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**CHALLENGES OF FRANCHISING IN MALAYSIA: A CASE STUDY  
APPROACH**

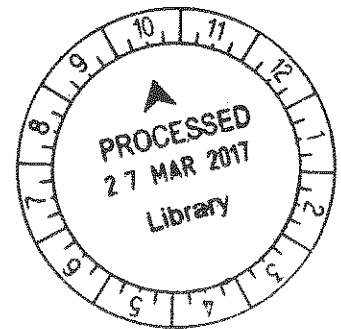
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## DECLARATION

I hereby declare that this thesis is my own work and effort that it has not been submitted anywhere for any award. Where other sources of information have been used, they have been duly acknowledged.

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Thank you

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## ABSTRACT

This study is focusing on challenges of franchising business which based on in strategic management point of view especially in 9 steps of setting up franchise system, TOC and Agency theory. There are lack of researcher had done on strategic management study in franchise business. Moreover, less scholar paper can be found about the challenges of franchising business especially in the context of Malaysia. So, the purpose of this research is to study the challenges of franchising business that had implemented Strategic Management theories (TOC and Agency theory) by case study approach.

There is no best research design for any research, however, a good research design must be able to identify the methods and procedures for the data collection and analysing process. For this purpose, this research will adopt qualitative research methods as qualitative research methods will enable the researchers to understand people better based on what they say and what they do. In a word, the type of investigation of this study is a qualitative study which is single case method. This is to identified the challenges of franchising business in Malaysia that adopted the Strategic management theories. In short, the recommendation and personal reflection of researcher were drawn in the end of this report.

The key findings of this study shows interviewees has no any higher education level and therefore it was assumed that they have less knowledge on the Strategic Management theories. In conclusion, business management of the organisation are more to "Trial and Error", which opposed with the Strategic Management theories which emphasize on careful planning and analysing before commencement of activities.

**Keywords:** Franchise Business; Agency; TOC; Retail Chain Stores; Malaysia

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## Chapter 1 Overview

Chapter one is the initial part that allow researcher to discuss the basic knowledge and information which is relevant to the research topic. The introduction is involving the background of study of the chosen topic. Background of the study is the part to explain what is the reason of doing this study and followed by a problem statement which discusses the challenges of doing franchising business in Malaysia. The further approach of this study will be included on next following part with the clearer structure of this study.

### 1.1 Background of Study

Malaysian External Trade Development Corporation (2016) mentioned that franchising system of Malaysia has been growing rapidly over the years because 40% of the retail businesses being operated through franchising and this is considering as the new way of doing business in other countries such as Middle East, China and Malaysia. Therefore, market of franchising in Malaysia have been stimulated by these countries and growing rapidly from year to year.

Generally, franchising is one of the business model which allow business to expand and growth in order to popularize their concept of business globally (Hua and Dalbor, 2013). Fast food restaurants are one of the business which preferred to adopt franchising as business expansion because franchising still well received and become the preferred choice for most of the business owners (Herold, 2014). According to Kotler and Keller (2012), they mentioned that franchising allows organisations to gain more competitive advantages since they have more purchasing power, better economic of scale and brand recognition as the brand will be wide spread through. Basically, franchisor will transfer managerial skills and staff training to franchisees as it is bundled in a package of being franchisees (Sadi and Henderson, 2011). Nowadays, majority of the business was operated under franchising and franchisor doesn't need to acquire huge amount of capital but utilise

the capital of franchisee to expand their business within country or overseas (Weaven and Frazer, 2003).

Nonetheless, Zhen (2013) affirmed that most of the franchisor are from Food & Beverage sector such as Secret Recipe, DailyFresh, Marrybrown and England Optical and considered as top franchisors at overseas, therefore, the franchise module business is well-received by most of entrepreneur as it allows to expand to global market.

However, it is a challenge for the franchisee and franchisor to maximize their profit as the objective of doing business are differences between both parties (Lafontaine, 2014). Hence the need for this study to provide an insight into franchise business to identify the challenges from different perspectives, specifically from the perspective of the franchisor, as well as the franchisee.

## **1.2 Problem Statement**

Water (2013) stated that Malaysian cafe franchise Secret Recipe failed to catch on in Australia despite investors had invested \$7 million to establish franchise in Melbourne and found out the performance are not very well.

According to Roslan (2014), she mentioned that Malaysia Budget 2015 announced approximately of RM20 million was allocated to assist local citizen who are need capital support because there were 7,525 Malaysian franchisees and 757 franchisors registered under Ministry of Domestic trade, Co-operatives and Consumerism of Malaysia. By looking back in February of 2011, 6,323 registered franchisees with 499 of registered franchisors, the data showing that franchisee are increase by 19% while franchisors is 51.7% (Samy, 2011). From above, this indicating the business owner are tending to franchise their business but there is less entrepreneur interesting with the franchise business due to lack of effectiveness of franchise system in Malaysia (Ministry of Domestic Trade, Co-operatives and Consumerism, 2012). Moreover, Isa et al. (2012) mentioned that 40% of franchising

business activities in Malaysia are operating unsuccessfully even franchise is a good business idea which placed as high priority by Malaysian government for the growing rate of franchise business.

As no entrepreneur want to drive their business toward failure as challenges can turn it become opportunities and drive toward successful (Ashkenas, 2012). Therefore, this is huge challenge for person who involved in franchise business to figure out how to identify the challenges when running business (Dunning, 2014). Hence this research is very prudent to study the challenges of franchising business in context of franchise process model (9 Steps of Setting Up a Franchise System) especially exploring its relevance to specific strategic management theories (TOC and Agency theory).

### **1.3 Research Objectives**

Research objective are the results being searched and what to be achieved by the researcher at the end of research process (Martindale and Taylor, 2014). This is to clarified the objective and enable researcher to focus on the study and helps in collection of data which are relevant to this study. Therefore, this research is aim to review the challenges of franchising business in Malaysia. In addition, TOC and Agency theory are important as both theories are related when conducting this study. The main objective of this study is

- 1) To study the application of Strategic Management Theory, especially Agency theory and Theory of Constraint in franchising business.
- 2) To identify general perspective from franchisor and franchisee based on SM theories such as 9-steps of setting up franchise system, Theory of Constraint and Agency theory to identify the challenges based on 9 step of the franchising process.
- 3) To identify perceived value by the real world entrepreneurs on SM theories, specifically, the Agency theory and TOC with relations to franchising business.

4) To identify the challenges that might be faced by franchise business.

From the research objectives, aim of this research is to identify the challenges of franchising business which is useful for those who interesting on operating franchise business which involving many processes when starting-up.

#### **1.4 Research Questions**

A well-defined research question is initial step in a research project to allow researcher investigated through collecting data (Johnson and Christensen, 2014). Research question is a statement that identifies the phenomenon to be studied and identifies the type of study (Qualitative, Quantitative, or Mixed) before research questions is developed (Creswell, 2014). Therefore, this research was focused on exploring franchising business which is related to retail chain stores (Eco-Shop Marketing Shd. Bhd.) which is based in Malaysia. This company have franchisees and has been franchising in Malaysia for a substantial number of years.

There are 4 main research questions concerned within this research as following:

- 1) Are the Strategic Management Theory such as TOC and Agency theory applicable to the franchise business?
- 2) What are the consequences to real world business that adopted or did not adopt the 9 steps of setting up franchise system when franchising a business?
- 3) What are the perceived value by the real world entrepreneurs on SM theories, specifically, the Agency theory and TOC with relations to franchising business?
- 4) What are the challenges of franchising business based on franchisor and franchisee perspective in term of Strategic Management, specifically with relations to the 9-step process?

## **1.5 Significance of the study**

This research will provide franchisor and franchisee have a wider view on the challenges might be happened in franchise business. Based on the research objective on this study, this research will narrow down on the specific business such as local small medium entrepreneurship, however, there are less paper can be found about the case study of franchising business, especially in context of Malaysia. This research paper will serve as the case study about challenges of franchising business in Malaysia, for future scholars to continue research on the practically of other Strategic Management theories in retail chain stores and allow franchise business to reach its greater milestone.

### **1.5.1 Significant to Academic**

This research will definitely provide a comprehensive understanding of the franchising business in Malaysia in order to provide a platform for future studies as reference. From this research, researcher can review the relationship between a successful franchise business in Malaysia and strategic management (SM) theories, specifically, the Agency theory and TOC that relate to franchise business. Furthermore, this research also provides a comprehensive understanding of the franchising business in Malaysia and as reference for future studies.

### **1.5.2 Significant to Industry**

Next, this research will provide a certain of possible challenges which is based on franchisee and franchisor perspective. In order to maintain the accuracy of this research, brand awareness will be used as the measurement model and adopt it in questionnaire which have be done by previous researches. Besides that, this study also provides understanding possible challenges based on franchisor and franchisee perspective. Furthermore, this also provide better understanding on the practicality of strategic management (SM) theories in Malaysia's franchising business.

## **1.6 Scope of study**

Objective of study is mainly focus on a retail chain store, Eco-Shop from the perspective of franchisor and franchisee. However, although the scope is limited, it is still valid as there is a lack of research of challenges in franchising business in Malaysia. Therefore, this research will focus on a single company which is operating in Malaysia. This research will be conducted via interview. The criteria of the interview are as per below:

1. Participants of the research: Franchisee and Franchisor.
2. Organisation: Eco-Shop Marketing Sdn. Bhd.

## **1.7 Limitation of study**

When doing this research, there are few of limitations facing by researcher as following:

### **1.7.1 Limitation of Time**

The time given is short and considered as time constraint. This study is need to be completed within 4 months and it would not be possible to expand the interview pool of companies. This research is only focus on single company within Malaysia. A retail chain store, Eco-Shop was chosen to represent franchise business in Malaysia.

### **1.7.2 Interviewer Experience**

In this research, researcher have lack of experience in conducting interviews. Researcher also unfamiliar with social research methods and may cause missing information or areas to follow-up on during interviews. Furthermore, interviewing knowledgeable and experienced people for their experience and advice might need some proper of social skills. Researcher would need to care of verbal language and non-verbal language when conducting interview session with interviewees.

### **1.7.3 Data Collection Limitation**

Interview was conducted with selected participants. However, top management might not fully answer the questions which might not to be fully reflect the full picture of this research. This is because some of question might be sensitive as clash with interviewer's social norms or illegal behaviour. Therefore, this might lead to responses that do not reflect the interviewee's actual views or behaviours.

### **1.8 Operational Definitions**

The following is a list of key terms and definitions of key terms:

#### **Franchising**

According to Barringer and Ireland (2012), they have defined that franchising is a firm which already has successful product and service and form a business organization in order to license their product and service and exchange for initial franchise fee.

#### **Franchisor**

Franchisor defined as the person of company who grant the right of doing business under licensed trade mark of franchisee (Barbara, 2005).

#### **Franchisee**

According to Scarborough and Cornwall (2016), both of them defined franchisee as the independent people who have the right to distribute the good and service which under control by franchisor.

#### **Theory of Constraint**

Agency theory talks about the agency cost which arise due to the conflict between company's managers and stakeholders, or the interests between both parties are