



## REVIEW ARTICLE

## RISK PROBLEMS IN ENGAGING IN FOOD FRANCHISING BUSINESS IN SAN PABLO CITY, LAGUNA

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## ARTICLE DETAILS

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## ABSTRACT

Many business owners today operate franchise businesses despite the potential risks they might face. This study assessed the risk problems of Food Franchising Business in San Pablo City, Laguna. The objective of the study is to help local entrepreneurs who intend to engage in food franchising. The respondents of the study were local entrepreneurs with 3 to 7 years in franchising businesses. A descriptive research method was used in the research. A total of 40 respondents answered the questionnaire. Statistical tools used to determine the risk problems are mean and standard deviation. The results identified the following risks in engaging into the food franchising business: profitability, payback period, and sustainability. Pearson Correlation Coefficient was used at a .05 level of significance to determine the significant relationship of the risk problems identified with the type of food franchising businesses. Results show that there is significant relationship between the risk problems profitability, payback period and sustainability with the type of food franchising businesses.

## KEYWORD

Franchising, Food Industry, Franchisor, Franchisee

## 1. INTRODUCTION

The business landscape evolved in the past years despite the challenges of establishing a business. As business evolved the inception of many ways to have a business started to grow. One of the options of acquiring a business is through franchising. Franchising helps potential business owners to choose from the businesses that already exists with a well-established business names and market. Franchise businesses are easier to organize and with the advantages of having a conventional business' practices is a great way for business owners to understand the business better and faster. Many business owners were interested as the franchising business increased over the years and continued to expand globally. And it is imperative to utilize franchised businesses to ensure a great return on their investment.

A franchise business contributes more to its potential owner in a way that it will provide them the knowledge of how to run a business with the help of the franchisor to the franchisees. Unlike the scenario of establishing your own business, you might appear to be clueless on how to start your own business. In franchising, the franchisor will provide the brand name of the business as well as the business practices and the physical appearance and even the supplier and the supplies of the business to ensure that there will be uniformity and consistency within the brand they awarded. Franchisor assists the franchisee as part of their agreement once the franchise is granted to the franchisee. The contract between the franchisor and the franchisee as stated in the agreement will provide with how the business will operate and how the business works. There are specified period on the extent of the assistance of the franchisor to its franchisee. This business practice is a good way to start a good business for its potential owners. That is the reason why franchising has become more and more popular over time.

However, as there are challenges and potential risk problems that occur

as the franchising business continues to grow the business owners might need to consider in engaging into food franchising business. The potential business owners must consider how to invest properly using the franchising business. With this in mind, they have a lot to take into consideration and should know how they will get the best business with the help of franchising. The historical data of the business including the financial statements show the profitability of the business, what is the payback period of the business to ensure that it will give your return on investment in a reasonable amount of time, and if the business will be sustainable enough to handle its operation for a long period of time. With this, it will give the potential business owners the idea if it is the right business for them and decide if it is the right time to own a franchise business. The study focused on the risk problems in terms of profitability, payback period, and sustainability in engaging into food franchising business in San Pablo City, Laguna.

## 2. LITERATURE REVIEW

Potential business owners look for the best possible option in choosing the business they want to do for a long period of time. Franchising however is the best business to consider because of the popularity it brought since the 1950's. A franchise (or franchising) is a method of distributing products or services involving a franchisor, who established the brand's trademark or trade name and a business system, and a franchisee, who pays a royalty and often an initial fee for the right to do business under the franchisor's name and system according to the (Philippine Franchising Association.1995). Franchising accounts for \$1 trillion in annual retail sales from approximately 320,000 businesses in 75 industries and employs more than 40 % of all retail sales and 1 out of 12 retail establishments in the United States (Dant and Kaufman, 2023). Clearly, franchising has a good future in the retail industry which gives a possibility of a good return on investment.

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Within the franchising context, Oxenfeldt and Kelly (1968), Caves and Murphy (1976), Norton (1988), and Gilman (1990) the argument explain that entrepreneurs use franchising to increase access to the important resources that are in short supply in the early stages of the development of their chains. These growth-minded but resource-constrained entrepreneurs have two realistic options available for securing external sources: (1) selling equity and (2) selling franchises. Selling equity secures access to only financial capital. Franchising, however, represents an efficient bundled source for all three critical capitals (i.e., financial, managerial, and informational; cf. Norton, 1988). Moreover, in another discussion (Rubin, 1978), there is an indication that franchisees may be attracted to a lower rate of return than investors, making franchising the less expensive option. Under the resource acquisition view, therefore, franchisees are represented as convenient, eager, and effective suppliers of three main critical capitals: financial resources, managerial resources, and informational resources (Dant and Kaufman, 2023). Franchising offers a quick-effective way to expand the business to several areas (Forss, 2023).

In a study of agency theory, agency theory is a principle that is used to explain and resolve issues in the relationship between business principals and their agents. Most commonly, that relationship is the one between shareholders, as principals, and company executives, as agents (Kopp Carol, 2023). Furthermore, the agency theory explains how the franchisor and franchisee should meet in the middle in order to provide good products and services to its consumers. As stated the frustrations and difficulties involved in operating a franchise system are powerful pressures toward ownership which permits far greater control. (Dant and Kaufman, 2023). Meanwhile, ensuring the effectiveness of the franchise system relies on establishing an optimal contractual relationship between the franchisor and the franchisee, which can be achieved through an optimal franchise fee structure (Bang et al., 2023). After granting the franchise to the franchisee the franchisor should provide them the support that is based on the contract agreement in a specified time. The franchisee therefore should abide by and make sure to follow what is stated in the agreement. The agreement between parties will benefit both of them as the profitability of the business prospers, so the increase in the potential franchisees tend to be higher. On the other hand, the franchisee itself may see that the satisfaction of having a franchise will give them the interest to get another franchise from the franchisor as they see the potential of the business.

Another study of resource scarcity theory might explain the impact of age and the selection of industry on franchising. Cetindamar et al. (2012) propose that the decision to become or not become an entrepreneur is based on access or possession of resources. Knatko et al. (2016) suggest

there is a direct relationship between resource access and industry choice. In addition, the essential resources for successful entrepreneurship are access to financial and human capital and the experience and know-how acquired by an entrepreneur. In addition, resource scarcity might explain the type of industry chosen to pursue entrepreneurship (Mc Dermott and Butler, 2023). As also stated in another study drawing on the dynamic capabilities perspective, it was then described the franchise capabilities and proposed a model that consistently articulates dynamic capabilities, operational capabilities (know-how), franchise ownership strategy (plural form versus “turnkey” franchisors), and franchise system performance (Philippine Franchising Association. 1995). The resources available will give signal to the potential business owner to take into the franchising as the business has established a business system and resources. The resources provided by the franchise are important to the potential business owners because of the convenience it will give to them. The business practices, the market, and the name an advantage to take into account because of the well-established business name that are linked in the business.

The reality of having a well-established business name coupled with a well-established business system and practices the potential business owners are more likely to consider engaging in food franchising business because of it. The franchisee depends most of the time on the franchisor in order to continue doing business and to master the business processes that the franchisor created for the business.

### 3. METHODS

This study adopted a descriptive research design employing quantitative method of data collection and analysis. A self-constructed questionnaire was used. The respondents of the study were the local business entrepreneurs and managers of the fast-food industry who are directly engaged in the food franchising business. Firms that have been in operation for three to seven (3-7) years were chosen as respondents. Forty (40) participated in the study because they were the total number of businesses that are engaged in food franchising. The data gathered for this study was derived from the questions answered by the participants through a survey questionnaire that are administered through pen and paper.

The survey questionnaire was divided into three parts, the first part is the risk problems in terms of profitability, the next part is the risk problems in terms of payback period and the last part is the risk problems in terms of sustainability. The focus of the study is to know the risk problems in engaging into food franchising business in San Pablo City, Laguna.

### 4. THE DATA ANALYSIS

**Table 1:** Measures The Risk Problems Of Food Franchising In Terms Of Profitability

Indicators	Mean	SD	Interpretation
Performance according to the sales of the business	4.11	0.64	To a Great Extent
Performance according to the expenses of the business	3.80	0.50	To a Great Extent
Performance according to the margin of the business	3.78	0.64	To a Great Extent
Performance according to the budget allocation	3.24	0.54	To a Great Extent
Performance according to the marketing efforts	3.22	0.57	To a Great Extent
Overall	3.63	0.57	To a Great Extent

Legend: 4.21-5.00- To a Very High Extent; 3.41-4.20-To a Great Extent; 2.61-3.40- To a Moderate Extent; 1.81-2.60-To a Little Extent; 1.00-1.80-Not at All

The composite mean of 3.63, shows the overall risk problems “Profitability”, to a “Great Extent, as to the food franchising business. This finding implies that engaging into food franchising profitability of the business holds an important role to potential business owners.

Profitability sets as a guide to engage in food franchising to determine the capacity of a business to operate. The great extent of utilization should be considered to strengthen the owner’s strategies in engaging with the franchising business.

**Table 2:** Measures The Risk Problems Of Food Franchising In Terms Of Payback Period

Indicators	Mean	SD	Interpretation
Utilization of the one-time franchise fee	3.88	0.54	To a Great Extent
The additional support from the franchisor	3.90	0.63	To a Great Extent
The margin of the business	3.82	0.57	To a Great Extent
The capital investment	3.65	0.50	To a Great Extent
The management fee	3.42	0.50	To a Great Extent
Overall	3.73	0.55	To a Great Extent

The risk problems in terms of payback period had a composite mean of 3.73, used by businesses to a "Great Extent". The finding implies that when engaging into a food franchising business, it is important to manage the payback period of the business. The payback period to a great extent poses

that it is to determines the decisions of the business owners to engage in food franchising business with a great payback period. Findings revealed the performance of the business can be a sound judgment to continue with the business.

**Table 3: Measures The Risk Problems Of Food Franchising In Terms Of Sustainability**

Indicators	Mean	SD	Interpretation
The performance in terms of cash flow of the business	4.12	0.63	To a Great Extent
The impact of the business name	4.10	0.57	To a Great Extent
The support of the business owners	4.10	0.54	To a Great Extent
Reliable business practices	3.90	0.57	To a Great Extent
The performance of the employees of the business	3.88	0.50	To a Great Extent
Overall	4.02	0.56	To a Great Extent

The risk problems in terms of sustainability are to a great extent with a weighted mean of 4.02. This finding implies that sustainability is the biggest contributing factor in terms of risk problems in engaging in food franchising business. Business owners would likely consider the business

sustainability in allowing to succeed in the industry. The great extent is utilized to find a way to make the business continue operating for a long period of time.

**Table 4: Summary of the risk problems of food franchising in terms of profitability, payback period, and sustainability**

Risk Problems	Composite Mean	AR
Profitability	3.70	To a Great Extent
Payback Period	3.73	To a Great Extent
Sustainability	4.02	To a Great Extent

The "Great Extent" result implies that engaging in food franchising business has risk problems associated with the firm's profitability, payback period, and sustainability. The business owners consider the business' performance and the capabilities of the business. Business sustainability is used to a great extent to develop the business in the long run with the risk problems given in engaging in the food franchising business to perform in the competing market industry.

**5. CONCLUSION**

This study is focused on the risk problems in engaging into food franchising business in San Pablo City, Laguna. The risk problems in terms of profitability, payback period, and sustainability show that business owners consider these risk problems before they want to engage in food franchising. It provides a great deal of consideration that entering into the business will provide them insight if they want to continue with it. Learning the historical data of the existing businesses will help the potential owners determine if the food business will provide a good return on their investment.

The profitability of the food franchising business signals the potential business owners to step up their game in the food franchising business. After all the profitability of the business matter and is one of the goals of any business owner. As to the payback period, a business owner needs to consider how the business will give the best return on their investment because of the potential risk of the business. Businessmen take into account the payback period of the business to ensure that it is reasonable enough in a given time. And lastly, sustainability which is one of the main goals of any business to operate for a long period of time. Business sustainability matters to the business owners because of the trust they have given to the franchise business and the reason they invested and took the risk to get in the business.

Moreover, the study also shows that food franchising is one of the best options for acquiring a business which is easy to organize provided by the

resources that the franchise gives to the business owners. Having a well-established business, the products and services they provide, the business system and practices that the franchisor developed to help the potential franchisees of the business will ensure a great return on their investment through profitability, payback period, and sustainability.

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