Information and Communication Technology, Franchisor Support and Franchisees’ Performance in Malaysia

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Abstract: Operational problems are often the issue of a franchise business notably at the franchisee’s level. Operational problems are usually linked to customer service, costs management, quality, productivity and assets management. These issues could affect the efficiency and effectiveness of a franchise system and be the cause of customer disloyalty. These problems can be solved with the use of information and communication technology (ICT) as the technology can improve the efficiency of a franchise system in terms of time and costs management. In addition, organizational support was found in previous studies to be a mediator in business performance. Accordingly, the study aims to examine the role of franchisor support as a mediator in the relationship between the benefits of ICT and franchisees’ performance in Malaysia. A total of 250 questionnaires were distributed to the franchisees who operate a franchise business format in Malaysia. Ninety-seven questionnaires were collected from the franchisees thus representing a 39% response rate. The results present evidence that the benefits of ICT and franchisor support are the contributory factors to the performance of a franchise business system. The mediating effect of franchisor support is key to a franchisee's performance hence the success of a franchise system.

Keywords: Franchisees’ Operational Performance, Benefits of ICT, Franchisor Support

1. Introduction

Franchising is a vital source of entrepreneurial growth encompassing two types of entrepreneurs. Franchisor who recognized an opportunity and copes its distribution and image from corner to corner geographically dispersed locations, and franchisees who locally exploit the opportunity. Franchisees convey revenues and extremely motivated and capable managerial expertise that promptly enlarges franchisors’ entrepreneurial growth capacity [1], which lowers costs, attracts investment, and promotes rapid growth e.g., [2],[3],[4].

Recently, franchise systems around the world fronting a sharp decline in performance with amount of outlet closure and non-renewal of contracts by franchisees increasing steeply. In Malaysia, many franchisees have faced difficulties in running their business and they have left the franchise system due to poor performance or termination by the respective franchisor [5]. According to [6], franchisee in the food and beverage sector claimed that many franchisees face difficulties in operating their franchise business and finally close their outlets after one or two years in operation.

Consequently, the above-stated negative performance records of franchise systems across the world have debatably underlined the need for studies to reassess the nature of franchise business performance. Currently, it is believed that not enough research has been done to understand the critical issues that explain the performance of franchise units/system [7],[8],[9], [10],[11],[12]. Therefore, exploring factors that influence success in franchising is an important area of academic inquiry [5]. Furthermore, studies on performance of franchisee in the Malaysian framework are limited [13]. Such studies could assist the government agencies to formulate new strategies to enhance existing franchising developmental programs for potential new entrepreneurs.

Even though franchising is a global phenomenon, there is still a noticeable lack of academic research in the field of franchising in Malaysia, especially regarding the current trends in this field. The use of information and communication technologies (ICT) affects almost every aspect of current society, both in Malaysia and worldwide. In this regard, it is important to mention that franchise organizations increasingly choose for intensive use of technology in their business processes, which leads to a series of changes in the relationship between the participants in a franchise system [14]. It is very important to include franchisees in technological innovation and development, so that franchisors can apply innovative solutions truly successfully. When applying ICT, it is always the best to create a mutual process in which franchisor and franchisees will work together, not only to create but also to implement some technological solutions and to continue improving them.

ICT is considered to be very important in Malaysia, so the government has taken vigorous role in its establishment. However, most of the initiatives were designed for manufacturing companies or small and medium enterprises (SMEs) to embed ICT in their businesses and finally to execute online transaction. Franchisee companies were rarely exposed to government initiatives, particularly in adopting e-commerce [15]. Many owners/managers of the franchisee need to supply or invest themselves on ICT and ICT infrastructure especially within their organization. However, to what extent the benefits of ICT effect to the performance of the franchisees is unclear. Thus, there is a purpose to study the relationship between the benefit of ICT and franchisees’ performance.
Previous study shows franchisors choose franchising as a business model because it allows them to grow faster in comparison to other business models. It probably because franchisees provide human resource and financial capital to accomplish the expansion [16],[17],[18],[19],[20]. Instead, franchisees choose franchising due to the help supplied by franchisors [19]. Franchisors need to be responsive and attend franchisees’ needs, particularly during the early stages of the partnership [21]. It is because, many entrepreneurs do not have previous work experience to be successful businessmen. So that, they prefer appealing to franchisors to receive help and training to start their own business [20].

The result from a study done by [21] found that franchisor supports do play a mediating role in the relationship between marketing relationship and franchisee’s performance. Franchise business is a relational exchange between parties on contractual agreement and shows the franchisees perceived relationship from franchisor in making business decisions. It is essential to each party to achieve sustainable profitability [22]. The franchisor should increase support or assistance to franchisees to motivate franchisees to sustain their satisfaction in the relationship decision to continue a franchise business. Franchisor who provides the assistance required to the franchisees will be viewed by the franchisees to be better than those who did not [23]. Thus, based on the literature review, this study will identify franchisor support is related to franchisees’ performance and whether the franchisor support will influence the relationship between the benefit of ICT and franchisees’ performance.

2. Literature Review

Over the past few decades, academics and industry practitioners have conducted numerous studies on performance to understand the experiences, processes, and other factors that can improve organizational outcomes [24]. In the context of franchise business, poor performance can be caused by both the franchisor and the franchisee [25]. A franchisor would strive to select a franchisee who is seen as having the potential to improve the performance of the former’s networks [26]. Franchisees are also considered the key to a successful franchise system [27] because they perform the daily activities of the business and understand the needs of the customers [28]. Such significance necessitates exploring the factors that influence franchisees’ performance for their contribution to the success of a franchise business.

Information and communication technology (ICT) can be inferred as a tool that can be utilized among competitive communities and organizations in the current age [29]. It is well-known that the use of ICT has become competitive in the economic growth of companies, organizations, and countries that have exploited the technology [30], [31], [32], [33]. Worldwide, ICT has largely been used to assist day-to-day business operations [34] notably by small-and-medium enterprises (SMEs) [35]. The integration of ICT in SME activities can facilitate business owners to increase productivity and manage their business efficiently. Studies on franchising have mainly focused on ICT in the development of a franchise system [13] and the impact of the use of the technology on the relationship between a franchisor and a franchisee [36]. Franchisees would invest largely in the opening fees and royalty payments [37], to sell or distribute products or services, using the brand and complete business format provided by the franchisor [38]. Thus, it is important to examine franchisees’ perceptions on the benefits of an ICT system and its impact on improving the performance of a franchise outlet. Therefore, this study will contribute to the new knowledge of franchising field.

H1: There is a significant relationship between the benefits of ICT and franchisees’ operational performance

Franchisor support is defined as a business infrastructure and services that enable franchisees to establish and launch business units as well as expand and achieve targeted levels of performance [13], [39], [40]. Providing quality business support services to franchisees is a critical aspect for maintaining franchise relationships and achieve superior organizational performance for the entire network [41], [42],[43], [44], [39], [45]. These supports can measure the level of franchisees’ reliance on a company’s operational support. Such supports are provided in the form of education and training, information support, and promotional support [46]. Various support services have been provided to franchisees, depending on the terms of the franchise contract. Good franchisor support is key towards achieving the performance of business-format franchisees because excellent and continual operational and management assistance was found to be important to harness and improve franchise relationships [41], [45]. Several empirical studies have noted the importance of franchisor support in franchise implementation; yet, many have suggested the need for more empirical findings from various settings to further strengthen the evidence of the role of franchisor support on a franchise business’s performance [47], [39]. Accordingly, a study on franchisor support is extended in the Malaysian context.

H2: Franchisor support as a mediator to the relationship between the benefit of information and communication technology and franchisees’ performance.

Based on the empirical literature, this research framework was developed. This framework shows that there are three variables that will be studied, namely the franchisee’s operational performance (dependent variables), the benefits of ICT (independent variables) and franchisor supports (mediating variables).

![Figure 1: Research Framework](image-url)
3. Objectives

This study was carried out to achieve the following objectives:
1) To identify the significant relationship among the benefits of ICT and franchisees’ performance.
2) To examine the moderating role of franchisor supports on the relationship between benefits of ICT and franchisees’ performance.

4. Research Methodology

This study focuses on the Franchisees who operated franchise business format in Malaysia. Master franchisees from foreign franchise were excluded from research sampling. This study is based on a quantitative approach, applying a cross-sectional study. A total of 250 questionnaire were distributed and 117 questionnaires were returned. The usable response rate was 39% comprising 97 usable responses from a total 250 questionnaires sent to franchisees. The questionnaire consists of two main sections, namely: Section 1 detailing the franchisees’ background data and Section 2 to measures franchisees’ performance, information communication and technology dan franchisor support. The franchisee performance is measured by six items that was adapted from [48] which indicate the respondents to compare the operational performance of their outlet with competitor’s operational performance. Information and communication technology was adapted from [49] and measured by 8 items. Meanwhile, franchisor support was adapted from [40] and measured by 7 items. Most of the question in Section 2 are mainly in a 5-point Likert Scale.

5. Findings and Analysis

The measurement and structural model were tested by using structural equation modelling. The study uses SmartPLS software version 3.0 in order to evaluate the validation of measurement scales and to test all hypotheses proposed. PLS is used when ordinary such as multivariate normality and large sample size are not met. PLS is a statistical tool specifically designed to cope with small datasets, missing values and the presence of multi-collinearity often in samples used in marketing research [50].

In order to proceed with SEM-PLS, there are two stages for performing SEM which consist of a measurement model and structural model [51], [52]. Firstly, the measurement model is evaluated by checking the reliability and validity of each measure used in the framework model. The composite reliability and internal consistency reliability (Cronbach’s alpha) are evaluated to ensure each value follows the recommended evaluations. The cut-off value for composite reliability and internal consistency reliability (Cronbach’s alpha) is 0.7 [53], [54], [55]. After all measurement of all constructs have adequate reliability and validity assessment, all the measurement items are kept for testing the structure model. As tabulated in Table 1, the AVE of all latent constructs ranges from 0.711 to 0.727, which exceeds the recommended level of 0.50 [56].

For discriminant validity, the square roots of AVE for each construct as presented in Table 2 are less than the AVE latent variables. In conclusion, the measurement model demonstrates adequate convergent validity and discriminant validity between the construct and the other constructs [57]. In statistically term, the squared root of each construct’s AVE should be greater than its correlation with any other construct in measurement model [58]. As shown in Table 2, the squared roots of the AVE latent variables are greater than the correlations for each construct.

For hypothesis testing, the path analysis was used to verify all hypotheses generated in this study, the PLS software generates estimates of standardized regression coefficients which refer to beta values for model path [59]. PLS uses resampling procedures known as nonparametric bootstrapping to evaluate the significance of the parameter estimates [60]. In this study, the researcher uses 5000 resampling procedures for bootstrapping as aligned with previous studies in the business-to-business context [61].

The results of the model estimation including standardized path coefficient, one-tailed significance (1.65) of the paths are presented in Figure 2. Based on Table 3, the results of hypothesis testing show that all hypotheses are at significance levels of $p < 0.05$. Information and communication technology benefit is positively related to franchisees’ performance, whereas franchisor support is positively related to franchisees’ performance. Besides, information and communication technology benefit has positively related to franchisor support. Moreover, franchisor support positively mediating the relationship between information and communication technology benefit with franchisees’ performance. Therefore, all hypotheses in this study; H1, and H2 are accepted. Overall, this model is explained 67% of variance franchisee’s performance.

![Figure 2: Results of the path analysis](image-url)
Therefore, effective franchisor support is considered by the franchisees as necessary to facilitate communication within the franchise system hence improving their business’s operational performance. The benefits of ICT and franchisor support are the important factors that affect franchisees’ performance in Malaysia. Franchisor support plays an important role in mediating the relationship between the benefits of ICT and franchisees’ performance. This study not only provides evidence on the importance of the benefit of ICT and franchisor support but also validates the research framework with regard to the franchise sector. The findings contribute to the existing body of knowledge thus adding to the limited studies on the subject. The findings can serve as information for the enhancement of franchise management hence possibly improve franchisees’ performance.

7. Acknowledgment

It is my honor and perquisite to offer sincere thanks to Associate Professor Dr. Muhammad Shukri Bin Bakar and Dr. Azraining Binti Mustapa, School of Business Management, Universiti Utara Malaysia, Sintok, Kedah, for supervising this work.

References


Table 1: Measurement Model

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Items</th>
<th>Loadings</th>
<th>CR*</th>
<th>AVE*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchises’ Operational Performance (OP)</td>
<td>PO 1</td>
<td>0.733</td>
<td>0.864</td>
<td>0.714</td>
</tr>
<tr>
<td></td>
<td>PO 2</td>
<td>0.666</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PO 3</td>
<td>0.742</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PO 4</td>
<td>0.726</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PO 5</td>
<td>0.721</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PO 6</td>
<td>0.693</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits of ICT (BICT)</td>
<td>TMK 1</td>
<td>0.765</td>
<td>0.899</td>
<td>0.727</td>
</tr>
<tr>
<td></td>
<td>TMK 2</td>
<td>0.680</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TMK 3</td>
<td>0.698</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TMK 4</td>
<td>0.748</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TMK 5</td>
<td>0.666</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TMK 6</td>
<td>0.741</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TMK 7</td>
<td>0.715</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TMK 8</td>
<td>0.783</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franchisor Support (FS)</td>
<td>SF 1</td>
<td>0.657</td>
<td>0.879</td>
<td>0.711</td>
</tr>
<tr>
<td></td>
<td>SF 2</td>
<td>0.687</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SF 3</td>
<td>0.709</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SF 4</td>
<td>0.743</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SF 5</td>
<td>0.711</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>SF 6</td>
<td>0.743</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SF 7</td>
<td>0.745</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Composite reliability (CR) = (square of the summation of the factor loadings)/(square of the summation of the error variances) + (sum of the square of the factor loadings) + (sum of the error variances) 

b Average variance extracted (AVE) = (sum of the square of the factor loadings)/(sum of the square of the factor loadings) + (sum of the error variances)

Table 2: Discriminant validity of constructs

<table>
<thead>
<tr>
<th>Construct</th>
<th>Franchisees’ Performance</th>
<th>Benefits of ICT</th>
<th>Franchisor Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchisees’ Performance (OP)</td>
<td>0.717</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits of ICT (BICT)</td>
<td>0.687</td>
<td>0.726</td>
<td></td>
</tr>
<tr>
<td>Franchisor Support (FS)</td>
<td>0.573</td>
<td>0.680</td>
<td>0.715</td>
</tr>
</tbody>
</table>

Note: The square root of AVE values is shown on the diagonals and printed with bold; non-diagonal elements are the latent variable correlations.

Table 3: Path coefficient and Hypotheses testing

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Coefficient (B)</th>
<th>T-value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit of ICT → Franchise Performance</td>
<td>0.527</td>
<td>7.531**</td>
<td>Supported</td>
</tr>
<tr>
<td>Benefit of ICT → Franchisor Support</td>
<td>0.360</td>
<td>4.469**</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Note: **Significant at p<0.05 based on one tail t-statistic table, as t-value greater than 1.65.

6. Conclusion

The analysis found that the benefits of ICT have a significant relationship with the operational performance of franchisees in Malaysia. This finding indicates that the franchisees perceived their outlets’ operational performance as being influenced by the benefits of an ICT system. The findings also confirms the moderating role of franchisor support in the relationship between the benefits of ICT and franchisees’ operational performance. Therefore, effective franchisor support is considered by the franchisees as necessary to facilitate communication within the franchise system hence improving their business’s operational performance. The benefits of ICT and franchisor support are the important factors that affect franchisees’ performance in Malaysia. Franchisor support plays an important role in mediating the relationship between the benefits of ICT and franchisees’ performance. This study not only provides evidence on the importance of the benefit of ICT and franchisor support but also validates the research framework with regard to the franchise sector. The findings contribute to the existing body of knowledge thus adding to the limited studies on the subject. The findings can serve as information for the enhancement of franchise management hence possibly improve franchisees’ performance.


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