# INDUSTRIAL TRAINING REPORT

## MALAYSIAN FRANCHISE ASSOCIATION

1ST MARCH – 13TH AUGUST 2021


NAME : WAN NURMAISARA BINTI NOOR HISHAM

STUDENT ID : 2019353359

PROGRAM : BACHELOR DEGREE OF BUSINESS ADMINISTRATION (HONS.) FINANCE

ADVISOR : DR. NURUL LABANIHUDA ABDULL RAHMAN

## EXECUTIVE SUMMARY

As part of my degree program, I completed a placement with the Malaysian Franchise Association. Most of the time, I was involved in a practical and business world environment, and with the help of the manager, I gained a variety of experiences. MFA's membership is made up of a special structure. Franchisees, master franchisees, franchisors, banks, government agencies and authorities, suppliers, accounting companies, attorneys, and franchise vendors are all gathered under one roof. I was primarily assigned to the Malaysian Franchise Association's finance department, where I was responsible for payment voucher preparation, invoice preparation, working with member affairs department staff, meeting bank managers, preparing telegraph transfer forms, working with event managers, meeting professionals, meeting suppliers, and attending workshops. In addition to office duties, I've been working on a report on the determinants of company's performance efficiency in the franchise industry. Efficiency is the dependent variable in this study, whereas asset turnover, return on equity, and return on asset are the independent variables. The results that I got from this research is both asset turnover and return on equity have a significant relationship with efficiency. Meanwhile return on asset has no significant relationship with efficiency. In this study, one of my recommendations is to enhance ROA so that organizations can raise revenues without raising their cost of assets and cut costs. Increased profit margins can also help a company maintain its ROE. Last but not least, the corporation can improve its asset management by selling assets that do not generate revenue for the organization. To conclude, the goal of this research was to study the determinants of company's performance efficiency in the franchise industry during the past ten years, from 2011 to 2020. Because most of the company's efficiency improves year after year, the time range for this present research is ideal, encouraging the researcher to investigate the company's long-term viability and stability. The results of the analysis suggest that the study achieved its purpose, which is supported by the literature review.

**TABLE OF CONTENT**

## COMPANY’S PROFILE

MALAYSIAN FRANCHISE ASSOCIATION

Figure 1.2 Malaysian Franchise Association logo

## COMPANY’S BACKGROUND

In Malaysia, franchising began in the 1940s with Bata and Singer (producer of footwear and supplier) and was quickly followed by vehicle and gas station dealers. However, the public became aware of it only after restaurants that serve fast food such as McDonalds (1981), KFC (1970), and A&W (1963) opened and quickly grew across the region.

The Malaysian Franchise Association was established in 1994 to complement the government's effort to encourage entrepreneurship through franchise business. MFA's establishment came at an ideal time to help Malaysia's franchising industry grow. MFA will be a reference hub for present and potential franchisees and franchisors, as well as the general public and media.

It is expected that the formation of MFA will create an atmosphere that is favorable to the spread of franchise business in Malaysia. MFA's membership is made up of a special structure. Franchisees, master franchisees, franchisors, banks, government agencies and authorities, suppliers, accounting companies, attorneys, and franchise vendors are all gathered under one roof. In fact, MFA's Code of Ethics of a Professional Conduct of Franchise Practitioners applies to everyone involved or interested in franchising, and MFA enforces it strongly yet constructively. The MFA is devoted to advancing franchise business in Malaysia into the 21$^{st}$ century, in a row with Vision 2020, through the efforts of its committee.

## LOCATION

Boulevard Business Park Block J-2-1, Pusat Komersial Jalan Kuching No. 115, Jalan Kepayang, Off, Jalan Kuching, 51200 Kuala Lumpur


Figure 1.3 Maps of Malaysian Franchise Association office

## OPERATION HOUR

MFA operates from Monday to Friday starts from 9.00am to 5.30pm.

## VISION

The vision of the association is to be the main promoter and mover representing the franchise fraternity towards making Malaysia the regional hub for franchise development.

## MISSION

The mission of the association is to unify the franchisors, franchisees, and the support institutions in a spirit of bonding in establishing the good image in the business of franchise.

**OBJECTIVE**

The Malaysian Franchise Association's goals are as follows:

(a) To merge the attempt of the members in protecting their interest.

(b) To promote and preserve the franchise industry's positive image, as well as moral business conduct.

(c) To back the government's efforts to influence the Bumiputras to be involved in the franchise industry.

(d) To systematize the remaining infrastructure and resources for the franchise development at national, regional, and global scale.

**ORGANIZATIONAL STRUCTURE**

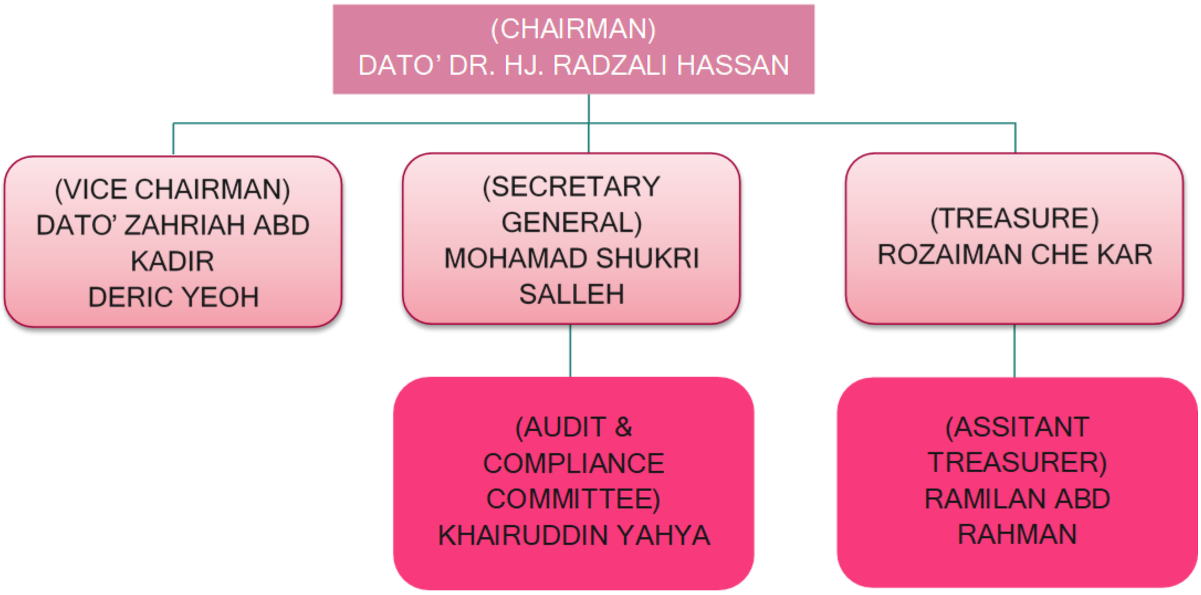



Figure 1.4 MFA's Organizational Structure

## SECRETARIAT LEVEL

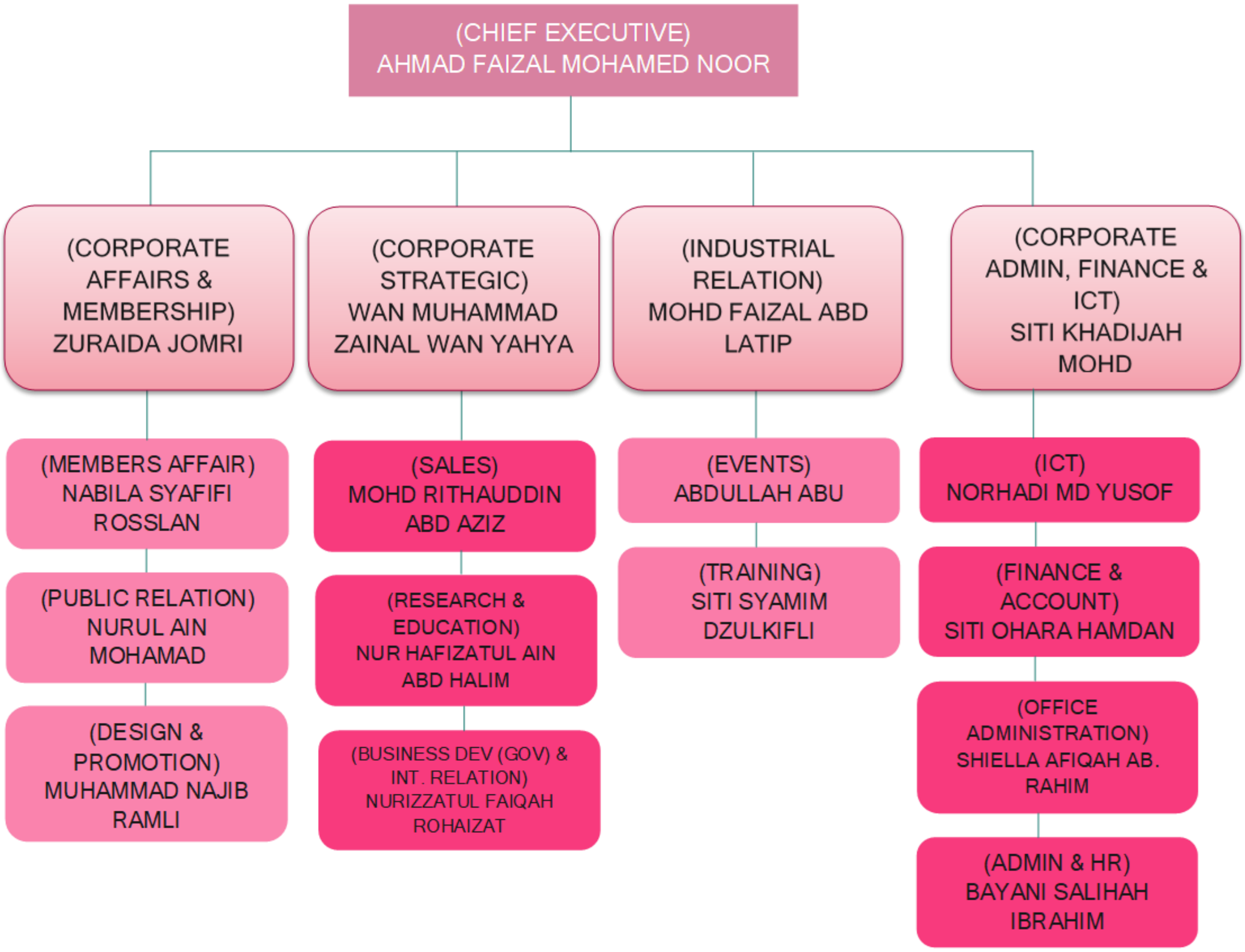



Figure 1.5 MFA's Organizational Structure

**PRODUCTS/SERVICES**

Malaysian Franchise Association serves as a franchise business consultant, providing guidance, training, consulting, exhibitions, and promotions to enable people learn more about franchises. The following are the services provided by the Malaysian Franchise Association:

- Doing promotion through intensive marketing and promotional program
- Hold international franchise expo to help people grow their franchise business
- Provide training and seminars regarding franchise to everyone
- Develop business prospects via matchmaking program
- Professional consultancy and assistance in dispute resolution through franchise clinic

The Enhanced Franchise Development Programme (EFDP), which was set up by the ministry late 1992 through the Prime Minister's Department's Implementation and Coordination Unit was a significant game changer in restoring the production of more Bumiputera entrepreneurs is one of the National Development Plan's main agendas. Their objectives are:

- To expand the number of entrepreneurs as franchisees, franchisors and master franchisees
- To evolve local goods and services into franchise business

However, putting the plan into action was no easy matter. Because franchise business was still quite new in Malaysia, there were a number of experimental and teething issues. As a result, the Ministry of Entrepreneur Development, in collaboration with MFA and other connected authorities, actively pushed educational programs on building and operating franchisees, such as seminars, conferences, training, and courses.

Every year, the MFA hosts an exhibition. The Franchise International Malaysia expo and conference, which began in1994, was designed to serve as a great venue for establishing new franchising models, appointing master franchisees, identifying potential local franchisees, and networking. The MFA in cooperation with the Ministry of Domestic Trade and Consumer Affairs (MDTCA), will host Franchise International Malaysia, Exhibition and Conference (FIM2021) from October 9$^{th}$ to 16$^{th}$, 2021 at the Kuala Lumpur Convention Centre (KLCC) in Kuala Lumpur, Malaysia.

## TRAINING'S REFLECTION

I had magnificently concluded the placement in Malaysian Franchise Association as a requirement of Bachelor of Business Administration (Hons) Finance. Normally, the duration of my working hour is from 8.30a.m. until 5.30p.m., but since our government imposed movement control order (MCO), my working hour was reduced from 9a.m. until 4p.m. There are also days when I need to work from home because of the MCO.

Despite the fact that I was assigned to the finance department, I also did a lot of everyday office administration work, such as answering phones, responding to emails, and other tasks as needed. Payment voucher preparation, invoice preparation, work with member affairs department staff, meet bank managers, create forms for telegraph transfer, deal with event manager, meet professionals, contact suppliers, follow-up MFA members, and attend workshop are some of my particular specialization tasks.

MFA also provide benefits such as allowance for every month and transportation claim if I need to work outside of the office. All the staff members from different department teaches me a lot of things so I gain lots of knowledge and technical skills related to work. One of them is learning new software, how to use the company's server, and learn more about franchise since MFA is deeply connected in franchise industry. Since the staff members are friendly and very generous when it comes to sharing knowledge, I often ask them about franchise and the programs handled by MFA. This was one of my way to develop my soft skills between co-workers. I also learn doing multi-task, being a flexible teamwork, be punctual, willing to take risk and negotiation, communication, interpersonal, and confidence.

Overall, I feel grateful towards the people of MFA because they have a very deep knowledge about franchise and is very open to share the knowledge to not only practical students but all people who have passion in franchise business.

**SWOT ANALYSIS**

| Strengths | Weaknesses |
| --- | --- |
| • Strong management<br>Aside from their skills and strong background, the association's network is a significant asset. MFA has a long-standing presence on the ground and is well-regarded.<br><br>• Constant programs and activities.<br>As this foundation was implemented by the government, MFA constantly holding webinar and training virtually, fundraise for CSR program, online exhibition and conference and many more. | • Employment problem<br>The capacity to recruit the best people in the business to help them manage the main positions is MFA's vulnerability, as it is the weakness of other non-profit organizations.<br><br>• Office location<br>It is hard for people who have meeting with upper management or coming over to get consultancy service from the officer to find the office because the location of the office is a bit secluded and visitors need to pay for the parking lot. |
| Opportunities | Threats |
| • Getting support from government<br>MFA is certain to receive support from the Malaysian government and major entities because of the purpose they have chosen to promote.<br><br>• Build relationship with big companies<br>MFA may be valuable partners in franchise development programmes by bringing in communities, providing training, and encouraging participation in the growth process. | • Low ability to generate fund<br>One of the biggest threats is raising the necessary funds to meet their goals and objectives, as well as hiring and retaining vital and skilled workers and managing their financial and human resources.<br><br>• Membership cost<br>The members such as would-be-franchisors and would-be-franchisees might think it will cost them more as there is no stability in their business. |

**Strength**

- **Strong management**

  The expertise and extensive experience that MFA's directors bring to the table is the foundation of the organization's strength. Aside from their skills and strong background, the association's network is a significant asset. MFA is Malaysia's sole non-profit organisation that offers these kinds of services. MFA has a long-standing presence on the ground and is well-regarded. Despite the limited number of employees, the organisation boasts a competent management team. They are capable of providing excellent services to clients, such as consulting and devoting time to them since they want the clients to gain a better understanding of the franchise business.

- **Constant programs and activities**

  As this foundation was implemented by the government, MFA constantly holding webinar and training virtually, fundraise for CSR program, online exhibition and conference and many more. The consistency shows that MFA is very active in encouraging people in Malaysia especially Bumiputras to enter the franchise business. It is good as it can create more awareness about franchise and MFA can gain more trust by doing lots of beneficial program.

**Weaknesses**

- **Low ability to attract the best hand in the industry**

  The capacity to recruit the best people in the business to help them manage the main positions is MFA's vulnerability, as it is the weakness of other non-profit organizations. It is no longer a secret that non-profit organisations have a difficult time competing with for-profit corporations when it comes to hiring crucial roles. This is due to the fact that they are unable to compete with the wages supplied by these corporate entities. Recruiting, paying, and keeping experts on the payroll is tough for most non-profit organisations.

- **Office location**

It is hard for people who have meeting with upper management or clients coming over to get consultancy service from the officer to find the office because the location of the office is a bit secluded and visitors need to pay for the parking lot. The office also did not have their own parking lot because they just rent the office building, not the parking lot. To be able to enter the building, visitors need to pay for the parking fees and park the car in a basement. It might consume more times for clients to find a spot especially if they are not familiar with the area.

**Opportunities**

- **Getting support from government**

MFA is a non-profit organisation dedicated to promoting Bumiputras to engage in franchising in order to boost Malaysia's economy. MFA is certain to receive support from the Malaysian government and major stakeholders because of the purpose they have chosen to promote. When they offer their fresh proposals to donors, there are a variety of organisations that will be eager to collaborate with them. Where there are mutual interests, MFA can work with governments and agencies to organise public opinion on franchising. Their mandate and voice frequently provide a social dimension to the business, data analysis, and franchising business skills. As a result, they may be good partners for franchise programmes that deal with bigger issues like the systems, technology, environment and more.

- **Build relationship with investors**

MFA may be valuable partners in franchise development programmes by bringing in communities, providing training, and encouraging participation in the growth process. Even at the small-producer level, they can help change the franchise focus away from commodities. They can provide their knowledge of how to incorporate research and education into franchise development programmes. MFA can assist producers add value, enhance quality, and establish new franchise markets by bringing in sector-specific expertise.

**Threats**

- **Limited fund**

  As a non-profit organisation, one of the biggest threats they face is raising the necessary funds to meet their goals and objectives, as well as hiring and retaining vital and skilled workers and managing their financial and human resources. For example, renewal membership fee is one of the income resources for the association. Membership fee was paid by the members of MFA, which is franchisors, franchisees, master franchisees, and more. The challenge occurs when some of the members did not pay for the fees on time. One of financial department job is to track and record the membership payment. Sometimes, they cannot reach the members because their numbers are not in service anymore. This may cause a distress to financial department because they cannot generate the required fund for activities and programs.
- **MCO implementation**

  Due to Covid-19 pandemic, government is implementing Movement Control Order (MCO) which means all of the sector that is non-essential need to stop their business activities. The members might have no problem to pay for membership fee annually especially franchisor since they can generate income from the royalty fees that was paid by franchisees, but for the members such as would-be-franchisors and would-be-franchisees might think it will cost them more as there is no stability in their business.

## REGRESSION ANALYSIS

## BACKGROUND OF THE STUDY

Many author applied the topic of efficiency to examine performance in the service and retail industries, but only a few concentrated on the particular example of franchise industries, despite the fact that the need for more study on franchise performance has been noted (Piot-lepetit et al., 2020). According to the resource scarcity theory Rosado-Serrano, (2019), a company's franchised outlets will perform much better when their financial limitations are lessened, and agency theories argue that franchising should be the preferable form of organization throughout the life of a retail chain due to many possible advantages.

One of any company's top priorities in any severe competition is to be sustainable. To accomplish so, the company must develop, implement, and maintain strategies that will boost its efficiency, especially in the franchising industry. This can be accomplished by examining the internal and external variables that may have an impact on the organization's success. Managers' efficiency and value are dependent on their ability to identify factors that can lead to efficiency gains.

Efficiency is the highest level of performance that uses the least number of inputs to achieve the greatest number of outputs. To accomplish a particular outcome, efficiency entails reducing the quantity of unneeded resources, such as personal energy and time. It is a measurable hypothesis that may be calculated by dividing total input by usable output. It assists in the decrease of resources such as physical time, materials, and electricity while obtaining the needed performance.

The basic concept of efficiency analysis is to measure a company's success based on how well resources are utilized to achieve goals. In today's globalized economy, assessing a company's performance efficiency has been identified as a critical issue. Companies who want to measure performance in this area must be aware of the variables that can have a significant impact on efficiency. Financial ratio analysis is commonly used to analyze and predict an organization's efficiency (Sompolos & Mavri, 2018), as well as to identify the impact of management choices or changes in the economic environment. As a result, the focus on this study is on the efficiency of franchise companies.

**PROBLEM STATEMENT**

In the franchise industry, efficiency is a major concern. Many authors addressed the issue of outlet efficiency. For example, Piot-lepetit et al., (2020), comparing the efficiency of 184 unaffiliated and 92 associated brokerage companies for real estate, found that both franchised and non-franchised enterprises were inefficient. In the restaurant industry, Rosado-Serrano, (2019), examined the influence of operating countries to restaurant franchising system performance. In the hotel industry, empirical study on franchised outlet efficiency is frequently conducted (Hua et al., 2017). The essential of internal benchmarking inside a chain was emphasized by the main outcomes of these studies. It gives franchisors managerial advice that helps them identify their top outlets and improve the outcomes of their less efficient ones.

Some researchers sought to provide answers for franchising failures. According to Moon & Sharma, (2014), the failure rates of conventional and franchising businesses are very similar, and franchising businesses may be even riskier due to additional franchise-specific risks such as market saturation, franchisee selection risk, fraud, high fees and royalties, intra-system conflict, and inadequate franchisee support. Franchising failures are partially due to franchising-specific factors and partly due to generic reasons for company failure. When smaller firms try to franchise, the pressures of franchising magnify the challenges of smallness. Franchising entry barriers, misjudgment of start-up costs, and a lack of knowledge with franchising are just a few of the reasons.

The agency viewpoint, on the other hand, concentrates on the franchisor's monitoring abilities. According to Moon & Sharma, (2014), franchised businesses are unable to effectively monitor their managers since franchisees have a residual claim on revenue, making them less likely to shirk, or avoid or disregard their tasks. As a result, the necessity for monitoring is reduced because the profitability and performance of franchisees are dependent on keeping a tight relationship with the franchisor. It is in the franchisee's best interests to follow standard operating procedures as closely as possible.

Because of skewed interests between franchisor and franchisee, relationship disputes and disputes are common in the franchising industry (Kim & Pennington-Gray, 2017). Dedication in the franchisor-franchisee relationship is crucial since it aids in the resolution of problems. Furthermore, franchisor and franchisee rely greatly on one another for commercial success. Franchisees, for example, depend on their franchisor for their skills, experience, and marketing strategies. Similarly, a franchisor's profit is determined by the royalty payment that franchisees pay as a percentage of their earnings. Past study has highlighted certain key factors of successful strategic business relationships, including corporate social responsibility (Lee et al., 2016).

Long-term sustainability and stability are extremely difficult to achieve in the franchising market. As a result, the goal of this study is to look into the impact of asset turnover, return on equity, and return on asset on a franchise company's performance efficiency.

## OBJECTIVE OF THE STUDY

General

The general objective of this study is to investigate the determinants of company's performance efficiency in franchise industry.

Specific

a) To examine the impact of return on asset on company's performance efficiency in franchise industry.
b) To investigate the impact of return on equity on company's performance efficiency in franchise industry.
c) To determine the impact of asset turnover on company's performance efficiency in franchise industry.

## RESEARCH FRAMEWORK

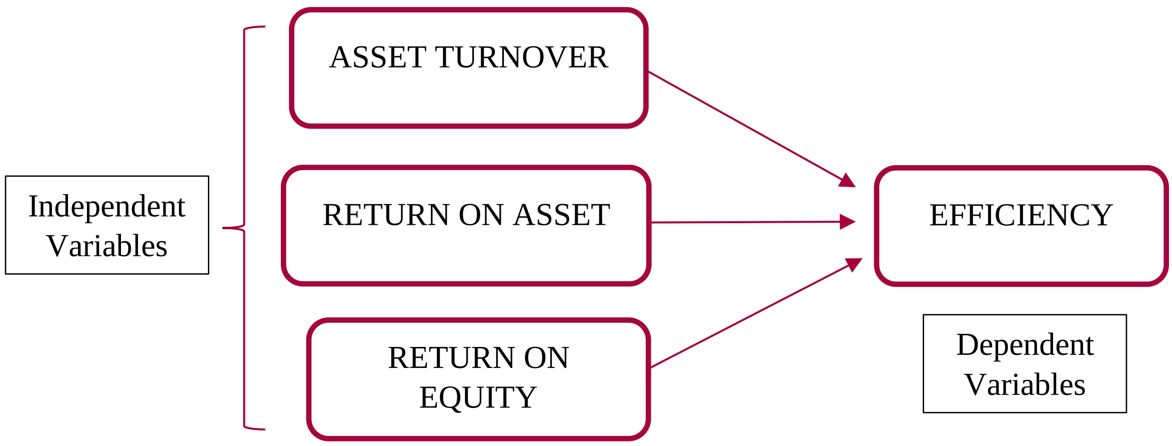



Figure 2.1 Research Framework

## SCOPE OF THE STUDY

### Dependent and Independent Variables

This study examined the determinants of financial performance efficiency of four companies in franchise industry in Malaysia. The dependent variable was the company's efficiency, whereas the independent variables were asset turnover, return on equity, and return on asset.

### Data Collection Method

Data was gathered from the secondary sources. Secondary data for the report was gathered from Thomson Reuters Eikon based on company that is listed in Bursa Malaysia, as well as online journals in Emerald, publications, and other relevant information.

### Time Frame

The data was collected between year 2011 to 2020.

## LITERATURE REVIEW

The literature review is a record of the researcher's thorough evaluation of prior research from secondary sources in issues of relevance. The literature review is frequently based on past study by other researcher, and if the current researcher has already taken the past researcher's idea, that person must quote the idea acquired from them to elude copying. Thus, the literature evaluation of the efficiency of the franchise companies, asset turnover, return on equity, and return on asset will be discussed in this study. This study measures relevant to the dependent variable and determinants of company's performance efficiency in the franchise industry that have been collected by examining prior studies in order to be compatible with past findings. Efficiency is defined as the performance of a firm based on the existing input or any accessible resources compared to the best output produced. The list of variables mentioned in this study will be explained in the sub-sections that follow.

### DEPENDENT VARIABLE

- **Efficiency**

  The main concept behind efficiency analysis is to assess a company's performance by determining how well inputs are utilized to produce outputs (Ding & Sickles, 2018). In today's international economy, measuring an organization's efficiency, particularly in the franchise industry, has been identified as a critical issue. Along similar lines, franchise companies that want to measure efficiency must understand the elements that influence efficiency predictions as well as assess the changes in the underlying business conditions or the consequences of performance measures. The most commonly used numbers and efficiency percentage are inventory turnover, return on asset, fixed asset turnover, return on equity, and asset turnover. The general effect of distributing equity, asset, and net income is often represented by efficiency ratios. They used asset turnover, return on equity, return on asset as proxies to evaluate the organization's efficiency in this paper. These ratios are used to determine the overall efficiency of companies in terms of asset and equity management. The formula is as follow:

$$\boxed{\text{Efficiency} = (\text{Standard Labour Hours / Amount of Time Work}) \text{ X } 100}$$

## INDEPENDENT VARIABLE

- **Return on Asset (ROA)**

There are several literary studies on the company’s performance efficiency (Chowdhury et al., 2019; Duho et al., 2020; Houmes et al., 2018; Hua et al., 2017; Karimi & Barati, 2018; Kim & Pennington-Gray, 2017; Le Thi Kim & Le Thanh, 2021; Piot-lepetit et al., 2020; Rosado-Serrano, 2019; Sompolos & Mavri, 2018; Zhang et al., 2020). The Data Envelopment Analysis (DEA) method is used to assess a company's efficiency. The most common DEA ratio is return on asset (ROA), which compares profit against a company's assets utilized to generate revenue. It's also a good predictor of a company's asset intensity. Meanwhile, investors can use ROA to evaluate a company's financial performance and resource efficiency. According to (Sompolos & Mavri, 2018), the calculation of these measures is plagued by issues such as allocating equity, net income, and asset. By the evidence of Jaloudi, (2019), the ROA variable emphasizes the role of probability in increasing the chances of an insurer being efficient, with the outcome indicating that ROA enhances the chances of efficiency. They reach the conclusion that ROA is calculated by dividing net profit by total assets. As indicated by ROA is one of the characteristics that influences the efficiencies of dispatch firms (Kuo et al., 2020). However, according to Sompolos & Mavri, (2018), in order to measure a company's efficiency, ROA must be determined by dividing profit or loss by total asset. According to Chowdhury et al., (2019), return on asset, which is net profit divided by total asset, is a proxy for efficiency. The formula is as follows:

$$\boxed{\text{Return on Asset} = \text{Net Profit} / \text{Total Asset}}$$

- **Return on Equity (ROE)**

From the prior studies by (Chowdhury et al., 2019; Duho et al., 2020; Karimi & Barati, 2018; Le Thi Kim & Le Thanh, 2021; Rosado-Serrano, 2019; Sompolos & Mavri, 2018; Zhang et al., 2020), the return on equity is a popular evaluation of a firm's efficiency, and a high ratio indicates that the company is doing great in terms of growing profit generation while using less capital. It also shows how successfully management of a company manages investors funds. A high return on equity could show that the firm is making good use of its equity capital, but it could also suggest that it has acquired on a big debt. A massive debt proportion, often known as a high debt-to-equity ratio, can make return on equity appear greater when compared to competitors with smaller debt. According to Sompolos & Mavri, (2018), return on equity is measured as the percentage of profit or loss after taxes divided by total equity. Return on equity equation is commonly used to determine capital efficiency over a fiscal year, but it can also be used to evaluate capital efficiency over different time periods. Analyzing variations in a firm's quarterly or yearly ROE can be immensely helpful in tracking changes in equity efficiency. The relationship between value-added intellectual coefficient component and financial success was denied based on the proposed estimation, according to Chowdhury et al., (2019), because there is no significant influence on the result of ROE. However, the findings of Rosado-Serrano, (2019), who examined the system, proportion, and performance of international franchising proved that ROE has a positive significant relationship between country’s dispersion and average daily volume.

Return on Equity= Net Profit / Total Equity

- **Asset Turnover (ATO)**

The asset turnover ratio was widely used by businesses to assess their efficiency and productivity in utilizing assets to generate revenue. Efficiency can focus on individual operations or the entire firm (Alarussi & Alhaderi, 2018). ATO was used as productivity indicator that followed the research of (Chowdhury et al., 2019; Duho et al., 2020; Houmes et al., 2018; Le Thi Kim & Le Thanh, 2021; Zhang et al., 2020). Asset turnover is calculated by dividing revenue by total average assets as a measure of indicator productivity. Asset turnover has been proven to be strongly and positively connected to cargo and eco-efficiencies, implying that as asset turnover increases, so does eco-efficiency (Kuo et al., 2020). This was also proven by Duho et al., (2020), which the impact of market risk on profit efficiency is positive and significant. However, the study of intellectual capital efficiency and organizational performance by (Chowdhury et al., 2019), resulted a negative but significant relationship in the context of pharmaceutical industry.

Asset Turnover= Net Sales / Average Total Asset

## RESEARCH METHODOLOGY

### Data Description

Secondary data was used to gather data and information for a study of the firm's efficiency in franchise industry. The data was gathered using Thomson Reuters Eikon online database. The researcher used the UiTM portal website as a channel of evaluation to gain access to the Eikon software and was given a limited pass code. To examine the company’s particular determinants of efficiency in franchise industry, past 10 years data were obtained from 2011 to 2020, gathering a total of 40 observations. The four franchise companies used as subject to this research are 7-Eleven Malaysia Holdings Berhad, Aeon Co (M) Berhad, Harrisons Holdings Malaysia Berhad, and QL Resources Berhad.

## FINDING AND ANALYSIS

This study was discussed on the result obtained from the findings regarding to the determinants of financial performance efficiency in franchise industry. In evaluating the data, Stata have been used in order to analyze the data with an explanation on the hypothesis.

## DESCRIPTIVE ANALYSIS

Table 4.1: Descriptive Analysis of four (4) Malaysian companies in franchise industry

| Variables | Obs | Mean | Standard Deviation | Min | Max |
|---|---|---|---|---|---|
| EFFICIENCY | 40 | 22.37 | 19.60603 | 5.1 | 65.8 |
| ROA | 40 | .07625 | .0318399 | 0 | .13 |
| ROE | 40 | .19725 | .1911636 | .03 | .92 |
| ATO | 40 | 1.7875 | .7619871 | .64 | 2.87 |

ROA= Return on asset, ROE= Return on equity, ATO= Asset turnover

Table 4.1 summarizes the descriptive study of the dependent and independent variables comparing four companies across the sample period. There are 40 observations in total in the sample. Efficiency, asset turnover, return on equity, and return on asset are the four most notable features predictor sizes. The mean, standard deviation, minimum, and maximum values are used to describe the variables.

For this analysis, efficiency has the highest mean, standard deviation, minimum, and maximum values which are 22.37, 19.60603, 5.1, and 65.8, respectively. Meanwhile, ROA shows that it has the lowest mean, standard deviation, minimum, and maximum values which are 0.07625, 0.0318399, 0, and 0.013, respectively.

**PANEL SPECIFICATION TEST**

Table 4.2: Panel Specification Test for four (4) Malaysian companies in franchise industry

| **Model** | **F-Test** | **BP-LM Test** | **Hausman** | **Technique** |
|---|---|---|---|---|
| Model 1 | 0.0101 | 1.0000 | 0.0000 | Fixed Effect |
| | Choose FE | Choose POLS | Choose FE | |

The panel specification test is performed to select the optimal model for this study based on Table 4.2. The F-Test, the Breusch and Pagan Lagrangian Multiplier test (BP-LM), and the Hausman Test are the three types of testing. To determine the relevance of Pooled Ordinary Less Square (POLS) and Fixed Effect (FE), the F-Test is applied. According to Table 4.2, the F-Test result is 0.0101, which is less than 0.05. This suggests that FE is the best model for F-Test. Next, the BP-LM Test is used to determine the relevance of POLS and Random Effects (RE). According to Table 4.2, the BP-LM Test result is 1.0000, which is greater than 0.05. This indicates that POLS is the best model for the BP-LM Test. The Hausman Test is used to determine the relevance of RE and FE. Table 4.2 shows a result of 0.0000, which is less than 0.05. This suggests that FE is the best model for the Hausman Test. Fixed Effect (FE) was identified as the best model to employ for the panel specification test by the method.

**DIAGNOSTIC TESTS: LINEAR REGRESSION**

Table 4.3: Variance Inflation Factors (VIF) for four (4) Malaysian companies in franchise industry

| Model | Multicollinearity | Heteroscedasticity | Serial Correlation |
|---|---|---|---|
| Model 1 | 1.39 | 0.0000 | 0.0000 |
| | No multicollinearity problem | Heteroscedasticity problem | Serial correlation problem |

The diagnostic test examines the study's problem using three tests: multicollinearity, heteroscedasticity, and serial correlation. A high correlated relationship between independent variables is checked for multicollinearity. To avoid the problem of multicollinearity, the p-value must be less than 10. The result in Table 4.3 reveals that there is no multicollinearity problem because the variance inflation (VIF) is 1.39. To ensure that the data was consistent, heteroscedasticity was used. To avoid this issue, the p-value for heteroscedasticity must be greater than 0.05. The p-value is less than 0.05, which equals 0.0000, as shown in Table 4.3. This indicates that the variance is not stable due to an issue with heteroscedasticity. Serial correlation's purpose is to confirm redundancy. To prevent the serial correlation problem, the p-value must be bigger than 0.05. The p-value is less than 0.05, which equals 0.0000 in this case. This indicates that there is a problem with serial correlation in this test. Fixed-Effect with cluster option is suggested as a solution to the issues of heteroscedasticity and serial correlation.

## CORRELATION ANALYSIS

Table 4.4: Correlations between efficiency, return on asset, return on equity, and asset turnover for Malaysian franchise companies.

| | Efficiency | ROA | ROE | ATO |
|---|---|---|---|---|
| Efficiency | 1.0000 | | | |
| ROA | -0.0851 | 1.0000 | | |
| ROE | 0.1749 | 0.3850 | 1.0000 | |
| ATO | -0.3481 | 0.0572 | 0.4946 | 1.0000 |

The correlation analysis for the efficiency of the Malaysian companies in franchise industry is listed in Table 4.4. The highest positive correlation, 17.49%, is demonstrated by ROE. Meanwhile ROA and ATO both show a negative correlation which are -8.51% and -34.81% respectively. The positive of ROE means that a company is increasing its profit generation without needing as much capital. The negative of ROA and ATO means that the companies in franchise industry is not efficient in utilize its assets to generate profit and that the company has an inadequate credit policies or customers who are not financially viable or creditworthy.

## MULTIPLE REGRESSION RESULT

Table 4.5: Regression Analysis for four (4) Malaysian companies in franchise industry

| | Fixed Effect (within) Regression with Cluster Option |
|---|---|
| ROA | -170.3117 |
| | (-1.48) |
| ROE | 60.5154*** |
| | (11.70) |
| ATO | -16.0583* |
| | (-1.67) |
| Constant | 52.1238** |
| | (2.45) |
| N | 40.0000 |
| r2 | |
| r2_a | |
| r2_w | 0.2512 |
| r2_b | 0.4360 |
| r2_o | 0.3440 |
| F | |
| p | 0.0000 |
| chi2 | 209.1259 |
| | Notes: t statistics in parentheses |
| | * significant at 10% level |
| | ** significant at 5% level |
| | *** significant at 1% level |

## REGRESSION MODEL

$$EFF_{it} = 52.1238 - 170.3117\ ROA_{it} + 60.5154\ ROE_{it} - 16.0583\ ATO_{it} + \varepsilon_{it}$$

Table 4.5 shows the regression result using fixed effect (within) regression with cluster option for three independent variables on the efficiency of company's performance in franchise industry, accompanied by the regression model for the variables. At the 1% level, the regression findings suggest that the model fits the data well. The Adjusted $R^2$ is 79.59%, indicating that the independent variables in the model can explain 79.59% of the variation in Efficiency, while other variables not evaluated can be explained in the remaining 20.42%. ROA has a negative insignificant relationship with efficiency which the result is -170.3117. This indicates that every 1 unit increase in ROA will result in 170.3117 decreases in efficiency. Meanwhile ROE has a positive and significant relationship with efficiency which is 60.5154 at 1% level of significance. The efficiency will grow by 60.52% every 1 unit rise in ROE. In addition, ATO has a negative and significant relationship with efficiency which is -16.0583 at 10% level of significance. This suggests that increasing ATO by one unit reduces efficiency by 16.06%.

## DISCUSSION AND RECOMMENDATION

This study contains 40 observations from four different franchise companies. The fixed effect with cluster option model was used for this observation. The Adjusted R2= 0.7959 indicates that the three independent variables represent for 79.59% of the variance in efficiency, with the remaining 20.41% explained by variables not examined.

Return on equity has the strongest link with efficiency, according to the regression results. There is a negative and insignificant relationship between efficiency and return on asset (ROA) which is -170.31%. (Venkadasalam et al., 2020), who looked into the efficiency of shipping businesses, discovered that ROA has a negative but insignificant relationship with efficiency. The alternative hypothesis is rejected, whereas the null hypothesis is accepted. Return on asset refers to a company's capacity to efficiently manage its assets in order to gain revenue. According to this research, the ROA is negative and insignificant. This indicates that the company's asset management capabilities are inadequate and ineffective. Companies can raise revenues without raising their cost of assets and minimize expenses to boost ROA. This can be a good approach to increase a company's return on assets, especially in the franchise industry.

A positive and significant relationship exists between ROE and efficiency which is 60.52%. The findings reveal a significant relationship between ROE and efficiency, according to previous studies such as Le Thi Kim & Le Thanh, (2021) and Rosado-Serrano, (2019). While the null hypothesis is rejected, the alternative hypothesis is accepted. The result has a positive significant relationship because the franchise firm manage to generate income and growth from its equity financing. Senior managers should consider how the firm's return on equity may be increased or maintained. According to the findings of this study, a firm's ROE can be retained if it is successful in managing the capital received from shareholders to generate returns. Profit margins can be increased to ensure a constant ROE. Increased profitability doesn’t always have to come from additional product sales. It can also be achieved by raising the prices of each product sold, reducing the cost of goods sold, lowering overhead costs, or a mix of the above.

A negative but significant relationship exists between asset turnover and efficiency which shows -16.06%. Chowdhury et al., (2019) and Houmes et al., (2018) back this up, stating that the ATO has a detrimental influence on efficiency. While the null hypothesis is rejected, the alternative hypothesis is accepted. A firm's ATO must also be prioritized. The quantity of ATO shows how well the corporation can produce sales from its assets. The amount of ATO is negative, according to this study. This is because low asset turnover ratio shows that a business is not effectively utilizing its assets to create revenue. One alternative to increase ATO is change the way the corporation handles its assets in the future to enhance the amount of return on asset by selling off assets that doesn't provide profit for the organization. On a regular basis, sell any fixed assets that do not contribute to the company's bottom line.

## CONCLUSION

To summarise, the goal of this study was to examine the determinants of company's performance efficiency in the franchise industry during the past ten years, from 2011 to 2020. The time frame for this current study is ideal because most of the company's efficiency improves year after year, prompting the researcher to look into the company's long-term viability and stability. The analysis' findings show that this study met its goal, which is backed by the literature review.

Moreover, it is seen to be important to have a significant correlation between dependent and independent variables. Return on equity and asset turnover have a significant relationship with the company’s performance efficiency in the franchising industry according to Stata software. The regression results, on the other hand, show that return on asset has negative insignificant relationship on a company's performance efficiency in the franchise industry. On the other hand, the results showed that return on equity has a positive and significant relationship with the company’s performance efficiency in franchise industry.

Furthermore, the greatest BETA coefficient result demonstrates that the study was conducted in order to identify as many factors as possible that could influence the franchise firm's success. In contrast to other BETA findings such as return on asset and asset turnover, the findings revealed that return on equity has the highest coefficient of BETA result and is the most powerful contributor to the franchise industry's efficiency.

## REFERENCES


Rosado-Serrano, A. (2019). Country dispersion in international franchising: system, proportion, and performance. *International Journal of Retail and Distribution Management*, *47*(7), 752–771.

Duho, K. C. T., Onumah, J. M., Owodo, R. A., Asare, E. T., & Onumah, R. M. (2020). Bank risk, profit efficiency and profitability in a frontier market. *Journal of Economic and Administrative Sciences*, *36*(4), 381–402.

Zhang, Z., Koh, Z. Y., & Ling, F. (2020). Benchmarking contractors' financial performance: case study of Singapore. *Journal of Financial Management of Property and Construction*, *25*(2), 183–199.

Le Thi Kim, N., & Le Thanh, H. (2021). Determinants of financial performance of listed firms manufacturing food products in Vietnam: regression analysis and Blinder–Oaxaca decomposition analysis. *Journal of Economics and Development*, *ahead-of-print*(ahead-of-print).

Houmes, R., Jun, C. C., Capriotti, K., & Wang, D. (2018). Evaluating the long-term valuation effect of efficient asset utilization and profit margin on stock returns: Additional evidence from the DuPont identity. *Meditari Accountancy Research*, *26*(1), 193–210.

Karimi, A., & Barati, M. (2018). Financial performance evaluation of companies listed on Tehran Stock Exchange: A negative data envelopment analysis approach. *International Journal of Law and Management*, *60*(3), 885–900.

Chowdhury, L. A. M., Rana, T., & Azim, M. I. (2019). Intellectual capital efficiency and organisational performance: In the context of the pharmaceutical industry in Bangladesh. *Journal of Intellectual Capital*, *20*(6), 784–806.

Kim, M. S., & Pennington-Gray, L. (2017). Does franchisor ethical value really lead to improvements in financial and non-financial performance? *International Journal of Contemporary Hospitality Management*, *29*(10), 2573–2591.

Hua, N., O’Neill, J. W., Nusair, K., Singh, D., & DeFranco, A. (2017). Does paying higher franchise fees command higher RevPAR? *International Journal of Contemporary Hospitality Management*, *29*(11), 2941–2961.

Piot-lepetit, I., Perrigot, R., Cliquet, G., Piot-lepetit, I., Perrigot, R., & Cliquet, G. (2020). *Organizational form and efficiency of franchise chains*. *42*(7).

Sompolos, Z., & Mavri, M. (2018). Estimating the efficiency of Greek banking system during the last decade of world economic crisis: An econometric approach. *Benchmarking*, *25*(6), 1762–1794.

Lee, Y.K., Nor, Y.S., Choi, J.W., Kim, S., Han, S.H. and Lee, J.H. (2016), “Why does franchisor social responsibility really matter?”, *International Journal of Hospitality Management*, Vol. 53, pp. 49-58.

Ding, D., & Sickles, R. C. (2018). Frontier efficiency, capital structure, and portfolio risk: An empirical analysis of U.S. banks. *BRQ Business Research Quarterly*, *21*(4), 262–277.

Jaloudi, M. M. (2019). The efficiency of Jordan insurance companies and its determinants using DEA, slacks, and logit models. *Journal of Asian Business and Economic Studies*, *26*(1), 153–166.

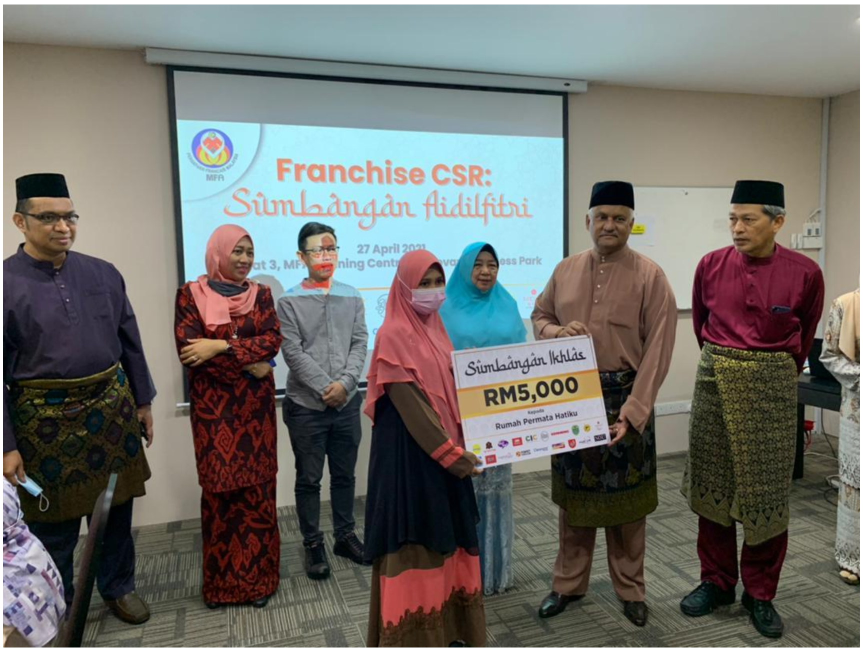
Kuo, K.-C., Lu, W.-M., Kweh, Q.L. and Le, M.-H. (2020), "Determinants of cargo and eco-efficiencies of global container shipping companies", *The International Journal of Logistics Management*, Vol. 31 No. 4, pp. 753-775.

Alarussi, A. S., & Alhaderi, S. M. (2018). Factors affecting profitability in Malaysia. *Journal of Economic Studies*, *45*(3), 442–458.

Venkadasalam, S., Mohamad, A., & Sifat, I. M. (2020). Operational efficiency of shipping companies: Evidence from Malaysia, Singapore, the Philippines, Thailand and Vietnam. *International Journal of Emerging Markets*, *15*(5), 875–897.

Moon, J., & Sharma, A. (2014). Franchising effects on the lodging industry: Optimal franchising proportion in terms of profitability and intangible value. *Tourism Economics*, *20*(5), 1027–1045.

# APPENDICES


Franchise CSR:
Sumbangan Aidilfitri
27 April 2021
Sumbangan Ikhlas
RM5,000
Kepada
Rumah Permata Hatiku


MFA
Franchise CSR:
Sumbangan Aidilfitri
27 April 2021
Sumbangan Ikhlas
RM5,000
Kepada
Rumah Perlindungan Nur Qaseh


Cleanpro
CIC
MEIKO
NOU
PENYET
mak'cik
SENHENG
MEAT CARTEL
BERNAMA
'Q' BISTRO

DETERMINANTS OF COMPANY'S PERFORMANCE EFFICIENCY IN FRANCHISE INDUSTRY

ORIGINALITY REPORT

| 6% | 3% | 3% | % |
|---|---|---|---|
| SIMILARITY INDEX | INTERNET SOURCES | PUBLICATIONS | STUDENT PAPERS |

PRIMARY SOURCES

| | | |
|---|---|---|
| 1 | www.mfa.org.my<br>Internet Source | 1% |
| 2 | Hassan Hafez. "Corporate social responsibility and firm value: an empirical study of an emerging economy", Journal of Governance and Regulation, 2016<br>Publication | 1% |
| 3 | Leena Afroz Mostofa Chowdhury, Tarek Rana, Mohammad Istiaq Azim. "Intellectual capital efficiency and organisational performance", Journal of Intellectual Capital, 2019<br>Publication | 1% |
| 4 | Alexander Rosado-Serrano. "Country dispersion in international franchising: system, proportion, and performance", International Journal of Retail & Distribution Management, 2019<br>Publication | <1% |
| 5 | Shweta Yadav, Jonghag Jang. "Impact of Merger on HDFC Bank Financial Performance: | <1% |

| | | |
|---|---|---|
| | A CAMEL Analysis Approach", International Journal of Economics and Finance, 2021<br>Publication | |
| 6 | efdpapps.mfa.org.my<br>Internet Source | <1 % |
| 7 | repository.unair.ac.id<br>Internet Source | <1 % |
| 8 | Alejandro De Santiago, Tiago José Pereira, Sarah L. Mincks, Holly M. Bik. "Dataset complexity impacts both MOTU delimitation and biodiversity estimates in eukaryotic 18S rRNA metabarcoding studies", Cold Spring Harbor Laboratory, 2021<br>Publication | <1 % |
| 9 | Nursel Dikmen, Ayse Idil Cakmak, Selma Urfalıoğlu. "Evaluation of Possible Changes in Intraocular Pressure and Optical Coherence Tomography Measurements in Severe OSAS Patients After 3 Month Positive Airway Pressure Treatment", Research Square Platform LLC, 2021<br>Publication | <1 % |
| 10 | www.tandfonline.com<br>Internet Source | <1 % |
| 11 | smartfranchise.com.my<br>Internet Source | <1 % |
| | web.usm.my | |

| | | |
|---|---|---|
| 12 | Internet Source | <1 % |
| 13 | www.clirikchina.com<br>Internet Source | <1 % |
| 14 | www.dailyexpress.com.my<br>Internet Source | <1 % |
| 15 | www.scribd.com<br>Internet Source | <1 % |
| 16 | Asif Saeed, Attiya Y. Javed, Umara Noreen. "Microfinancing, governance, and performance: a South Asian perspective", Journal of Economics, Finance and Administrative Science, 2018<br>Publication | <1 % |
| 17 | Bailey, Michael A.. "Real Stats", Oxford University Press<br>Publication | <1 % |
| 18 | repository.up.ac.za<br>Internet Source | <1 % |
| 19 | researchbank.rmit.edu.au<br>Internet Source | <1 % |