

**Growth or Profitability?  
Innovation and Performance in Franchise Networks\***

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## **Abstract**

The objective of this paper is to determine if innovation leads to an improvement in performance within franchise networks and, if so, to identify the conditions for this improvement. We focus on the mediating role of innovation in the relationship between entrepreneurial orientation and performance, in the context of franchise networks. From an original sample, regarding French franchise networks, we show that the positive relationship between innovation and performance is moderated by the franchising rate. More precisely, we provide evidence that the moderating role of the franchising rate is negative for growth-oriented measures of performance, whereas it is positive for return-oriented measures of performance. The franchisor's entrepreneurial orientation also directly favors both performance and innovation. This result is mainly robust in the case of franchisors with more than five years' experience. Finally, our results also show that the effect of innovation on performance also depends on the type of innovations.

**Keywords:** Entrepreneurial orientation; Growth; Innovation; Life cycle stage; Performance