

# Brand Orientation and Business Resilience: A Confirmatory Factor Analysis among Homegrown Franchisees in Malaysia

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**Abstract:-** The COVID-19 pandemic has presented significant challenges for business, particularly within the franchising industry. Having an established and reputable brand is essential to the success of any business. However, instruments are scarce, especially homegrown franchisees, on assessing the impact of brand orientation on business resilience amid a pandemic. Thus, this study aims to address this issue by utilizing Confirmatory Factor Analysis (CFA) through Smart PLS 4.0 software to construct and validate measuring instruments. A survey instrument was employed to gather data from a sample comprising 138 Malaysian homegrown franchisees. The selection of participants was done by purposive sampling. These results strongly support the reliability and validity of the brand orientation scales and the suggested model that aims to help homegrown franchisees survive during the pandemic. These results not only contribute to what is known for future research, but they also help the franchise business in real ways. This study builds a strong base for future research by examining how brand orientation affects homegrown franchisees' ability to thrive during a pandemic. It gives valuable information to both professionals in the field and academic researchers.

**Keywords:** Brand Orientation, Business Survival, Franchisee, Instrument.

## 1. Introduction

Franchise business has experienced substantial global popularity in promoting national growth and small and medium enterprise (SME) development. Franchises are crucial to developing new entrepreneurs, jobs, and knowledge spillover (Guo, 2023). In addition, the franchising sector has encouraged social, community development, and technological advancement through technical advances (Alon et al., 2021). Therefore, franchises have helped the national SME sector to expand and thrive.

Franchise is a business format, brand relationship, and arrangement between franchisor and franchisee where the business format and brand are owned and managed by the franchisor, while the franchisee pays royalties and franchisee fee to utilize the brand, trademarks, operational procedure and technology for capital accumulation (Panda et al., 2019). Both franchisor and franchisee collaborate in developing, managing and leveraging the franchise's brand as their strategic re-source to gain competitive advantages and superior performance, attract new franchisees, and survive in any environmental situation (Ghantous & Christodoulides, 2020). In the last few decades, franchise brands have grown quickly and now control most of the world's top names according to Bretas and Alon (2020), Korea and India are the top two countries that have quickly built a new franchise brand. Therefore, scholars from various academic fields have been investigating franchising to determine how it works as a successful business model.

Even though the franchise system was a successful business model, the franchise business format does not usually establish a better survival ability for franchisee outlets (Dada, 2021). Hence, to date there has been little agreement on franchise survival advantage compared to independent businesses (Lafontaine, Zapletal & Zhang, 2019). There are significant internal problems and drawbacks from several turbulent events that challenged franchisee survival ability such as the pandemic crisis.

The pandemic crisis which is deemed the worst economic crisis ever (Miklian & Hoelscher, 2022) and has created substantial environmental uncertainties for business operations that have harmed businesses' capacity to exist and lead to business failure (Boiral et al., 2021). In the franchise industry, as of August 2020, 10,875 franchised companies had permanently closed down in the United States, especially in the food and beverage sub-sector and the hospitality sector (Bui et al., 2021). The increase in franchisee failure or voluntary exit shows that the business has poorly prepared for the crisis. Therefore, the franchise, particularly vulnerable franchisees, faces significant challenges in maintaining viability amidst extreme uncertainty and economic turmoil.

The recent pandemic has underscored the importance of franchise brand values, significantly influencing franchisee choices and decisions. Consequently, franchisees must explore suitable methods and unique business models to navigate unpredictability and complexity. Despite the acknowledged importance of brand orientation for a firm's competitive advantage, as highlighted by Li et al. (2023), more studies need to be on this topic. Specifically, limited research has been conducted on brand orientation (BO), especially concerning franchisee survival. Therefore, the study's main objective is to validate the interconnections between latent characteristics and develop a predictive tool for assessing the survival capability of franchisees.

## 2. Literature Review

The COVID-19 pandemic has spurred researchers to explore a deeper understanding of business resilience, recognizing the diverse impacts of crises on various business settings, geographical locations, and political backgrounds. Franchise organizations enhance their survival by creating value, sustaining competitiveness (Németh, 2008), and ensuring profitability (Ugwuzor, 2017). The focus of the present study on franchise business survival pertains to the ability and resource capacity of a franchise to adapt to environmental impacts, thereby averting business failure or mandatory exit (Nabila et al., 2020). This emphasizes the crucial role of resilience and adaptability for franchises in navigating challenges posed by crises like the COVID-19 pandemic.

According to Li et al. (2023), brand orientation is highlighted for its importance to a firm competitive advantage throughout the literature, but studies on this topic remain scarce, controversial, and inadequate. BO concept still need needs further advancement (Isa et al., 2020). Thus, the present study attempts to examine the relationship of BO dimension according to Piha et al. (2021) who extended the conceptualization and operationalizations of Urde (1994). The present study will indicate the appropriateness of BO constructs to examine franchisee survival ability.

Brand orientation is an inside-out brand management that creates a strong brand and delivers customer value (through ongoing engagement with target customers) to obtain a competitive advantage (Kusi et al., 2022). According to Piha et al. (2021), BO motivate franchisees and staff, boost marketing effectiveness, and make the business less vulnerable to competitors, ensuring the franchisee's survival. Internal BO interacts with consumers, competitors, and staff to boost the franchise brand awareness (Bui et al., 2021) and firm survivability (Ismail et al., 2021). The current pandemic highlighted franchise brand values that radically modify franchisee choices and decisions with shortened franchisees' market reaction time. Therefore, brand managers must change their perspectives and attitudes throughout the pandemic.

Franchisees with less brand creation and development authority have yet to be evaluated for business sustainability utilizing BO in a crisis. Organizational value proposition and marketing strategy include brand orientation (Urde et al., 2013). Thus, a firm should use it as an intangible resource to survive environmental disturbance, repair damage, and reposition itself to capitalize on its new external environment. Therefore, franchisors and franchisees must collaborate, communicate, and position themselves to improve value proposition, brand value, and marketing to stay competitive and retain business.

Brand orientation (BO) dimension is brand importance (BIM), brand differentiation (BDIF) and brand intelligence (BINT). Brand importance (BIM) is the attitude component of brand orientation that reflects a solid organizational perspective that values brands as firm assets and sets the highest priority on branding (Piha et al., 2021). With this approach towards the company's brands, the entire organization understands branding and prioritizes it in business choices and strategies.

Brand differentiation (BDIF) describes how a company's actions help create brands that consumers see as distinct from competitors. Through BDIF, the company tries to identify a brand's value as different from competitors and more appealing to consumers. Internal brand creation differentiates the corporate value proposition and brand value to generate a distinct, distinctive, suitably differentiated product and service from the competitor to improve survival (Urde, 2013). While brand differentiation (BDIF) applies to differentiate a brand's value from competitors and make it more desirable to consumers. Urde (2013) states that internal brand creation differentiates the corporate value proposition and brand value to create a distinct, distinctive, adequately differentiated product and service from the competitor to better survival.

In this study, Resource Based Theory (RBV) explains why some firms did better than others regarding survivability during turbulence (Zimuto & Maritz, 2019). The firm's unique and strategic resources and capacity to pursue superior results, such as survival, as evidenced by its capacity to recover and operate continuously (Shafi et al., 2020). This theory describes that a brand is a franchisee's strategic resources and capability, where proper brand management helps firms survive crises (Amornpatipat et al., 2020; Piha et al., 2021). According to the theory, a brand as a strategic resource should result in a competitive advantage. According to Rego et al. (2021), the recovery and survival of a company may depend on the differentiation of a brand. Thus, brand differentiation increases competitive advantage relative to other BO dimensions as it links with the distinct value proposition to create superior performance.

### 3. Methodology

#### *Instruments*

The questionnaire was divided into three sections, starting with franchisees information in Section A, followed by Section B for brand orientation and Section C for franchisee survival ability. To develop a reliable survey instrument, the five business survival items are adapted from Adam & Alarifi (2021) and Najib et al. (2021); while 14 brand orientation items were adapted from Piha et al., (2021). There are three dimensions for BO which are (1) brand importance (BIM), (2) brand development (BDIF); and (3) brand intelligence (BINT).

Then, a pre-test was conducted as the common method used to evaluate the questionnaires through an expert review content validity (expert judgment) (Zamanzadeh et al., 2015) as the purpose of to determine whether the items relevant to a construct sufficiently represented all aspects or if the instrument measured the correct information. Six experts were selected among franchisees and academicians and the expert judgment scores were analysed for scale purification. Based on Pilot and Beck (2006), items that exceeded 80 percent of Content Validity Index (CVI) will be included in the final questionnaire while the items with CVI values less than 70 per cent should be eliminated. After assessing the analysis, a total of 22 items were through the CVI, remaining 18 where, six items for FSA and, 12 items for BO were accepted.

#### *Sample and Data Collection*

The sample for this study comprises owners of homegrown franchises in Malaysia. Purposive sampling is employed to specifically target homegrown franchisees who operated their businesses before the 2019 pandemic, a critical aspect in evaluating the current resilience of homegrown franchise brands. A total of 160 questionnaires were distributed to franchisees in the Middle Zone of Malaysia, and 144 questionnaires were received successfully, forming a robust dataset for conducting confirmatory factor analysis.

#### *Data Screening*

Data screening is essential to ensure the accuracy of the data and enhance its validity and reliability. Seven outlier cases were excluded, resulting in a reduction from 144 to 138 responses. Subsequently, a scatter plot was

employed to assess the linearity of the data, following the approach suggested by Watkins (2018). The multivariate normality examination, considering skewness and excess kurtosis values for all indicators, showed results close to zero, indicating that linearity and normality were not violated. In conclusion, the collected data is deemed suitable for conducting confirmatory factor analysis (CFA) to validate the measurement model, utilizing Smart PLS 4.0.S 4.0.

#### Data Analysis

Confirmatory Factor Analysis (CFA) serves as an assessment method to gauge the degree to which measurement items accurately reflect various constructs. CFA examines the extent to which a predetermined theoretical pattern of factor loadings on pre-specified indicators aligns with a specific construct that represents the actual data in a theoretical model. In essence, CFA assesses measurement theory to comprehensively define structural equation modeling (Ramayah et al., 2018). Thus, the statistics derived from CFA determine whether the factor's theoretical specification aligns with reality.

#### 4. Findings

Measurement model assessment is conducted to validate the model and meet the quality standards for empirical research. The findings presented in Table 1 indicate that all constructs in the reflective model exhibit satisfactory measurement models. The Confirmatory Factor Analysis (CFA) measurement of the model begins with assessing internal consistency, where the Composite Reliability (CR) and Cronbach's Alpha (CA) values fall within the range of 0.70 to 0.9, signifying adequate convergence consistency.

Convergence validity, defined as the degree to which individual indicators reflect a construct converging in comparison to indicators measuring other construct (Urbach & Ahleman, 2010), was evaluated. The standardized factor loadings were examined to assess the factor loading or individual reliability of the items. According to Hair et al. (2019), the loading should exceed 0.708 to ensure that the latent variable explains at least 50 percent of the indicator variable. The results demonstrate that the loading for all items surpasses 0.708, and the Average Variance Extracted (AVE) value for all constructs is greater than 0.50, indicating that the data meets the requirement for convergent validity.

**Table 1. Measurement model and descriptive results**

Item	Factor Loading	VIF	CA.	CR	AVE
FSA1	0.792	2.194	0.920	0.939	0.756
FSA2	0.905	3.703			
FSA3	0.906	4.157			
FSA4	0.882	3.474			
FSA5	0.859	2.570			
BDIF1	0.816	2.037	0.849	0.896	0.685
BDIF2	0.858	2.679			
BDIF3	0.761	2.153			
BDIF4	0.837	1.554			
BDIF1	0.816	1.757	0.839	0.890	0.671
BDIF2	0.858	2.608			
BDIF3	0.761	1.869			
BDIF4	0.837	1.862			
BINT1	0.827	1.921	0.888	0.9222	0.747
BINT2	0.894	2.766			
BINT3	0.856	2.980			
BINT4	0.879	2.770			

The final assessment of the measurement model pertains to discriminant validity. Gefen and Straub, as cited in Henseler et al. (2015), contend that discriminant validity is established when each measurement item has weak

correlations with all other constructs except the one it is theoretically associated with. In this study, discriminant validity was assessed using the heterotrait-monotrait ratio of correlations (HTMT), which represents the mean value of indicator correlations across constructs (Henseler et al., 2015). Table 2 reveals that there is no issue with discriminant validity, as the HTMT scores surpass the cutoff value, being less than 0.85.

**Table 2. Heterotrait-Monotrait Ratio of Correlations (HTMT) Criterion**

	BDIF	BIM	BINT
BDIF			
BIM	0.836		
BINT	0.742	0.751	
FSA	0.183	0.201	0.302

After assessing the Confirmatory Factor Analysis (CFA) measurement models of the constructs, the structural model was evaluated for potential collinearity issues using the Variance Inflation Factor (VIF) values as an indicator. As shown in Table 1, the VIF values are below five (5), suggesting that the structural model exhibits minimal collinearity (Hair et al., 2019). The  $R^2$  level is 0.087, indicating a weak level of prediction accuracy (Ramayah et al., 2018).

The path coefficients demonstrate a significant p-value for all items. Additionally, the  $f^2$  results indicate that the direct effects have a large effect size only for brand intelligence. The  $Q^2$  predictive relevance for the exogenous constructs is greater than zero, signifying that the dependent variable constructs possess predictive relevance according to Hair et al. (2017). Therefore, based on the CFA assessment, the results confirm the predetermined model of franchisee survival ability.

## 5. Discussions And Conclusion

This study utilized Confirmatory Factor Analysis (CFA) to validate the measurement theory by determining the accuracy with which the measurement represents the constructs. The endogenous constructs for the franchisee survival model include brand orientation (BO), encompassing brand importance (BIM), brand differentiation (BDIF), and brand intelligence (BINT). Following the CFA results, a few items were excluded, and both the measurement model and structural model results were assessed. The findings indicate that the current study applies valid and statistically reliable scales of brand orientation (BO) and confirms the proposed model of franchisee survival ability (FSA). These results affirm the validity and reliability of the FSA measurement tool, providing a solid foundation for its application in future research and practical contexts.

Additionally, this study underscores the importance of the Resource-Based View (RBV) theory, emphasizing that franchisees must enhance brand capability during hazardous events to sustain their businesses (Zimuto & Maritz, 2019). RBV theory highlights the significance of intangible resources such as brand reputation and customer relationships. In the franchise industry, a robust brand and positive reputation foster customer loyalty and trust, contributing to sustained success.

Moreover, the study's results offer valuable insights into how branding influences the success of franchisee businesses, especially in challenging situations (Piha et al., 2021; Li et al., 2023). The study portrays the brand as a valuable resource aiding licensees in recovering and sustaining operations amid adversity. Consequently, the instruments devised in this study have undergone testing and are applicable in real-world scenarios. Future research could involve an investigation into how franchisees perceive the role of the brand in their decision-making processes. This exploration would cover their considerations both when initially joining a franchise system. It would also encompass their decision-making when deciding to remain, taking into account the importance they attribute to the brand's reputation and its support in overcoming challenges.

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