



**UNIVERSITI PUTRA MALAYSIA**

**FACTORS AFFECTING THE SUCCESS OF BUMIPUTRA  
FRANCHISEES IN BUSINESS**

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This study explored factors that contribute to the success of Bumiputra franchisees and factors that make other Bumiputra franchisees less successful in similar industry. Using a mail survey, data were collected from sixty Bumiputra franchisees from the list provided by Ministry of Entrepreneur Development. Simple random sampling was applied to select the respondents before sending them questionnaire. Perceptual questions were used to differentiate between





Bumiputra franchisees who perceived themselves as successful and Bumiputra franchisees who perceived themselves to be less successful.

The franchisor congenial relations was found to be stronger factor affecting the success of Bumiputra franchisees. This factor was again elaborated in terms of having good rapport with franchisor, training and development provided by the franchisor and cooperation from the franchisor.



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## **FAKTOR-FAKTOR KEJAYAAN FRANCHAI SI BUMIPUTRA DALAM PERNIAGAAN**

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Tujuan kajian ini ialah bagi menyelidik faktor-faktor yang menyumbang kepada kejayaan franchaisi Bumiputra serta faktor-faktor yang menyebabkan franchaisi Bumiputra kurang berjaya dalam perniagaan franchais. Tinjauan secara pos telah digunakan bagi mengumpul data berdasarkan senarai franchaisi yang diperolehi dari Kementerian Pembangunan Usahawan. Persampelan rawak mudah digunakan bagi memilih responden dari senarai franchaisi.



Soalan persepsi digunakan bagi membedakan sama ada franchaisi tersebut berjaya atau kurang berjaya. Hasil kajian menunjukkan keperihatinan franchisor adalah amat penting dalam menentukan kejayaan franchaisi Bumiputra, misalnya, jalinan hubungan yang baik, latihan dan pembangunan yang disediakan oleh franchisor serta kesediaan franchisor membantu franchaisi Bumiputra.

## CHAPTER I INTRODUCTION

### **Background of the Study**

Franchising, a marketing technique used to distribute products or services, is undoubtedly the most innovative and efficient system yet devised. In the United States, franchising currently encompasses over one third of all retail sales and by the end of the decade it is expected to expand further with as much as one half of retail sales turnover. In Australia, franchising is a more recent commercial phenomenon and it is progressively taking place in every business and trade. Currently, twenty per cent of retail sales in Australia is through franchise systems and as in the US, it will become the dominating force in the distribution of goods and services.

Therefore franchising is frequently been described in superlatives:-

- .....one of the greatest inventions of western capitalism (US House of Representatives Committee on Small Business)
- .....the dominating force in the distribution of goods and services (US House of Representatives Committee on Small Business)
- .....the wave of the future (US House of Representatives Committee on Small Business)



- .....the single most successful marketing concept ever (John Naisbitt)

## **History and the origin of franchising**

Franchising originated as a distribution method in the United States in the mid-19th century. Isaac Singer, the founder of the Singer Sewing Machine Company is generally credited as the founder of the of franchising. In 1851 he invented not only the world's first viable domestic sewing machine but also a new method of distribution under which independent salesmen paid fees to acquire exclusive territorial rights.

Although distribution methods exhibiting various characteristics of franchising have been utilised for over 100 years, the franchising as a sophisticated and specialised business arrangement in its business format mode is a relatively recent phenomenon. The contemporary style of franchising, and indeed the identification of this relationship by the name "franchise" was relatively unknown in the USA as recently as the early 1950's, but it has since developed and rapidly becoming a significant part of the economy of that country.

It was later realised that elaborate management systems could be cloned, which has led to the development of business format franchising. Much of the credit goes to Ray Kroc who built the McDonald's franchise systems. Kroc acquired the rights to McDonald from two brothers, Dick and Mac McDonald, who had already attempted to exploit the remarkable success



of their San Bernadino hamburger shop through franchising. However, the brothers' attempt to franchise their concept was not successful.

Ray Kroc revolutionised the system for which he acquired licensing rights in 1954, and later bought it outright, and consequently imposed discipline of a business format franchise system. Later, Kroc secured the national marketing rights to the 5-spindle Multimixers that the McDonald brothers used to make their milkshakes. Kroc's initial goal was not to make money on franchising but to sell Multimixers to his franchisees. With the prospect of hundreds of McDonalds around the country, Kroc saw a way to reverse the decline in Multimixer sales into a very viable venture.

#### **Development of franchising in Malaysia.**

Singer Sewing machine Company was the first franchise to come to Malaysia in 1946. Franchising then remained relatively stagnant until in the early sixties when A & W became the first American fast food employing the franchise system to open outlets in Kuala Lumpur. Since then the acceptance of Western food in Malaysia has seen the introduction of Kentucky Fried Chicken, Mc Donald, Pizza Hut and many other fast food franchises.

Some franchise systems have been extremely successful, such as the Kentucky Fried Chicken outlet in Bukit Bintang Plaza which is the world's number one outlet. While others, such as Red Rooster, Popeye's Famous Fried Chicken and Burger King, have yet to be established locally, have nevertheless been introduced to the Malaysian market.

Franchising has developed rapidly because of the changing lifestyle of the Malaysian society over the last decade. Its emergence as a significant force in the 1990's was influenced by a variety of economic, demographic and social factors, such as the increasing difficulty faced by independent small businesses, the ageing of baby boom generation, the emergence of double income families, the changing attitudes to convenience and product quality, and the increasing reliance on technology.

The rapid spread of the western influence on the younger Malaysian population has resulted in the increase in demand for higher quality foods and services, presented in a quality high-uniform standard across the country. These factors as well, are essential features of franchising. This trend has set a conducive environment for franchising.

The number of franchised establishments in Malaysia has grown significantly over the past five years. As of November 1997, there were about 150 registered franchisors and over 2,000 franchisees in this country. Of these, 45 franchisors and 318 franchisees have been developed by the Ministry of Entrepreneur Development. The franchised system which was originally dominated by fast food industries is now dominating other business categories such as, hotels, automobiles, jewellery, toiletries, cosmetic, courier service, photography, consultancy and lately in education. In education, franchising is an urgent need in Malaysia at present. The increasing number of Malaysian adult population seeking for higher education has prompted the public higher

learning institutions to franchise its programme to private higher learning institutions.

Today, franchise systems not only have to differentiate themselves from their competitors, but they have to embrace flexibility in the manner in which they operate. The original model of a national franchisor and single unit franchisee is being replaced by master franchising, area development agreements, multi-site franchising and instore franchising.

The reality of franchising is that it is indeed the most effective, efficient and innovative marketing and distribution system that capitalism has devised. It empowers small business and benefits society in many ways. Based on this rationale, the Malaysian government has taken serious steps by setting up the Franchise Development Division under the Prime Minister Department, which later become the responsibility of Ministry of Entrepreneur Development.

### **Franchising and Bumiputra Entrepreneurs**

The government has adopted franchising as one of the vital strategies in producing efficient Bumiputra entrepreneurs. Hence franchising will be one of the major areas which will be developed to enhance and upgrade the managerial skills of Bumiputras.

The government has decided that the Ministry of Entrepreneur Development to act as the “one-stop-agency” for the development of franchising in Malaysia and accordingly a special unit, the Franchise Development Division was set up for this purpose.





The objectives of the Franchise Development Division are as follows:-

1. To assist the Bumiputra entrepreneurs by providing them with established products, training, salesmanship and managerial skills in place of the old method, such as giving cash, loan and capital for them to operate the business from scratch. This old method of helping Bumiputra has its own advantages and drawbacks.
2. To establish Bumiputra Commercial and Industrial Community (BCIC) by the year 2020.
3. To create resilient Bumiputra entrepreneurs (as franchise and franchisor) through franchising.

At present the responsibility and task of promoting the franchise system is totally in the hands the Ministry of Entrepreneur Development. The Ministry is responsible for inculcating the franchise culture among Bumiputra entrepreneurs so that they may become more efficient and successful.

### **Statement of the Problem**

Recently, the Ministry of Entrepreneur Development disclosed that almost sixty to seventy percent of Bumiputra entrepreneurs who were awarded franchisee rights were a tremendous success in their businesses. However, there were some, who were less successful even with franchise rights and privilege, which has prompted some pertinent questions as to why some Bumiputra franchisees are more successful than others and the reasons governing them.

## **Objectives of the Study**

### General objective.

The general objective of this research was to identify factors that contribute to the success of Bumiputra franchisees.

### Specific objectives

The specific objectives of this research were:-

1. To explore factors that contribute to the success of Bumiputra franchisees.
2. To make a comparison between Bumiputra franchisees who are successful in franchise industries and those who are less successful in similar industries, based on the significant differences in terms of age, sex, Marketing skills, Human Resource Skills and Commercial knowledge.

## **Limitations of the Study**

This study is only confined to Bumiputra franchisees who have succeeded and those who are less successful in the franchise industry. Therefore, these success factors cannot be applied directly to independent Bumiputra entrepreneurs who did well in other types of businesses, such as in construction, in service industry, in manufacturing and the like. The reason is that the franchise industry is different from other types of business. In this industry, interested entrepreneurs are provided with almost all of the basic

necessities, which they could not get in other types of businesses, such as, assigned location, marketing plan, training and established trade mark. In short, in other types of businesses, the entrepreneurs have to start from scratch.

This study was exclusively tailored for Bumiputra franchisees who registered and whose progress was being monitored by the Ministry of Entrepreneur Development.

### **Assumptions**

In this study, it is assumed that the Bumiputra franchisee is registered with the Ministry of Entrepreneur Development. Therefore Bumiputra franchisees who are doing well but are not registered with Ministry of Entrepreneur Development have not been included in this study.

### **Significance of the Study**

This study will provide the guidelines in determining the kind of assistance that should be given to the Bumiputra entrepreneurs in producing Bumiputra Commercial and Industrial Community (BCIC) to the Ministry of Entrepreneur Development.

This study will also unveil to the Ministry the significant factors affecting the Bumiputra franchisees, which can indirectly act as a guideline in planning the facilities for the Bumiputra involved in other types of businesses.

This study can also be used as a tool to further develop hypotheses for future research in the field of franchise industry.

## **Definitions of Terms.**

**Franchising** is an organisational form in which a company grants an individual or another company the right to do business in a prescribed manner over a certain period of time in a specific place in return for royalties or the payment of other fees.

The company granting the franchise right is termed the “**franchisor**”, the receiver of the right is the “**franchisee**” and the right is the “**franchise**”.

“**Business format franchising**” is an ongoing relationship between the franchisor/franchisee that not only includes product, service, and trademark, but also the entire concept of the business.

**Independent Bumiputra entrepreneur** refers to a person who started his/her own enterprise or business with minimum or without any assistance from statutory or government agencies.

## **CHAPTER II**

### **REVIEW OF THE RELATED LITERATURE**

#### **Entrepreneur and Entrepreneurship**

According to Tan (1996), entrepreneurs have a distinctive set of skills, traits and attitudes that are keys to their success. Also they have the ability to conceive a creative idea and translate them into a product or service for a specific user. This product-user match stems from the entrepreneurs' ability to vividly visualise the consumers and their preferences. Tan also distinguished a genuine opportunity from an idea, which means a genuine opportunity is inherent in every problem, therefore only entrepreneurs have the knack for spotting creative opportunities in problems for revenue. Entrepreneurs tend to use a lot of intuition in business dealing. They will look at a product or concept and ask themselves "How quickly can this pay for itself if I buy it". Similarly Timmon (1996) defined entrepreneurship as a human and creative act that builds something of value from practically nothing.

Therefore entrepreneurship means an act to make things happen. It is the pursuit of opportunities regardless of the resources, or lack of resources at hand. According to Timmon (1996), an entrepreneur is one who organises, manages and assumes the risks of a business or enterprise.



The simple but encompassing statement could include anyone who runs a small, medium or large business.

What is the difference between an entrepreneur and a plain businessman?

The French word which literally means enterpriser or undertaker in English, has taken on a special meaning in economic terms. It applies to the man who creates something new, who puts together a new business or who exercises a high degree of initiative, innovation or risk taking. The word entrepreneur both describes a type of business activity and expresses something about the quality of the activity.

### **Franchise Versus Independent Enterprise**

Franchise is a form of marketing or distribution in which a parent company grants an individual or a relatively small company the right or privilege to do business in a prescribed manner over a certain period of time at a specific place. The privilege (franchise) granted may be the right to sell the parent company's product (franchisor), use of name, duplicate its method, copy its symbol trade marks or architecture.

There are two differences between owning a franchise and running an independent enterprise. The first difference is that when someone operates a franchise, he/she offers an item/service which is readily available, proven in operating system and tested at the marketplace. Whereas in the case of an independent enterprise, it requires more energy to operate, since it has to start from scratch. The second difference is that when someone operates a franchise,

he/she always receives support/assistance from the franchisor and from experienced professionals, an independent businessman however has to figure out how to do everything by himself.

In short, in independent enterprise a person builds a business by himself, whereas in franchise system, a person does not build a business but the organisation builds the business. Conclusively, it can be deduced that all franchisees are entrepreneurs, but not all entrepreneurs are franchisees.

### **Research on Bumiputra Entrepreneurs.**

There have been many studies and research conducted on what made Bumiputra failed in the entrepreneurship. The reason which prompted them to conduct a failure analysis instead of a success analysis was because the ratio of Bumiputra entrepreneurs who failed in business out-numbered those who made it successfully. In the late 70's and 80's, the government earnestly began promoting, with the objective of producing Bumiputra Commercial and Industrial Community (BCIC). The New Economic Policy which ended in 1990, has produced large numbers of successful Bumiputra entrepreneurs, especially in small-scale and light industries, banking, securities business and etc. However not much of the literature written, had focused on the success factors of the Bumiputra entrepreneurs. The most recent research carried out based on the success factors of the Bumiputra entrepreneurs was a study by Zulkifli (1994) on "Factors affecting the success of Bumiputra entrepreneurs in Lembaga Kemajuan Terengganu Tengah", Mazlina (1994) on "The performance of

Bumiputra and Non-Bumiputra Jewellery and Goldsmith entrepreneurs in Kelantan” and Abdul Kadir (1990) on “Bumiputra Entrepreneurship in Penang-Langkawi tourist industry”.

However these studies only focused on independent small-scale Bumiputra entrepreneurs such as traders, goldsmith dealers and tourist operators, where the assistance from the government in this type of business is very minimal or non existent, compared to franchise industries, where the involvement from the government is very active.

There were many frontiers who have conducted studies on the failure of Bumiputra entrepreneurs. The most prominent study was done by Abdul Aziz (1982), entitled “Malay entrepreneur Problem in Development”, A comparative Empirical Analysis, Socio-Economic Research Unit. Abdul Aziz (1982) unveiled the failure factors of Bumiputra entrepreneurs by comparing them with Chinese entrepreneurs. He highlighted three major factors, which have led to the Bumiputra’s failure in entrepreneurship, such as management practices, financial practices and socio-cultural values and attitudes.

Ramlah (1980), in her findings on the survival factors of Bumiputra entrepreneurs, links her study with economical and political factors. Her findings on “ A study on political and economical factors affecting the A and BEX class of Bumiputra contractors” revealed how the Bumiputra contractors have to fight with each other, to secure government contracts. In her findings, she highlighted the importance of social factors in determining the success of Bumiputra entrepreneurs. Her findings also showed that political and