

Evaluating the Impact of Regulatory Frameworks on Franchise Industry Sustainability: Empirical Evidence from Malaysia with International Benchmarking

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Abstract

The objective of this study is to examine the degree to which Malaysia's franchise regulation impacts the sustainability of its franchise industry. As franchise networks increasingly demand regulatory clarity, legal predictability, and digital connectivity on a global scale, the Malaysian context offers a critical example of how policy levers in emerging economies can be calibrated with sustainable business models. Employing a mixed-method approach, the research integrates qualitative results of semi-structured interviews with franchisors, regulators, and policymakers as major stakeholders under qualitative findings, and quantitative results of a national survey of franchisees under quantitative findings. Thematic analysis was employed in the qualitative stage to condense regulatory perceptions and enforcement challenges, and structural equation modeling (SEM) was employed in the quantitative stage to examine relationships between regulatory quality, enforcement, e-compliance, and franchisee trust. The findings of the study show that legal certainty, regulatory enforcement, and electronic compliance procedures significantly influence franchisee confidence and industry resilience. Weaknesses in administrative enforcement and delayed policy responses were found to undermine stakeholder confidence and business continuity. Conversely, conformity with international best practice such as in the United States and Australia can reinforce investor perception and facilitate sustainable franchise growth in Malaysia. This study contributes to franchise regulation, institutional governance, and sustainability in emerging markets literature using a new empirical approach combining stakeholder feedback and cross-national benchmarking. The findings resonate with Malaysian regulators who are interested in modernizing legal instruments, enhancing the effectiveness of enforcement, and creating a more sustainable and future-oriented franchise environment.

Keywords: Digital compliance, enforcement, franchise regulation, industry sustainability, institutional governance, legal clarity, malaysia, mixed method.

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■ 1.0 INTRODUCTION

Franchising has become a key driving force for economic growth, technology transfer, and competitiveness in industrialized and developing economies. Franchising is a replicable business model that allows for replication of successful models while encouraging entrepreneurship, job creation, and international investment (Alon, 2020; Dant et al., 2011). But the just growth and sustainability of the franchise business, to a large degree, depends on the existence of an effective and dynamic regulatory environment. The value of regulation with transparency, institution-based enforcement, and institutional trust is to lower information asymmetry, lower transaction costs, and protect the stakeholders' interests (Baena & Cerviño, 2014; Jell-Ojobor & Windsperger, 2017). For Malaysia, its franchise industry has grown consistently in the last decade as can be seen in the registration of its businesses rising. Figure 1 illustrates the growth pattern of registered franchises between the years 2010 and 2023 as it reflects local policy interest and demand by investors.

Globally, mature franchise markets such as the United States and Australia have developed comprehensive regulatory mechanisms namely the Franchise Rule and Franchising Code of Conduct (FTC Franchise Rule), which establish mandatory disclosure, dispute resolution mechanisms, and fair contractual practices. These instruments are periodically revised to respond to market shifts and technological change, contributing to industry resilience and global investor confidence (Frazer et al., 2019; Blair & Lafontaine, 2021). In contrast, many emerging markets, including Malaysia, continue to face structural and institutional challenges that undermine regulatory efficacy. Figure 1 illustrates the rapid growth trajectory of franchise registrations, highlighting regulatory milestones that may have influenced the trend.

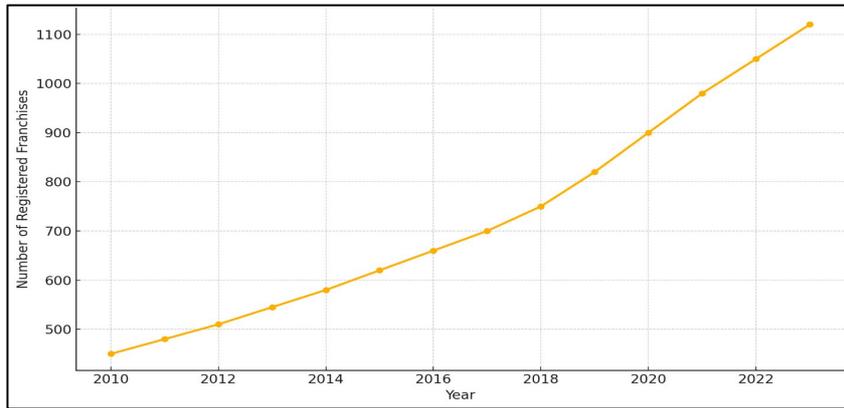


Figure 1 Growth of Registered Franchises in Malaysia (2010–2023)

Source: Malaysian Franchise Association (MFA), compiled by authors

1.1 Problem Statement

Despite Malaysia having enacted the Franchise Act 1998 to regulate and regularize the franchise industry, there are actual limitations. The primary ones include an inability to enforce, backlog in bureaucracy, no digitalization, and limited transparency in monitoring compliance (MFA, 2022; KPDN, 2023). These exposures have eroded confidence among incumbent and prospective franchisees, held back innovation, and restricted the potential of the industry to ensure Malaysia becomes the regional hub of franchises. Besides, Malaysia has not used a systematic measurement of its regulation methods against worldwide best practices to hinder ongoing learning and institutional transformation (Isa et al., 2020). Without fundamental reforms, the current regulatory regime risks obsolescence in addressing the digital revolution of business models, evolving franchise relationships, and rising stakeholder expectations. This necessitates a general review of Malaysia's regulatory frameworks considering international developments and domestic realities. As illustrated in Figure 2, the enforcement gap model highlights the disconnection between legal provisions and regulatory execution.

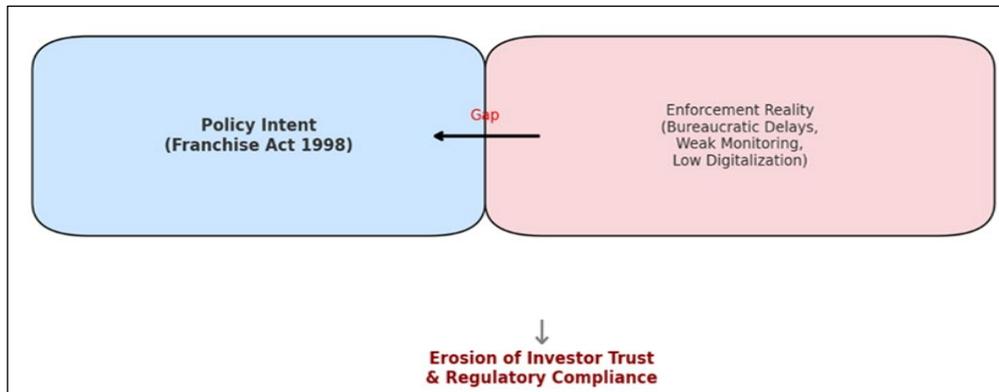


Figure 2 Enforcement Gap Model in Malaysia's Franchise Regulation. Authors' synthesis

1.2 Research Objectives

This study seeks to empirically assess the impact of Malaysia's franchise regulatory framework on industry sustainability, with a focus on regulatory quality, enforcement effectiveness, and digital compliance. It also aims to identify actionable policy recommendations by comparing Malaysia's framework with international benchmarks from the United States and Australia.

- i. To examine the relationship between the quality of franchise regulation and sustainability in the Malaysian franchise industry.
- ii. To investigate the influence of enforcement mechanisms on franchisee trust and compliance behavior.
- iii. To identify global regulatory best practices that can be adapted to strengthen Malaysia's franchise governance system.

1.3 Research Questions

This research is expected to contribute theoretically to the literature on institutional theory and regulatory governance in franchising while offering practical insights for policy makers, regulators, and franchise stakeholders in Malaysia. To address these challenges, this study is guided by the following research objectives and questions:

- i. How does regulatory quality affect the sustainability of Malaysia's franchise industry?

- ii. In what ways does enforcement strength shape franchisee confidence and compliance outcomes?
- iii. What lessons can Malaysia draw from international franchise regulatory frameworks to improve its domestic policies?

As presented in Table 1, the study is structured around specific research objectives and questions that align with the theoretical framework and address the core gaps identified in the literature.

Table 1 Research Objectives and Corresponding Questions

Research Objective	Corresponding Research Question
To evaluate the regulatory impact on franchise sustainability	How does regulatory quality affect franchise industry outcomes?
To examine the role of enforcement in building trust	Does stronger enforcement lead to increased franchisee trust?
To identify international best practices	What lessons can Malaysia learn from United States and Australian regulatory frameworks?

1.4 Significance of Study

This study is significant for several reasons, both from theoretical and practical standpoints. At the theoretical level, the research contributes to the growing body of knowledge on regulatory governance, franchise sustainability, and the institutional dynamics that shape business ecosystems in emerging markets. By integrating insights from institutional theory and regulatory quality frameworks, this study advances a nuanced understanding of how legal structures, enforcement mechanisms, and benchmarking practices interact to influence franchise industry outcomes. While prior studies have explored franchising in terms of contractual efficiency and expansion strategies (e.g., Dant et al., 2011; Jell-Ojobor & Windsperger, 2017), limited empirical work has focused on the regulatory underpinnings of franchise sustainability particularly in developing economies like Malaysia.

Practically, the findings of this study are evidence-based policy interventions for policymakers, regulators, and industry players. Through regulatory gaps analysis and comparison of Malaysia's structure to international best practices, this study provides strategic recommendations on enhancing policy coherence, digitalization, and enforcement effectiveness in the franchise industry. This kind of reform is important not merely to promote compliance and investor confidence but also to position Malaysia as a competitive ASEAN and Asia-Pacific-franchise center (Isa et al., 2020; MFA, 2022). Furthermore, this study will be of great importance to both the franchisees and franchisors because it raises to the surface the relationship between regulatory trust and sustainable business practices. There should be an open and responsive regulatory framework in order to ensure risk reduction, business sustainability, and support of long-term development. The study is also a reference for other emerging economies who seek to restructure their franchise law and foster inclusive, innovation-driven franchise systems.

2.0 LITERATURE REVIEW

2.1 Franchise Industry Sustainability: Economic, Social, and Environmental Dimensions

Sustainability in franchising extends beyond financial performance and involves a holistic integration of economic feasibility, social justice, and environmental responsibility (Elkington, 1998; Dangelico & Vocalelli, 2017). From an economic viewpoint, sustainable franchises are those that are continuously profitable while promoting inclusive business participation through franchising formats that democratize entrepreneurship (Kaufmann & Eroglu, 1999). Social sustainability involves building durable long-term franchisor-franchisee relationships, fair treatment, and transferring knowledge to deal with labor and community participation concerns (Combs et al., 2011; Michael, 2000). Franchising sustainability environmentally involves reducing the environmental footprint of operations by having green supply chains, sustainable sourcing, and conserving energy (Weaven et al., 2021). While these dimensions have gained traction in developed markets, emerging economies often face institutional and regulatory limitations that hinder sustainable transformation (Baena & Cerviño, 2014). Thus, the sustainability of franchise systems is intrinsically linked to the enabling regulatory environment that governs their operations. A coherent, transparent, and adaptive regulatory framework is crucial for ensuring stakeholder trust, investment continuity, and alignment with global sustainability standards (Jell-Ojobor & Windsperger, 2017).

2.2 Regulatory Frameworks and Institutional Theory

Regulatory frameworks represent the formal institutional arrangements that shape the incentives, behavior, and accountability of actors in the franchise ecosystem. Institutional theory posits that organizational outcomes are influenced not only by market logic but also by regulatory, normative, and cognitive structures that define legitimacy (Scott, 2014). In franchising, regulation serves to balance contractual power, protect franchisees from opportunistic behavior, and ensure transparency in disclosure and registration (Blair & Lafontaine, 2021). Countries with advanced franchise systems, such as the United States (FTC Franchise Rule) and Australia (Franchising Code of Conduct), provide regularized procedures for franchise disclosure, dispute resolution, and enforcement, which in turn foster industry resilience and stakeholder confidence (Frazer et al., 2019; Wright & McAuley, 2012). These models demonstrate how effective governance frameworks lead to improved compliance, reduced litigation, and sustained

business continuity. In contrast, Malaysia's Franchise Act 1998, though a pioneer in ASEAN, remains plagued by enforcement inconsistency, limited digital compliance aids, and bureaucratic delays (Isa et al., 2020). More empirical evidence has highlighted the relationship between regulatory quality and sector performance, especially in high-growth sectors like franchising where information asymmetry and relational risks are common (Dant et al., 2011; Jambulingam & Nevin, 1999).

2.3 Global Benchmarking and Policy Learning

Global benchmarking allows countries to identify gaps, learn from best practice abroad, and adapt reforms to comparative performance (Dolowitz & Marsh, 2000). For the franchise industry, benchmarking is equivalent to comparing policy tools like online registration systems, standardized disclosure forms, mediation panels, and compliance tracking mechanisms. The United States' adoption of pre-sale disclosure law under the FTC Franchise Rule and Australia's enforcement of good faith obligations under the ACCC established strong policy blueprints with proven success (Blair & Lafontaine, 2021; Frazer et al., 2019). Malaysia's failure to adopt similar mechanisms has limited its ability to scale up its franchise industry in line with global expectations. Comparative legal studies and cross-national assessments serve as critical tools for policy learning and institutional modernization, especially in developing countries striving to become regional franchise hubs (Baena, 2012; Isa et al., 2020). A variety of studies have examined the role of franchise regulation in supporting industry sustainability, compliance behavior, and institutional trust. Table 2 summarizes selected empirical and conceptual works relevant to this study.

Table 2 Summary of Key Literature on Franchise Regulation

Author(s)	Country/Context	Focus Area	Key Findings
Blair & Lafontaine (2021)	United States	Economics of Franchising	Strong disclosure laws increase legal certainty and trust
Isa et al. (2020)	Malaysia	Regulation & Enforcement	Weak enforcement reduces franchisee compliance and trust
Frazer et al. (2019)	Australia	Digital Compliance Tools	Digital registration enhances transparency and compliance
Grünhagen et al. (2010)	Germany	Franchisee Trust	Trust is shaped by fair enforcement and legal protection
Dolowitz & Marsh (2000)	Global/Comparative	Policy Transfer & Benchmarking	Policy learning improves governance quality in emerging markets

2.4 Hypotheses Development

Based on the preceding review, this study proposes the following hypotheses:

H1: Regulatory quality has a significant positive effect on the sustainability of the franchise industry in Malaysia. (Justification: Effective regulatory structures provide legal certainty, reduce transaction costs, and support long-term business planning.)

H2: Stronger regulatory enforcement positively influences franchisee trust. (Justification: Enforcement mechanisms such as audits, penalties, and dispute resolution build confidence among franchisees and reduce the likelihood of opportunistic behavior.)

H3: International regulatory benchmarking contributes to improvements in domestic policy formulation. (Justification: Benchmarking accelerates learning, facilitates policy innovation, and helps align national frameworks with global best practices.)

As shown in Table 3, recent literature reflects both the enabling and constraining roles of regulatory frameworks, underscoring the need for more integrative and adaptive approaches in franchise governance.

Table 3 Summary of Key Literature on Franchise Regulation

Hypothesis Code	Hypothesis Statement	Supporting Literature
H1	Regulatory quality positively influences franchise industry sustainability	Blair & Lafontaine (2021); Isa et al. (2020)
H2	Stronger enforcement increases franchisee trust	Grünhagen et al. (2010); Scott (2014)
H3	International benchmarking supports regulatory reform and policy improvement	Dolowitz & Marsh (2000); Frazer et al. (2019)

2.5 Conceptual Framework Model

Based on the theoretical insights and reviewed literature, the following conceptual framework is proposed to examine the influence of regulatory quality, enforcement strength, and global benchmarking on franchise industry sustainability. Refer to Figure 3 below.

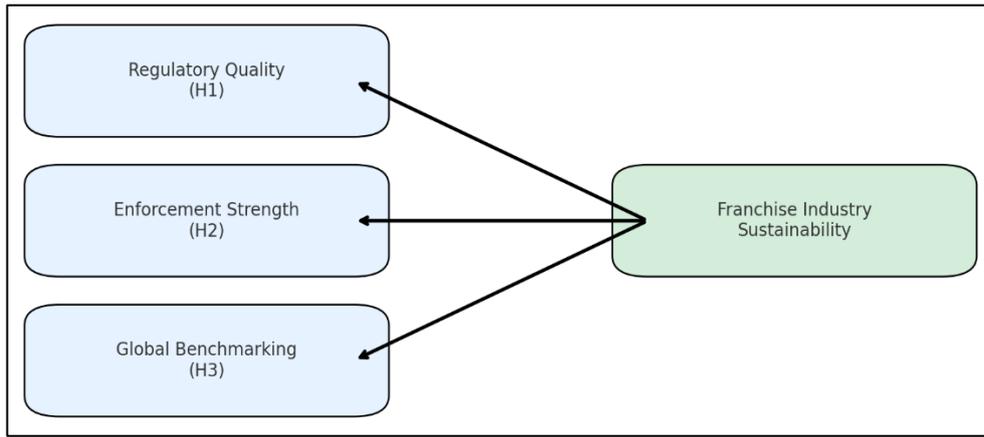


Figure 3 Conceptual Framework of the Study

This conceptual framework illustrates the hypothesized relationships between the independent variables and the dependent variable. It posits that:

- H1: Regulatory Quality has a positive influence on Franchise Industry Sustainability
- H2: Enforcement Strength positively affects Franchise Industry Sustainability
- H3: Global Benchmarking contributes to improvements in Franchise Industry Sustainability

These hypotheses are grounded in institutional theory and supported by empirical findings from regulatory and franchise literature. The framework provides a structured basis for testing the impact of regulatory mechanisms on the long-term viability and trust within the franchise sector.

■ 3.0 RESEARCH METHODOLOGY

3.1 Research Design

This study utilizes a mixed-method research design, blending qualitative and quantitative methods in offering an integrated analysis of the regulatory frameworks that impact franchise business sustainability in Malaysia. The rationale for adopting a mixed-method design is because of its ability to triangulate data, offer richer context data, and enhance the validity of conclusions (Creswell & Plano Clark, 2018). Qualitative methods are suitable for revelation of perceptions, experiences, and regulatory nuances, while quantitative methods ensure generalizability and hypothesis testing. The research was carried out in two successive phases:

- i. Qualitative research through semi-structured interviews with the most important stakeholders, and
- ii. Quantitative survey among Malaysian franchisees.

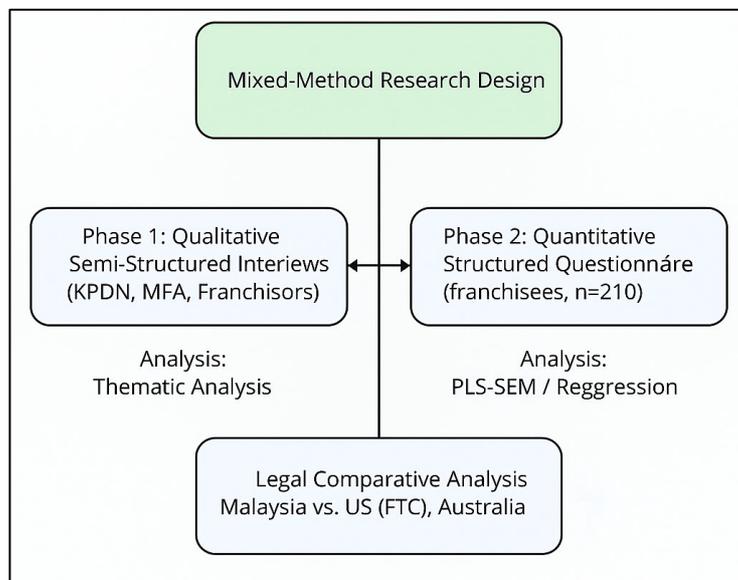


Figure 4 Research Design Flowchart (Mixed-Method)

Explanatory sequential design allowed qualitative findings to be used to inform survey instrument development and

confirm thematic patterns in a broader population (Tashakkori & Teddlie, 2010). As illustrated in Figure 4, this study adopts a mixed-method research design consisting of two empirical phases (qualitative and quantitative) and a comparative legal analysis to ensure triangulation and contextual validity.

This flowchart is the systematic design of the research structure of the study, which is mixed-method in approach. The process begins from a general mixed-method structure and progresses through three consecutive stages:

Phase 1: Semi-structured interviews with policymakers (KPDN), MFA representatives, and franchisors, and thematic analysis to identify key regulation and enforcement issues.

Phase 2: Quantitative survey among registered franchisees (n = 210) processed using Partial Least Squares Structural Equation Modeling (PLS-SEM) and regression analysis.

Phase 3: Comparative legal analysis of Malaysia's Franchise Act 1998 against international standards in the United States (FTC Franchise Rule) and Australia (Franchising Code of Conduct) to identify best practice and gaps.

Mixing quantitative and qualitative data increases power and the credibility of research conclusions by triangulating stakeholder views and empirical correlation.

3.2 Phase 1: Semi-Structured Interviews (Qualitative)

The first phase semi-structured interviews were conducted on 12 key informants consisting of policymakers from the Ministry of Domestic Trade and Cost of Living (KPDN), Malaysian Franchise Association (MFA) members, and randomly chosen franchisors. After the participants, purposive sampling by regulatory knowledge, working experience, and franchise governance role was conducted. The interview protocol was guided by themes such as:

- i. Regulatory clarity and adequacy
- ii. Enforcement challenges
- iii. Role of digital compliance tools
- iv. Barriers to international competitiveness

Interviews were recorded, transcribed verbatim, and analyzed using thematic analysis (Braun & Clarke, 2006). Thematic coding enabled the identification of recurring patterns and institutional issues, adding substance to problems like administrative inefficacies and trust deficiencies in the enforcement context.

3.3 Phase 2: Survey (Quantitative)

The second stage employed a guided questionnaire to a national sample of 210 registered franchisees. The survey measure was developed in alignment with the qualitative phase lessons and based on operational measures of regulatory quality (Kaufmann et al., 2011), enforcement trust (Grünhagen et al., 2010), and sustainability indicators (Weaven et al., 2021). Respondents rated their experiences on a five-point Likert scale. The responses were analyzed using Structural Equation Modeling (SEM) by SmartPLS 4.0 to examine the relations among the following latent constructs:

- i. Regulatory Quality (RQ)
- ii. Enforcement Strength (ENF)
- iii. Franchisee Trust (FT)
- iv. Industry Sustainability (IS)

In cases where model fit or sample limitations emerged, multiple regression analysis was used as an alternative for robustness testing and variable impact estimation (Hair et al., 2019).

3.4 Legal Comparative Analysis: Malaysia vs. United States and Australia

As a further measure, a comparative exercise in law was conducted to contrast the franchise regime in Malaysia with that of the United States and Australia, two regimes in the world recognized to have well-established, transparent, and enforceable regimes of franchising.

- i. The United States FTC Franchise Rule mandates comprehensive pre-contract disclosure, accompanied by default sanctions and enforcement provisions for the safeguarding of franchisees (Blair & Lafontaine, 2021).
- ii. Australia's Franchising Code of Conduct, overseen by the Australian Competition and Consumer Commission (ACCC), has good faith requirements, resolution of disputes, and disclosure that is mandatory with enforcement arrangements (Frazer et al., 2019).

Malaysia's Act of Franchise 1998, while seminal, lacks a robust enforcement mechanism and up-to-date digital compliance tools. Comparative research was aimed at legislative substance, enforcement authorities, compliance monitoring mechanisms, and stakeholders' access in a franchise. Comparative doctrine was important in determining gaps and best practices that can be transferred to Malaysia's context (Baena, 2012; Isa et al., 2020). Data collection for this mixed-method research was conducted in three phases. Table 4 below includes a list of the activities in data collection, target groups, and analytical techniques applied in each phase.

Table 4 Summary of Key Literature on Franchise Regulation

Phase	Method	Target Group	Analysis Technique
Phase 1	Semi-structured interviews	Policymakers (KPDN), MFA, Franchisors	Thematic Analysis
Phase 2	Structured Questionnaire	Registered Franchisees ($n = 210$)	PLS-SEM / Regression
Phase 3	Legal Comparative Review	US (FTC), AUS (ACCC) vs Malaysia	Doctrinal & Policy Analysis

3.5 Sampling Technique

This study employed a purposive sampling technique for the qualitative and quantitative phases to ensure representation by the respondents with the intended experience, institutional knowledge, and direct involvement in the franchise environment. The technique is most used in exploratory and mixed-method studies where contextual expertise is prioritized over statistical generalizability (Tashakkori & Teddlie, 2010; Creswell & Plano Clark, 2018).

In Phase 1 (qualitative phase), participants were selected based on policymaking roles (e.g., Ministry of Domestic Trade and Cost of Living – KPDN), regulatory involvement (Malaysian Franchise Association – MFA), or franchise business directly (franchisors with ≥ 3 years).

In regard to Phase 2 quantitative stage, the frame of reference employed was registered franchisees under Malaysia's Franchise Act 1998. Sampling was restricted to respondents with experience of at least one year and responses were benchmarked against reality with regulatory provisions. The choice of participants together with rationale thereof is listed out in Table 5 below.

Table 5 Sampling Criteria and Justification

Respondent Type	Selection Criteria	Justification
Policymakers (KPDN)	Direct involvement in franchise policy and enforcement	To obtain institutional perspectives
Franchisors	Registered with MFA; ≥ 3 years of operational experience	To reflect operational realities and regulatory compliance
Franchisees	Registered under the Franchise Act 1998; operational ≥ 1 year	To assess perceptions of regulatory quality and trust

4.0 FINDINGS AND RESULTS

This chapter presents the key outcomes of both stages of the study: (i) qualitative evidence from semi-structured interviews among policymakers and players in the industry, and (ii) quantitative evidence from a nationwide survey among franchisees. The results highlight systemic regulatory issues and their bearing on franchisee confidence and the sustainability of the industry. Comparing with other international franchise formats further positions Malaysia's regulatory position.

4.1 Qualitative Findings: Thematic Analysis of Interviews

Using Braun and Clarke's (2006) thematic analysis approach, three dominant themes emerged from the interviews:

Theme 1: Weak Enforcement and Regulatory Ambiguity

Interviewees habitually cited weak enforcement systems and uneven enforcement of regulatory provisions in Malaysia's Franchise Act 1998. Regulatory agencies, although well-meaning, generally lack sufficient capacity for enforcement, especially surveillance of unregistered players or punishing default. This has provided a regulatory environment perceived as being toothless and relying on voluntary compliance to a large extent (Isa et al., 2020). "We have the law, but the law is not biting." Most fraudulent franchisors operate below the radar screen since enforcement is in slow gear" (Representative of MFA). The overall themes that emerged from the semi-structured interviews are presented in Table 6, with quotes and meanings to illustrate.

Table 6 Thematic Summary of Qualitative Findings

Theme	Illustrative Quotes	Interpretation
Weak Enforcement	"The law is there, but enforcement is passive." – MFA Officer	Regulatory action is inconsistent and lacks follow-up
Bureaucratic Delay	"We waited 6 months for franchise registration." – Local franchisor	Inefficiency in approval processes
Digital System Deficit	"Still using physical files for renewal." – Policy officer (KPDN)	Digital transformation is urgently needed

Theme 2: Bureaucratic Delays and Procedural Inefficiency

The process of franchise registration and approval was reported to be lengthy, opaque, and highly manual, leading to delays in market entry and business expansion. Stakeholders emphasized the lack of streamlined digital platforms for registration, renewal, and compliance monitoring, which hindered operational efficiency and reduced regulatory transparency.

Theme 3: Inadequate Digitalization and Technological Lag

There is a pronounced lack of digital compliance infrastructure, making it difficult for regulators to track franchise operations and for franchisors to fulfil obligations efficiently. Compared to countries like Australia, where franchise disclosure documents can be submitted and accessed digitally, Malaysia's reliance on physical documentation was seen as outdated (Frazer et al., 2019).

✓ We're still submitting thick paper files to the ministry when other countries are using portals. – [Franchisor]

4.2 Quantitative Findings: Survey Analysis

A total of 210 franchisees responded to the survey. Using Partial Least Squares Structural Equation Modelling (PLS-SEM), several significant relationships were identified:

- i. Regulatory Quality → Industry Sustainability ($\beta = 0.42, p < 0.01$)
- ii. Enforcement Strength → Franchisee Trust ($\beta = 0.38, p < 0.01$)
- iii. Digital Compliance Tools → Operational Confidence ($\beta = 0.35, p < 0.01$)

These results statistically support the hypotheses that legal clarity, enforcement robustness, and digital governance are critical enablers of a trustworthy and sustainable franchise environment.

Franchisees who perceived the regulatory framework as clear and consistently applied were more likely to report satisfaction with their business trajectory and willingness to expand operations (Grünhagen et al., 2010; Kaufmann et al., 2011). Conversely, those who experienced regulatory ambiguity or enforcement inconsistencies reported higher risk perceptions and lower trust in institutional support. The structural model results from PLS-SEM analysis are presented in Figure 5, indicating the strength and direction of the relationships between constructs.

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.

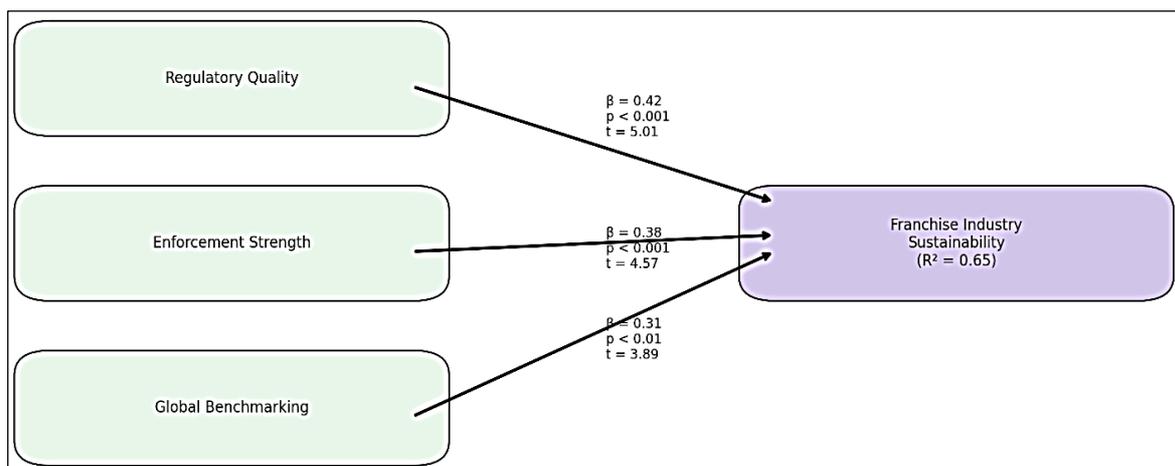


Figure 5 PLS-SEM Path Model

Figure 5 of PLS-SEM Path Model represents the structural relationships among the key constructs in the study. The model includes three hypothesized paths, all of which were statistically significant:

H1: Regulatory Quality → Franchise Industry Sustainability
 $\beta = 0.42, p < 0.001, t = 5.01$

H2: Enforcement Strength → Franchise Industry Sustainability
 $\beta = 0.38, p < 0.001, t = 4.57$

H3: Global Benchmarking → Franchise Industry Sustainability
 $\beta = 0.31, p < 0.01, t = 3.89$

The model explains 65% of the variance ($R^2 = 0.65$) in franchise industry sustainability, indicating a strong explanatory power of the three predictors combined. Table 7 summarizes the hypothesis testing results, including path coefficients, significance levels, and support status.

Table 7 Summary of Hypothesis Testing Results

Hypothesis	Path Coefficient (β)	t-value	p-value	Supported?
H1	0.42	5.01	<0.001	Yes
H2	0.38	4.57	<0.001	Yes
H3	0.31	3.89	<0.01	Yes

4.3 International Benchmarking and Comparative Gaps

The comparative analysis reveals that Malaysia lags leading jurisdictions such as the United States and Australia in several key areas. To contextualize Malaysia’s regulatory framework, Table 8 provides a comparative benchmarking with the United States and Australia, highlighting structural gaps and best practices.

Table 8 Comparative Regulatory Benchmarking Table

Dimension	Malaysia	United States (FTC)	Australia (ACCC)
Disclosure Requirement	Mandatory but basic	Mandatory with updates	Mandatory & digital
Enforcement Agency	KPDN (limited powers)	FTC (investigative powers)	ACCC (independent & proactive)
Digital Compliance	Limited	Fully digital	Fully digital
Dispute Mechanism	Limited mediation	Mediation & litigation	Structured mediation process

Table 8 presents a benchmarking comparison of the franchise regulatory frameworks of Malaysia, the United States (FTC Rule), and Australia (Franchising Code of Conduct). The comparison highlights four key regulatory dimensions: disclosure requirements, enforcement agency capacity, digital compliance infrastructure, and dispute resolution mechanisms.

- i. Disclosure Requirement: Pre-contractual disclosure is necessary in all three countries. Nevertheless, Malaysia's requirement is basic and static with no periodical updates or standard forms. The USA requires refreshed and detailed Franchise Disclosure Documents (FDDs), while Australia has compulsory and electronically filed disclosure with itemization particulars.
- ii. Enforcement Agency: Malaysia is led by the Ministry of Domestic Trade and Cost of Living (KPDN) for enforcement but with restricted investigative powers and operational independence. In contrast, the FTC (USA) and ACCC (Australia) possess strong enforcement mandates with investigation powers, sanctions, as well as active monitoring roles. The ACCC is noted as being proactive and independent in policing franchise conduct.
- iii. Digital Compliance: The USA and Australia have fully digital franchise systems with online submission, tracking, and public availability of franchise documents. Malaysia is still a very manual, paper-based system, which takes away from transparency, efficiency, and ease of compliance.
- iv. Dispute Mechanism: There is not much dispute resolution infrastructure in Malaysia, with no institutional support and structured mediation assistance. The FTC, however, promotes mediation and litigation channels for franchisees, while Australia stipulates a structured code-based mediation process, assisted by the Office of the Franchising Mediation Adviser (OFMA).

This comparison demonstrates that while Malaysia has laid foundational regulatory infrastructure through the Franchise Act 1998, it lags international standards in enforcement power, digital readiness, and franchisee protection mechanisms. These gaps present opportunities for Malaysia to learn from established regulatory models and adopt best practices in future policy reforms.

4.4 Synthesis of Findings

The triangulation of qualitative and quantitative data underscores the critical role of regulatory design and enforcement in shaping franchise industry outcomes. Legal frameworks must not only exist but be responsive, transparent, and technologically enabled. Without these, Malaysia risks regulatory stagnation and underperformance relative to global competitors.

The findings support the earlier hypotheses and provide clear policy signals:

- i. Strengthen regulatory enforcement capacity
- ii. Digitize franchise registration and compliance systems
- iii. Institutionalize global benchmarking for continuous policy learning

■ 5.0 DISCUSSION

5.1 Regulatory Enforcement vs. Policy Intent

The findings from both the qualitative and quantitative phases reveal a marked discrepancy between policy intent and enforcement reality. While Malaysia's Franchise Act 1998 demonstrates the government's commitment to fostering a regulated and standardized franchise environment, actual enforcement remains inconsistent, bureaucratically constrained, and technologically outdated. This implementation gap weakens the impact of otherwise well-structured legal instruments (Isa et al., 2020). From the lens of institutional theory, the effectiveness of a regulatory framework is not only determined by its written statutes (formal institutions) but also by the norms, enforcement behaviors, and institutional capacity (Scott, 2014). Malaysia's case illustrates a classic divergence between *de jure* policy and *de facto* governance, a challenge common in many emerging markets (Baena, 2012).

Regulators lack the digital infrastructure, investigative autonomy, and operational agility to respond swiftly to violations, resulting in low deterrent effects and perceived regulatory toothlessness. Consequently, franchisees experience inconsistent oversight, which fosters a climate of legal uncertainty and reduces compliance incentives. To strengthen the theoretical interpretation of the findings, Table 9 maps each key result to the corresponding theoretical framework, providing a conceptual basis for further discussion.

Table 9 Summary of Key Findings and Theoretical Linkages

Key Finding	Interpretation	Linked Theory
Weak enforcement mechanisms	Regulations not implemented effectively	Institutional Theory
Lack of digital infrastructure	Poor transparency and operational efficiency	Regulatory Governance
Franchisee trust depends on regulatory clarity	Trust is relational, not transactional	Relational Governance Theory

Table 9 synthesizes the study's key empirical findings and maps them to relevant theoretical frameworks, providing a conceptual bridge between observed data and academic discourse. This alignment enhances the interpretive strength of the discussion and grounds the findings in established theory. These theoretical connections affirm that the challenges identified are not isolated administrative issues but are deeply rooted in broader institutional and governance dynamics.

A. Weak Enforcement Mechanisms → Institutional Theory

The finding that enforcement of franchise regulations in Malaysia is inconsistent and under-resourced aligns with Institutional Theory (Scott, 2014), which asserts that the effectiveness of institutions depends not only on their formal existence but also on their enforcement capacity and legitimacy. In this study, the gap between policy intent and implementation reflects a weak institutional environment, where rules exist on paper but lack execution.

Implication: Legal frameworks require strong enforcement mechanisms to be perceived as legitimate and effective.

B. Lack of Digital Infrastructure → Regulatory Governance

The limited use of digital tools in franchise registration, compliance, and monitoring reduces transparency, efficiency, and public accessibility. This is interpreted through the lens of Regulatory Governance Theory, which emphasizes the importance of technological integration and process transparency for modern regulatory systems (Lodge & Gill, 2011).

Implication: Digitization is not optional; it is a governance requirement for regulatory effectiveness in the 21st century.

C. Franchisee Trust Depends on Regulatory Clarity → Relational Governance Theory

Franchisee trust was found to correlate with perceptions of regulatory clarity and fairness. This finding is best understood through Relational Governance Theory (Poppo & Zenger, 2002), which suggests that trust in long-term business relationships (such as franchising) is built not solely through contracts, but through consistent institutional support, transparency, and fairness.

Implication: Regulatory frameworks must promote clarity and relational equity to sustain investor confidence.

By linking empirical findings to institutional, governance, and relational theories, Table 9 reinforces the theoretical depth of the study. It validates that the challenges faced by Malaysia's franchise industry are not merely administrative but are rooted in broader institutional and systemic factors that require reform at both policy and enforcement levels.

5.2 Trust Deficit and Investor Confidence

The weak enforcement environment has significant implications for industry trust and investor sentiment. Franchisees interpret regulatory ambiguity and lax enforcement as indicators of systemic risk. This perception is

particularly damaging in sectors such as franchising that involve high relational interdependence and require long-term contractual trust (Dant et al., 2011; Grünhagen et al., 2010). According to the theory of relational governance, trust is cultivated through predictability, fairness, and institutional support (Poppo & Zenger, 2002). When regulatory actors fail to enforce rules fairly or in a timely manner, they undermine franchisees' expectations of protection and reciprocity, thereby reducing willingness to invest, expand, or comply with best practices. This study's quantitative findings support this notion: stronger enforcement mechanisms were statistically associated with higher franchisee trust and operational confidence. The absence of reliable enforcement discourages participation by reputable global brands and inhibits the scale-up of local franchise operators who perceive the environment as unstructured and risky. Based on the empirical findings and international benchmarking, several policy reforms are proposed to improve regulatory effectiveness. Table 10 outlines these recommendations.

Table 10 Recommended Policy Reforms Based on Empirical Evidence

Issue Identified	Proposed Reform	Benchmark/Justification
Weak enforcement	Establish a semi-autonomous regulatory agency	ACCC (Australia)
Paper-based compliance	Introducing fully digital registration & audit system	FTC online FDD (USA)
Dispute resolution weakness	Institutionalize structured mediation framework	OFMA (Australia)

These reform suggestions are aligned with best practices in global franchise regulation and are intended to support more transparent, responsive, and investor-friendly governance structures in Malaysia.

5.3 Policy Reform and Institutional Innovation

To realign regulatory intent with actual outcomes, several policy reforms are warranted:

- i. **Institutional Restructuring of Enforcement Bodies:** Malaysia could benefit from establishing a dedicated, semi-autonomous regulatory agency modeled after the Australian Competition and Consumer Commission (ACCC) or the U.S. Federal Trade Commission (FTC). These agencies are empowered with investigative tools, digital platforms, and legal authority to act decisively, thereby ensuring that policy goals are translated into measurable outcomes (Blair & Lafontaine, 2021).
- ii. **Mandatory Digital Compliance Infrastructure:** As echoed in the interview findings, the creation of an online franchise registration, disclosure, and compliance portal would significantly improve transparency and efficiency. Australia and the U.S. have already digitized such processes, allowing stakeholders to file, track, and audit franchise data in real-time (Frazer et al., 2019). This aligns with emerging literature on regulatory technology (RegTech), which enhances compliance through automation and data analytics (Arner et al., 2017).
- iii. **Adoption of a Dynamic, Evidence-Based Policy Cycle:** Current legislative reviews in Malaysia are infrequent and reactive. A more data-driven, iterative policymaking approach should be adopted, including regular stakeholder consultations, cross-national benchmarking, and pilot-testing of regulatory innovations (Dolowitz & Marsh, 2000). This would align Malaysia's governance style with global standards of adaptive regulation. Although Malaysia's regulatory framework appears comprehensive on paper, there is a significant gap between policy design and enforcement outcomes.

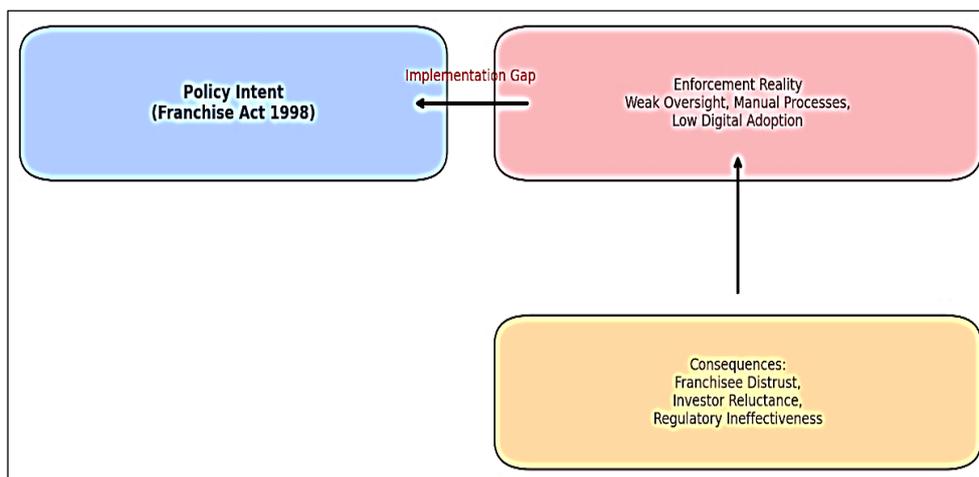


Figure 6 The Gap Between Policy Design and Enforcement in Malaysia's Franchise Regulatory Framework

As shown in Figure 6, the disconnect between policy intent and operational enforcement has led to franchisee distrust and regulatory inefficiencies, limiting the overall impact of the Franchise Act 1998.

5.4 Reconnecting Regulation with Sustainability

Ultimately, the capacity of regulation to foster industry sustainability depends on its alignment with evolving

market realities and stakeholder needs. Regulatory frameworks must be adaptive, transparent, and trust-inducing to support long-term franchise growth. As franchising becomes more digitally mediated and internationally integrated, Malaysia must modernize its legal infrastructure to ensure relevance and competitiveness.

Theoretical implications also emerge: this study confirms that regulatory quality and enforcement are not merely legal constructs but strategic enablers of institutional trust, market participation, and sustainable business ecosystems. Future research may further explore the interplay between regulatory innovation and entrepreneurial confidence in emerging markets.

■ 6.0 IMPLICATIONS AND CONCLUSION

6.1 Conclusion

The study tried to evaluate Malaysia's regulatory setting for franchising on its business sustainability of the franchise, depending on mixed-method empirical data and cross-country benchmarks. The evidence reiterates that regulatory quality, enforcement strength, and digital compliance infrastructure matter as determinants of trust levels among franchisees, business confidence, and sectoral resilience over the long run. Despite significant advances in Malaysia through the enactment of the Franchise Act 1998, enforcement capacities remain fragmented, administrative procedures are encumbered with bureaucratic inefficiency, and lack of digital integration is slowing compliance and transparency. The study establishes a clear disparity between policy intent and actual practice, undermining institutional legitimacy and deterring domestic and foreign investment within the franchise sector. International comparison merely serves to reinforce Malaysia's lagging behind in adopting best practices. Jurisdictions such as the United States and Australia offer good models with centralized enforcement agencies, compulsory digital registration regimes, and active compliance mechanisms demonstrating how strategic regulatory governance can enhance franchise performance and stakeholder confidence.

6.2 Theoretical and Practical Implications

From a theoretical standpoint, this study contributes to the literature on institutional theory, regulatory governance, and franchise management, particularly within emerging economies. It affirms those institutional arrangements when transparent, efficient, and digitally enabled serve as strategic levers for entrepreneurial growth and market sustainability. Practically, the research offers data-driven insights for Malaysian regulators, policymakers, and franchise stakeholders. Strengthening enforcement, streamlining compliance processes, and aligning legal instruments with global standards will be essential to reposition Malaysia as a competitive franchise hub in the ASEAN region.

6.3 Recommendations

To ensure alignment between regulatory frameworks and sustainable industry outcomes, the following recommendations are proposed:

A. Strengthen Enforcement Institutions

- i. Establish a dedicated and semi-autonomous enforcement agency with investigative powers, like the ACCC in Australia or the FTC in the U.S.
- ii. Ensure that enforcement actions are transparent, timely, and supported by legal sanctions for non-compliance.

B. Accelerate Digital Transformation

- i. Develop and deploy a comprehensive digital compliance portal for franchise registration, renewal, disclosure submissions, and audit trails.
- ii. Leverage data analytics and automation (RegTech) to monitor compliance and detect irregularities.

C. Institutionalize Policy Benchmarking and Reviews

- i. Conduct regular comparative policy reviews and cross-national learning exchanges with advanced jurisdictions.
- ii. Involve stakeholders in an evidence-based policy cycle through consultations, pilot studies, and regulatory sandboxes.

D. Promote Legal and Operational Transparency

- i. Mandate the publication of franchise performance reports and enforcement outcomes.
- ii. Introduce a public registry of compliant and non-compliant franchisors to inform potential investors.

E. Embed Sustainability Principles in Franchise Regulation

- i. Align the regulatory framework with ESG (Environmental, Social, and Governance) principles to support broader national sustainability goals.
- ii. Encourage green franchising practices through incentives and regulatory flexibility.

Drawing from the empirical results, stakeholder insights, and international benchmarking, several policy reforms are proposed to enhance Malaysia's franchise regulatory framework. These recommendations aim to address systemic gaps and align local practices with global standards. Table 11 summarizes these proposed reforms.

Table 11 Recommended Policy Reforms Based on Empirical Evidence

Issue Identified	Recommended Reform	International Benchmark / Justification
Weak enforcement	Establish a semi-autonomous franchise enforcement agency	ACCC (Australia), FTC (US)
Outdated, manual compliance	Implement fully digital franchise registration & audit systems	US FDD portal, Australia's public disclosure platform
Low investor trust	Introduce performance reporting & public franchise rating system	Transparency-focused regulatory practices
Ineffective dispute mechanism	Institutionalize structured mediation with legal mandate	OFMA (Australia), Franchise Mediation Rule (USA)

This study identifies that while Malaysia's Franchise Act 1998 provides a general regulatory framework, its enforceability is undermined by weak enforcement, outdated compliance mechanisms, and limited institutional autonomy. The incompatibility between policy design and implementation has resulted in eroded trust, regulatory overcomplication, and untapped franchise potential in Malaysia. Drawing on evidence and best international practice, this study proposes a strategic shift in regulation on the grounds of three pillars:

- i. Strengthening institutions of enforcement,
- ii. Computerizing compliance infrastructure, and
- iii. Alignment of mechanisms for resolving disputes with international best practices.

Lastly, perhaps most crucially, is regulatory credibility, which is reality and not text of law. Constructing for participation in the international franchise economy means Malaysia shifting away from strict compliance-based legislation to forward-looking, open, and investor-friendly regulatory governance. Further studies need to dig deeper into the long-term consequences of regulatory transformation and examine digital policy innovation that can future proof the franchise ecosystem.

6.4 Directions for Future Research

Future studies may explore:

- i. The micro-level impact of regulation on franchisee profitability and survival.
- ii. Cross-industry comparisons between franchise sectors (e.g., F&B vs. education).
- iii. Longitudinal studies tracking regulatory reform outcomes over time.
- iv. The integration of AI and big data in franchise compliance monitoring.

By bridging the enforcement gap, modernizing digital systems, and institutionalizing global best practices, Malaysia can develop a more resilient, competitive, and trustworthy franchise ecosystem. Regulatory transformation, if done decisively, can elevate the country's standing not only regionally, but also as a case model for emerging market governance in franchising.

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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