# E-COMMERCE ADOPTION AMONG MALAYSIAN FRANCHISEES

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**Abstract-** This paper presents some findings from a study researching the diffusion and adoption of e-commerce among businesses, particularly the franchise companies. It examines the perception of e-commerce adoption by the owner/manager of Malaysian franchisee companies. Research model for this study was drawn on the literature on information and communication technology, information system, and electronic data interchange. By combining two independent research streams, we examined the determinant factors of strategic value and adoption of electronic commerce as perceived by owners/managers in Malaysian Franchise Association (MFA) companies.A survey was conducted with 22 franchisees in Malaysia. In addition to the survey, face-to-face interviews were carried-out with eight of the owners/managers regarding e-commerce. In general, MFA companies have not responded activelyto the global growth of e-commerce. Part of the reason is they are waiting for their franchisor to open-up to them in term of online retailing. However, they believe e-commerce, particularly having a company website is necessary to improve their company image, communications, information flow and contact with stakeholders.The main findings of the current analysis include a list of key factors that affect franchisees' decision to adopt e-commerce, and some indications of the relative strengths of the various relationships.

**Keywords-** ICTs, e-Commerce, Franchise, Innovation, Diffusion.

## I. INTRODUCTION

The explosive growth of Internet technology, especially since the Web came into commercial use in 1993, has tempted organisations to adopt electronic commerce (e-commerce)(Zwass, 1996, Poon and Jevons, 1997, Scupola, 2009). Policy makers insist e-commerce is already leading to the reshaping of customer and supplier relationships, the streamlining of business processes and, in some cases, even the restructuring of whole industries (Daniel, 2003). Managers are told that e-commerce will give a tremendous boost to their companies that businesses not involved in e-commerce will be left behind in the global marketplace. In fact, some studies claim that the use of e-commerce is said as one of the precondition for a company's success in today's business world, (Porter, 2001, Adham and Ahmad, 2005).

In Malaysia, ICT, particularly, e-commerce is considered to be very important and the government has taken an active role in its establishment. Many ICT policy initiatives, such as the e-commerce grant, RosettaNet, and e-Manufacturing (SMIDP, 2001-2005) have been designed to encourage businesses to adopt e-commerce. However, most of these initiatives were designed for manufacturing companies or small and medium enterprises (SMEs) to embed e-commerce in their businesses and finally to transact online. Franchisee companies were rarely exposed to government initiatives, particularly in adopting e-commerce. Many owner/manager of the franchisee need to supply or invest themselves on ICT and ICT infrastructure especially within their organisation. However, to what extent these franchisees use ICT, particularly in e-commerce is unclear.

Thus, the purpose of this study is to understand to what extent has the franchisees in Malaysia adopt e-commerce and their perception on e-commerce. The article is structured as follows. Section 1 presents the research problem and the research question, section 2 is a literature review and section 3 describes the methodology. Findings and analysis are discussed in section 4. Section 5 presents the discussion on the findings, andfinally, concluding remarks are presented in section 6.

## II. LITERATURE REVIEW

### 2.1 E-commerce

There is no consensus on the definition of e-commerce(Kendall et al., 2001, Daniel et al., 2002, Grandon and Pearson, 2004). However, there are two common elements to define e-commerce. First, e-commerce concerns activities that occur by electronic means, such as sharing business information, and buying and selling. The second element is the technological means that enable these activities. For the purpose of this study, e-commerce is defined as sharing of business information, maintaining business relationships and conducting business transactions by means of Internet-based technology (Zwass, 1996; Poon and Swatman, 1999, Scupola, 2003; 2011). This definition has been used by many e-commerce researchers such as Poon and Swatman (1999), MacGregor and Vrazalic (2007) and also Oliveira and Martins (2011).Three main e-commerce activities are chosen to investigate the extension of e-commerce adoption in organisations: providing company information on website (online brochureware) , providing information on goods and services on website (online catalogue) and executing online business transaction (online ordering, online

payment, online billing, online payment and online purchasing) (Laudon and Traver, 2002).

2.2 Franchising and Franchisees

Franchising is a long-term cooperative relationship between two entities - a franchisor and one or more franchisees that is based on an agreement in which the franchisor provides a licensed privilege to the franchisee to do business and to achieve overall business development (Rahatullah and Raeside, 2008).Becoming a franchisee is an alternative path to traditional small business ownership (Sonfield, 1993). The franchisee retains the business ownership of the franchised business (Peterson and Dant, 1990; Kaufmann and Dant, 1996), invested their own money in the business, applied for a loan from financial institutions and is responsible for the successful and legalisation aspect of the business. Although the franchisee is not the 'full owner' of the businessand even the business trademark, business systems and several business characteristics are owned by the franchisor in which franchisees need pay to get the right to use in their business, the franchisees are the one who fully responsible for the businessbusiness (Justis et al., 1993).. The franchisees run, manage or supervise the outlet stores, and generally they are considered to own and operate the business (Justis et al., 1993).

Franchising has been recognized as a preferred method of doing business throughout the global economy (Aliouche and Schlentrich, 2011). In Malaysia, there are quite a number of franchisees. Some of the examples include McDonald, Smart Reader, Marybrown, Qdees and many others. Some of these franchisees have their franchisors overseas, and some are from local. Even though franchisee studies are not dominant (Combs et al., 2011; Meek et al., 2011), franchisees are important and significant to the success of the franchise system. Franchisor needs franchisee for growth and survival (Stanworth et al., 1997). Part of the reason is because franchisees are to likely have superior market knowledge compared with franchisors who lack such local market knowledge when the system expands beyond its original territory (Burkle and Posselt, 2008) and also franchisees' efforts to experiment and innovate in order to adapt to the local environment are frequently the sources of innovation and new strategies and solutions which add value to the whole franchise system (Phan et al., 1996).

2.3 E-commerce adoption among franchisees

There is not many studies on franchisees and franchisors, particularly on ICT adoption among franchisees both in Malaysia and elsewhere. However, recently Brooks (2012) argues that throughout the franchise industry, franchisors are increasingly introducing information and communications (ICT) technology into their franchise networks in attempts to save costs and increase efficiency. Even though there is rapidly escalating use of ICT systems in franchising worldwide, very little has been written about the way that such technological deployment within the industry has modified or affected the franchisee to franchisor relationship and network profitability (Brooks, 2012). This case is much more acute in the area of e-commerce adoption.

Most studies of e-commerce adoption among franchisees assumed franchisees as SMEs or retailers. For example, Chau (2003) studied about e-commerce adoption among 30 Australian SMEs which include franchisees. Watson et al (2002), on the other hand, conclude that future for retail development through franchising should considered e-commerce as a part of their business operation. Thus, conclusion is unlikely to be generalized to the franchisees sector. Recently, Perrigot and Penard (2013) found that only 20 percent of the sampled franchisors had adopted an e-commerce strategy in the United States. In Malaysia, studies on franchisees and e-commerce adoption are rarely found. Therefore, this work seeks to make a contribution in this area.

## III. METHODOLOGY

The research was designed as an explorative case study (Yin, 1994). This approach has been considered important in order to find new categories in addition to ones that could be found in the literature review (Yin, 1994). The data for this study had been gathered in two parts. Part 1 involves survey with owners/managers of the franchisees and to explore their extent perceptions of e-commerce. Part 2 involves an open face-to-face interviews to investigate thefranchise owner/manager's understanding on e-commerce. A total of 22 owners/managers of the franchisees that has been registered in the Malaysian Franchisee Association (MFA) database who attended a seminar in Port Dickson participated in the survey. In addition, eight available franchisee owners/managers were interviewed to gauge details on the subject being studied.

## IV. FINDINGS AND ANALYSIS

4.1 Demographics

A total of 30 questionnaires were distributed to the owner/manager (hereafter will be called manager) of franchisee during the franchisee seminar. 22 managers return back the questionnaire and were found to be useable for the data analysis. Half of the respondents are owners of the franchisees, while the other half are managers that represent the franchisees. Most respondents are between 30-39 years old years old (59 percent), and as expected most of them are male. One interesting finding is that most respondents

in this survey are at least a diploma holder (90 percent), which indicating the managers of the survey franchisees in this survey are well-educated.Table 1 displays the respondent characteristics.

Table 1.Respondents' characteristics (N=22)

| | | | |
|---|---|---|---|
| Age | | Education | |
| 20- 29 | 5 | SPM/MCE | 2 |
| 30-39 | 12 | STPM | - |
| 40-49 | 4 | Diploma | 5 |
| Above 49 | 1 | Bachelor | 13 |
| Gender | | Master | 2 |
| Male | 14 | | |
| Female | 8 | Years with present firm | |
| Ethnicity | | 1-5 years | |
| Chinese | 7 | 6-10 years | 9 |
| Malay | 13 | 11-20 years | 6 |
| Indian and others | 2 | 20-30 years | 5 |
| | | >30 years | 1 |
| | | | 1 |

Most of the franchisees involve in either service or food industries. Only three franchisees involve in Non-Governmental Organisation (NGO). More than half of the respondents are located in the Central region. This is not surprising because the Central region is the most densely populated in Malaysia, and this is where Kuala Lumpur, the capital city of Malaysia, is located. Most of the national infrastructure, such as highways, airports, ports and industrial estates, is here, which explains why many firms prefer the location (Hashim, 2011).

4.2Internet and e-commerce

All respondents in this study have Internet connection and e-mail. This is expected because Internet and e-mail are part of parcel in the business organisations nowadays. Surprisingly, all franchisees in this study have a website, which indicate that they are one step ahead in embedding e-commerce in their companies. Most of the websites provide information about franchisees' companies and also products and services provided. None of the franchisees has online ordering or payment systems embedded on their websites. During the interviews, allrespondents' managers claimed that the websites they have now were guided and motivated by their franchisors. They need to follow the rules that were given to them by their franchisors. Nevertheless, they believe e-commerce is very important in every business and that every business should implement e-commerce for survival. In addition, they also believe that e-commerce is a trend in today's business and to enhance competitiveness.

4.3 Perception on e-commerce adoption

The survey and interviews have provided some insights of perception e-commerce adoption among franchisees. Table 2 and 3 demonstrate the mean value of franchisees' perception of adopting e-commerce and mean value the perception of the strategic value of e-commerce using Likert-scale 1 to 7, where 1 indicates disagree and 7 indicates the level of agreement.

Table 2. Perceptions of adopting e-commerce

| Statement | Mean | Statement | Mean |
|---|---|---|---|
| Our organization has the financial resources to adopt e-commerce. | 4.3 | Our organisation is pressured by the government to adopt e-commerce. | 3.9 |
| Our organization has the technological resources to adopt e-commerce. | 4.1 | I would find e-commerce to be flexible to interact with. | 5.0 |
| Our organization perceives that e-commerce is consistent with culture. | 4.0 | My interaction with e-commerce would be clear and understandable. | 5.0 |
| Our organization perceives that e-commerce is consistent with values. | 4.3 | It would be easy for me to become skillful at using e-commerce. | 5.2 |
| Our organisation perceives that e-commerce is consistent with preferred work practices. | 4.6 | I would find e-commerce easy to use. | 5.0 |
| E-commerce | 4.7 | Using e- | 5.0 |

| | | | |
|---|---|---|---|
| would be consistent with our existing technology infrastructure. | | commerce would enable my company to accomplish tasks more quickly. | |
| Competition is a factor in our decision to adopt e-commerce. | 4.8 | Using e-commerce would increase my job performance. | 5.4 |
| Social factors are important in our decision to adopt e-commerce. | 4.6 | Using e-commerce in my job would increase my productivity. | 5.4 |
| We depend on other firms that have already use e-commerce. | 3.8 | Using e-commerce would enhance my effectiveness on the job. | 5.5 |
| Our industry is pressuring us to adopt e-commerce. | 4.2 | I would find e-commerce useful in my job. | 5.4 |

Table 3. Perceptions of strategic value of e-commerce

| Statement | Mean | Statement | Mean |
|---|---|---|---|
| In order to provide strategic value to our organisation, e-commerce should help: | 4.6<br>4.9<br>4.9<br>5.0<br>5.1 | In order to provide strategic value to our organisation, e-commerce should help: | 5.2<br><br>5.1<br>5.1 |
| Reduce costs of business operations | 4.9<br>5.3<br>5.3 | Provide managers access to methods and models in making functional area decisions | 5.0<br>4.7<br>4.9 |
| Improve customer services | | Improve communication in the organisation | 5.0 |
| Improve distribution channels | | Improve productivity of managers | |
| Reap operational benefits | | Support strategic decisions of managers | |
| Provide effective support role to operations | | Help make decisions for managers | |
| Support linkages with suppliers | | Support cooperative partnerships in | |
| Increase ability to compete | | the industry | |
| Provide managers better access to information | | Provide information for strategic decision | |

## V. DISCUSSIONS

This study has investigated perception of franchisees owners/managers on e-commerce adoption and their perception of the strategic value of e-commerce. The study showed that most franchisees' owners/managers believe that e-commerce is very important and they perceive they are ready financially and technologically to implement e-commerce in their businesses. Competition seems to be the main factors for these franchisees' managers to make decision to adopt e-commerce. Looi (2003) and Chong et al. (2009) also found competitiverelated factors as being important, but they were identified mainly in competitors and suppliers pressure. Contrary to the studies by Kuan and Chau (2001) and Scupola (2009), this study has found that the influence of government is lessvitalor at least very limited to an indirect source of influence, while industry pressure is more imperative at least in terms of customers. The franchisees' managers also believe that e-commerce is easy to use and using e-commerce would enhance their effectiveness on the job. This show that perceive ease of use brought by technology acceptance model (Davis, 1989) is relevant for any business to implement e-commerce.

In terms of strategic value of e-commerce, this study found that adopting e-commerce will increase companies' ability to compete in the global market. Managers believe that e-commerce will provide better access to information, improve communication in the organisation, as well as improve productivity of managers. This findings are similar to other study. For example, Gefen and Straub (1997) also found that most businesses adopt e-commerce because of its perceived positive effects on the business outcomes. In the same vein, Grandon and Pearson (2004) argued that there is a causal link between the perceived strategic value of electronic commerce and electronic commerce adoption in their study of e-commerce adoption among US businesses. They believed that the strategic value of the e-commerce will encourage businesses to implement it.

It should be noted that while the study by Tan and Teo (1998) found that cost was cited by non-adopters as a reason for not using the Internet, research by Mirchandani and Motwani (2001) showed that the operational cost of website was irrelevant. The finding was supported by another study (Scupola, 2009; Lin and Ho, 2011). This study also found that lower operation costs was among the least important factors why franchisees' managers perceived to adopt

e-commerce. This implies that while low operation costs might not motivate businesses to implement e-commerce, 'perceived' high cost might inhibit businesses from embracing it (Hashim, 2011).

## CONCLUDING REMARKS

The study contributes to the existing literature, particularly in the franchising literature by suggesting that franchisees management faces major decision dilemmas: e-commerce adoption.

While previous studies found that technological, organisational, and environmental characteristics may influence businesses to adopt e-commerce, this study suggests that perceived e-commerce adoption such as perceive ease of use and competitive pressure, and perceived strategic value of e-commerce such as perceive benefits of the technology, do influence franchisees, particularly those in developing countries such as Malaysia, to adopt e-commerce. However, above all, the franchisees' managers still believe that e-commerce adoption, particularly having a website online ordering and online payment systems, should be guided and motivated by their franchisors.

Franchisees, although is not dominant in business and management topic, has becoming increasingly important, particularly in the entrepreneurship context. Franchising activities have contributed to some countries economy and has been considered one of the world's fastest growing form of retailing.

Thus, it is important to highlight this topic in the business and management literature. In addition, it should be noted that most of the existing studies on franchising, particularly franchisees, have focused on developed countries. This study focuses on a developing country: Malaysia. Thus, this study brings in a new, possibly fresher, wider and more inclusive perspective on the adoption of e-commerce by the franchisees.

This study has provided important insights into e-commerce adoption among franchisees in Malaysia. This study is cross-sectional in nature. Owing to the inherent time constraints in a study of this kind, the adoption decision, which may have required a longitudinal perspective, was not investigated.

The study will, however, generate a significant data set that can be examined for potential relationships between factors and e-commerce implementation. This can be used to formulate hypotheses for future research. Building on this research, there are opportunities for further work.

The present research could serve as a starting point for more detailed studies, by involving both the adopters and the non-adopters of websites. Future studies should tackle such an assignment using multivariate analysis or case or longitudinal studies. This may give a more comprehensive understanding of these issues.

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