

**THE IMPACT OF ENTREPRENEURIAL
ORIENTATION, MARKET ORIENTATION
AND RELATIONSHIP QUALITY ON
PERFORMANCE OF BUSINESS
FORMAT FRANCHISEE FIRMS
IN SABAH**

MARYUM ZAIGHAM

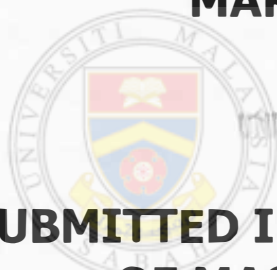


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**FACULTY OF BUSINESS, ECONOMICS AND
ACCOUNTANCY
UNIVERSITI MALAYSIA SABAH
2017**

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PERFORMANCE OF BUSINESS FORMAT
FRANCHISEE FIRMS
IN SABAH**

MARYUM ZAIGHAM



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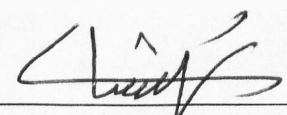
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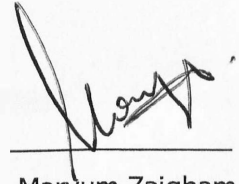

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Maryum Zaigham
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ABSTRACT

The core of this paper aims to investigate the low-impact performance of Malaysia's franchising industry as compared to its competitors through effect of resource-based factors entrepreneurial orientation, market orientation, absorptive capacity and social exchange factor relationship quality on firm performance among business format franchisees in Sabah, Malaysia. Lacking from the Malaysian context, previous literature consistently tested the resource-performance significance from the perspective of franchisors, causing the franchisees' perspectives being neglected. Thus, a total of 92 international and local franchisee firms were tested through questionnaire distribution using electronic and manual measures. The results revealed that quality of a franchisor-franchisee relationship built on trust, mutual commitment and norms affect their performance significantly. Additionally, firms in Sabah ought to be more autonomous in taking decisions on their franchisor's behalf, innovating and initiating competitive actions leads to superior firm performance. The paper's findings can direct current and future franchisees in focusing on being more proactive, innovative, autonomous and creating a healthier relationship with their franchisors to achieve performance.



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ABSTRAK

Kesan Orientasi Keusahawanan, Orientasi Pasaran dan Kualiti Hubungan Kepada Prestasi Syarikat Francaisi di Sabah

Teras pengajian ini bertujuan untuk menyiasat prestasi industri francais Malaysia yang berimpak rendah berbanding dengan pesaingnya melalui kesan faktor berasaskan sumber dalaman syarikat seperti orientasi keusahawanan, orientasi pasaran, keupayaan menyerap dan juga melalui faktor sosial iaitu kualiti hubungan di kalangan francais yang berniaga di Sabah, Malaysia. Kekurangan pengajian dalam konteks Malaysia, sastera adalah konsisten dalam menguji kepentingan sumber dan prestasi hanya daripada perspektif francais, menyebabkan perspektif francais diabaikan. Oleh itu, sebanyak 92 syarikat francais antarabangsa dan tempatan telah diuji melalui pengedaran borang soal selidik menggunakan emel dan manual dalam pengajian ini. Keputusan mededahkan bahawa kualiti hubungan antara francais dan francais dibina di atas dasar kepercayaan, komitmen dan nilai norma yang mengesan prestasi syarikat francais. Sehubungan dengan itu, keputusan pengajian ini mengalakkan syarikat-syarikat francais di Sabah untuk mengambil keputusan atas keupayaan sendiri bagi pihak francais mereka, melakukan lebih banyak aktiviti yang menggalakkan inovasi dan bersaing dengan sepenuhnya untuk mencapai prestasi yang terunggul.



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TABLE OF CONTENTS

	Page
TITLE	i
DECLARATION	ii
CERTIFICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
<i>ABSTRAK</i>	vi
LIST OF CONTENTS	vii
LIST OF TABLES	x
LIST OF FIGURES	xiv
LIST OF ABBREVIATIONS	xvi
LIST OF APPENDICES	xvii
CHAPTER 1: INTRODUCTION	
1.1 Introduction	1
1.2 Background of Study	1
1.3 Research Problem	3
1.4 Research Questions	5
1.5 Research Objectives and Statements	6
1.6 Scope of Study	7
1.7 Significance of the Study	7
1.8 Definition of Terms	9
1.9 Organization of the Thesis	11
CHAPTER 2: LITERATURE REVIEW	
2.1 Introduction	13
2.2 Theoretical Development in Franchising	13
2.2.1 Resource Scarcity Theory	14
2.2.2 Agency Theory	16
2.2.3 Search Cost Theory	17
2.2.4 Social Exchange Theory	19

2.2.5	Resource-Based View	20
2.3	Background of Franchising	22
2.4	Malaysian Franchising Industry	23
2.5	Franchisee Firm Performance	25
2.6	Relationship Quality	29
2.7	Entrepreneurial Orientation	33
2.8	Market Orientation	36
2.9	Absorptive Capacity	37
2.10	Relationship Quality, Entrepreneurial Orientation, Market Orientation and Absorptive Capacity from the Perspective of Franchisee Firms	40
2.11	Conclusion	42

CHAPTER 3: RESEARCH METHODOLOGY

3.1	Introduction	45
3.2	Research Paradigm	45
3.3	Research Framework	48
3.4	Research Hypothesis	48
3.4.1	Relationship Quality and Franchisee Firm Performance	49
3.4.2	Entrepreneurial Orientation and Franchisee Firm Performance	50
3.4.3	Market Orientation and Franchisee Firm Performance	51
3.4.4	Mediation of Absorptive Capacity on the Relationship between Relationship Quality, Entrepreneurial Orientation, Market Orientation with Franchisee Firm Performance	53
3.5	Unit of Analysis	53
3.6	Location of Respondents	55
3.7	Sampling Technique	55
3.8	Research Instrument	56
3.8.1	Franchisee Firm Performance Measurement	56
3.8.2	Relationship Quality Measurement	58
3.8.3	Entrepreneurial Orientation Measurement	62
3.8.4	Market Orientation Measurement	65
3.8.5	Absorptive Capacity Measurement	70
3.9	Questionnaire Design	72
3.10	Statistical Analysis	73
3.11	Conclusion	74

CHAPTER 4: DATA ANALYSIS AND RESULTS

4.1	Introduction	75
4.2	Response Rate	75
4.3	Descriptive Analysis of Respondents' Demographics Profile	77
4.4	Missing Values Imputation	78
4.5	Structural Equation Modelling (SEM)	79

4.5.1	Using PLS-SEM in This Study	81
4.6	Results	83
4.7	Measurement Model Analysis	84
4.7.1	Measurement Model Analysis of Franchisee Firm Performance (FP)	85
4.7.2	Measurement Model Analysis of Relationship Quality (RQ)	88
4.7.3	Measurement Model Analysis of Entrepreneurial Orientation (EO)	92
4.7.4	Measurement Model Analysis of Market Orientation (MO)	96
4.7.5	Measurement Model Analysis of Absorptive Capacity (ACAP)	99
4.8	Structural Model Analysis and Hypothesis Testing	102
4.9	Mediation Analysis	105
4.10	Coefficient of Determination (R^2) of the Target Endogenous Variable	108
4.11	Conclusion	109

CHAPTER 5: DISCUSSION

5.1	Discussion	110
5.2	Implications	116
5.3	Limitations of Study and Recommendations for Future Research	118
5.4	Conclusion	119

REFERENCES

xvii

APPENDIX A

xxxii

APPENDIX B

xliii

LIST OF TABLES

	Page
Table 1.1: Comparison between Malaysia, Singapore And Matured Franchise Markets (USA and Australia)	4
Table 2.1: Relational Exchange in Terms Of Three Confronting Franchising Theories	18
Table 3.1: Division of Districts in Sabah.	55
Table 3.2: Measurement Items for Franchisee Firm Performance	57
Table 3.3: Measurement Items for Relationship Quality.	59
Table 3.4: Measurement Items for Entrepreneurial Orientation	62
Table 3.5: Measurement Items for Market Orientation.	66
Table 3.6: Measurement Items for Absorptive Capacity	70
Table 4.1: Response Rate of Respondents.	76
Table 4.2: Franchise Type	77
Table 4.3: Business Nature	78

Table 4.4:	Missing Value Imputation	79
Table 4.5:	Internal Consistency Reliability and Validity of First-Order Reflective Construct Business Performance and Operational Performance	86
Table 4.6:	Discriminant Validity of First-Order Latent Constructs.	87
Table 4.7:	Inner Model Measurement of First-Order to Second-Order Construct (Franchisee Firm Performance)	88
Table 4.8:	Internal Consistency Reliability and Convergent Validity of Reflective First-Order Constructs Trust, Mutual Commitment and Relationalism	89
Table 4.9:	Correlation Matrix of first-order Latent Constructs	90
Table 4.10:	Inner Model Measurement of First-Order Trust, Mutual Commitment and Relationalism and Second-Order Construct Relationship Quality	91
Table 4.11:	Indicator Reliability and Discriminant Validity for First-Order Outer Model Innovativeness, Risk-Taking, Proactiveness, Competitive Aggressiveness and Autonomy	93

Table 4.12:	Inner Model Measurement of First-Order To Second-Order Construct	95
Table 4.13:	First-Order Outer Measurement Model of Intelligence Generation, Dissemination and Responsiveness	97
Table 4.14:	Discriminant Validity of First-Order Constructs	98
Table 4.15:	Inner Model Measurement of First-Order Intelligence Generation, Intelligence Dissemination and Intelligence Responsiveness to Second-Order Construct Market Orientation	98
Table 4.16:	First-Order Outer Measurement Model of Acquisition, Assimilation, Transformation And Exploitation	100
Table 4.17:	Discriminant Validity of First-Order Constructs Acquisition, Assimilation, Transformation and Exploitation	101
Table 4.18:	Inner Model Measurement of First-Order Intelligence Generation, Intelligence Dissemination and Intelligence Responsiveness to Second-Order Construct Absorptive Capacity	101
Table 4.19:	Significance and Hypothesis Testing of Exogenous and Endogenous Relationships	102

Table 4.20:	Mediation Model Analysis Results.	105
Table 4.21:	Summary of Hypothesis Testing Of Structural Relationships	107
Table 4.22:	Effect Size (f^2) of Exogenous Constructs on Franchisee Firm Performance	108



UMS
UNIVERSITI MALAYSIA SABAH

LIST OF FIGURES

	Page
Figure 2.1: Conceptual Framework on Franchising Research	14
Figure 2.2: Malaysia's Competitiveness Rank Against ASEAN Countries	25
Figure 3.1: Research Framework	48
Figure 3.2: Map of Sabah	54
Figure 4.0: Outer and Inner Model in Structural Equation Modelling (SEM)	80
Figure 4.1: Measurement Model of the Second-Order Reflective-Reflective Variable Franchisee Firm Performance.	85
Figure 4.2: Measurement Model of the Second-Order Reflective-Reflective Variable Relationship Quality	88
Figure 4.3: Measurement Model of the Second-Order Formative-Formative Construct Entrepreneurial Orientation	92
Figure 4.4: Measurement Model of the Second-Order of Reflective-Reflective Construct Market Orientation	96



LIST OF ABBREVIATIONS

ASEAN-	Association of Southeast Asian Nations
DV -	Dependent Variable
EU -	European Union
F&B -	Food and Beverages
GDP -	Gross Domestic Product
HR -	Human Resource
IFA -	International Franchise Association
IV -	Independent Variable
LMX -	Leader-Member Exchange
MED -	Ministry of Entrepreneur Development
MFA -	Malaysian Franchising Association
NAFTA-	North American Free Trade Agreement
NFDMP-	National Franchise Development Master Plan
ROA -	Return on Investment
ROI -	Return on Investment
ROIC -	Return on Invested Capital
ROS -	Return on Sales
SME -	Small Medium Enterprise
SWOT -	Strength, Weakness, Opportunities, Threats
WTO -	World Trade Organization

LIST OF APPENDICES

	Page
Appendix A Questionnaire	xxxii
Appendix B Full Structural Model	xliii



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CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter discusses the background of the study, research problem, research questions, and research objective statements, scope of the study, significance of the study, definition of terms and organization of the remaining thesis.

1.2 Background of the Study

The main objective this study has been carried out is to investigate the business format franchisee firms in Sabah and the factors that might be having an impact over their business and operational performance. For the past four decades, franchising has blossomed immensely into a major business form (Castrogiovanni and Justis , 1998). According to the International Franchise Association (IFA) , an estimation of 800 companies are currently operating internationally as a franchise and every year, an addition of 100 companies begin their international expansions. This indicates a vast development and growth of the global franchising industry. According to Watson et al., (2005; 25) defined franchising as an arrangement in which the owner (franchisor) of a product, process or services licenses someone (franchisee) to be able to use it in exchange for some payment. Although the phenomena of franchising have been around for over 100 years, but franchising in the business format is a relatively new (Baputey, 1998; 2).

Business format franchising according to Watson et al., (2005) is unlike other forms of franchising because of the necessity of the franchisor to provide its franchisee with every needed source to run the business such the business know-how's as well as continuous support. Discussing business format franchising as compared to other forms of franchising is important because the focal point of this study are the

business format franchisees, an area in the franchising literature which is still under-researched (Ekelund, 2014).

Although franchising from the Malaysian context goes way back to 1940's with the introduction of the pioneer franchise business in the country by the sewing machine company Singer , it is still considered at being at an infant stage, development vice (Amy et al., 2011 ; Hoe et al., 2010). In terms of empirical results, the Malaysian franchising sector has been paid limited research attention.

Although as mentioned earlier, the franchising phenomena had stepped into Malaysia as early as in 1940's, it was not until 1992 when this sector was fully paid attention by the government. Hence, there were no comprehensive studies carried out that could contribute to the franchising sector of Malaysia in terms of such as total annual sales, contribution of both local and foreign franchises and other vital economic factors (Amy et al.,2011; 52). Restricted number of studies have been carried focusing on the franchising sector of Malaysia (Amy et al., 2011; Baputey, 1998; Zain, 2009; Hoe et al., 2010), particularly there has been no evidence of empirical research on monitoring the performance of the Malaysian franchise sector (Amy et al.,2011).

Only a handful in the past, one of them being by Amy et al., in 2011 whom evaluated the contributing factors to franchisee failure in Malaysia and concluded in arguing that factors such as too rapid expansion, franchisee attitudes and greed, poor level of service, poor management of the franchise system, conflicting relationship with franchisors, legal and locational issues as well external factors have led to franchisees to fail in the Malaysian context (Muhammad Amy Azhar et al., 2011).

Ishak and Jantan (2011) tested the role of relationship quality on performance of Malaysian franchisees, concluding in positive significant relationships between relationship quality and financial and non-financial performance of franchisees. Similarly, Ishak and Bohari (2014) tested the relationship between relationship quality, relationship value and loyalty among Malaysian franchisees and found

positive results. Whereas, Chong (2011) focused on testing effects of relationship quality, franchisee competencies and dynamic business environment on franchisee business performance in the retailing sector in particular. All the mentioned studies above have undoubtedly contributed to the limited amount of literature in the Malaysian context. However, there are some extents of limitations that those studies were entitled to, that this study wishes to fulfil.

Those studies mainly focused on Malaysian franchisees or franchisors only, or were regarded to locational confinements such as West Malaysia only etc. Nonetheless, this study at the same time being an extension to those studies, strives to widen the Malaysian franchising research context by specifically testing not just local franchisees, but also regarding international franchisees, in Sabah.

Resource-Based View (RBV) serves as the solid ground of this study. Two assumptions under the RBV are relevant. First, heterogeneity of strategic resources within an industry and secondly, imperfect mobility of those resources in an industry which results in a longer duration of the heterogeneity which leads to competitive advantage (Barney, 1991). Hult et al., (2005) insists that the combination of RBV and these firm resources ultimately affect performance. Accordingly, this study stands on the operationalization of firm resources by Daft (1983) who defined firm resources as firm's assets, capabilities or processes, attributes, information or knowledge under the control of a firm which enables it to strategize actions leading to efficiency and effectiveness.

Enriched with the Resource-Based View, this study perceives Entrepreneurial Orientation, Market Orientation, Absorptive Capacity, Relationship Quality to be heterogenic firm resource which enables franchisee firms to have a good performance. Note that Relationship Quality borrowed from the Social Exchange Theory is also included in this study of relationship between firm resources and performance. This study implies that relational resources are equally vital in the interpretation of a firm's performance, particularly in dyadic relationships such as franchising.

1.3 Research Problem

Development and growth of Malaysia's franchising sector is far behind as compared to its competitors and the lack of empirical studies carried out in the context promotes that. Currently, the franchising sector only contributes as little as 5% to the domestic retail sales (Muhammad Amy Azhar et al., 2011). Majorly, franchisors and franchisees are said to play an important role in the slow growth of the sector. Malaysia was first exposed to franchising in 1940's. However it was not until 1992 when the government started paying devoted attention to the development of this important sector for the country's economy. The Ministry of Domestic Trade, Co-operatives and Consumerism (KPDNKK), Malaysian Franchise Association (MFA), Perbadanan Nasional Berhad (PNS) were established to further lend a helping hand to the government in their efforts to develop the country's franchising sector, not just locally but also on the international arena as well. However, according to following Table 1.1 as released by the National Franchise Development Blue Print (2012-2016) established by KPDNKK, it asserted that Malaysia's slow franchising sector's growth is behind of Singapore, USA and Australia in terms of Franchise Sales, Franchise Sales Per Capita, % Franchise Sales to GDP and total number of franchisors and franchisees.

Table 1.1: Comparison between Malaysia and Singapore and Matured Franchise Markets (USA and Australia)

Emerging Markets	MALAYSIA	SINGAPORE	USA	AUSTRALIA
Franchise Sales (USD Billion)	3.4	4	845	77
3,446	120	782	2,734	
9.2%	2.2%	1.6%	5.9%	
Total Franchisors	492	800+	1500	1,200
Total Franchisees	4,800	30,000	350,000 (2007)	90,000 (2009)

Source: National Franchise Development Master Plan (2012-2016)

Firstly, the low number of Malaysia's franchise sales as compared to the other three countries is relatively evident at only USD 3.4 Billion. Secondly, Malaysia's franchise sales per capita are 28 times lower than the highest Australia, at only USD 120

Billion. However, it is different for the percentage of franchise sales to GDP. Malaysia's percentage of franchise sales to GDP is higher (2.2%) as compared to its arch rival, Singapore. The reason behind the higher percentage is because Singapore's GDP is much higher than Malaysia and other sectors contribute more to their GDP than their franchising sector (KPDNKK, 2015). Moreover, the number of franchisors and franchisees in specific are twice and six times lower than Singapore at only 492 and 4,800 respectively. These figures are evidently reflecting the relatively slower growth of our country's franchising sector. Besides the numerical issues, there are subjective issues faced by the industry which are causing slow growth. According to Muhammad Amy Azhar et al., (2011), non-financial factors contributing to franchisee failure in Malaysia include rapid expansion, franchisee attitude, poor management of the business, conflicting ties with franchisors. Similarly, the Master Plan also identified weaknesses wandering in the industry, which include absence of dispute tackling mechanisms, lack of understanding of the basic concept of franchising among franchisees and franchisors, pitfalls in the Franchise Act and so on.

Hence, in addition to a number of studies carried out in the Malaysian franchising context and their resulting prospects (Muhammad Amy Azhar et al, 2011 ; Othman et al., ; Zain , 2009 ; Hoe, 2010) this study aims to investigate factors in line with the Resource-Based View including relationship quality, entrepreneurial orientation, market orientation, absorptive capacity and their effect on franchisees' firm Performance in Sabah.

1.4 Research Questions

Based on the statement of the problem discussed in the previous section, this study proposes the following research questions:

1. Does a franchisee firm's relationship quality with their franchisors significantly affect their firm performance?