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Franchise Relationship Quality Between Franchisee and Franchisor in Malaysia: The Exogenous Factors

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Franchising has often been widely accepted as an effective way to conduct and expand businesses. However a franchise system does not guarantee success in business and depends on a good relationship between both parties namely, franchisor and franchisee. These franchise relationships are unique and differ from the conventional business operations which require mutual co-existence and symbiotic relationship. Nevertheless, without a good understanding between franchisor and franchisee, this relationship may have disputes that may require legal action for resolution. The success and failure of any franchise business are closely related to both the franchisor and franchisee and to what extent can they fulfil their responsibilities in order to maintain the level of franchise relationship quality (FRQ). Even though previous empirical researchers had viewed FRQ as a major indicator for the success of franchising system, the literature review showed that there was a lack of such research in identifying the exogenous factors that determine the FRQ. Thus, this qualitative research was conducted to identify the exogenous factors that influence the FRQ between franchisee and franchisor. This process involved the integration between an existing literature reviews and industry practices which emphasized on the gaps to solve the problem statement. Semi-structured interviews were conducted in this research to answer the four (4) main issues; ten (10) dimensions of FRQ, fourteen (14) exogenous factors that influenced the FRQ had been identified.

Keywords: Franchisee, franchisor, franchise relationship quality, exogenous factors

1. Introduction

The importance and contribution of franchising in retail business towards the development and creation of new franchise entrepreneurs and its impact on the economic growth have long been recognized. The earlier scholars recognized that franchising is becoming a fast, effective and productive way to start-up and expand a business (Lafontaine, & Kaufmann, 1994; Lashley and Morrison, 2000). Even in some developing countries, franchising has been adopted by government as a vehicle for entrepreneurial development (Hoe, 2001a) and also as a catalyst for economic development (Hamid et al., 2003). The Malaysian Government has put in serious efforts and given its full support to encourage the growth of franchising and utilise it as one of the strategies for entrepreneurial development in the country (Hoe, 2001). The government initiated The Franchise Development Programme in 1992 and become part of the government’s effort in achieving and creating a new commercial and industrial community.

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Bernama (2008) reported that the Ministry of Domestic Trade, Co-operative and Consumerism (MDTCC) (formerly was known as Ministry of Entrepreneur and Cooperative Development) has targeted to develop 1,000 franchisees and 50 franchisors under the Ninth Malaysian Plan (2006-2010). The government has also allocated of RM100 million for the franchise development programmes with the emphasis on creating new franchise businesses. This RM100 million was given in the form of loans to new franchisors and franchisees in setting up their new business or expand the current business (Bernama, 2008). This evidence was justified when in 1995, there are only 125 franchise systems were registered with MDTCC and until October 2011 was increased to 573 numbers of franchise business that were registered (MDTCC, 2011).

These incentives and support given by the Malaysian government toward encouraging franchising were found to be in line with the views of most scholars where franchising have been seen as a growth strategy in the global business activities. But much depends on the quality of relationships between franchisor and franchisee (Justis & Judd, 1989; Lee, 1999; Morrison, 1996 & Chiou, Hsieh & Yang, 2004). There are a potential of conflict arise in a relationship when both parties are mutually dependent, bound together by a contract, and must rely on inputs from both parties (Harmon & Griffiths, 2008; Maritz & Nieman, 2008; Jambulingam & Nevin, 1999) and many franchisees not satisfied with franchisor's performance (Purvin, 1994). Nevertheless, some of the conflicts arise when franchisees are not performing well and declining in sales. This also may destroy the relationship between franchisor and franchisee. In fact the termination of contract between franchisor and franchisee give a multiple of implications and it will end-up with lawsuits and proceedings.

Chiou, Hsieh and Yang, (2004) acknowledged that some of the factors that influence the quality of relationship are communication, service assistance and competitive advantage. While the franchisor's brand name is also being identified as antecedents that effects of the on the quality of the relationship factors (Lee, 1994) and others found that the on the organizational form of the franchise's internal environment (Yang, 1994). From the franchise perspective, Hoon (2002) identified that the franchisor-franchisee relationship is as the most important element that determines the franchise entrepreneurial strategy, leading to their financial success.

These indicate several exogenous factors that dictate the quality relationship of both parties in the franchise system. Therefore the importance role of exogenous factors in determining a quality of relationship between franchisor and franchisee are not deniable. But yet, until today, there has not been much research has been conducted in this area. Thus, it can be seen that the implications of quality relationship between franchisor and franchisee have yet to be fully explored, and that a better understanding of the factors that influence to a high-quality relationship between franchisor and franchisee would be beneficial for both parties as well as other stakeholders.

2. Research Questions

In earlier studies, Kaufmann and Rangan (1990) found that franchising businesses are facing intense pressure as a result of being highly competitive. This pressure directly affects both parties and can lead to rupture and loss of the business (McCosker, 2000). Frazer (2003) emphasized that the success of the relationship between franchisees and franchisors rely on a strong partnership between them. This was supported by Alzola and Monroy (2005) who advocated the importance of cooperation between franchise networks and further strengthened the quality of the franchise relationship between the two parties. Therefore, strengthening the quality of the franchise relationship between both parties is essential to the franchisees and franchisors. Knowing the factors that affect the quality of the franchise relationship between franchisees and franchisors is crucial for the success of this business. However, even though previous empirical researchers had viewed FRQ as a major indicator for the success of franchising system, the literature review showed that there was a lack of such research in identifying the exogenous factors that determine the FRQ. Thus, this qualitative research which is different from previous studies was conducted to identify the exogenous factors that influence the FRQ between franchisee and franchisor. This process involved the integration between an existing literature reviews and industry practices which emphasized on the gaps to solve the problem statement. In taking into consideration its emphasis on the quality of the franchise relationship which required a thorough study, the questions for this study are:

1) How do franchisees and franchisors foresee the dimensions of franchise relationship quality that should exist between franchisors and franchisees?

2) What are the exogenous factors that affect the franchise relationship quality between franchisors and franchisees from the perspective of franchisees and franchisors?

3. Literature Review

3.1 Exogenous Factors

Most dictionaries define exogenous factors as the causes or effect of something to the dependent variable from external factors. Frequently, exogenous variables are used for setting arbitrary external conditions, and not in achieving a more realistic model behaviour. Results from the external factors are usually beyond one's control. For example, the level of government expenditure is exogenous to the theory of income determination. Piercy (1982) highlights the fact that the degree of involvement in foreign operations depends on exogenous motivating factors, that is, whether the motivations were as a result of active or aggressive behaviour based on the firms' reactive external environmental changes.

Chiou, Hsieh and Yang (2004) has classified the exogenous factors as the constructs covering communication, assistance in operating manuals, training and the competitive advantages of the franchisor. They also argue that communication is a human activity that can be controlled. They found that three (3) main elements that strongly influence the relationship between franchisees and franchisors is communication, support services and a competitive advantage by the franchisor

Usually in the context of franchise business relationships, franchisors use a variety of communication instruments such as newsletters, emails, letters, site visits, meetings, meetings and others (Mublemean, 1996). Communication can be formal or informal and effective communication is two-way communication (Kane, 2001; Laurie, 2000). Tikoo (2005) emphasizes that franchisors typically use communication to resolve conflict with franchisees. This is supported in the latest discovery by Watson and Johnson, (2010) who looked at the role of communication in strengthening the relationship between franchisors and franchisees. Davis (2004), emphasizes the importance of corporate communication from the franchisor to deliver the information and business direction. These findings reinforced the findings of Pearce (2008), who found that the communication and the rules of effective communication channels will influence the level of communication in the franchise business.

From the perspective view of franchisees, Roh and Yoon (2009) studied more extensively about the factors of support provided by the franchisor to the franchisee. Franchisor support is divided into four (4) main elements of a franchise prior to the implementation of pre-operational support and three (3) other postoperative covering centralized purchasing support, communication and business assistance. They found that all the factors have a strong influence on the ongoing relationship with the franchisor. The work of Perry, Cavaye and Ritchie, (2002) did not negate the role of technology in strengthening relationships with franchisors. Based on their review, the focus is only on the technology and they do not look at other factors related.

Auriol and Picard (2009), in their study of public facilities in developing countries classify exogenous factors as franchise fees payable by the franchisee to the rights granted by the government. Justis and Chan (1991) found that business success requires entrepreneurs and franchisors understand the significance of the impact of training on business. Training either through formal or hands on mainly are the lifeline of the person to succeed in the organization (Davis, 2004; Torikka, 2004; Umbreit, 1989).

Frazer (2001) in looking at the failure of the relationship between franchisor and franchisee had tested two (2) main variables, namely the franchisor support and also the level of life expectancy (`level of life cycle') for franchisees. He suggested that, to strengthen cooperation relations, franchise products and services must be at maturity level of life cycle and has a strong market. Sousa and Bradley (2006) have identified the influence of culture and communication between both parties was a great contribution to the quality of the franchise relationship. Spencer (2007), found that the regulations and operating standards were effective in promoting the franchisor-franchisee relationship, while Herrington (2006) looked at the role of advertising as a significant contribution to the satisfaction of the franchisee.

In the Malaysian context, researchers Hanafiah and Senik (2002), conducted a study to identify factors that lead to success in the franchise business. In their study, twenty (20) factors that lead to success in the franchise business have been identified. A total of seven (7) factors were identified as important factors influencing the success of the franchise business. Among these include (i) a good image of the franchise business, (ii) support and comprehensive training by the franchisor, (iii) the products have been identified in the market, (iv) a fair agreement between the franchisee and the franchisor, (v) the selection of franchisees, (vi) the existence of a strong trust between franchisees and franchisors and (vii) a continuous communication link between franchisees and franchisors. However, they do not look at the factors that influence the quality of the franchise relationship, but in general determine success in the franchise business. Based on the seven (7) factors above, six (6) has a strong correlation with quality issues between franchisor-franchisee relationship that is the influence of exogenous factors.

3.2 Franchise Relationship Quality (FRQ)

The effectiveness of a successful franchising organization can be undermined by failure to emphasize the quality of relationship. The ideal franchisor and franchisee relationship is built on mutual trust, consideration, and cooperation. It is vital for the success of both parties.

The relationship at its optimum should be mutually beneficial and involve shared effort, should enhance profits, maximize market share, product sales, and growth for the franchisor and franchisee (Justis & Judd, 1989; Shane, 1996, 1998; Brickley & Dark, 1987; Brickley et al., 1991). The important thing which is undeniable in this relationship is that FRQ has been established between the two parties and it has been much discussed by earlier scholars as an intangible value ('intangible value') associated with the expectation of the satisfaction of the purchase transaction product or service between sellers and buyers (Levitt, 1986). Johnson (1999) thinks that the FRQ more general concept of performance between the relationship of the two sides. While Jarvelin and Lehtinen, (1996) refer FRQ to the extent of consumers' perception of the overall relationship expectations, predictions, goals and desires that clients expect from relationships transactions carried out. Earlier Gummesson (1987), identified FRQ dimension as comprising of (i) the professional relationship and (ii) social relations.

To create a relationship in the long term, quality relationships between business firms and clients must be maintained. Customers at the moment give an attention to the overall quality of communication. The assessment of the relationship quality is based on past experience, expectations, forecasting the future, goals and the customers' wants (Crosby, Evans, & Cowles, 1990). Even the quality of the relationship has been proven a positive relationship with the customer loyalty (Hennig-Thurau & Klee, 1997; Hennig-Thurau, Gwinner, & Gremler, 2002; Roberts, Varki & Brodie, 2003).

Based on the definition FRQ, generally some researchers argue that it was difficult to establish a uniformity of the franchise relationship quality between the two parties involved (Rauyruen & Miller, 2007; Robie et al., 1998). Henning-Thuruan and Klee (1997) has defined the relationship between the firm's quality and customer business as manning levels to meet customer relationships associated with the relationship. However, such franchise relationship quality constructs have been developed by previous scholars through a number of elements and components. For example, in the study by Wong and Sohal (2002), they found that the existence of relationship quality at the highest level between the customer and the seller is very important to establish trust and commitment between the two parties.

Tseng (2007), emphasized that the high quality of the relationship will lead to customer trust and a perception of honesty dealer business performance capabilities in the future because past performance is very satisfactory. Service providers will continue to receive feedback on the services provided and indicate more information on business development to clients. This will directly help the firm provides strategic direction for the future of business stability and will maintain the quality relationships with clients (Tseng, 2007). In addition to maintaining the quality of long-term relationships will facilitate both parties to understand each other better and meet the needs of customers (Czepiel, 1990).

In this study, we examined the exogenous factors that affect the franchise quality relationship (FQR).

3. Methodology

3.1 Application of Qualitative Research

Research methodology, whether quantitative or qualitative has its own role and its importance. However, several scholars in the franchise business of the opinion that the importance of qualitative research is needed in the research field of franchise businesses since the gap between academic research and industry practice is large (Doherty and Alexander, 2004; Hopkinson and Hogarth-Scott, 1999). Moreover, in terms of the history and development of franchise business in Malaysia, it is still in the phase of consolidation. Therefore, this exploratory study is needed due to lack of research on the relationship between franchisors and franchisees in Malaysia (Hoe, 2001a; Hoe, 2001b; Hoe and Zainudin, 2003; Hoe and Watts, 1999; Abdullah, et al., 2008; MDTCC, 2009). Hence, based on these arguments, the qualitative approach was used in order to probe and obtain as much in-situ information as possible in order to make this research rich and meaningful.

Previous work by Amy Azhar (2003) argued that the development of a theory is more suitable than testing theory in the study of franchise businesses since the gap between scientific discovery and industry practices is so wide (Gauzente, 2002). Historically, Young, McIntyre and Green (2000) in discussing research on franchise business advocated that the qualitative approach is most appropriate because they found only 7.7 percent was conducted via the qualitative approach. This statement is in line with the opinions expressed by Elango and Fried (1997) who considers the lack of qualitative research in the field of franchise business is a defect (handicap') in scientific research. This coincides with the views of Hair, Bush and Ortinau (2009), which emphasizes the importance of using qualitative research when there is a need to obtain preliminary data or development model. But the question also arises frequently in qualitative studies on the approach to be used.

Most qualitative researchers do not have uniformity in determining the approach to conduct a study (Merriam, 2009). Some researchers use the traditional approach based on the basic theories (Bogdan and Biklen, 2007). There is also a theoretical approach to orientation and tradition (Patton 2002). In fact, some are using theoretical paradigm approaches (Denzin & Lincoln, 2000). Not at the least some researchers used an overview approach (Cresswell, 2007). Finally, there are also qualitative researchers who use the epistemological approach with theory (Crotty, 1998; Flick, 2002; Johnson & Duberley, 2000; Merriam, 2009). The approach is a method to understand and explain how we know things (Crotty, 2007; Merriam, 2009). It can be seen in various perspectives such as (i) 'positivist', (ii) `constructivist', (iii) critical, and (iv)` realism' (Weaven, 2004; Merriam, 2009). Since this study is based on the knowledge to track the dimensional understanding of the quality in the franchise relationship and the factors that influence the quality, then the epistemological approach and the theory will be used. This approach also provides future researchers with ample opportunity to embark on a new study pertaining to the area being investigated. The epistemology perspective approach with theory can be summarized as in Table 1 below.

Table 1: Comparative Perspective Epistemology Approach with Theory

Perspective / Remarks	Positivist	Constructivist	Critical	Realism
Purpose	Forecasting, controlling and generalize	Explaining, understanding and interpretation of studies based on the theory	Converts, liberate and empower	Reconstruction, problem solving, questions and interruptions
Methodology	More on quantitative methods such as hypothesis verification, testing and questionnaires	Based on the basic theory of relevance and depth interviews, observations and extensive involvement	Intellectual transfer as action research, focus groups and in-depth involvement	More on qualitative methods such as action research, convergent interview and case studies
Reality	Objective and external reality	Various realities	Various realities and more in cultural contexts	Solve something truly happening in the outside
Direction of research	Measuring research direction of bilateral relationship between variables	Reconstruction, reinterpretation of various belief systems and reality	Critical knowledge idiographic	Developing knowledge-based realities
Interaction researcher with the phenomenon	Independent of interacting	Mutually interacted	Mutually interacted	No interaction
Data collection	Statistical data collection	Specific sample statistical data and sometimes non-specific statistical data	Specific sample statistical data and sometimes non-specific statistical data	More to information and not statistical data

Source: Developed for this study based on the synthesis of Flick (2002), Merriam (2009), Mohd Amy Azhar (2002), Raply (2007) and Weaven (2004).

3.2 Data Collection Procedures

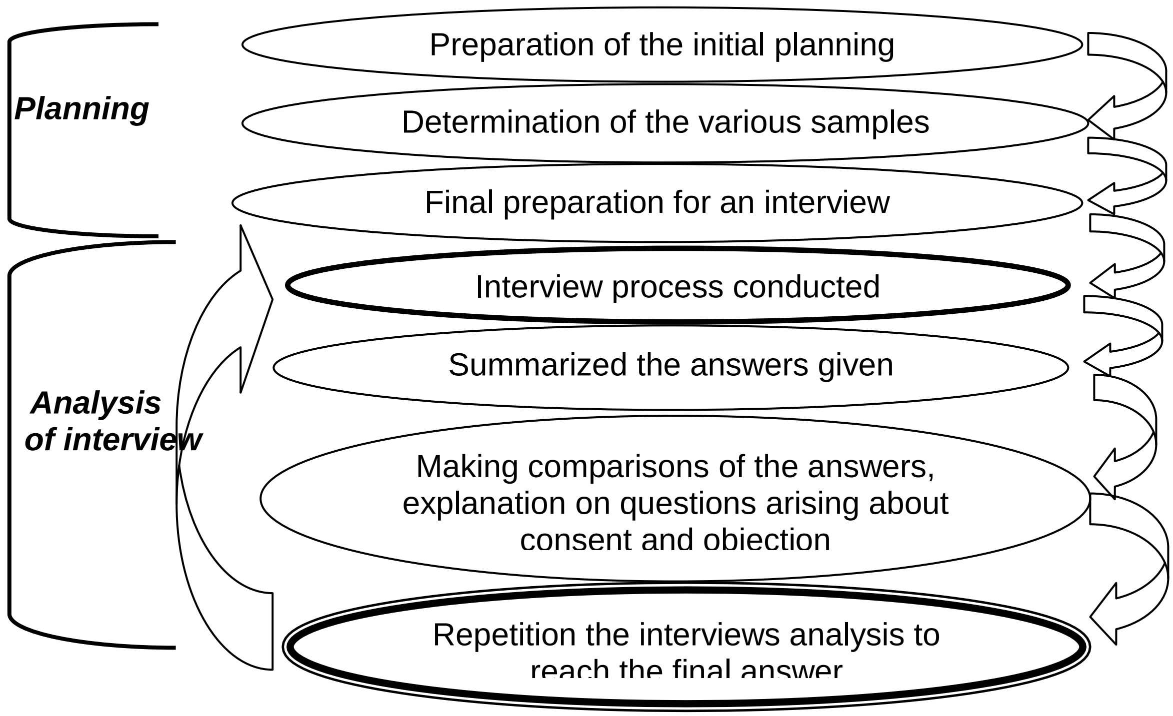
The data collected procedure is initiated by sending a letter of invitation to the list of respondents identified based on a list of sample selection set. List of respondents was recommended by the Perbadanan Nasional Berhad (PNS) based on their experience of dealing with franchisors and the level of cooperation. A total of ten (10) franchisors have been identified by the PNS as respondents in this study and they are industry experts who have been involved in the franchise business for more than five years. As this qualitative study requires an in-depth investigation of the franchisors, the sample of 10 respondents is deemed appropriate for this study. A letter of invitation was sent to the respondents to obtain consent for the interview, and to set up a suitable date and time to conduct an interview. A week after the letter was sent, followed up by telephone was made to all the franchisors. While the selection process for franchisee respondents is based on the franchisor proposal because to ensure the consistency and capability to cooperate in interviews and avoid bias (Heckathorn, 2002).

Respondents were informed in advance about the location, time, date, and involvement interviewers. Introduction to the objectives and purpose of the interview was clearly informed to the respondents. The cost of the interview expenses is borne by the researchers. To ensure the comfort of the respondents, interviewers consider the suitability of the time, location, and others deemed appropriate to carry out the interviewing process. All respondents franchisors interview held at the business office location, but franchisees interview held outside of the business in order to avoid interference. This is based on respondent's demand.

In terms of the interview protocol, the researchers have to ensure that they arrived earlier than the time appointed for the purpose of set-up the equipment needs. When the researchers arrived at the agreed place (mostly in the office of the respondent) everything has been prepared in accordance with the schedule. Researchers introduce the details and express gratitude and thank to the respondent for their willingness to attend the interviews and seek forgiveness for the disruption of the respondents' time. Researchers also introduce the research assistants to assist in setting up the equipment, additional notes, contingency preparations and other requirements. However, this research assistant does not involve in asking questions to the respondents. Explanation of the purpose and procedure of the interview was conducted and clearly explained to respondents and they understand the process of interviews. Researchers also sought cooperation from the respondents to turn the phone off or in silent mode to avoid disruptions. Respondents focused on discussion as input and the information obtained is important as a contribution to knowledge in the research process.

Since the main objective of this study is to identify the key issues, then the convergent interview technique was applied. The interview process can be shown as in Figure 1 as below.

Figure 1: Convergent interviewing process adapted with modification from Dick (1990)



The interview process is conducted in three stages. In the first interview, there are no structured questions used. However, in the second interview, the questions are outlined pretty much semi-structured according to the input of the answers given in the first interview. While the third stage interview, the questions are semi-structured and more geared towards structured approach.

3.3 Validity

Validity in qualitative research is not the same concept as in quantitative research. But the main purpose is to prove the validity of the findings, it can be believed (`trustworthy') and defensible (Merriam, 2009). In fact, some scholars such as Creswell and Miller (2000) argue that validity is the impact of the researcher's own perceptions. In summary the proposed methods to ensure the validity of this study can be summarized as in Table 2 below.

Table 2: Summary of method to ensure the validity

No	Validity	Research Process	Stage of Research
a.	Descriptive	• accuracy of the information in the report • provide a back-up equipment	• data collection
b.	Interpretation	• validity of the views, opinions, feelings, aspirations and experience of respondents • conduct an interview in a conducive situation	• data collection • analysis of data
c.	Theory based	• findings in this study describe the phenomenon of the study	• finding
d.	Internal	• development of research design and during data collection processes to produce an accurate results	• research design • analysis
e.	External	• results of this study can be generalized	• convergent interview technique • analysis • finding

Source: Adapted and synthesized of Dick (2000), Malhotra (2010), Merriam (2009), Leedy & Ormrod (2009), Patton (2002), Sekaran & Bougie (2010), Weaven (2004) and Zikmund (2003).

3.4 Reliability

Reliability of qualitative research is important to avoid the bias in the study. Bias can occur during the unstructured interviews and this may affect the interviewers' misinterpretation of information (Malhotra, 2010). However reflexivity (Johnson, 1997) has been used to understand and control the bias. This technique requires a process of critical self-reflection, which involves the process of analysing, re-consider and question the experience in a wider context (Murray & Kujundzic, 2005). However, in this study it was recorded and listened very carefully by interviewers with an assistance of a third party. Table 3 describes the summary of ensuring the reliability of the method in this study.

4. Data Analysis and Findings

For this study, the appropriate approach to be used for data analysis is content analysis with modifications. This is in conformity with Mayring (2000), which found that the approach of this analysis is the appropriate technique in qualitative research when: - (i) the material must be understood, which is obtained through communication; (ii) the knowledge of the author, subject, and socio-cultural background; and (iii) the characteristics of the text, the receiver and the target groups can be identified.

Table 3: Summary of methods to ensure the reliability of the study

Research Process	Stage of Research
• Close supervision of a skilled supervisor in qualitative research & franchise industry • Use of research assistants • Respondents from among experts in the industry and referral specialist of PNS • Information is recorded and supported with backup equipment • Aid the interpretation of linguistic expert	• Research design • The process of data collection, evaluation & interviews conducted

Source: Adapted and synthesized of Dick (2000), Leedy & Ormrod (2009), Malhotra (2010), Merriam (2009), Patton (2002), Sekaran & Bougie (2010), Weaven (2004) and Zikmund (2003)

This argument is strengthened by Flick (2002) which suggested that the appropriateness of using the content analysis when the situation required the reduction of text analysis. This is for the purpose of uniformity in the category and facilitates the comparison in different cases. The process of analysing data using content analysis by Mayring (2000), is summarized as in Figure 2 below.

Figure 2: Process flow content analysis based on adaptation and modification from Mayring (2000)

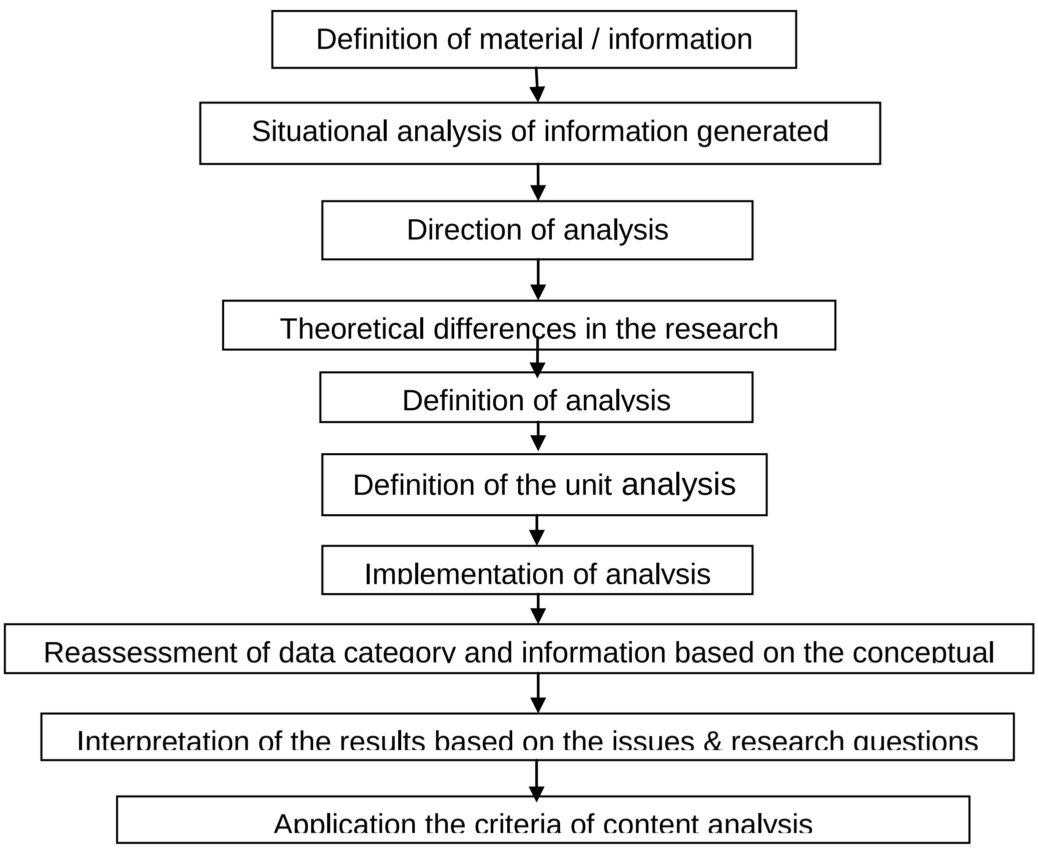
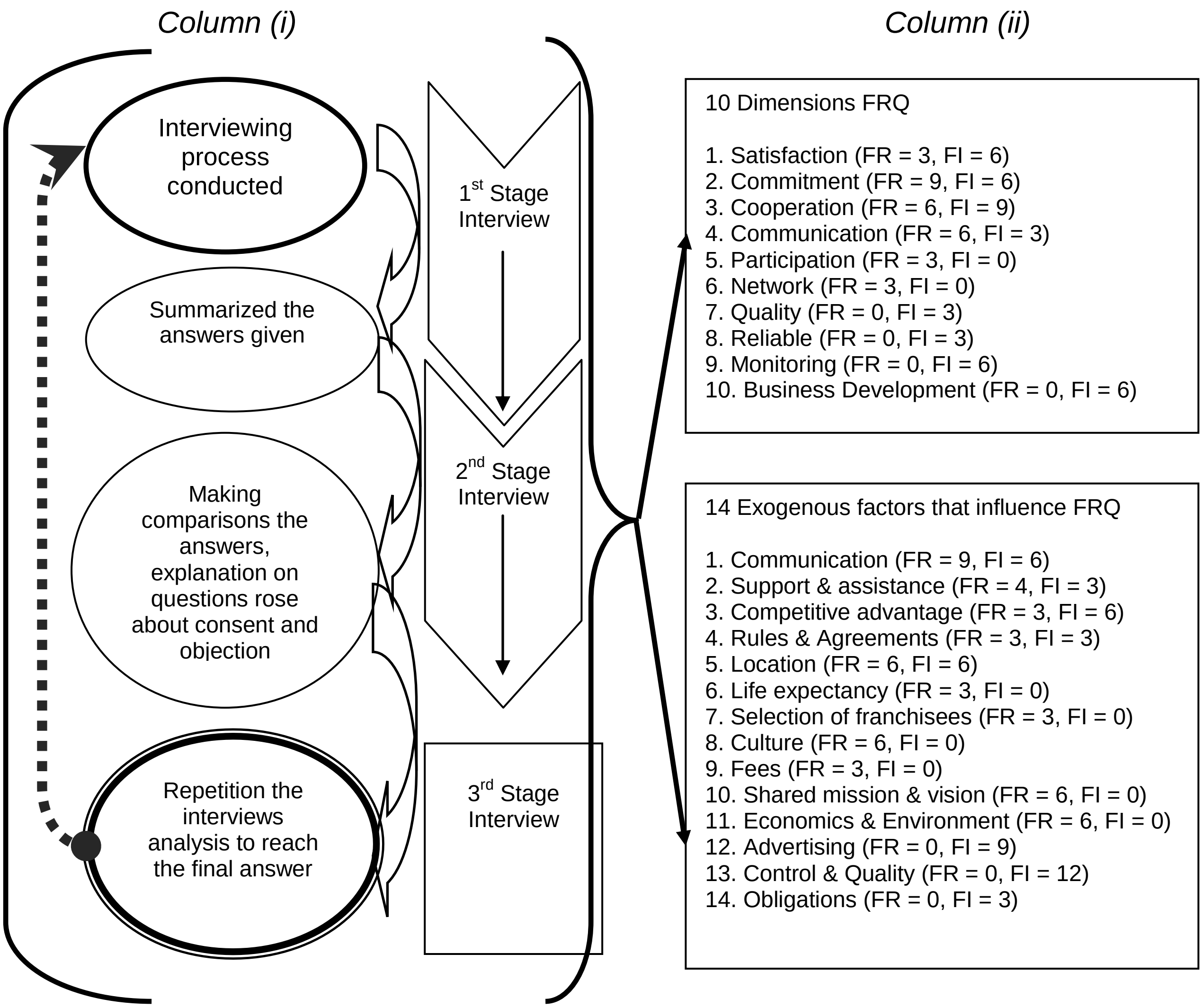


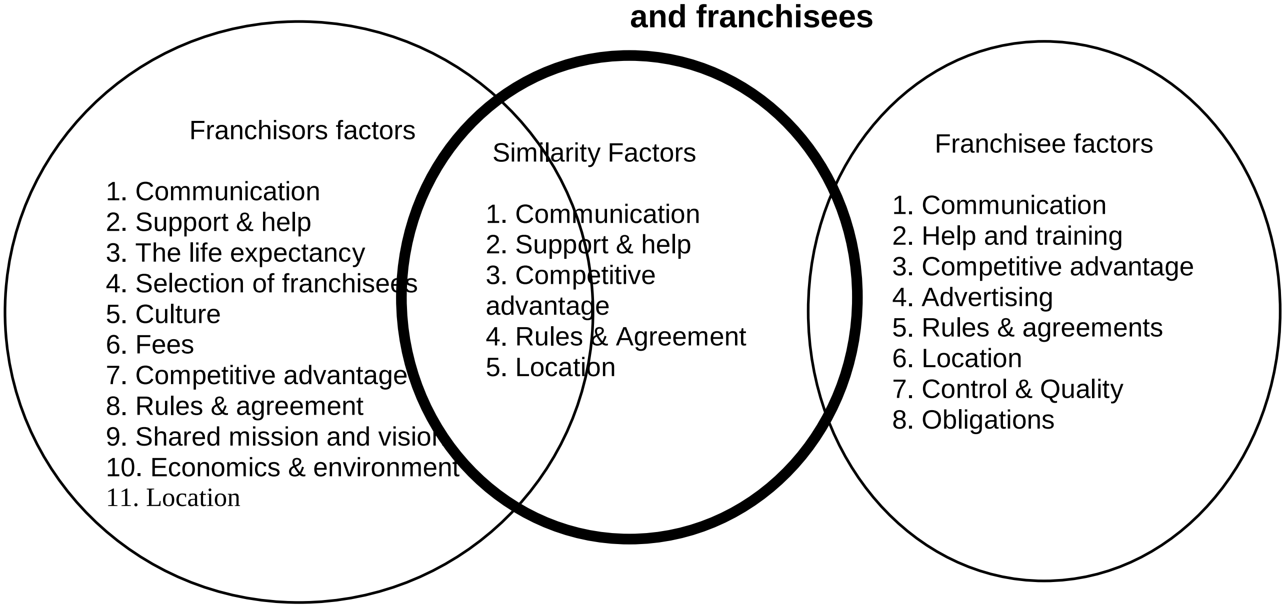
Figure 3: Summary of the analysis process used in the convergent interview based on the adaptation with modification of Dick (1990)



Key: FR=Cited by franchisor, FI=Cited by franchisee

Column (i) outline of the three stages of the interviews conducted in the convergent interview. There are ten (10) respondents were involved in the interviews conducted. Column (ii) listed the findings of this study in which there are ten (10) dimensional elements of franchise relationship quality and fourteen (14) exogenous factors that affect to the quality relationship between franchisors and franchisees. Figure 4 shows the matching similarities between exogenous factors that have been confirmed by the franchisor and the franchisee in this study as well as new discoveries.

Figure 4: Overall equation exogenous factors affecting FRQ between franchisors and franchisees



6. Conclusion and Future Research

This is a preliminary study and exploratory to identify the determining factors in establishing and maintaining a good quality of the relationship between franchisors and franchisees. Further studies should be carried out with quantitative research to confirm the effectiveness of the factors that have been identified in influencing the quality of the relationship. All respondents consisted of four (4) local franchises and only one (1) international franchising. Comparisons can be made by including more local and foreign franchises in order to identify the factors that influence the quality of the franchise relationship. In addition, further research can also be carried out in identifying the endogenous factors that affect the quality of the franchise relationship of both local and international franchises. In accordance with the opinion and Dant (2008) who suggested further studies related to the application of the theory, then research on the franchise business should be promoted.

Another important issue is that of the ethnic origins and cultural differences that have effects on the FRQ. Suyderhoud (1999) found in his studies of the vendor development programme practiced in Malaysia showed the race factor has significant influence on the success of the programme. Similarly, this scenario applies to the case of the franchise business sector, particularly in the context of Malaysia which has a multi-ethnic and multi-cultural society, and hence indicates the need for further research. In conclusion, this study has been able to identify the important factors that contribute to the quality of the franchise relationship (FRQ) between franchisors and franchisees. From this study, five similar factors which were found to match from both the franchisor and franchisees were identified. These factors are communication, support and help, competitive advantage, rules and agreement and location.

In terms of using qualitative research techniques, this study reinforces the use of convergent interview techniques as based on the adaptation of the method by Dick (1990). A possible limitation of this study is the relatively low number of respondents that were involved in this study. In order to enrich the study in the future, it is recommended that more respondents should be included within the confines and requirements of a qualitative study.

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