

Does Trust Mediate the Relationship between Entrepreneurial Capacity and Commitment? The perspective of the Franchise Industry in Malaysia

Zalena Binti Mohd^{a*}, Zahira Binti Mohd Ishan^b, ^aFaculty of Economics and Management, UPM, Malaysia; Faculty of Business Management & Professional Studies, MSU, Malaysia, ^bFaculty of Economics and Management, UPM, Malaysia, Email: ^{a*}zalenamohd@gmail.com, ^bmizahira@upm.edu.my

The franchise industry is one of the most widely recognised business forms promising profitable business ownership. Inherent in the franchise business management is the unique relationship between the entrepreneurs in the franchise business, namely the franchisors and franchisees. It appears that trust is the key to the ongoing franchise relationship. Hence this research investigates whether trust mediates the relationship between entrepreneurial capacity and commitment in the franchise industry in Malaysia. This research developed a conceptual model by reviewing the commitment-trust theory and also conducting an extensive literature review. Samples were selected from franchisees who operate their franchise business around Klang Valley area. A total of 291 completed questionnaires were analysed using PLS-SEM. The results identify that relationship has a significant direct effect between entrepreneurial capacity and commitment. The findings also indicate that trust mediates the relationship between entrepreneurial capacity and commitment with partial mediation statistically significant at 0.01. This research's results are likely to add on and contribute to the literature on the title above. The result also could be agreed by franchisors in defining the commitment amongst the franchisees that can become the prominent contender for the business of franchise. The author claims about this study that it would furnish a significant functional foundation for franchisors in the franchisees' selection procedure.

Key words: *Franchise, commitment-trust theory, entrepreneurial capacity, trust and commitment.*

Introduction

Franchise businesses started in the Malaysian states in the 1940s with Singer and Bata (a footwear distributor and manufacturer) followed by petrol stations and automobile dealers. However, the franchise business became popular in the general public after fast-food restaurants such as A&W (1963), KFC (1970), and McDonald (1981) started and extended their business rapidly in Malaysia.

The homegrown modern franchises evolved in the early 1980s primarily in the crafts/gifts (Royal Selangor), petrol stations (PETRONAS), automotive (EON) and food (Sate Ria, Marrybrown) sectors. Malaysia has witnessed a new era of development in franchising after the implementation of the Malaysian Franchise Act 1998. The primary purpose of the act is to create a well-organized system of registration for the steady growth of franchising in the country.

The evolution of homegrown franchises, among others, is at its infancy stage in Malaysia until now. Misconceptions in the franchise business exist so far, probably because of a lack of expertise, knowledge and experience. Therefore, with the Franchise Act 1998 implementation, it is expected that upcoming franchise businesses will get all the knowledge and assistance required for the franchisees who start the franchise business, thus enhancing their commitment to excel in this business.

It is essential to realise that earning the trust of a franchisee begins when the franchisee is a candidate. It may determine the success of the franchisee in the franchise business. The relationship is started to establish during the exploration process. Franchisees face unpredictability, in all franchise firms, in terms of overall viability, customers, competitors, and business model. Therefore, the selection of franchisee candidates is as crucial as identifying a franchise business.

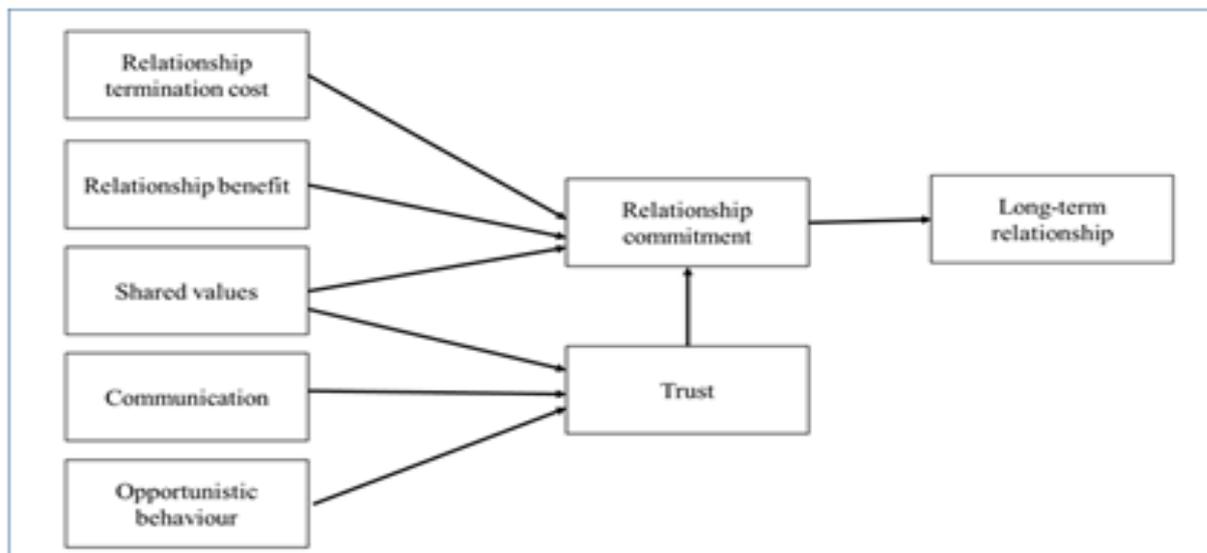
Therefore, the focus of this study is on the franchisee trust in the relationship with the franchisor, which is an essential element for keeping the long term successful relationship between them. Additionally, according to Clarkin & Rosa, (2005), the association excellence among inter-firm parties eventually governs the franchise business' success. A study conducted by Khairol, Francis, & Rahim, (2016) investigated trust being the primary construct of relationship quality in franchising relationships and examine the relationship value and relationship quality towards loyalty. In this study, the researchers have recognized trust as a mediator in the relationship between entrepreneurial capacity and commitment amongst the franchise industry in Malaysia.

Literature Review

In a franchise business, many uncertainties need to be faced, such as business model, competitors, customers, and overall viability. Hence having a franchisee with entrepreneurial capacity is crucial in ensuring that the potential franchisee is aware of the risk that they are venturing in. However, it is recommended that the value of the brand name and physical dispersion of outlets will enhance the business capability (Norton, 1988; Combs, Michael, & Castrogiovanni, 2004). It seems that contestants with business potential should have strong willpower to proceed forward, particularly when the business faces a tough period in the development phase.

Commitment-trust theory investigates the variables that impact franchisor and franchisee long term success in the relationship. The perceptions of trust are developed at the early stage of a relationship, and it will guide the behaviour of future interactions (Long, MacKay, Ray, & Zielinski, 2012). Commitment develops as both franchisor and franchisee engage their resources in order to keep this relationship (Dwyer, Schurr, & Oh, 1987; Agnihotri & Dingus, 2016), with trust to be a significant determinant of this commitment (Morgan & Hunt, 1994). Figure 1 describes this further.

Figure 1. Trust and Commitment Theory (Morgan & Hunt, 1994)



Trust is usually recognised as one of the critical variables in building a relationship (Swan, Bowers, & Richardson, 1999; Vanneste, Puranam, & Kretschmer, 2014). There are three dimensions of trust. Mainly credibility (keeping promises), benevolence (doing more than expected, goodwill), and competence (perform role completely). Trust is considered to be one of the main antecedents of relationship development. Commitment is based on the belief

that a relationship is worth the effort to be maintained. The commitment represents the importance of relationship and the desire to continue.

Establishing mutual trust and commitment is essential to connect with customers. Commitment-trust theory evolves in situations when there is uncertainty in which partial information about other actor's behaviour demands them to trust that person (Johansen, Selart, Espedal, & Gronhaug, 2015). In the context of the franchise business, the commitment-trust theory is crucial at the beginning of the relationship and continues to grow stronger as time goes by, especially during difficult times. Hence franchisee will continue to support franchisors for the favourable results of the franchise business.

Methodology

The Malaysian franchise industry, located at Klang Valley, is the focus of this research. The quantitative approach is used in the research. Overall, 291 completed questionnaires were analysed using PLS-SEM.

Results and Discussion

Measurement Model

Confirmatory factor analysis (CFA) is carried out to validate the measurement model by evaluating the relationships between the constructs and their respective measurement items. An initial CFA was conducted, and based on the results commitment items of 58, 59, 50, 61, 62, 63 were deleted due to low indicator loadings (below than 0.50) in order to increase the construct's reliability and validity. For the remaining measurement items, the CFA was carried out again.

Cronbach's alpha (α) coefficients and Composite reliability (CR) values were calculated to test the reliability of each construct. For Likert-type scales with 5 levels, Cronbach's alpha Underestimates reliability; consequently, its use is not recommended (Gadermann, Guhn, & Zumbo, 2012). Composite reliability (CR) offers a more suitable measure of internal consistency reliability compared to conventional Cronbach's alpha coefficients (Hair J. J., Sarstedt, Matthews, & Ringle, 2016). Cronbach's alpha magnitudes for the constructs range from 0.813 to 0.960, indicating good reliability. Range of composite reliabilities is from 0.890 to 0.963 higher than the 0.70 threshold level of acceptability. The results of table 1 show a generally high degree of internal consistency among the constructs. In order to, assess convergent validity, three criteria were used: the size of indicator loadings, average variance extracted (AVE) and the significance of the indicator loadings. Range of standardized items loadings is from 0.699 to 0.944, which exceeds the suggested value of 0.60. For each

construct, the range of values for AVE is from 0.569 to 0.729, higher than the minimum acceptable value of 0.50, indicating that more than 50% of the construct's variance is due to its measurement items. Table 1 presents the values of AVE, Cronbach's alpha, composite reliability and indicators loadings.

Figure 2. Model of Measurement

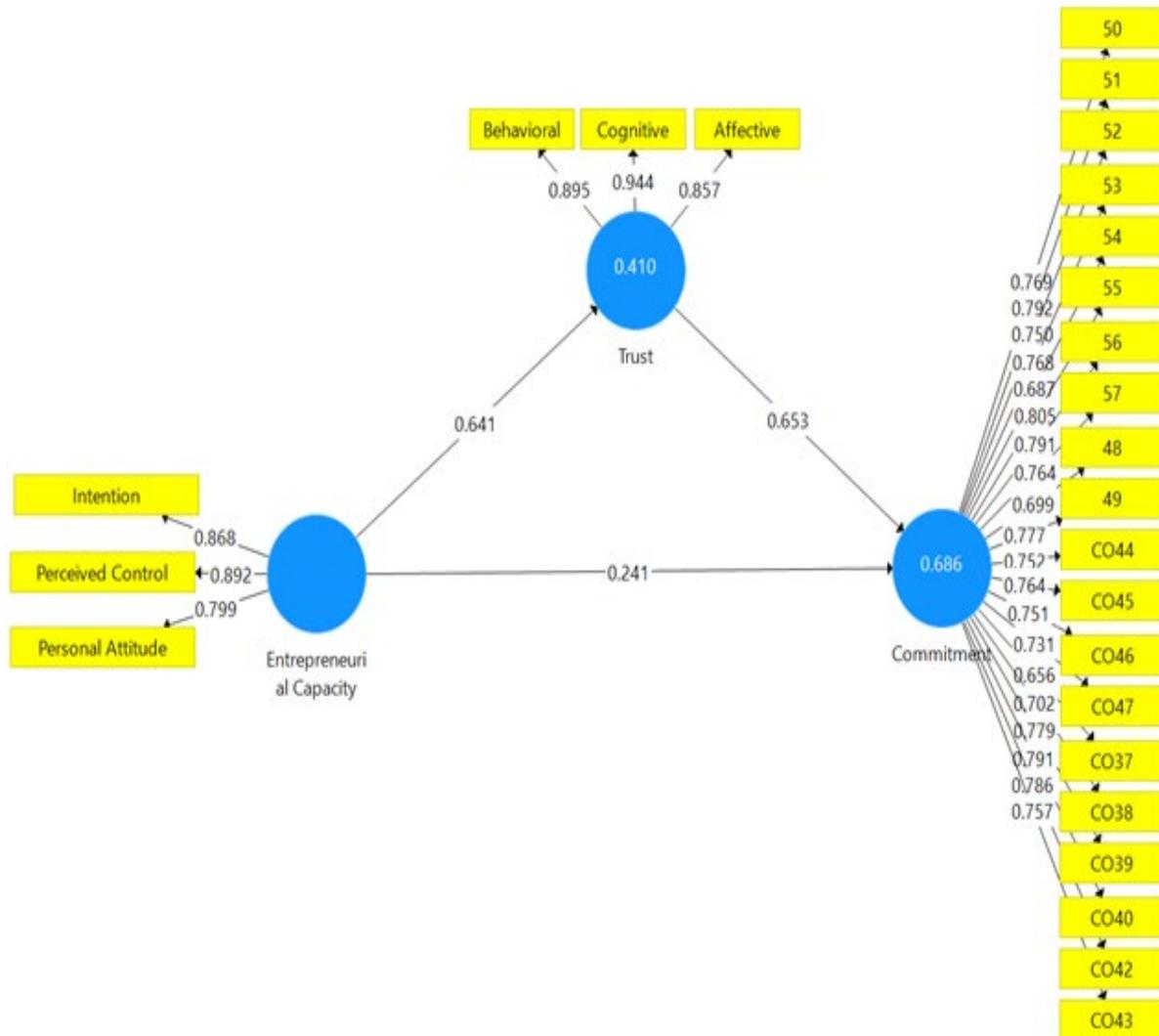


Table 1: Measurement model results

Construct	Loading	Cronbach's Alpha	Composite Reliability	AVE
Commitment		0.96	0.963	0.569
48	0.699			
49	0.777			
50	0.769			
51	0.792			
52	0.750			
53	0.768			
54	0.687			
55	0.805			
56	0.791			
57	0.764			
CO37	0.656			
CO38	0.702			
CO39	0.779			
CO40	0.791			
CO42	0.786			
CO43	0.757			
CO44	0.752			
CO45	0.764			
CO46	0.751			
CO47	0.731			
Trust		0.881	0.927	0.809
Behavioral	0.895			
Cognitive	0.944			
Affective	0.857			
Entrepreneurial Capacity		0.813	0.89	0.729
Intention	0.868			
Perceived Control	0.892			
Personal Attitude	0.799			

To estimate the validity of discriminant, the Fornell-Larcker criterion is used first, which checks whether the AVE for every construct is higher than the squared correlation coefficients between constructs. In table 2, the diagonal presents the values of AVE square

root, and others are correlations between constructs that are below 0.85 (Hair, Sarstedt, Ringle, & Gudergan, 2017)). Hence, discriminant validity has been established.

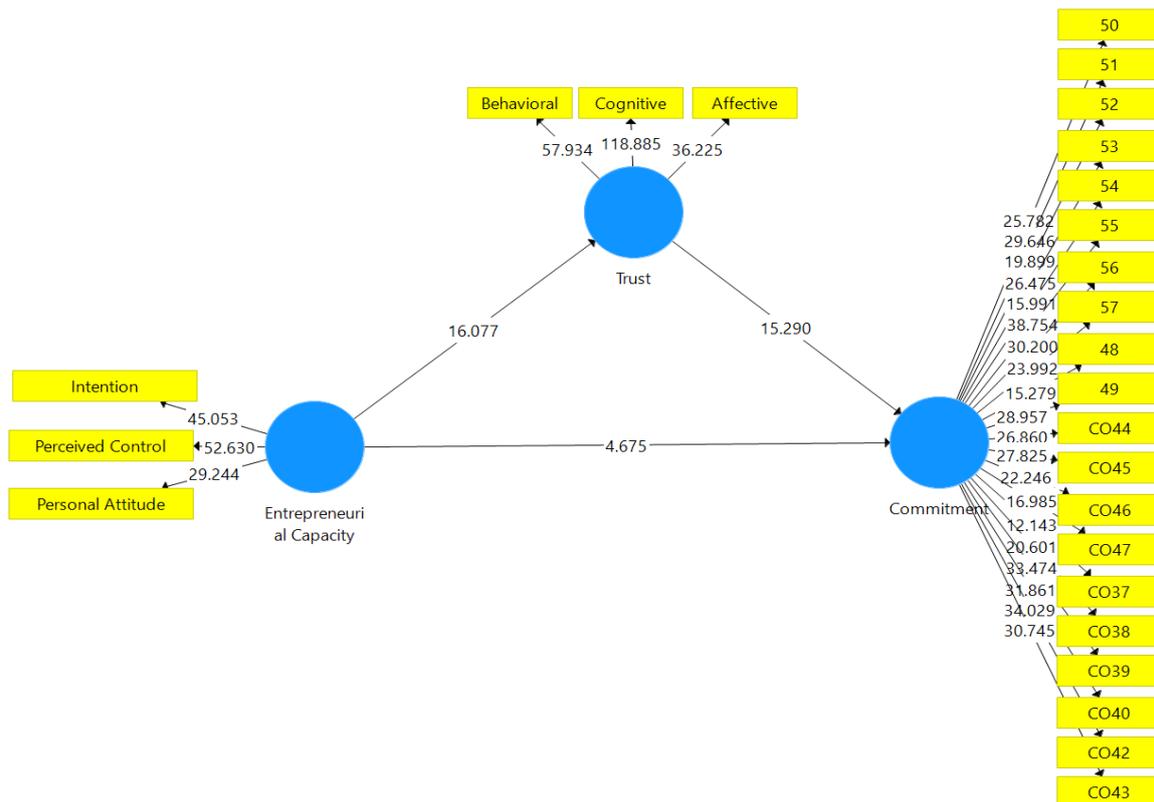
Table 2: Discriminant validity of the measurement model

	Commitment	Entrepreneurial Capacity	Trust
Commitment	0.754		
Entrepreneurial Capacity	0.660	0.854	
Trust	0.808	0.641	0.899

Structural Model

After the analysis of the measurement model and verifying its reliability and validity, the proposed structural model was examined. The results are shown in figure 3.

Figure 3. Indicators' loadings and path coefficients



The results in table 3 show the standardized path coefficients, t-values, and significance of each path of the structural model. The results indicate a statistically significant positive effect of entrepreneurial capacity ($b = 0.241$) and trust ($b = 0.653$) on commitment. Also, entrepreneurial capacity on trust ($b = 0.641$). All the path is significant, with p-value 0.00.

Therefore, hypotheses H1, H2, and H3 are supported. Next, the mediation analysis is proceeded to test.

Table 3: Results of structural model: path coefficients

	Original Sample	Standard Deviation	T Statistics	P Values
H1: Entrepreneurial Capacity → Commitment	0.241	0.052	4.675	0.00
H2: Entrepreneurial Capacity → Trust	0.641	0.04	16.077	0.00
H3: Trust → Commitment	0.653	0.043	15.29	0.00

Mediation Analysis

Based on the result in Table 3, the direct relationship effect between entrepreneurial capacity and commitment is significant; thus, this path proceeds to test hypotheses H4, which is the mediational effect of trust. PLS bootstrapping gives the path coefficients in the mediational model. Table 4 gives the path coefficients for analysing the mediation-effect of trust in the relationship between entrepreneurial capacity and commitment.

Table 4: Indirect Effect

	Original Sample	Standard Deviation	T Statistics	P Values
Entrepreneurial Capacity → Trust → Commitment	0.418	0.038	11.024	0.00

It can be seen from Table 4 that conditions for establishing mediation are met. Therefore, as per Baron & Kenny, (1986) approach, there exists a mediational influence of trust on the relationship between entrepreneurial capacity and commitment. Therefore, partial mediation is statistically significant at 0.01.

Conclusion

There is a significant association between entrepreneurial capacity and commitment. As predicted, the PLS path modelling result indicates that entrepreneurial capacity was found to influence franchisee commitment. This study provides evidence on the importance of entrepreneurial capacity on franchisee commitment as entrepreneurial capacity leads to franchisee commitment that exerts full will power to perform their tasks in meeting the franchise business goals and targets.

During the entire development process, entrepreneurs' trust is developed by their observation as they grow and acquire knowledge, being affected by role models, mentors, parents, and



teachers. In this process, entrepreneurs expect their upcoming occupation as possessing their business. These entrepreneurs, on average, are more susceptible to risk, demonstrate more significant levels of creativeness and awareness of entrepreneurship challenges and issues. Therefore, in productive entrepreneurship, male, older, and more professional experienced tend to gain higher trust.

To maintain trust is very challenging, especially when there is a disagreement between the franchisee and the franchisor. Promoting trust in the franchise system will encourage and promote cooperation and satisfaction in the relationship (Koza & Dant, 2007; Zhang et al., 2016). Trust is an essential element in ensuring the relationship of the franchisee in the franchise industry, and it is developed at the early stage of this relationship. Entrepreneurship capacity will enhance this bonding and will lead to a better commitment from the franchisee. Commitment can be achieved through trust, arguing that trust intention follows from the proper official agreement. It was observed that the trust of franchisees regarding the skill and trustworthiness of their franchisor was positively and intensely linked to commitment. Therefore franchisor that nurtures trust with the practical and moral management of the franchise relationship can increase the level of acquiescent attitude of the franchisee. Specifically, in commitment-trust theory, where high levels of franchisor's honesty and expertise are evidence, the significant value from the franchisor partnership is expected, resulting in enhanced franchise commitment towards the franchise success.

The result also could be agreed by the franchisors in defining the commitment amongst the franchisees that can become the prominent contender for the business of franchise. The author claims about this study that it would furnish a significant functional foundation for franchisors in the franchisees' selection procedure.



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