

The Extent of Marketing Capability and Market Orientation in Franchise Business in Malaysia

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Abstract

The purpose of this study is to provide a deeper insight and understanding into issues surrounding that impact the success of franchisors in Malaysia. In this paper, the researchers explore the role and extent of marketing capability and market orientation concept applied by Malaysian franchisors especially the Muslim entrepreneurs, in developing and operating their franchise businesses. In doing so, the critical success factors (CSFs) of franchisors will be identified and then confirmed using three methods of qualitative study: convergent interview, confirmatory workshop and secondary information. The case study approach involves a series of in-depth interviews with several predetermined local franchise entrepreneurs (franchisors) who have proved to be successful in their business operations and who actively play a dominant role in the industry. The information gathered from this study is useful in forming guidelines for the success of business operators in franchising.

Key-words: Marketing capability, market orientation, franchise business, critical success factors.

1. Introduction - Outlook of the Franchising Sector in Malaysia

With the Malaysian government strongly committed and actively promoting franchising as one of its strategies in developing local entrepreneurs, especially amongst the Bumiputera¹ community, the outlook for the franchising sector looks very promising. In 1995, there were 125 franchise systems and 800 franchisees operating in Malaysia, contributing a total of USD\$609.5 million in retail sales. This constitutes 2% of Malaysia's total retail sales volume of USD\$30,474 million. Under the newly launched Malaysian National Franchise Development Blueprint 2012-2016, the Malaysian Government hopes to increase the number of franchisors from the current number of 492 in 2010 to 650 by the year 2014 and the number of franchisees from 4,838 in 2010 to 6,050 by the year 2014. In terms of number of outlets, the Malaysian Government hopes to increase the number from 10,720 outlets in 2010 to 15,710 by the year 2014. In terms of total franchise sales to GDP, the government would like to see it grow from 2.2 percent in 2010 to 3.3 percent by the year 2014. In terms of franchise employment to total national employment, it contributed 0.9 percent in 2010 and this figure is expected to rise to 1.1 percent by the year 2014.

Today, there are about 268 franchise systems with slightly more or less than 6,000 franchisees. Hence from the above franchise statistics in Malaysia, the prospect and potential of the franchise sector in Malaysia is tremendous, as it is currently estimated to constitute only 5% of the total retail turnover, compared to the 50% in the United States with an annual value of USD\$1 trillion. While developed countries such as the US, UK, France, Germany and Japan have been using franchising to satisfy the ever increasing demands of affluent, time-pressed discerning consumers who desire specialised products and services, the market for franchising systems in developing countries has yet to be fully exploited. There is remarkable potential in countries like Malaysia, where increasing urbanisation, rising disposable incomes, good infrastructures, and expanding consumer markets are providing favourable conditions for the growth of franchising. Despite the economic crisis which hit the country in 1997/98, the country is boosted by the rising per capita income of its population, who are increasingly more affluent and sophisticated in their demands for higher quality products, services and conveniences. Hence, franchising which is mainly involved in the provision of services and products has great potential to grow in Malaysia.

¹ Bumiputera is the sons of soil and originates from Malay ethnic and indigenous people

In view of the continuous government support, the franchise industry has apparently become one of the fastest and safest methods of doing business. For example, the Malaysian government offers grants and training support to promote entrepreneurship among Bumiputeras. As a result, the number of Bumiputera franchisors has increased in the last 10 years, and the percentage of Bumiputera franchisors has reportedly reached 40% of the total franchised owners in the country. This percentage could increase further if franchising is taken more seriously as a potential business system by Bumiputeras.

2. Statement of the Problem

While a rapid growth in the number of franchises is a very high priority for the government, the long term sustainability and survival of the newly created business is an important component of the program. Although franchising is considered as a sound business idea, not all franchise businesses become a success. Recently, several observations undertaken by researchers have revealed that nearly 40% of the franchising business activities in Malaysia have been operating unsuccessfully, and the unsuccessful local franchisors seem to be Bumiputera (they are mostly *Muslim* entrepreneurs) business operators.

This study intend to further investigate to what extent marketing capability and market orientation concept are being adopted by our local franchisors especially Bumiputera business operators in ensuring the success of their business. Thus, a deeper understanding of these issues needs to be obtained using the qualitative approach. The significance of using the qualitative research approach consists in setting the emphasis on describing, understanding complex phenomena. In this research it will facilitate the investigation of the relationships and patterns among factors or patterns in which the franchising business activities happen. This will be instrumental in providing an in-depth understanding of the importance of marketing elements in the Malaysian franchise industry.

Based on this statement, the objective of the current study is to identify the extent of marketing capability and the application of market orientation concept in the Malaysian franchise industry. Subsequently, the results of this study can be used as the premise for full scale investigation of the level of franchisors' performance throughout the whole of Malaysia.

3. Literature Review

In the context of this study, there are two important underpinning theories that have been discussed namely, market orientation and the resource-based theory.

Resource based theory (RBT) focuses on internal factors (source of strength and weakness) to explain strategic undertaking of an entity. According to Wenerfelt (1984) resources have been found to be important antecedents to product and ultimately to performance. Hence, resource is anything that can be thought of as strengths or weaknesses of a firm. From the marketing perspective, resources are "any tangible or intangible entity available to the firm that enables it to produce efficiently and /or effectively a market offering that has value for some market segment or segments" (Hunt & Morgan 1995). The resources are both significantly heterogeneous across firms and imperfectly mobile. This means that every firm has resources that are in some way unique and not easily acquired in the marketplace. According to Barney (1991) resources of a firm "include all assets, capabilities, processes, firm attributes, knowledge, information, etc., that are controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness" (p.101), which leads to competitive advantage to the firm.

Looking at both conceptualization of RBT by Hunt and Morgan (1995) and Barney (1991), market orientation (MO) could be posited as an important resource entity to a firm. This is because firms that have MO tend to focus on utilizing information and developing knowledge on customers and competitors (Kohli & Jaworski 1990; Narver & Slater 1990) and coordinating its organizational functions (Narver & Slater 1990) in order to produce effectively and efficiently in delivering value to the market. Hunt and Lambe (2000) argued that MO is a more appropriate concept to explain 'asset' and 'skills' that enable firms to efficiently and /or effectively produce offering that has value for some market segment. Thus, market orientation would be a resource if it provided information that enabled a firm to produce, for example, an offering well tailored to a market segment's specific tastes and preferences (Hunt & Morgan 1995), and well ahead of the ability of its competitors (Glazer, 1991).

3.1 Organizational Performance

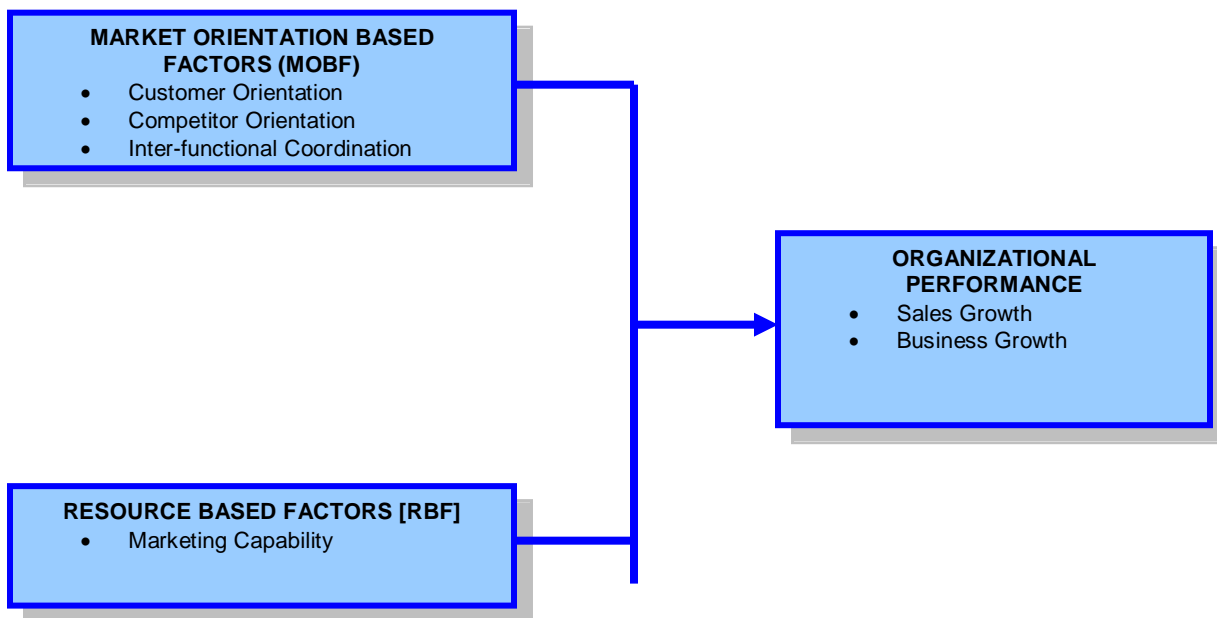
Organizational performance is rather complex and multifaceted, and can be influenced by numerous internal and external factors surrounding the organization. Among these are organizational vision, culture and structure, employee productivity level, human resource management, leadership style, knowledge and technology management, level of service, market orientation, change in cost of production and operation, entrepreneurial characteristics, economic condition, government regulations and technological developments (Gunasekaran, Forker, & Kobu, 2000; Lytle & Timmerman, 2006; McShane & Van Glinow, 2005; Prieto & Revilla, 2006; Sin & Tse, 2000).

Performance measurement plays an important role in translating an organization's strategy into desired behaviours and results (Kaplan & Norton, 2001). A number of authors have suggested that an integrated performance measurement approach should be applied to align the financial and non-financial measures in accordance with business strategy (McNair & Masconi, 1987). Among the most popular financial performance measures are return on assets (ROA), return on equity (ROE), and sales growth (SG), and they are the most extensive measurements of performance in business research (Wan & Hoskisson, 2003). On the other hand, non-financial performance comprises market share, acquisition of resources, capacity utilization productivity and efficiency, availability of information, introduction period of new product and cohesive work force (Tan, Chang, & Lee, 2007). Nowadays, there are many studies that focused on the application of both quantitative and qualitative approaches, and short term with long term approaches in measuring organizational performance (Johnson & Kaplan, 1987; Kaplan & Norton, 1992).

3.2 Theoretical Framework

The following theoretical framework has been developed for the local franchise:

Figure 1.1: Theoretical Framework



4.0 Research Methodology

A deeper and better understanding of the critical success factors (CSF) for different ethnic franchisors needs to be carried out using the qualitative approach. The use of qualitative methods are typically more flexible. They allow greater spontaneity and adaptation of the interaction between the researcher and the study participants. For example, qualitative methods ask mostly open-ended questions that will allow respondents or participants to freely respond in their own words, and these responses tend to be more complex than simply "yes" or "no".

In addition, through the use of qualitative methods, the relationship between the researcher and the respondents (in this case the franchisors and franchisees), is less formal than in a quantitative research.

The respondents, i.e. the franchisors, have the opportunity to respond more elaborately and in greater detail than is typically the case with quantitative methods. In turn, the researchers have the opportunity to respond immediately to what participants say by tailoring subsequent questions to information the respondents or participants have just provided.

According to Yin (1994), a case study is defined as an empirical inquiry which 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.

4.1 Samples of Case Study

Case studies are made for different industries. As a result, they have their own specific success factors as well as generic success factors. For this study, based upon theoretical sampling, seven non-Bumiputera franchisors and six Bumiputera franchisors (they are all *Muslim* entrepreneurs) will be selected as the case studies. These franchisors are selected according to their business performance as well as their length of operations, which is more than 5 years.

4.1.1 Selection Criteria of Case study

The sampling frame is obtained from the Malaysian Franchise Association (MFA) Directory, 2007. 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 determined by the following criteria.

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

4.2 Data Collection Methods

To collect data, the researcher used the convergent interview technique, which is a methodology that allows a relatively structured approach to sorting out what needs to be done in a research project in the early stages. It is 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 are collected.

4.3 Data Analysis

The data is initially transferred into a tabulated diagram developed manually. The strategy of analysing the data involves looking into the themes and issues. By using this approach, the researcher is able to understand in depth the issues relevant to the research problem. The cross case analysis will be used in interpreting the data in this study. This method is done by using 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 results for generalization (Miles & Huberman, 1994). In addition, this analysis had broadened the understanding and explanation (Glaser & Strauss, 1967) about the issues being studied. The reason was that the researcher would be able to obtain a clearer picture and a more indepth understanding of the study.

In analysing the data collected, the technique used is the interpretive technique. According to Mason (1996), the interpretive reading technique will involve the researcher in constructing or documenting a version of what you think the data mean or represent, or what you think can infer from them.

To be able to interpret the data which is mainly text-based, the researcher has to perform a cross-sectional indexing of data which involves devising a consistent system for indexing the whole of the data collected according to a set of common principles and measures. This technique is referred as “categorical indexing” to the extent that it uses classificatory categories to establish the common index. The main aim of indexing (coding or categorising as some writers or researchers called it) is that the researcher applies a uniform set of indexing categories systematically and consistently to their data.

5.0 Results of the Case Study

5.1 Profile of the cases

Before discussing the analysis of the cases, an overview of the franchisors’ background is provided. Six franchisors were Bumiputera operators and seven companies were non- Bumiputera franchisors. Of the thirteen cases, seven had received an award from the MFA, an association that manages local franchise development. Of the seven award recipients, five were non-Bumiputeras and two were Bumiputera franchisors. The majority of the local franchisors belonged to the food sector, while others were in retail, beauty, education, and the optical business. The nature of seven franchisor businesses was service dominant, and the other six were product dominant. Of the two Bumiputera operators, only one was capable of penetrating the global market. On the other hand, of the seven non-Bumiputera operators, only one operated his business locally. In summary, according to the demographic information of the local franchisors, the majority of the award recipients came from non-Bumiputera operators rather than Bumiputera franchisors. Of the thirteen cases, more of the non-Bumiputera franchisors penetrated the global marketplace than Bumiputera operators. In conclusion, based on ethnic background, non-Bumiputera franchisors were more successful than Bumiputera franchisors that had been in operation for less than ten years in operation in their business operations and in their capability to expand their businesses worldwide. In addition, the non-Bumiputera franchisors had been in the business for more than ten years

In analyzing the cases, we categorised them into product-service dominant and different ethnicity. The deliverables of the business were divided into two; product-dominant and service-dominant. Product-dominance involves more emphasis on the product, whereas service-dominance emphasizes the way business is delivered to customers. The ethnicity of the franchisors was classified as Bumiputera or non-Bumiputera. The presentation of the case analysis was based on the research questions in the study as summarised in table 1.1.

Table 1.1: Summary of the Cases Profile

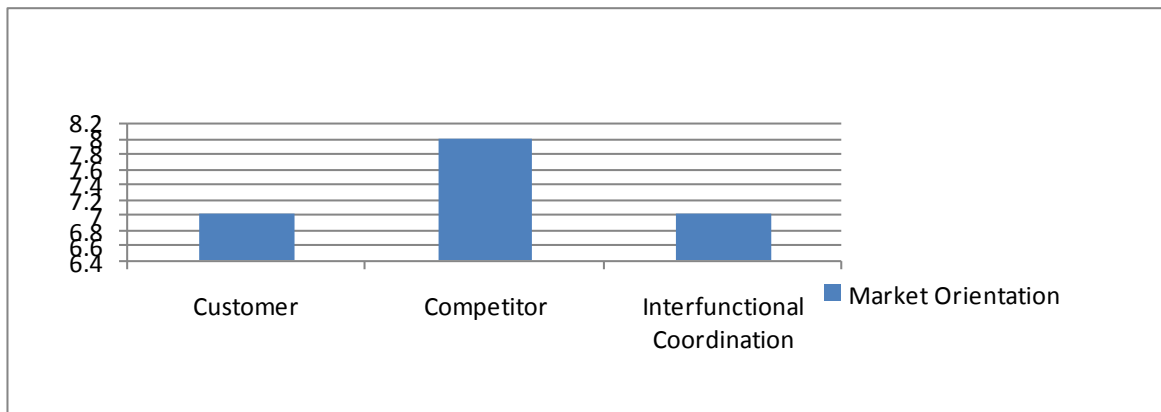
Case	Bumiputera/ Non- Bumiputera	Nature business	Award/ Non Award	Product/Service Dominant	Global/ Local Market	Years established
Case 1	NB	Beauty	Award	Service dominant	Global, Local	More than 10 years
Case 2	NB	Food	Award	Product dominant	Global, Local	More than 10 years
Case 3	B	Food	Award	Product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

5.2 The Market Orientation Based Factor (MOBF)

Market orientation can be defined as a kind of business culture and behaviour that leads to business success by focusing on and understanding the market. These factors can involve customer orientation or an understanding of the psychological and social factors that lead to consumer behaviour, competitor orientation or studying the number and power of competitors, and finally the inter-functional coordination factor, which integrates its internal function to ensure better flow of information across departments.

Figure 1.1 below shows that local franchisors were more competitor focused.

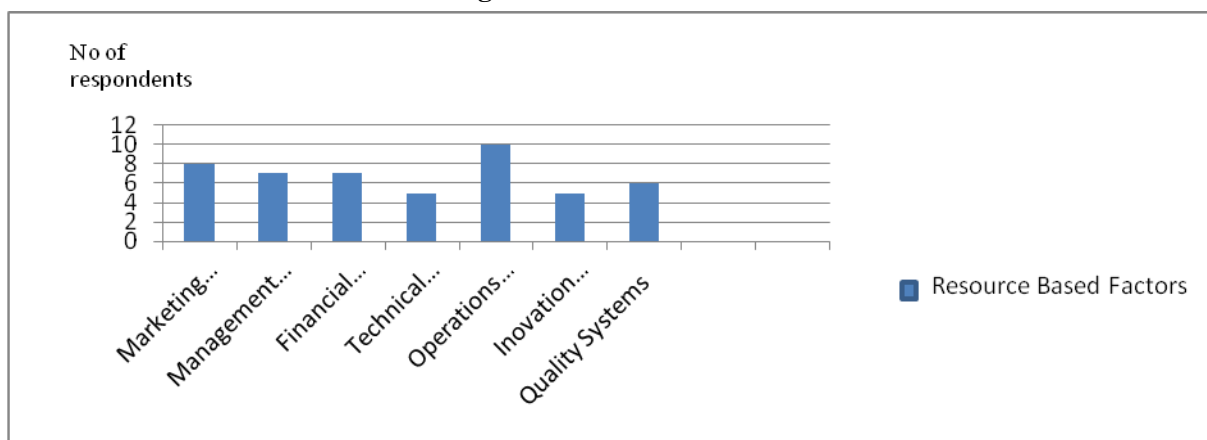
Figure 1.1: Market Orientation Based Factors



5.3 Resource Based Factors (RBF)

Resource based factors (RBF) were identified as any attribute, tangible or intangible, physical or human, intellectual or relational, that might be deployed by an organization to enable it to produce effectively and efficiently market an offering that has value for some market. With reference to Figure 1.2, franchisors ranked marketing capability as the second most important capability in franchise business industry.

Figure 1.2: Resource Based Factors



5.4 Award Recipient Cluster and Product Dominant

The market orientation of those with an award winning cluster with product dominant focus was more towards the customer than the competitor. This was true for the non-Bumiputera franchisors whereas the Bumiputera franchisor put more emphasis on competitors. Regardless of their ethnicity background, they stressed marketing capability as important factors that influenced franchise performance.

Table 1.2: Summary of award recipient cluster and product/service dominance

Case	PD	SD	B/NB	MO	RBF
Case 1		/	NB	Customer and inter- functional coordination	Marketing capability
Case 2	/		NB	Customer, competitor, and inter- functional coordination	Marketing capability
Case 3	/		B	Competitor	Marketing capability
Case 4	/		NB	Customer, Competitor, Inter- functional	Marketing capability
Case 11		/	NB	Customer, inter- functional coordination	Marketing capability
Case 8		/	NB	Customer, competitor, inter- functional coordination	Marketing capability
Case 13		/	B	Customer and inter-functional coordination	Marketing capability

PD – product dominant, SD – service dominant, B – Bumiputera, NB – non-Bumiputera, MO – Market orientation based factors, RBF – Resource based factors

5.5 Award Recipient Cluster and Service Dominance

Table 1.2 also summarizes the factors that influenced business franchise performance of the award winning cluster with service dominant offering. For The non-Bumiputera franchisors scored high in market orientation, which was not only competitor based but also customer oriented. In addition, they were able to coordinate inter-functionality in conducting their businesses. However, the focus of the Bumiputera franchisors was more on customer and inter-functional coordination. Regardless of ethnicity background, the franchisors possessed high levels of capability in marketing to ensure high business performance.

5.6 Non Award Recipient Cluster with Product Dominant

Table 1.3 showed that the all non-Bumiputera franchisors scored low for marketing orientation and in addition, one of them showed low customer orientation and moderate inter-functional coordination but focused highly on competitors. The other Bumiputera franchisor was in the retail business and highly marketing oriented. In terms of marketing capability, their responses were mixed. One of the Bumiputera franchisors acquired high capability in operations and finance, whilst the other Bumiputera franchisors and the non-Bumiputera franchisors attained low operations capability but high marketing capabilities. The relationships between franchisees and the franchisor could be viewed from the degree of trust, cooperation, communication and contract which bound both parties. In terms of monitoring and keeping track of the franchisees whether they actually followed the contract, the implementation by franchisors of both ethnicities was rather low. However, one of the Bumiputera franchisors appeared to be highly cooperative whenever franchisees encountered problems. As a result, both franchisor and franchisees managed to develop a high level of trust in each other. The other non-Bumiputera and Bumiputera franchisors showed a lack of cooperation and trust with their franchisees. Most Bumiputera and non-Bumiputera franchisors demonstrated high achievement motivation and locus of control as entrepreneur.

The Bumiputera non-award cluster franchisors did not focus much on customers, but one of them placed a lot of emphasis on competitors. This was quite different from the non-Bumiputera franchisors, who were highly concentrated on the three important areas of market orientation namely customer, competitor and inter-functional coordination. In term marketing capability, both Bumiputera and the non-Bumiputera franchisors depict a low to high level of marketing.

Table 1.3: Summary of the non-award recipient cluster and product dominance

Case	PD	SD	B/NB	MO	RBV
Case 5	/		NB	Customer and inter- functional coordination (All low)	Marketing (H)
Case 6		/	B	Customer, competitor, and inter- functional coordination (All low)	Marketing (L),
Case 7		/	NB	Competitor Customer Inter-functional Coordination (All high)	Marketing (L)
Case 9	/		B	Customer, Competitor, Inter- functional Coordination (All high)	Marketing (H),
Case 10		/	B	Customer (L), Competitor (H) Inter- functional coordination (M)	Marketing (L)
Case 12	/		B	Customer (L), Competitor (H) Inter- functional coordination (M)	Marketing (M)

H – high

M - medium/moderate

L – low

6. Discussion and Conclusion

Slater and Narver (1995, 1994) argued that the rationale linking market orientation (MO) and firm performance are that MO facilitates collection and use of market information as well as focusing on coordinating resources to deliver superior customer value. Hence, a firm with a high degree of MO will continuously examine alternative sources of sustainable competitive advantage to determine how it can most effectively create superior value for its present and future target customers (Li, Sun, and Liu 2006). The findings of this study support this contention and showed that MO taken in the context of Malaysian franchisors' competitiveness positioning had a major influence on the successful or failure of the franchise business. From this study, it can be seen that the levels of MO varied from franchisor to franchisor. The non-Bumiputera franchisors responded that MO and marketing capability have direct influence in determining the success or failure of franchise business. The evidence from this study further supports the findings of Narver and Slater (1990) who have argued that MO can enhance firm performance by satisfying customer's articulated needs, and by facilitating internal sharing of competitor's information and cross-functional coordination. The three important areas of market orientation, namely the customer, competitor and inter-functional co-ordination were given due attention especially by the non-Bumiputera franchisors.

In contrast, the evidence from the Bumiputera (they are all *Muslim* entrepreneurs) non-award winning cluster franchisors did not focus much on customers. This clearly indicates a lack of MO among this group of franchisors and hence this may possibly explain why the Bumiputera franchisors were not as successful as their non-Bumiputera counterparts. Perhaps, these franchisors need to learn from the recommendations of Narver and Slater (1990) and Levitt (1960) who found that firms that develop better and more appropriate MO tend to pay more attention to understanding and meeting customer needs, understanding the economic environment which they face, and responding to changing markets and competitive environments. Furthermore, some empirical studies have found a positive relationship between MO and overall firm performance (Jaworski and Kohli 1993) and financial performance (for example, Kara, Spillan, and DeShields 2005; Kirca, Jayachandran, and Bearden 2005; Sin et al. 2005; Kaynak and Kara 2004; Verhees and Meulenbergh 2004; Langerak 2003; Pelham and Wilson 1996; Slater and Narver 1994), such findings were based on evidence from market economies.

The research findings and discussion above clearly showed that market orientation (MO) is a very important factor that needs to be given serious attention in the franchise industry. In a franchise business, the customer is the key ingredient for success. The next focus is on competition, which is important for the survival of the franchise business. Marketing capability is an important resource for all franchise business. This notion can be seen in the established practice of franchise consulting companies which advocate the need for a total *marketing orientation* in every developmental and selling phase (Carlyle, 1989). Both the product and the operations of an emerging growth company are thoroughly evaluated for market potential before franchising efforts proceed. Included in this marketing orientation is a multi-discipline, market-driven approach which offers a sounder strategy for growing a franchise business.

In this study concerning market driven relationships in franchise businesses, customers' satisfaction should be the main concern of the franchisor and franchisees. Therefore, customers should be treated in a way that will make them feel important and satisfied with the service provided by both business operators. To create a good and long lasting relationship with customers, both parties must find the right strategies or ways to increase the customer's acceptance of their product or service branding or image. A long lasting relationship can only be developed by creating the so-called market driven relationship tailored to individual customer needs. Among the strategies that may be adopted are friendly greetings, being quick and responsive to customer needs, providing a conducive and stimulating business environment and ambience, having easy access and sufficient parking, and most importantly, never failing to meet customers' expectations.

To conclude, this study has provided a platform to explore the importance of marketing capability and market orientation of franchise businesses in Malaysia. Even though franchising was already introduced in the early 1930's, much of the franchising sector in Malaysia is still relatively unknown. To-date, there has not been a complete profile write-up about the current status of the franchise sector in terms of total value, actual number of franchisors and franchisees, number of people employed by the franchise sector, the number of successful and failed franchisors/franchisees and a whole list of other economic parameters concerning franchising is still not known nor reported. Thus, there is plenty of scope for future research and one of them is marketing capability and market orientation of franchise business in Malaysia.

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