

The New Framework of Financial Planning: A New Franchise System versus New Venture Business

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Franchising is the fastest growing method of doing business. In Malaysia in particular, franchising has been aggressively promoted by the government since the early 1990s. However, there is little academic research to guide or regulate industry practices. Thus this research investigates the process of financial planning in developing a new franchise system. This research used action research methodology to develop a new practical framework of financial planning in developing a new franchise system based on financial planning process of a new venture business. This framework is within the procedure in the Malaysian government department that handles business and franchise regulation. Six main action research cycles (with two mini-action cycles for each main cycle) were conducted on three new franchise systems seeking to register with the Registrar of Franchise Malaysia (ROF) and with three new venture businesses. To triangulate the findings of the action research, the researcher also presented the finding at a National Small and Medium Industry (SMI) Workshop. These activities showed that the financial planning for the new franchise system should comprise 14 elements with 10 specific linkages and 11 elements for the new venture business. These practical frameworks for financial planning in a new franchise system and a new venture business were adopted by the Ministry of Entrepreneur Development Malaysia as a guideline in the process of developing both type of the business.

Field of Research: Financial Planning, Franchise, New Venture Business, Malaysia

1. Introduction

Franchising in Malaysia is broadly defined under the Malaysian Franchise Act 1998. The Act has adopted the classic definition of franchise to mean a contract or an agreement, either expressed or implied, whether oral or written in which:

- the franchisee is given the right to operate a business according to the franchise system during the stipulated term;
- the franchisee is also given the right to use a mark, or a trade secret, or any confidential information or intellectual property, owned by the franchisor or relating to the franchisor;
- the franchisor has the right to administer continuous control over the franchisee's business;
- the franchisor has a duty to provide assistance to the franchisee to operate his /her business;
- the franchisee 'may' be required to pay a fee 'or other form of consideration'; and

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Harif & Hoe

- the franchisee operates the business separately from the franchisor.

Franchising is the fastest growing method of doing business (Miranda 1995) and has become the most important and popular method of creating new businesses (Justis 1995). Franchises contribute about 10 percent of the world's Gross Domestic Product (GDP) and 14 percent of the world's total retail sales (Mendelsohn 1995; Mendelsohn 1999). Indeed, franchising contributed 49 percent of the United States' total retail sales, and 30 percent of the United Kingdom's and Europe's (Baucus & Baucus 1997; Mendelsohn 1999; Sherman 1995; Swartz 1995).

Many countries have laws that regulate the franchising industries. For example, the United States has pre-contract disclosure documents (Mendelsohn 1999); France, Spain, Brazil and Mexico have pre-contract disclosure laws. The United Kingdom implemented a Trading Scheme Act in 1996 and Russia has enacted a set of regulation affecting franchising. Italy has recently proposed a bill to regulate franchising (Mendelsohn 1999). Australia has now introduced a Franchising Code of Conduct. In Malaysia, the government has promoted the Malaysian franchise business sector aggressively since 1992 (Adzmi 1999; Hoe 2001a; Hoe 2001b; Hoe and Watts 1999). The promotion and focus on franchising was given personal attention by the then Right Honourable Prime Minister of Malaysia, Tun Dr. Mahathir Mohamad who created the Franchise and Vendor Development Unit under the auspices of the Prime Minister's Department. This unit was later absorbed into the Ministry of Entrepreneurial and Co-operative Development (MECD). This ministry and the Malaysian Franchise Association (MFA) which was formed in 1994 worked together towards promoting and developing the franchise sector with the hope of increasing its contribution towards the economic development of Malaysia (Amy Azhar 2002; Hoe 2006). The Malaysian Franchise Act 1998 was introduced to protect the franchise industry, and it requires every new franchise system to be registered.

In general, franchising is an under-researched area and the sector suffers from a lack of reliable information (Dyl 1991; Frazer 1998; Katz & Owen 1992; Welsh 1996). This problem is especially evident in Malaysia because of the less attention and parity given in developing the system (Mohd Ali 1995; Hoe and Nasruddin 2003). The Malaysian Government under the Franchise and Vendor Development Division, Ministry of Entrepreneur and Cooperative Development (MECD), has given research grants to conduct research in the franchising area to support the industry. Some higher education institutions and consultants have conducted preliminary studies (Mohd Harif et al. 2011; Filzah et al. 2010; Franchise and Vendor Development Division 1999). However, there has been no empirical research on the process of financial planning with regard to the franchising industry.

A financial plan is a core part of setting up any venture business including franchising. It helps a business owner such as prospective franchisor make decisions about the business rating a new franchise system/a new venture business. This research about the financial planning process will reduce the risk of failure by improving the franchise planning process. The aim of this research is to develop an effective conceptual framework for financial planning for a new franchise system. Specifically, this paper will identify *the important elements in financial planning that pertains to a new franchise system as compared to a new venture business?*

Harif & Hoe

This paper has three sections. Firstly, a preliminary framework based on the literature is outlined, followed by the methodology. This paper then provides a framework of the financial planning process.

2. A Preliminary Framework

A preliminary framework to guide this research was developed from the literature about the process of financial planning in developing a new franchise system and a new venture business in developed nations and in Malaysia in particular. Entrepreneurs who want to develop and operate a franchise system in Malaysia must obtain approval from the Registrar of Franchise (Malaysia Franchise Act 1998), as noted above. The new franchisor needs to prepare a financial planning along with other documents (Franchise and Vendor Development Division 1999), for submission with an application form for review by the Registrar of Franchise (Bustaman 1995; Miranda 1995).

2.1 Financial Planning in a New Venture Business

As a foundation to address how a new franchising system is financially planned, we must consider the process of financial planning for any new business as all new franchise system is developed based on venture business process. Entrepreneurs operate in a competitive environment that is characterized by the constraining forces of government regulation, competition, and resources (McMahon 1999). Thus the entrepreneur may allocate financial resources efficiently, in order to compete effectively (Kuratko & Hodgetts 1997). In other words, the process of financial planning is the most important element in the process of business planning. In addition, financial information pulls together all the information presented in the other segments of the business: marketing, distribution, manufacturing, and management (McMahon 1999). This element quantifies all the assumptions and/or historical information concerning business operations (Kuratko & Hodgetts 1997; Lee, Finnerty & Norton 1997). Thus, this section will focus on financial planning needed in a new venture business.

A significant number of literatures were examined to obtain a comprehensive list of financial planning elements in developing a new venture business. In addition, the links between the elements were identified although the literature does not dwell on these links. From the works of Kuratko and Hodgetts (1997), Missad (1995), Timmons (1999), Reiboldt (1999), Cadenhead (1995), McFerrin (1997) and Supplement (1996 & 1998), *nine* main elements of financial planning in a new venture business were identified, viz., existing financial statements (existing business for expansion); operating budget (monthly basis); capital budget (monthly basis); cash flow budget (monthly basis) and cash flow projections statement (yearly basis); pro-forma annual income statement; pro-forma annual balance sheet; break even analysis; financial ratio analysis; and financing and offering (capital). Table 1 and figure 1 illustrate these nine elements and the flow of financial planning in the process of financial planning in a new venture business. Figure 1 also emphasises the linkages between the elements.

In conclusion, from the literature, there are nine main elements of the financial planning process to be included in the planning of a new venture business. This comprehensive list of elements for a new venture business financial planning will be

Harif & Hoe

used as comparison and starting point for the in-depth discussion of the financial planning in a new franchise system.

Table 1: The main elements of financial planning in a new venture business

No	Main elements in financial planning	A	B	C	D	E	F	G	H	Total	This research
1	Existing financial statements (existing business for expansion)	-	✓	-	✓	✓	-	-	✓	4	✓
2	Operating budget (monthly basis)	✓	✓	✓	-	✓	✓	-	-	5	✓
3	Capital budget (monthly basis)	✓	✓	✓	-	✓	✓	-	-	5	✓
4	Cash flow budget (monthly basis) and cash flow projections statement (yearly basis)	✓	✓	✓	✓	-	✓	✓	-	6	✓
5	Pro-forma annual income statement	✓	✓	✓	✓	✓	✓	✓	✓	8	✓
6	Pro-forma annual balance sheet	✓	✓	✓	✓	✓	✓	✓	✓	8	✓
7	Break-even analysis	✓	✓	✓	✓	-	-	-	-	4	✓
8	Financial ratio analysis	✓	-	-	✓	✓	-	-	-	3	✓
9	Financing and offering (capital)	✓	✓	✓	✓	-	-	✓	-	5	✓
	Total	8	8	7	6	6	5	4	3		9

Legend:

A = Kuratko & Hodgetts (1997)*

B = Missad (1995)**

C = Supplement of *San Antonio Business Journal* (1996)**

D = Timmons (1999)**

E = Reiboldt (1999)**

F = Supplement of *Business Journal Serving San Jose & Silicon Valley* (1998)**

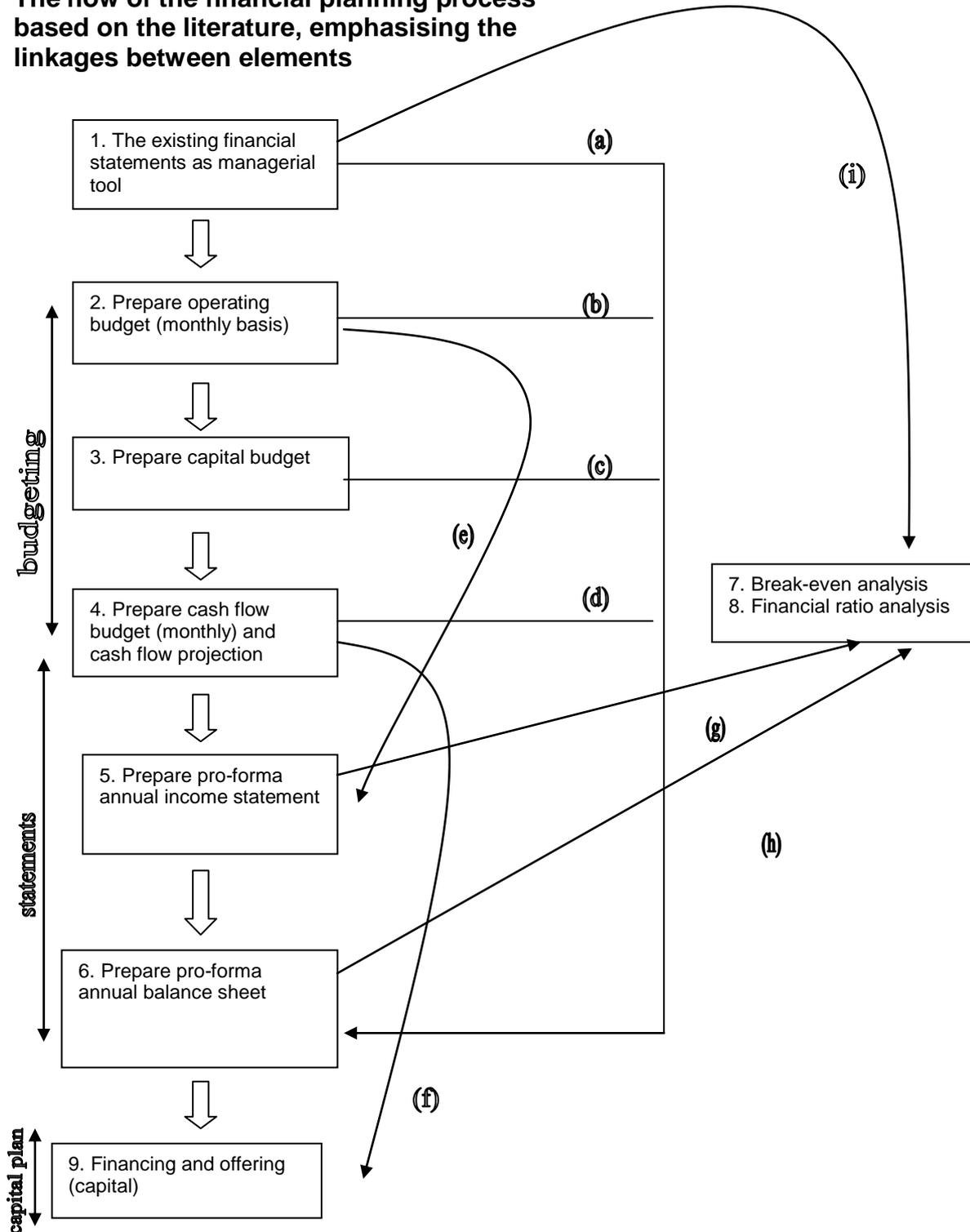
G = Cadenhead (1995)*

H = McFerrin (1997)**

Note: * = academic

** = practitioners

Figure 1:
The flow of the financial planning process
based on the literature, emphasising the
linkages between elements



Note : a-i = direct linkages

2.2 Financial Planning in Developing a New Franchise System

Except for Mohd Harif and Hoe (2011), Mohd Amy (2002), Justis and Judd (1998) Mat Hassan (1998) and Abdul (1995), there is a gap in the literature about how the elements should be developed in the financial planning of a new franchise system by the potential franchisor. This research had to establish these new franchise system financial planning elements, based on the financial planning of a new venture business elements developed in table 1 and figure 1. Linkages between the elements have to be identified because it had not been done in previous literature.

The process of financial planning in a new venture business involves the nine elements already covered in the previous about financial planning in the new *venture* business (table 1 and figure 1). However, in developing a new *franchise* system, there are some additional elements involved in the process of business conversion: franchise development costs, franchise start-up or turnkey costs for the franchisor to begin the prototype outlet of the franchise system, start-up for the franchisees, and franchise fees (initial fee, continuing fees, and advertising levy). These elements are covered in detail in a financial planning process of developing a new franchise system compared to the financial planning of a new venture business.

We developed preliminary, very comprehensive list of financial planning elements of a new franchise system from various Western and Malaysian sources, as shown in Table 2. Figure 2 emphasises the linkages that had to be made explicit in this research. *Twelve* elements of financial planning should be included in the process of developing the new franchise system and they will be used for this research.

3. Methodology

To achieve the objective, this paper used the action research methodology to investigate if those 12 elements were in fact necessary, feasible or desirable in the real world of Malaysia. This research seeks to explore a little-researched area, as noted, that is, the research is necessarily theory building rather than theory-testing. Thus it was appropriate to use a qualitative methodology to obtain a 'window' on to the complex processes (Carson et al. 2001) of financial planning in developing a new franchise system in Malaysia.

Harif & Hoe

Table 2: *The elements of new franchise system financial planning, compared to new venture business financial planning*

No	Elements of financial planning in developing franchise system	A	B	C	D	Total	This research
1	Existing financial statements (existing business for expansion, e.g. franchise)	✓	-	✓	✓	3	✓
2	Identify franchise development costs	-	✓	-	✓	2	✓
3	Franchise start-up or turnkey cost for the franchisor and franchisee to begin the franchise system	-	✓	✓	-	2	✓
4	Franchise fees (initial fee, continuing fee, and advertising levy)	-	✓	✓	✓	3	✓
5	Operating budget (monthly)	✓	-	-	✓	2	✓
6	Capital budget (monthly)	✓	-	✓	-	2	✓
7	Cash flow budget (monthly basis) and cash flow projections statement (yearly basis)	✓	✓	✓	✓	4	✓
8	Pro-forma annual income statement	✓	✓	✓	✓	4	✓
9	Pro-forma annual balance sheet	✓	✓	✓	✓	4	✓
10	Break-even analysis	✓	✓	-	✓	3	✓
11	Financial ratio analysis	✓	✓	-	✓	3	✓
12	Financing	✓	✓	✓	✓	4	✓
	Total	9	9	8	10		12

Legend:

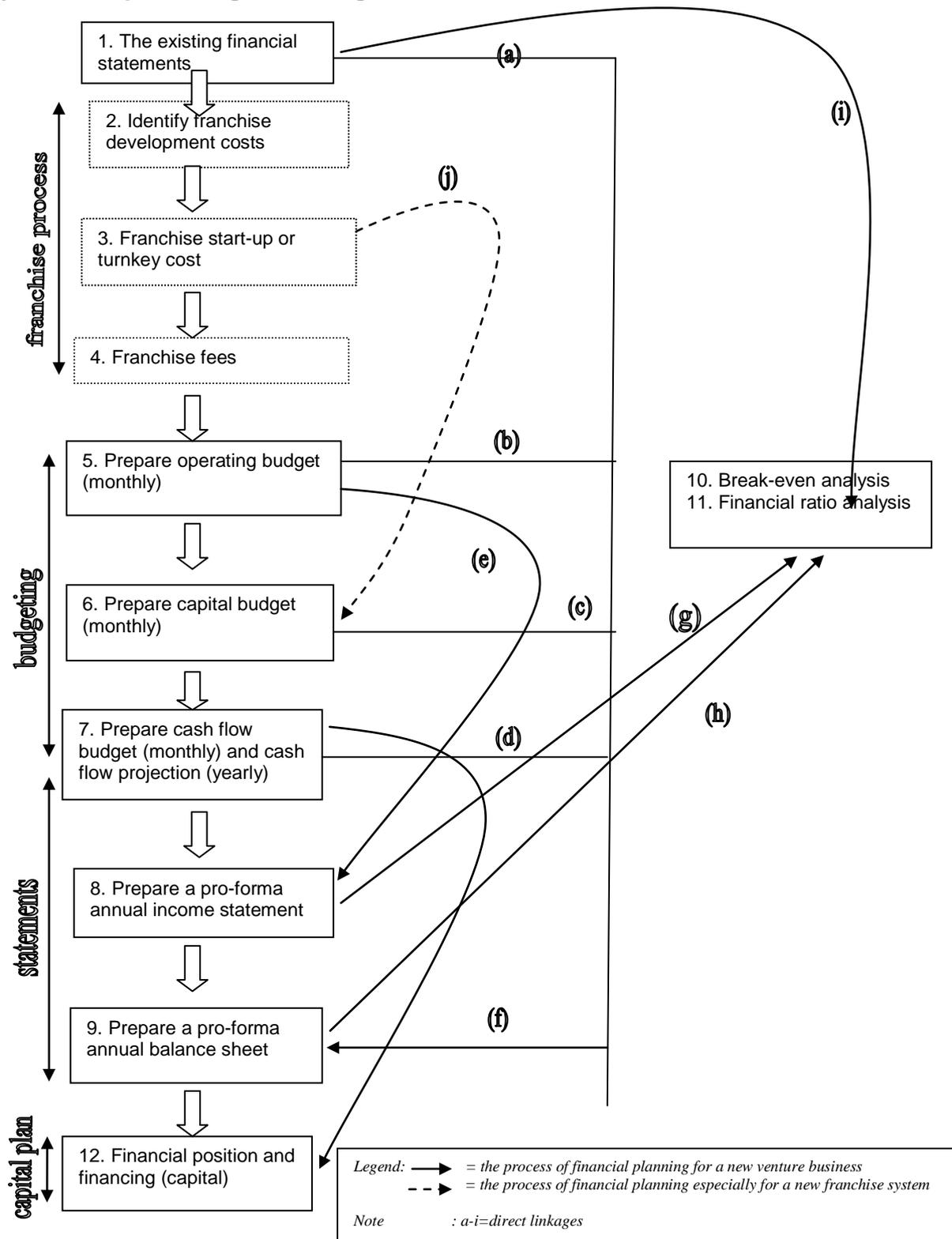
A = Elements of financial planning in new venture business (from table 1)

B = Justis & Judd (1998)

C = Abdul (1995)

D = Mat Hassan (1998)

Figure 2: The flow of financial planning process in developing a new franchise system, emphasising the linkages between elements



Harif & Hoe

Several researchers have defined action research, as mentioned above. A synthesis of these definitions by Altrichter (1990), Altrichter et al. (2000), Bawden & Zuber-Skerritt (2000), Cherry (1999), Dick (1992; 2000), Kemmis & McTaggart (1988), Kolb (1984), Lewin (1946), O'Leary (2000), Passfield (2000), Perry & Zuber-Skerritt (1992), Rapoport (1970), Revans (1991), and Zuber-Skerritt & Perry (2000), produces my definition of action research for this research that has three core ideas:

- a collaborative group of people work using a cyclical process methodology that incorporates the process of planning, acting, observing, and reflecting on results generated from a particular body of work;
- to increase the understanding of the participants in a workgroup (called the policy workgroup) and others within an organization; and
- to produce a public report of those experiences.

Action research is practical, participative, collaborative, interpretive and critical in its handling of a research problem (Perry & Zuber-Skerritt 1990). More precisely, in this research, a cyclical process methodology was used that incorporated the process of planning, acting, observing and reflecting on results generated in the workplace to increase the understanding of participants in a workgroup (called the policy workgroup) and others within an organisation (at a National Small and Medium Industry Workshop towards the end of the research project), and produced a public report of those experience that became the guide for developing a new franchise system that were adopted by the government department.

Action research was the qualitative method used, mainly for access reasons. For example, case studies of franchisors, franchisees or consultants could not be obtained because the financial matters in a franchise system in Malaysia are complex and deal with confidential elements. Nevertheless, access to three prospective franchisors and their financial plans was eventually obtained through a group of regulators from one of the government agency, that is, the research involved the researcher in participative and collaborative research in the best site in Malaysia to investigate the planning processes of the many would-be franchisors who have to apply for registration with the division and the new entrepreneurs who are in the process developing the new venture business.

3.1 Justification of the Action Research Methodology

Having defined action research for this research, the next section justifies the methodology used for this research. There are *four* justifications of selecting an action research for this research.

3.1.1 Action Research as an Experiential Learning

Due to the lack of recorded knowledge as to how the integration of the financial planning process in developing a new franchise system may be completed, this research project adopted an experiential learning cycle, in which knowledge was socially constructed (Passfield 2000). That is, the researcher and a group member (policy workgroup) from the Franchise and Vendor Development Division collectively tried to conceptualise, determine, and reflect upon conjecture as to how the integration of the financial planning process in a new franchise system was successfully accomplished and formulated. The conclusions were included in a report

Harif & Hoe

as a guide for the systematic way of conducting financial planning process in developing a new franchise system in Malaysia. Thus emancipatory action research characterised the consulting process of assisting experiential learning within the client (Passfield 2000), and it was the most applicable methodology for this research and the project's specific circumstance.

3.1.2 The Nature of the Problem

The research problem outlined in this paper could not be investigated by using traditional research techniques involving survey forms and questionnaires. This was because the issues involving 'soft' boundaries and collecting data pertaining to financial matters in the franchise systems in Malaysia were complex and dealt with confidential elements. To solve these problems, access to three prospective franchisors and their financial plans were eventually obtained through a group of regulators, that is, the research involved the researcher in participative and collaborative research within the government agency, as it was the best way to investigate the financial planning processes of franchisors that apply for a registration with this division. Indeed, this division also handles the Franchise Development Programme (FDP), which is a scheme to develop new franchise systems in Malaysia. Thus action research was an appropriate method for this research which requires the researcher to work and collaborate with other groups of people (the officers of Franchise and Vendor Development Division) involved in a cycle of planning, acting, observing, and reflecting on their work more deliberately and systematically than usual (the financial planning process of a new franchise system), and a public report of those experiences is produced (Altrichter 1990; Perry & Zuber-Skerritt 1992).

3.1.3 Lack of Sources

The next justification, alternative qualitative methodologies that may be used for theory building such as a case study research (Yin 1994), are also inappropriate for this research. The lack of recorded knowledge and recognised implementations of the financial planning process in developing new franchise systems in Malaysia negated any potential to conduct case studies about this research problem. Indeed, to conduct a case study methodology for qualitative research requires eight to twelve cases (Yin 1994). As the franchise industry in Malaysia is still relatively new, the researcher had great difficulties in identifying sufficient respondents to conduct case study research due to the limited and confidential sources in Malaysia. Other traditional social science research techniques were also inappropriate because the research was practical, participative, collaborative, interpretive, and critical in its handling of the research problem. Action research fulfils these aims (Perry & Zuber-Skerritt 1992).

3.1.4 Research Nature

Perry & Zuber-Skerritt (1992) differentiates traditional research from action research. In traditional research, the researcher is separated from the system being researched by a 'hard' boundary and the system is reduced to one or only a few parts, with the rest of the system assumed to be held constant (Cherry 1999; Perry & Zuber-Skerritt 1992, p. 198). This type of traditional research was inappropriate for this research because the financial planning matters in developing a new franchise system

required the researcher to feel, to be part of, and to enhance the experience rather than to be separated from the research environment.

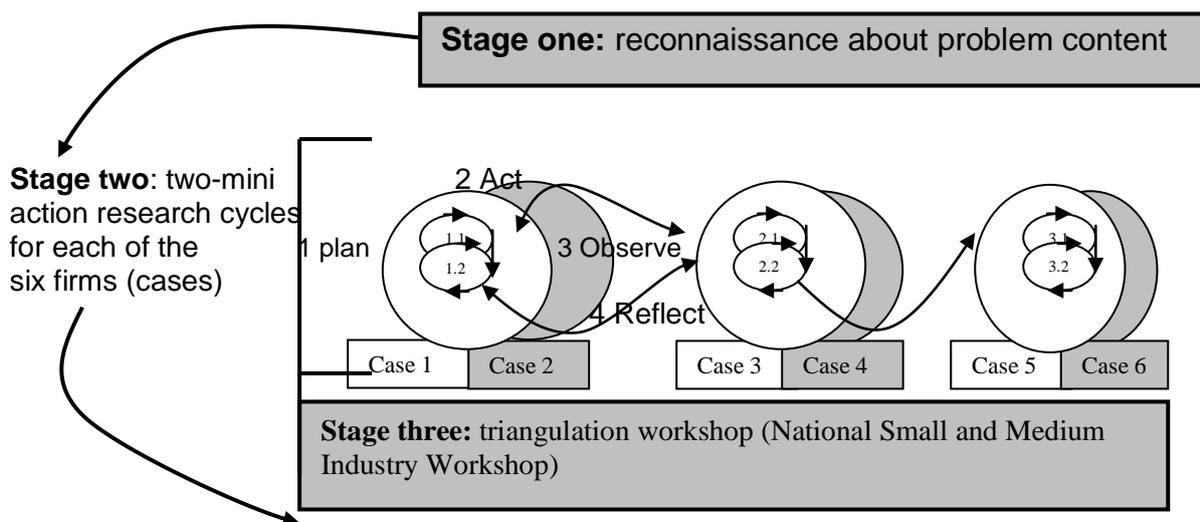
In contrast, this action research investigated a soft system without clearly defined boundaries between the researcher and the system (Perry & Zuber-Skerritt 1992). The researcher actively participated with others in the critical exploration of complex and dynamic issues that relate to the relationships between people and their physical and socio-cultural environments (Bawden 1990, p. 40).

In conclusion, based on these justifications, action research was deemed the most appropriate methodology for this research. To ensure the quality of action research results, criteria to establish validity and reliability were applied.

3.2 Research Design for Action Research

The action research process for this research consisted of three stages: reconnaissance, two-mini action research cycles with the three firms in developing a new franchise system and the three firms in developing a new venture business (cases), and a triangulation workshop, as summarised in Figure 3.

Figure 3:
The procedure of action research project for this research



Legend:

- 1.1 and 1.2: two mini-action research cycles in a new franchise case 1
- 2.1 and 2.2: two mini-action research cycles in a new franchise case 3
- 3.1 and 3.2: two mini-action research cycles in a new franchise case 5
- Case 2, 4, and 6 are the action research cycles for a new venture business as a comparison to a new franchise system

Note: the cycle in each case was a combination of two mini action research cycles

3.2.1 Stage One: Reconnaissance

Stage one of reconnaissance consisted of an explanation and fact-finding progression to derive further information about the research topic, and gain a greater understanding of how the franchise system in Malaysia was established, with a particular reference to the financial planning. This investigation was performed using the following steps.

Harif & Hoe

- **Step one: the Franchise and Vendor Development Division, Ministry of Entrepreneur Development, Malaysia was selected for the action research project.** The researcher approached the Ministry about the problem addressed in this action research project. The discussion started immediately after the researcher was awarded the research grant. The Secretary General of the Ministry agreed to implement the action research project as a tool to solve her problem of how to establish a new franchise system, especially its financial planning. Indeed, this action research project was expected to produce guidelines on how to develop a new franchise system in Malaysia that complied with the Malaysian Franchise Act 1998.
- **Step two: literature review.** The literature review was used to increase the understanding of the process of franchise development, especially with regards to financial planning. Articles, research journals, and books were used in this process. The nature of franchising and franchising in Malaysia were considered. Finally, the preliminary theoretical framework of developing a new franchise system in Malaysia was produced.
- **Step three: review of internal and external resources.** The researcher reviewed both internal and external sources (documents and personnel) to ascertain existing knowledge within the Ministry of Entrepreneur Development Malaysia, franchise consulting companies, and other relevant entities (Perbadanan Nasional Berhad, Perbadanan Usahawan Nasional Berhad, and Bank Pembangunan). This firstly was to establish whether a similar project had been completed and whether experiences from other undertakings/experiences could be extrapolated towards the current project (O'Leary 2000).
- **Step four: convergent interviewing.** The convergent interviewing was also used to obtain ideas from people who are expert in the franchise industry. This process of ten convergent interviews in Malaysia was used to support the theoretical framework of this research before the second stage of action research project was commenced and to be discussed next.

3.2.2 Stage two: two-mini action research cycles for each of the three firms (cases)

The action research process was used after the theoretical framework and research issues had been determined from the literature review and the convergent interviews (Chein, Cook & Harding 1948). It involved working in a collaborative workgroup with the members in the division soliciting information, input, responses, and seeking assistance to implement the theoretical framework that had previously been defined.

As noted, this action research took place at Franchise and Vendor Development Division, Ministry of Entrepreneur Development, Malaysia. This department is the authority that handles all the franchising matters in Malaysia such as monitoring the Franchise Development Programme (FDP) and evaluating franchisors' applications for endorsement by ROF. To begin this second stage of the action research project, the researcher discussed in depth with the head of the Franchise and Vendor Development Division, pertaining the planning of problem solving activities. Six

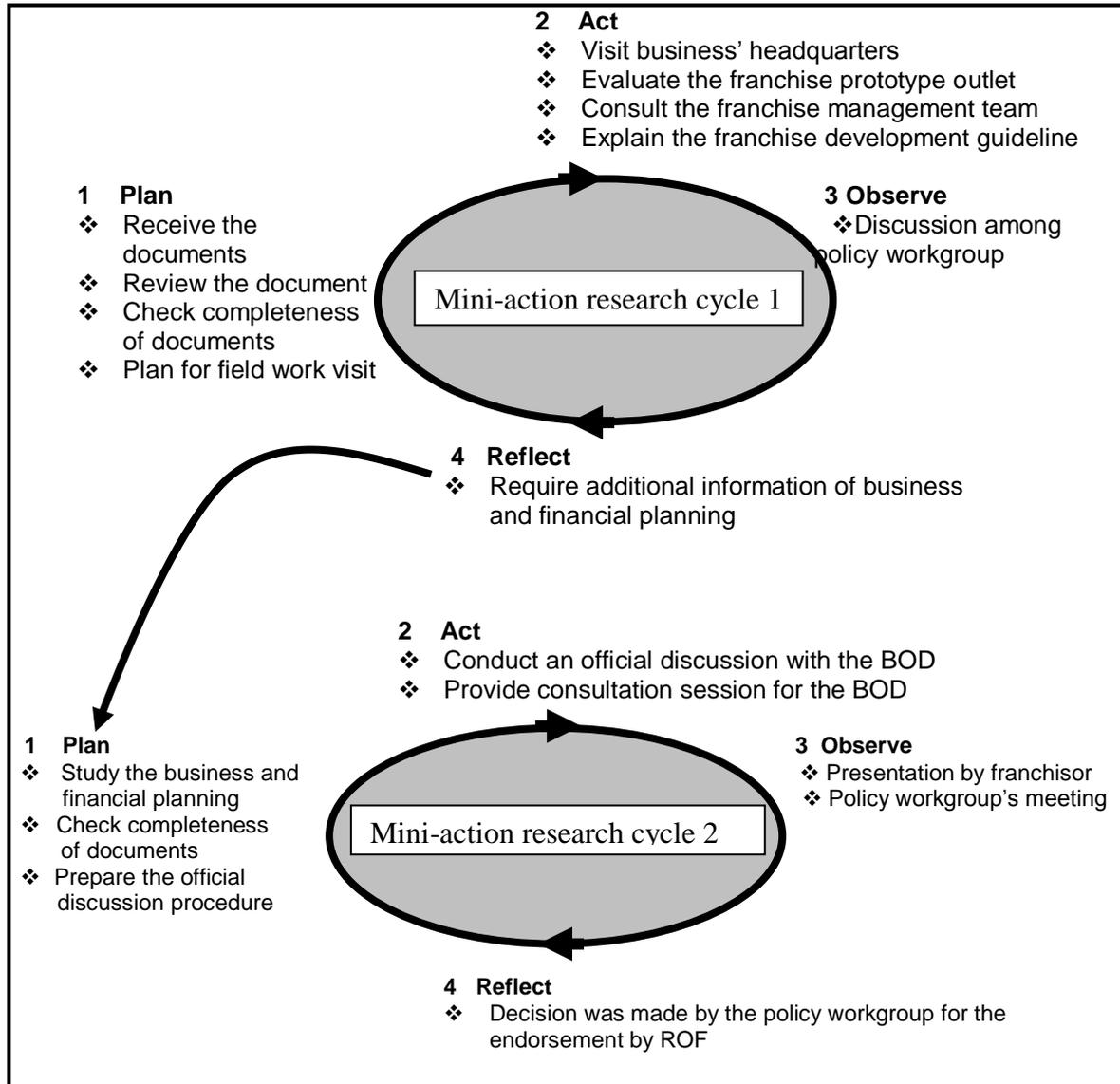
Harif & Hoe

officers were included in this action research project to work with the researcher to be known as a policy workgroup. Three officers were currently in charge of the process of monitoring the development and evaluating a new franchise system for the endorsement by the ROF and the other three officers in charge of developing an entrepreneur and developing a new venture business.

During the first introduction meeting of the action research project, all the members of the policy workgroup were briefed by the researcher regarding the aim, mission, processes, and tasks that needed to be carried out in the action research project. During the first meeting, the two firms were identified by the policy workgroup to be included in this action research project. The two firms were in the process of developing their business into a franchise system and applications for their endorsement by the ROF had been submitted. The two firms have achieved 50 percent progress in developing the franchise system and they had established a pilot operation for more than two years. Indeed, the two firms had been registered in the Franchise Development Programme (FDP) in the initial stage of developing their franchise system. Two officers were appointed to be directly responsible for each of the firms. The policy workgroup selected the third firm after completing the second main action research cycle. The policy workgroup also included three new venture businesses which in the process of starting the business.

Six main action research cycles were conducted for the six firms (cases) (figure 3). The first up to the fourth main action research cycles were conducted in four months and the last two main action cycle was concluded after the third month. Each of the main action research cycles comprised of two mini-action cycles for each case, as shown in figure 4. Each of the mini-action research cycles involved four steps of planning, acting, observing, and reflecting to carry out all the related tasks and they will be discussed next.

Figure 4: Outline of two mini-action research cycles in each case



- **Mini-action research cycle 1.** During the 'plan' step in the first mini action research cycle, four tasks were carried out: receipt of the documents from the firm, review of the document, check of the completeness of the documents, and planning for the field work visit (the 'plan' step of the mini-action research cycle 1 in figure 4). The policy workgroup studied the document and a checklist was produced by the officers' in-charge to inform all the other members. That is, a preliminary guideline of franchise development was generated to increase the understanding of the process in developing a new franchise system and was distributed during visits to the firms.

The first mini-action research cycle then continued with the 'act' step. Four tasks were carried out: visit the business's headquarters, evaluate the prototype outlet, provide a consultation session to the franchise management team, and explain the usefulness of the franchise development's guidelines (the 'act' step of the mini-action research cycle 1 in figure 4). Representatives from the policy workgroup visited the headquarters of the firm and the franchise prototype outlet. As a result, a report of the visit was produced to

Harif & Hoe

inform the other members. Indeed, the performance of the franchise prototype outlet was analysed by using the past two years' financial statements as agreed by the policy workgroup. For better understanding, a representative from the firm was invited to attend a consultation session and a full explanation pertaining to the usefulness of the guidelines to improve the process of developing their franchise system was given. An explanation emphasised the financial planning elements that needed to be considered by the firms to improve the business and financial process of developing the new franchise system.

Next, the third step of 'observe' took place with the members of policy workgroup having a discussion to view the development progress of the new franchise system (the 'observe' step of the mini-action research cycle 1 in figure 4). For this purpose, reports from earlier planning and acting steps were used to help the policy workgroup to make a conclusion. Indeed, the policy workgroup also discussed how to improve the guidelines of franchise development based on the experience from the previous steps.

The final step of the first mini-action research cycle reflected the conclusion of the 'observe' step (the 'reflect' step of the mini-action research cycle 1 in figure 4). The policy workgroup produced an official letter to the firm regarding the additional requirements that needed to be reviewed and submitted for further action. The additional requirements covered the full set of business and financial planning of the new franchise system. The firm was given a period of time to prepare and accomplish the documents required for further implementation of the action research project. This will be discussed next.

- **Mini-action research cycle 2.** To begin the mini-action research cycle 2, the 'plan' step was implemented. Three tasks were carried out: study the additional information of business and financial planning, check of the completeness of the documents, and prepare the official discussion procedure (the 'plan' step of the mini-action research cycle 2 in figure 4). Once the information that required by the policy workgroup was received from the firm, a thorough analysis was conducted. A comparison with the guidelines of franchise development was made to ensure the process of business and financial planning in developing a new franchise system was on track. Based on the comparison, a report was produced to inform all the other members. For further investigation, the members of the policy workgroup agreed to conduct an official discussion with the firm. As a result, an official discussion procedure was prepared to be implemented in the 'act' step.

The mini-action research cycle 2 then continued with the 'act' step. This step involved two tasks: conduct an official discussion with the Board of Directors (BODs), and provide a consultation session with them (the 'act' step of the mini-action research cycle 2 in figure 4). The policy workgroup made an appointment to meet all the BODs for the official discussion at the firm's office. Representatives from the policy workgroup with the Head of the Franchise and Vendor Development Division attended this session. In order not to be rigid in the discussion procedure, an official discussion and consultation were conducted in a 'win-win situation' as it could benefit both parties to find a better way in developing a new franchise system. At the end of the session,

Harif & Hoe

the BOD of the firm was asked to prepare a comprehensive presentation to the ROF and the members of the policy workgroup in a week's time.

Next, the 'observe' step of mini-action research 2 carried two tasks: attend the presentation by the firm, and meeting among the policy workgroup (the 'observe' step of the mini-action research cycle 2 in figure 4). All the members of the policy workgroup were given a notice to attend the presentation by the firm. The ROF (Secretary General of Ministry Entrepreneur Development, Malaysia) was also invited to attend this session. The presentation session was held at the ministry's office and lasted an hour. The firm that was in the process of getting endorsed as a franchise business was asked to justify questions to ensure whether they were ready to implement the franchise system in Malaysia. Then a meeting among the policy workgroup was held to discuss the overall progress of the firm. All the reports from previous steps, including the mini-action cycle 1 were considered to make the decision whether the firm was recommended to be endorsed by the ROF. The policy workgroup also discussed in the meeting for the amendment of the guidelines of franchise development.

Finally, in the 'reflect' step of mini-action research 2, the policy workgroup produced a report that consisted of the whole progress of the firm in developing a new franchise system (the 'reflect' step of the mini-action research cycle 2 in figure 4). In addition, the policy workgroup helped the ROF by sharing advice and opinions in making the endorsement decision. The policy workgroup also produced new amended guidelines of franchise development to be used in the next main action research cycles.

The process of this action research project was continued until the initiating problem was satisfactorily resolved and the exit point from the action research process was then reached. That is, three main action cycles were conducted in the second stage of action research methodology for this research. Then, to ensure the implementation of action research project was continued, a discussion and presentation were conducted with the Secretary General of Ministry Entrepreneur Development (as also Registrar of Franchise) to inform the conclusion and findings of the study. Indeed, a complete set of franchise development guidelines was provided to the Secretary General. She responded positively, "...I am very satisfied with this study and we will continue to use this process for the development and evaluation of a new franchise system. Thank you'.

3.2.3 Stage three: National Small & Medium Industry Workshop was used as a triangulation workshop.

Triangulation uses different measures or data collection techniques to examine answers to a particular research question (Bryman & Burgess 1994). The basic idea of the triangulation technique is that measurement improves when diverse indicators are used. Using multiple sources allows the researcher to fill gaps or loopholes that would occur if the researcher relied on only one source (Berg 1989). The triangulation technique can be used in both data collection and data analysis to check the validity and reliability, which it cleans up any elementary misunderstandings and by verifying information (Burgess 1984). Indeed, triangulation

Harif & Hoe

is a commonly used technique to improve the internal validity of research. That is, if the researcher exclusively relies on one method, it may bias or distort the picture that the researcher is investigating (Burns 1994). Moreover, triangulation contributes to the verification and validation of qualitative research by checking out the consistency of findings generated by different data collection methods and checking out the consistency of different data sources within the same method (Burns 1994).

For this action research project, the first of the four types of triangulation was used in this research (Denzin 1978): data, investigator, theory, and methodological triangulations. That is, data triangulation technique was chosen for this research (Burgess 1984) to provide confirmation of the three main action research cycles conducted by the policy workgroup. That is, the National Franchise Workshop was a platform used by the policy workgroup to present the core findings of its three main action research cycles. The core findings were presented as a paper in the NFW with the title of 'The effective business and financial planning process in developing a new franchise system'.

Over 100 participants attended this workshop. The participants were people who were directly involved in the small and medium business, franchise industry such as franchisors, franchisees, bankers, franchise consultants, qualified accountants, lawyers, President of Malaysian Franchise Association (MFA), Chief Executive Officer of MFA, representatives from Ministry of Entrepreneur Development, representatives from PNS, representative from PUNB, and representatives from higher education institutions. Thus they represented experienced experts, others thinking of creating or buying franchise business, and the financiers and consultants who resource or advise current and potential franchisees and franchisors. The researcher moderated the workshop and the other members of policy workgroup acted as observers. The purpose of this session was to allow all the participants to collaborate and contribute feedback to the finding raised by the policy workgroup.

4. Analytical Generalisation

Findings from this action research project extended the preliminary framework that has been developed based on the literature. Two conclusions have been made for this research. To begin, the *findings* of this research added another *two* elements of financial planning to the original preliminary framework of developing a new franchise system and a new venture business, as shown in table 1 and 2.

Firstly, the payback period analysis of the new franchise system must be included in the process of financial planning in developing a new franchise system because it is an element of financial planning that could be used to monitor the financial plans of a new franchise system in and it helps a franchisor to forecast the duration of getting the total investment of a new franchise system. Payback period analysis must be also included in the financial planning process of developing a new venture business. Secondly, the safety margin analysis must be also included because it is an element of financial planning that could be used to monitor the financial plans of a new franchise system in and it can help the franchisor to indicate the worst case scenario. Indeed, the findings of this research also suggest including safety margin analysis the process of starting a new venture business. Payback period and safety margin analysis are two extra elements that this research found, that is required in developing a financial plan for a new franchise system and a new venture business.

This research also provides for the first time all the ten linkages in the financial planning process of developing a new franchise system. Ten linkages is a result of discussion between the new franchisors and the members of workgroup in the action research project and the aim is to produce a high standard of financial planning.

In summary, 14 elements of financial planning and 10 linkages (refer figure 2) within the elements of financial planning will be used in the process of developing a new franchise system in Malaysia. In addition, 11 elements of financial planning will be used in the process of developing a new venture business in Malaysia. No other research has examined the process of financial planning in developing both new franchise system and new venture business as precisely or as broadly as this research, especially in Malaysia where only minimal literatures exist.

4.1 Methodological Implications

This research has methodological implications. It shows that action research can be a powerful technique in helping to change business practices employed in the industry. Thus the usefulness of the process running a core action research project within a particular workplace and then doing analytical generalisation from those workplace findings, first developed by Perry and Zuber-Skerritt (1992), has been further established as a way of combining the thematic concerns of a workgroup and theoretical concerns.

The project also shows that action research can be conducted in non-Western cultures as not many research done in Malaysia. Moreover, the collectivist culture of Malaysia helped the project team to work together and to overcome barriers of face or status that makes action research easier to be conducted. This reason could be added to the six, western-based points of acculturation of action research, in Marquardt (2001). In brief, this research provides another example of the world-wide power of the action research methodology.

5. Conclusion

There is a lack of research on the process of financial planning for a new franchise system in Malaysia. The practical framework of financial planning developed in this research identified based on the elements of financial planning for a new venture business, that is, all the elements of financial planning in a new venture business are considered to be used in the financial planning for a new franchise system with two additional elements.

This paper not only contributed to the body of knowledge about the effective framework of financial planning for both new franchise system and new venture business but it also has implications for policy and practice: it helped to produce guidelines for the Registrar of Franchise Malaysia (ROF) in evaluating a new franchise system.

The guidelines also provide a platform for comprehensive training, and show existing franchise systems how to improve their financial planning system. Moreover, the paper provides another example of the applicability of the action research

Harif & Hoe

methodology. Further research could consider how the findings could be used in other countries, cultures and regulatory contexts.

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