

Franchisee Characteristics That Influence Franchise Business Success: An Analysis Of Focus Group Findings

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ABSTRACT--- *The franchise business is getting popularity day by day. However there is significant lacuna in understanding the crucial determinants of franchisee characteristics that influence franchise business success especially in Malaysia. Hence this study tries to identify the important factors affecting franchisee characteristics that influence the success of franchise business. An extensive focus group interview conducted to collect the data by a structured questionnaire. This research summarizes the findings of a focus group discussion, which evaluate and identify the franchisee characteristics. All focus group participants agreed and had ranked the characteristics, which had given direct impact towards determining the best criteria for the sales performance and franchisee success. Entrepreneurial capacity, professional experience, financial capacity and motivation has been ranked as an important characteristics in running franchise business. Result from this study is expected to contribute and to add on to the body of literature on the above subject matter and it can be adopted by the franchisors in determining the best candidate for the franchise business. The authors contend that this research would significantly provide a practical framework for franchisors in the selection process of franchisees.*

Index Terms: *Focus group; franchisees; entrepreneurial capacity; professional experience; motivation; financial capacity.*

I. INTRODUCTION

The franchise industry in Malaysia is on track to achieve its contribution of RM35 billion to the national gross domestic product (GDP) by 2020 on sustained strong growth. In 2017, the industry contributed RM27 billion to Malaysia's GDP. There are 65 local brands penetrate 66 countries with more opportunity to move into more regions soon (Hassan, 2018). Despite its popularity, selecting qualified franchisee has been franchisors biggest challenge and problem (Saraogi, 2009). Previous research on franchising suggested one of the greatest challenges for franchisor is getting the suitable candidates and right prospects for their system (McDermott & Boyd, 2017). To explore this challenge this research will be looking at franchisee characteristics that can influence the franchise business success.

II. LITERATURE REVIEW

This literature review focuses on franchisee characteristics that gives direct impact towards the franchise business success; Entrepreneurial Capacity, Professional Experience, Financial Capacity and Motivation.

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A. Franchise Success

Mohd Amy Azhar (2011) highlighted on the critical success factors of Bumiputra and non-Bumiputra franchisors in conducting their franchise businesses in Malaysia. Two identified variables has direct impact towards the success of local franchise business, mainly marketing orientation and entrepreneurial. Marketing orientation factor is the most common orientation used in contemporary marketing (Drucker, 1954). It also involves monitoring a competitor's actions and their effects on customer preferences, as well as analyzing the effect of other exogenous factors. In terms of entrepreneurial based factor among the franchisors, it demonstrates high entrepreneurial characteristics such as locus of control, achievement motivation and risk taking. These characteristics are essential for anybody to become a successful entrepreneur.

According to Rajagopal (2007), in the long run, high levels of commitment, competitive skills and dynamics in functional management are associated with the success of franchisee outlets. In-store attractions, supply and manufacturing management, quality, price and promotional strategies have been observed by Rajagopal that has direct impact towards the performance of franchisee outlets. Besides, relational variables including personalized customer services, leisure support and customer convenience also influence the performance of outlets. On top of that the performance of the outlets is also affected by the level of fit in the relationship between a franchisor and franchisee.

It appears that the success of franchise systems is through establishment of franchisees' incentives, that is, enduring claims to profit and empowerment through delegation. To drive the franchise outlets to success and to sustain its competitive advantage, human factors such as psychological and social dimensions of franchisees' incentives, employed managers' self-efficacy, system commitment and system conformity performance play distinct roles in driving these behaviors.

B. Characteristics of Franchisee

1. Entrepreneurial Capacity

Entrepreneurial spirit is characterized by innovation and risk-taking, and is an essential part of a nation's ability to succeed in an ever changing and increasing competitive

global marketplace (Businessdictionary.com, 2016). However it is suggested that physical dispersion of outlets and the value of brand name will increase the entrepreneurial capacity (Norton, 1988; Combs, Michael, & Castrogiovanni, 2004). It appears that candidates with entrepreneurial capacity is expected to have a strong will power to move on with the business especially when the business are facing a difficult time or at the peak for growth and expansion.

2. Professional Experience

Professional Experience is defined as the extent to which individuals hold a positive or negative assessment of personal about being an entrepreneurial (Ajzen, 2002; Middleton & Nowell, 2018). According to Avanade UK's general manager (2017), work experience provides many benefits, giving skills and experiences that will allow franchisee to stand out and it cannot be taught in the classroom. Findings show that experience before franchising has positively impact performance of franchise chain (Akremi, Perrigot, & Lepetit, 2015). Furthermore the soft skills such as team working, communication skills and commercial awareness will boost the professional experience that will help to equip franchisee.

3. Financial Capacity

A very crucial element when considering a franchisee is his/her financial level. Study by Tatham, Douglass, & Bush, (1972) stated that franchisees who indicated to have financial level is the first criterion used by franchisors in the selection of its franchisees. Hing (1995), indicated that one of the four characteristics of franchisees that influence their satisfaction and commitment is financial status. It is important to have some level of assurance that when franchisees invest a substantial amount of money in the business, it will drive motivation level of the franchisee to work harder to retrieve and continue to be committed to be successful in the venture (Frazer & Winzar, 2005). It is arguable that the terms financial level, status, or money invested used by previous researchers reflect an objective measurement of amount of money a franchisee has, whereas measurement of financial capacity, which according to Ghesquiere, (2017), is complex and multidimensional of franchisees to move his franchise business.

Another approach, cognitive psychological model, regards financial capacity as a set of financial abilities and skills needed for independent functioning (Pinsker et al., 2010; Ghesquiere, McAfee, & Burnett, 2019) specifically the ability to describe financial concepts, the ability to carry out financial activities and judgment that enables making sound financial decisions. Therefore, financial capacity is deemed important for franchisee to manage the business finances and in making financial decisions.

Despite a profitable business, the business may still have risk of failure if customers did not pay timely thus may lead to franchisees having challenges to pay their own bills on time. Good knowledge and be able to differentiate between cash flow and profit is essential to determine the success and failure of the business. Likewise with reinvesting in the business – a failure to do so progressively could eventually result in massive reinvestment works that can lead to

franchisee failure.

4. Motivation

Franchisors favor franchisees who are hands-on and be able to operate the franchise business on their own as these franchisees have higher desire to run the business successfully.

These criteria are so exclusive and may not be in a salaried manager. Past researcher suggests that motives to start a business are the reasons that influence entrepreneurial satisfactions. According to Boone & Kurtz (2007), to improve the quality of one's life has become the primary objectives an individual pursue a career in entrepreneurship. Study done by Kaufman & Stanworth (1995) empirially investigated why individuals choose to become franchisee over owning an independent operation or working for others. Franchisor demands franchisee to be with high motivation level. Motivation is internal and external factors that stimulate desire and energy in people to be continually interested and committed to a job, role or subject, or to make an effort to attain a goal. Motivation results from the interaction of both conscious and unconscious factors such as intensity of desire or need, incentive or reward value of the goal, and expectations of the individual and of his or her peers. These factors are the reasons one has for behaving a certain way (Business Dictionary, 2016). Therefore, people who have a strong character are required, ready to assume responsibilities and to manage difficult situations and, essentially, dedicated full time to the franchisee unit.

III. METHODOLOGY/MATERIALS

A focus group technique was implemented to identify the franchisee characteristics that can contribute towards the success of franchise system in Malaysia by inviting franchisee who are already in their business. To identify the focus group participants, the researcher had used the list of 2016 Best Franchise Awards winners, supplied by the Malaysian Franchise Association (MFA), with minimum eligibility criteria as the following:

1. Incorporated under the Companies Act 1965.
2. Franchisor (Section A) and Master Franchisee (Section B) must be registered under the Registrar of Franchise (RoF), MDTCC. However, homegrown franchisor will be given more priority.
3. Ordinary Member of MFA.
4. At least 60% owned by Malaysian.
5. An active franchise business entity with at least 12 months in operation with a latest Audited Financial Statements (for the most current financial year).
6. Annual sales turnover not exceeding RM20 million (based on the latest Audited Financial Statement)

On top of that a minimum of three years in the business had been used to be one of the main criteria for the selections as it shows stability and consistency in running the business and the franchisees are able to overcome the turbulent early years of business startup and operation. Twelve participants had been selected and invited, however

eight participants had managed to attend. According to Simon (1999) focus groups should consist of six to twelve participants. Fewer than six participants tend to limit the conversation, because there is not enough diversity to spark energy and creativity. However a group larger than twelve gets to be unwieldy and voices get lost (Simon, 1999).

A focus group session has been identified as channel for data gathering as it offers multiple applications includes:

1. Collecting opinions, beliefs, and attitudes about issues of interest
2. Checking assumptions
3. Encouraging discussion about a particular topic
4. Building excitement about a topic from a spontaneous combination of participants' comments
5. Providing an opportunity for facilitator and participants to learn more about a topic or issue.

Not only can focus group yield valuable information, they also help to build good rapport with the community i.e. franchise business community as a whole (Simon, 1999; Nabatchi & Leighninger, 2015). The greatest success in the use of focus group is when to be able to apply the results to the purpose for which they were originally commissioned. In this context, to be able to share the best franchisee characteristics that influence franchise business success is deemed a major contribution in writing this paper.

IV. RESULTS AND FINDINGS

Below is the discussion of result and findings from the focus group interview. As the result focused was on the home grown franchisee located in Klang valley area, it is important to note that result can be used across other franchise or to other countries.

A. Sample Characteristics

Eight franchisees had participated out of twelve samples invited for the focus group. A general summary of sample characteristics is provided in Table 1.

Table 1

		Education Level		
		SPM	Diplom a	Bachelo r
Workin g Experienc e	Executi ve	12.5%	12.5%	
	Manag er		25%	50%

75% of the respondents are bachelor degree holders and previously had working experiences as manager from various industries. 20% of the managers are already in the same business background before venturing into the franchise business.

B. Selection Criteria in Choosing Franchise Business

The criteria used to select the franchise business vary as different franchisees have different aspects of business selection. Based on the focus group discussion, brand name has been identified the main reason for choosing a franchise business, followed by business stability, lowest risk and support from franchisor respectively.



Least Important

1. A brand name

A brand name is a name given to a product or service for customers to identify and differentiate it from others. It is important as it will help customers to gain more traction (Pahwa, 2018). Most commonly when purchasing a franchise, individuals will look for a well reputed brand. Brands like McDonalds and Subway come at a huge price. In recent years, franchisors build brand image at a corporate level to tackle factors such as competition. 88% of the focus group participants have chosen brand name as number one criteria for choosing a franchise business.

2. Business stability

Business stability gives direct correlation with business success. 76% of the focus group participants voted business stability as second important selection criteria before choosing the business after brand name. This was concluded after a robust discussion amongst the participants. According to the participants, business stability is the outcome from continuous sales growth from the franchisor and constant improvements and innovations from the franchisee business to secure the business stability of the franchisors.

3. Lowest risk

Lowest risk with highest return would be the participants' focus when choosing the franchise business. The risk comes in various forms as discussed during the focus group. It was heavily discussed that the group observe a potential risk coming from the online business. However majority took this medium as a healthy challenge as they have competitive advantage by having a physical outlet to allow the conventional customers to feel, touch and smell the products. So do those who are in services industry that requires physical presence at the outlet by the customers.

4. Support from franchisor

Support from franchisor comes in various forms. As simple as from the franchise manual to continuous sales monitoring by the franchisor. The participants had mutually agreed that support from franchisors ranks number four least important despite its notable importance for the business continuity and success.

C. Franchisee characteristics in running franchise business



Least important

This characteristic has been discussed at length and it was agreed by the group that for them to be successful in the business they had ranked their personal characteristics that had directly contributed towards the success for running the business. A successful franchisee needs to acquire an entrepreneurial capacity followed by professional experience, financial capacity and motivations respectively. The group had mirror themselves and based on the discussions they had ranked their characteristics in which had influence the success of the franchise business as a whole.

According to the focus group, a successful franchisee with entrepreneurial capacity has an incredible confidence and ability to figure out things that should be done to maximize results. Successful franchisees, on the other hand, demand proven system thus franchisee with professional experience will have an added advantage as they are able to figure out the best way to do something. Thus they are able to avoid making mistakes and are able to be successful faster having learnt from other experiences and best practices.

Franchisees with financial capacity will give an extra mileage as franchise business requires financial knowledge, including how to figure out profit and loss, and do accounting for the business. Financial stability often needs to be demonstrated before one can purchase a franchise. As stated by the focus group participants, franchisors are always there for them when they are in needs especially in monetary.

D. Trust

Franchisee has high trust on the franchisor prior to opening the franchise business. However it changes over period depends on the support given to the franchisee throughout their tenure in the business.

After one year in the business, franchisees from the focus group still have a very strong trust towards their franchisees. All of them voted average scale at 8 points (1 (very weak) – 10 (very strong)).

V. CONCLUSION

The success of the franchise has strong correlation with the quality of franchisees involved in the network and their characteristics. Therefore, the selection of franchisees can be a big challenge for franchisors. The major findings derived

from this study showed that franchisee selection takes serious consideration towards franchisee characteristics; entrepreneurial capacity, professional experience, motivation and financial capacity. However franchisee selection is a multidimensional activity involving several key stages such as profitability, brand name, operations support as decision making criteria while selecting the best franchisees (Vaishnav & Altinay, 2009). Every franchisee should fulfill some minimum requirements before they can be accepted in the business.

In addition, a person with a professional experience is desirable. It means that the franchisee should have knowledge of the necessary professional and management skills required for the successful development of the franchise business. Hence, this study will help provide guidelines for franchise development in Malaysia and search for qualities in potential franchisees. In addition, the contributions of this study will provide franchise system with the key elements for maintaining successful long-term franchising among franchise business in Malaysia.

In conclusion, identifying the right franchisee characteristics have proven to be important in the franchising business. Satisfaction among franchisor-franchisee is critical in determining the quality of franchising relationship. By establishing the right franchisees characteristics during the selection process therefore, would increase the level of franchisees success and satisfactions.

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