine performance evaluations. This mechanism strengthens oversight of partners' compliance with SOPs while also serving as a means of providing feedback for continuous improvement. With this support, partners feel more assisted in maintaining operational stability and are able to increase the competitiveness of their businesses amid increasingly fierce market competition, so that the franchising system functions not only as a business model, but also as a structured and sustainable quality control framework.

### **Franchisor Support and Its Impact on Business Performance**

From the interview results, the partner stated that the franchisor provides support in the form of initial training before the outlet opens, written operational guidelines, and periodic monitoring through direct and indirect supervision. In addition, the supply of key raw materials is provided centrally to maintain consistent product quality.

The partners revealed that this support was very helpful in maintaining product consistency and reducing the risk of managerial errors, especially in the early stages of operations. Promotional support through social media and brand campaigns was also felt to have an impact on increasing the number of customers and market exposure. This shows that the quality of franchisor support contributes directly to the stability and growth of the partners' business performance.

Partners believe that the partnership model is not only instructive, but also collaborative, with the franchisor being open to feedback and challenges encountered in the field. The relatively quick response to operational issues, such as delays in supply or the need to adjust local marketing strategies, provides partners with a sense of security and confidence in running their businesses. Thus, comprehensive support from the franchisor not only strengthens operational aspects but also builds a solid and sustainable partnership, which ultimately drives overall business performance improvement.

### **Control Mechanisms and Communication Patterns**

The control system implemented by the franchisor includes routine evaluations of product quality, outlet cleanliness, and compliance with SOPs. Reporting mechanisms are carried out periodically through digital communication and field visits. Partners state that this control system is both preventive and corrective, thereby helping to maintain business quality standards.

However, in practice, partners also stated that there were several communication obstacles, particularly when there were differences in perception regarding certain operational policies. Nevertheless, the relatively open communication allowed for problem solving through discussion and compromise, which showed that the relationship pattern was still cooperative.

Overall, the control system implemented by the franchisor is perceived as an important instrument in maintaining consistency in quality and operational professionalism among partners. Although there are dynamics in the communication process, this is considered part of the process of adaptation and strengthening of cooperative relationships. Through continuous evaluation and openness in providing feedback, this control system not only functions as a supervisory tool, but also as a means of guidance that supports service quality improvement and long-term franchise business sustainability.

### **Contract Structure and Its Impact on Business Motivation**

Analysis of the interview results shows that the contract structure includes royalty payment obligations, the purchase of raw materials from the franchisor, and restrictions on certain strategic decisions. Partners consider some clauses to be a reasonable form of control to maintain brand standards, but there is also a perception that some provisions are considered to be quite restrictive of local innovation.

Nevertheless, partners remain motivated to run their businesses because the franchise system is considered to provide business security, clarity of the business model, and relatively stable profit potential compared to independent businesses without a brand. This shows that contract design has direct implications for partners' perceptions of fairness and commitment.

The interview results also indicate that the level of acceptance of the contract structure by partners is greatly influenced by initial transparency and the quality of communication when the agreement is made. Partners who clearly understand their rights and obligations from the outset tend to show a higher level of compliance and loyalty to the franchisor. Thus, the contract not only serves as a formal legal instrument, but also as the foundation of a partnership that determines the continuity of cooperation, operational stability, and the level of trust between the two parties in the franchising system.

### **Performance of Franchise Partners**

In terms of business performance, partners reported an increase in income stability after implementing the franchise system compared to the initial phase of opening the business. Product quality consistency and strong brand awareness were key factors in attracting new customers and retaining existing ones. Non-financial improvements were seen in operational efficiency, speed of service, and a higher level of customer satisfaction. This shows that the success of partners is not only determined by sales aspects, but also by the quality of processes and relationships built within the franchising system.

The findings of this study indicate that increased income stability and operational efficiency of partners are in line with the main principles of Agency Theory and Resource-Based View (RBV). Within the framework of Agency Theory, the relationship between the franchisor as the principal and the partner as the agent requires control mechanisms and operational standards to minimize potential deviations and ensure alignment of business objectives. Consistent product quality and strict implementation of SOPs have been proven to increase consumer confidence, which ultimately impacts income stability and customer loyalty. This reinforces the argument that control and standardization systems in franchising serve as effective performance control tools.

Based on RBV, the success of partners can also be understood as the result of utilizing strategic resources in the form of brands, management systems, and operational knowledge owned by the franchisor. Strong brand awareness and structured support provide a competitive advantage that is difficult for independent businesses to replicate, thereby accelerating the adaptation process and improving non-financial performance such as efficiency and service quality. Thus, these findings confirm that the franchising system not only contributes to improved financial performance, but also strengthens the internal capabilities of partners through synergies between operational standards, managerial support, and structured partnership relationships.

### **Discussion of Findings Based on Theory**

These findings reinforce the Franchising System Theory, which emphasizes the importance of standardization and franchisor support in maintaining the quality and performance of the network. Consistent implementation of SOPs is in line with the theoretical framework, which states that operational control is a strategic element in ensuring the success of the franchise model.

From the perspective of Agency Theory, the relationship between the franchisor as the principal and the partner as the agent is reflected through contractual mechanisms and supervision aimed at reducing moral hazard risks. Meanwhile, the Franchisor–Franchisee Relationship Theory asserts that the quality of communication and trust are the foundation of sustainable cooperation, which has a direct impact on partner performance.

This finding is also in line with the Resource-Based View (RBV), which views the competitive advantage of partners as stemming from access to the franchisor's strategic resources, such as brand

strength, standardized operational systems, training, and an integrated distribution network. These resources not only strengthen financial performance through increased revenue stability, but also improve non-financial aspects such as process efficiency, service quality, and customer satisfaction. Thus, the synergy between operational standardization, monitoring mechanisms, and the quality of partnership relationships forms a solid foundation for the sustainability and growth of partner business performance in the franchising system.

### **Inhibiting and Supporting Factors**

The main inhibiting factors include limited operational flexibility, high raw material costs from the franchisor, and adaptation to strict operational standards. In addition, local market dynamics such as fluctuations in purchasing power and similar competition also influence business performance variations. Supporting factors include brand strength, a structured training system, and ongoing marketing support. The combination of system standards and local adaptability determines the success of partners.

In addition to these factors, the internal readiness of partners is also an important variable that influences the successful implementation of the franchising system. Human resource competencies, managerial capabilities, and commitment to complying with SOPs determine the extent to which the standards set by the franchisor can be optimally applied. Partners with a high level of discipline and good leadership skills tend to be better able to manage operational challenges and maximize the potential of the support provided. On the other hand, the technological and information system support provided by the franchisor also plays an additional supporting role in improving operational effectiveness. The use of integrated ordering systems, digital reporting, and data-based monitoring helps partners make faster and more accurate decisions. Thus, the success of a franchise business is not only influenced by external and structural factors, but also by the synergy between the internal readiness of the partner and the quality of the support systems provided by the franchisor.

### **Strategic Implications for the Franchising Partnership Model**

Based on the results of the study, a balance between franchisor control and partner autonomy is needed to create a more productive and sustainable partnership. Franchisors are expected to expand the scope of innovation flexibility for partners, particularly in local marketing strategies, without compromising brand identity. Periodic evaluation of contract structures and communication systems is necessary to enhance perceptions of fairness and trust. Thus, an adaptive, participatory, and responsive partnership model that addresses local market dynamics will strengthen the sustainable performance of franchise businesses.

Partners are also advised to improve their internal capacity through continuous training, particularly in operational management, customer service, and the use of digital technology. This competency improvement is important so that partners do not only rely on the system provided by the franchisor, but are also able to manage their business proactively and innovatively in accordance with local market characteristics. Franchisors need to strengthen two-way communication patterns by providing regular discussion forums, structured feedback systems, and more transparent conflict resolution mechanisms. These efforts will strengthen partnership relationships that are not only based on compliance, but also mutual trust and strategic collaboration. With this balance in place, the franchising system will be more adaptive in facing market changes and able to maintain its competitiveness in the long term.

## 5. Conclusion

This study concludes that the implementation of a franchising system at ready to drink beverage Partners has a positive impact on business performance, both financially and non-financially. Operational standardization through SOPs has been proven to increase work efficiency, maintain product quality consistency, and strengthen the brand image in the eyes of consumers. Franchisor support in the form of training, centralized supply, and routine supervision also strengthens operational stability and helps partners in facing the dynamics of market competition. However, it was found that the relatively strict contract structure and limited operational flexibility can create a perception of limiting innovation space for partners, especially in local marketing strategies. Therefore, a balance between control and autonomy is needed, as well as strengthening more participatory two-way communication in order to create a more equitable, adaptive, and sustainable partnership. With synergy between a standardized system and the managerial capacity of partners, the franchising model can be an effective strategy in increasing the competitiveness and sustainability of the beverage franchise business.

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