

Entrepreneurial Development via Franchising: Some Malaysian Case Studies

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Abstract

The Malaysian government's goal of creating a Bumiputera Commercial and Industrial Community (BCIC) has been clearly spelt out in the Second Outline Perspective Plan (OPP2) 1991-2000 and also the National Development Policy (NDP). One of the strategies proposed towards achieving this objective was through the use of franchising as a vehicle for entrepreneurial development. Hence, in 1991 a blueprint, "The Franchise System: A Strategy Towards Creating a Bumiputera Commercial and Industrial Community" (JPM, 1991) was formulated to encourage Bumiputeras to take up franchising as an alternative route towards operating and managing a business venture.

As it has been two decades since this blueprint was put forward, it would be timely to review and evaluate to what extent this strategy has been successful towards creating the BCIC. This paper discusses how franchisees learn and benefited via the integrated model of franchisee learning proposed by Hoe and Watts (1999), which would provide an accelerated learning process for the Bumiputeras.

Key Words: Entrepreneurial development, Franchisee, Franchising, Malaysian Case Studies

1.0 INTRODUCTION

Entrepreneurship has been said to fuel economic growth, creating employment and prosperity. The greatest example of national commitment to entrepreneurship and economic progress is the United States (GEM, 1999). Hence, it is not surprising that entrepreneurship is at the top of the public policy agenda because of the seemingly unambiguous relationship between the level of entrepreneurial activity within a country and that country's degree of prosperity. In the case of Malaysia, entrepreneurial development has been identified as one of the strategies to eradicate poverty and restructure society. The Malaysian government's goal of creating a Bumiputera¹ Commercial and Industrial Community (BCIC) has been clearly spelt out in the Second Outline Perspective Plan (OPP2) 1991-2000 and also the National Development Policy (NDP). In this context, the New Economic Policy (NEP, 1970 – 1990) and the New Development Policy (1991 – 2000) have been formulated by the Malaysian government to encourage Bumiputera entrepreneurial development.

In recent years, the role of franchising as a type of entrepreneurial activity in economic development is beginning to receive attention (Falbe, Dandridge and DuPuis, 1991). The rapid development of franchising and the turbulent environment has resulted in franchising being viewed differently – it is more than just a form of business; franchising is a strategy (Adnan, 1994; Hoe, 2003). This is line with Longenecker and Moore's (1991) contention that, franchising concepts help aspiring

¹ Bumiputera – indigenous ethnic Malays

entrepreneurs to realise their dreams of owning and operating a business venture. On the basis of the above contention, one of the strategies proposed towards achieving the objective of creating a Bumiputera Commercial and Industrial Community in Malaysia was through the use of franchising as a vehicle for entrepreneurial development. Hence, a blueprint, “*The Franchise System: A Strategy Towards a Bumiputera Commercial and Industrial Community*” (JPM, 1991), was formulated to encourage Bumiputeras to take up franchising as an alternative route towards owning, operating and managing a business venture. The rationale behind this policy is that a new franchisee enjoys an accelerated process of learning through the formal training and support provided by the franchisor under the franchise contract (Hoe and Watts, 1999). Thus, a significant assumption made here is that franchisees undergo a learning process that equips them to be independent entrepreneurs.

2.0 THEORETICAL OVERVIEW

2.1 Definition of Franchising

The term ‘franchising’ is currently used to describe several forms of activity: ‘Monopoly franchising’ refers to the granting of exclusive rights - cable television for example - by a government authority via competitive bidding (Elango and Fried 1997). In ‘product’ or ‘tradename’ franchising, franchisees are granted rights to distribute a manufacturer’s product in a specified territory or location, for example petrol or soft drinks (Chan 1994). The most recent development is ‘business format’ franchising, which involves ‘the granting of rights by a company (the franchisor) for a third party (the franchisee) to operate their business system using a common brand and common format for promoting, managing and administering the business’ (DTI, 1997). It is business format franchising which is the focus of this paper.

Traditionally, entrepreneurship scholars have focussed their attention on independent entrepreneurship rather than on co-operative entrepreneurship (Shane and Hoy, 1996). Entrepreneurs join co-operative arrangements such as franchise systems, network partnerships and constellations of firms in order to gain a competitive advantage over rivals (Baucus, Baucus and Human, 1996). The advantages reaped are the reduction in production and inventory costs, faster product development, market expansion and the securing of technology while at the same time enjoying congenial business relations with its partners (Larson, 1992; as cited in Baucus, Baucus and Human, 1996; Hoe, 2001). Thus, this reduced focus of research on cooperative entrepreneurship has left aside exploration of a major portion of entrepreneurship activity. One of such unexplored cooperative entrepreneurship is franchising. Franchising is the most pervasive and fastest growing form of cooperative venture among entrepreneurs. It has been described by John Naisbitt in his best-selling book, *Megatrends*, as “...the single most successful marketing concept ever...the wave of the future...” (Rensi, 1995). Thus, considering that franchising is sweeping into the rest of the world, it is an opportune time to take stock of Malaysia’s own experience in using franchising as an entrepreneurial development vehicle since it was initiated a decade ago.

2.2 Is Franchising Entrepreneurial?

English and Hoy (1981) has examined the notion of the franchisees as innovating entrepreneurs and have suggested that multi-unit franchisees (which are common among restaurant franchisees) may be fruitful grounds for further research into franchisee entrepreneurs/innovators. Similarly, Shane and Hoy (1996) have also introduced the notion of the franchise as an entrepreneurial venture. This contention counters the generally accepted wisdom that franchising is the antithesis of entrepreneurship. This is because franchising, by definition is simply the replication of a format proven successful by others, thus excluding creativity which has been identified as one of the prerequisites for one to be considered as entrepreneurs. Nevertheless, the very act of creating a franchise network is an act of entrepreneurship. In fact, franchisors seek and prefer individuals who are enterprising and entrepreneurial by nature. Various studies have shown that number independently owned franchised outlets versus company-owned are not only owned in greater numbers by franchisees but are also more profitable. Statistics from the International Franchise Association has shown that a majority of their franchise members have franchisees whose unit assets exceed the value of their franchisors. Many of the franchisors depend on franchisee experimentation to generate the innovations that keep their organisations healthy and competitive. An excellent case in point is that of how Ito-Yokado Co. Ltd. Of Japan, a long-time licensee of the Southland Corporation's 7-Eleven store chain not only acquired its parent company and but has also begun implementing the Japanese firm's management techniques at 7-Eleven stores in the US in 1991 (Sparks, 2000). Toshifumi Suzuki, Ito-Yokado's charismatic leader spearheaded the revamp of Southland by creating an image for the company and providing the unifying vision to all its franchise outlets. According to Mintzberg (1983), "adhocracy" is the most creative and innovative organisational form. Accordingly, franchises are typically organised into more hierarchical structures along the lines of what is termed by Mintzberg as "machine bureaucracy". Consistent with this perspective, franchisors have always been claimed to be "seeking replication not innovation and conformity not creativity" from their franchisees (English and Hoy, 1995; as cited in Stanworth et al, 1996). But interestingly, it is this very homogeneity which may actually provide both the speed of diffusion and ease of implementation of an innovation within a franchise system. At the operational level, the reality appears to be often one facilitating innovative expression of franchise autonomy. It has been shown that even within more mechanistic structures, entrepreneurship and innovation can still function (Pinchot, 1986; Smith, and Seawright, 2011). "Intrapreneurs" the term used by Pinchot in referring to entrepreneurs within corporations, can still manage to innovate in structured environments, often by creating a pool of adhocratically organised space within a broader mechanistic whole.

Franchising is experiencing rapid expansion (Kostecka, 1989) and with the current business environment for franchising becoming highly competitive and undergoing rapid change, entrepreneurial behaviour is considered to be essential for success in this type of environment (Drucker, 1985; Kanter, 1983). Increasingly, franchisors are recognising that ideas for new products and services in franchising frequently come from the field (Dandridge and Falbe, 1994; Love, 1986) and the franchisees whom are immersed in the deep end of the local market. This indicates that as competition increases, it will be necessary for franchisors to foster entrepreneurial behaviour at the local level while they continue to preserve the integrity of their system of franchising.

In America, the role of franchising in rural economic development is just beginning to receive attention (Falbe, Dandridge and DuPuis, 1991). The paradox of franchising entrepreneurship which is entrepreneurial energy combined with working in a supportive system, may be especially appropriate in a rural setting to provide some of the factors lacking in the environment and assist to increase the survival rates of new organisations. This interest in the role of franchising in rural economic development stems first, from the significant role that franchising is playing in the delivery of services in the economy and second, from the assumption that franchise resources can provide a functional substitute for some of the environmental disadvantages associated with a rural location. Franchisees are provided with a variety of assistance and support. These come in the form of finance, site

selection, co-operative advertising, training and assistance with store opening. Increasingly, franchisors are willing to co-sign for bank loan commitments, overcoming a serious rural business problem of limited access to sources of funds. Franchising therefore, can arguably be used a stable platform on which a rural resident can build a long term future, at the same time that the franchise represents a formidable competitor to existing and long standing independent rural businesses. The core issues of the franchise, namely the business system, innovation in technology and proactive approaches to marketing and competitors are real resources to a new business in a rural environment and shorten the distance of rural entrepreneurs from technological and service resources. In addition franchising does bring with it the needed services to rural areas and provide training and experience which residents can subsequently use in other ventures.

From the above discussion, it can be seen that there are contrasting views as to the degree which franchisees might appropriately be described as 'entrepreneurs'. It is beyond the scope of this paper to explore this concept in definitional terms, but many commentators have characterised franchisees as entrepreneurial. In a recent study, for example by Miner (1997) views the success of a franchisee and entrepreneurial success as one and the same. An alternative view, however, is that in some dimensions franchisees are non-entrepreneurial in their behaviour, in that, for example, a franchisee elects to accept limitations of independence and autonomy in return for risk reduction. Entrepreneurs are often described as taking 'careful risks', and franchise is a way of trading some freedom for risk reduction (Falbe and Dandridge, 1991, Hamilton and Watts, 1998). For this reason, a conventional view has been to place the franchisee as a type mid-way on a continuum between independent entrepreneurs and employed managers. However, Stanworth (1993) concluded that franchisees do not differ appreciably in background or motivation from independent entrepreneurs.

2.3 Economic Benefits of Franchising

Advocates of franchising have claimed numerous economic benefits of franchising (Hunt, 1972; Hunt, 1977). Among the more significant benefits listed by Hunt (1972; 1977) that make franchising as an attractive business venture to aspiring businesspeople include:

- a) Greater opportunities for individuals to become independent businesspeople.
- b) Lower failure rates than other businesses.
- c) Greater opportunities for ethnic minority group members to own their own business.

Apart from Malaysia, some Central European Countries (CEC) have also started to consider franchising as a tool for social and economic change and development (Pavlin, 1996). The current, rapidly changing situation in these transitional countries such as the Czech Republic, Hungary, Poland, Slovakia and Slovenia have been using franchising as a method of privatisation. Franchising has facilitated ownership acquisition to small investors.

2.4 Franchising as a Catalyst for Entrepreneurial Development

According to Lado and Vozikis (1996), there are various approaches that can be used to promote and foster entrepreneurial development in developing countries. One of these is by using the transfer of

technology. In this respect, franchising can be utilised as the mode for technology transfer or expertise for the promotion of entrepreneurs. The transfer of franchise know-how by franchisors can be viewed as a process of providing franchisees with access to value-added business as well as the marketing technique and managerial support implicit to franchised firms. According to Stanworth, Price, Porter, Swabe and Gold (1995), an implicit feature of a franchise system is the concept of technological transfer and the '*learning organisation*'. Technology transfer refers to skills and know-how rather than just machinery and hardware and the wider process relates to methods of organisation and operation, quality control and other manufacturing procedures. Three levels of technology transfer (table 2) which could be aligned to the context of franchise systems were identified by Dahlman and Westphal (1983). The first level refers to the operating capability required to operate a technology such as the running and maintaining of a business unit. Level two is the investment capability required to create new productive capacity such as establishing new business units or outlets. The third level is the innovative capability, which is the ability to modify and improve methods and products. Based on this argument, franchising offers an attractive option to aspiring entrepreneurs for starting a small business.

Table 2: Three levels of technology transfer via Franchising

Level 1	Operating Capability
Level 2	Investment Capability
Level 3	Innovative Capability

2.5 What and how do franchisees learn?

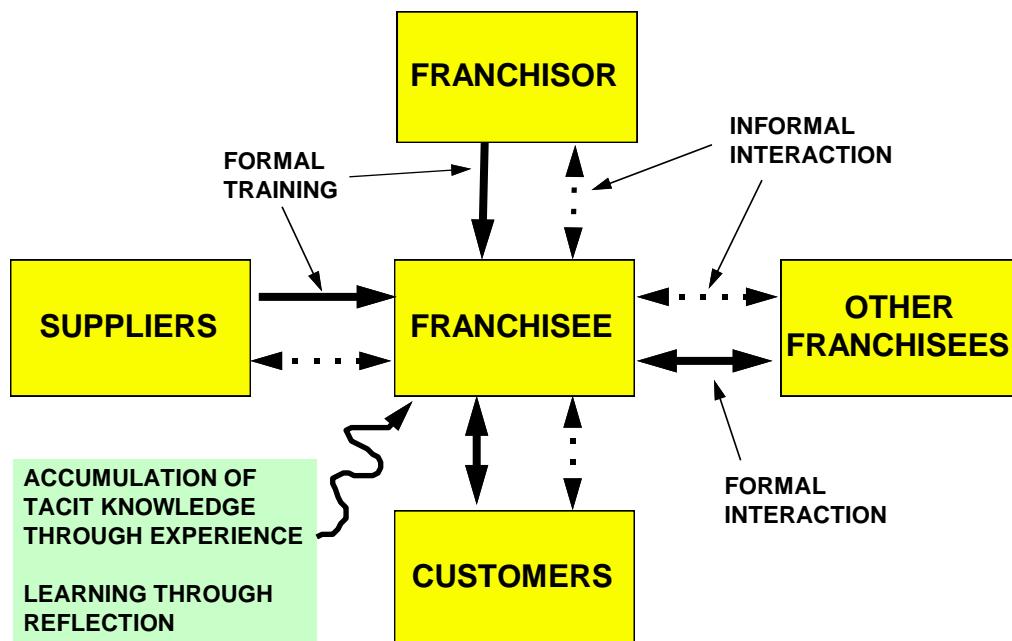
An emerging research theme is the learning undergone by independent entrepreneurs (Deakins and Freel, 1998; Watts, G., Cope, J. and Hulme, M., 1998, Watts and Hoe, 2000; Watts and Hoe 2002). However, to date there has been very little research focussed on the learning experiences of franchisees (Elango and Fried, 1997). Compared with an independent business owner-manager, a franchisee is both advantaged and disadvantaged in terms of learning opportunities. Most, but not all, franchisors provide a substantial package of formal initial training in the operation of the franchise and, in some cases, continuing training support. In some cases, there is also formal training provided by the supplier or suppliers. The franchise system may also facilitate networking with peer franchisees on a formal or informal basis. However, the franchisee may be disadvantaged through the imposition of a rigid business format which does not allow experimentation and therefore limits the franchisee's opportunities for proactive experiential learning.

From an earlier study by Hoe and Watts (1999; 2002), an integrated model of franchisee learning (figure 1 below) demonstrates the scope of learning experienced by franchisee which included the following components:

- i) Formal transmission of explicit knowledge through formal training provided by the franchisor and, in some cases, by suppliers and other agencies.
- ii) Transmission of tacit and explicit knowledge through other formal interaction with franchisor, suppliers, customers and other agencies.

- iii) Informal transmission of tacit knowledge through informal interactions with the franchisor, suppliers, other franchisees, customers and other agencies.
- iv) Accumulation of tacit knowledge through operational experience of running the business.
- v) Learning through reflection on past and future events.

Figure 1: Franchisee Learning: an integrated model



3.0 RESEARCH METHODOLOGY

This study comprised a series of 14 in-depth, face-to-face interviews with a diverse sample of franchisees in terms of educational and prior business backgrounds, gender, ethnic identity and business sector. The interviews explored the background and earlier career history of the franchisee, their experience of managing the franchise, the history and development of the business and, as a specific focus, the nature and sources of learning. The scope of learning as broadly defined by Watts and Hoe (2000; 2002), embraced:

- (i) interactive learning, both formal and informal, including both ‘top-down’ learning through transmission of knowledge from the franchisor and ‘horizontal’ learning from other franchisees, suppliers, customers, and other networks and contacts.
- (ii) the accumulation of tacit knowledge through the day-to-day experience of running the business.
- (iii) learning gained through reflection on past experiences and anticipated future events.

(iv) learning outcomes in terms of personal development, changes in self-concept and aspirations

3.1 Sample Profile

The fourteen respondents represented 8 different franchise systems, both overseas and indigenous in origin. The sectors embraced by the sample were snack and fast food, hotels, photo shop, pharmacy and optician. The sample is described in table 1 below, which summarises key characteristics of both the franchisees and the franchise systems that they represent:

Table 1: Profile of Franchisee Respondents

Respondent Franchisee						Franchise System		
No	Age	Sex	No. Years as franchisee	Prior business experience	No. of outlets owned	Sector	Country of origin	No. of outlets in Malaysia
1	30	F	2	Medium	1	Food (snacks)	Malaysian	55*
2	30	F	3	Low	2	Optical	Malaysian	N/A**
3	47	F	2	None	1	Food (snacks)	American	35
4	33	M	3	High	2	Food (snacks)	Malaysian	55*
5	26	F	1	Medium	2	Food (snacks)	Malaysian	55*
6	41	F	1	None	1	Food (snacks)	Malaysian	55*
7	37	F	3	Medium	3	Food (fast food)	Malaysian	75
8	47	M	9	High	5	Food (fast food)	French	38
9	30	F	2	Medium	1	Optical	Malaysian	NA**
10	27	M	4	Medium	1	Photo shop	American	300***
11	43	F	3	Medium	1	Pharmacy	American	NA**
12	45	F	4	Medium	1	Hotel	Malaysian	16****
13	47	M	4	Medium	1	Hotel	Malaysian	16****
14	52	M	4	High	1	Hotel	Malaysian	16****

* same franchise system

*** estimated number of outlets

** (N/A = not available); same franchise system

**** same franchise system

From the 14 cases, 3 cases of ethnic Bumiputera franchisees who have successfully operated their franchises were selected based on the achievement in moving forward to operating their own business ventures. These 3 cases provided the evidences that franchising does provided the platform for franchisees to learn to become entrepreneurs.

4.0 FINDINGS AND DISCUSSION

4.1 Three Malaysian Case Studies

Case A: PWN (Optician Franchise)

Ms. PWN who is an ethnic Bumiputera is 30 years old and holds a degree in Optometry from the National University of Malaysia. She was brought in a rural environment; her father is a farmer and her mother a housewife. None of her family members or relatives had previously been involved in business and hence, has not prior business exposure not business experience.

After graduating from university, PWN worked in a Chinese-owned optometry business for two years and later moved to a private optical shop whose owner was a not qualified optometrist. After working there for a while, the owner offered her a partnership but she declined the offer, wishing to go into business independently. After working for the Chinese-owned optical shop, she decided to become a franchisee of a Malaysian optometrist whose franchisor was a Chinese. PWN was the first franchisee of the parent company, which has a total of 14 franchised outlets in Malaysia.

She did not know much about franchising before becoming a franchisee. However, when she was approached by the franchisor, she bought a book on franchising and consulted her parents and her uncle. The government's special interest and incentives in encouraging franchising were important in attracting her to franchising. She feels that through franchising she is provided with a system which works and that the franchisor is like 'one parent' to whom she can consult. The franchisor taught her a lot of things, from day one, beginning with how to negotiate with her landlord. The business development manager trained her in telephone skills, negotiation skills and the tricks of the trade. She was overwhelmed by what she saw and, in particular, how the business development manager conducted business negotiations, especially during the tenancy negotiations which were conducted in a very covert manner. At that time she was still relatively young and had not run a business by herself.

Formal Training

The initial training provided by the franchisor was limited and generally informal. The training was a mere two-day training session whereby the development manager and the franchisor personally came and trained the franchisee. Even though training in accounting was provided by the franchisor but WN felt that she has still not got a good grasp of the subject. With regard to product knowledge, the franchisor's suppliers did most of the training through presentations and talks. The franchisor specifically asked her to attend a course for franchisees which was conducted by the Malaysian Entrepreneurial Development Centre. PWN felt that she only fully understood what franchising was about after attending this course as the franchisor had been telling her the positive aspects of franchising but not the negative side of things. This changed her mind-set and helped her to understand the franchisor better. She commented that if it were not for the training course which made

her understand the modus operandi of franchising, she would have “quarrelled with the franchisor a long time ago”.

Learning and Longer-term Plans

PWN feels that she has gained a lot of hands-on experience from running the franchise outlet. She interacts a lot with fellow franchisees from both her own and other franchises. They exchange and compare notes and she feels that by being with fellow franchisees they were better able to understand each other and give moral support whenever possible. She also learns from her suppliers who give her constructive comments. She also gets important feedback from her customers who inform her about pricing and the sort of services that competitors are providing.

Franchising has also provided her with a means of benefiting from the various government support programmes. If not for the fact that she is a franchisee, she feels that she wouldn't be getting this support and assistance at all. ‘The whole support package from the franchisor...the moral, mental, products, finance, systems...the whole works made me learn faster’. She also says that if she were to have started on her own, she would not have been able to establish herself in the market since she is a Bumiputera entering an industry which until now has been dominated by the ethnic Chinese.

She feels good about the franchise and is very obliged to the franchisor who has given her so much support in terms of getting her franchise outlet started, providing funding and providing her with whatever she needs or asked for.

At the point of reporting this research, PWN is no longer a franchisee as her franchisor's business has wound up. Since operating on her own, she has managed to add 6 new branches of her very own optical shops in the state of Kedah and Perlis. Her 7th outlet will be opened very soon as all the refurbishing and shop fixtures and equipment for this latest outlet have all been completed.

Case B: Ms. SMF (Budget Hotel Franchisee)

She was born in Alor Setar and possessed a Hotel and Catering Diploma from UiTM. In terms of her family background, her father was small trader selling clothes and cattle, whilst her mother was the homemaker. She fifth in a family of 12 and only she and her younger brother are involved in business. Her working experience was mostly in the hotel industry, having worked in hotels such the Genting Highlands, Kucing Holiday Inn, Merlin and the Straits Hotel in Malacca.

Business Opportunity

In terms of managing hotels, she had already wide managerial experience. The reason she took up the budget hotel franchise was because of the opportunity opened only to the Bumiputera community and the fact that Sungei was lacking a good hotel. Thus, she saw the potential and she grabbed the opportunity which was advertised in the newspapers.

Prior to becoming a franchisee, she had not knowledge what franchising was about. Even though she was attracted by the Malaysian government's call for Bumiputera to become franchisees, she still did

not know what is franchising. It was a learning process for her. I now realised that the franchise business is not that interesting anymore. Doing your own business is the best.

When she started at that time, she had only RM200,000 at that time whereas the franchisor required franchisees to have RM500,000. Thus, she had to apply for the franchise loan was dispensed via the government-owned Bank Bumiputera Berhad. The hotel cost RM2.5 million without adding the cost of the land which was given by the state government to the franchisor. She charged the franchise fee over the 8 years.

At that the time of deciding to become franchisee, it did not cross her mind to set-up her own independent business. But now after operating this franchise, she became motivated to start on her own small business. At that time of deciding to purchase the franchise, it was of the opportunity rather than the franchise package which attracted her.

Formal Learning

According to Ms. SMF, the franchisor provided her with the operation manual, but felt that the manual were useless. She felt all these cannot be used. These are only good for 5 Star Hotels. If we were to follow the manuals, those cannot be adhered to. But to those who have not experience in the hotel line, then the manuals will be useful. Training is less than a month. They provided with the management and accounting training. She knew about the operation side of hotel but she did not know how to manage the company. What have you learn as a franchisee? She quoted:

“It taught me to be aggressive. I learn about human characters, how to handle the franchisor characters. Because our franchisors are envious of us and try to make things difficult for us.”

Informal Learning

In the course of operating her budget hotel franchise, she became acquainted with a Chinese businessman from Malacca who taught her how not to be a franchisee but to start her own hotel without being a franchisee. According to this Chinese businessman, all the monthly rentals and the royalty fees paid to the franchisor could have been used to pay the bank’s monthly interest had she operated her own hotel but with the use of a bank loan instead a franchise. Other learning experiences she benefitted from this Chinese businessman can be seen in her following quote:

“To be in a business, before you are in you feel a bit wary and scared but once you are in, you feel that actually you can do it...it is not very difficult!” I can do it. If you have your own hotel, for 5 years you don’t have to pay tax. But this franchise hotel you have to pay within the first year itself. Because you are a management company, you don’t own the hotel. The hotel belongs to the franchisor and the franchisor gets most of the benefits.”

SMF’s Summary of Her Learning

She appreciated the fact that it was through her involvement as a franchisee that has provided her with the opportunity to meet people and get ideas and business opportunities. She exclaimed excited that it was the “the Malacca Chinaman who taught her entrepreneurial skills and be brave enough to take the risk in operating one’s own business rather than to operate a franchise. SMF felt that it has to be the hotel line if she wanted to be in business because she did not have any other business experience. She thinks that she is very experience in the hotel line.

SMF has since opened and managed her own hotel in Jitra. The learning outcomes from operating as a franchise of the budget hotel has given her the necessary management experience, capability and most importantly the self-confidence that she would be able to operate her own hotel. This can be attributed to the use of franchising as the platform and vehicle for entrepreneurial development.

Case 14: Mr. PHH (Budget Hotel Franchise)

Mr. PHH joined the army after his ‘O’ Levels and as a retired Warrant Officer of the Army Mechanical Section after serving 21 years. In terms of family background, his father was shopkeeper in a rural environment. In a family of four siblings, he was the only one to indulge in the business sector. After serving the army for 15 years, he was to leave the army after reading an advertisement offering the petrol kiosk franchise. He went for the interview and was shortlisted but it required RM100,000 to start operating the petrol kiosk. Since he had insufficient money, he had no choice but to continue serving in the army. He later went on a training course in Belgium where he managed to save sufficient money to operate the petrol kiosk when he later retired from the army. Prior to retiring from the army he attended an Army Pre-Retirement Refresher Training Course in operating shops. This reinforced his entrepreneurial aspirations. His father’s business did influence him to become involved in the business sector.

Learning from Operating the franchise

According to Mr. PHH, the budget hotel franchise is a good business concept. He was of the opinion that it was very good in terms of the philosophy, the product concept and goals. However, he felt that the franchisor and its management system were not good. The franchisors were found to be very high-handed attitude and were not keen to listen to their grouses, ideas and suggestions on ways to improve the hotel management systems. In spite of these shortcomings operating as a franchisee, he was still happy and thankful to be able to secure this franchise. He was quoted:

“For me when one wants to be in business, we cannot be choosy. Whenever there is opportunity, we must grab it!”

Expectations from franchising

He expected to reap huge profits. But according to him, his expectations have not been met yet. He also values the recognition he received from bankers and other people within the business community as a result of operating this franchise.

Learning from Franchising

An important learning outcome from operating the franchise was the sense of business acumen. He was better to see business opportunities, evaluate the risk involved and be able to make sound business venture decisions.

Mr. PHH quoted:

“Of course I learn from franchising, in terms of hotel operation, management, accounting, marketing and others,....but the only thing which I do not agree if that (perhaps my franchise only) do not give us the franchisee the opportunity to move forward.”

New Business Opportunity

Subsequent to operating as a budget hotel franchisee, Mr. PHH was able to translate his franchisee learning experiences and to operating his own hotel. He has bought over and managed an independently owned hotel in Sungei Petani. In addition, he has also added another multi-national company petrol kiosk franchise in Penang. Thus it can be seen that Mr. PHH has put into good use the knowledge and business experiences by expanding and diversifying his business ventures.

Business Expansion and Succession

The budget hotel franchise contract is for a period of 8 years. After the 8 years is up, he will ask his family members if they would like to continue or take over the franchise. He will appoint them as managers of the hotel. This franchise was also able to translate into his son doing a hotel and catering course with the plans of becoming a hotelier in the future. He has since then expanded and diversified his business ventures into real estate and construction via a joint venture with his ethnic Chinese partners. He quoted:-

“The Chinese are much more skilled than others so I join them. I am able to obtain government loans which are given out to the Bumiputera with favourable terms. This will help Malays like me to develop. So my Chinese does the construction.”

“Now I am looking to purchase hotels to manage. There is one for sale at RM15 Million in Penang. Now I can see and learn how to manage hotels.”

Informal Learning

Mr. PHH has also learnt from the owners and managers of other hotels.

“I stay in various hotels and learn from them. I asked them the housekeeping manager, the hotel manager. I have to learn more. It is not enough to learn from the franchisor, we have to learn as much as possible. But it is not that I could do what I want to do but it is because we do not have adequate facilities – first is the lack of a

conference hall, banquet hall. Karaoke Lounge – live bands and other facilities and amenities.”

“We cannot make up the price as the prices are all fixed by the franchisor. To me during the weekend the prices should be higher or during the peak seasons.”

The leaning outcome as applied within the context of phenomenology is reflected by the learning outcome of Mr. PHH in the following quotes:-

“One good thing is that we have friends as franchisees. A group of us is that we can discuss among us. But if you operate on your own as an independent entrepreneur, you are alone and have no friends. This circle of franchisee gives us a sense of kinship and courage – give us a platform to discuss and because we go for meeting.....Seronok and berani² (Fun and brave!) That’s what we want but in this hotel they do not encourage us to do it. But other franchises like petrol kiosks encourage their franchisees to do so. They have regular meetings and social functions. They even have an official association of franchisee to be able to exchange of opinions, ideas and suggestions. But My budget hotel franchise does not allow us to form association except for the quarterly meeting.”

5.0 CONCLUSION

Individual differences between franchisees

Within the sample there was a very high level of variability between franchisees in terms of motivation, aspirations, education, experience and other variables, all of which appeared to contribute to the learning experiences of the franchisee. The more highly committed and proactive franchisees tended to enjoy a richer and more beneficial learning experience.

Franchise systems differ as learning environments

As suggested above, there were considerable differences between the franchise systems in terms of quality of training, nature of interaction and opportunity for experimentation and innovation, all of which variables appeared to have a bearing on the learning experience of the franchisee.

A more comprehensive list of these ‘systemic’ variables is proposed below:

Table 2: Systemic variables impacting on franchisee learning

Rigidity of format:	Degree of prescription and control of format
Comprehensiveness of format	Proportion of franchisee activity prescribed by franchisor
Quality of initial formal training	Duration, level, content
Quality of ongoing training	Frequency, content
Quality of franchisee-franchisor interaction	Style / frequency / content of interaction
Quality of interaction with peer franchisees	Style / frequency / content of interaction
Quality of interaction with suppliers	Style / frequency / content of interaction
Quality of interaction with customers	Style / frequency / content of interaction

Franchisee learning: an integrated perspective

Given the variations and differences in franchisee learning outcomes as discussed above, we can argue that franchisee learning is the outcome of the interaction of multiple factors and far from consistently

² Seronok dan berani – Malay language meaning ‘ be brave and have fun’

predictable. There are clear implications for franchisee selection, in that there would appear to be a need for subtle balance between franchisee experience and aspirations and the learning experience provided by the franchise. What has not been discussed here is the dynamic context of franchise life cycle and maturation; as the system evolves, it is quite likely that the format will become more highly programmed and that the learning experience of franchisees will vary over time.

Policy implications

From the above evidence, it can be seen that the government's aspiration in using franchising as a vehicle for entrepreneurial development has to some extent become a reality. The learning outcomes reaped by franchisees depended on three main entities, the franchisees, franchisor and the quality of the franchise business itself. A good franchise business system with competent and conscientious franchisors together an open-minded franchisee who is keen to learn are key ingredients for a fruitful franchising learning environment. Nevertheless, a recent article by Hunter and Teoh (2013) cautioned potential franchisees to be wary of untested or unscrupulous franchisors who are out to fleece franchisees by charging exorbitant franchisee fees for relatively unknown and untested franchises with poor franchise brands. On a final note, while it cannot be denied that there is some evidence of the development of entrepreneurial attitudes and skills, there would appear to a need for further research and refinement of the policy, particularly with regard the selection of franchisees and their matching with suitable franchise systems.

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