

Do Managerial Competencies affect Franchisee' Operational Performance?

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ABSTRACT

Franchising has been proven to be a successful business model, which many entrepreneurs capitalize as a strategy to expand quickly. Most studies on franchise success factors typically focus on franchisors rather than on franchisees and very few were conducted in the Malaysian setting. As most issues on franchise performance were attributed to franchisees' managerial competencies, more studies are needed to explore these concerns. This conceptual paper aims to delve into the factor of managerial competencies and its influence on the operational performance from the franchisee's perspective. This paper also conceptualizes that it is crucial to improve franchisees' competencies as it will enhanced franchisees' operational performance and eventually contribute to boost franchisor's profitability.

Keywords: Franchisee Operational Performance, Managerial Competencies.

1. INTRODUCTION

In the last few decades, franchising has been considered as an important strategy for business firms that would like to quickly expand their business (Rajagopal, 2007). Franchising has become one of the most popular means for entrepreneurs to start a business (Ramírez-Hurtado, Guerrero-Casas & Rondan-Cataluna, 2011). Franchising as an organizational form have been utilized in numerous enterprises of various fields and activities (Felício, Duarte, Caldeirinha & Rodrigues, 2014b; Michael & Combs, 2008), particularly in retail and service chains (Gillis, Combs & Ketchen, 2014; Gorovaia & Windsperger, 2013). Due to the nature of the product or service, it is hard to isolate production from consumption especially in retail and service chains. Therefore, franchising has become the main focus of the Malaysian government, especially in the development of short-term or long-term policies towards fostering and developing entrepreneurship (Nor Danial, 2016). In an effort to increase the entrepreneurial sector in Malaysia and encourage the local businesses to venture into the industry, Perbadanan Nasional Berhad (PNS) as a franchising key agency has projected to help finance the local businesses with an amount between RM55 million to RM60 million (Roslan, 2015). This allocation is in line with the government's efforts to develop the national franchise industry so that this sector could contribute to the country's economic growth.

Although the franchise business is often considered as one of the world economic catalysts, the system also facing various issues and challenges like any other business systems. Recently, franchise systems around the world are experiencing a decline in performance with the increasing rates of closing and non-renewal contracts by franchisees (Adeiza, Malek, & Ismail, 2017a). In Malaysia, almost 40 percent of franchise business activities failed due to various reasons (Md Isa *et al.*, 2012). According to Sulaiman (2009), although the government has provided various programs, incentives, and supports to encourage the increase the number of franchisors and franchisees in the industry, the success rate is still small (Ishak, 2014). It is

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obvious that the rapid growth in the number of franchise firms and their higher rate of success was given higher priority by the government. However, apart from strong support from the government, obviously the long-term sustainability and competitiveness among the existing and new firms in this industry rest with the business players, specifically the franchisors and the franchisees (Md Isa *et al.*, 2012). Therefore, the study of factors affecting the franchise performance in Malaysia needs to be explored and expanded as an effort to assist franchise firms, and operators as well as the government in realizing the 3rd phase of the National Franchise Development Master Plan (PIPFN).

2. LITERATURE REVIEW

2.1 Franchisee Operational Performance

Performance has become a key variable for many parties and has often been attracted to numerous management researchers and scholars, including the domain of strategic management over the last three decades. Haenlein and Kaplan (2011) explain that the level of productivity and efficiency can be increased to a maximum level in order to achieve higher competitiveness. In other words, performance is the result of overall business entity activities and operations (Laitinen, 2000; Porter, 1996; Miller, 1988). Performance strengths benefit the firm and society through the exploration and better appropriation of resources, provision of job opportunities and wealth creation (Madrid-Guijarro *et al.*, 2007). Whereas, from the marketing perspective, Kotler (1984) finds that performance measurement is aimed at achieving strategic organizational goals by fulfilling the needs of customers in more efficient and effective ways than their competitors.

Performance has also attracted many researchers in the field of franchise (Akremi, Perrigot & Piot-Lepetit, 2015). However, studies conducted in the field of franchise mostly focused on the franchisor instead of the franchisee (Asgharian, 2015; Grunhagen & Mittelstaedt, 2005). However, it should be noted that the lower franchise performance may be equally caused by both the franchisor and the franchisee (Minguela-Rata *et al.*, 2012). Franchisees are one of the keys to success of a successful franchise system (Peris-Orrtiz, Willoughby & Rueda-Armengot, 2012) because they conduct daily business operations and understand the needs of their consumers (Brookes & Altinay, 2011). From the above review of the literature and discussions, this study is motivated to further explore factors affecting the operation performances of franchisees operating in the Malaysian context.

Most researchers agree that factors such as cost, quality, delivery, and flexibility are important elements in assessing operational performance (Dangayach & Deshmukh, 2001). Bowersox, Closs, Stank, and Keller (2000) have developed operational performance measures that include customer service, cost management, quality, productivity, and asset management. Operational performance is also measured by financial factors as developed by Claycomb, Droge and Germain (1999a). Green and Inman (2005) also include the marketing factors to measure the operational performance. Measurements by Bowersox *et al.* (2002), Claycomb, Droge and Germain (1999a), and Green and Inman (2005) have been combined and applied by Inman, Sale, Green, and Whitten (2011) in looking the relationship between Just in Time (JIT) and the operations performance of agile manufacturing. The franchise sector also emphasizes the JIT concept in the operation in the attempt to enhance the operational performance. Therefore, the JIT concept of measurement is considered appropriate to be applied in this study as it is also recommended as a suitable tool for measuring the efficiency of the franchising firms (Inman *et al.*, 2011).

2.2 Managerial Competencies

Every organization needs an efficient manager to succeed in today's highly competitive and dynamic business environment (Velu & Manxhari, 2017). This is because every successful and effective manager has competencies that enable them to perform the tasks efficiently and effectively at different levels of management (Khadka, Gurung, & Chaulagain, 2013). The main purpose of the research on managerial competencies is to identify the characteristics of a good and effective manager (Mintzberg, 1973) that helps the organization to perform better and successful. Based on the work by McClelland (1973), Boyatzis (1982) develops the classification of managerial competencies and defines managerial competencies as the basic characteristics of a person that leads to the effectiveness or superior performance achievement in their work. Boyatzis (1982) states that competence generally refers to the possession and use of certain knowledge structures and behaviors, talents or the skills required to perform certain tasks.

Generally, there are various dimensions of managerial competencies. For example, Katz (1974) focus on skills as the author proposes the importance of technical, human and conceptual skills to achieve management effectiveness. Whereas, Cardona and Garcia (2005) propose three dimensions of managerial competencies, including:

- (i) External competencies that reflect strategic talents (i.e., the ability to develop and implement strategies that lead to the achievement of good financial results),
- (ii) Interpersonal efficiency reflects on the talent of the implementer (i.e., the ability to develop efficient relationships with partners), and
- (iii) Personal competence, which represents personal talents (i.e., the ability to build trust and a sense of mission among collaborators through good behavior and prudence).

2.3 Franchisee Operational Performance and Managerial Competencies

The strength of a management team depends on its manager's competencies (Carmeli & Tishler, 2004). Weak management capabilities and competencies have often been considered as the main cause of small and medium enterprises (SMEs) failure (Pizanti & Lerner, 2003b). Consequently, many other studies on the performances of smaller firms and businesses are very much dependent upon the managerial competencies of their owners (Chandler & Hanks, 1994, Grant, 1991). According to Man, Lau, and Chan (2002), entrepreneurial management skills is one of the important factors in small business performance and sustainability. Chandler and Jansen (1992) also stated that the management capabilities and competencies are important factors in small business performance. The role of managerial competencies in determining the success or failure of a business firm has gained considerable attention in small and medium-sized enterprises (SMEs) studies and literature (e.g. Merrilees and Frazer, 2013). Previous studies revealed that managerial competencies have significantly influenced the performance of small and medium enterprises (SMEs).

According to Combs, Ketchen and Hoover (2004a), management expertise is one of the key competencies that franchisors and franchisees as well as their managers should be equipped with. It is also a key criterion required by the franchisor in evaluating and selecting appropriate franchisees (Combs, Ketchen and Shook, 2011a, Jambulingam and Nevin, 1999). In addition, management expertise is one of the crucial resources for managing the franchise system (Oxenfeldt, 1968). Since the franchisees in the franchise chain must develop programs, implement strategies, and evaluate performance; they need to have management competencies as the need to play an important role as effective managers for their outlets (Chandler and Hanks, 1994). Peris-Ortiz *et al.* (2012) studied the performance of franchisees and found that franchisee management competencies significantly influenced the firm's growth and profitability. Thus, having managerial competencies helps franchisees to lead the company effectively and efficiently in order to achieve better performance and success (Asgharian

Bourkheili, 2015). However, there is still a lack of empirical studies on the relationship between managerial competencies and performances of franchisees. Therefore, a study on the relationship between these two variables specifically in the Malaysian context is imperative.

3. HYPOTHESES

H1: Managerial Competencies significantly associated with Franchisees Operational Performance

4. CONCEPTUAL FRAMEWORK

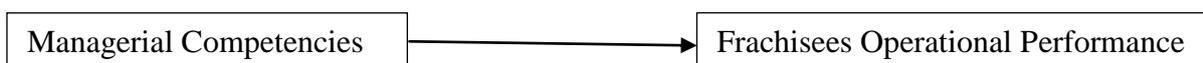


Figure 1. Conceptual Framework.

5. IMPLICATION, FUTURE RESEARCH AND CONCLUSION

This study aimed in the future to empirically investigate the relationship between managerial competencies and operational performance of franchisees and to understand the significance of the said relationship. This study is expected to offer an important impact on the performance of franchisee as well as able to further enrich the empirical studies in the area of entrepreneurship in the franchise sector. Generally, this study could explain the current situation regarding the managerial competencies in the operation of the business and entrepreneurial activities among the franchisees.

The consequences of this study can also be used by franchisors to investigate, examine, observe and evaluate the problems and challenges on the part of their franchisees while they strive to ensure their survivals in this business. Moreover, information from this study may serve as an additional guideline for the policy makers in designing and providing better support to the aspiring entrepreneurs in the franchise sector. The parties concerned can also take a proactive approach to improve management skills among existing and potential franchisees by providing appropriate exposure and training. In conclusion, this paper conceptualizes the relationship between managerial competencies and operational performance in the franchise sector.

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