

## **The Determinant Factors of Successful Franchise Business in Malaysia**

Mohd Amy Azhar Mohd Harif\*, Chee Hee Hoe\*\*, Zolkafli Hussin\*\*\*,  
Filzah Mohd Isa\*\*\*\* Siti Norezam Othman\*\*\*\*\*  
and Mohd Salleh Din\*\*\*\*\*<sup>1</sup>

*This paper presents the findings of a study in identifying the critical success factors of Bumiputra and non-Bumiputra franchisors in conducting their franchise business in Malaysia. The cross case study approach was used to analyse the data. Thirteen franchisors (six Bumiputra and seven non-Bumiputra) were selected as the sample cases. There were two important variables which had been identified as very critical to the success of local franchise business namely, marketing orientation factors and entrepreneurial based factors. The Bumiputra franchisors highlighted competition as their main business market orientation factor, while non-Bumiputra franchisors scored high for customer orientation in the product dominant sector. Franchisors from both ethnic groups demonstrated high entrepreneurial based factors. For the service dominant sector, the non Bumiputra franchisors emphasized on customer and competition orientation, whereas, the Bumiputra franchisors stressed more on customer and interfunctional coordination. However, the Bumiputra franchisors scored moderate achievement motivation and low risk taking as well as innovation. The non Bumiputra franchisors scored high in the entrepreneurial based factors.*

**Field of Research:** Franchising and Entrepreneurship, Developing economies

### **1. Introduction**

#### **1.1 Performance of the Franchisors in Malaysia**

The Malaysian government is strongly committed and actively promoting franchising as one of the strategies in developing local entrepreneurs, especially among the Malay community. In Malaysia, there are three main ethnic groups, the Chinese, Indian and Malay. The Malay and Indigenous people in Sabah and Sarawak are

---

\*Mohd Amy Azhar Mohd Harif , College of Business, Universiti Utara Malaysia (UUM)

E-mail: [amyazhar@uum.edu.my](mailto:amyazhar@uum.edu.my)

\*\*Chee Hee Hoe, College of Business, Universiti Utara Malaysia (UUM)

E-mail: [chhoe@uum.edu.my](mailto:chhoe@uum.edu.my)

\*\*\*Zolkafli Hussin, College of Business, Universiti Utara Malaysia (UUM)

E-mail: [zolkafli@uum.edu.my](mailto:zolkafli@uum.edu.my), College of Business, Universiti Utara Malaysia (UUM)

\*\*\*\*Filzah Mohd Isa,

E-mail: [filzah@uum.edu.my](mailto:filzah@uum.edu.my)

\*\*\*\*\* Siti Norezam Othman, College of Business, Universiti Utara Malaysia (UUM)

E-mail: [norezam@uum.edu.my](mailto:norezam@uum.edu.my)

\*\*\*\*\*Mohd Salleh Din, College of Business, Universiti Utara Malaysia (UUM)

E-mail: [salleh@uum.edu.my](mailto:salleh@uum.edu.my)

considered as the sons of the soil or 'Bumiputera' as embedded in the country history. Bumiputra or Bumiputra is a Malay term widely used in Malaysia, embracing ethnic Malays, Javanese, Bugis, Minang and occasionally other indigenous ethnic groups such as the Orang Asli in Peninsular Malaysia and the tribal peoples in Sabah and Sarawak. This term comes from the Sanskrit word *Bhumiputra*, which can be translated literally as 'son of earth' (bhumi= earth, putra=son) or *son of the soil*. Among the three main ethnics, the Chinese community is highly regarded as competent business people regardless of types of business they have ventured in. Despite making up 60 percent of the population, Malays own just 19 percent of the economy, trailing far behind the minority ethnic Chinese, who make up only a quarter of the population but hold 40 percent of the economy(Hodgson, 2007).

In 1995, there were 125 franchise systems and 800 franchisees operating in Malaysia, contributing a total of US\$609.5 million in retail sales. This constitutes 2 percent of Malaysia's total retail sales volume of US\$30,474 million. Today, there are about 268 franchise systems with slightly more or less than 6,000 franchisees. The prospect and potential of the franchise sector in Malaysia is tremendous as currently, it is estimated to constitute only 5 percent of the total retail turnover, as compared to the 50 percent in the United States with an annual value of US\$1 trillion.

Apparently, with the government continuous support, franchise industry has become one of the fastest and safest methods of doing business. For example, the Government offers grants and training support to promote entrepreneurship amongst the Malay due to the under-representation of the community in the business sector. As a result, the increasing numbers of Malay franchisors can be observed since the last 10 years, and the percentage of Bumiputra franchisors has reportedly reached 40% of the total franchised owners in the country. However, despite all the support, incentives and facilities provided by the government, the number of Bumiputra franchisors is still far behind their Chinese counterparts. In addition, based on the list of local franchise business provided by Ministry from Entrepreneurial and Co-operative Development (MECD) and the current business performance of franchise business in the market place, the success rate of Bumiputra franchisors is incomparable to Chinese franchise operators. Therefore, based on the issue on high percentage of failure among Bumiputra franchisors in franchise business, the current study was conducted to investigate the differences of critical success factors that affect the performance of both Bumiputra and non-Bumiputra franchise business operators.

## **2. Literature Review**

### **2.1 Comparison Between Chinese Entrepreneurs Versus Bumiputra (Malay or indigenous people) Entrepreneurs**

A review of the literature showed that whilst numerous studies on franchising and its related success factors have been conducted in the developed countries (Scott, Frazer, and Weaven, 2006; Inma, 2002; Paynter and Arthanari, 2001; Falbe, 1998; Shane and Spell, 1998 Stanworth, Purdy, and Price, 1997; Hoffman and Preble, 1993), not much similar studies have been conducted in developing countries (Abizadeh, 2009; Stephen, 2002). In the case of Malaysia, the same can also be said with regard to the low number of studies conducted (Hoe 2001; Zain, Subarea and Ghani, 2009).

## Harif, Hoe, Hussin, Isa, Othman & Din

In 1992, the Malaysian government adopted franchising as one of the strategies to spearhead the development and growth entrepreneurship in the country, especially amongst the indigenous Bumiputra community. Indeed, franchising has been regarded as an 'effective vehicle for entrepreneurial development' for the Bumiputra community (Hoe, 2001). Before this aspiration can materialize, more studies need to be conducted on the franchising sector in Malaysia. With this in mind, the findings of this in-depth qualitative study will in some way contribute towards a better understanding of the rudiments and pre-requisites of operating successful franchise businesses in Malaysia.

In Malaysia, the ethnic Chinese are considered as being more successful economically than Bumiputra, especially in business arena (Hodgson, 2007). Findings reveal that Chinese entrepreneurs success are contributed to a number of factors such as getting capital and financial support from family, getting business support from fellow Chinese entrepreneurs, having higher business passion, emphasizing more on the requirements and importance of a few basic management knowledge and skills before embarking on any business activity ([www.kpwkm.gov.my/malayindo/index.php?](http://www.kpwkm.gov.my/malayindo/index.php?)). On the contrary, due to their lack of business exposure and experience, the main contributor to Bumiputra entrepreneurs' success factors seem to be the various supports provided by the government agencies and other local bodies. Even though full support is given by the government, majority of Bumiputra franchise performances are below than their Chinese counterparts. This situation is explained by past studies where both Bumiputra and Chinese entrepreneurs seem to possess different types of entrepreneurial characteristics and attitudes, and in many instances they undertake different strategic approaches in solving business problems. For instance, in a study done by Chan (1986), it is reported that Chinese entrepreneurs had shown higher need for achievement than their Bumiputra counterpart.

The finding was not supported by Elias and Pihie (1995) whom highlighted that Bumiputra entrepreneurs possessed high achievement need. However, in another study, Jaafar, Ramayah and Nasurdin (2005) found that both Bumiputra and non-Bumiputra were shown to be indifferent in terms of their need for achievement level. They argued that Bumiputra entrepreneurs could have gained their entrepreneurial skills through higher formal education and training programs. The support by the government especially through training has somehow improved the Bumiputra knowledge in business and practices. Unlike, their Chinese counterparts, who were mostly, gained their leadership and entrepreneurial skills via direct business practice while helping out their families in running daily business chores. By practicing business activity, Chinese entrepreneurs are able to accumulate years of experience in business before starting their own business.

Furthermore, Gomez (2005) stated that Chinese enterprise displays an 'ethnic style', characterized by family firms and intra-ethnic business networks formed for mutual benefit. This practice does not exist in Malay community. The family firm and intra-ethnic national and transnational networks reputedly play a crucial role in capital formation and accumulation. This cultural thesis has been used to explain the rise of and dominant presence of Chinese enterprises in Asia. In addition to this, ethnic Chinese Malaysian entrepreneurs are also exposed to '*Guanxi*' philosophy which is

the ancient practice of Chinese social networking that plays an important role in the successful setting up and sustaining of franchise business entities in Malaysia.

While the context and philosophy of Guanxi is being widely practiced by the ethnic Chinese in Malaysia, the Bumiputra entrepreneurs or those aspiring to be entrepreneurs do not have the benefit of such networking. From the earlier discussion above pertaining to the ethnic Chinese having had an early head-start and hence an advantage over their Bumiputras' counterparts in establishing business much earlier i.e. during the British colonial rule, the Bumiputras are at a further disadvantage without such networking amongst their own community. In addition, the Bumiputras have no tradition of being involved in business ventures and thus lacks the business culture, no business experience and also no business acumen. These factors taken together may cause the Bumiputras to have a phenomenon of a lack of self-confidence in themselves in becoming a successful entrepreneur. This lack of self-confidence may have a negative effect on the Bumiputras' internal locus of control which is important if they aspire to be successful entrepreneurs (Mohd Isa et al., 2008). Despite the differences in business practices among different ethnics, there is hardly any study undertaken to determine the critical success factors of different ethnic background among franchisors in Malaysia.

### **3. Methodology and Research Design**

The aim of this study is to provide a deeper insight into issues surrounding the success factors of franchisors in Malaysia. A deeper understanding on the critical success factors (CSF) among different ethnic franchisors needs to be carried out by using the qualitative approach which may help provides an in-depth understanding of what factors influenced most on the critical success of franchisors in Malaysian franchise industry. In addition, comparison of critical success factors between different ethnic franchisors in Malaysia has not been done extensively and this triggers a stronger need for better understanding on this issue in order to ensure a more successful local franchise business program in the future. In doing so, the critical success factors (CSFs) of franchisors will be determined and then confirmed by using three methods of qualitative study data collection: convergent interview, confirmatory workshop and secondary information.

#### **3.1 The Qualitative Design**

According to Yin (1994), a case study is defined as an empirical inquiry, where it investigates a contemporary phenomenon within its real life context; when the boundaries are not clearly evident; and in which multiple sources of evidence are used. Also, Benbasat (1984) and Bonoma (1985) define case study research as a study that examines a phenomenon in its natural setting to get information from people, groups or organisations. As case studies deliberately focus on the study of the phenomenon in its natural setting, it does not divorce a phenomenon from its context or concentrate on only a few variables as in other research techniques such as laboratory experiments and surveys.

### **3.2 Samples of Case Study**

Case studies are from different industry. As a result, they will have their own specific success factors as well as generic success factors. For the purpose of this study, based upon theoretical sampling, seven non-Bumiputra franchisors and six Bumiputra franchisors were selected as the case studies. Selection of these franchisors was based on their business performance as well as the duration of business operations, which is more than 5 years.

### **3.3 Selection Criteria of Case Study**

The sampling frame is obtained from the Malaysian Franchise Association Directory 2007 (MFA). The type of sampling technique for this research was the purposive sampling. According to Gay and Diehl (1992), purposive sampling which is also known as judgment sampling basically involves selecting a sample that is believed to be representative of a given population. Furthermore, for the purpose of this research, the selection of cases was predetermined by the following criteria.

- 1) Registered with MFA (Malaysian Franchise Association)
- 2) Franchisors who have already obtained the franchise license
- 3) Bumiputra and non-Bumiputra ownership
- 4) Franchisors have been in business more than 5 years before applying for franchising license
- 5) The type of business offering is classified as either 'product-dominant' or 'service dominant'

### **3.4 Data Collection Methods**

For data collection data, the researchers used convergent interviews whereby the interview technique allows a relatively structured approach to sorting out what needs to be done in a research project in the early stages. It also a technique for collecting, analyzing and interpreting qualitative information about people's attitudes, beliefs, knowledge and opinions through the use of a limited number of interviews with experts that converge on the most important issues within a topic area. In addition, confirmatory workshop and secondary information such as documents, company profiles, and other related material describing the company's achievements or milestones will be collected.

### **3.5 Data Analysis**

The data were initially transferred into a tabulated diagram developed manually. The strategy of analysing the data is by looking into the themes and issues. By using this approach, the researchers were able to understand in depth the issues relevant to the research problem.

### **3.6 Cross Case Analysis**

The cross case analysis technique was used in interpreting the data of this study. This technique utilises an in-depth analysis to identify the success factors in franchise business from the franchisors perspectives. The case analyses in this study were done by looking at the similarities and differences that exist in the

responses. The cross case analysis demonstrated more accurate result for generalization (Miles and Huberman, 1994). Besides, this analysis had broadened the understanding and explanation (Glaser and Strauss, 1967) about the issues being studied. The reason was the researcher would get clear picture and in-depth understanding about the study.

## **4. Discussion of Findings**

### **4.1 Analyzing Qualitative Data**

In analyzing qualitative data, we use word processors for taking, transcribing, writing up or editing field notes, memory, preparing file for coding and analysis, tabulating data into matrix and writing report. The data is displayed and analyzed by tabulating them into conceptually clustered matrix. This conceptual clustered matrix has its row and column to bring together items that belong to the same concept together. In other words, the principle is "conceptual coherence". The outcome occurs in two ways; conceptual or empirical. Conceptual means the analysts may have prior ideas about items that derive or relate to the same theme or constructs while empirical outcome is when informants, who answer questions give similar responses (Miles and Hubermann, 1994).

In the context of the study, most of the analysis is done with words meaning that the words can be assembled and sub clustered. These words can be organized to permit the researcher to contrast, compare, analyze and bestow pattern upon them. The data is organized manually and using word processor. The reason is the nature of this qualitative study is more on exploration and description. To put in different way, the objectives of the study are more on exploring the critical success factors and describing the factors. Thus, putting the analysis into table is sufficient.

Unless the aim of the study is to explain and predict, it will be much visible and economical if interrelationship between variables is displayed through the relationship mapping diagram generated by qualitative software, NVivo7. The decision to analyze the conversation of the respondents and extracting important concept manually from the interview transcript is due to the intimate process that is often self revelatory achieved during analysis (Lyman, 1984). Introducing a computer into the process poses impersonal relationship on the data analyzed and perhaps blocking insight that may emerge. Some of the richness of the qualitative data may also be lost when one begin substituting technical language and quantification for description and metaphor. Other researcher such as Freidheim (1984) noted the potential impact due to "serious cost of electronic filing" if the file management system determines the choice of topic or analysis. Moreover, it is argued that there is a danger of curtailing data analysis if all the information is filed neatly on disks rather than on the pieces of paper in front of the researchers (Merriam, 1988)

## **4.2 Steps in Analyzing the Qualitative Data**

The steps in analyzing qualitative data gathered from in depth interviews are as follows:

- 1) After collecting the responses from interviews, the responses were then transcribed and typed in a word processing application. The responses were stored in a file in the computer.
- 2) The transcribed texts were then read repeatedly to get the overview from the responses and feel of the data
- 3) From the transcribed texts, codes were then affixed according to the conceptual framework. These concepts are marketing orientation, resource based view, agency based factors, and entrepreneur based factors
- 4) Then, the interview transcripts are sorted and sifted through to identify similar phrases, pattern, themes and common dimensions
- 5) Next, these phrases or patterns or themes and common dimensions are located under the concepts mentioned above, which are coded earlier. The analysis is based on variable orientation (Babbie, 2007).
- 6) These common dimensions discovered from the transcribe text elaborated the concept in such a way a clear picture will be obtained.
- 7) A progressive interpretation report was written by comparing the summary notes of the first two interviews. This progressive report was then compared to each subsequent interview's summary notes and added to, and/or modified according to new issues that emerged after each interview.

## **4.3 Results of the Case study**

### **4.3.1 Profile of the Cases**

Before discussing the analysis of the cases, an overview of the franchisors' background is provided. Six franchisors were Bumiputra operators and seven companies were non Bumiputra franchisors. Out of thirteen cases, seven of the franchisors received award from the MFA, an association that managed local franchise development. Out of seven award recipients, five of them were non-Bumiputra and only two companies were belong to the Bumiputra franchisors. Majority of the local franchisors ventured in food sector while others operated in retail, beauty, education, and optical businesses. The nature of seven franchisors' business was service dominant and six of them were product dominant. Out of two Bumiputra operators, only one franchisor was capable of penetrating global market. On the other hand, out of seven non Bumiputera operators, only one franchisor operated his business locally. In summary, based on the demographic information of the local franchisors, majority of the award recipients came from non Bumiputra operators compared to Bumiputra franchisors. Out of the thirteen cases, majority of the non-Bumiputra franchisors penetrated global marketplace compared to Bumiputra operators. In conclusion, based upon the ethnic background, non-Bumiputra franchisors were successful in their business operation based upon their capability to expand their businesses world wide compared to majority of Bumiputra franchisors, who were less ten years in operation. In addition, the non-Bumiputra franchisors were in the business more than ten years. Table 1 summarized the demographic information of the cases.

Table 1: Summary of the Cases Profile

Case	Bumiputra/ Non Bumiputra	Nature of business	Award/ Non Award	Product/Service Dominant	Global/ Local Market	Years established
Case 1	NB	Beauty	Award	Service dominant	Global, Local	More than ten years
Case 2	NB	Food	Award	Product dominant	Global, Local	More than ten years
Case 3	B	Food	Award	Product dominant	Global, Local	More than ten years
Case 4	NB	Food	Award	Product dominant	Global, Local	More than ten years
Case 5	NB	Food	Non Award	Product dominant	Global, Local	More than ten years
Case 6	B	Beauty	Non Award	Service dominant	Local	Less than ten years
Case 7	NB	Education	Non Award	Service dominant	Local	More than ten years
Case 8	NB	Optical	Award	Service dominant	Global, Local	More than ten years
Case 9	B	Retail	Non Award	Product dominant	Local	Less than ten years
Case 10	B	Optical	Non Award	Service dominant	Local	Less than ten years
Case 11	NB	Education	Award	Service dominant	Global, local	More than ten years
Case 12	B	Retail	Non Award	Product dominant	Local	Less than ten years
Case 13	B	Hotel	Award	Service dominant	Local	More than ten years

In analyzing the cases, we had categorised them into product-service dominant and different ethnicity. The deliverables of the business were divided into two; product-dominant and service-dominant. Product-dominant was more product emphasis whereas service-dominant emphasized on the way business was delivered to customers. Ethnicity of the franchisors was classified into Bumiputra and non-Bumiputra. The presentation of case analysis was based on the research questions in the study.

***To what extent, the marketing based factors and the entrepreneurial based factors affect franchisors performance?***

Market orientation can be defined as a business culture and behaviour that leads to the business success by focusing and understanding of the market. These factors can be customer orientation or understanding of the psychological and social factors, that lead to consumer behaviour, competitor orientation or studying the number and power of competitors and finally inter-functional coordination factor, which integrates its internal function to ensure better flow of information across department. The entrepreneurial based factors include characteristics that push the franchisors to perform entrepreneurial act. These factors are achieved motivation, locus of control, innovativeness, and risk taker. Achieved motivation is the ability of individual to face challenges and attain the ultimate goal and locus of control is the ability of the individual to control him or herself to the route of success.

**4.3.2 Franchisors of different ethnic background and product dominant**

For franchisors with product dominant focus, their market orientation was more toward customer orientation as compared to competitor. This was true for non Bumiputra franchisors whereas the Bumiputra franchisor emphasized more on competitors. In terms of relationship with franchisees, for non-Bumiputra franchisors, they highly cooperated with the franchisee. They also had system to ensure their communication with their franchisees could be done if the franchisees faced problems. The Bumiputera and non Bumiputra franchisors demonstrated high entrepreneur characteristics. Both of the ethnicities have very high entrepreneurial traits such as achievement motivation, locus of control, innovation, and risk taking. This was summarized in Table 2.

**Table 2: Summary of franchisors of different ethnic and product dominant**

Case	PD	B/NB	MO	EBF
Case 5	*	NB	Customer and inter functional coordination ( all low)	Achieve Motivation(L), Innovation(L), Locus control(H), Risk taker(M)
Case 2	*	NB	Customer, competitor, and inter functional coordination	Achieve Motivation, Innovation, Locus control, Risk taker (All high)
Case 3	*	B	Competitor	Achieve Motivation, Innovation, Locus control, Risk taker (All high)
Case 4	*	NB	Customer, Competitor, Inter functional	Achieve Motivation, Innovation, Locus control, Risk taker (All high)
Case 9	*	B	Customer, Competitor, Inter functional Coordination (All high)	Achieve Motivation(H), Innovation(H), Locus control(H), Risk taker (H)
Case 12	*	B	Customer (L),  Competitor (H) inter functional coordination (M)	Achieve Motivation(H), Innovation(L), Locus control(H), Risk taker (H)

*Notation :*

*PD – product dominant SD – service dominant B –Bumiputra NB – non Bumiputra  
MO – market orientation EBF – Entrepreneurial-based factors*

**4.3.3 Franchisors of different ethnic background and service dominant**

Table 3 summarized the factors that influenced business franchise performance of franchisors with service dominant offering. Comparing ethnicity background, the non Bumiputra franchisors scored high in the market orientation aspect. In other words, their marketing orientation was not only competitor based but also customer orientation. In addition, they were able to coordinate inter-functional in conducting businesses. However, for the Bumiputra franchisor, his or her focuses were more on customer and inter functional coordination. In terms of the entrepreneur characteristics, the non Bumiputra franchisors demonstrated high entrepreneur characteristics that contributed to their success in business, however, the Bumiputra franchisor was moderately achievement motivation and locus of control with low innovation and risk taking.

**Table 3: Summary of franchisors of different ethnic and service dominant**

Case	SD	B/ NB	MO	EBF
Case 1	*	NB	Customer and inter functional coordination	Achieve Motivation, Innovation, Locus control Risk taker (all high)
Case 6	*	B	Customer, competitor, and inter functional coordination (all low)	Achieve Motivation(M), Innovation(M), Locus control(M), Risk taker (M)
Case 7	*	NB	Competitor Customer Inter-functional Coordination (all high)	Achieve Motivation (H), Innovation(H), Locus control(H), Risk taker (M)
Case 8	*	NB	Customer, competitor, inter functional coordination	Achieve Motivation, Innovation, Locus control, Risk taker (all high)
Case 10	*	B	Customer (L), Competitor (H) inter functional coordination (M)	Achieve Motivation(H), Innovation(M), Locus control(M), Risk taker (H)
Case 11	*	NB	Customer, inter functional coordination	Achieve Motivation, Innovation, Locus control, Risk taker (all high)
Case 13	*	B	Customer and inter-functional coordination	Achieve Motivation (M), Innovation (L), Locus control(M), Risk taker (L)

*Notation :*

*PD – product dominant SD – service dominant B – Bumiputra NB – non Bumiputra*

*MO – market orientation EBF – Entrepreneurial-based factors*

In summary, for product dominant sector, there are differences between ethnics in terms of marketing orientation as non Bumiputra operators emphasized more on customer whereas the Bumiputra franchisors focused on competitor. However, there was no difference in term of ethnic background among franchisors on entrepreneurial based factor. Both of the ethnics scored high on entrepreneurial based factors. In service dominant sector, non-Bumiputra focused more on competitor, customer and inter functional coordination, whereas the Bumiputra operators stressed on customer and inter functional coordination but not competitor. In term of the entrepreneurial based factors, there was significant difference between

the two ethnic groups, the non Bumiputera operators demonstrated high entrepreneur characteristics while the Bumiputera operators scored moderate to low in terms of achievement motivation, locus of control, risk taking and innovation

## **5. Conclusion and Limitation**

For product dominant, the non-Bumiputra franchisors are more customer oriented compared to the Bumiputra franchisors. In the context of this study, most of the non-Bumiputra franchisors are very established in terms of their existence in business. They have strengthened their position in the market and expanded their operations to international markets. Their emphasis on internationalization requires them to emphasis on customer. Franchisors are very much customer focus similar like the award winning cluster however, they are very sensitive toward competitors strategy because of similarities in services and product offering. They focus more on the aggressive marketing strategy to win customers over their competitors.

Compared to the non Bumiputra franchisors, Bumiputra franchisors are in the stage of establishing themselves in the market and moderately experienced in the business. For that reason, their emphasis is more on competitors. Businesses are fighting similar market segment whereby they have to be better or to be noticed and recognized by customers. They have to attract customers by telling them that they are providing better service or products. In other words, they have better competitive advantage and extra added value. They have to position in the marketing. For them to be better, they have to come up with better products compare to their competitors, meaning that they have to offer far better or equal quality than their competitors. To win customers attention, franchisors need to focus on branding, outlets, and promotion to win customers. These local franchisors actually are doing the same thing like other foreign franchisors, for example, McDonald's, KFC. Moreover, the range of product or service offering should be unique and different from other competitors. Thus, differentiation strategy is important for franchisors that compete in the same market.

Non-Bumiputra franchisors, who emphasize on service dominant, are competitor and customer focused and good at inter functional coordination whereas the Bumiputra franchisors stress more on the customer and inter functional coordination. The reason for this is the non Bumiputra franchisors are already established in the business with loyal customers. They are good at inter functional coordination for example, coordinating important business functions such as marketing, finance, operations and human resource effectively. For the Bumiputra franchisors, they are struggling to establish in the market. The significance of acquiring loyal customers is important as this will strengthen franchisors market base and to enable them to compete and survive in the market. Due to this reason, customers are their focus. The nature of the service dominant itself requires customer orientation.

In terms of entrepreneurial based factor among the franchisors in the product dominant sector, both of the ethnics demonstrated high entrepreneurial characteristics such as locus of control, achievement motivation and risk taking. These characteristics are essential for anybody to become an entrepreneur. Achievement motivation is the longest and most popular entrepreneurial traits mentioned by McClelland (1961) and most literature in the entrepreneurship. The

current findings also reveal similar results of showing the importance of achieve motivation among Malaysian franchisors whereby in order to be successful in the market place, where intense competition takes place and various product or service offering to customers. Without achievement motivation, franchisors may not be able to face challenges in the business environment. Thus, by having achieved motivation, franchisors will be fully determined to gain success. This continuous motivation will prevent them from giving up easily. Besides, achieved motivation, locus of control means that the individual or in the context of this study, the franchisors, can control her route to success for example, where to search for fund, who to meet, and what obstacles they encounter. Higher locus of control means franchisors are capable of controlling their weaknesses internally and externally by creating a better competitive advantage or niche in the business operations (sources). Locus of control makes a person to be self adamant and does not fear to any threats.

In service dominant sector, the entrepreneurial characteristics indicated that the Non Bumiputra franchisors are highly achievement motivation, locus of control, very innovated and risk taker. Nevertheless, the Bumiputra franchisors score moderate achievement motivation and locus of control as well as risk averse and low innovation. It is an indicator to the Bumiputra franchisors that they are not ready and confidence enough to enter in the service dominant market. There are many uncertainties that may occur such as getting best price and consistent supply of products from suppliers especially in retailing business. The Bumiputra business community does not have very strong business networking among themselves compared to the non Bumiputra franchisors. Other than that the '*Guanxi*' philosophy adopted by the non Bumiputra franchisors in their business networking has helped them to sustain in the business.

Other studies done by researchers to examine the entrepreneurial characteristics based on ethnic differences were showing that the Chinese entrepreneur or the non Bumiputra entrepreneur had higher need achievement motivation compared to their Bumiputra counterparts (Chan, 1986). This supports the findings of the current study. A study by Yusof (2001) showed that high locus of control pushed the non-Bumiputra entrepreneurs forward to succeed in business and this is in line with this study that demonstrated the non-Bumiputra acquired high achieved motivation, locus of control, risk taking and innovation for both product and service dominant sectors. However, the findings of Jaafar, Ramayah and Mohd Nasurdin (2005) was partly supported by this study in terms of the high internal locus of control however, the need achievement dimensions did not show any significant differences except dominance or leadership criteria. In contrast, this study has showed that in product and service sector, the non Bumiputra franchisors have high achievement motivation whereas the Bumiputra franchisors have high achievement motivation in the product dominant sector.

In conducting the analysis, there is limitation in terms of the extent of the case results in making generalization on the differences of ethnicity on the performance of the local franchisors. The number of the case studies is limited to thirteen companies and majority of them come from food industry. Thus, in order to be able to make more reliable generalizations, a quantitative study should be conducted and more samples are required in the future.

Another limitation is related to the use of qualitative data which gives respondents a lot of room to freely express themselves. As recommended by Yin (1994), qualitative approaches provide the researcher with a good overview of the problem that has to be addressed. This is particularly so when examining previously unexplored areas. However, the problem with qualitative methods is that answers obtained from raising open questions are unstructured. This makes data analysis a difficult and time-consuming task. In addition, respondents may express their subjective views, which may be biased, hence resulting in a higher margin of error.

## References

- Abizadeh, N 2009, 'Adoption of Franchising, Cultural Barriers and Pitfalls in Iran', Master's Thesis, Lulea University of Technology.
- Babbie, E 2007, *The Practice of Social Research 11<sup>th</sup> ed.* Belmont, CA. Thomson and Wadsworth.
- ..... *Cooperation between Malaysia,*  
<[www.kpwkm.gov.my/malayindo/index.php?](http://www.kpwkm.gov.my/malayindo/index.php?)> viewed on 19<sup>th</sup> August, 2008
- Benbasat, I 1984, *An Analysis of Research Methodologies, in The Information Systems Research Challenge*, F. Warren McFarlan (ed.) Boston, Harvard Business Press.
- Bonoma, TV 1985, Case Research in Marketing: Opportunities, Problems, and a Solution. *Journal of Marketing Research*, 23(2), pp. 199-208.
- Chan, KS 1986, "Achievement motivation of Malay and Chinese Entrepreneurs: A study among members of Malacca Chamber of Commerce. Unpublished academic exercise, National University of Malaysia, Bangi, Selangor, Malaysia
- Elias, H & Pihie, ZAL 1995, Profile of Malaysian entrepreneurs in relation to their achievement motivation!", *Malaysian Management Review* 30(4) pp. 25-31.
- Falbe, CM, & Welsh, DHB 1998, NAFTA and franchising: A comparison of the situational factors affecting perceptions of business success in Canada, Mexico, and the United States. *Journal of Business Venturing*, 13(2), 151-171.
- Freidheim, EA 1984, Field Research and Word Processor Files: A technical note. *Qualitative Sociology*, Vol. 7, No. 1-2, March, pp. 90-97
- Gay, LR & Diehl, PL 1992, *Research Methods for Business and Management*, New York, Macmillan Publishing Company
- Glaser, B & Straus, A 1967, *The Discovery of Grounded Theory: Strategies of Qualitative Research*. London: Wiedenfield & Nicholson.
- Gomez, TE 2005, Inter-Ethnic Relations, Business and Identity: The Chinese in Britain and Malaysia. *United Nations Research Institute for Social Development*. Identities, Conflict and Cohesion Programme. September.
- Hoe, CH, 2001, Franchising as a Vehicle for Entrepreneurial Development in Malaysia, *Proceedings of First National Entrepreneurship and Small Business Conference*, 8-9 September 2001, Langkawi, Malaysia.
- Hodgson, A 2007, Malaysia - wealth gap along ethnic lines. 16<sup>th</sup> April, *Euromonitor International Inc.*
- Hoffman, R & Preble, J 1993, "Franchising into the Twenty-First Century," *Business Horizons*, November–December, pp. 35–43.
- Inma, C 2002, *Building successful franchises: the influence of franchise heterogeneity and relationship management on franchise success*. PhD thesis, Murdoch University.

## Harif, Hoe, Hussin, Isa, Othman & Din

- Jaafar, M, Ramayah, T & Mohd Nasuridin, A 2005, "Entrepreneurial Characteristics of Contractors in a Developing Country: An Ethnic Comparison", *International Journal of Management and Entrepreneurship*, Vol 1, No.1, pp. 21-29.
- Lyman, O 1984, Reading, Writing, and Word Processing: Toward a Phenomenology of the Computer Age, *Qualitative Sociology*, 7 (1&2), pp. 75-89.
- McClelland, DC 1961, *The Achieving Society*, New York: The Free Press.
- Mohd Isa, F, Hoe, CH, Othman, SN, Din, MS, Harif, MAA, Jani, MY & Hussin, Z, 2008. "Critical Success Factors (CSF) of Franchise Business: Case Studies of Malaysian Franchisors", Final Report for Ministry of Higher Education. Malaysia.
- Merriam S 1988. *Case study research in education: a qualitative approach*. San Francisco, CA: Jossey-Bass.
- Miles, MB & Huberman, AM, 1994. *Qualitative data analysis: An expanded, Sourcebook*. Sage, Beverly Hills
- Paynter. J & Arthanari, T 2001, *Determinants for franchise success*, University of Auckland, Dept. of Management Science and Information Systems, Working Paper No. 239.
- Quinn, B 1998, Towards a framework for the study of franchising as an operating mode for international retail companies, *The International Review of Retail, Distribution and Consumer Research* 8:4, October.
- Scott, D, Frazer, L & Weaven, S 2006, 'Franchise unit success factors', ANZMAC, Brisbane.
- Shane, S & Spell, C 1998, Factors for New Franchise Success, *MIT Sloan Management Review Spring*, VOL. 39, No. 3
- Stanworth, IJ, Purdy, D & Price, S 1997, "Franchise Growth and Failure in the U.S.A. and the U.K.: A Troubled Dream World Revisited," *Franchising Research: An International Journal*, volume 2, pp. 75-94;
- Stephen, C 2001. Critical success factors of international franchising: Case studies of foreign franchisors in Asia, Masters in Commerce Thesis, Curtin University of Technology.
- Yin, RK, 1994, *Case Study Research*, 2nd Edition, Sage Publications, London Applied Social Research Methods Series, Volume 5, Sage Publications.
- Yusof, MK 2001, "Locus of control and Malaysian entrepreneurship; A survey of literature". *Proceedings in First Entrepreneurship and Small Business Conference, Langkawi*, Malaysia.
- Zain, ZM, Zubairi, F & Ghani, EK, 2009, Why Malaysian Bumiputera Franchisees Purchase Franchise Business? *International Bulletin of Business Administration EuroJournals*, Inc. Issue 6.