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Tarikh:

**IDENTIFYING THE KEY SUCCESSFUL FACTORS IN FRANCHISE BUSINESS
AMONG ENTREPRENEURS:**

A CASE STUDY IN SEREMBAN NEGERI SEMBILAN

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Laporan ini dikemukakan sebagai memenuhi sebahagian daripada syarat
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ABSTRACT

In the past decades, franchising has grown tremendously as an organizational form, especially in retail and food services sectors. This positive impacts can be seen and measure such as the in economy where the franchise industry has given job opportunities, the development of an area as well as the comfort lifestyle. One of the government initiatives was to create an entrepreneurial activities among youngster so that it will be the driven factors of economy under the Small and Medium Enterprise (SME). Since franchise business is the most effective way to enter the market with the understanding business model as well as the relationship between franchisor and franchisee, it seems that franchising is a safer way for the new inspired entrepreneurs to join in. The government has introduced various national plan and action in order to attract the youngsters or graduates that had the potential to enter a business world using franchising concept. Thus, the aim of this research is to identify the key successful factors in the franchise business for entrepreneurs that will help in determine the successful franchise business.

Keywords: Factors, Successful Business Model, Franchise Business

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CHAPTER 1

INTRODUCTION

1.0 Background of Study

The increasing of fast food chain-restaurant has opened an opportunity for those who are interested in joining the business world. Franchising seems the best way or the safer way for people to join in the business because of the advantages that it offers such as the franchisee-franchisor relationship, the guidance through out in the business and financial aid. Franchising is a type of business concepts that provides the rights to sell the products or services, uses its trademark, brand name and operating procedures.

The timeline of franchising concepts starts in the United States, where the first franchise business is Singer Sewing Machine Company in 1851, when the founder had trouble in financial assistance and people would not buy the machine without proper training. The company then develop a written contracts and sold franchisees exclusive distribution rights to sell its sewing machines from local stores (Mendelson,2005;William B.Gartner,2008). By then, most industries such as automobile, oil and gas company followed the franchise concept as a way to expand their market growth and to capture as much as potential customers. The first ever franchised fast food restaurant was A&W, followed by Kentucky Fried Chicken (KFC), McDonalds and Burger King (William B.Gartner, 2008).

Today, the franchise concept are not only limited to foods and products, it is now facing a variety market growth based on competitive advantage of each business and thus it is now looking at the niche market and the aim to satisfies the consumer needs. Franchising is looking at a new brands to offer and consumers who wants more specialized services example skin care, clothing, health and entertainment. According to William (2008), the activities of franchising has been alter based on consumer needs and wants, there for making sure industries keeping up with the changes. In U.S, the most selected types of franchise business are fast foods industries, retail and service industries followed by the automotive industries.

In Malaysia, franchising is an establish business concept and widely accepted as one of the important factors in the economy especially for the development of the Small Medium Sized Enterprise (SME) sectors. Franchise and Vendor was establish under the Ministry Of Entrepreneur and Cooperative Development (MECD) in May 1999, where governments has committed and actively promoting the franchise business as one of the key to attract Bumiputera to enter the business world (Nor Ratna Masrom, n.d;Md.Isa, 2012). The increasing of numbers or outlets of franchising in this country has made franchising as the best way for the aspiring entrepreneurs to join in because of the adaptability into market and the helps from the governments and private sectors. Based on the statistic retrieved from the Franchise Development portal, the franchise sectors has grown over the last 10 years.

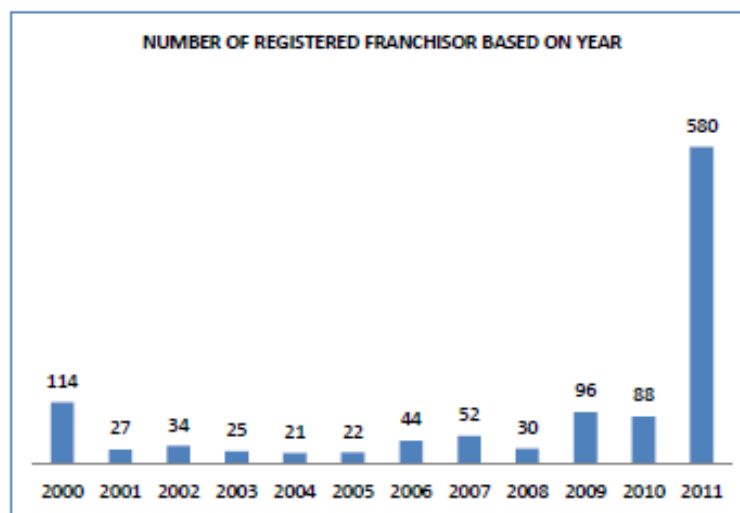


Figure 1.0: Number of Registered Franchisor Based on Year

Source: Retrieved from Franchise Development statistics, July 2012

Government has ruled out several plan actions in order to help new starter entrepreneur to join in the business using franchising concept example under the Malaysian Plan, the government has developed and implemented many strategies such as giving financial funds cutting down the taxes and assistance in order to create 1,000 franchisees and 50 franchisors (Zahariah Mohd Zain, 2009 ; Razak, 2011). This shows that the increasing of franchise business is boost with the support from the government, and it also aiming in increasing the pool of bumiputera entrepreneurs. National Franchise Development Master Plan (2012-2016) was establish under the Ministry of Domestic Trade, Cooperative and Consumerism (MDTCC), which has ruled out the four main core with 36 strategies and support by 140 programme, addition with inisiatif so that Malaysia will be the main hub for franchise in the East of Asia and Middle East by the end of year 2020 (Kementerian Perdagangan Dalam Negeri, Koperasi dan Kepenggunaan, 2012).

Table 1.0: List of Franchisor Based on Sector Year 2012

| Number | Sector | Total | Percentage |
|---------------|-----------------------------------|--------------|-------------------|
| 1 | Food | 212 | 34 |
| 2 | Clothing & Accessories | 73 | 12 |
| 3 | Service & Maintenance | 69 | 11 |
| 4 | Learning Centre & Nursery | 71 | 11 |
| 5 | Health & Beauty Care | 65 | 10 |
| 6 | Convenience Shop & Supermarket | 16 | 3 |
| 7 | ICT & Electronics | 26 | 4 |
| 8 | Other Business | 87 | 14 |
| | TOTAL | 619 | 100 |

(Source: Retrieved from Franchise Development statistics, July 2012)

Based on the table 1, shows that food is the highest percent of franchisor in Malaysia. There are more than 40 franchise business in food industries such as Laksa Shack, Kyros Kebab, Marrybrown, Nelson's, Pappa Rich Kopitiam and more. Learning Centre or Education based franchise has the promising demand in the future. The first well known learning education is Cosmopoint, Cambridge English For Life, Kumon Method of Learning and NURI. Franchise business that exist in Malaysia that owns by the local entrepreneur such as Secret Recipes that has successfully enter the international market by expanding around Asian Market.

1.1 Importance of Franchise Industry

Any business is a fuel of the country's economy because it generates productivity and income for the society that contributes back to the country's growth domestic products (GDP). In order to achieve the level of developed country, Malaysia has to fulfil some criteria such as high income per capital and so on. One of the ways is through business and franchising seems the best mechanism to attract people to enter.

Franchise certainly has given an impact towards the economy, social and welfare of the community where it creates job creation that boost local development, the small and medium enterprise (SME) and better lifestyle for society. According to Alon (2008), the economic impacts that franchise has made is far more than has been stated, it include economic modernization, tax revenue, balance of payments, and most important is the education, dynamic resources and the acquisition skills.

In Malaysia, around 80,000 jobs were created with turnover more than RM 10.7 billion in the year of 2000, where around 3871 franchise outlets were registered (Hamid, 2010; business times 2009). By the end of year 2011, there were about 2580 franchisor registered, but the number as increase since then, when statistic retrived from (Kementerian Pembangunan Dalam Negeri, Koperasi dan Kepenggunaan, 2012), as in July there were about 666 fanchisor, shown at the table 2 below:

Table 2.0: Registered Franchise until July 2012

| Status | Total | % |
|--------------------------|--------------|------------|
| Home Grown Franchisor | 426 | 64 |
| Franchisor from Overseas | 240 | 36 |
| Total | 666 | 100 |

(Source: Retrieved from Franchise Development statistics, July 2012)

1.2 Statement of the Problem

Although franchising is considered as business ideal concept, not all the franchise business becomes success at the end, this is because numerous factors need to be considered especially for the young entrepreneurs and new start up business. Several observations undertaken by researchers have revealed that nearly 40 percent of franchising business activities in Malaysia has been operating unsuccessfully (Isa, 2009). Other than that, most of the new franchise business did not do well in the industry is because of marketing and business performance. Comparing in the fast food chain franchise, KFC and Secret Recipes with A&W, it seems that the reason why A&W failed to sustain the business is because their marketing strategy. Besides that, compare with other countries, Malaysia still behind with all the effort, contagious plan and the activities that has been implemented.

According to Hamid (2010), although the governments has taken serious and measurements towards in increasing the numbers of franchise business, only 318 franchise systems in over 26 millions population in the country, compare to our next country Singapore with 380 franchise systems for only 3.7 million population. The franchise business only contributed about five percent in the total retail sales, compare with the founder of franchise, America which far more contribute around 40 percent. This shows that, there are still numerous work plans that need to be done and achieve so that governments can maximize the size of population towards the increasing of franchise systems.

There were numerous studies that had been conducted in Malaysia but it is only merely focused on the ethnic or Bumiputera and Non-Bumiputera differences. Thus, a comprehensive research that focus beyond internal factors need to be conduct to see the differences in result.

Not all the factors can ensure entrepreneurs exactly have the successful rate. Consideration factors such as business approach, market orientation, resources based orientation, the relationship between franchisee and franchisor, and the characters of the entrepreneurs as well as the area that it chooses play significantly important towards the business concept.

1.3 Franchising Factors

There are many factors that can contribute to the success of the franchise industry, regardless the sector that the franchisee wants to enter. According to Abu Bakar Hamid (2003), the encouraging factors are the franchise business format, product or service unique niche, communication with the franchisor and the system identifiers such as trademark, logo, layout of the operation and so attracting entrepreneurs to join in. Besides that, franchising can be a sources of great opportunity when it has successful business model, competitive advantage and capable in succeeding in other market (Dignam, 2008).

Other than that, product and customer orientation playing roles in measuring the business success franchising business has the similarities in services and product offering based on the sectors such as fast-food franchise (Mohd Amy Azhar Mohd Harif, 2011). But, according to Simon (2007), there are three main things that are essential in the business: establish relationship between franchisee and franchisor, identify the core (non-tangible) values of franchise and set in environment where local variations are properly understood will makes the franchise business blooming.

Based on the previous study, there are many factors that can contribute the success factors to the franchise business. Thus, in this research in order to identify

the key success factors that makes the franchise business success, only four factors will be test. There are:

1.3.1 Market Orientation

1.3.2 Operation Based Orientation

1.3.3 Relationship between franchisee and franchisor

1.3.4 Characteristics of the entrepreneurs

1.4 Research Questions

The research questions for this research are:

1.4.1 What are the successful factors that attract entrepreneur to engage into the franchise business?

1.4.2 Which are these factors contribute the successful franchise business?

1.4.3 How do the factors contribute to the performance of the franchise business?

1.5 Research Objectives

The objectives of this research are:

1.5.1 To identify the factors in the franchise business

1.5.2 To identify the key successful factors that influences the franchise business.

1.5.3 To analyze the contribution of the factors that been test in the successful criteria in franchise business.

1.6 Scope, Limitations and Key Assumptions Research

The limitations of this study are that the factors that will be test are only partial from numerous successful factors that have in the franchising business concept. The area that research chooses is only in Seremban. Using the Critical Success Factor (CSF) approaches, will enable limited resources of time, manpower and money to be allocated appropriately.

1.7 Importance of Research

This field of research hopefully will discover about the successful factors of franchising in Seremban, to see how exactly the franchising concept being implement, and finally to see the impact of franchising business to the society and the development in Seremban.

1.8 Summary

This section describes briefly about the research background about the franchise industries internationally and locally. It also explained the development of franchise industry in Malaysia and the increasing numbers of franchise business based on the data retrieved from MDTCC. Other than that, it also explains about the objectives, the problems that the franchise industry is facing and the scope of this research.

CHAPTER 2

LITERATURE REVIEW

2.0 Overview of Franchise Industry

Franchising is merely a tool of marketing goods and services that has been accepted by many as one of the key in expanding the business locally and internationally by capturing the appropriate target customers. Franchising can be defined in every aspect as researchers had done towards the issues for the past few decades, since the first franchise business concept has been introduced in early 1980. The modern concept of franchising or known as the business format franchising became popular after the World War II and the driving force of the expanding franchise concept until now is because of the baby boomer generations (Daszkowski, 1998). Franchising concept is being accepted by all because of the overwhelming need for all types of products and services that cater to all lifestyles.

According to Khan (2005), he interprets the franchising concept as a continuous relationship in which franchisor provides a licensing privilege to do the business, with an additional assistance in organizing, training, merchandising and management in return for a consideration to the franchisee. While P.Dant (2008) described

franchising as entrepreneurial activity with an exclusive set of benefits to both parties that create economic value. Franchising has also been defined by Clark (1997), as a type of business arrangement in which one party (the franchisor) grants a license to another individual, partnership or company (the franchisee) which gives them the right to trade under the trade mark and business name of the franchisor. Generally, franchising can be described as the business concept where the owner give an exclusive rights to the individual that are interested in the business, in return a royalty payment need to be made and all the aspect in the business must be confined. This form of concept can be found in the fast food chain restaurants such as McDonald's, Pizza hut, Kentucky Fried Chicken (KFC) and among petrol retailers such as Petronas, Shell Gas and Exxon Mobil.

International Franchise Association (IFA) define franchising as a operation that has contractual relationship between the franchisor and franchisee in which the franchisor is obliged to maintain interest in the business, while the franchisee operates under a common trade name , format and procedure that owned by the franchisor. However despite the definition, Mendelsohn (2005) claim that there is a lack of explanation and various interpretations can be made based on ones knowledge and understanding on the definition and the current situation in the franchising business.

One thing that separates franchising from the rest business concept is the licensing or contracting aspect, where it practically has been implemented in the law and regulations. Every franchising business need to have a licensing so that can be operate legally, giving a full autonomy running to the franchisee in the business. Mendelson (2005) and Alon (2010), describe that there are few elements that made franchising, sum up into three vital elements:

- The ownership by one person of trademarks, an idea, a secret process, a patent or a specialized piece of equipment and the good will and know-how associated.
- The grant of licensing by that person to another permitting the exploitation of the trademark, service mark, idea, process, patent or equipment and the goodwill and know-how associated with it.

- The payment by the franchisee of a fee or other consideration for the rights which are obtained and the services.

Lafontaine (1992) define franchise as a contractual arrangement between two independent firms whereby the franchisee pays the franchisor the right to sell the franchisor's product and uses his trademark at a given place and time. This has open up the perspective of franchising that always has been relate with single individual or an entrepreneur, where else franchising aspect can be defined in many ways. Hence, franchising is transactions in which a person grants rights to other to exploit the intellectual property (trade name, brand and patents).

When thinking about franchising, most people will think fast food restaurants like McDonalds because it is the most successful franchise concept around the world, but franchising transactions can be involve between manufactures and wholesalers, manufactures and retailers, wholesalers and retailers, finally retailers with retailers (Mendelsohn,2005). Examples: the Tutti Fruity franchise, where the franchisee need to buy all the ingredients from the suppliers that has been acknowledge by the franchisor, thus creating other franchise systems.

2.1 Overview of Franchise Industry in Malaysia

Malaysian have long practiced a concept which is similar to the franchise business concept known as "*pawah*", where the system is normally exercised by giving the right to utilize agriculture or breeding farms (Abu Bakar A.Hamid, 2003). This system uses the same approaches where the land owner gives the right to farm the agriculture land or breed livestock and as a reward, both parties will enjoy the profit, based on the informal understanding and does not rely upon the written agreement since it based on mutual understanding, support and cooperation.

In Malaysia, franchise has been around more than 60 years, where the first franchise businesses were Singer, Bata and petrol station (Hanafiah, 2004). This statement is being agreed by Abu Bakar (2003), where the development of modern

home-grown franchise concept in Malaysia taking places in the early 1980's where the main sector were food sector (Sate Ria, Marrybrown), automotive sector (EON), national petrol station (Petronas) and crafts/gifts (Royal Selangor). The franchise act was establish in 1998 proving that government is taking seriously upon the idea of encouraging and expanding the interest of people using this business concept.

The development of franchise concept in Malaysia has been encouraging, when it is changing from food dominated business to wider spectrum of products and services such as bookstores, cosmetics, beauty outlets and courier services (Zahariah Mohd Zain, 2009).

Studies that have conducted were mostly about the differences in ethnic that involve in the franchise business and the gap between Bumiputera and Non-Bumiputera, thus the impact on the level of income and wealth distribution (Baputey, 1998; Zahariah Mohd Zain, 2009; Mohd Amy Azhar Mohd Harif.e.t.c, 2011). The Franchise Development Programme (FDP) was establish in 1992, where the main functions was to help the Bumiputera franchisees under the National Development Plan (NDP) (Abu Bakar A.Hamid, 2003). These studies have conclude that Bumiputera is lacking on the franchise business because of internal factors, constraints in resources and hard to maintain in the business.

On the other hand, Abu Bakar A.Hamid (2003) has examined the factors that influencing entrepreneur in franchising, providing some understanding and full examination of current situation of the franchise business in Malaysia. Some of the factors are the advantages of costs and the benefits of standardization, system identifiers or well known brand.

A study on the relationship of entrepreneur and franchising has been conducted by Alon (2010), where he described that franchising a part of entrepreneurial. He described that entrepreneur is a person who is willing to take risk; while franchise is a business that already has a foundation in the market. Although this is totally different meaning, but looking at the aspect of the franchisee that willing to take risk in handling the franchise business. Franchises also combine the advantages of a large corporation with sole proprietorship or partnership.

There are multiple entrepreneurial types (Williams, 1999). It can be range from solo self-employed individuals to corporate entrepreneurs, in which franchisees are positioned somewhere between them. According to Turner (2005), for the aspiring entrepreneurs, if they can not find any suitable opportunity to develop their skills, then they can gain useful experience by helping someone to develop theirs. Franchising is fundamentally involves launching oneself into entrepreneurial career by using someone else's idea, tried and tested.

2.2 Critical Success Factors in Franchise Industry

In any condition or circumstances, result is very important in analyzing and understanding the criteria that has been chosen. Competitive market has made all companies and managers looking forward to the result after implement the idea to see whether the plan is working or not. Technique known as Critical Success Factors (CSF) approach will be use in examine and help in identify the key successful factors in franchising for entrepreneur. According to Irwin (2011), for franchise business to success, the most critical point is to find the perfect spot or selection site that can guarantee the incoming of customers daily. He added that the selection of the site can dependent on the business examples: if the franchisee wants to up a fast food chain franchise business, the area that should be concentrates can be residential dwellings, colleges, universities and business parks.

CSF is a key area where satisfactory performance is required for the organization to achieve its goals. In this study, researcher has identified four key success factors that entrepreneurs may consider as the contributed in the successful franchise business.

According Abu Bakar Hamid (2003), there are varieties factors that determine the success or failure of a projects in terms of objectives set. The identification of those critical factors may enable limited resources of time, manpower and money. Some researchers have been conducted to identify CFSs project using the quantitative measures of various factors (Kong et al., 1999).

2.3 Operational Definition of Key Variables Terms in Franchise Industry

2.3.1 Market Orientation

Market Orientation can be defined as business culture and behaviour that leads to the business success by focusing and understanding the situation of the market. These factors are more on external environment where, it can be customer orientation or understanding of the psychological and social factors. Amy Azhar (2011) has described that market orientation is one of the factors that can lead to consumer behaviour and competitor. Stauble (2000) defines market orientation as the identification of consumers needs and the development and marketing the products to satisfy the consumer's need. Research has been conducted by Slater and Naver (1994), found that marketing oriented companies are better placed to identify and capitalise on new opportunities than non-marketing oriented companies. Market orientation need to be examine by the entrepreneurs by looking the aspect of price, places, promotion, distribution and services that ultimately can satisfy the consumer needs (Gerhard J. van Wyk, 2009).

2.3.2 Operation Based Orientation

Operation based orientation is an approach where it is inside out process. Internal factors such as the workers, management and environment in the workplace can be effect to the business. Identify and analyze the internal strength and weakness can give ultimate competitive advantage to the business. According to Md. Isa (2012), resources based can be contribute as any tangible, or intangibel, physical or human, intellectual or relational that a company had to produce good products or services. He also found out that marketing capability plays a major role business. Andjelkovic (2007) and Grant (2006) has identified that there were four characteristics(durability, transparency, tranferability and replicability) of resources and capabilities, in which give the impact towards the sustainable competitive advantage.

2.3.3 Relationship between Franchisee and Franchisor

A unique business concept in the franchise business, is the indirectly relationship that franchisees will have from the franchisor. This is because, the franchisees will start up a venture based on the trademark; well recognise products and brand from the franchisor. The relationship will emerge because it is franchisor need to make sure that franchisees follow all the rules and business aspect that they have invented. Amy Azhar (2011), stated that communication and cooperate from both parties is essential in making sure sustainable business conditions According to Anna Watson (2010), from this relationship, franchisee will gain communications, leadership, opportunistic behaviour and shared the same values. However, the relationship based on the agreements that both parties agree (Gerhard J. Van Wyk, 2010), that sometimes can create areas of conflict in the relationship such as the ongoing fees that bind franchisees, the inadequate training and support as well as management system (Anna Watson, 2010). John Stanworth (2004), stated the reason why the relationship is important in the franchise business is because new franchisors are struggling in the business and adequately short in resources, while franchisor might not have the human capital that the franchisees had.

2.3.4 The characteristics of the franchisee

The differences between entrepreneur and business person are the characteristics behind personality. Entrepreneurs are always been associated with achieved motivation, locus of control, risk taker, innovativeness and more. These entrepreneurial based factors push franchisors to perform entrepreneurial act. According Amy Azhar (2011), the entrepreneurial aspect is of the factors in distinguishing the successful factors in ethnic, where the Chinese society has more internal driven forces to be successful in the business. Kaufmann and Dant (1998) stated that franchising is an entrepreneurial partnership that suggests more complex entrepreneurial role for both parties (franchisee and franchisor).