Franchising Relationship: Malaysian Franchisees’ Perspectives

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Abstract. Nowadays, when entrepreneurs wish to expand their businesses in either domestic or international markets, they will adopt for franchising. Franchising has become extremely popular in many countries across the world, including Malaysia. It is a business platform that distributes the products and services based on a contract made by a two-party relationship. Even though franchising has been recognized as a rapid platform for business growth, franchisees’ perspective about franchising relationships is an area less explored and less understood. Thus, this study addresses the important aspects in franchising relationship by using the concepts from Agency Theory, Plural Organization Theory and Resource Based View Theory. For the methodological aspect, textual analysis was undertaken across the case of food and beverages industries and education and learning center industries to explore the matter further. The analysis was divided into four themes namely: (i) proven business format; (ii) brand equity of franchising; (iii) franchising cost; and (iv) training and support, to attempt to explain the elements of franchising relationship. The adopted deductive approach has provided rich information that will lead future research by using other methods.

Keywords: Entrepreneurs · Malaysia · Franchising relationship · Franchisee

1 Introduction

Over the past two decades, franchising has experienced a phase of business expansion and continued growth (Mahmood 2015). Most Asian countries have only started to join franchising recently, due to the increasing of middle-income becoming more valuable toward international brands. In western countries, franchising has achieved domestic market saturation, while most Asian countries have only started. In addition, Asian companies are increasingly realizing the franchising model’s success as a platform to

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expand internationally, since many governments in Asia are putting efforts into supporting these (Hong Kong Trade Development Council 2014). In Malaysia, the franchise industry is continuously achieving a healthy growth. The Malaysian government puts focus on the franchise industry growth in this country, expecting that this industry will contribute 9.4% to the country’s Gross Domestic Profit (GDP), and become a franchise hub in the South East Asia region by the coming year 2020 (Tyre and Han 2013).

Globally, franchising is a platform for business distribution that has developed significantly in recent times (Hoffman and Preble 2003; Perry and Rajiv 1999). Franchising plays an important role in supporting economic development by creating employment opportunities, developing entrepreneurship growth, and enhancing living standards (Shumba et al. 2017). The term ‘franchising’ refers to the “licensing agreement between the franchiser and the franchisee, whereby the former grants the permission for the use of his trademarks, ideas, patents or goodwill in return of royalty or some other considerations by the franchisee” (Vaishnav and Altinay 2009). Franchising is a business format that offers many advantages compared to chain-ownership (Baena et al. 2012). Grewal et al. (2011) highlighted that franchising is one of the rapid development forms of global business, and it is valuable for studies in entrepreneurship area.

Meanwhile, Franchising has experienced a global growth since the early 1980’s, and the founder (franchisor) sees an opportunity to develop the existing business by bringing partners (franchisees) who will own the business format, and they will have access to both human and financial capitals. The emergence of business format by selling ‘company-owned’ businesses to franchisee-owned units has become a trend nowadays (Paynter and Arthanari 2000). Furthermore, Shumba et al. (2017) explained that fast food businesses have prominent sectors in franchising and thus contribute important roles in the growth of entrepreneurship worldwide.

Furthermore, the Malaysian Government is strongly supporting the promotion of franchising as one of the approaches in encouraging local entrepreneurs (Amy Azhar et al. 2011). In May 2016, 813 franchise companies were operating in Malaysia that consisted of eight sectors: food businesses, services and maintenances, learning centers and nurseries, clothing and accessories, health and beauty care, IT and electronics, convenience shops and supermarkets and other businesses. These contributed RM 26.8 billion to Malaysian GDP (Malaysian Franchise Association 2017). On the other hand, the Malaysian franchise industry remains to achieve a healthy growth, and roughly 40% franchise concepts in Malaysia are foreign-owned franchises. The largest share, and the most franchise businesses operating in the United States are food and beverages concepts. In addition, most Malaysian entrepreneurs are gradually interested in franchise concepts such as the niche and uniqueness of product value proposition (Malaysia-Franchising 2017).

Moreover, The Franchise and Vendors was created in 1999 concurrently with the establishment of the Ministry of Entrepreneur and Cooperative Development, which was formerly known as the Ministry of Public Enterprises. This division had two units namely the Franchise Unit and Vendor Unit, whereby the objectives were to increase the participants of entrepreneurs as franchisors, franchisees, master franchisees and develop home-grown franchise businesses (Malaysian Franchise Association 2017).

Although early franchising was easily identified by franchising as platforms for business format, they can now be found on many franchising determinants. Following
Franchising growth in Malaysia, businesses through franchise systems are not new, yet they have long existed in many countries (Binh and Terry 2014). The government has identified franchising as one of the fastest and most effective mechanisms in developing entrepreneurs and has made Franchise Development Program as one of the major programs to develop entrepreneurs (Hamid et al. 2003). Even though not many local franchise products have been franchised abroad, some local franchises have successfully expanded their brands overseas such as Marrybrown and Sugar Bun. Other major brands involved in the franchise local industry, especially in food and beverages such as Old Town White Coffee, promote the *kopitiam* concept. Thus, this phenomenon persists as more entrepreneurs are using the franchise system as a platform to expand their businesses (Malaysian Franchise Association 2016). In the next section, the research problems are identified and presented for the present study.

### 1.1 Franchising in Malaysia

George (2002) claimed that franchising is the fastest method for growing and expanding a business whereby this is the easiest way to do a business. In addition, franchising means growing and expanding own businesses by letting other people invest, and hence, it is the best method to shortcutting the learning curve. In Malaysia, franchising began in early 1940s by Bata and Singer, then followed by automobile and petrol station dealers. Nevertheless, the development of franchising was growing faster when fast food service restaurants such as A&W (since 1963), *Kentucky Fried Chicken* (since 1970) and McDonalds (since 1981) operated their business operations rapidly in Malaysia. In addition, the development of home-grown franchises began in early 1980s with focus on food and beverages sector (Sate Ria, Marrybrown), petrol stations (Petronas), automotive (EON) and crafts (Royal Selangor). To support home-grown franchises’ development, the government appointed Majlis Amanah Rakyat (MARA) to facilitate the activities and tasks related (Noraini 2000).

Furthermore, in supporting the development of home-grown franchising, the Franchise and Vendor Divison was created on 8th May 1999 concurrently with the Ministry of Entrepreneur and Cooperative Development’s establishment previously known as the Ministry of Public Enterprises. In addition, Franchise Unit and Vendor Unit was under this division. The Franchise Unit that managed Franchise Development Program was transferred from the Implementation Coordination Unit of Prime Minister Department, whereas the Vendor Unit that managed the Vendor Development Program was transferred from the Ministry of International Trade and Industry (MDTCC 2018). Furthermore, these two programs were transferred to establish the Ministry of Entrepreneur and Cooperative Development to meet the requirement of the government’s policy and accelerate the accomplishment of goals in creating a Bumiputera Commercial and Industrial Community. On the other hand, the Ministry of Entrepreneur and Cooperative Development was dissolved, and the role of the Franchise Development Division was moved under the Ministry of Domestic Trade and Consumer Affairs.
1.2 Franchise Development Program (FDP)

Awalan (1999) described that the Ministry of Entrepreneurship Development under the Malaysian Government had established the Franchise Development Programme at the end of 1992, and it was the main turning point in increasing the growth of franchise sector in Malaysia. As the National Development Plan’s major agendas, FDP was adopted to produce more Bumiputera franchisees. Besides that, FDP also played an important role in increasing the number of entrepreneurs as franchisors, franchisees and master franchisees, and developing home-grown franchise products and services. Nevertheless, the implementation of FDP was not easy during that time, as franchising was still new in Malaysia. Hence, by gaining the support from Malaysian Franchise Association and other related agencies, they could actively promote education programmes such as conferences, and courses and seminars on franchising (Ministry of Domestic Trade, Cooperative, Cooperative and Consumerism 2018).

Today, the Franchise Development Division plays its roles and responsibilities to formulate policies in relation with the aspect of socio-economic development of Malaysia. The ministry had also revised the functions of the Franchise Development Division, which was formerly under the Ministry of Entrepreneur and Cooperative Development. The main function of Franchise Development Division is to formulate macro policies, planning, implementing, coordinating and monitoring FDP for the franchise sector. Besides that, the Franchise Development Division also plays the role of registering the franchise business in accordance to Franchise Act 1998 and enforcing the provision of that act. The Franchise Development Division is also divided into four units namely the Registration Unit, the Development Unit, the Administration Unit and the Enforcement Unit (iFranchise Malaysia 2017). Besides that, the Malaysian Franchise Association also plays the role of protecting the interests of its members of franchising and supporting the government’s efforts in developing the franchise sector. From the context of protecting the franchising’s image, the Malaysian Franchise Association have the rights to represent any voices of dissatisfactions coming from any parties in the franchise sector, and this body can also take compulsory actions against its members to resolve any existing conflicts (iFranchise Malaysia 2017).

1.3 Enhanced Franchise Development Programme (EFDP)

Enhanced Franchise Development Programme is a program owned and organized by the Ministry of Domestic Trade, Cooperative, Cooperative and Consumerism, and the Malaysian Franchise Association. In addition, Dato’ Sri Mohd Najib Tun Abdul Razak had announced this program in October 2015 during the budget speech, and this program will end in year 2020. For the year 2013, the contribution of GDP from services sector was 55.2% and government has targeted to achieve 60% by the year 2020. In efforts to achieve this program’s objective, the Malaysian Government has implemented several initiatives such as introducing the Services Sector Blueprint, setting up the services guarantee schemes, and establishing a research incentive scheme for enterprises. In addition, the Malaysian Government had also reestablished the Services Export Fund and firming up the Franchise Development Scheme (Malaysian Franchise Association 2016).
Furthermore, the Malaysian Franchise Association (2016) also highlighted that Dato’ Sri Mohd Najib Tun Abdul Razak had announced RM20 million budget allocation to implement the EFDP. Moreover, EFDP is a development program for the existing FDP, where the main focus of EFDP is to more foster and encourage more home grown franchises to expand to foreign countries. Franchise Asia (2017) reported that the Malaysian Government was working hard for franchise industry to achieve this program’s objective by 2020, in alignment with Vision 2020. Besides that, there are still potentials for franchise businesses for grow in the domestic market while expanding into the international market, since the government has recognized it as a new platform for home grown franchisors to do their businesses. Moreover, franchising was placed under the ‘Stepping up internationalization of service firms’ in the 11th Malaysian Plan and thus, this plan resulted to the launch of EFDP.

On the other hand, under the EFDP, the Malaysian government had formulated four strategies to enhance home-grown franchisors’ capabilities to expand into the international market aggressively. Firstly, the government will develop a conducive infrastructure to encourage and support home-grown franchises’ international expansion activities. Secondly, it provides an up-to-date report on market research about the international market for homegrown franchise players. It develops complete training programs to improve the knowledge on international franchising. Third, to provide financial assistance for franchisors that are involved in international expansion activities. Lastly, the Ministry of Domestic Trade, Cooperative, Cooperative and Consumerism will provide marketing assistance for home grown franchises through Franchise Trade Mission (Malaysian Franchise Association 2016). This paper is organized as follows. Section 2 reviews the related literature and theories in franchising. Section 3 describes the design of the study and data collection procedure. Section 4 analyzes the data and presents the results. Also discusses interesting findings of the study. Finally, Sect. 5 concludes the paper, states the limitations of the study, and recommendations for future research.

2 Literature Review

2.1 Agency Theory

Even though franchisors get the benefits of the mix of ownership forms and sustain, there is a tendency to convert existing franchised outlets to company-owned outlets in gaining greater access of resources as claimed by Dant et al. (2011). On the other hand, Rubin (1978) criticized that there was another important element in franchising to survive, that is human capital, thus he proposed the Agency Theory. In addition, Agency theory highlighted that a franchisor (principal) depends on the franchisee (agent) to perform some actions on behalf of the franchisor. Contrary to the Resource Scarcity Theory, Brickley et al. (1991) proposed that franchising system is the effective business model in controlling principal-agent problem. In addition, this theory highlighted that there are different interests between both parties (franchisor-franchisee) whereby company-owned outlets will pursue their goals thus creating a conflict of interest.

Moreover, the issues are whether the agents (franchisees) contribute their efforts to be aligned with the principal’s (franchisor’s) goals and either behaving in the interest
of the principal or own interest. Logically, the Agency Theory emphasized that franchise system is a powerful motivator where the franchisors will convert their company-owned properties to franchise to gain competitive advantage by reducing the agency cost. Franchising is a prominent platform for companies to organize their distribution sector. Scholars developed a model to show the partial monitoring where a franchisor only monitors a subset of its companies/outlets (Cliquet and Pénard 2012). In addition, Ishak et al. (2016) also found that franchising allows rapid expansion using franchisee resources such as financial capital and managerial talent as the key to form and support the standing market knowledge.

2.2 Plural Organization Theory

Bradach (1997) brought into Plural Organization Theory that explains about the mix of company owned and franchise properties located under the same brand name known as plural form. In addition, Bradach (1997) identified that most franchise firm chains have a mix of company-owned establishments, and the reason behind this is that some of the formations are more matched to one form of ownership than others. Other than that, one kind of outlet’s presence may bring either positive or negative impacts on each outlet.

Besides, this theory also explained why firms franchise their businesses to gain quick access to the most important advantage of company-owned structures, thus achieving uniformity and adaptation. Besides that, the uniformity and adaptation are the two main goals for firm franchising, whereby uniformity highlighted on design and services experience in any outlet using the same brand name, while adaptation explained about the adaptation of chains toward markets’ change to take advantage on new threats and opportunities. Even though uniformity and adaptation are contradicted, a mix of franchises and companies allows the firms to achieve the goals together. On the other hand, franchising contributes entrepreneurial spirit for the chains and maintain the standard of uniformity of the company-owned properties. Bradach (1997) also argued that by taking both company and franchise engagements together, a chain can control the strengths and overcome the weaknesses of the business. Besides that, Ishak et al. (2016) stated a high number of franchise firms believe that the trust is important to recognize them where this indicates that franchisees are aware to all valuable benefits received from the franchisors.

2.3 Resource Based View Theory

Resources Based View was introduced by Penrose (1959) to deal with resources needed to grow the firms. The discussion highlighted the principles that can lead to the firm’s growth and create duration and speed variables. Also, the available resources are being analyzed to sustain the growth and enhance the expansion. Moreover, the firm can utilize its available resources efficiently through its management and merge its existing resources with other attained resources to further develop those resources into products and gain the return of profit (Penrose 1959). Nevertheless, the limitation of the firm’s capacity of the firm’s growth leads to competition and changes the business environment, motivating the firms to exploit new opportunities. Furthermore, Wernerfelt (1984) proposed the development of tools to analyze firms’ resources, and this scholar highlighted
the issues regarding these resources such as the general affects, attractive resources, mergers and acquisitions, and resources barriers. Resource Based View is a theory that discusses competitive advantage among firms that stresses resources and the capabilities among the firms.

Barney (1991) emphasized that competitive advantage of firm capabilities and resources is based on the scarcity, imitability, value and replaceability. This scholar also addressed that firms in the same market can have heterogeneous positions based on the controlled resources by them (Barney et al. 2011). Barney (1991) added that a firm uses a different set of resources to execute the strategies. Priem and Butler (2001) claimed that resources could not simply be transferred from one firm to another firm without including the cost to achieve the competitive advantage and gain returns. Nevertheless, the issues are the firms’ capability to leverage their core competencies at the early stage of firm development and adapt to the new opportunities of business.

Wu (2010) described that from the resource-based view, a firm is described as a set of resources, skills and capabilities that develops firms’ capabilities and performance, influenced by the firms’ resources. Zou et al. (2010) argued that resources and capabilities have different perspectives, whereby resources refer to all other kinds of assets, while human skill competencies describe capabilities. For franchising, the two sources of strategic assets are important, which are the franchise daily operations routines (Kaufmann and Eroglu 1999), and the franchisor’s brand reputation. (Caves and Murphy 1976). Leiblein (2003) supported that both lead to a greater firm performance as projected by the Resource Based View. These strategic assets can influence firms’ options whether to choose franchising or company-owned outlets. Furthermore, Combs et al. (2004) claimed that in order to expand the franchise business in a different local market, a franchisor requires knowledge on local market and resources. Hence, to access the resources such as knowledge and financial resources, a firm must use franchising strategy. Referring to the Resource Based View, the most important factors that lead to franchise outlets’ performance are the firm’s management skills, organization process, and knowledge (Gorovaia 2011).

3 Methodology

This article will focus on video forums that took place at the Franchise International Exhibition and Conference 2019. For this purpose, a qualitative approach using general inductive approach will be adopted. According to Yin (2009), when a researcher wants to study issues related to ‘how’ and ‘why’, a case approach is the most appropriate methodology. Besides that, Strauss and Corbin (2015) emphasized that qualitative analysis will produce a different type of knowledge, contrary to quantitative analysis. Creswell (2014) explained that qualitative methods enable a researcher to explain the study settings and the emerging theme, thus resulting in richer and more realistic findings. Additionally, the purpose of adopting the qualitative analysis was to allow the researcher to gain experience from the participants through the process of interviewing and interpreting the data (Atieno 2009; Thanh et al. 2015).

Furthermore, the inductive approach refers to approaches that mainly use comprehensive raw data readings to derive the themes, concepts, or models by interpreting the
researcher’s raw data (Thomas 2003, 2006). Additionally, Liu (2016) stated that the focus of inductive approach is for methodological flexibility. In detail, Thomas (2006) explained that inductive coding begins with reading text closely and considering multiple meanings from the text. Next, the researcher then identifies text segments that comprehend meaningful units and then labels the new categories to which the text segment is given. At some phase, the researcher may develop a preliminary description of the category and write a memo for that, thus links it to other related categories in several relationships such as causal sequence, network, or hierarchy of categories. On the other hand, the data for the present study was analyzed by using textual analysis. According to Mckee (2001), textual analysis is defined as a way of gathering and analyzing information in academic studies. Barthes (2004) highlighted that textual analysis’s strength is to form the meaning of the texts studied.

4 Findings and Discussion

For the present study, the forum session was conducted during the Franchise International Malaysia Conference 2019 organized by the Malaysian Franchise Association and the Ministry of Domestic Trade and Consumer Affairs. The researchers participated in this conference. The profiles of franchisors for this study are presented below:

| Company   | Category                        | Founded | Origin country | Role          |
|-----------|---------------------------------|---------|----------------|---------------|
| Company A | Quick service restaurant        | 1955    | United States  | Master Franchisee |
| Company B | Quick service restaurant        | 1981    | Malaysia       | Franchisee    |
| Company C | Café                            | 1997    | Malaysia       | Franchisee    |
| Company D | Education and learning center   | 1987    | Malaysia       | Franchisee    |

For this study, the findings were segmented into four thematic categories, revealed based on textual analysis done on the forum video based on the issue discussed, and focused on the relationship issues between each franchisee as the key personnel in the present study. Furthermore, four dominant themes were identified during the analysis: (i) franchise is a proven business format; (ii) brand equity of franchising; (iii) the franchising cost; and (iv) training and support.

4.1 Franchise is a Proven Business Format

First and foremost, at the early stage of the forum discussion, the question was centered on the participant’s experience on why they chose franchise business. Based on the discussion, most of the franchisees believed that franchise is a proven business format. Franchising is a business expansion method and distributing goods and services by a licensing relationship where franchisor grants the license to a franchisee to conduct a
business under their management, trade name, operating system, brand, and support. In addition, most franchise business models are well-known, and this platform aspires many entrepreneurs worldwide. Importantly, most participants agreed that good franchisors will provide a proven business format with initial and continuous support for their franchisees. Moreover, franchising business format generally assists entrepreneurs considerably in running a good business.

Olotu (2011) claimed that franchisors sell a proven franchising business format to franchisees, where franchisees then receive many benefits like attaining rapid expansion with limited financial capital. In addition, franchisees also own and operate a proven business format and procedure while the franchisors provide expertise in their business areas. In addition, franchisors provide a proven business model with established system and structured operation procedure for their investors (franchisees) so that the risk becomes lower compared to other types of business (Baresa et al. 2017; Spinelli et al. 2004). For example, one participant commented:

[...] and knowing that this brand has its own business model, standard operating procedures, and system, it allows us to be confident enough... The only thing is to come out with the amount necessary to operate our first outlet... (P1).

Indeed, the participants consistently highlighted that the franchisor business format determined the success of franchisees. Furthermore, the franchisor and franchisee relationship is based on the proven business format provided by the franchisor. Most franchisees were successful in their business because they followed their franchisors’ agreement and business format. Another participant stated that:

[.....] I don’t even know how to cook, but obviously, a franchise is equal to a system that have a standard operating procedure... It is a must in franchise... The only reason for us to opt for franchise is because of the guarantee that we have. Something for us to fall back to.... Something for us to refer to...Because anybody when you run food outlet can come to the and next day become a good staff just following the system... (P3).

For this, Davies et al. (2011) highlighted that franchising is a system characterized by mutual interdependence that creates trust between both parties (franchisor and franchisee). In reality, the franchisor depends on a franchisee to achieve their goals, while a franchisee relies on the franchisor in promoting the brand and managerial support. In addition, Baena and Cervino (2012) claimed that companies that remain long in the market with a good performance record provide proven results and reputations to potential franchisees. Potential franchisees view this attribute as an opportunity to reduce entrepreneurial risk and gain proven business format expertise in management and marketing. Besides that, Saleh and Kleiner (2005) supported that franchising is globally recognized as a successful business approach for market entrance and business expansion.

On the other hand, one of the participants mentioned that:

The main reason why we actually become a franchisee is because number one, due the expertise of the franchisor, number two is perhaps doing things on our own, as
individuals, we wouldn’t have the capability or creative thinking to start our own business, and we needed someone to guide us, and the obvious reason was for us to understand the whole concept of franchisor-franchisee. So, for a brand like my business, I believe it almost the same as other brands as well. It is a successful business model that we all go for... We understand about a certain control that we have, but obviously those are certain things that make us do things otherwise... (P3).

To support this point, Davies et al. (2009) claimed that the franchising system’s success is determined by the franchisor’s ability to plan the standard operations for their network. Nevertheless, franchising is categorized as a group of entrepreneurs inspired by innovativeness and autonomy. Thus, it becomes the franchisors’ challenges to develop the standards of business without preventing the franchisee’s goals. Moreover, Lee et al. (2016) found that franchising is developing rapidly as mainstream organizations, because of its brand name and sustainability. In recent times, many franchise firms have expanded to global markets since this system provides support. Additionally, Baresa et al. (2017) supported that the franchising system benefits the franchisee in terms of proven and successful concepts, well-known brands, unique business image, and training assistance. Besides that, the benefits received by a franchisee are adequate with the capital invested by them for productions and resources.

4.2 The Brand Equity of Franchising

Our respondents agreed that a good franchising brand will help grow a franchisee business for the present study. Importantly, when entrepreneurs take a franchise business, they are taking on an established and popular brand name that is already known in the market. Repeatedly, the participants in this forum nominated that franchising’s brand equity makes the sense for them to grow and expand their businesses continuously. Besides that, having a strong franchise brand name is paramount for the franchisee to successful. Prominently, it becomes clear that all participants agreed that their franchisors have already survived decades in their industries and are easily recognized by the customers. Moreover, the brand equity that comes with a great franchisor’s system will benefit all franchisees in the system because they will positively experience its uniqueness. Other than that, all participants also agreed that to make franchisees successful with their franchise system, they need to have interests and passions in selling their franchisor’s brands. For example, the participants stated that:

[.....]. So, I was surprised because this is a big brand to me and we were operating our very first outlet, we went into franchising business without any knowledge, skills, expertise and nothing. Zero for both of us but the important thing is we were confident enough because of its big brand... (P2).

The brand that was chosen by me was a recognized brand because it has been in the business for such a long time. No research was required on my part, but in reality, if you become a franchisee... That the same franchising that you are in this business for yourself but not by himself you know. So, a good franchisor will obviously give you some credibility in running the franchising right... From
our part, I believe that there’s no myth that we needed to understand. Maybe for other brands, I can’t go for that…. But for me, we needed to understand the brand before we put our efforts investing that brand…Most franchisors don’t really need investors. What they need is the owner operator. What they need is, a franchisee who has put a lot of workday today in order to sustain the brand reputation. We don’t want someone who parked their money and that’s it… And I think anybody can become rich franchisees in sense, but it works… Both works, whereby the franchisor puts much money on R&D and tries to uphold the brand reputation and they don’t want somebody who only invests money and do nothing about it because we all grow together (P3).

Additionally, another participant also specified that:

So, first of all, for me, because I have a young kid, I look at the business in education line, because I just feel that I have a responsibility to bring good education to my community, and that’s why I chose this well-known brand with very good brand name… (P4).

To support this point, Pitt et al. (2012) highlighted that franchise brand management has occupied the minds and actions of industry players and scholars since the last part of the 19th century. Knowing the benefits of franchise brand that can be delivered, franchise firms have increasingly focused their marketing activities toward generating and managing brands. A past study by Nyadzayo et al. (2011) found that franchisors play an important part in encouraging brand citizenship behaviors among their franchisees which turn into brand equity. Franchise brands developed and anchored on strong and positive brand relationships are the best way to do the business in complex and freedom-constrained market environments. Hence, franchisees can place themselves in the market and distinguish themselves from non-franchised firms by establishing the powerful brand relationship.

Furthermore, Ghantous and Jaolis (2013) supported that in aligning with business practices, franchisor’s brand is one of the two fundamental elements of the franchise package where the franchisees invest and one of the major resources franchisees pursue when they engage in a franchise contract. These scholars also found that franchisors should strongly assimilate their brands into value proposition to enhance positive feedback from their existing and potential franchisees. An empirical study done by Badrinarayanan et al. (2016) emphasized that brand relationship between a franchisor and franchisees is the most important in determining franchising activities’ success. The findings revealed that franchisor’s trade equity, franchisor’s knowledge specificity and franchisees’ trusts influence the brand quality.

On the other hand, an empirical study by Felício et al. (2014) on 250 Portuguese franchisee firms found that franchisee-based brand equity was a multivariate factor which had a strong influence on the firm’s performance, and this study contributed significantly on the literature by viewing the perspectives of franchisees to franchise performance. Moreover, a past study by (Nyadzayo et al. 2015) found that brand relationship is stronger when the franchisor’s competence is high. Nevertheless, the relationship between franchisor and franchisee has no effect on that relationship.
4.3 Franchising Cost

From the analysis, the participants discussed that franchising is similar to any other businesses where the entrepreneurs spend their money to get the business started. Indeed, most of the franchisors benefited from successful franchisees and continue getting royalties as a return. Typically, royalty will be charged based on franchisees’ gross sales in percentage and will be paid monthly. Furthermore, the participants’ discussion also revealed that franchisees will be ambitious and eager to do the best to grow and manage their businesses as their franchisors also put much efforts for marketing and promotion activities where they really help franchisees boost their sales. Thus, franchisees are willing to pay the royalty to their franchisors as agreed by both parties during the contract agreement. One of the participants stated that:

*The right answer for that question is the eligibility obviously no..... But bear in mind, in any franchise agreement, you do have a contract term for 5 years or 10 years... So, if that particular business... The franchisee business does so well... Obviously the franchisor has all the rights not to renew your contract and take back the particular outlet... But then again, they couldn’t understand that the particular outlet is doing well because of you... They are making out more money through the royalty that you pay... The more money you make, makes the more money they make... Why would you put your efforts on something which is already running... (P3).*

Basically, a franchisee will pay a startup fee to the franchisor and in return, the franchisee is able to use the franchisor’s trademark, systems and ongoing support. From the agency perspective, Vázquez (2009) claimed that as a franchisor continuously provides valuable services, the higher is the return of royalty. As the franchise network expands, some costs such marketing and training increase. Furthermore, Shane and Foo (1999) supported that as the size of the franchise network expands, the franchisor’s efforts in maintaining the brand name are high due to the monitoring cost. In addition, the relationship between advertising fee and franchise survival is positive on growth from the royalties in mature firms. Dant and Grünhagen (2014) determined royalty fees as profit goals of franchisors.

Additionally, Michael (1992) stated that franchise network with high royalties attracts franchisees that can generate high income. When discussing business contracts, both parties (franchisor-franchisee) establish royalties as a percentage from expected sales. Hence, franchisees that failed to meet the target will face losses. On the other hand, there are better chances for franchisees who pay low royalties than franchisees who pay high royalties. During the session, another participant stated that:

*Because I think, when it comes to business, why would you want to take over a centre that we all mentioned just now. It’s all hardwork.. It’s not an easy work even for a franchisor to take over... Why they want to do it, to take over your centre but if they couldn’t manage it, it won’t do well... So, like what he mentioned, royalty is good money for them... (P4).*
Besides that, most of the participants stated that the relationships of franchisors and franchisees are stated in the contract agreement where the initial franchisee can be considered as the upfront cost for joining the franchise system, and the royalty is the ongoing fee that remains to the franchisee in the system. For that, another participant stated that:

*I don’t agree that the franchisor is just pressing franchisee to make more money… I don’t agree on that… Because, I think both parties are in the winning sides, because if we sell more with the turnover for each outlet, eventually the profit will also gain, and me as the franchisee will also gain… It means, in this respect, whenever people see promotions done by the HQ or principal, I think maybe the budget is a little bit too small because the franchisee need to absorb whatever the promotions cost and so on…. (P1).*

In aligning with this point, Brickley (2002) provided the findings on the determinants of royalties in contract through examining how termination laws of state franchise affect the franchise contracts. Likewise, this scholar found two-sided moral hazard model in explaining the terms in franchise contract, and that increases the importance of franchisor effort. Thus, the franchisee seems to pay a higher fee to franchisor in states with protection laws. An empirical study by Bordonaba-juste et al. (2017) found that the royalty franchisee fee is the price variable used to attract new franchisees and increase the involvements of outlets in franchise network. Furthermore, conflict is natural in franchising, where the franchisor attempts to add values to the network system and gets benefits from the royalties, while franchisees are always seeking ways to increase the profits for the outlets (Combs et al. 2004).

4.4 Training and Support

For this study, the respondents also highlighted that training and support from their franchisors and agencies are really helpful for them as franchisees, especially at the early stage of their business operations. Furthermore, franchisees will benefit from the franchisors from continuous training and support, including initial training, operation training, and management training. Practically, every franchise system will provide a training program for their franchisees. Additionally, getting training in franchising business is important for franchisees to know about their franchisors’ business models, management, marketing, and products. Besides that, the trainings may be followed with onsite training and support, where most franchisors will send one or two representatives to help franchisees through the opening stages of their outlets. During the session, one of the participants described that:

...I moved from my place in the northern state to the southern state during that time, because the headquarter was there. I was trained and after that, during that time, they wanted to open a new outlet in Klang Valley, and I was the operation support team. After seven years, we thought of having our own business that time, and then we started our first outlet…(P2).

……and when you take a franchise business, you will be guided by the franchisor, where they provide the operation training, where you get to know how to run the
business yourself. So, with that, I learned from them and I started my own outlet operation and yes, you must master it and then can be your own boss… (P4).

In term of staffing, we chose our own staff and sent them for training initially, together with high management team of my outlet so that they can undergo a rigorous training from A to Z according to their operation time, or which outlet they were being put for that kind of training. And it becomes on delivery stocks, we maybe at first of a few months of business operation, we were still in the dark on what was the trend of the food products that can be consumed by the customers, but later on, after some time, we already knew (P1).

Additionally, most of the participants highlighted that supported agencies in Malaysia really helped them provide financial assistance to assist them in starting their franchise business. Indeed, they described that a great way for new franchisees to build and get started with their businesses is by engaging and getting support from government-related agencies, as Malaysia is a franchise-friendly country. Furthermore, they continuously provide support, organize events, and offer franchisees training courses to develop and enhance their businesses successfully. On the other hand, the government supports agencies such as the Malaysian Franchise Association, Perbadanan Nasional Berhad and the Ministry of Domestic Trade and Consumer Affairs, since they strongly support entrepreneurs by providing knowledge skills needed to operate their franchises in the competitive market. The participants constantly highlighted that:

I would say that it’s not the government, but maybe the organization of the government, in term of financing and so on… I want to mention that some related agencies also give support or at least give franchisee some initial financing to start our businesses… At least they can provide some financial assistance… (P1).

[……] Only that PNS… Thank you so much PNS for the support and training, and the cost that I took before opening my outlet…(P2).

In aligning with this point, The Malaysian Franchise Association (MFA) was established in 1994 to support the government’s program’s execution in promoting entrepreneurship through franchising. The creation of MFA was to promote the growth of franchising in Malaysia. Furthermore, under one umbrella, there are franchisors, potential franchisors, master franchisees, potential master franchisees, government agencies, financial providers, consultants, advocates, suppliers and vendors of franchises. For those substances, all involved and potential parties in franchising are compliant with the Code of Ethics of Professional Conduct of Franchise Practitioners by MFA. Through the committee of MFA, this organization is committed to endure the advancement of franchising sector in Malaysia which is aligned with Vision 2020 (SMECorp 2018). On the other hand, the objective of this organization is to unite franchisors, franchisees and the support institutes in creating good image of franchise business (Malaysian Franchise Association 2018).

Other than that, Perbadanan Nasional Berhad (PNS) is an agency under the Minister of Finance Incorporated with the mandate to lead the development of franchise industry in Malaysia. The objectives of PNS are to develop the franchise industry and increase the number of franchise entrepreneurs through its expertise by offering quality products
and services (Perbadanan Nasional Berhad 2018). Furthermore, PNS also plays a role in leading the growth of Malaysian franchise industry to achieve their goals to produce more entrepreneurs in franchise businesses worldwide. In addition, one of the main goals of PNS is to develop home-grown products and market them to the international market. PNS is also offering special schemes and guidance for franchisors and franchisees and is welcoming franchise partners to Malaysia (Perbadanan Nasional 2018). Moreover, the Ministry of Domestic Trade and Consumer Affairs’ objective is to provide the franchise system as one of the platforms to develop a resilient, viable and competitive Bumiputera commercial and industrial community that are aligned with the National Development Policy (DPN). In addition, it also exists to increase the participants of Bumiputera franchise entrepreneurs who are competitive, viable and resilient. Next, it is to encourage more Bumiputera’s involvement in trade distribution, particularly in the franchise systems and service sectors thus allowing them to contribute to Malaysian economic growth (KPDNKK-BERNAMA 2018).

5 Conclusion and Limitation

In general, the analysis revealed key findings that explained several conclusions. Therefore, some limitations are discussed here to improve the practice of franchise industry in Malaysia. This study shows that proven business format, brand equity, franchising cost, training, and support necessarily directly impact a franchisee’s business. It is important for franchisees or potential franchisees to know in detail about their franchise contracts and what the franchisors will provide for them with these findings. Access to proven business system and established brand will benefit the franchisees while running their franchise businesses. However, franchisees must enhance their knowledge and skills by following the training consistently. Additionally, franchisees must follow their franchisors’ business systems willingly to benefit from the franchisor brand truly. As franchisees are doing well in their businesses, franchisors devote royalty to the amount of time and resources provided by them for their franchisees to ensure the best practices and include all necessary operation systems to remain successful in the competitive market. Finally, Malaysia is a friendly franchise country. Through the support from several agencies such as the Ministry of Domestic Trade and Consumer Affairs, Malaysian Franchise Association and Perbadanan Nasional Berhad, the industry franchise will continue to grow rapidly in the future.

As this study was conducted using a qualitative methodology and not statistical analysis, generalization may not be claimed (Finfgeld-Connett 2010). Whilst this paper has highlighted some important considerations, it is vital to acknowledge a few limitations whereby the present study focused on different industries. Thus, it would not yield substantial results. Due to the nature of deductive study, generalizations cannot be made to the other types of relevant industries of franchising in Malaysian market. Since the present study focused on different industries, similar studies need to be conducted on other franchising category. Furthermore, future researches need to provide empirical data from similar category and apply other methodological approaches. Since the world was plagued by the pandemic crisis that started in December 2019, many industries have
received its impact. They are no exception for the Malaysian franchise industry. Therefore, future studies are also proposed to explore the effects of the Covid-19 pandemic on the relationship between franchisor and franchisee.

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