

Examining the Determinants of Food and Beverage Franchisees' Satisfaction in Malaysia

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Abstract: Franchising is a long-term affiliation between the franchisor and franchisee, which involves one or more franchisees who invested in the franchisor franchise system. It has been the best way for franchisors and franchisees to expand their businesses. Unfortunately, many franchisees have ceased business with the franchisors due to the unprofitable business operations that lead to their dissatisfaction. This research aims to assess the connection concerning ongoing support, relationship value, and training and development towards franchisees' satisfaction. Questionnaires that consist of ongoing support, relationship value and training and development, and franchisees' satisfaction were distributed to 300 franchisees from the food and beverage business in Greater Kuala Lumpur. The data were examined using SPSS 25.0 and AMOS 25.0. Findings show significant relationships between ongoing support, relationship value and training and development, and franchisees' satisfaction are confirmed in Structural Equation Modelling (SEM). The results provide information that can be utilized in understanding, maintaining, and increasing the level of franchisees' satisfaction with the franchisors. Implications and recommendations are also given for future studies.

Keywords: franchise, franchisor, franchisee satisfaction, food and beverage, SEM

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Introduction

Franchising is a system of delivery in which an owner, the franchisor, gives the rights to products or services to an individual, the franchisee, under specific conditions, which also means the franchisor grants rights to the franchisee for a given time to run their commercial system using a familiar brand and standard format for promoting, managing, and administering the franchise business (Aliouche, Kaen & Schlenrich, 2012). Franchisors' primary objective should be to provide services to their franchisees and create value for customers or end-users. A strategic process for classification and analysis of satisfaction data is developed to enable a franchisor (management) to differentiate between the service preferences of franchisees (customers) with the same level of tenure with the organization yet at substantially different revenue levels (Facca, 2012). The primary purpose of the franchisor is

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to create services that help the franchisees to expand their returns so that the franchisor also benefits from higher royalty revenue based on the franchisee's improved customer returns results (Dant, 1995; Dant & Kaufmann, 2003; Gallini & Lutz, 1992). With over 700 registered franchise systems and over 6,000 franchising outlets, Malaysia has a forte in different franchising segments, such as food and beverage franchises, with many more sections related to the Malaysian market (Malaysia External Trade Development Corporation, 2015). The food and beverage franchise business stated the highest amount and percentage in the development of franchises by sectors in Malaysia with the percentage amount of 31% from all sectors of the franchise in the year 2010, 34% for the year 2011, and lastly, the percentage of 34% in the year 2012 (Malaysia External Trade Development Corporation, 2015).

Problem Statement

The food and beverage sector controls one-third of the market segment and stays the franchise-best prospect for Malaysia, and a lot of unique food and beverage franchise concepts would still be in need (Yeoh, 2007). Nowadays, the issues on the Malaysian franchisees of food and beverage business towards their franchisor related to what they can gain from the franchisor in terms of goods and stocks, services, training, and relationship quality. Often when franchisors do not control issues, quality erosion issues to maintain quality control happens (Yeoh, 2007). This study seeks to determine the critical determinants of ongoing support, training, development, and relationship value on both sides, which directly impact the franchisees from the franchisors' roles and thus are considered a critical factor in franchisees' evaluations of the franchise system. Currently, problems occurred related to the closure of the Malaysian local franchise brand of food and beverage franchisees outlets. Most of the franchisees were still in the operations of 5 years contracts of franchise agreement, and they currently faced various issues in the franchise enterprise (Hnuczek, Ismail & Haron, 2013). For example, in Thailand, the franchise business can sustain up to five years only due to improper guidance from the franchisors (Hnuczek, Ismail & Haron, 2013). Often, the franchisees are left with inadequate or poorly designed preparation and functioning structures, insufficient or poorly prepared operations, and support, leading to delays and low-profit margins for franchisees, which can cause franchisor functioning problems and weak franchisee validation. (Scott, 2015).

Literature Review and Hypotheses

Ongoing Support

Franchisees' satisfaction is often related to acquiring and running a franchised outlet, assessing costs and benefits, and initial and ongoing franchisee assistance services delivered by franchisors (Hnuczek, Ismail & Haron, 2013). Ongoing support plays a crucial role in determining the success of the franchise operations and business, including the franchisor's pre-opening help and ongoing support. Frazer and Winzar (2005) suggest that while the franchisee's administration may fail, it is unlikely to find that the flop is a consequence of a shortage of business assistance from the franchisor. The franchisor sees the franchise applicant briefly clarify the franchisee's entitlements and obligations details, monetary duties, renewal, dissolution, and disagreement resolution (Blair & Lafontaine, 2005; Sherman & Schaeffer, 2005) during the pre-opening stage. The franchise agreement is often connected to central purchasing needs from different suppliers or producers chosen with franchisors' assistance (Roh & Yoon, 2009). This condition is a symbol of the efforts of the franchisor to protect the brand's resources, prestige, and special requirements. On the other hand, non-proprietary products may also be purchased from reputable and reliable suppliers, distributors, or carriers if they meet franchisor standards and specifications in sanitation and food handling criteria (Blair & Lafontaine, 2005; Justis & Judd, 2004).

Training and Development

A key benefit of purchasing a franchise is training and getting hold of technical know-how (Price, 1993). In most food and beverage franchise kiosks, franchisees will recruit their employees to train on the day-to-day operations. Franchise systems want their franchisees to recognize and utilize the powerful management instruments, but they also need them to train their team in using these instruments (Sayler, 2003). Effective training is required as it is used to develop connections, attain cooperation, and reduce disputes (Rasiel & Friga, 2001). In some cases, the franchisor decides to include the franchisee in the day-to-day operation of their own franchised unit. Otherwise, an on-site manager who has achieved a franchisor training program will directly oversee the outlet (Bond, 2006). Franchisors who prioritize quality training programs do this because they know that well-trained franchisees and employees directly impact their bottom line (Larson, 2003). Training is proven to positively influence workers' productivity, resulting in higher sales rates and employee satisfaction. Proof from McDonald's indicates in their context of staff that low amounts of training increase high amounts of staff turnover and that the provision of excellent training has a positive influence on team retention (Thomas, Lashley & Eaglen, 2000). Training will help the franchisees and their employees understand the recipe and standard of the procedure (SOP) provided by the franchisor. Franchisees see franchisors' interest in their training and development as a symbol of franchisors' intentions, and their gratitude recognizes that initial and ongoing assistance will improve their ability to manage successful businesses; Lucia-Pallacio *et al.* (2014) said.

Relationship Value

An unstable relationship between franchisors and franchisees will lead to conflicts between these partners. If it is not handled well, this will lead to increasing distrust and relationship failure (Pruit & Carnevale, 1993). The franchisor-franchisee relationship is a reciprocal business arrangement (Bradach, 1998). The franchisor-franchisee agreement guides the franchisee in the process and structure of the company (such as operating time, menu, training, financial commitments) and forms the basis for both relationships (Rohani, Yusof & Mohamad, 2010). The franchisor-franchisee relationship is symbiotic, and both parties need to work towards reaching their respective franchise targets. The costs and benefits of the franchisees' and franchisor partnerships are not identical, often established to optimize the franchisor's profit and shift costs to franchisees. Hoffman and Preble (2003) say that recruiting and developing new franchisees is essential in increasing the company's capital and expertise, thereby providing a competitive advantage. Whereas Chirico, Ireland, and Sirmon (2011) postulate that "families" growth is necessary to gain an advantage. Franchisees must face restrictions on franchisor controls, contract specifications, and franchise-related costs and approve compensating a fraction of profits in the form of base fees and a certain percentage of royalties (Baucus *et al.*, 1993). However, what can be inferred is that relationship value or quality is a long-term connection between a firm (franchisor and franchisee) with a high degree of trust, loyalty, and satisfaction (Rohani, Yusof, and Mohamad 2010). Franchisee and franchisor relationship management is key to relationship success, as is how power and command are implemented (Doherty & Alexander, 2004, 2006).

Franchisees' Satisfaction

Franchisees' satisfaction is mainly based on which franchisees are happy or unhappy with the franchisor. Franchisees are satisfied with the system if the franchisor acts upon the achievement of the business concept and plan (Burkle & Posselt, 2008), perceived system security, and how franchisors support goods, services, continuity of identity, unit stability, sustainability of franchise, ongoing program and network growth (Roh & Yoon, 2009; Croonen, Brand & Huizingh, 2011). Gauzente (2003) proposes several facets to ascertain total satisfaction, including the administration of the franchise, support, and service provided by the franchisor, and procedures for extrinsic (profit) and intrinsic (status) rewards. Therefore, happy, profitable franchisees are likely to enlarge their business by creating new places and motivating potential future franchisees to participate in the

franchise system (Dickey *et al.*, 2007). Because expansion is a crucial aspect of franchise success in their business, delighted and profitable franchises can grow by launching new and more stores. Satisfied franchisees help build the franchisor's reputation and achievement; existing franchisees can redirect the chain's value through media and word-of-mouth (Roh & Yoon, 2009).

From the above discussion, the following three hypotheses are developed:

H₁: There is a significant relationship between ongoing support and the satisfaction of franchisees.

H₂: There is a significant relationship between training and development and the satisfaction of franchisees.

H₃: There is a significant relationship between relationship value and the satisfaction of franchisees.

Research Method

Respondents and Methods

This study's respondents were food and beverage franchises, and the franchise list is taken from the database of the Malaysian Franchise Association. Self-administered questionnaires collected data from 300 participants, and all questionnaires were considered valid for the study.

Instrumentations

A 10-item instrument was implemented to quantify ongoing support (OS), 10-item implemented to quantify training and development (TD), a 10-item instrument implemented to quantify relationship value (RV), and a 12-item instrument implemented to quantify satisfaction of franchisees (SF) was adapted from the work of Abdullah, Alwi, Lee and Ho (2008); Spinelli and Birley (1998); Roh and Yoon (2009); Dant, Weaven and Baker (2013), and Facca (2013). The 5-point Likert Scale was applied to quantify all items.

Data Analyses

Demographic data offered a description of the participants' profiles. The principal factor evaluation was administered to decrease the sum of variables or items. Using Structural Equation Modeling (SEM) with AMOS 25.0 software, these factor analysis reports were used for more in-depth research. It seeks to get a highly suitable model or pattern of variables that perfectly suits the information on which it is constructed. It provides a focused depiction of the fact from which the information was derived and offers a prudent interpretation of the information (Kline, 1998). In this analysis, the SEM procedure was applied to classify the effect of ongoing support (OS), training and development (TD), and relationship value (RV) on franchisee satisfaction (SF).

Data Analysis and Results

Summary of Sample

Of the 300 participants queried, the highest number of franchisees is 36.7 percent of them operating in this business for almost 1 to 3 years, 34.4 percent of franchisees involved in the industry for about 3 to 5 years, 17.8 percent had reached five years, and continued the franchise and franchise business, and 11.1 percent of them were still new to food and beverage business. Regarding the total of outlets owned by the franchisees, the majority (74.4%) possess one outlet, 23.3 % own two outlets, and only 2.2% own three outlets.

Hypothesized Final Model Structural Equation

Based on the CFA modification index, the exogenous and endogenous measurement model and the final model as the hypothesized model assessment verified the constructs of ongoing support (OS), training and development (TD), relationship value (RV), and the satisfaction of franchisees (SF) of the hypothesized paths. SEM measures factor analysis and hypotheses in the same process. SEM methods also give more extensive evidence on how much evidence supports the study model. The goodness of fit indices for the 42 measured variables of ongoing support (OS), training and development (TD), relationship value (RV), and franchisee satisfaction (SF) indicate that reading is excellent if the significance of standardized regression weight varies from 0.173 to 0.844. For each measurement, the standard error (SE) indicates the fitness goodness and low-level reading from 0.072 to 1.374, and the estimate (Square Multiple Correlation) shows the level of contribution to the latent variable (0.033 to 0.692). The standardized regression weight between OS and SF is 0.823, 0.467 between TD and SF, and 0.766 between RV and FS. The final model reveals the model explained in a significant portion of the variance in all the endogenous variables (multiple square correlations), and the three exogenous variables (OS, TD, RV) jointly explained a 63.0 percent variance in FS. At last, from the Structural Model, GFI reading is 0.90 (appropriate fit criteria), and RMSEA is below 0.08. The measurement model fits well with figures based on evaluation criteria like GFI and RMSEA (Bagozzi & Yi, 1988). Table 1 describes the goodness of OS, TD, RV, FS, and structural model fit. Structural models testing endogenous variables (FS) reach GFI (GFI>0.90) and RMSEA (less than 0.08) criteria.

Table 1. Summary of the goodness fit of OS, TD, RV, FS, and final model.

Model Fit Indicator	OS	TD	RV	FS	Final Model
(x2)	1.547	7.809	8.563	18.105	196.638
DF	2	8	8	14	73
CMIN/DF	0.774	0.976	1.070	1.293	2.694
P	0.461	0.452	0.380	0.202	0.000
GFI	0.992	0.971	0.970	0.944	0.901
RMSEA	0.000	0.000	0.028	0.057	0.078

Discussion

The findings were shown to have considerable influence on the satisfaction of franchisees with a standard weight of 0.823 ($p < 0.01$), endorsing H_1 . The results indicate that ongoing support is essential. Researchers found that ongoing support plays a critical part in evaluating the performance of franchise businesses, including pre-opening support and ongoing support from the franchisor. The finding is consistent with Roh and Yoon's (2009) research that shows franchisees are less pleased with their franchisors' continued business support and are more satisfied with the franchisor's central buying support. As a result, training and growth significantly influenced franchisee satisfaction with a standardized regression weight of 0.467 ($p < 0.01$), thereby endorsing H_2 . Respondents agree that to build relationships, achieve cooperation and reduce conflicts, practical training is needed. A study by Alice, Humphries, and Geddy (2015) and Lucia *et al.* (2014) are consistent with the finding. It was subsequently found that the partnership value significantly affects franchisees' satisfaction, thus endorsing H_3 , with a standardized regression weight of 0.766 ($p < 0.01$). Participants agree that relationship value or quality is a long-term relationship with a high level of confidence, loyalty, and satisfaction between a business (franchisor and franchisee). The finding is consistent with Rohani, Yusof, and Mohamad's (2010) study. It is recommended that future researchers replicate the study in other sectors besides food and beverage to get a better understanding of franchise business in Malaysia.

Conclusion

This study examines the determinants of franchisees' satisfaction with their franchisor in the food and beverage business. This study shows that ongoing support, training and development, and relationship value significantly influence franchisees' overall satisfaction with franchisors in Malaysia's food and beverage industry. The long-term survival of a franchise business should be centered on improving rapport between a franchisee and franchisor. This requires a deep understanding of the mechanisms that lead to franchisees' expectations and performance gap, the source of their dissatisfaction. All related stakeholders, especially the relevant government agencies, higher learning institutions, and franchisee-franchisor associations, should work together in developing an efficient franchising business framework compatible with the current country's needs. This could attract future generations to venture into the franchising business in line with the country's aim to have more successful entrepreneurs.

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