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Franchisee Failures in Malaysia: Contribution of Financial and Non-Financial Factors

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This paper reports on the exploratory study on Malaysian franchisees who have failed in their franchise business. A stratified purposive sampling frame was used in which all the five failed franchisees who have registered with the Registrar of Franchise (ROF) were selected for this study. In-depth telephone interviews were carried out. The interview was a semi-structured open-ended format questions which has been formulated based on the franchising research literature in which 13 factors have been identified as contributing to the franchisee failure. These 13 factors can be categorized into two categories, non-financial and financial factors. The non-financial factors consisted of nine factors and financial factors consisted of four factors. The non-financial factors include too rapid expansion of the franchise business, greed of franchisee, franchisee attitude, poor service, poor management of the franchise business, conflict with franchisor, legal imperfection, location and external factor. The financial factors include under capitalization of the franchisee, high overhead expenses, cash flow mismanagement and bad payers' franchisee. This paper provides evidence that the 13 factors linked with franchisee failure also contributed to franchisee failures in Malaysia.

Field of Research: Franchisee Failure, Financial, Non-Financial, Malaysia

1. Introduction

The history of franchising in Malaysia can be traced back to the 1940s with the introduction of Singer sewing machine franchise business. However, the growth and development of the franchising sector in Malaysia is still considered to be at its infancy stage. Until today, there has not been a comprehensive study pertaining to the state of franchising in Malaysia. There are no published statistics as to the contribution of this business sector to the Malaysian economy as a whole in terms of total annual sales, number of employees, contribution by both foreign and local franchises and other important economic indicators. Even though franchising has been introduced since the 1940s, it was not until 1992 that the Malaysian government in realizing the important role that franchising can be used as a vehicle for entrepreneurial development especially amongst the indigenous Bumiputeras[1] gave much focus and attention to the

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[1] Bumiputeras – refer to the indigenous ethnic groups in Malaysia namely, the Malays, Ibans and Kadazans

franchising sector (Hoe and Watts 1999; Hoe 2001a; 2001b). This focus on franchising was personally spearheaded 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 and (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 (Adzmi 1999; Amy Azhar 2002; Hoe 2004).

This attempt seems to be fruitful and had gained popularity from Malaysians wanting to be involved in the franchise business. In 2001, there were 286 franchisors and 2727 franchisees (Hoe and Nasruddin 2003) including 22 home grown franchisors and 44 franchisees (Utusan Malaysia 2003). Among of the successful international franchise expansion in Malaysia are Kentucky Fried Chicken, McDonald, A&W, Pizza Hut and Hard Rock Café meanwhile home grown franchises are such Hotel Seri Malaysia, MarryBrown Family Restaurant, Nelson, Kyros Kebab, Anakku, Clara International and Sinma Accessory. As of February 2011, there were 499 franchisors and 6,323 franchisees registered with the Registrar of Franchise (Berita Harian 2011). A mid-term review of the 9th Malaysian Development Plan showed that the Franchise Development Programme produced an estimated total turnover of RM10.2 billion (Malaysian Ringgit). In the same period, the Perbadanan Nasional Berhad (PNS, National Corporation Limited), a government entrepreneurial development agency which has been given the task of spearheading the development and growth of franchising in Malaysia has been able to produce 270 franchisees under the PNS Franchise Development Programme.

However, the current status of the franchise business sector in Malaysia in terms of its development and economic contribution is still unsatisfactory as it only contributed approximately 5% to the domestic retail sales. Thus, under the Eighth Malaysia Plan, the government has allocated a big budget amounting of RM100 million via the Franchise Development Programme to develop another 60 new franchisors in order to achieve a target of 1,000 franchisees (News Straits Times 2002).

2. Justification for the Study

Apart from the lack of published official data pertaining to the state of franchising in Malaysia, there is also not much research carried out on the Malaysian franchising sector. There is currently no performance index research to monitor the performance or the direction of the franchise industry in Malaysia. While Perbadanan Nasional Berhad (PNS), a government agency responsible for the promotion and development of franchising operations since 2005, does provide an industry outline, the Malaysian franchise sector is in dire needs of a dedicated blueprint that will spearhead the local franchise industry's growth in line with the government's aim to create an innovative economy and turn Malaysia into a developed country by 2020. The blueprint, which has been proposed by Malaysia Franchise Association (MFA) since year 2003, will provide the objective and direction for the local franchise industry. In addition, it will also benefit franchise players across the board from franchisor, franchisee, consultants and lawyers.

Thus, apart from the lack of sufficient economic data and indicators, there is a lack of academic research on the Malaysian franchise sector. One area which is important and is of current concern is the issues concerning the success and failure of franchisors and franchisees. This is because while franchising is widely known as a tremendous opportunity for success (Justis 1995) and the likelihood of success in the business is said to be much greater compared to the small enterprises (Kuratko and Hodgetts 2004), there have also been reports of failures involving both the franchisors and franchisees.

In the United States, franchisee failures rates had rose from 8.86 percent in 1994 to 10.49 percent in 1997 (Holmberg and Morgan 2001, 2003) and in Malaysia particularly, statistics from Franchise & Vendor Development Division revealed that 7 percent franchisees have already failed in operating their franchise business. From this information, it showed a contradiction with the franchise experts' point where the failure rate of new franchisees is said to be only about 5 percent (Seay 2003). Hence, to get a clearer picture, it is appropriate to explore and identify the factors that contributed to the franchisee failures in Malaysia.

3. Literature Review

Previous studies by Castrogiovanni et al (1993), Cross (1994, 1998) and the International Franchise Association (IFA 2000) have advocated the need for more reliable research on franchise failure. While there are numerous studies on the success and failure factors of franchising have been carried out in the developed economies, there is a lack of similar research in the developing countries especially among the emerging markets such as Malaysia which has identified franchising as an important vehicle for entrepreneurial development (Hoe 2001) among the Bumiputeras. A recent study by Amy et al. (2010) on the '*critical success factors of franchisors in Malaysia'* which did shed some light on the success stories of franchisors, there is still a huge gap pertaining to the perspective of franchisee failure. Thus, this explorative study on the franchisee failure in Malaysia is a first step aimed at filling this gap.

According to Holmberg and Morgan (2003), comparing past franchise failure research is difficult because failure concepts and definitions are not consistent. Also, recent studies have advocated that there is no need to define failure definitively, but rather to view the process comprehensively (Holmberg and Morgan 1996, 2000; Cross 1994, 1998). A comprehensive examination of the franchising literature showed that there are various factors that contribute to the franchisee failure. For the purpose of this explorative study, the factors will be reviewed and comprised from literature written by Holmberg and Morgan (1996, 2000, 2003), Bernardi-Glattz and Schnedlitz (2003), Amy Azhar (2002), Adnan (1994), Mendelsohn (1999), Sanghavi (1997), McCosker (1995), Miranda (1995; 2002), Spicer & Pegler (1985), Sherman (1995), Amy Azhar et al. (2011) and Filzah et al. (2010) pertaining to franchise business challenges, critical success and failure factors. From the review and analysis of the literature, the factors related to franchisee failure have been categorized into two categories; i) non-financial factors and ii) financial factors.

3.1 Factors that Contributed to Franchisee Failure

3.1.1 Non-Financial Factors

Under this category, there are nine sub-factors or issues that have been identified from the review of the franchising literature.

a) Too rapid expansion of the franchise business

This factor could contribute to franchisee failure when the franchisee could not fully adopt the franchisor's system guidelines and had underestimated the market conditions (McCosker 1995, Mendelsohn 1999). When the franchise business grows too fast, franchisee sometimes does not have enough capacity especially financial strength to survive.

b) Greed of franchisee

Greedy franchisee according to McCosker (1995) and Mendelsohn (1999) is also a factor that contributed to franchisee failure. Lack of ability and strategy to manage more than one franchise business owned by the franchisee would end up being terminated because the business is not performing in achieving the business goals and standards.

c) Franchisee attitude

Mullner, Bernardi Glattz and Schnedlitz (2003) stated that lack of entrepreneurial initiative and responsibility of the franchisee, lack of commercial knowledge as well as negligent behaviour were part of the franchisee's attitude that contributed to franchisee failure. McCosker (1995) and Mendelsohn (1999) also supported this factor and added that franchisee who experienced difficulty in adhering the format or the business formula fixed by the franchisor are those with high potential to fail. Sometimes, franchisee might developed attitudes of a '*maverick*' and become non-conformist, thus disrupting the franchise chain (Miranda, 1995).

d) Poor service

According to McCosker (1995) and Mendelsohn (1999), poor service rendered to customers is one of the main reasons for franchisee failure even if the franchise business is well recognized.

e) Poor management of the franchise business

In order to ensure the standard of quality, services and goods are maintained, good leadership and management practised by franchisee and also good support staffs employed to render assistance is also a challenge (McCosker 1995, Mendelsohn 1999, Miranda 1995; 2002). Even though franchise business is a proven business concept and assistance is continuously provided by the franchisor, franchisee' skills and knowledge to manage the business efficiently are still the most important ingredients to avoid failure. This includes the ability to keep proper financial records, ability to achieve goals, ability to handle management problems and sufficient preparation during establishment (Mullner, Bernardi-Glattz and Schnedlitz, 2003).

f) Conflict with franchisor

The studies of McCosker (1995) and Mendelsohn (1999) showed that a franchise business is based on people relation and to develop or maintain good relationship between franchisor and franchisee is crucial. The franchisee licence would normally end up being terminated or not being renewed after the expiration if serious conflicts have occurred. According to Mullner, Bernardi-Glattz and Schnedlitz (2003), lack of capacity of teamwork and different perceptions of franchisor and franchisee would produce conflict that contributes to franchisee failure.

g) Legal imperfection

Generally, franchising is an under-researched area and the industry suffers from a lack of reliable information especially in legal aspect (Amy Azhar 2002). The legal aspect is considered important in order to develop and secure the business code and conduct. In Malaysia, the laws on franchising are very much dependent on the Malaysia Franchise Act 1998 (MFA 1998). However, the Act does not provide for any usage of Alternative Dispute Resolution as a method to settle any dispute in franchising industry compared to other countries. Many issues could contribute to conflicts or disputes such as misunderstanding between franchisees, undercutting among franchisees, refusal of franchisees to participate in group activities/events and franchisees violating franchise rights. Failure to provide fair justice and improper channel that could effectively resolve the conflict would be considered as factor that could contribute to franchisee failure.

h) Location

A wrong selection of location also could be the factor that contributes to franchisee failure (Mullner, Bernardi-Glattz and Schnedlitz 2003) where it can influence the product or service acceptance by the customers. If more than one of the same franchise businesses exists in one territory it will indirectly increase the competition stiffness and failure risk among the franchisee.

j) External factors

External factors have also been discussed by McCosker (1995) and Mendelsohn (1999) as one of the factors contributing to franchisee failure which is beyond franchisee control. For example, currency devaluation, aggressive and cheaper competitors, downturns in the economy, government rules or regulation and diplomatic relationship between two countries.

3.1.2 Financial factors

Within the financial factors, there are four sub-factors or issues have been identified that will contribute to franchisee failure.

a) Under capitalization of the franchisee

This factor is generally considered as the main factors discussed by most authors in their literatures. Based on Sherman (1995), operating capital must be sufficient especially in the early stages of the business as it is required for development and implementation of franchising program as well as the ongoing costs of support. The larger and more successful the business, the larger the capital is needed. While the business prospered, the franchisee that is under capitalization will be facing difficulties when the capital became inadequate for funding its debtors and stock, purchasing new equipment or coping with unexpected financial surprises.

b) High overhead expenses

In the franchise business, apart from the start up costs or initial fee there are also other fees that need to be paid by the franchisee to the franchisor. Franchisees are also obligated to bear other monthly payments such as royalty, contribution for promotion fund, refurbishment fund, utilities payment and other expenses. Franchisees who are not capable of abiding with the high expenses would most likely fail.

c) Cash flow mismanagement

This factor also been discussed by Sherman (1995) that contributed to the franchisee failure when the cash flow is being misdirected and mismanaged in order to pay for operating expenses and support costs.

d) '*Bad payer'* franchisee

'Bad payer' is a good indicator that the franchisee is ineffective in managing the franchise business and could endanger the franchise reputation (Spicer and Pegler, 1985).

In conclusion, there are 13 factors that could be used to identify the factors that contribute to franchisee failure in Malaysia, of which 9 factors consisted of non-financial factors and 4 factors consisted of financial factors.

4. Methodology

For the purpose of this explorative study, the qualitative inquiry research approach is utilised. The strength of the qualitative approach lies in its capacity to provide situated insights, rich details and thick descriptions (Jack and Anderson 2002). The "stratified purposive" sampling frame is employed here because of three main reasons. Firstly, there is the difficulty of locating and getting in touch of failed franchisees in the first instance. Having identified and located the whereabouts of these failed franchisees, there is still the rather delicate and sensitive situation in which the respective respondents may not be willing to share with the researcher about their failed or unpleasant experiences. This is because being classified as a 'failed franchisee' can be quite an 'embarrassing stigma' in the eyes of the Malaysian society. Secondly, accessibility to records of failed franchisees is difficult to obtain or may not even be kept at all. Faced with this constraint, the researchers in this research have to make do with whatever respondents they could locate and who are also willing to be interviewed for this study. The third reason of employing the stratified purposeful approach is because this research is for the purpose of identifying and illustration characteristics of particular subgroups of interest in this case the ***'failed franchisees'*** in order to facilitate comparisons (Patton 1990).

From the records of the Registrar of Franchise Malaysia – ROF (the only record available was based on ROF's database up to year 2005), it was found there were only five failed franchisees who have reported their failed franchisee endeavours. Hence, all the five respondents were taken in as cases for this explorative study. The primary data is based on information obtained from telephone interviews conducted with the five respondents who were ex-franchisees that failed in operating the franchise business. Each of the respondents was asked the same set of questions which are based on open-ended questions. The questions asked was aimed at looking at how the respondents view and respond to the factors and issues that contributed to their franchise failure.

5. Findings

The findings from the telephone interviews of the respondents are summarised in a tabulated format, as shown in Table 1. In terms of respondents' background (questions 1-7), there were three males and the remaining two are females. With regard to education level achieved by the respondents, the results showed that 60 percent achieved at least an 'o' Levels equivalent to the Malaysia Education Certificate whilst 20 percent obtained a diploma and the remaining 20 percent obtained a tertiary degree. In terms of age, eighty percent of the respondents (four out of five respondents) were in their thirties and the remaining twenty percent is forty-one years in age.

Below are the findings obtained from the telephone interviews, which are summarized in Table 1. In terms of business experience, only respondents 3 and 5 had prior business experience. All the five respondents did manage to survive not more than 5 years, whereby 60 percent (3 respondents) survived for 4 years. As for the remaining two respondents, one survived till the fourth year and the fifth one survived for only two years. 80 percent of the respondents are franchisee from home-grown franchise business and only respondent (respondent no. 5) operated an international franchise business.

In terms of the location of franchisees, respondents 1 and 5 franchise businesses were locate in Kuala Lumpur, meanwhile respondent 2 was located in Klang, respondent 3 in Johor Bahru and respondent 4 in Ipoh. All these locations are located in the major cities of Malaysia.

The factors contain in Questions 8 to 17 as shown in Table 1 refers to the 9 non-financial factors discussed in the literature that contributed to franchisee failure. Based on the interviews, majority of the respondents agreed that too rapid expansion of the franchise business could have caused failure to their franchise business. However, only respondent 1 did not agree. However, he admitted that financial capacity was a problem to him in order to cope with the growth of his business. Thus, it could be concluded that this factor could have contribute to the franchisee failure in Malaysia.

In terms of the greed of franchisee, Table 1 showed that respondents 2 and 3 had more than one outlet. Respondent 2 said that he could manage the businesses meanwhile respondent 3 admitted having problems in managing all of his 4 outlets because they demand high commitment and time. Meanwhile, the remaining respondent concentrated on just one franchise business and had no problems managing it. So, this factor would be considered as moderate factor that will be included as factors that could contribute to franchisee failure in Malaysia.

As for the factor of franchisee’s attitude, all of the respondents had problems with their attitude towards managing their business. The results in Table 1 showed that the respondents had a lack of commitment and were too dependent on the franchise staff in operating the business. They also agreed that they spent less time in the outlets, neglected the operation manual, absent for training, and couldn’t maintain good service and relationship either with the franchisor himself, staff or customers. In addition, respondents 1, 3, and 4 also claimed that they had conflicts with their staff within their franchise outlet. In this study, it could be concluded that poor management resulted from the franchisees’ negative attitude in handling their franchise business. Therefore, the factor of franchisee’s poor management aptitude could be combined together with the franchisees’ attitude factors which taken as a whole contributed directly to the franchisee failure in Malaysia.

Next, the factor of poor service is considered. Based on the interviews, only respondent 2 practised good customer services to customers meanwhile the remaining respondents couldn’t maintain or provide good service and Table 1 shows that respondent 5 admitted that his business gave poor service to the customers. Hence, this factor also contributed to franchisee failure in Malaysia.

As for the factor of conflict with franchisor, three of the respondents agreed and claimed that they have problems in fulfilling and following their demand or style of franchisor. Respondent 3 said that she had no conflict with the franchisor meanwhile respondent 5 sometimes do have conflict with her supervisor. Thus, conflict with franchisor could be considered as factor that contributes to franchisee failure in Malaysia.

Table 1- Summary of Findings

Questions	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5
1. Gender	Male	Male	Female	Male	Female
2. Age	35 years	36 years	41 years	39 years	33 years
3. Educational Level	O 'Levels'	O 'Levels'	O 'Levels'	Diploma	Degree
4. Any business experience	No	No	Yes	No	Yes
5. Origin of Franchise business selected	Home-grown	Home-grown	Home-grown	Home-grown	International Franchise
6. Length of years in franchise business	4 years	4 years	4 years	2 years	3 years
7. Location	Kuala Lumpur	Klang	Johor Bahru	Ipoh	Kuala Lumpur
8. Too rapid expansion of the franchise business	Not agree but financial capacity is the cause	Agree because underestimated the market	Agree	Agree	Agree
9. Greed in managing the franchise outlet	1 outlet only Yes can manage	2 outlets Yes, can manage	4 outlets Difficult to manage because all outlet need commitment	1 outlet only Easy to manage	1 outlet Yes can manage
10. My attitude in operating the franchise outlet	-More delegation to the staff -Always not at the office -Not follow the operation manual	-Not good relationship with the franchisor -Expenses more than income -Not very committed -Did not follow training	-Employ too many staffs -Always come late to the office -Operations depend to the staffs	-Not good relationship with staff -Not maintained the services	-Using cash for other business -Did not weal communicate with customer
11. Friendly Customer service given to the customer	-Not so good	-Good	-Not well maintained	-Normal	-Poor
12. Problem with the team within the franchise outlets	-Yes	-No	-Yes	-Yes	-No
13. Conflicts with franchisor	-Yes	-Yes	-No	-Yes	-Sometimes
14. Legal imperfection	Yes, not satisfied because the result siding the franchisor. -beyond control	-No	-Yes, sometimes satisfied	-Yes, not satisfied, the result make me loose the business and the franchisor terminate my agreement	Yes, not satisfied because the financial forecast prepared by franchisor are not true
15. Suitability of the location	Too many outlets - but other competitors -Based on the franchisor	-One only -Location is so bad -Suggested by me but approved by franchisor	-So many others but same brand none -Location very good	A few outlets -Location outside from the town centre, no problem	-So many outlets -Good location

	approval but the location not so good		-Selected by franchisor	-Suggested by franchisor	
16.External factors contributed to the franchisee failure	Yes Crisis of economic Interest so high	Yes Competition	Yes Diplomatic problem between Malaysia and Singapore	No	Yes Building taken over by the owner
17. Enough capital in initiating and operating the franchise outlet	No lending from the bank	No, lending from the bank	Yes	No Lending from Tabung Usahawan Baru[2]	Yes but lending from family
18.High overhead expenses	Having too many types of fees in franchise business	Margin small because paying so much overhead	Yes, rental also need to be paid	Yes, so many expenses including high promotion fees	Yes, agreed.
19. Cash flow mismanagement	Cash flow always well maintain I agreed this factor contributed to the franchisee failure	-Lack of cash flow because income lower than expenses	-Cash flow can still be managed but sometimes faced cash flow problems which contribute to failure	Cash flow is OK -Not always contributed to franchisee failure if well managed and get good interest rate from the financial institution	-Cash flow problem in paying salary because so much credit sales given to customer
20. The ability to pay the franchise fees (royalty. advertising fund, reimbursement fund)	Always fail to pay on time because not enough cash in hand	Always fail to pay on time. franchisor straight issue warning letter and charge the interest	-Yes, but sometimes delay	Yes	Always delay because waiting the payment from customer

Next, legal imperfection is considered. Majority of the franchisees agreed that legal factor is important and imperfection could cause failure to the franchisee. This is due to dissatisfaction that occurs resulting from the resolution of conflicts or disputes that often be siding the franchisor. Besides that, they also agreed that the franchise rules or condition is beyond their control. In spite of that, the franchisee end up having to quit or being terminated by the franchisee. Only respondent 2 disagreed with this factor. However, it could be concluded that legal imperfection also contributed to the franchisee failure in Malaysia and will be combined under external factor.

Table 1 showed that respondents 1 and 2 claimed that their outlets were not strategically located and surprisingly the choice of their location was based upon their own selection decision. The other respondent was satisfied with their location, even though location of outlet for respondent 4 is outside the town centre. Respondent 4 also

[2] Tabung Usahawan Baru – Malaysian Government's New Entrepreneurs' Fund which is available to new aspiring entrepreneurs.

mentioned that strong promotion had increased the demand and product or service acceptance. They also agreed that several franchise outlets which different concept and product do exist near their outlet. For this study, location could be concluded as moderate factor that contribute to franchisee failure in Malaysia because it is already been emphasized by franchisor at the first place where market survey must be conducted by franchisee before selecting the location.

Finally, the last element of non-financial factor is considered. Majority of the respondents agreed that external factors could contribute to franchisee failure where crisis of economy, high interest rates and competition from cheaper products give great effect to the performance of the business. Respondent 3 also added that diplomatic problems between Malaysia and Singapore had reduced the number of customers from Singapore. From the interview, only respondent 4 disagreed that this factor had caused him to fail in the franchise business. However, it could be concluded that external factors could have contributed to franchisee failure in Malaysia.

The issues contained in Questions 17 till 20 are referred to financial factors that contributed to franchisee failure as discussed by the literature. For the category under capitalization of the franchisee, only respondents 3 and 5 do not have any capital problem. The other three respondents agreed that they have insufficient capital in initiating and coping with the development of the business and had to seek finance from the bank and Tabung Usahawan Baru. Thus, it confirmed that under capitalization factor do contribute to franchisee failure in Malaysia.

Then, the second financial factor is analysed. All of the respondents agreed that high overhead expenses is one of the reasons they failed in maintaining and operating the franchise business. The declared that so many fees in the franchise business including high promotion fees need to be paid to the franchisor. Therefore, this factor absolutely contributed to franchisee failure in Malaysia.

Next, cash flow mismanagement is discussed. Majority of respondents agreed that this factor contributed to their failure except respondent 4. Respondent 4 was able to manage his cash flow properly and added that well maintained cash flow will not contribute to franchisee failure. In the case of mismanagement, respondent 5 was having financial problem in paying the employees' salary because of so much credit sales given to customer. Besides that, this respondent also confessed that she had use the cash for other business purposes. Hence, this factor also contributed to franchisee failure in Malaysia.

For the final non-financial factor, only respondent 4 could be considered consistent with the fee payment indicators meanwhile the remaining franchisees agreed that they failed to pay the fees on time because of insufficient money on hand because of several reasons like high overhead expenses and waiting the payment from customers. They regretted that the delayed had made the franchisor straightaway issuing a warning letter that charged late interest, which indirectly further increase their financial burden. Thus, this factor confirmed to be the factor that contributes to franchisee failure in Malaysia.

6. Conclusion and Limitations

The purpose of this study is to determine whether the franchisee failure factors identified in the franchise literature could similarly contribute to franchisee failures in Malaysia. From the findings, it was found that non-financial and financial factors identified and discussed in the franchise literature were also factors that contributed to the franchisee failures in Malaysia. The non-financial factors are reduced to 7 factors which consisted of too rapid expansion of the franchise business, greed of franchisee, franchisee attitude, poor service, conflict with franchisor, location and external factor. Meanwhile, financial factors maintained with 4 factors that is under capitalization of the franchisee, high overhead expenses, cash flow mismanagement, and bad payers' franchisee. Overall, franchisee's attitude, too rapid expansion of the franchise business, external factors and all financial factors can be considered as major factors that contributed to franchisee failure while the remaining factors could be said as moderate factors.

From these research findings, some main implications or inputs could be made use of for those directly and indirectly involved in the franchising fraternity. The first implication of this research is to provide guidelines for franchise development in Malaysia. The interested parties such as franchisors or consultants could use the research findings in their selection process of potential franchisee. Another implication from this research is the need to improve an existing franchise system. For the franchisors, they could take the inputs from this research for precaution strategies on their existing franchisee to improve the performance of the franchisees. Finally, the implications of this research is also could be used for training purpose towards improving the franchise system in Malaysia.

Among some of the limitations of this research is the limited number of respondents to be considered as the primary source of the interview. This could not be avoided as there were only five failed franchisees who have officially reported their cases to the Registrar of Franchise of Malaysia (record based on ROF's database up to year 2005). Another obvious limitation is the use of the telephone interview technique. The telephone technique whilst being much cheaper in terms of data collection cost does have some research problems of its own. Using the telephone technique, the researcher was not able to establish a closer and more cordial relationship with the respondents as eye-to-eye contact was not possible. This made further probing during the interview sessions difficult. In addition, there was no opportunity to observe body language and signals of the respondents during the interview process. However, due to the constraints of time, funding and other logistic problems, the researcher had no choice but to use the telephone technique. However, for future studies, the researcher should ideally utilise the in-depth interviews approach as this techniques provides more optimal data collection on individuals' personal histories, perspectives, and experiences particularly, when sensitive topics such as failed franchise business endeavours are being explored.

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