

THE ROLE OF FRANCHISEE BUSINESS SUPPORT IN LONG TERM SURVIVAL OF FRANCHISEE BUSINESS

Nurul Faizah Halim¹, Zuraimi Abdul Aziz², Nor Hafiza Othman³, Nurul Ashykin Abd. Aziz⁴, Bayu Wijayantini⁵

¹Universiti Malaysia Kelantan. Email: a21e030p@siswa.umk.edu.my

²Universiti Malaysia Kelantan, Kelantan, Malaysia. Email: zuraimi@umk.edu.my

³Universiti Malaysia Kelantan, Kelantan, Malaysia. Email: hafiza.o@umk.edu.my

⁴Universiti Malaysia Pahang, Pahang, Malaysia. Email: ashykin@ump.edu.my

⁵Universitas Muhammadiyah Jember, East Java, Indonesia. Email: bayu@unmuhjember.ac.id

*Correspondence: Nurul Faizah Halim
Email: a21e030p@siswa.umk.edu.my

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Abstract: The franchise business has contributed significantly to global output, national economic growth, and development. The COVID-19 pandemic impacts have forced the franchise industry to look forward to a long-term survival strategy that ensures business viability and sustainability. Therefore, to assure economic sustainability, a crisis-resistant franchisee survival model is in dire need. The study examined the franchisee survival business support during a crisis. Financial and non-financial business support is gained through strategic alliances from various stakeholders that acted as external factors, which have become their survival strategy to steering up the businesses from the potential pitfalls. This paper offers an important new theoretical construct of franchisee survival in a crisis context – linking to the external support and franchisee survival. The study fills the gap in understanding franchisee survival during the crisis through government and franchisor support. This strategic alliance from external parties is found to be significant for franchisees to know how to manage this external environment into their favorable terms through legal institution, franchisee's resources and capability, and competitive advantage. Thus, survive and thrive amid market turbulence.

Keywords: Pandemic; Franchisee; Business Survival; Government Support; Franchisor Support

INTRODUCTION

Building business resilience is crucial for franchise operations, particularly in the face of economic uncertainty and crises. Effective business alliances play a vital role in establishing sustainable networks that enable resource access and knowledge sharing, enhancing the capability of organizations to withstand turbulence (Pham et al., 2021). By leveraging external support through strong alliances, franchisees can adapt to disruptions like the COVID-19 pandemic and sustain their operations (Hernández et al., 2021).

Franchising is recognized as one of the most successful global business models, contributing significantly to economic growth and entrepreneurship (Abd Aziz et al., 2021; Li & Xia, 2019). It provides a structured relationship between franchisors, who offer proven business models, and franchisees, who invest capital to expand the brand's footprint (Abou Kamar & Alsetoohy, 2021; Indriya et al., 2023). In Malaysia, franchising has grown steadily, contributing RM35 billion to GDP in 2018, establishing itself as the country's third economic growth engine (Rithauddin, 2018).

However, the COVID-19 pandemic exposed vulnerabilities within the franchise sector. Many businesses faced closures, layoffs, and financial instability, with some even going bankrupt (Amankwah-Amoah et al., 2020). Franchise growth in the U.S. declined by 2.6% in 2020, with over 30,000 businesses ceasing operations without

external support (International Franchise Association, 2021). These challenges underscore the need for strategic responses, including engaging stakeholders and seeking government or non-governmental assistance (Adam & Alarifi, 2021; Boiral et al., 2021).

Despite its importance, research on franchisee survival strategies during crises remains limited, particularly regarding the role of external support and alliance management (Bui et al., 2021; Duchek, 2020). This study aims to fill this gap by investigating how alliance management and external resources contribute to franchisee resilience during economic disruptions in Malaysia. The findings will offer valuable insights for researchers, practitioners, and policymakers to build sustainable franchising systems.

LITERATURE REVIEW

Business Survival and Resilience

Business survival refers to an organization's ability to maintain operations and remain competitive over time (Ortiz-Villajos & Sonia, 2018). This capability is closely tied to adapting to changing environments and sustaining long-term performance (Adam & Alarifi, 2021). Business survivability, particularly during crises, is influenced by internal and external resources, enabling companies to overcome challenges and avoid failure (Najib et al., 2021). The COVID-19 pandemic serves as a significant test for business resilience, as its global impact varied based on the type of crisis, industry, and geographic conditions (Miklian & Hoelscher, 2022).

Franchise Survival

Franchising is a vital business model contributing to economic growth and entrepreneurship. However, research shows franchisees often face higher failure rates than independent businesses, particularly during economic instability (Bates, 1998). Studies have explored factors affecting franchise survival, including financial resources, human capital, innovation, and strategic alliances (Calderon-Monge et al., 2017; Antia et al., 2017). Key elements such as franchisor support, brand strength, and marketing management are critical for franchisee success (Abd Aziz et al., 2022; Chang et al., 2018). Despite this, the survival of new franchise systems remains uncertain, with high failure rates reported within their first decade (Shane & Foo, 1999).

Strategic Alliances and Networking

Building and managing strategic alliances is crucial for improving business resilience. Alliances enable companies to access resources, share risks, and enhance capabilities through collaboration with external partners (Nasr & Al-Tabbaa, 2023). During crises, such as the pandemic, effective alliance management helps businesses innovate, reallocate resources, and strengthen supply chains (Nazari et al., 2023). Resilience, as a concept tied to sustainability, emphasizes the importance of alliance-driven knowledge sharing and innovation for adapting to environmental challenges (Levin et al., 1998).

Franchise Performance and External Support

Franchise performance and survival rely on effective governance, managerial experience, and external support (Bates, 1998; Antia et al., 2017). Government and third-party support are increasingly recognized as essential in helping franchisees sustain operations during crises (Boiral et al., 2021). External resources and networks enhance knowledge sharing, facilitate innovation, and improve supply chain management, ultimately strengthening franchisee survivability (Faems et al., 2010).

This study seeks to expand on these findings by investigating the role of external support and alliance management in franchisee survival during the pandemic. By analyzing the interconnectedness between external

strategies and franchise resilience, this research aims to provide insights into sustainable practices for the franchising sector.

FRAMEWORK

The survival of franchise systems is determined by both economic efficiency and external institutional factors (Shane & Foo, 1999). In the context of a crisis, obtaining reconfiguration capabilities through external support becomes essential. This study employs three interconnected theories—Resource-Based View (RBV), Institutional Theory, and Agency Theory—to explain franchisee survival capabilities.

The Resource-Based View (RBV) model suggests that a company's long-term competitive advantage primarily stems from its unique internal resources and capabilities. For franchisees, limited resources may create a perception of being more significant than they truly are, especially during crises (Castrogiovanni, 2006). On the other hand, companies with more substantial resource bases, faster growth rates, and stronger alliances tend to exhibit greater adaptability and resilience, enabling them to recover and maintain their competitiveness in the long run (Bartlett & Morse, 2020; Gillis et al., 2020).

By developing dynamic capabilities, companies can enhance their internal functions to address environmental challenges effectively. This adaptability aligns the Resource-Based View with strategies for resilience and survival in changing market conditions (Teece et al., 2007). At the same time, external pressures—such as social, political, and economic challenges—play a critical role in shaping how institutions and businesses evolve. To sustain businesses during adverse circumstances, supportive measures like transparent regulations, financial assistance, and robust digital infrastructure are crucial (World Bank, 2020; Yang & Yu, 2022). This perspective underscores the importance of external legitimacy and institutional support as vital components for the continuous operation of businesses, particularly in the face of disruptions (Zhang et al., 2017).

The Agency Theory focuses on the relationship between franchisors (principals) and franchisees (agents). It illustrates how franchisors provide franchisees with resources, support, and guidance to enhance their capabilities and performance. This relationship becomes particularly crucial during crises, as franchisors offer leadership, governance, and knowledge-sharing to help franchisees navigate challenges effectively (Jang & Park, 2019; Bui et al., 2021). Moreover, strong franchisor-franchisee bonds can alleviate conflicts, improve network performance, and increase franchisee survival rates during economic shocks (Lee & Choi, 2023).

Conceptual Framework

Small and Medium Enterprises (SMEs), including franchisees, are particularly vulnerable to external shocks due to limited resources. However, SMEs' adaptability allows them to reconfigure business models in response to crises, often requiring financial and non-financial support from governments and franchisors (Najib et al., 2021). Government assistance, such as financial aid, training, and infra-structure, has been shown to positively influence business performance during the pandemic (Abd Az-iz et al., 2022; Bretas & Alon, 2020).

Similarly, franchisor support plays a critical role in helping franchisees adapt and sustain operations during disruptions. By providing managerial expertise, effective communication, and resource-sharing, franchisors enhance the franchise network's resilience and overall performance (Gillis et al., 2020; Bui, 2021).

RESULT AND DISCUSSION

Results

The study explored how external factors, specifically government and franchisor support, impact franchisee survival during crises. The findings confirm that franchisees, often lacking sufficient resources, rely heavily on external assistance to maintain operations and recover from disruptions like the COVID-19 pandemic. Vulnerable franchisees utilized financial and non-financial support to sustain business continuity, covering critical expenses such as raw material procurement, employee salaries, and operational overheads. Non-financial support, such as knowledge sharing and marketing guidance, enabled franchisees to innovate and adapt to "new normal" business practices focused on health and safety concerns (Ambad et al., 2020).

The pandemic revealed that many franchise systems were unprepared for crises of such magnitude, leading to permanent closures for numerous franchisees (Bui et al., 2023). Despite franchisor support, the scale of the crisis necessitated additional government assistance in the form of grants, loans, and stabilizing policies to mitigate the environmental pressures faced by franchisees. Alliance networks also played a critical role, as franchisees used these resources to gain knowledge and support to navigate the crisis.

Discussion

The study conclusively established that the significance of various external elements such as licensing and endorsement by the government is a major determinant of franchisees. In crisis situations, franchisee survival depends to a great extent on the support of the franchisors. As a result, the franchisees who lack the necessary resources rely on external contacts to maintain their scope of operations and recover from disruptions like the COVID-19 pandemic. The targets were all the franchisees that were in dire need of financial help. As the equity contribution of the franchisees was very low and the access to bank loans was very limited, the help of non-financial support was namely, the technical assistance, marketing help, and the advice of experienced colleagues came in very useful. The franchisees were able to read the changes in a very short time using the non-financial methods like the exchange of technical information and market development advice. They adjusted to the new business rules while placing health and safety at the focal point (Ambad et al., 2022).

The pandemic was represented in such a way that the majority of the franchise systems were not able to cope with crises like that, as seen in the number of the franchises that, unfortunately, became defunct (Bui et al., 2023). The franchisor, due to the urgency of the situation, provided help. Still, the crisis was on a scale that was larger than the help given. The government had to get involved with grants, loans, and stabilizing policies to deal with the environmental pressures borne by the franchisees. The provision of such support by the government was not only important and but also an important part of the recovery phase. The use of alliance networks was also crucial, for the franchisees who tapped the most into these sources were sources who got the help to cope with the crisis.

CONCLUSION

This study demonstrates the critical importance of external support in franchisee business survival, particularly during unprecedented crises like the COVID-19 pandemic. Franchisor support, encompassing managerial guidance, resource sharing, and operational alignment, emerged as a key factor in helping franchisees navigate disruptions. Additionally, government interventions, such as financial aid and regulatory adjustments, were vital in mitigating environmental pressures and sustaining franchisee operations. The integration of Resource-Based View, Institutional Theory, and Agency Theory provides a comprehensive framework to understand how external and internal factors contribute to franchisee resilience. The results highlight the need for stronger

franchisor-franchisee relationships and more robust institutional support mechanisms to enhance adaptive capacity and long-term sustainability.

Future research should explore the scalability of these support mechanisms across various sectors and geographic contexts, ensuring the continued relevance of the franchising model in dynamic global environments. By fostering resilient networks and aligning external and internal strategies, policymakers and franchise industry stakeholders can create sustainable ecosystems for franchise success.

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