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The Moderating Role of Regulatory Frameworks in Shaping Franchise Brand Equity: A Conceptual Exploration

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Abstract

Franchise brand equity is a critical driver of customer loyalty, franchisee satisfaction, and overall competitiveness in the franchise market. This paper explores the influence of regulatory frameworks on the development of franchise brand equity, an area that remains underexplored in current literature. While much research focuses on internal drivers of brand value, less attention has been given to how external institutional factors, such as laws and regulations, moderate these internal dynamics. To address this gap, a conceptual model is proposed, examining the interrelationships between leadership engagement, franchisee engagement, and franchise brand equity, grounded in Agency Theory, Social Exchange Theory, and Engagement Theory. This model positions regulatory mechanisms as either enablers of trust and stability or constraints when overly rigid. The study offers practical strategies for franchisors, including compliance-oriented leadership, transparent governance, and digital regulatory alignment. It underscores the importance of balanced, innovative-friendly regulatory environments. Future research is encouraged to empirically test the model, explore cross-cultural comparisons, and consider other influencing factors such as technological change, cultural contexts, and market dynamics. These directions can offer actionable insights for academics, policymakers, and practitioners in designing regulatory frameworks that support rather than hinder brand growth.

Keywords: Agency theory, franchise brand equity, franchisee engagement, leadership engagement, regulatory frameworks, social exchange theory.

■ 1.0 INTRODUCTION

The franchise industry is characterized by intense competition, where franchise brand equity plays a vital role in determining long-term success. It encompasses customer loyalty, franchisee satisfaction, and a franchise's overall market performance. Traditionally, the development of brand equity has been examined through internal mechanisms such as leadership practices and franchisee support systems. However, as franchises operate in increasingly regulated environments, external institutional factors, especially regulatory frameworks, have begun to shape strategic and operational decisions. Despite this, limited studies have addressed how these external elements interact with internal drivers to affect brand equity. This paper addresses this critical research gap by conceptualizing how regulatory frameworks function as moderating variables, influencing the strength of the relationship between internal engagement and brand outcomes. By integrating Agency Theory, Social Exchange Theory, and Engagement Theory, this study proposes a multi-theoretical model to examine these complex interactions. The aim is to offer both theoretical advancements and practical strategies for franchisors and policymakers to better align internal practices with regulatory environments.

1.1 Background of study

Franchise brand equity is essential for achieving sustainable growth and securing a competitive advantage within franchise operations. It reflects the collective perception of key stakeholders, which are customers, franchisees, and investors regarding the brand's strength, trustworthiness, and market credibility (Hashim, 2012; Kim & Lee, 2021). Strong brand equity leads to increased customer loyalty, higher franchisee retention, and enhanced market performance. Internally, this equity is cultivated through active leadership engagement, franchisee satisfaction, and continuous operational support (Abdullah, 2010). At the same time, the role of regulatory frameworks has become increasingly significant in shaping the operational context of franchising. These frameworks such as Malaysia's Franchise Act 1998 are designed to ensure transparency, fairness, and legal compliance in franchise relationships (Mohd Isa, 2011). However, when poorly designed or overly restrictive, such regulations may impede innovation, reduce managerial flexibility, and weaken franchisee–franchisor trust (Navarro & Puig, 2018). Despite their growing influence, regulatory frameworks are often treated merely as external constraints rather than active agents in shaping brand outcomes. This underscores the need for a more integrative understanding of how these institutional elements interact with internal organizational dynamics in building or constraining franchise brand equity.

1.2 Problem Statement

While internal factors such as leadership practices and support services have been widely acknowledged as key drivers of franchise brand equity, research has largely overlooked the role of external institutional forces, particularly regulatory frameworks. Most existing studies focus on how internal engagement affects brand development, yet they fail to assess how these relationships may be strengthened or weakened by the regulatory environment in which franchises operate (Kim & Lee, 2021; Navarro & Puig, 2018).

This represents a critical gap in literature. Regulatory frameworks may act as moderators that influence the effectiveness of leadership engagement and franchisee commitment in shaping brand equity. For example, a well-balanced regulatory system may enhance trust, compliance, and brand cohesion—while a rigid, inconsistent framework may deter engagement and innovation. To advance scholarship and practice, a more nuanced conceptualization is needed one that positions regulatory frameworks not only as legal backdrops, but as active moderators of franchise brand-building efforts.

1.3 Objective of The Paper

The primary objective of this paper is to develop a conceptual model that integrates regulatory frameworks as moderating variables affecting the relationship between leadership engagement, franchisee engagement, and franchise brand equity. The model is grounded in three complementary theories:

i. Agency Theory (Eisenhardt, 1989), which explains the contractual and goal-alignment challenges between franchisors and franchisees.
ii. Social Exchange Theory (Blau, 1964), which highlights how trust, fairness, and reciprocity foster relational strength and brand loyalty.
iii. Engagement Theory, which emphasizes the importance of active participation and emotional commitment in organizational success.

These theoretical lenses collectively support the argument that regulatory frameworks can either facilitate or obstruct the mechanisms through which leadership and franchisee engagement contribute to brand equity. By conceptualizing these dynamics, the paper aims to contribute a robust, theory-driven framework to guide both academic inquiry and strategic franchise governance.

1.4 Significance of The Study

This study contributes to both academic and practical domains. From a theoretical perspective, it addresses a significant gap by exploring regulatory frameworks as moderating variables in franchise brand development. This perspective introduces a fresh lens through which the interaction between internal and external forces can be studied, paving the way for empirical validation and model refinement.

Practically, the insights derived from this model are valuable for franchisors, policymakers, and stakeholders. Understanding the dual role of regulatory frameworks as enablers and constraints will allow for the design of more adaptive strategies. Policymakers may also leverage findings to create balanced frameworks that uphold fairness while encouraging innovation. Franchisors, in turn, may enhance their brand equity by aligning internal practices with regulatory expectations.

1.5 Scope and Limitations

This conceptual paper is limited to examining the moderating effect of regulatory frameworks on the relationship between leadership engagement, franchisee engagement, and brand equity within franchise operations. It does not empirically test the proposed model but lays the groundwork for future quantitative research. While acknowledging the relevance of other contextual variables such as digital transformation, cultural dynamics, and market competition, these elements are beyond the current scope and are suggested for future studies.

1.6 Definition of Key Terms

i. Franchise Brand Equity: The perceived value of a franchise brand among key stakeholders, including consumers, franchisees, and regulators.
ii. Regulatory Frameworks: Institutional laws, rules, and guidelines that govern the operation and conduct of franchise businesses.
iii. Leadership Engagement: The active involvement of franchisor leadership in supporting, guiding, and motivating franchisees.
iv. Franchisee Engagement: The degree to which franchisees are committed, satisfied, and aligned with the goals of the franchisor.

v. Moderating Variable: A variable that influences the strength or direction of the relationship between independent and dependent variables.

■ 2.0 LITERATURE REVIEW

This chapter reviews and synthesizes relevant literature to establish the theoretical foundation and conceptual underpinnings of the proposed model. It discusses the key constructs of franchise brand equity, regulatory frameworks, and moderating variables, highlighting the gaps in the current body of knowledge. The chapter aims to justify the research focus by integrating recent empirical findings and theoretical frameworks to support the development of a more holistic conceptual model.

2.1 Franchise Brand Equity

Franchise brand equity refers to the perceived value of a franchise brand from the perspective of stakeholders such as customers, franchisees, and investors. Drawing from Aaker's (1991) seminal model, brand equity comprises five core elements: brand awareness, brand associations, perceived quality, brand loyalty, and proprietary brand assets. In franchising, strong brand equity enhances customer retention, encourages franchisee loyalty, and supports competitive positioning (Hashim, 2012; Kim & Lee, 2021).

Recent studies have further validated the link between brand equity and performance in franchise systems. For instance, Nguyen, Melewar, and Chen (2022) found that internal brand engagement significantly enhances brand equity, particularly when brand values are consistently communicated across franchise units. Likewise, Altinay, Brookes, and Aktas (2021) empirically demonstrated that franchisee perceptions of brand strength influence their satisfaction and operational alignment with franchisor objectives.

Leadership engagement plays a critical role in brand equity development, as it fosters a shared vision, ensures standardization, and strengthens franchisee motivation (Abdullah, 2010). However, existing research largely emphasizes these internal drivers, with limited attention to how external governance mechanisms, such as regulatory structures, influence or moderate these internal processes.

2.2 Regulatory Frameworks

Regulatory frameworks refer to formal institutional mechanisms including laws, policies, and standards—that govern franchise relationships and ensure market fairness. In Malaysia, the Franchise Act 1998 stipulates key requirements such as franchisor registration, pre-contractual disclosure, and dispute resolution (Mohd Isa, 2011). Globally, frameworks like the FTC Franchise Rule (USA) and Australia's Franchise Code of Conduct serve similar regulatory purposes.

While these regulations are intended to promote transparency and protect franchisees, they can also introduce operational complexity and compliance burdens. Recent empirical findings support this dual nature. Michael and Combs (2022) argue that while strong regulatory legitimacy supports investor confidence, excessive regulation may discourage entrepreneurial initiative among franchisees. Dada, Watson, and Kirby (2021) further highlight that inconsistent or poorly enforced regulations can negatively affect franchise growth and brand coherence. Despite their growing relevance, regulatory frameworks remain underexamined in franchise brand literature, particularly in terms of their moderating influence on internal engagement strategies. This gap calls for a deeper investigation of the institutional environment's role in enabling or constraining brand equity formation.

2.3 Moderating Variables in Franchise Research

Moderating variables are elements that influence the strength or direction of the relationship between independent and dependent variables. In franchise research, moderators such as leadership style, franchisee characteristics, and market volatility have been studied (Navarro & Puig, 2018). These insights underscore the complexity and contingency of franchise systems, which are influenced by both internal and external factors.

However, few studies have empirically examined regulatory frameworks as moderators, despite their potential to shape organizational behavior and relational quality. Altinay et al. (2021) suggest that transparent legal structures foster trust between franchisors and franchisees, thereby strengthening engagement. Conversely, Nguyen et al. (2022) note that regulatory ambiguity can dilute franchisee motivation and diminish brand cohesion.

Framing regulatory frameworks as moderating variables is conceptually aligned with Institutional Theory, which emphasizes how external rules shape organizational legitimacy and practices. This perspective enables researchers to capture the interplay between structured external governance and strategic internal alignment, providing a more dynamic understanding of franchise brand equity development.

2.4 Summary of Literature Gaps

Based on the review, the following key gaps are identified:

i. Limited exploration of regulatory frameworks as moderators: While internal factors have been widely studied, there is a lack of research on how external regulatory conditions influence franchise brand outcomes.
ii. Insufficient integration of theoretical perspectives: Few studies combine Agency Theory, Social Exchange Theory, and Engagement Theory to explain the mediating and moderating interactions between governance and

engagement in franchise systems.

iii. Lack of conceptual frameworks capturing internal-external linkages: Most models fail to reflect the dynamic interaction between regulatory environments and internal brand-building strategies, leaving a theoretical void in explaining how these forces co-shape brand equity.

3.0 THEORETICAL FRAMEWORK

This chapter elaborates the theoretical foundations that underpin the proposed conceptual model by drawing on three interrelated theories: Agency Theory, Social Exchange Theory (SET), and Engagement Theory. These frameworks are employed to explain how internal organizational dynamics, particularly leadership engagement and franchisee engagement, interact with external regulatory environments to influence franchise brand equity. By integrating these theories, this study aims to provide a multi-theoretical perspective that captures the complex interplay between control, trust, and active engagement, all of which are shaped or constrained by the regulatory frameworks. This integration also serves as the basis for the model's hypotheses, which posit that the regulatory environment moderates the impact of internal engagement variables on brand equity outcomes.

3.1 Agency Theory

Agency Theory (Eisenhardt, 1989) focuses on the principal–agent relationship, which is highly applicable to franchising, where franchisors (principals) delegate operational authority to franchisees (agents). This relationship is susceptible to goal misalignment, information asymmetry, and opportunistic behavior, especially when franchisees act in self-interest rather than in alignment with brand standards.

In this context, regulatory frameworks play a crucial role in mitigating agency risks by mandating disclosure requirements, performance transparency, and fair contractual obligations. For example, Malaysia's Franchise Act 1998 imposes pre-contractual disclosure obligations that reduce information asymmetry (Mohd Isa, 2011). When such frameworks are well-designed, they increase trust and brand compliance, directly strengthening the effectiveness of leadership engagement on brand equity. Connection to Conceptual Model: Agency Theory explains how leadership engagement can be more effective in the presence of strong regulatory safeguards, ensuring that franchisee behavior aligns with brand values. Therefore, regulatory frameworks moderate the leadership–equity linkage.

3.2 Social Exchange Theory (SET)

Agency Theory (Eisenhardt, 1989) focuses on the principal–agent relationship, which is highly applicable to franchising, where franchisors (principals) delegate operational authority to franchisees (agents). This relationship is susceptible to goal misalignment, information asymmetry, and opportunistic behavior, especially when franchisees act in self-interest rather than in alignment with brand standards. Social Exchange Theory (Blau, 1964) posits that relationships are based on the reciprocity of trust, support, and perceived fairness. In franchising, when franchisors provide support, empowerment, and fair treatment, franchisees respond with loyalty, compliance, and a shared commitment to brand objectives (Kim & Lee, 2021).

Regulatory frameworks enhance this relational quality by institutionalizing fairness by offering dispute resolution systems, profit-sharing clarity, and protective mechanisms. When these regulations are perceived as equitable and transparent, franchisees are more likely to reciprocate with higher engagement and brand advocacy. However, over-regulation or inconsistent enforcement may create resentment, diminishing franchisee morale. Connection to Conceptual Model: SET explains the affective and relational mechanisms that underpin franchisee engagement. Regulatory frameworks influence the quality of the exchange relationship, thereby moderating the impact of franchisee engagement on brand equity.

3.3 Engagement Theory

Engagement Theory emphasizes the role of active participation, collaboration, and ownership in organizational success. Within franchise systems, engaged franchisees demonstrate commitment to upholding brand standards, delivering consistent customer experiences, and innovating at the local level (Hashim, 2012). Leadership that fosters open communication, provides autonomy, and shares vision enhances engagement. However, this engagement is highly sensitive to the regulatory climate. Supportive legal structures such as ensuring autonomy, protection, and dispute resolution to enhance engagement. Conversely, restrictive or ambiguous regulations may lead to disengagement and compliance fatigue. Connection to Conceptual Model: Engagement Theory provides the behavioral foundation for both leadership and franchisee engagement, while showing how the regulatory environment can amplify or hinder this engagement's impact on brand equity.

3.4 Integration of Theories and Conceptual Alignment

Collectively, these three theories form an integrated lens for understanding how internal engagement mechanisms interact with external regulatory environments to influence franchise brand equity. Refer to Table 1.

Table 1 Theoretical Foundations Underpinning the Moderating Role of Regulatory Frameworks in Franchise Brand Equity

Theory	Core Mechanism	Link to Model
Agency Theory	Aligns franchisor–franchisee goals; mitigates opportunism via control and contracts	Explains how regulatory frameworks enhance leadership's influence on brand equity by increasing alignment
Social Exchange Theory	Builds trust, fairness, and reciprocity	Explains how franchisee engagement is contingent on perceived fairness, which is influenced by regulatory frameworks
Engagement Theory	Facilitates participation, motivation, and performance	Demonstrates how supportive regulations enhance the positive effects of engagement on brand outcomes

Thus, the conceptual model positions regulatory frameworks as a moderating variable that shapes the strength and effectiveness of internal engagement mechanisms in achieving franchise brand equity. The theories together explain both the instrumental (control-based) and relational (trust-based) dimensions of franchise systems, making the model theoretically robust and suitable for empirical validation across diverse regulatory contexts.

■ 4.0 PROPOSED CONCEPTUAL MODEL

This chapter outlines the proposed conceptual model that links leadership engagement and franchisee engagement to franchise brand equity, with regulatory frameworks acting as a moderating variable. The model is grounded in the theoretical insights provided by Agency Theory, Social Exchange Theory, and Engagement Theory. It addresses a key gap in franchise research by integrating both internal organizational dynamics and external institutional influences to provide a holistic understanding of brand development in franchise systems.

4.1 Conceptual Model Development

The development of the conceptual model is informed by empirical insights and theoretical propositions discussed in the previous chapters. Leadership engagement and franchisee engagement are positioned as primary internal drivers of franchise brand equity. Regulatory frameworks are introduced as a moderating construct, shaping the strength and direction of the relationships between these drivers and brand equity outcomes.

i. Leadership Engagement refers to the extent to which franchisors provide strategic direction, motivation, and support to franchisees. Prior studies suggest that effective leadership enhances franchisee performance and alignment with brand values (Hashim, 2012).
ii. Franchisee Engagement captures the degree of commitment, involvement, and proactive behaviour exhibited by franchisees. Engaged franchisees are more likely to uphold brand standards, contribute to innovation, and enhance customer satisfaction (Kim & Lee, 2021).
iii. Franchise Brand Equity is defined as the perceived value of the brand by customers and stakeholders, encompassing dimensions such as brand awareness, trust, loyalty, and perceived quality (Aaker, 1991; Hashim, 2012).
iv. Regulatory Frameworks represent the formal legal and institutional structures governing franchise operations. These include disclosure laws, registration requirements, and dispute resolution mechanisms. Regulatory systems can facilitate trust and fairness, but overly stringent regulations may hinder operational flexibility (Mohd Isa, 2011; Navarro & Puig, 2018).

4.2 Hypotheses Development

Based on conceptual relationships and supported by the underpinning theories, the following hypotheses are proposed:

H1: Leadership engagement is positively and directly related to franchise brand equity.
H2: Franchisee engagement is positively and directly related to franchise brand equity.
H3: Regulatory frameworks positively moderate the relationship between leadership engagement and franchise brand equity.
H4: Regulatory frameworks positively moderate the relationship between franchisee engagement and franchise brand equity.

These hypotheses reflect the central argument that effective leadership and engaged franchisees enhance brand equity, and that these relationships are contingent on the quality and structure of the regulatory environment.

4.3 Conceptual Framework Model

The conceptual model comprises two independent variables (leadership engagement and franchisee engagement), one dependent variable (franchise brand equity), and one moderating variable (regulatory frameworks). The model illustrates the direct paths from the independent variables to the dependent variable, as well as the moderating paths where regulatory frameworks influence the strength of these relationships.

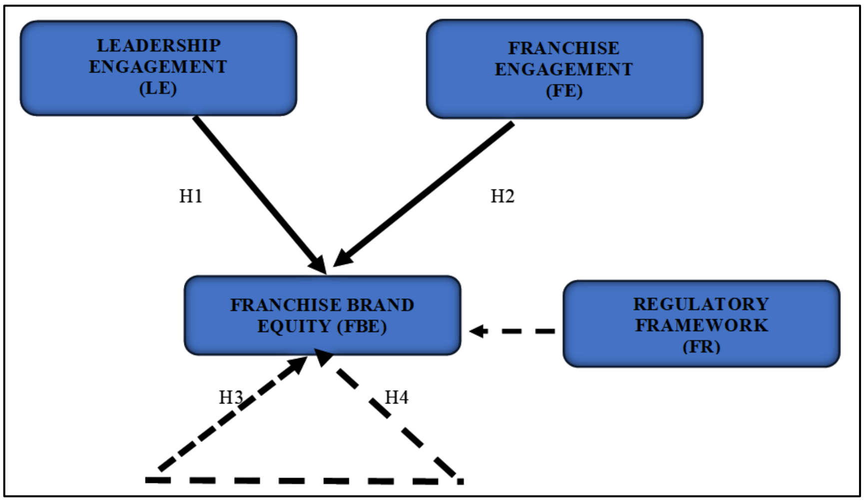

Figure 1 Conceptual Model – Regulatory Frameworks as a Moderator

A. Explanation of the Conceptual Model

This conceptual model illustrates the relationships between internal engagement constructs (Leadership Engagement and Franchisee Engagement) and the outcome variable, Franchise Brand Equity (FBE). It also introduces Regulatory Frameworks (RF) as a moderating variable that affects the strength of these relationships.

B. Constructs and Hypotheses

i. Leadership Engagement (LE) → Franchise Brand Equity (FBE)

H1: This path suggests that leadership engagement referring to the strategic direction, motivation, and operational support provided by franchisors has a positive and direct effect on franchise brand equity.
Supported by Agency Theory, this link emphasizes the importance of aligning franchisee behaviour with brand goals through effective leadership.

ii. Franchisee Engagement (FE) → Franchise Brand Equity (FBE)

H2: This relationship proposes that engaged franchisees to those who are committed, proactive, and aligned with the franchisor's vision, which significantly contribute to enhancing the brand's value, reputation, and consistency.
Rooted in Social Exchange Theory, this link is based on mutual benefit, trust, and brand loyalty.

iii. Moderating Role of Regulatory Frameworks (RF)

H3: Regulatory frameworks moderate the relationship between Leadership Engagement (LE) and Franchise Brand Equity (FBE).
H4: Regulatory frameworks also moderate the relationship between Franchisee Engagement (FE) and Franchise Brand Equity (FBE).
These moderating effects (shown with dashed arrows) suggest that the strength and impact of LE and FE on brand equity may vary depending on the quality, clarity, and enforcement of franchise regulations.
Based on Institutional and Agency Theory, RF acts as a boundary condition - supportive regulations amplify positive outcomes, while excessive or weak regulations may hinder engagement effectiveness.

C. Key Conceptual model Regulatory frameworks as a moderator

i. Direct Effects (H1, H2): LE and FE directly influence FBE.
ii. Moderation (H3, H4): RF modifies how strongly LE and FE affect FBE.
iii. The model emphasizes that brand equity in franchise systems is not merely a result of internal capabilities but also depends on the external legal-institutional environment.

4.4 Theoretical Contribution of The Model

This model advances the literature on franchise brand management by introducing regulatory frameworks as a boundary condition. It synthesizes multiple theoretical lenses; Agency Theory, Social Exchange Theory, and Engagement Theory to develop a nuanced understanding of how engagement efforts translate into brand equity in regulated franchise contexts. By addressing the often-overlooked external-institutional dimension, this framework sets the foundation for future empirical testing and cross-country comparison studies.

5.0 DISCUSSION AND IMPLICATIONS

This chapter discusses the theoretical and practical implications of the proposed conceptual model and offers strategic insights for franchisors, policymakers, and researchers. The integration of leadership engagement, franchisee engagement, and regulatory frameworks into the conceptualization of franchise brand equity offers a multidimensional understanding of brand development in franchise systems. The discussion is structured around managerial, policy, and research implications, followed by strategic recommendations and future research directions.

5.1 Managerial Implications

5.1.1 Leveraging Regulatory Frameworks to Enhance Brand Equity

Franchisors are encouraged to integrate regulatory compliance into their brand strategy rather than treating it as a separate administrative function. For example, McDonald's Malaysia has developed a franchise compliance checklist tied to performance evaluations, where each franchisee is rated quarterly on legal, food safety, and brand standard adherence. These reports are also shared with franchisees to build transparency and mutual accountability. Additionally, franchisors can appoint a Compliance Officer or create a Compliance Unit to regularly review contracts, prepare updates on regulatory changes, and conduct internal training. This institutionalization of compliance helps foster trust, enhances brand credibility, and supports long-term brand equity.

5.1.2 Strengthening Franchisee Engagement Through Supportive Governance

Franchisee engagement can be operationalized through monthly virtual town halls, legal knowledge-sharing sessions, and customized digital dashboards. For instance, franchise chains such as 7-Eleven Malaysia have implemented mobile apps for franchisees that provide instant updates on policy changes, promotions, and inventory tracking. In regulated sectors like healthcare or education franchises, franchisors can offer legal briefings and compliance toolkits tailored to government licensing or curriculum changes. These initiatives minimize uncertainty and reinforce a sense of security and professionalism among franchisees, key factors in enhancing engagement and brand consistency.

5.2 Policy Implications

5.2.1 Designing Balanced and Adaptive Franchise Regulations

To ensure franchise growth, regulators such as Malaysia's Ministry of Domestic Trade and Cost of Living (KPDN) should implement stakeholder review mechanisms for instance, biennial consultations involving franchisors, franchisees, legal advisors, and industry bodies. Such sessions, modelled after the United States Federal Trade Commission's (FTC) Advance Notice of Proposed Rulemaking, ensure that regulatory updates remain relevant and informed by industry needs. Additionally, tiered compliance obligations can be introduced, where micro-franchises and new entrants have simplified registration and reporting processes, while large chains undergo full compliance audits. This scalable approach fosters inclusivity without compromising governance.

5.2.2 Facilitating Regulatory Ecosystems That Promote Trust and Innovation

Government-linked bodies such as *Perbadanan Nasional Berhad* (PNS) can support innovation by providing grants or tax deductions for digital compliance systems, encouraging franchisors to invest in governance technologies. For example, an online Franchise Disclosure Portal could be developed, where franchise documents are registered, tracked, and benchmarked, which is like Australia's online registration model. Furthermore, Malaysia can adopt co-regulatory models, where industry associations (e.g., MFA) collaborate with the government to issue soft guidelines on dispute resolution, ESG compliance, and franchisee onboarding standards. Thus, encouraging self-regulation and industry ownership.

5.3 Strategic Recommendations for Franchisors

As shown in Table 2, franchisors can adopt several strategic interventions to enhance regulatory compliance.

Table 2 Strategic Interventions to Strengthen Regulatory Compliance in Franchise Operations

Strategy	Specific Implementation Examples
Establish Compliance-Oriented Leadership Culture	Integrate regulatory training into franchisor onboarding programs and leadership KPIs. For instance, use a Regulatory Performance Index that scores regional managers on compliance facilitation and franchisee satisfaction.
Develop Franchisee Support Infrastructure	Offer a centralized Helpdesk and Legal Helpline for real-time queries, especially for new franchisees. Provide franchise-specific legal templates and a quarterly compliance newsletter.
Utilize Digital Platforms for Transparency	Implement a cloud-based franchisee portal featuring contract uploads, inspection results, sales reports, and compliance alerts. Add features for franchisees to give feedback on operational challenges anonymously.
Engage in Regulatory Dialogue	Nominate senior representatives to industry panels or policy roundtables (e.g., KPDN-MFA workshops). Host "Franchise Law Dialogues" annually to gather regulatory pain points from grassroots operators.
Adopt Risk-Based Regulatory Monitoring	Classify franchise outlets into low-, medium-, and high-risk categories based on performance and audit history. Focus compliance audits and training efforts on underperforming outlets while offering innovation leeway to high-performing ones.

■ 6.0 CONCLUSION

This conceptual study has made a significant contribution to the advancement of franchise brand management literature by presenting a multi-dimensional framework that integrates internal organizational dynamics, namely leadership engagement and franchisee engagement with the moderating role of regulatory frameworks. Grounded in Agency Theory, Social Exchange Theory, and Engagement Theory, the model offers a comprehensive explanation of how relational commitment, trust, and institutional alignment interact to influence franchise brand equity.

The findings underscore that:

i. Leadership engagement plays a critical role not only in strategic guidance but in embedding a value-driven, compliance-oriented culture that enhances brand credibility.
ii. Franchisee engagement, characterized by autonomy, motivation, and aligned behaviour, is central to achieving operational consistency, customer satisfaction, and loyalty.
iii. Regulatory frameworks, when well-structured, transparent, and adaptive, can amplify these internal efforts by reducing agency risks and improving franchise network cohesion.

By repositioning regulation from a restrictive legal burden to a strategic enabler, this study shifts discourse toward governance-driven brand building. The framework encourages franchisors to internalize compliance as a leadership function and invites policymakers to design balanced legal environments that safeguard stakeholders without stifling innovation.

6.1 Significance of The Findings

This research is theoretically significant because it:

i. Integrates institutional and relational variables into a unified model of franchise brand equity.
ii. Reconceptualizes regulatory frameworks as a moderating mechanism with strategic importance.
iii. Bridges multiple theories (Agency, SET, Engagement) to reflect real-world franchise complexities.

From a practical standpoint, the model offers:

i. Strategic direction for franchisors to enhance brand value through leadership culture and engagement practices.
ii. Policy recommendations that emphasize the need for consultative, adaptive regulation to foster trust and sustainability within the franchise ecosystem.

6.2 Future Research Directions and Methodologies

To empirically validate and extend this model, the following future research directions are proposed, each with suitable methodologies:

A. Empirical Validation via Structural Equation Modelling (SEM)

i. Future studies should operationalize the four core constructs and test the model using SEM with SmartPLS or AMOS to assess path coefficients, model fit, and indirect effects.
ii. Samples can be drawn from franchisees and franchisors across sectors (e.g., food & beverage, education, retail) to ensure generalizability.

B. Moderation Analysis Using Multi-Group SEM (MGA)

i. Regulatory environments can be categorized into “supportive” vs. “restrictive” groups based on legal ratings or country typologies (e.g., based on the World Bank’s Ease of Doing Business index).
ii. Multi-group analysis will help identify whether the strength of the engagement–brand equity relationship differs significantly across regulatory contexts.

C. Longitudinal Case Studies

i. Employ longitudinal qualitative studies in selected franchise systems to trace how regulatory changes (e.g., policy reforms, digital compliance shifts) influence engagement dynamics and brand outcomes over time.

ii. Data collection through in-depth interviews, document analysis, and archival records will enrich contextual insights.

D. Cross-Country Comparative Analysis

i. Comparative studies can examine regulatory and engagement dynamics in countries such as Malaysia, Australia, Indonesia, and the USA, where legal frameworks differ considerably.
ii. Employ a mixed-methods approach, combining survey data with legal content analysis of franchise legislation.

E. Technological Moderation and Mediation Models

i. Explore how digital governance systems (e.g., franchisee compliance platforms, e-disclosure tools) may mediate or moderate the relationship between engagement and brand equity.

ii. Methods: Mediation analysis using PROCESS Macro or PLS-SEM with mediation paths.

By providing clear pathways for empirical exploration, this study paves the way for a deeper understanding of how internal engagement strategies and external institutional environments co-shape franchise brand outcomes. As franchise ecosystems evolve amid digitalization, globalization, and increasing regulation, this framework offers timely relevance to researchers, policymakers, and practitioners.

DECLARATION OF CONFLICTING INTERESTS

The author declares no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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