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Article

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Article

A Preliminary Study: Exploring Franchising Growth Factors of Franchisor and Franchisee

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Abstract: Previous literature has acknowledged franchising as a great way for businesses to expand into new areas and opportunities. It has become a popular option for those who are looking to start their businesses by choosing a well-known company's brand name and a ready-made business operation, or existing entrepreneurs who want to franchise their firms. Franchising a business contributes to the GDP of the countries involved, including Malaysia. However, little is known about what drives the growth of franchised firms, particularly in emerging countries such as Malaysia. Hence, this study aims to identify the growth factors of franchising, from both the franchisors' and franchisees' viewpoints. Therefore, from this dyad relationship, the analysis can provide comprehensive views of the growth factors of franchises. Interestingly, as this study was conducted during the pandemic COVID-19, the findings would include the pandemic situation that reflects the business environment. Therefore, the case study method was adopted, which involved semi-structured interviews with five service firms from two different brands, including franchisors and franchisees. The findings show that three growth factors emerged from this study: product and service innovation, franchisor-franchisee tolerance, and government support. This study contributes to obtaining a deeper grasp of the growth factors of franchisors and franchisees. Moreover, this study contributes to developing an effective franchising business process model as guidance for franchisors, franchisees and policymakers. This study also provides avenues for future research.



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Keywords: growth factor; franchisor; franchisee; franchising; case study

1. Introduction

Franchising is a system and business relationship between franchisor and franchisee under one brand name. In exchange for money, the brand and business model owner grants the franchisee the right to utilise a said brand and business model, including all associated trademarks, goods, systems, and so forth [1]. In order to provide ongoing support and services, franchisors must generate income and profit. A royalty guarantee from the franchisee requires the franchisor to invest in the franchisee's success, ensuring the Brand's prosperity. However, at its foundation, franchising is about the franchisor's relationship with its franchisees. It is about the franchise agreement comprising a suite of contracts with implications regarding the nature of this interaction known as franchising. Compared to other types of business, starting a franchise would be less risky than launching an independent business since, franchisees benefit from the brand name recognition and know-how of their franchisor. This also affords younger franchisees success as they precisely follow the guidance of the franchisor [2]. In return, the franchisees provide financial capital to the franchise system, knowledge of geographic locales and labour markets, and their labour management.

Although franchising allows franchisees to own, manage, and operate their businesses without taking on all of the accompanying risks, franchise growth is becoming more widespread in response to changing competitive environment circumstances. This is because franchising products are recognised for their consistency and quality, which

results in national and local trust in the products and services they deliver [3]. Furthermore, franchising is based on a mutual interdependence and reliance relationship between franchisors and franchisees. Therefore, it requires a cooperative connection and reliance to grow between the franchisor and franchisee. However, franchisors need to care about their franchisees' performance, since it reflects their productivity and brand name [4]. Moreover, franchising seems to focus on a growth strategy that allows franchise organisations to scale their businesses [5].

Based on the data received from the Malaysia Ministry of Domestic Trade and Consumer Affairs, 606 local franchisors and 69 master franchisees accumulated to 675 businesses registered under Section 6 of the Franchise Act 1998 [6]. In general, the local franchise market has steadily grown, on average, seven to twelve per cent yearly. The number of regional franchisors significantly increased during the 9th and 10th Malaysia Plan but showed a downward trend during the 11th Malaysia Plan. According to the 11th Malaysia Plan, under Section 8, re-engineering economic growth for greater prosperity, the government will allocate and improve the development program and takes the initiative to harmonies and boost the franchise industry. In addition, the franchise industry employs over 80,000 people and contributes more than RM1.4 billion to the annual economic cycle for franchise operations [7]. This indicates that the franchise industry is important for Malaysia's economy's growth.

Therefore, franchises are urged to focus on their uniqueness and develop a robust business model to sustain their business [8,9]. It is a blueprint of the organisation's plan and sets the course for success. In academic literature, industry and policymakers focus on the sustainable business model to ensure it aligns with the realities [10]. In addition, a business model influences perceptions of firm resources such as knowledge, skills, and abilities to establish the appropriate resources, stakeholders, and issues to be tackled for growth [11]. However, previous studies have been conducted piecemeal and focused either on the perception of the franchisor (e.g., Adeiza) [12] or franchisee (e.g., Khan) [13], which causes a lack of comprehensive understanding of the growth of the franchise industry. Therefore, to fill the research gap, the study's objective is to identify the growth factors from the perspective of a dyad relationship form the franchisor and franchisee. It is hoped that this study's results will guide the academicians, policymakers, and franchise industry in their decision-making.

2. Literature Review

Entrepreneurship is an innovative business method in which people behave in accordance with quality and improvement [14]. Still, other entrepreneurs may require more time to continue moving from one chasm to the next, though for some, this may be a rapid progression [15,16]. Resolving capability creation or capital production limitations are significant challenges in new product development [17]. The expansion process does not consider variations in managers' capacity to process information, let alone how these variations affect the relationship between time-limit extensions and firm results [18]. Therefore, the entrepreneur will create demand and increase revenue and expansion to move from the previous stage [15]. Organisational formalisation is important as it strengthens collaboration and coordination, enables the inter-functional transmission of tacit and codified information, and eliminates uncertainty [19,20]. A well-established, long-term firm would need a skilled successor to grow [15].

A franchisor at the growth stage should be confident in introducing a systematic standardisation program and training to franchisees [21]. Therefore, there is a need for a franchisor to implement comprehensive and sufficient standardisation planning and preparation. Trust-building relationships significantly benefit both the franchisor and the franchisees during the growth phase [21–23]. The growth of a firm certainly depends on the employee that manages and monitors the operations [24]. Re-allocating resources to better engage with franchisees and incorporate their experience to establish strategic assets would enhance dynamic competition and assist generate revenue streams [24].

The franchisor-franchisee partnership is one of dependency as both are involved in one Brand. The partnership is unique because it is interdependent and has mutual benefits. The marriage partnership is between individuals, while in the business partnership, person to person, a person to a firm or firm to the firm [25,26]. It also involves a supply chain, either business to business (B2B) which is between the franchisor and one or more franchisees or business to consumers (B2C) [27]. Franchisors must depend on their franchisees to collaborate and provide appropriate information to gather reliable and accurate data patterns in the market [28,29]. Local market knowledge, such as customers and competitors, is an important aspect of expansion and would reduce uncertainty [30,31]. Developing and sustaining partnerships is a high investment process, and the cost-benefit calculation should be periodically clearly analysed [25]. Franchisee performance could boost or reduce franchisor conflicts through changes or innovations in the system [32].

The relationship between the franchisor and the franchisee determines the Brand's growth. A study by Frazer & Winzar [30] showed that a conflicted relationship between franchisor and franchisee would result in franchisee exit. Interfranchisee communication complements and convinces the franchisor's "blueprint" [33]. The result of the case study by Watson & Johnson [26] highlighted the importance of leadership in the growth of confidence and loyalty in the franchisor-franchisee partnership had emerged strongly as a constant theme. Therefore, to develop confidence and commitment between franchisees, the franchisor should foster values such as reliability, integrity, trustworthiness and mutual understanding [34]. Communication is a significant precursor to trust [22,34–36]. Therefore, it is managerially essential to develop communication between franchisors and their franchisees to strengthen channel alignment and boost supply chain efficiency [27,34].

Growth depends on innovation, and being inventive should be a shared duty throughout the entire firm, franchisor and franchisee. The critical factors in forming and implementing competitive advantage in a rapidly changing environment are the capacity to recognise and seize intangible assets created by internal and external members and transform existing knowledge into resources used to respond to environmental change [37]. Furthermore, since franchise owners are closest to the client, their participation in the innovation process is essential. As a result, organisations may be confident that they are working on the correct issues and proposing changes that franchise owners will be eager to implement by embracing the franchisees' ideas and supporting them with the appropriate resources.

With the government's support, the franchise industry is expected to be boosted mainly by homegrown franchisors. A study finding by Aziz et al. [38] clearly showed that the government and franchise-related organisations encourage franchising owners to continue and sustain their firms with financial assistance, virtual franchise exhibition, business development grants and training and support. To achieve that goal, the government has launched several programmes to provide the necessary environment, resources, and incentives to expedite the growth of franchise entrepreneurs. By different measures and programmes established by the government, the franchise business is projected to continue contributing to the country's economic recovery beginning this year.

2.1. Resource Scarcity Theory

There are substantial arguments on Oxenfeldt and Kelly's theory, and it seems to give mixed empirical results [39,40]. The studies testing the theory might fall into one of these three approaches: evaluating franchisor motives, evaluating general resource levels, and evaluating specific resource indicators [41]. The first approach regarding resource motivation in franchising discussed by Dant [40], where the survey on franchisors is on capital or managerial scarcity, is the franchising factor. Next, the evaluation of general resource levels discussed by Combs & Castrogiovanni [42] and Shane [43,44] involved size, and a firm's age or growth rate regarding their resource model. Lastly, the evaluation of specific resource indicators that examined the relationship by Combs & Ketchen; Minkler & Park and Norton [45–47] involved strong propensities and capital. Nevertheless, these approaches are shown to complement each other.

An argument by Rubin [48] highlighted that franchisor would do well by injecting a portfolio into all outlets' shares and, after some time, selling those shares to its managers. Franchisors usually own and operate those outlets while depending on independent franchisees to run others [49,50]. The franchisor's experience running his outlets can boost his ability to evaluate franchisee endeavours to achieve firm goals [51,52]. Franchisors prefer ownership of the franchise if the funds are available internally and tend to own outlets that generate higher incomes and profits [53–55].

There is an issue raised by Dant [40] whether hired management could have studied the early story of the firms, and if they did, they probably lacked experience and understanding of the root costs that might affect their decision. Young franchisors may face difficulties in recruiting good managers [56]. Therefore, franchising is one of the choices to grow instead of a new own outlet. Kirby & Watson [56] highlighted that franchisors reported having had trouble selecting franchisees and handling the franchisee-franchisor partnership. Unfortunately, there is no guidance on which stage the franchisor should start franchising [56].

2.2. Crossing Chasms Stages of Growth by Chaston

A more current and applicable model [15] provides the firm life cycle concept, implying that firms face a fresh chasm at specified points on the life cycle curve that must be bridged before the next growth stage can begin. Chaston's idea further indicates that certain entrepreneurs may take more time to shift from one Chasm to another, while it may be a swift progression for some. Additionally, according to Chaston [15], the life cycle definition implies that a firm encounters a new chasm at different points on the development cycle graph, which must be reached before the next level of growth can begin. It culminated in a clearer understanding of the demands and activities of the different social innovation growth processes [57]. There are five aspects in the chasm stage: launch capacity, expansion, organisational formalisation, succession, and long-term growth, as in Figure 1. Crossing through a chasm would allow an entrepreneur to learn new skills and prioritise management activities [15,58].

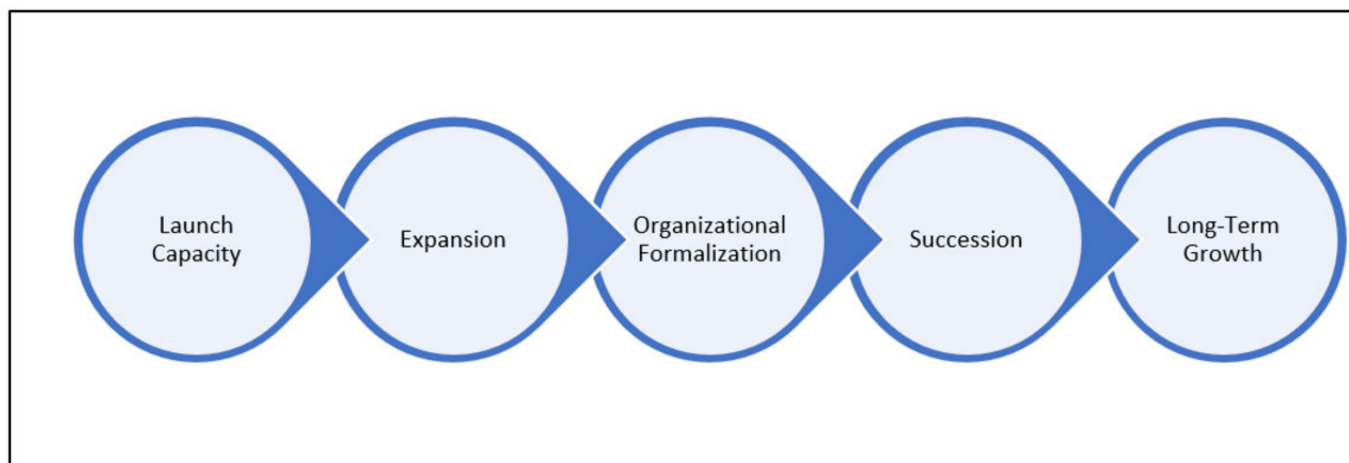


Figure 1. Crossing Chasms Stages of Growth adapted from Chaston [15].

The model suggests that sudden changes in the growth path may occur, especially in small firms. Financial support and non-viable ways to new technologies may be causes for the inability to cross Chasm 1 [59]. However, because revenue is low and beginning costs are considerable, businesses are exposed to losses during this time. In fact, during the launch phase, the cash flow is also negative, but it drops much lower than the profit. This is related to financing initial starting costs, which may or may not be represented in the business' earnings but are undoubtedly reflected in its working capital. To move on to Chasm 2, the entrepreneur must be able to generate demand and boost revenues [58].

As sales climb significantly, businesses begin to earn as they reach the break-even point. However, because the profit cycle continues to lag behind the sales cycle, profitability is not as significant as sales.

Moreover, capacity expansion is required to bridge Chasm 3. This is where a stage of matching demand with adequate supply. In addition to buyers, enhancing knowledge of power imbalances in suppliers’ relationships may lead to greater cooperation [60–62]. In addition to cost savings on the production side, the firm’s methods for improving partnerships and suppliers’ arrangements will lower costs [63]. Next, failure to develop a structured organisational structure with professional personnel will make crossing Chasm 4 difficult. Sales gradually decline as the company matures. Profit margins are shrinking, while cash flow remains roughly stable. A well-established firm will necessitate the appointment of a capable successor. A suitable successor is vital to cross Chasm 5 and sustain long-term growth in the business. The transition to the growth phase is marked by the emergence of a consistent growth plan accompanied by straight years of rapid growth.

3. Research Methodology

3.1. Study Design

A research problem is an issue that has been identified in the study and followed by research questions and objective development [64]. We used an exploratory qualitative research design to answer the research question [65]. Using qualitative research would allow the researcher to explain the social world, create explanatory models, and develop theories. This study adopted a case study as the methodology, which involved in-depth interviews. The participants were chosen from two brands which involve a dyad relationship between franchisor and franchisee. A case study or multiple case studies are used to enhance the external validity or generalizability of the study findings [66,67]. This study uses purposive sampling to ensure that the chosen sample could reach the criteria and the valuable information needed [66]. The study only focuses on the services industry. The researcher selected the samples based on a firm that has been operating for more than five years, as firm age is vital to ensure the firm’s stability with the changing business environment. Thus, a case study is very much in line with the study methodology to explore the growth factors of a franchise business.

3.2. Data Collection and Sample

The data collection from this study is based on five participants: two franchisors and three franchisees from two brands. The summary of the sample description is in Table 1. The participants are from top management from two service industries. For Brand I (laundry), the franchisor has been operating for more than nine years, and only started franchising its Brand about five years. For Brand II (microfinance), the franchisor started the business nearly 30 years ago and started its franchising business around 15 years ago. As for franchisees, they have been operating for more than three years.

Table 1. Sample Description.

Firm	Position of Participant	Franchisor/Franchisee	Industrial Area	Years of Business Since	Years of Franchising Since
Brand I	Chief Executive Officer	Franchisor [FO I]	Laundry	2013	2017
Brand II	Franchise Relation Manager	Franchisor [FO II]	Microfinance	1993	2007
Brand I	Manager	Franchisee [FE I]	Laundry	2019	2019
Brand I	Manager	Franchisee [FE II]	Laundry	2019	2019
Brand II	Manager	Franchisee [FE III]	Microfinance	2008	2008

The researcher constructed the interview protocols with semi-structured guidelines. A semi-structured interview is one in which the researcher asks only a few predefined questions, and the rest are unplanned according to the research problem of this study. Several examples of research questions are shown in Table 2.

Table 2. Interview Protocol.

Questions	Sources
How do you describe the firm initiatives in product and service innovation?	Lapersonne (2017) [68]
How do you incorporate new technology, including e-technology, into services and the delivery system and process, as appropriate?	Khalid & Alam (2020) [69]
How does the management familiarise customer goals and expectations with the team?	Thobejane (2016) [70]

Instead of a straightforward question-and-response approach, the semi-guided questions will offer more open-ended questions, allowing for interaction with the participant. The guidance and flow of the interview process are based on Table 3. It starts with the introduction, initial questions, mid-interview and closing. Each interview session ended between 30 to 45 min. The session was conducted and recorded with approval from the participants. Merriam suggested that data collection and analysis are conducted simultaneously in a qualitative study [67].

Table 3. The Flow of Interview Process of this Study.

Step 1: Introduction Greeting. Thanking participant for the opportunity given Introduce of researcher Describe the goals of the study Creating a rapport involves a situation where the participant feels relaxed and at ease Explain protocol and consent Confirmation of confidentiality Asking permission for digital or video recording
Step 2: Initial Questions Warming-up questions on respondents’ background Follow the interview guide The comfortable setting has been set up Speaking in modest sums
Step 3: Mid-interview Questions asked are firmly anchored in theory but driven by curiosity Follow-up questions Have all the subject areas or issues covered? Practice reflective listening Take note of gestures and body language Maintaining the flow of the narrative of the interviewee Avoiding prejudice by the researcher The researcher must be nondirective and neutral
Step 4: Closing the interview Questions based on themes Questions based on sharing or clarification from participant Thanking participant Emphasise the importance of knowledge from participant Double-check the audio recording, hand notes and documentation Inform the participant about sharing the study’s findings

Source: adapted from Höglund & Öberg (2011); Nathan et al. (2019); Qu & Dumay (2011) [71–73].

3.3. Data Analysis

The findings from the interviews were transcribed. Data saturation is met during data collection and analysis when no new codes are determined and the answers are getting similar [74]. Saturation has become a crucial component in qualitative research, as it aids in acquiring reliable and valid data [75]. In this study, data saturation occurs in participant five. Therefore, the data or the themes formed will be divided into sub-categories based on two cases, Brand I and Brand II. The verbatim was analysed using thematic analysis, showing the phases (see Table 4).

Table 4. Phases of thematic analysis.

Description of the Process	Phase
Transcribing data (if necessary), reading and re-reading the data, and noting initial ideas.	Familiarising yourselves with your data
Coding interesting features of the data systematically across the entire data set, collating data relevant to each code.	Generating initial codes
Collating codes into potential themes, gathering all data relevant to each possible theme. Conducted constant comparative analysis (compare with literature)	Searching for themes
Checking if the themes work with the coded extracts (Level 1) and the entire data set (Level 2), generating a thematic ‘map’ of the analysis.	Reviewing themes
Ongoing analysis to refine the specifics of each theme and the story the study tells, generating clear definitions and names for each theme.	Defining and naming the theme
The final opportunity for analysis. Selection of vivid, compelling extract examples, the final analysis of selected extracts, and relation of the study to the research question and literature. Before producing a scholarly analysis report, the researchers get an expert opinion on the themes for content validity.	Producing the report

Source: adapted from Braun and Clarke (2019) [76].

4. Findings

Based on the thematic analysis and constant comparative analysis (data are compared with the literature and confirmed with experts) [77], several essential elements emerged about growth and strategies in franchising businesses. The three categories are product and service innovation, franchisor-franchisee tolerance, and government support.

4.1. Product and Services Innovation

Product innovation improves the product’s physical look and functionality. On the other hand, service innovation is an intangible process of offering value to customers and increasing their performance. Most firms place a high value on developing, innovating, and commercialising new products and services. Changes and innovations should be consistent depending on the environment and demands of the Brand to adapt, as mentioned by FE1. Since the whole world is still facing the pandemic situation, FO1 is taking advantage by including the germs and virus caused by COVID-19 as their enemy that they could resolve using their product and services.

FE1—“So ... as for our Brand ... the smell of the detergent is really good ... the fragrant. Not to forget ... the quality of the washing machine also is important. **The machine provided by the franchisor ... boosts their franchise business model** ... their brand name. Their machine was really along with new technology and kept on innovate”.

FO1—“And then ... **the good thing is ... our dryer can count to kill COVID-19.** COVID-19 cannot survive in the heat ... you know ... cannot survive in 57 Celsius ... if I am not mistaken ... and our dryer comes with 87 Celsius. So, you put all ... all the germs disappeared”.

Moreover, the innovation of a process would improve the Brand’s performance. The resources and practices of a firm that drive innovation through research are investigated, as

well as value-creating activities, including the strategic use of a firm's assets and knowledge. A lack of innovative capabilities jeopardises the viability of highly productive firms' product and service innovation, as highlighted by FE3 and FO1.

FE3—"As for now, our mother brand is still giving training . . . Training for customer service . . . training for the gold evaluation . . . if I am not mistaken . . . this year on April . . . there is a change, and we have been using new system . . . **A combination of several systems . . . which is a good sign . . . is an innovation of a system.** The franchisor should not let their franchisees be alone in this business . . . franchisor should support and assist . . . any facilities . . . it could also increase the performance".

FO1—"Your product could not be the same as night market or other places. Second, you **need to maintain innovation.** That is important. Third, you need to consider . . . your product is necessary or trending. **If your product is trending . . . you have to innovate continually**".

In addition, regarding innovation, continually developing a product and process innovation or variations would capture a more significant market segment and create repeat customers. Finally, the final destination for products is within a local community, regardless of the size of the business it represents, as highlighted by the participant. The message must be tailored to that area to optimise a brand's reach and efficacy when launching in a local market. Brand loyalty is produced by natural, direct interactions between businesses and consumers.

FO2—"Besides focusing on creating awareness, we do activities . . . for example, lucky draw . . . **for good paymaster we give some incentives** such as daily necessities, corporate gift, premium item. **When we focused on locality, they would be our repeat customers**".

The developed innovation distinguishes the Brand from its competitors. To survive and stand out, entrepreneurs require a competitive advantage. Innovation may give you a competitive advantage by increasing your growth, productivity and profitability. Moreover, as their franchisor and franchisee highlighted, this Brand constantly creates innovation. In other words, these make a crucial operating system for innovation inside a corporation's organisational framework and corporate culture.

FE1—"However, in our Brand . . . we are not only washing and drying the clothes . . . but we provide sanitise as well. This is where the Brand is highlighted. **Our machine could sanitise to kill the germs compared to other brands that only provide wash and dry**".

FO1—"First of all, we must keep innovation. The key word is innovation. On your business idea . . . on your business concept. **Like what I implemented on this . . . by continuously innovating** . . . we . . . let me update you on this . . . we innovate in terms of e-wallet system. Number one in Malaysia . . . self-service laundry comes with an e-wallet system. Meaning that people can scan . . . they don't have to put the token. So . . . **this is an innovation. Yaa . . . that will give the wow effect! E-wallet**".

FO1—"The innovation . . . we are planning to open a megastore. Okay . . . maybe a lot of people will ask what a megastore is. Our megastore means that . . . we usually open our outlet . . . the laundry by equipping bigger space . . . bigger outlet. There will be more machines . . . bigger space . . . no stuffy . . . people can sit down and relax The environment is good. We are creating the environment . . . letting the people feel comfortable . . . when they come to our Brand. There are many machines . . . the dryer is good . . . the washer is good . . . the environment . . . is good . . . there is no need to wait. We want to bring joy to the customer".

Based on the findings, innovation does not need to be a game-changing breakthrough. Instead, it might take the form of small, incremental changes in any aspect of the firm's business. Nevertheless, innovation is revolutionising how the firm discovers, connects, and seeks products and experiences faster than ever.

4.2. Franchisor-Franchisee Tolerance

The franchisee and franchisor establish a tolerance zone specific to their partnership, which serves as an informal performance benchmark in various areas. The partnership must communicate to build a decision-making synergy, and coordinate plan execution. Franchisees are delighted when communication and coordination result in a coordinated attack on the marketplace. The financial aspect is one of the main elements of the business. Therefore, as highlighted by FE1 and FE2, financial terms and costings discussions would support and help the business sustain the franchisee and the franchisor.

FE1—“That is what I can see on **the franchisor's support regarding fees and finances**. If I would say that in terms of some discount of detergent price . . . that would be difficult as it affects costings. Therefore, **the branding fees are what I can think of on how franchisor could support**”.

FE2—“During 2020 . . . where we have to close our outlet for several months . . . **we got exemption of branding fees and some months of a reduction amount of branding fees**. As our sales are affected, we must prioritise our overhead over branding fees. Sometimes . . . **we have to delay our payment of branding fees . . . after a discussion with the franchisor**. We have to reschedule our payment in branding fees”.

FE2—“During MCO (movement control order) especially, **franchisees keep in touch and support their assigned consultants**. For example, if we have an issue with the landlord . . . as you know . . . we can't operate within some time . . . so we are facing difficulties in paying rent. So, **the consultant suggests we write a letter . . . they guide us on what we should write in the letter . . . they suggest we reschedule . . . break payments several times**. So, it turned well with the guidance even though we faced difficulties”.

A franchisor would be considered to start the business earlier than a franchisee. Support and guidance on administrative matters, as mentioned by FE2, would benefit both parties to grow the Brand. A good franchisor advises on recruitment, employee training, and human resources. Moreover, robust franchise systems assist franchisees in reducing operating expenses. The franchisor negotiates favourable prices with suppliers and requests competitive bids for the supplies and products the company needs.

FE2—“**Whatever problem we face, the franchisor will reply and try to help us**. They don't leave us behind. Even though, when we started to be franchisees . . . we are about to open an outlet . . . we didn't know how to deal with the landlord . . . the franchisor came and dealt as part of us. So yes . . . **to negotiate price, to agree . . . the years of agreement etc. . . the franchisor help and guide us on that**”.

It is normal for franchisors to provide a whole brand marketing strategy, including scheduling, promotional materials, and expenditures, for the first several months. However, one of the participants mentioned that during their outlet's launching, they were fully supported by the franchisor for local promotion. Moreover, it allows the franchisee to get recognised faster by following planning that has been tried and tested by others. Still, it also gives the franchisor peace of mind that the Brand is reflected according to the criteria that identify the brand image.

FE2—“Furthermore, they have their squad ranger. [smile]. During our opening, the **franchisor called their squad ranger to come to our outlet opening . . . created an event at our location to help with promotion**. There are many activities such as lucky draw, games, clown . . . it is interesting. Additional, if let says

we have an extra budget in future . . . we can hire their squad ranger to boost up our marketing . . . anytime”.

Furthermore, continuous training to support franchisees in their knowledge and practicality is necessary, as mentioned by FE3. However, poor coaching or training may cause a franchisee to spend excessive time and effort on operations while spending little time managing the franchise’s growth. Therefore, the franchisor provides mentoring programmes so franchisees can exchange information and best practices. Moreover, the franchisor might even hire outside consultants to instruct their franchisees.

FE3—“Not to forget, **continuous support and training to franchisees**. As for me, we are in the same chain of business . . . we are okay to share the cost . . . and I don’t think it is a problem. But, yes, **training and facilitating the franchisee to grow the franchise business . . . must come from franchisor**”.

Regular and frequent two-way communication is critical during periods of rapid change. A commitment from the franchisor to keep updated on any issues and planning for franchisees is suitable as two-way communication. This communication must be brief, focused, and properly handled to stay engaging and productive. But ideally, constant communication fosters a culture of transparency in which neither party should ever have to resort to significant confrontation.

FE3—“But as a franchisee initiative . . . our experience . . . we want to know the marketing plan . . . the Brand as a whole. So, we . . . invited the franchisor to our place . . . and let them give a talk . . . give a brief on what they will be doing. For this, yes . . . **I get a full commitment from the franchisor**. So, **whatever their planning . . . they will communicate with us . . . yes . . . their response is good**”.

FO1—“So our self-service laundry is quite simple, and usually we communicate through WhatsApp or telephone calls . . . online marketing . . . or online communication, conference calls. **Quarterly, we send our technicians to visit our franchisees**. So, the **franchisor and franchisee always stay connected**. Every . . . two or three months . . . confirm we will see each other . . . keep communicating . . . and discuss”.

A confident franchisor would offer a refundable package. It probably builds up confidence in the Brand and minimises negativity. The money-back-guarantee the franchisor provides creates secureness and builds up a reputation for the Brand. People are more likely to trust and support a brand with an excellent reputation.

FO1—“We are the first in Malaysia . . . come with the money-back guarantee. That means . . . if you sign up with our brand package . . . **when they are not happy with the return . . . when they are not happy with the profits . . . they can send everything to us for the company to buy back**. Yaa . . . so if anything happens, they will not have 100 per cent losses. So you sign up with our Brand . . . you will not be facing a loss . . . how confident we are”.

A strong franchisor-franchisee partnership is thus far more akin to the business equivalent of marriage as an interdependent connection requiring mutual respect and effort from both parties. A franchisor can provide advice and support, but the franchisee is ultimately responsible for making and carrying out decisions that affect the success or failure of the franchise. If it succeeds, it will need as many solid communication skills as required to make business sense. In the same way as a marriage, the franchisor-franchisee relationship is bound to have ups and downs.

4.3. Government Support

The Malaysian government knows that the franchise business contributes significantly to the country’s gross domestic product. As a result, it has played a critical role in fostering and supporting the industry’s growth. Considering the market’s potential for expansion

and growth, as well as the government's aid programme and initiatives, many industries, including the franchise industry in Malaysia, have been impacted by the COVID-19 pandemic, which began in December 2019. As a result, the COVID-19 epidemic has had a significant influence on the survival of businesses. As mentioned by several participants, a moratorium or negotiation in terms of financial terms and conditions has been discussed and applied to help and support businesses.

FE1—**“a loan provider ... PERNAS (Perbadanan Nasional Berhad) that giving us moratorium.** When we get these benefits, therefore as a franchisee ... I don't have to find extra money to pay the debts”.

FE2—“Yes ... yes ... we did receive it. You know the amount of capital needed for this business is quite a huge amount ... RM300,000 ... almost RM400,000. **I got a loan from PNS or currently PERNAS (Perbadanan Nasional Berhad) for RM300,000 ... , so I used my own money for the balance. The loan received helped the entrepreneur start a business with a low-interest rate**”.

FE3—**“there is also government support ... as per PERNAS (Perbadanan Nasional Berhad) as a loan provider as well ... not just towards franchisee ... it is also for the Brand that wanted to franchise their Brand as well. So it is basically on us ... where do we want to find opportunity ... and also ... one of the ways to expand ... grow the business through franchising”.**

FO1—“we cooperate with PNS and know known as PERNAS (Perbadanan Nasional Berhad). They are providing what is called as Bumiputera entrepreneurs programme. From there, **we provide a lot of financing for the Bumiputera with cooperation from PERNAS (Perbadanan Nasional Berhad).** Until today, we offer more than 40 outlets under this programme”.

The purpose of the trade mission was to promote and motivate Malaysian firms to expand, connect, and collaborate with the proper international potential investors via a business matching programme. Every year, several exhibitions and trade missions, either locally or worldwide, are conducted for franchising businesses led by the Ministry of Domestic Trade and Consumer Affairs and supported by several government agencies to grow and expand franchising businesses.

FE3—“For me, promotion ... marketing ... it is under PERNAS (Perbadanan Nasional Berhad) ... if I am not mistaken. So, **PERNAS (Perbadanan Nasional Berhad) also play a role ... franchise brand ... to penetrate the sub-urban area**”.

FO2—**“The support from KPDNHEP (Ministry of Domestic Trade and Consumer Affairs) ... trade mission roadshow ... we always follow the Ministry, a few years back”.**

Any excellent franchise system aspires to accomplish consistent, long-term replication of its brand promise to customers and financial success on all levels. Entrepreneurs could also receive assistance in the form of training and capacity building. Training provided is an important part of accomplishing that aim.

FO2—“Besides that, **the support came from Malaysian Franchise Association (MFA)** ... they also have the training to grow the businesses”.

Government assistance and infrastructure have enabled the franchise industry to thrive in the country and serve as an example for others. The government may guide, support, educate, and encourage franchising in the country, but the thirst for expansion among franchisors and franchisees as the franchising entrepreneurs is the main development driver.

5. Discussion

Based on the thematic analysis developed from the interview with participants, the franchisor and franchisee have three growth factors: product and service innovation,

franchisor-franchisee tolerance and government support. These three factors proved that there is still an opportunity for more significant expansion, and anyone considering being involved in a franchise should know it is a viable option.

5.1. Product and Service Innovation

The aspect of product and service innovation can be seen from two viewpoints. Firstly, the changes in products and services depend on the evolution of the environment and surroundings. As the revolution of science and technology advances, the market becomes more aggressive and competitive [76]. In other words, how do businesses change their behaviour in reaction to environmental acts, and what form do these changes take [78]? Franchisors must come up with innovations and implement them into the system. Still, they must also persuade the franchisees that the new ideas are sound, mainly when doing so necessitates that the franchisees use their resources to modernise their location or implement other changes mandated by the franchisor.

Based on the findings, the firm changed machines to adapt to the evolution of the environment that required high technology equipment. The innovation of the firm's Brand uses current and high technology devices. The method of services has been speeding up and consequently followed by the deduction of steps which reduce human error. The participants agreed that consistency of innovation is required to maintain the customer's demand for their products and services. The combination of resources and the ability to learn new things over time contributes to a firm's ability to innovate continuously [76]. This is aligned with the study by Mitrega et al. [79], where networking capabilities have a favourable impact on product innovation and overall firm success. It has been agreed by several participants of the study that process innovation would lead to productivity and a good brand name.

In summarising the idea of innovation in franchise agreements, it is essential to point out that franchise systems do not experience any sudden or fundamental innovations that would indicate their entire transformation or the introduction of a wholly new commercial vision. Instead, franchisors and franchisees create a relationship based on the franchise agreement to be considered a business partner. It should be emphasised that improvements to franchise customer connections are the goal of innovations in franchise partnerships related to the implementation of new concepts, goods, or services. On the other hand, network organisation innovations strengthen the relationship between franchisors and franchisees.

Outperforming the Brand's competitors requires more than incremental improvement; it requires a paradigm shift. It necessitates creativity with innovation. If the firm wants to beat its competitors, becoming its main rival will give it the vision and imagination to reimagine products, services, and the processes that enable it to supply them. For example, the pandemic environment in the last two years required their products to overcome those viruses that affected their life, as stressed by participants in this study. The equipment used could kill the virus and germs, highlighting the Brand compared with its competitors. This causes the Brand to quickly be accepted and perceived as attractive, as innovation is currently needed for the environment.

An effective local marketing plan can increase brand awareness and personalise a company's message delivery while using less per-person expenditure. This aligned with the study by Gupta et al. which demonstrates how a firm's competitiveness might allow its management to develop its marketing strategies [80]. Additionally, marketing innovations help to alter the nature of client relationships and distribution methods, which increases the value for customers and their satisfaction while also improving an organisation's financial success. Remember that marketing innovations differ from routine upgrades, routine product modifications made at customers' requests, and routine seasonal changes.

Moreover, continuously innovating products and services would create a "wow" effect for the public. Firms with excellent learning abilities are more likely to challenge their operational methods and everyday practices to make timely adjustments based on

customer feedback [76]. Although we have looked hard for them and do not think they exist, organisational adjustments might be required to foster cooperation, learning, and experimentation rather than because there are structural silver bullets; put your innovative idea into action, and verify that it functions properly. The innovation would make the Brand the first and different from its range of competitors. Innovation demands a “strong value proposition” for customers and providers to be truly successful.

Specifically, this finding proposed a proposition:

P1: The greater the innovation on products and services created by the franchisor, the better the opportunity to grow the business.

5.2. Franchisor-Franchisee Tolerance

Ordinarily, the franchisor is in charge of developing the business-established blueprint, while the franchisee is to put it into action [81,82]. Franchisors guide a franchisee with everything they need to get their business up and running, including the resources they need to develop and succeed. Therefore, the relationship between the franchisor and franchisee should have two-way communication and be vital to maintaining the partnerships. As highlighted in the study by Perrigot [83], partnerships between franchisees and franchisors have been shown to impact various performance outcomes significantly. However, the franchisor-franchisee collaboration is centred on trust difficulties, which is why franchisors must maintain their franchisee’s confidence and goodwill; otherwise franchisee satisfaction cannot be guaranteed [84].

In recent years, many franchise brands have expanded that model to include financing assistance for prospective franchisees who find it difficult to secure funding for their firm. The franchisor must ensure their franchisees grow sustainably with substantial financial resources. Many businesses take measures to assist with financing to prevent new franchisees from having to recreate the wheel. Understanding the differences between cash flow and profit is crucial to judging a company’s success or failure. In the same way, failing to reinvest in the business and financial resource capabilities gradually could result in enormous reinvestment projects that could cause franchisee failure [85].

The study by Watson [86] mentioned that franchisees are necessary for successful growth since they provide an income stream through franchise fees and royalties. It is related to the resource scarcity theory, where limited resources urge the franchisor to move towards getting more franchisees to grow. Thus, discussing the franchisor and the franchisee is vital as they represent one Brand. If a problem appears in the Brand, the public doesn’t see it as either franchisor or a franchisee outlet. They see it as the Brand itself. The finding in this study highlighted the importance of discussion between franchisor and franchisee. Most participants mentioned that a discussion on financial terms and costings is supported to maintain the business.

During the pandemic worldwide, franchisors gave franchisees an exemption or a discount on certain fees as the businesses couldn’t operate as usual, and both parties had to sustain and maintain the industry as one Brand. As a result, in addition to not generating incomes comparable to those generated before the outbreak, franchise entrepreneurs have had financial difficulties and are loaded with expenditures to pay. The franchisor could provide the franchisee with long special terms on product or supply invoices. Additionally, they could support the franchisee in securing more extended or better periods for commercial loans and leases. The franchisor assists the franchisee in running their firm, but the franchisor’s success relies on the combined revenue streams of the franchisees’ productive operations [87].

Regarding franchising, both the franchisor and the franchisee should understand the necessity of reaching an agreement on the desired outcomes [88]. Many believe that the most critical barrier limiting the expansion of a firm is a shortage of financing [89]. The study by Aziz et al. [38] also highlighted that the impact of COVID-19 is based on particular loans, payment delays, limited fund disbursements, tax relief, and penalty payments.

The mutual agreement has been set earlier; however, tolerance between franchisor and franchisee in certain elements should be considered to maintain the Brand.

Trust is a crucial component of franchises. They require honest, open communication, just as in any relationship. A strong franchise relationship is an essential company asset that should be nurtured and grown. It has been established that the length of a relationship affects how intensely interpersonal quality and financial performance are related [90]. The franchisor builds a bank of goodwill by offering dependable field support and consistent, high-quality communication. When something novel or challenging arises, having the ability to draw from this reservoir can be helpful. What information does the franchisee need from the franchisor to be successful? It is the question that the impactful franchisor repeatedly asks to structure the mutual relationship that matches the franchisee's needs.

A good franchisor would commit highly and update any relevant issues to a franchisee. Two-way communication is important, as highlighted by the participants of this study. Franchisees who feel involved and empowered are more inclined to trust their franchisor [82]. The franchisor's response and caring gesture are important for the franchisee to feel included as one Brand. This is aligned with the study by Fernández-Monroy et al. [34], where franchise firm relationships are becoming a more relevant unit of analysis for understanding performance. Thus, franchisors and franchisees must create a culture that fosters and rewards activities that benefit both franchising parties [88].

Firms that invest in training and education will improve their skill level and productivity, allowing them to justify increased earnings due to their human capital investment [91]. Moreover, the finding of this study highlighted that continuous training and branch visits would be elements of communication towards bonding between the franchisor and franchisee. The franchisor is not the only one who is responsible for communication. If they decide to become a franchisee, they must make every effort to stay informed about what is being communicated from the franchisees' outlets.

Specifically, this finding proposed a proposition:

P2: The higher the tolerance between franchisor and franchisee, the better the prospect of growing in a franchising business.

5.3. Government Support

Franchisors have access to an almost limitless supply of expansion capital that allows them to grow their businesses. In addition, these businesses can dominate the areas they enter since each new location opens with a consistent outward look and level of service. As a result, franchisees would support the growth of the new site. The business environment is vital for growth. Therefore government assistance and infrastructure have enabled the franchise industry to thrive in the country and serve as an example. However, the study by Veronica et al. [92] revealed that entrepreneurs were dissatisfied with the government's lack of engagement with them and the constant shift in social enterprise regulations. Moreover, the government should protect franchise entrepreneurs from laws that could harm the franchising industry [93].

The study by Aziz et al. [38] proposed that continuous government financial assistance is favourably associated with the Malaysian franchising business society's capacity to survive the pandemic. This is because constant processes are critical for recognising the relevance of sustainable growth to the business environment [93]. However, the government could offer enormous assistance, primarily at the start of an entrepreneurial journey; nonetheless, this is uneven and forces social entrepreneurs to strengthen their network assets and creative resources [92].

This study's findings revealed that the franchisor or franchisee's financial terms and conditions received either a moratorium or a monetary policy negotiation. It highlighted that moratoriums of this sort are not intended to disrupt a firm's ability or purpose to repay its debts or meet all necessary operational costs that are only meant to reduce excessive

spending. The loan moratorium and financial terms negotiation helped the franchise entrepreneurs sustain themselves in the business and overcome financial problems.

An effort by the Malaysian government to draw more local franchisors offers some distinctive and intriguing prospects. The government support is related to Chaston’s model, where the earlier stage of Chasm, launch capacity, expansion and organisational formalisation were a growth of franchisor’s businesses. During launch capacity, a procedure and policies by the government are crucial for the franchisor to ensure no rules have been broken. A study result by Veronica et al. reveals how every one of the study participants claimed that the government had provided them with more assistance when their businesses were just getting started [92]. At this point, franchisees will frequently need to modify their roles to ensure the firm’s seamless operations.

Moreover, government support gives advice, financial aid and programmes to expand the business during the expansion period. Finally, the stage of organisational formalisation is where the franchisor needs more franchisees to support their Brand’s expansion. A brand grant and a financial loan for franchisees would help the Brand grow and sustain itself. Figure 2 summarises the government support for the model.

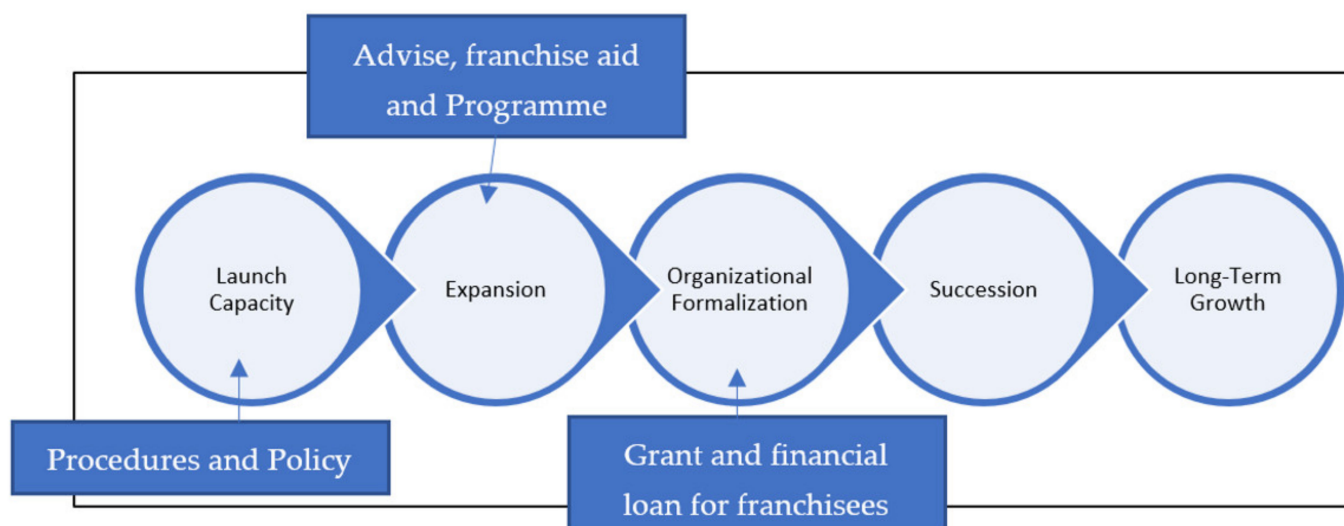


Figure 2. Government Support Contribution on Crossing Chasms Stages of Growth [15].

The Ministry of Domestic Trade and Consumer Affairs is a Malaysian government ministry to encourage the development of a competitive, sustainable domestic economy, particularly in distributive trade. It has launched several initiatives to provide the necessary environment, resources, and incentives to expedite the growth of franchise entrepreneurs. For example, it has organised the local or international trade mission and exhibition, gathered franchise players locally for an exhibition, and provided a platform for networking and conferences. This is aligned with Adeiza et al. [12], where the researcher discovered that training and support management services significantly impact franchise business success in the growth stages. The trade mission organised was also helping franchise firms to grow and penetrate a location or area challenging to reach without government support.

Specifically, this finding proposed a proposition:

P3: The ability of the franchisor and franchisee to grow is positively related to the government’s consistent support.

Based on findings and discussion, a framework as Figure 3 has been developed for the growth of franchisors and franchisees.

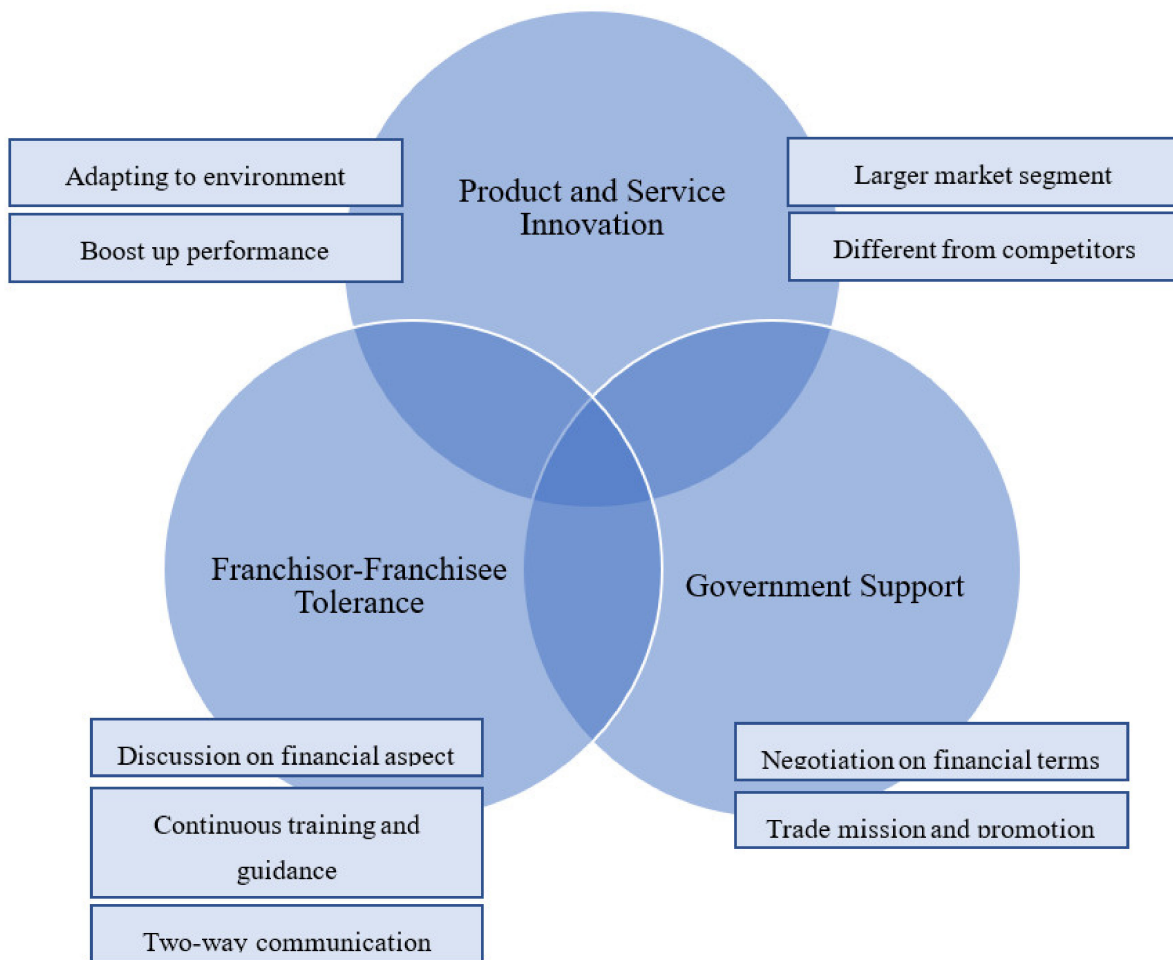


Figure 3. Framework for the Growth of Franchisor and Franchisee.

6. Conclusions

This study has highlighted growth factors from the perspectives of both franchisors and franchisees. Based on the thematic analysis, the finding revealed three growth factors: product and service innovation, franchisor-franchisee tolerance and government support. Product innovation drives growth by creating new market opportunities. It also assists businesses in diversifying their operations and reaching out to new customer segments. Anticipating your clients’ requirements improves retention. In general, franchisors want their franchisees to succeed, and most work hard to give them the tools and guidance they require. Franchisees, on the other hand, are autonomous businesspeople who make several business decisions that ultimately define the success or failure of their business. Meanwhile, government support would encourage and boost the growth of franchisors and franchisees. They considered the market’s potential for expansion and the government’s aid programme and initiatives.

The study was conducted during the pandemic. Therefore, some of the results are related to environments affected by COVID-19. COVID-19 may have increased entrepreneurs’ desire to gain an advantage in brand awareness. Before drafting a franchise development plan, franchise owners must understand why they want to expand their business and determine whether they have the necessary infrastructure. Then, franchisors could mobilise in ways that small enterprises and independents could not. Owning a franchise requires dedication, hard work, and effort, but the franchise model provides more assistance than starting your firm from the beginning. In addition, many franchise firms in various industries provide a way for people to create and build a business. Finally, given the current economic uncertainty, franchising presents a relatively particular choice. With the correct

target markets, franchisee verification, and marketing in order, franchisors can develop a vision for growth and a sound action plan that will aid in the Brand's expansion to new towns across the nation and the globe. Thus, growth elements should be seen as a strategy to expand by franchisor and franchisee.

7. Implication to Academic and Practical

This study has both academic and practical implications. In terms of academic perspective, the research has contributed to the growth factors' for franchise business from the perspective of both the franchisor and franchisee. These findings enhance the franchising literature and the growth literature. Moreover, the growth factors contribute to growth literature from franchisors' and franchisees' perspectives. A qualitative approach is employed within this research study due to the richness of the information, which helps to understand further the phenomena of growth from the franchisor's and franchisee's perspectives. Moreover, it gives better insight and understanding of the successful franchising business process model, the implementation, the challenges, and the impact of growth within the selected samples.

As for practical implications, the findings of this study can be utilised to aid franchise development agencies and franchise industry players in developing new initiatives to enhance and empower the franchise industry. Moreover, it would guide franchisors and franchisees in developing growth strategies and improving franchisor and franchisee competence. The franchising business continues to take pleasure in its good impact on communities, and each year it seeks new opportunities for growth expansion. The findings of this study can serve as a roadmap for franchise development organisations as they build more measures to support and strengthen the franchise sector for policymakers.

8. Limitation and Future Research

As this study only focused on two brands from the service industry, generalisations to other franchising businesses, particularly for the Malaysian market, cannot be made. The acquired samples were insufficient to analyse the variations in different industries. Analysing subgroups by several other sectors such as food and beverages, education or manufacturing stated in one study is required to compare the differences between them. Moreover, the number of brands could be increased, as well as the range from a variety of industries; it may be possible to find other factors that vary with different levels of knowledge. Future studies may consider comparing different brands from different industries to shed more light on the growth of franchise businesses. In addition, future research could examine quantitatively the propositions developed in this study to see the relationships between these three factors and growth factors. Consequently, it is encouraged for both practitioners and academics to further explore more complex franchising business models and franchising business model development in the context of strategy and critical success factors.

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