SURVIVAL OF FRANCHISING FIRM: A STUDY OF SELF-SERVICE LAUNDRY FRANCHISOR

Nurul Ashykin Abd Aziz, Universiti Kebangsaan Malaysia
Mohd Hizam Hanafiah, Universiti Kebangsaan Malaysia
Hamizah Abd Hamid, Universiti Kebangsaan Malaysia
Rosmah Mat Isa, Universiti Kebangsaan Malaysia

ABSTRACT

As franchising becomes a well-known and prominence business platform in the worldwide, it has attracted the researcher and policy maker attention. Encouraging entrepreneurs to involve in franchising business positively increase the possibilities of them to survive in the competitive market. However, little study is currently known about the factors influencing the survival ability of franchisor. Thus, a series of three case studies by using the protocol discussion with Malaysian self-service laundry franchisor were undertaken to investigate the factors influencing their abilities to survive. From the findings, three propositions are discovered, namely (i) brand; (ii) franchising cost; and (iii) age of franchising. In brief, the present study has contributed new knowledge in franchising literature in relation with survival ability of franchisor business and will benefit the policy makers and future studies.

Keywords: Franchising, Franchising Survival, Malaysian Franchise, Franchising Strategy, Franchise.

INTRODUCTION

Nowadays, franchising has emerged extremely as an organization form (Grewal et al., 2011) and has developed as one of the rapid growth in global retailing since the past decades (Combs et al., 2004). Franchising is one of rapid development forms of business in the global and valuable for studies in entrepreneurship area as it plays an important role in supported economic development by creating an employment opportunity, developing the growth of entrepreneurship and enhancing the standards of living (Baena & Cervino, 2012). Additionally, Michael & Combs (2008) suggested that it is important to increase the understanding on the factors influencing the franchise survival for resulting more satisfaction in franchise relationship. Besides that, Kosonova & Lafontaine (2010) claimed that the contract term an chain's characteristics may influence the growth and survival of franchise chain and other factors might be driven by some characteristics. Bordonaba-Juste et al. (2011) also mentioned that there are other variables may affect franchise survival based to the previous experience of the franchisee's characteristics. Moreover, Hizam-Hanafiah & Li (2014) highlighted that the level of satisfaction of franchisees might affect their businesses since they are required to follow many procedures and systems stated by the franchisor. Thus, the franchisee business survival also depends on the franchisor's approval. The main aim of the present study is to explore the franchise firm survival factors from the perspectives of franchisors and finally suggested some propositions.

LITERATURE REVIEW AND METHODOLOGY

Hou et al., (2009) described that the survival ability of franchise system is not only depending on the economic condition but also linked with affective factor such as ownership. Next, empirical study by Gillis & Combs (2009) found that brand name is positively associated with survival, growths, profits and sales. Additionally, brand has positive influence on franchisees satisfaction, success and survival (Michael & Combs, 2008; Pitt et al., 2003; Watson & Johnson, 2010). On the other hand, Kosonova & Lafontaine (2010) clarified that as ongoing fixed fee is high, it negatively affects the survival ability of franchise firm. These scholars found that higher survival probabilities for network that are older at franchise start (Kosonova & Lafontaine, 2010; Bordonaba-Juste et al., 2011). As well, the age of franchise network starts was found to have positive influence or no consequence on growth (Kosonova & Lafontaine, 2010). Empirical study by Hizam-Hanafiah & Li (2014) on 204 franchisee entrepreneurs in Malaysia found that the survival of franchisee system in terms of the intention of the franchisee to remain as a franchisee were affected by their goals attained in the business.

For this study, a case study methodology were adopted to investigates the phenomenon within real-life context where cross-case analysis were used (De Weerd-Nederhof, 2001; Eisenhardt, 1989). These methods were used by the researcher to provide an understanding about certain phenomena in depth (Brasileira et al., 2015). Furthermore, cross-case analysis is a method that allow the comparison of commonalities and differences in the case studiy (Gordon, 1962). Researchers also used the constant comparison method where making data comparison to gradually test the provisional propositions (Silverman, 2016). Three managers and executive were selected from self-service laundry franchisors in Malaysia and the interview were conducted by using semi-structured protocols. Researchers constantly refined the protocols and integrated with participants to produce precise data (Cassell, 2009). Next, the data were analysed by using the Atlas.ti software as it is offer an assortment of tools to for unstructured data that cannot be analysed by statistical approaches Smit (2002).

FINDINGS AND DISCUSSION

First and foremost, having an established brand name will lead a survival chances for franchise business systems (Nyadzayo et al., 2015). For the present study, most of the participants agreed that a well-known and strong brand name of franchise product and services will influence the sustainability in the market. Repetitively, the participants would nominate that strong ties between franchisors brand and business or system survival ability are needed if a franchise player want to stay longer either in local or international market. Importantly, franchise business with have brand recognition and increase the loyalty of their customers, thus increase the likelihood for survival. For instance, one of the participants (P3) emphasised that:

> What always strikes franchisor such as is how to come out with strong brand that can attract potential franchisee to invest in our system and also to attract customer attention to choose our products or services.....quality brand will increase the popularity and sustainability of the franchise business in the long run...as a franchisor, we can see the strength of reputable brand will leading the survival ability of the franchise business itself...

Moreover, other participant supported a similar statement that highlighting about the reputable brand will influence the survival opportunity in the market. For example, one participant (P1) stated that:

Brand is the heart of any business including franchise business and for us as a franchisor, brand is our asset. A great franchisor will develop a good brand that represent the quality of their product or services... thus it brings the positive image to the franchisee as a business partner and it will increase the tendency to stay longer in the market.....

Therefore, Nyadzayo et al. (2011) supported that franchisor brand is vital in determining the franchisee's perception and it also play an important role in promoting their brand which return the brand equity and survival ability. Additionally, empirical study by Hsu et al. (2017) found that the survival of franchise business are determined by brand name and format facilitator support and control. Moreover, Barthélemy (2011) claimed that franchising is a business format that offers a brand name for its system and running the business with well-known brand will benefit the potential franchisee Herrington (2005). Therefore, based on the discussion, the proposition 1 is suggested.

P1: Franchisor with reputable brand name is more likely to survive in the franchising system than those with disreputable brand name.

Next, based on the interview conducted with the participants (franchisor), most of them agreed that high franchising cost will influence the survival of their franchise business. Accordingly, if the franchisee fails to fulfil the cost involved, they will bear the risk of failure. Some of franchise business generates little or maybe no profits in certain years of operation and high franchising cost involved will be burden to them and some of them might not survive in the franchise system itself. Because the franchising cost is agreed by parties (i.e. franchisor and franchisee), fixed franchising cost such as administrative, advertising and promotion must be pay by the franchisee as stated in the contract agreement. For example, one of participants (P2) commented:

A lack of profit made by franchisee will causes the possibility for them to survive for a longer time.... Furthermore, if they (franchisee) start the business operation without adequate working capital and not making much profit within 3 years of early operation, it will make them unable to pay their royalty as promised to their franchisor and the amount of cost spend might be greater than the cost of return to their business....

The high cost involved in franchising seen as the major reason on why most of franchisees are not survive within five years minimum contract of agreement made by both parties (i.e. franchisor and franchisee). As one of participant (P1) stated:

even the franchisee still made a profit for its franchise outlets, sometimes they still run out of money because the need cover their franchising cost at the early of business operation...within the minimum years of contract..... it is important to distinguish the profit and cash flow of the franchise business in order to survive in the competitive market.... if they (franchisee) fails to do so, possibility of the business to maintain is low....

In aligning with this point, Bordonaba-Juste et al. (2011) found that royalty franchisee fee was a price variable to attract the potential franchisee and increase the growth and involvement of outlets in franchise network. Besides that, Dant & Grünhagen (2014) claimed that the relationship between advertising fee and franchise survival is positive on growth from the royalties in mature business firm and it determined royalty fees as a goals of profit to franchisor. Moreover, empirical study done by Hua et al. *(*2017) found that royalty fees in franchise business contribute a value to the hotel franchisees as it is positively and significantly affect the return of revenue for the firm that being as a sample in that study. Thus, it shows that franchising cost has the tendency in determining the survival ability of franchise business. So that, the researchers suggest the proposition 2.

P2: The higher the franchising cost involved in a franchising system, the lower the franchisor's survival in the franchising system.

Lastly, age of franchise system is also important in determining the survival ability of franchise business. In details, franchise system and operation with the longer age have the high likelihood to survive as agreed by most of participants involved in the present study. As the establishment age of franchise business is longer, it shows that the franchise system itself is mature with the high return of profit and thus, it can reduce the problems such as management conflict and financial uncertainty. Additionally, established franchise firm with longer age are more likely to survive because of the stability of its business structures, routines and practices. This will also enhance the effectiveness and efficiency of their business operation. For example, one of participants (P3) stated:

the ability of the any business is reflected on how long its business operation have been in the market, including franchise business... when it has been operating beyond a minimum of years stated in agreement (mostly 5 years) with a good performance, it will increase the maturity level of that franchise business and build a greater influence in the competitive market.....

In supporting this point, Cliquet & Pénard (2012) claimed that age is one of the variables that influenced the franchise network survival where the longer and greater age will result for decreasing in likelihood to fail. Furthermore, Calderon-Monge et al., 2017) emphasised that franchisee's requirement often connected with the economic clauses that are stated in the contract agreement where it should be carefully enrolled by considering the age of franchise chain and property structure. By that, franchisor can fulfil the needs of franchisees without exposing the survival ability of the franchise chain. Likewise, most of the past studies found that the higher survival possibilities for network are depend on how older the franchise has started its operation (Kosonova & Francine Lafontaine, 2010; Bordonaba-Juste et al. 2011). Therefore, the researchers advocate the proposition 3.

P3: The longer the age of a franchising system, the more likely the franchisor to survive in the franchising system.

CONCLUSION

As the present study conducted by using a qualitative methodology and not a statistical analysis, generalization may not be claimed (Finfgeld-Connett, 2010). Further, some limitations to the present study are addressing where it just focusing on self-service laundry franchise and not yield substantial outcomes on the issue of franchising survival. Secondly, the case samples of this study are small and thirdly, generalization cannot be made to the other industries of franchising particularly for Malaysian market. As this study is focusing on the self-service laundry franchise, other similar studies need to further be conducted on other segments. Furthermore, future research needs to provide empirical testing to validate the proposed propositions in this study and applying other methodological approaches such as survey and interview. More study also needs to be conducted on the survival factors of Malaysian franchisors either to accept or reject these propositions. The self-service laundry franchise businesses in Malaysia are good example in discussing about the survival ability in the competitive market can be studied. In summary, the present study discovers three propositions that influenced these franchisor businesses to survive, namely brand name, franchising cost and franchising age. This study significantly makes some contributions to the existing franchising literatures and had provided foundation for the future research in the context of franchising. Lastly, the findings gathered from this study will help government to enhance the policy, governance and program to supports the Malaysian franchisors. Further, proper compliance with Franchise Act will encourage the franchise growth and development; hence increase the survival rate in the competitive market.

REFERENCES

Baena, V., & Cerviño, J. (2012). International franchise expansion of service chains: insights from the Spanish market. *The Service Industries Journal, 32*(7), 1121-1136.

Barthélemy, J. (2011). Agency and institutional influences on franchising decisions. *Journal of Business Venturing 26*(1), 93-103.

Bordonaba-Juste, V., Lucia-Palacios, L., & Yolanda Polo-Redondo. (2011). An analysis of franchisor failure risk: evidence from Spain. *Journal of Business and Industrial Marketing, 26*(21), 407-420.

Bordonaba-Juste, V., Lucia-Palacios, L., & Polo-Redondo, Y. (2011). An analysis of franchisor failure risk: evidence from Spain. *Journal of Business & Industrial Marketing, 26*(6), 407-420.

Brasileira, R., Gestão, D., & Negócios, D. (2015). A distinctive analysis of case study, action research and design science research. *Review of Business Management, 17*(56), 1116-1133.

Calderon-Monge, E., Pastor-Sanz, I., & Huerta-Zavala, P. (2017). Economic sustainability in franchising: A model to predict franchisor success or failure. *Sustainability (Switzerland), 9*(1419), 1-16.

Cassell, C. (2009). Interviews in organisational research, hlm. The Sage H. London: Sage.

Cliquet, G., & Pénard, T. (2012). Plural form franchise networks: A test of Bradach's model. *Journal of Retailing and Consumer Services, 19*(1), 159-167.

Combs, J.G., Ketchen, D.J., & Hoover, V.L. (2004). strategic groups approach to the franchising-performance relationship. *Journal of Business Venturing, 19*, 877-897.

Dant, R.P., & Grünhagen, M. (2014). International franchising research: Some thoughts on the what, where, when, and how. *Journal of Marketing Channels, 21*(3), 124-132.

De Weerd-Nederhof, P.C. (2001). Qualitative case study research. The case of a PhD research project on organising and managing new product development systems. *Management Decision, 39*(7), 513-538.

Eisenhardt, K.M. (1989). Building theories from case study research. *Academy of Management Review, 14*(4), 532-550.

Finfgeld-Connett, D. (2010). Generalizability and transferability of meta-synthesis research findings. *Journal of Advanced Nursing, 66*(2), 246-254.

Gillis, W.E. & Combs, J.G. (2009). Franchisor strategy and firm performance: Making the most of strategic resource investments. *Business Horizons, 52*(6), 553-561.

Gordon, A. (1962). The general and the unique in psychological science. *Journal of Personality, 30*(3), 405-423.

Grewal, D., Iyer, G.R., Javalgi, R.R.G., & Radulovich, L. (2011). Franchise partnership and international expansion: A conceptual framework and research propositions. *Entrepreneurship Theory and Practice, 35*(3), 533-557.

Herrington, J.D. (2005). Are restaurant franchisees getting a positive return on their advertising fees? *Journal of Promotion Management*, *11*(1), 71-81.

Hizam-Hanafiah, M., & Li, J. (2014). Franchisee satisfaction of goal attainment: A discovery of hierarcy of entrepreneur goals. *Journal of Entrepreneurship in Emerging Economies*, *6*(3), 243-267.

Hou, S., Hsu, M., & Wu, S. (2009). Psychological ownership and franchise growth. I*nternational Journal of Entrepreneurial Behavior & Research*, *15*(5), 415-435.

Hsu, L., Kaufmann, P., & Srinivasan, S. (2017). How do franchise ownership structure and strategic investment emphasis influence stock returns and risks? *Journal of Retailing*, *93*(3), 350-368.

Hua, N., O'Neill, J.W., Nusair, K., Singh, D., & DeFranco, A. (2017). Does paying higher franchise fees command higher RevPAR? *International Journal of Contemporary Hospitality Management*, *29*(11), 2941-2961.

Kosonova, R., & Francine Lafontaine. (2010). Survival and growth in retail and service industries: Evidence from franchised chains. *The Journal of Industrial Economics*, *VIII*(3), 542-576.

Michael, S.C., & Combs, J.G. (2008). Entrepreneurial failure: The case of Franchisees. *Journal of Small Business Management*, *46*(1), 73-90.

Nyadzayo, M.W., Matanda, M.J., & Ewing, M.T. (2011). Brand relationships and brand equity in franchising. *Industrial Marketing Management*,*40*, 1103-1115.

Nyadzayo, M.W., Matanda, M.J., & Ewing, M.T. (2015). Franchisee-based brand equity: The role of brand relationship quality and brand citizenship behavior.

Pitt, L., Napoli, J., & van der Merwe, R. (2003). Managing the franchised brand: The franchisees' perspective. *Journal of Brand Management*, *10*(6), 411-420.

Silverman, D. (2016). Qualitative Research, hlm. 4th Edisi . Thousand Oaks: Sage Publication.

Smit, B. (2002). Atlas.ti for qualitative data analysis. *Perspectives in Education 20*(3).

Watson, A., & Johnson, R. (2010). Managing the franchisor-franchisee relationship: A relationship marketing perspective. *Journal of Marketing Channels*, *17*, 51-68.