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Factors of Malaysian Home-Grown Franchise Expansion into International Market: A Case of Education and Learning Centre

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Abstract

The rapid growth of Malaysian home-based franchising has been saturated in the local market and many of the franchisor starts to expand their business into international market as franchising is one of the business platforms. However, little is currently known about the antecedents of franchise expansion, especially in developing countries, thus the purpose of this paper is to address this shortage through exploring the antecedent's factors associated with the expansion of Malaysian home-based franchisor into international market. In methodology aspect, a series of three multiple case studies via protocols discussion with Malaysian franchisor was undertaken across education and learning centre system to explore the topic and to refine the research question, therefore develop the propositions. From the findings, a few themes emerge from the qualitative investigation where by few research propositions are developed: (i) capital resources; (ii) franchisor's brand; and (ii) proven business system in an attempt to explain the antecedent's factors of Malaysian franchisor expansion. In brief, this study has contributed new knowledge in relation with the expansion of Malaysian franchise brand into international market and will benefit the future studies.

Keywords: Malaysia, International Franchising, Franchisor, Franchise, International strategy

Introduction

Franchising is a business format that offers many advantages compared to chain-ownership (Grewal, Iyer, Javalgi, & Radulovich, 2011). The Malaysian government strongly stress on early childhood care and education and thus formulated the National Policy for Early Childhood Education (School Malaysia, 2018). Binh and Terry (2014) argued that even though franchising was easily identified through the usage of it as a platform for business expansion, many factors can be found to influence it. Looking on the growth of franchising in Malaysian market, business that adopted the franchise system is not a new but already existed a long time ago in this country. On international and global perspective, a franchising has been prevalent in worldwide (Shumba, Zindiye, & Donga, 2017). Franchising is one of rapid development forms of business in the global and valuable for studies in entrepreneurship area as it plays an

important role in supported economic development by creating an employment opportunity, developing the growth of entrepreneurship and enhancing the standards of living (Baena & Cervino, 2012). Furthermore, Ramírez-Hurtado, Berbel-Pineda and Palacios-Florencio (2018) also suggested that future research should study factors affects the decision to expand internationally and how the factors affect the choices of that countries as destinations for their internationalization strategy. Based on these issues, the following broad research question is proposed for the present study:

“What are the major factors that influence the expansion of Malaysian education and learning centre franchisor into international market?”

Literature Review and Methodology

Lu, Karpova and Fiore (2011) described that to enter the foreign market, entrepreneurs can choose multiple mode of market entry such as join venture, whole owned subsidiaries or joining the franchising contract or may use than one mode of entry since its business operate at different countries. Further, study by Baena and Cervino (2012) also claimed that franchise with strong brand have high propensity to expand its business into international market where this strong brand able to create business opportunity from the potential franchisee and thus it profitable. Besides, Berbel-Pineda and Ramírez-Hurtado (2012) discussed that franchising is a profitable strategy that matured and well known in many countries where firm created to follow franchisors groups and control the laws for the market within other aspects. This was supported by Baena (2011), Thompson and Stanton (2010) and Zhu, Wang and Quan (2011) that adopting a franchise business model in international market is a platform for internationalization strategy. For the present study, cross-case analysis was used by the researcher. According to Gordon (1962); Sangakala, Ahmed, & Pahi, (2016); Matarid, Sobh, & Ahmed, (2018), cross-case analysis is a method of research that enable the comparison of commonalities and difference in the case studies.

Findings and Discussion

For this study, the findings are segmented into three thematic categories which all of that are revealed based on the characteristic of the factors encourage the internationalization of franchise firm in Malaysia. Each of thematic category is discussed in the following sections:

Theme 1: Access to the Capital Resource

At the early of the discussion, the question is centered on the participant's experience on expanding their franchising system into other international market. Based on the discussion, most of the franchisors believed that entering the international market will enable them to have access to the franchisee's resources such as capital. Importantly, most participants nominated that franchising is a good platform to obtain the expansion capital in the international market because the potential franchisees are willing to pay in order to buy the trademarks, rights and system from franchisor to open the outlets. Moreover, participants also mentioned that by adopting the franchise business system, it will encourage the franchisor business growth strategy in term of sale, good distribution network and minimizing the franchisor's capital investment and liability risk.

In supporting this point, Ishak, Chuah, Wei, and Romle (2016) claimed that franchising enables for rapid expansion by utilizing franchisee resources such as financial capital and managerial

talent as key in forming and supporting the standing of market knowledge. Additionally, Kistruck, Webb, Sutter and Ireland (2011) highlighted that capital resources can be a strategy to overcome capital constraints that are related with growth in micro franchising. In the context of franchising, capital resource is referred to the goods made by the franchisors and they use it to produce the other goods and services including the tools, machinery, equipment and premise. For example, one of the participants (P1) commented that:

For better expansion of business, franchising is the good opportunity. As a franchisor, we had always looking for an opportunity to enter international market but sometimes our ability in term of capital resources is very limited. So, our strategy to expand is by offering our franchise system to the potential franchisee who have that kind of resources....

Furthermore, another participant (P2) stated that:

Of course, capital is one of the important reasons on why we offer our business system to other franchisees in other country.... potential franchisee that have the money will looking for franchise business that have a high potential of making high profit. Then, they are willing to invest in our franchise system and for that it will beneficial us as a franchisor.....

Indeed, the participants consistently highlighted that the successful of franchising operation is achieved when franchisor raise capital resources by expanding internationally, to other potential market rather than stay in domestic market. Given the prominence of this type of mindset, the participants conveyed the importance of capital resources due diligence prior to expanding their franchise system internationally. Therefore, based upon the preceding discussion, the researchers propose that:

P1: The access to greater capital resources is a factor that influences the expansion of Malaysian franchisor into international market.

Theme 2: The Uniqueness of Franchisor's Brand

For this study, our respondents were totally agreed that brand played a significant factor in franchise operation in which the franchisor produced the uniqueness of their brand to differentiate their business with their rivals. Repeatedly, the interview participants would nominate that taking a homegrown franchise brand into globally make a sense for growth because domestic markets are already saturated. Importantly, it appears that the most of homegrown brand of franchising also looking across borders for unexploited market and potential growth opportunities. Furthermore, all participants also agreed that the interest of potential franchisee can be encouraged based on how well the franchisor's brand is doing well as and whether it is something that can be successfully replicated. For instance, one of the participants (P3) commented:

[.....] As a franchisor, I think nowadays franchising has continued grow as popular business... even our brand is a local brand but with ability of our franchise system and brand itself, we are able to penetrate our brand in international market... so that, by having a franchisees in several international countries, we as a franchisor we believe that customer can get our product easily through our franchisees there.. I believe that franchising can also provide an opportunities potential franchising for expansion options.... Our brand is Malaysian homebased and when we offer our business system to the potential franchisees, it will build around streamlined operations because what works in local market on one place generally works in another market....

Moreover, other participant commented a similar emphasis on the homegrown franchise brand developed by the franchisor. For instance, one participant stated:

Actually, our brand has its own customer not only at local market but also in other international market...so that we as a franchisor we think that this is time for us as a Malaysian home-grown brand to open another outlet to meet the demand and sharing the proven and successful of our franchise system and brand with the potential franchisee... [...] I believe that most of the potential franchisee looking a profitable and well-known brand and for our brand itself, it already matured in the local education and learning center industry...our strategy is to establish more multi-unit unit franchising in international market...if u see here our brand already penetrate in many countries include Asian countries...

Therefore, these Malaysian homegrown based franchisors have already survived in domestic market for more than a decade in education and learning center industry and their brands are easily recognized by the public. Besides, the quality of franchisor's brand name is aligned with their system standard in which all their franchisees and potential franchisees can follow and experience the same standard in other international markets. In supporting this point, Hsu, Kaufmann and Srinivasan (2017) highlighted that the consequences of franchise's performance are determined through brand name, format facilitator control and support. Furthermore, Ghantous and Jaolis (2013) also supported that in aligned with the franchise business practices, franchisor's brand is the important elements where the franchisee willing invest into and one of the major resources that franchisees pursue when they engaging in a franchise contact. Thus, these are consistently benefitting all potential franchisees in their franchise system. Therefore, the researchers propose that:

P2: The uniqueness of franchisor's brand is a factor that influence the expansion of Malaysian franchisor into international market.

Theme 3: Proven Business System

The interview with the participants (franchisor) reported that all of them agreed that a proven track record of their business system is the most important driver for expansion. In addition, the effective strategy for gaining the success is through expansion into international market. Furthermore, the beauty of franchisor system is that potential franchisee just needs to follow the standard operating procedure provided since start-up. When franchisors decided to open their outlet in international market, they will do some market research to make sure that their business system is suitable to operate there. For instance, one of participants (P4) said:

Our franchise business is well established and many investors (franchisee) alert about it and because of our system is well managed, they decided to become our franchisee and majority of them is open their outlet in other countries. [...] so far, our franchise keeps a good performance either in local or international market... and our franchisee claimed that our system is easy to be followed and they really appreciate the support given by us (franchisor) even they (franchisee) be in other countries...

The effective management of franchisor business system seen as the major reason on why most of franchisees decided to invest in their business. As one participant (P2) stated:

[...] we know that the competition for education and learning center industry is competitive and as a franchisor, we need to work hard to provide the best business system for our franchisee in any aspect such as giving them training and other related of support.... In addition, we also conduct the monthly meeting with our franchisees either in local or international market for discussing their outlets performance. We need to care and monitor

our franchisees outlet too because they are our investor... [...] for the franchisee outlet in other countries, we also send our international team member every month to make a checking and monitoring...so that, our franchisees feel trust with our system...

In supporting this point, Alpeza, Erceg and Peterka (2015) claimed that franchising offer for systematic education for the potential franchisees and franchisors. Furthermore, franchisor provides a proven business model with established system and structured operation procedure for their investor (franchisee) so that the risk is lower compared with the other type of business (Baresa, Ivanovic, & Bogdan, 2017; Spinelli, Rosenberg, Birley, & Eberhart, 2004). In brief, all participants in this study believed that proven business system of franchise can lead to entering the international market. Implementing the procedure and process for running a standardization franchise operation is not easy but Malaysian homegrown franchising are able to be developed the good business system and their franchise brand has been expanding into other countries. Thus, it shows that the Malaysian homegrown franchise has the capability to compete internationally. Therefore, we posit that:

P3: A proven and well-established business system is a factor that influences the expansion of Malaysian franchisor into international market.

Conclusion

As the present study conducted using a qualitative methodology and not a statistical analysis, generalization may not be claimed (Finfgeld-Connett, 2010). Further, a few limitations to the present study are it just focus on education and learning centre industry would not yield substantial results on the issues of franchising expansion into international market. Secondly, the sample case for this study is small and might undermine the findings. Thirdly, due to the nature of case study, the generalizations cannot be made to the other type of relevant industries of franchising in Malaysian market. Since the present study is focusing on the learning centre industry, similar studies need to be conducted on other franchising category. Furthermore, future research needs to provide empirical data from similar category and applying other methodological approaches. Additionally, the usage of other data collection methods such as questionnaires and interview will help to validate the propositions and more study need to be conducted on the influencing factors of Malaysian franchisor into international market. Malaysian education and learning center franchising systems are good example in which the relationship between franchising and international business expansion can be studied. The present study shows the underlying factors that lead to the expansion of Malaysian franchisor into international market. In summary, this study shows that access to greater capital resources, franchisor's brand and proven business system are the three factors influencing Malaysian franchisor into international market. This study makes some significant contributions to the existing literature and has provided the foundation for future research in the context of franchising study.

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Note

Nurul Ashykin Abd Aziz is a lecturer of entrepreneurship and retailing at Universiti Malaysia Kelantan. This article was written while she was on study leave for her PhD study at Universiti Kebangsaan Malaysia under the supervision of Assoc. Professor Dr Mohd Hizam Hanafiah, Assoc. Professor Dr Rosmah Mat Isa and Dr Hamizah Abd Hamid.

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