# THE IMPACT OF FRANCHISOR SUPPORT ON FRANCHISEE SURVIVAL

Nurul Faizah Halim[1*], Zuraimi Abdul Aziz[2], Nor Hafiza Othman[3], Nurul Ashykin Abd Aziz[4]

[1] Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Malaysia
Email: a21e030p@siswa.umk.edu.my
[2] Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Malaysia
Email: zuraimi@umk.edu.my
[3] Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Malaysia
Email: hafiza.o@umk.edu.my
[4] Faculty of Industrial Management, Universiti Malaysia Pahang Al-Sultan Abdullah
Email: ashykin@ump.edu.my
[*] Corresponding Author

**Abstract:**

The franchise sector has contributed significantly to economic growth and development. Yet, franchisee resilience compared to independent business is still debatable. The escalation of franchise failure rates during the COVID-19 pandemic has forced the franchise industry to look forward to a long-term survival strategy that ensures a crisis-resistant franchisee model, which is in dire need of business viability and sustainability. Business-to-business franchisor support is part of franchisee continuity's strategic resources and strategy to steer the business from potential pitfalls. We seek to explore the impact of franchising alliances on franchisee survival during the pandemic crisis. The present study employs the method of structural equation modelling to offer an essential empirical finding on the survival of franchisees within a pandemic recession context linking franchisor support, namely social interaction, service support, financial assistance, assurance, and competence. A survey instrument was employed to gather data from a sample comprising 198 Malaysian franchisees via purposive sampling. Franchisor service support has been found to have a significant impact on franchisee resilience and ability to escape business death and sustain the franchising system. Hence, the study fills the gap in understanding the adequate business-to-business support that franchisees received during the recession that assisted their resilience capability.

**Keywords:**

Business Survival, Franchisee, Franchisor Support, Crisis

## Introduction

Franchise business is the most successful global business model and their brand has progressively covered many industries and services worldwide. The sector has significantly contributed to global and national economic growth, especially in entrepreneurial development (Othman et al, 2023). According to the International Franchise Association (2022), the franchise business had grown 3 percent in 2022 with 805,000-unit franchise establishments. Franchise total output contribution to the value of $806.1 billion in 2023. In Malaysia, the sales value of franchise companies increased from RM8.62 billion in 2016 to RM30 billion in Gross Domestic Product contribution in 2022 (KPDN, 2022). As franchises are Malaysia's third engine of economic recovery and growth, it is essential to investigate franchisees' resilience ability through their strategic resources to enable continuous business operation in any environmental condition, especially during the Black Swan crisis such as the pandemic crisis.

Franchising is a relationship-based exchange in which the franchisee and franchisor form a strategic alliance, which is critical to the franchisee's business resilience during times of turbulence (Xue & Li, 2023). To navigate such challenges, the franchisee must actively develop and manage this alliance in order to gain access to critical resources, managerial expertise, and knowledge, all of which contribute to their overall resilience. A franchise's success or failure is determined by the quality of the franchising relationship, which is more complex than independent business ownership because it includes not only a contractual agreement but also an integrated partnership and ongoing engagement (Abou Kamar & Alsetoohy, 2021). This interdependence between franchisor and franchisee (Perrigot et al., 2020) necessitates that both parties minimise conflicts, demonstrate positive personal characteristics and mutual obligations in order to maximise satisfaction and maintain their business relationship. The effective management of this alliance is critical for the franchisee's loyalty to the franchise system. Furthermore, Bui et al. (2021) emphasise that franchisee resilience during a hazard event is heavily reliant on the franchisor's expertise and social support.

Amid the global pandemic, franchise brands faced another major hazard due to boycotts linked to the Israel-Palestine conflict. These boycotts, which protest alleged support for Israel, have had a significant impact on franchisee businesses, making franchisor support critical for survival. These protests had a significant impact on the financial performance and operational stability of coffee and fast-food franchises in the United States. The AlShaya Group, which owns the Starbucks Middle East franchise, announced in March that the boycott had resulted in the loss of 2,000 jobs, accounting for 4% of its workforce. Similarly, KFC temporarily closed over 100 stores in Malaysia due to significant revenue losses caused by Gaza-related protests (Dutton, 2024). The boycotts have primarily impacted franchises with ties to Israeli companies, resulting in widespread income reductions (Hidayaturrahman et al., 2024). McDonald's reported the most significant impact in the Middle East, with additional effects felt in Malaysia, Indonesia, and parts of France (Bernama, 2024). According to Abdullah et al. (2024) McDonald's Malaysia has faced negative impacts from religion, humanity, justice, and social pressures. Thus, in such turbulent times, franchisor support is critical for franchisees to overcome the challenges. Franchisors can provide critical resources such as financial assistance, crisis management strategies, and operational guidance to franchisees as they navigate boycotts and recover from the financial and reputational harm caused by such events.

According to past literature, there is still massive confusion about the measures, best practices, and strategies that franchisees should implement to survive and sustain a business during a hazard event (Boiral et al., 2021). In addition, Bui et al., (2021) in their review on franchisee

performance confirmed that studies on franchisee business outcomes are still very limited. In addition, the external of business survival construct is still a loose concept (Duchek, 2020), Moreover, a study on franchisee survival is still inadequate (Othman et al, 2023). Therefore, according to Lee & Choi (2023), the significant franchisor's assistance in relation to franchisees' survival performance needs further investigation with difference dimension, and countries due to demographical differences. To fill in the gaps, this present study will make a significant contribution by demonstrating franchisor support to achieve franchisees' resilience during the pandemic recession in Malaysia. The study finding is significant to future researchers, practitioners, and policymakers to develop and nurture strategic resilience alliances support for sustainable franchising business.

## Literature Review

Organizational resilience is a business ability to survive environmental shock and is usually measured through business financial performance as the key benchmark (Kotsios, 2023). Business survival capability is related to the ability to sustain business operations (Rahman et al., 2016); market continuation (Upson et al., 2012); continued ownership (Chakrabarti, 2015); continued solvency (Josefy et al., 2017); firm continuous ability to create wealth (Ugwuzor, 2018) and generate value, ensure and maintain competitiveness (Nemeth, 2008). Therefore, organizational survival is a form of business longevity (Ortiz-Villajos & Sonia, 2018) where the business desires resources and capability to adapt (Heredia et al., 2022) and successfully change situations that can endanger the survival of the company (Najib et al., 2021) to survive and remain in the industry. dynamic capabilities to integrate, build, and reconfigure internal capacity and capability to address a rapidly changing environment (Teece, Pisano & Shuen, 1997) and situation that can endanger the survival of the company (Ortiz-Villajos et al., 2018). Business success, maintaining performance, and the decision to stay in business (it inverses as business exit, market exit, bankruptcy, or business failure) is the probability of business survival (Hsieh et al., 2020).

Fostering factors influencing franchise survival have been explored in several studies. Franchise survival, in general, depends on resources, such as financial resources and human capital, to sustain in the long run (Calderon-Monge et al., 2017; Coleman et al., 2013). In the franchising system, franchisors provide at least two critical resources that help franchisees survive which are brand and marketing management (Chang et al., 2018). Yet, these studies concentrate predominantly on the franchisor perspective or the franchise system, in general, using longitudinal studies of monetary-based survival indicators such as survival rate, Cox Model, Hazard Model, growth rate, performance, etc (Lafontaine et al., 2019). However, even though the franchise system was tested and proven business format, it cannot guarantee the success and survival of the franchisee business. Franchisees experience higher failure rates relative to independent business start-ups, especially in the retailing industry (Bates, 1998). In addition, Shane & Foo (1999) has highlighted that approximately three-quarters of all new franchise systems failed within twelve years. The high death rate of new systems suggests that franchising is not an easy business to succeed in and further investigation needed to demonstrates a good model to explain the survival of the franchisee business. Franchise scholars also expressed their concern about the reliability of survival and failure rate statistics publicized by franchisors in the database (Bates 1998; Shane & Foo, 1999; Lafontaine & Shaw, 1998). Therefore, the survival of the franchise business system was still debatable among academics and practitioners yet there is still a lack of research related to franchisee perspective performance (Bui et al., 2022).

According to Table 1, franchise survival literature, franchisee survival relates to their strategic management (Sakolnakorn & Tepsing, 2013), managerial talent (Kosová & Lafontaine, 2010), monitoring or governance capability (Antia et al., 2017), management experience (Bates, 1998) knowledge management (Hshieh et al., 2020) and business know-how (Perrigot et al., 2020). In addition, the franchising relationship is the 'duty of good faith' between the franchisor and franchisee (Terry & Di Lernia, 2009). Maximizing franchisee satisfaction in the franchising system is critical to increasing franchisee performance and their intention to remain in the system (Adeiza et al., 2017). According to Kremez et al. (2022) and Sanfelix and Puig (2018), integrity, leadership, and support of the franchisor are essential components of successful mutual relationships, collaboration, and communication with the franchisee. Therefore, franchisor support not just maintains the franchising network (Abdullah et al., 2008) but also prevents franchisee failure (bankruptcy) (Antia et al., 2017). This is because both have interdependent outcomes relationships where both franchisor and franchisee have invested their assets and resources in the franchise business model and their intention is always to keep both businesses successful (Ayup-Gonzalez et al., 2019)

Thus, Levin et al. (1998) claimed that resilience is the preferred way to think about sustainability in the social aspect, especially the survival networking of the resilience alliance with the external sector. In franchising, the franchisor as the brand owner should be prepared for a crisis and capable of navigating the franchisee from failure. Franchisor relationship quality through operational, financial, and communication enhances the franchisee's satisfaction, trust, and assurance to retain in the franchising network and enhance both performances (Jang et al., 2019). During the pandemic, the franchisee and franchisor are bound by a business-to-business relationship where both portray excellent affiliation to remain in business and gain sustainable outcomes (Lee & Choi, 2023). However, the franchisee's business modification depends on the franchisor's action, therefore franchisor's fast reaction, innovation, and knowledge transfer benefited the franchisee to reallocate resources and capability to survive the pandemic crisis. In addition, the business networks that have been created, developed, and managed help businesses gain more strategic information in handling their business survivability (Nazari et al., 2023). Thus, to what extent does the franchisor support and assist franchisees to survive the crisis? Consequently, the present study will discover the relationship between franchisor support dimensions with franchisee resilience.

**Table 1: Past Literature on Franchise Survival and Performance**

| Strategy | Managerial Capability | Value Proposition | Franchisor and Franchisee Relationship | Franchise Resources | Entrepreneurship |
|---|---|---|---|---|---|
| Ghantous & Christodoulides, (2020) | Nguyen, Wang & Lee (2020) | Sakolnakorn & Tepsing (2013) | Lee & Choi, (2023) | Abd Aziz et al. (2022) | Evanschitzky et al. (2016) |
| Abd Aziz, Hizam-Hanafiah, Hamid & Isa (2019) | Calderon-Monge, Pastor-Sanz & Huerta-Zavala (2017) | Min & Min (2011) | Kremez et al. (2022) | Abd Aziz, Hanafiah, Hamid & Isa (2019) | Sanfelix & Puig (2018) |
| Antia, Mani & Wathne (2017) | Perrigot, Lopez-Fernandez, Basset & Herrbach (2020) | Yokum, Gonzalez, Badgett (2006) | Sanfelix & Puig (2018) | Ayup-Gonzales et al. (2019) | Bates (1990) |
| Lafontaine, Zapletal & Zhang (2018) | Ayup-Gonzalez et al. (2019) | Babin & Darden (1996) | Antia, Mani & Wathne (2017) | Calderon-Monge, Pastor-Sanz & Huerta-Zavala (2017) | Bates (1998) |
| Melo, Borini, Oliveira & Parente (2015) | Antia, Mani & Wathne (2017) | | Chiou et al., (2004) | Façanha et al. (2013) | Lafontaine & Shaw (1998) |
| Frazer, Merrilees & Wright (2007) | Sakolnakorn & Tepsing (2013) | | Adeiza, Ismail & Malek (2017) | Kosova & Lafontaine (2012) | Weaven (2017) |
| | Lim, Lee & Kim (2009) | | Madanoglu & Karadag (2016) | Lim, Lee & Kim (2009) | Hizam-Hanafiah & Li (2014) |
| | Chiou et al., (2004) | | Evanschitzk et al. (2016) | Kalnin (2005) | Weaven, Grace & Manning (2009) |
| | Bates (1998) | | Terry & Di Lernia (2009) | Frazer & Winzar (2005) | |
| | | | Frazer, Merrilees & Abdullah (2008) | Lafontaine & Shaw (1998) | |
| | | | Wright (2007) | Bates (1998) | |
| | | | Morrison (1997) | | |

## Theoretical Framework

The study will assimilate Agency Theory to explain franchisee resilience capability through the role of resilient networking with the franchisor. Agency Theory (AT) is one of the novels used to explain contract relationship and franchise performance through the relationship between the franchisor providing business support system as the principal and franchisee as the agent will pay an entry fee and royalties as the exchange of the right of using franchisor brand (Sanfelix, 2018). Otungu et al. (2011) describe AT as a method of management where one person, the agent (franchisor), serves on behalf of another person, the principal (franchisee), and is expected to further the main goals agreed upon in the contract. AT was used to assess partnerships based on managerial actions, agency costs, and capital structure. Franchisor level of support to satisfy franchisee needs will increase franchisee satisfaction reduce franchisee and franchisor relationship conflict and increase franchise network success (Raha & Hajdini, 2020). For a franchisee business, survival depends on the excellent relationship derived from AT, which creates a better franchisee-franchisor relationship that maximizes franchisee satisfaction, especially through the franchisor's ongoing support.

## Hypotheses Development

The research hypotheses have been developed as follows:

### Franchisor Social Interaction

The franchisee pays the brand owner, the franchisor, a certain amount of royalties and a franchising fee, therefore franchisor will have to support the franchisee with managerial support, advice, and knowledge sharing (Jang & Park, 2019, Bui et al, 2021). Thus, continuous and clear communication from the franchisor during a crisis can provide positive stimulation, and reduce fear and anxiety in franchisees facing a high uncertainty environment. Franchisor interaction in helping the franchisee do adaptation and effective change strategies increase the franchisee's confidence to survive the crisis. Networking, effective communication, or social interaction with the franchisor has a significant impact on franchisee resilience (Kremez et al., 2022; Lee & Choi, 2023). Therefore,

H1: Franchisor social interaction has a positive impact on franchisee survival.

### Franchisor Service Support

Accordingly, the survival of the franchising business system depends on the intention of the franchisee to retain in the franchise system. Franchisees seek expected return with franchisor contractual services such as initial support, ongoing managerial and marketing support, guidelines, and practical instruction. A satisfactory level of franchisor guidance and assistance to help franchisee resilience are desirable during the pandemic as it is not just an obligation but also the credibility of the franchisor as the brand owner. Subsequently, the franchisor should make extra effort to retain franchisee outlets to protect the franchisor brand throughout the crisis and positively increase franchising performance during the recession (Bui et al., 2021). Franchisor service support has a significant impact franchisee's probability of success during hard times (Panda et al., 2023). Therefore;

H2: Franchisor service support has a positive impact on franchisee survival.

### Franchisor Financial Assistance

Financial availability is the major determinant of business resilience (Austin, 2020). During the pandemic crisis, most businesses experienced financial constraints as businesses had to close down temporarily, time which was part of the regulations set by the government to curb the spread of the epidemic. In addition, a drop in production and sales also shrink due to supply

and demand shocks, and the rising cost of production due to disruption of the supply chain makes it more difficult for franchisees who have limited financial reserves and cash flows to operate business. Therefore, financial assistance from the franchisor is very much needed by the franchisee. Franchisors could offer delayed payment for raw material stocks or provide flexibility for franchising fees and royalties payments (Chiou et al., 2004). The willingness of the franchisor to negotiate franchising payment could reduce the financial burden of the franchisee and decrease the probability of business failure or bankruptcy (Ghani et al., 2022). Therefore;

H3: Franchisor financial assistance has a positive impact on franchisee survival.

### Franchisor Assurance Support

Franchisor assurance includes fair treatment among franchisees, protection, and the capability to gain franchisee trust that makes franchisee feel secure in the franchising system in the long run (Abdullah et al, 2008). Satisfaction of franchisees with the assurance of the franchising system leads to positive responses and behavior of franchisees toward the business network and increases the probability of retaining business in the long run. Franchisors secure and credible support reduce franchising conflict and increase franchisee welfare and intention to retain in franchisee system and better business performance (Jang & Park, 2019). Therefore;

H4: Franchisor assurance support has a positive impact on franchisee survival.

### Franchisor Competence Support

Franchisor support, leadership, knowledge, and trust where these factors reduced franchising conflict, and increased franchise network performance, which are positively correlated to franchisee survival (Bui et al., 2021). Franchisor integrity and competency through effective communication, leadership, and governance quality significantly increase franchisee commitment and ultimately sustain franchising relationships and enhance both performance (Jang & Park, 2019; Solanki, 2020). Therefore;

H5: Franchisor competence support has a positive impact on franchisee survival.

Figure 1 illustrates the research framework for the study.
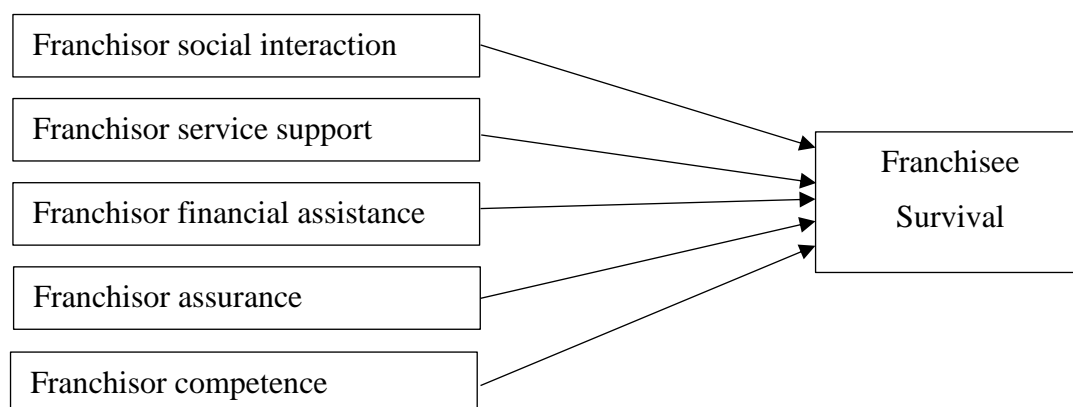


**Figure 1. Research Framework**

## Research Methods

### *Sample and Data Collection*

The study is based on quantitative data analysis. We conducted a cross-sectional survey Malaysia homegrown franchisee. Instruments have been developed, and tested for reliability and validity. According to purposive sampling, the homegrown franchisees in Malaysia's various industries operating before and after the global crisis pandemic will serve as the sample for the present research. 280 questionnaires were distributed in Selangor, and Kuala Lumpur according to Malaysia Franchise Association Brand list. A total number of 198 responses were received with response rate 70.71% is generally good for business study according to Mellahi & Harris (2016). **Table 1** summarizes the respondence general characteristics.

**Table 1: Sample Description**

|  |  | Frequency | Per cent |
|---|---|---|---|
| Type of franchise | Franchisee of the foreign franchisor | 89 | 43.4 |
| Business | Franchisee to the local franchisor | 112 | 56.6 |
| Number of | Single Outlet | 158 | 79.8 |
| Outlet | Multiple Outlets | 40 | 20.2 |
| Years of Operation | 5 years | 56 | 28.3 |
|  | Between 6 to 10 years | 103 | 52.0 |
|  | Between 11 to 15 years | 30 | 15.2 |
|  | Between 16 to 20 years | 6 | 3.0 |
|  | More than 20 years | 3 | 1.5 |
| Total Number of | Below 5 employees | 109 | 55.1 |
| Employee | Between 5 to 29 employees | 87 | 43.9 |
|  | Between 30 to 75 employees | 2 | 1.0 |
| Location by state | Selangor | 154 | 77.8 |
|  | W.P. Kuala Lumpur | 44 | 22.2 |
| Sector of operation | Food and Beverage | 172 | 86.9 |
|  | Clothing and Accessories | 1 | 0.5 |
|  | Education and childcare | 6 | 3.0 |
|  | Accessories | 1 | 0.5 |
|  | Beauty and Healthcare concepts | 3 | 1.5 |
|  | Convenience Store | 15 | 7.6 |

### *Instruments and Measures*

A survey instrument was developed using well-established scales for franchisee resilience guided by Roopa & Rani (2012). Items are developed through theoretical and extensive research on the relevant literature on franchise survival and franchisor support to establish the appropriate and reliable measurement items. Specific changes were made to the original scales to make the products suitable for application in franchisee business. The FSA items are adapted from Adam & Alarifi (2021); and Najib et al. (2021) and franchisor support dimensions namely, social interaction (5 items), service support (4 items), financial assistance (5 items), assurance (5 items), and competence (4 items) were adapted from (Abdullah et al., 2008). A

seven-point scale questionnaire was initially put through preliminary testing involving three academics and three franchisees to verify that the survey's content and measurement scales is understandable, sufficient and measure correct information. Content Validity Index (CVI) was conducted to calculate the relevance of items to the constructs according to the rankings of experts (Connelly, 2008). The CVI index served as the basis for some of the modifications where CVI value below 70 percent will be deleted (Zamanzadeh et al., 2015). Thus, the final questionnaire items for FSA are six (6) and franchisor support's 18 items. A pilot study featuring thirty franchise owners was carried out to ensure that all the questions were relevant to the respondents.

### Data Screening

Data screening is essential to ensure that data screening can increase the reliability and validity of the collected data. Using the Statistical Package for the Social Sciences (SPSS) statistics, the current study employed two data screening phases: normality, outlier, and linearity (Soewin & Chinda, 2018). The skewness and kurtosis values determine the normality of the data. The outliers were identified graphically using stem-and-leaf plot, box plot, scatter plot. Seven cases were eliminated due to this procedure. Next, the Z-Score is calculated to demonstrate that there is no possibility of significant outliers. The Z scores are calculated to be less than three and negative three; thus, the data have permissible values. Next, a scatter plot is used to determine the linearity of the data (Watkins, 2018). Therefore, the linearity and homoscedasticity hypotheses were not violated. In conclusion, the obtained data can be used to conduct the confirmatory factor analysis (CFA) (Abdulwahab et al., 2011).

### Common Method Variance

Common Method Variance (CMV) issues may exaggerate or deflate correlations artificially. The response error or bias such as response involvement, compliance, or respondent dishonesty, contributes to the common variance that distorts results (Bendickson et al., 2016). CMV might cause 'spurious correlation' that leads to a wrong conclusion. The average variance extracted (AVE) from each construct is examined for convergent validity evaluation. The value that should be greater than 0.50 (Hair et al., 2017). After removing items that load lower than 0.708 which are FSA1, FSA2 and Comp4, the overall CR and AVE increase. Thus, all AVE are greater than 0.50 satisfy the CMV criteria. According to Table 2, all constructs have acceptable values of CMV, thus the model has satisfactory convergence demonstrating that more than half of the indicator variance is included in the construct score (Henseler et al., 2009). The flow of methodology as in Figure 2.



**Figure 2: Flow Chart of Methodology**

## Analysis and Results

### Statistical Method

The current study employs Structural Equation Modeling as the statistical analysis suitable for multivariate analysis using the unobserved variables (latent). Partial Least Square was selected as the statistical means for testing the structural equation model. PLS-SEM is considered

appropriate for the study that concerns exploratory research testing a theoretical framework, PLS-SEM which is the variance-based SEM are performed using SMARTPLS 4.0.

## *Measurement Model Assessment*

Measurement model assessment is conducted to validate the model and satisfy the quality standards for empirical work through the evaluation of measurement model and structural model. All constructs' measurement models were specified as reflective. According to Table 2, the individual reliability of all items met the standardized reflective indicator loadings of 0.708 (Hair et al., 2019). Next the model was evaluated based on internal consistency reliability, indicator reliability, convergent validity and discriminant validity (Hair et al., 2021). The internal reliability was assessed where the result shows that the Cronbach Alpha (CA) value between 0.803 to 0.910 which possesses an acceptable internal reliability standard (Hoque et al., 2018). In addition, the CR values for all items have met the convergence or internal validity criteria (CR) value between 0.869 to 0.938, so the study has met the convergence or internal validity criteria (Hair et al., 2017). Convergence validity to identify the extent to which the variance is explained by the construct converges. The findings show that all construct met the average variance extracted criteria where the constructs converges explain more than 50 percent of its items.

**Table 2: Measures Model and Descriptive Results**

| Construct | Item | Factor Loading ≥0.708 | VIF< 5 | CA>0.70 | CR>0.70 | AVE≥0.50 |
|---|---|---|---|---|---|---|
| Franchisee Resilience | FSA3 | 0.883 | 2.892 | 0.910 | 0.938 | 0.791 |
| | FSA4 | 0.939 | 5.378 | | | |
| | FSA5 | 0.936 | 4.926 | | | |
| | FSA6 | 0.790 | 1.875 | | | |
| Social Interaction | SOC1 | 0.823 | 1.707 | 0.813 | 0.888 | 0.727 |
| | SOC2 | 0.933 | 2.533 | | | |
| | SOC3 | 0.795 | 1.868 | | | |
| Service Support | SERV1 | 0.804 | 1.871 | 0.853 | 0.901 | 0.694 |
| | SERV2 | 0.863 | 2.297 | | | |
| | SERV3 | 0.835 | 2.177 | | | |
| | SERV4 | 0.829 | 2.171 | | | |
| Financial Support | FIN1 | 0.811 | 1.649 | 0.803 | 0.869 | 0.625 |
| | FIN2 | 0.772 | 1.691 | | | |
| | FIN3 | 0.793 | 2.184 | | | |
| | FIN4 | 0.785 | 2.038 | | | |
| Assurance Support | ASS1 | 0.805 | 1.655 | 0.825 | 0.894 | 0.738 |
| | ASS2 | 0.862 | 2.077 | | | |
| | ASS3 | 0.908 | 2.042 | | | |
| Competence Support | COMP1 | 0.887 | 2.289 | 0.884 | 0.929 | 0.812 |
| | COMP2 | 0.926 | 3.013 | | | |
| | COMP3 | 0.890 | 2.516 | | | |

## *Structural Model Assessment*

The measurement models of the constructs were successfully assessed next, we evaluated the structural model for potential collinearity issues by using the variance inflation factor (VIF)

values as an indicator. The regression of the structural model should also examine for the potential of collinearity issues using Common Method Variance Analysis (CMV). **Table 2** shows that the VIF values are lower than five (5), indicating the structural modal exhibited minimal collinearity. According to **Table 3**, the Fornell and Larckel has been met and the cross-loading value ensures that the constructs' measure are empirically unique and represents phenomena of interest that other measures in a structural equation model do not capture (Hair et al., 2019).

**Table 3: Discriminant Validity Fornell-Larcker**

|  | ASS | COMM | FIN | FSA | SERV | SOC |
|---|---|---|---|---|---|---|
| ASS | **0.859** | | | | | |
| COMM | 0.780 | **0.901** | | | | |
| FIN | 0.754 | 0.623 | **0.790** | | | |
| FSA | 0.260 | 0.225 | 0.242 | **0.889** | | |
| SERV | 0.583 | 0.634 | 0.552 | 0.222 | **0.833** | |
| SOC | 0.485 | 0.508 | 0.423 | 0.083 | 0.722 | **0.853** |

***Model Fit Indices***

The current study employs the Standardized Root Mean Square Residual (SRMR) to test the goodness of fit of PLS-SEM proposed by Tenenhaus in Ramayah et al. (2018). Henseler et al. (2015) recommended that SRMR values lower than 0.08. The value of SRMR is 0.071, which is smaller than 0.08 and the Chi Square value is 829.81 bigger than 0.05, meaning that the model is fit. In explanatory research, the researcher should focus on $R^2$, the path coefficient estimates, and the effect sizes. Next, the coefficient of determination ($R^2$) values is determine which the value of 0.095. According to Falk and Miller rule (in Ramayah et al., 2018), the recommended $R^2$ value should be equal or greater than 0.10. The $R^2$ are 0.095, which shows that the variance explained by a particular endogenous construct is nearly adequate to explain the model. Next is the $f^2$ value of the effect size of the predictor constructs that will be explained using Cohen's $f^2$. The $f^2$ value assesses predictor constructs' relative impact on an endogenous construct (Ramayah et al, 2018). The result of $f^2$ indicates that the direct effects have a very small effect size which is lower than 0.15. Next, in **Table 4**, the finding of analyzing the prediction summary of the structural model.

**Table 4: Prediction Summary of the Structural Model**

|  | Q²predict | PLS-SEM_RMSE | PLS-SEM_MAE | LM_RMSE | LM_MAE |
|---|---|---|---|---|---|
| FSA2 | 0.009 | 1.228 | 0.970 | 1.235 | 0.970 |
| FSA3 | 0.023 | 1.164 | 0.919 | 1.239 | 0.961 |
| FSA4 | 0.036 | 1.150 | 0.896 | 1.198 | 0.927 |
| FSA5 | 0.035 | 1.159 | 0.901 | 1.243 | 0.951 |

The $Q^2$ for the model are above zero for all constructs were zero shows that the model has good predictive power. Meanwhile, the PLS SEM_RMSE value for each construct compared to estimated LM RMSE illustrated that each indicator of FSA has lower RMSE (SEM model) compared to LM (linear model) value, indicating that the SEM model has better predictive power (Shmueli et al, 2019).

## *Hypotheses Testing*

Result of bootstrapping procedure with a resample of 1000 was perform to determine path estimates and t-statistics for the proposed structural paths. (Figure2: PLS Model for Direct Path Coefficient of the Structural Model (Bootstrapping) and Table 5 shows the structural model results. Following Hair et al. (2017), the path coefficients' significance levels were obtained using the PLS algorithm with a resampling bootstrapping procedure (with 1000 bootstrap samples). According to the structural model direct effect result is shown in Table 5 the path coefficient indicates that the latent variables have a strong relationship which is values surpassing 0.100 at significant at 0.05 level for all constructs (Ramayah et al., 2018).

**Table 5: Results of the Structural Model**

| Structural path | Beta coefficient | t-value (bootstrap) | P-value<0.05 | Conclusion |
|---|---|---|---|---|
| SOC→ FSA | -0.188 | 1.783 | 0.037 | H1 not supported |
| SERV→ FSA | 0.215 | 1.964 | 0.025 | H2 supported |
| FIN→ FSA | 0.074 | 0.677 | 0.249 | H3 not supported |
| ASS→ FSA | 0.159 | 1.256 | 0.105 | H4 not supported |
| COMP→ FSA | 0.014 | 0.136 | 0.446 | H5 not supported |

According to the findings, only H2 is supported at confidence intervals at 95, where the p-value should be less than 0.05 for the hypothesis to be accepted (H1; $B_1$=0.215, p<0.05). Another four hypotheses are rejected. Figure 1 shows the PLS result Diagram.
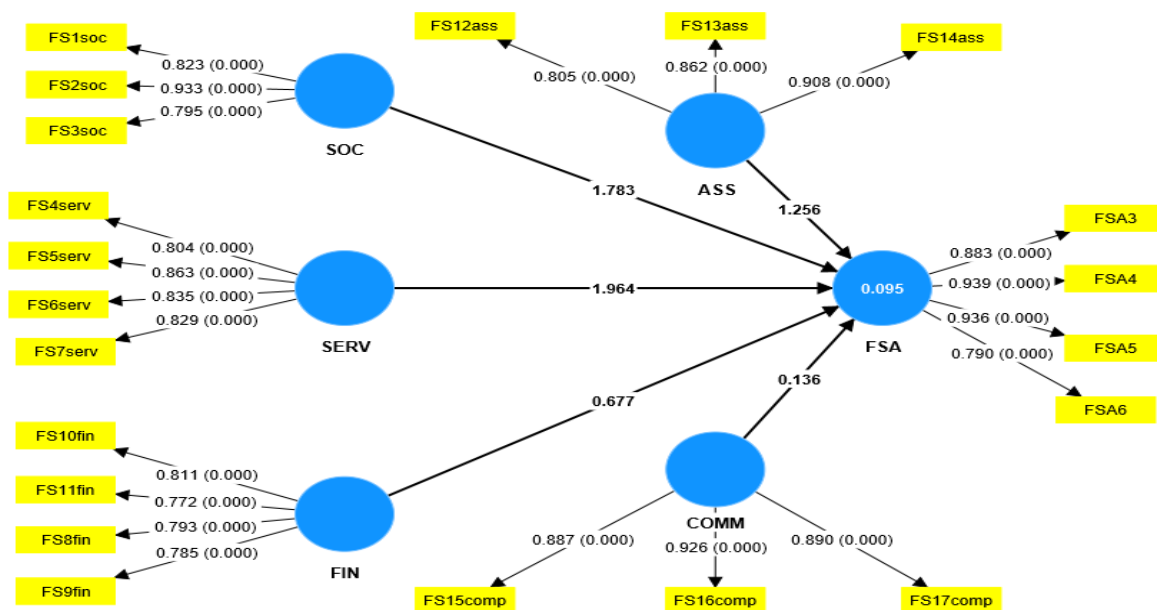


**Figure 3: PLS Result Diagram**

## Discussion

Franchising relationships among franchisees and franchisors involve exchanges, sharing, or the co-development of capabilities to achieve better business outcomes. Franchising alliance capability has emerged as a popular competitive strategy during the past few years (Gillis et al., 2020). According to RBV, organizations establish superior performance and boost survival ability by collecting resources and strengthening capability. In agency theory, franchising

alliance is part of the franchisee's external resources as it facilitates their survival ability through the transfer of knowledge, competencies, and tangible resources. Thus, business networks with franchisors are increasingly important for better engagement and collaborative value creation such as joint innovation, marketing alliances, service assistance, or social support to achieve business resilience (Kohtamaki et al., 2018).

Effective communication between franchisors and franchisees is crucial in understanding each other's perspectives and finding mutually beneficial solutions. However, during a period of crisis, it is frequently necessary to establish a hierarchy of critical tasks to ensure the survival of a business. Thus, franchisors may place greater emphasis on the activities that directly contribute to the sustainability of their operations and the mitigation of the pandemic's effects and this may impact of lacking social interactions with the franchisees. The operational and digitalization challenges brought about by the pandemic, both franchising alliances may not have fully adapted to these new business models and tools or found them to be less effective for certain types of communication compared to traditional face-to-face interactions. Therefore, findings indicate that social interaction between franchisor and franchisee has been unproductive during the crisis.

Franchisor support services are integral elements of a franchise system, designed to provide assistance and guidance to franchisees in diverse facets of their business operations. The primary objective of these services is to guarantee uniformity, excellence, and compliance with the franchisor's brand guidelines throughout all franchise establishments. Franchisor service support has been maintained very well during the unexpected exogenous pandemic to avoid franchising failure. A specialized ongoing training program, digital tool, and operational assistance have been implemented to effectively align with the new business model during the crisis has given a positive significant impact on franchisee resilience.

The financial impact of the pandemic extends beyond the franchisee, as it also affects the franchisor's company. For instance, there were 10,875 franchised businesses permanently closed in the United States had shrunk franchisor revenue where franchising royalty fees and cash inflow have diminished (Fournaris & Burstein, 2022). Meanwhile, the financial fund or assistance is not part of the franchising contract. In addition, franchisors are also concerned about the risk associated with providing financial flexibility or funds to certain franchisees, as all businesses are struggling during the catastrophe. Due to this, most franchisors maintained the franchising payment and some of them are not willing to negotiate for financial flexibility or financial funds. Hence, the study's results indicate that financial assistance has an insignificant impact on franchisee resilience.

The study also found that there was inefficient assurance support from a franchisor that significantly impacted the poor performance of franchisees during the crisis. During challenging times, industry changes, or huge uncertainty, franchisee resilience depends on clear guidance and assurance from the franchisor. However, the result shows that assurance support does not have a significant positive relationship with franchisee survivability. To address these trust issues, effective communication, ongoing support, and clear guidelines from the franchisor are crucial during a crisis. Franchisors should strive to create a positive and collaborative environment, providing the necessary level of assurance to help franchisees stay motivated and persistent in navigating challenges and succeed in their business operations.

A competent and proactive franchisor is crucial for the overall success and resilience of a franchise system, particularly during challenging times. Therefore, there are often two primary drivers of the strategic alliance which are the capability of improvement and obtaining new resources (Nasr & Al-Tabbaa, 2023). Franchisees depend on the franchisor's capability to improve their leadership, guidance, and assistance to gain effective partnerships to survive future crises.

## Conclusion

The purpose of the current study was to determine the effective franchisor support during the pandemic crisis that significantly impacted franchisees ability to retain business. The PLS-SEM results indicate that franchisors' service support has a statistically significant which has a favourable impact on the ability of franchisees to withstand and recover the challenges posed by the COVID-19 pandemic outbreak. However, other franchisor support such as social interaction, financial assistance, assurance, and competence are insignificant. Thus, the implication is there are possibilities that franchisors of homegrown franchisees do not have a proper contingency plan, effective communication, and knowledge transfer for franchisees which hinder their effective support to assist franchisees coop with the pandemic crisis. meanwhile, the empirical findings of the present research contribute to a distinctive understanding that Malaysian franchisees might possess limited ability to withstand hazardous events. Overall, these findings indicate that franchisors should improve their alliance management and leadership to promote franchisee resilience. The study is limited as the sample and distribution was nationally representative of home-grown and foreign franchisees in Kuala Lumpur and Selangor through purposive sampling, so these results may not be applicable to master franchisees in Malaysia. The study indicates response bias which occurs when participants answer surveys inaccurately due to franchising conflict and misunderstanding during the crisis, leading to skewed and misleading results. The study also examined solely the franchisor support and was not specifically designed to evaluate other factors that might related to franchisee survival such as human capital, financial resources, managerial capability, and digitalization as a survival strategy. Therefore, further study might explore these variables to produce a better understanding of franchisee resilience during a crisis.

## Acknowledgement

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