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# DETERMINANTS OF FRANCHISEE SURVIVAL: AN EMPIRICAL STUDY IN MALAYSIA

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**Abstract:**

The franchise business model has become one of the most successful business models of the 21st century. However, franchisees often face significant challenges in navigating economic downturns and maintaining profitability. This study aims to identify the key factors that influence business survival in Malaysia. It involved 165 franchise business owners, using purposive sampling to collect data through a questionnaire. The data were analyzed using multiple linear regression with IBM SPSS version 26. The findings indicate that financial resources, value proposition, and government support positively contribute to franchisee survival. Among these factors, government support emerges as the most critical element in ensuring business survival during crises or pandemics. This study makes a significant contribution by integrating the Resource-Based View and Institutional Theory, providing strategies to enhance franchisee resilience. Additionally, it offers a comprehensive framework for evaluating franchisee survival capabilities, yielding valuable insights into the franchising industry. Future research should explore the transformative potential of technology-driven strategies, which could offer valuable solutions for franchisees seeking to adapt and thrive in an increasingly dynamic market.

**Keywords:**

Franchisees, Crisis, Internal Resources, External Resources, Survival

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## Introduction

The franchise business model is globally recognized as one of the most effective frameworks for achieving organizational success. Its structured and replicable approach has been extensively studied in academic and industry research, consistently demonstrating its reliability and effectiveness across diverse business contexts (Domínguez et al., 2021). The model's adaptability and scalability across industries and regions have significantly contributed to business expansion and economic development. In Malaysia, the franchise sector plays a crucial role in the economy, generating RM36 billion in revenue and providing more than 80,000 jobs (Malaysia Franchise Association, 2024, 2021).

Beyond financial contributions, franchises serve as key platforms for aspiring entrepreneurs, offering structured systems that lower entry barriers to business ownership. They also act as incubators for innovation and technological progress, particularly for small and medium-sized enterprises (SMEs), enhancing business processes, customer service, and product offerings. Despite these accomplishments, the sustainability of franchise systems remains a subject of concern and research. Most studies focus on franchisors, analyzing financial metrics such as growth rates, performance indicators, and survival statistics (Lafontaine et al., 2019).

However, franchise sustainability depends on a broader set of factors, including financial resources, effective marketing strategies, managerial competencies, compelling value propositions, and the dynamics between franchisors and franchisees (Othman et al., 2023). Key elements of strategic management, including operational adaptability, financial management innovation, franchisor support, and market responsiveness (Burlaud & Simon, 2024; Abubakar et al., 2024), as well as brand orientation, value proposition, and government support (Othman et al., 2025), play a significant role in enhancing franchise resilience and long-term success. Additional factors such as access to skilled managerial talent (Sanfelix & Puig, 2018), robust governance structures (Kremez et al., 2022), and efficient knowledge management systems (Hsieh et al., 2020) further contribute to the franchise's ability to thrive.

Ensuring franchisee satisfaction and maintaining strong franchisor support are equally essential. Satisfied franchisees are more likely to remain committed to the system, reducing the likelihood of failures and bankruptcies (Othman et al., 2025). Engaging stakeholders, especially consumers, in strategic decisions has also proven vital for enhancing competitiveness and resilience. For instance, consumer-driven insights can guide product innovation and service improvements, helping franchises stay ahead in dynamic markets (Bui et al., 2021). While the franchise model has proven effective, recent crises have exposed vulnerabilities within the ecosystem, particularly for franchisees.

Business closures and bankruptcies have raised concerns about the sector's resilience. During economic downturns, franchise survival rates dropped significantly due to declining revenues and profitability (Bui et al., 2021). In the U.S., over 32,700 franchise businesses closed by August 2020, with another 36,000 at risk (International Franchise Association, 2020). In Malaysia, franchises in the food and beverage sector faced a drastic 70% decline in revenue (Malaysia Franchise Association, 2020). These challenges emphasize the urgent need for businesses to strengthen their capabilities to withstand external shocks (World Bank, 2020). The wave of closures highlights that many franchises lacked the resources and strategies necessary to navigate crises effectively. This has prompted the franchise industry to reevaluate survival models and adopt more sustainable approaches.

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Franchisee survival remains an underexplored area, with a lack of consensus on the critical internal and external factors that drive resilience and long-term success. Recognizing the importance of context-specific strategies, this study examines the critical factors influencing franchisee continuity during economic uncertainty. In Malaysia, research on franchise survival from the franchisee perspective is particularly scarce. By investigating franchisee strategies and resilience, this study provides valuable insights into sustaining franchise operations and emphasizes the importance of tailored approaches to strengthen the Malaysian franchise sector. These findings aim to bridge the gap in research and offer practical recommendations for improving franchise survivability in a challenging and unpredictable business environment.

## Literature Review

The survival of a business relies on effectively managing both internal and external factors that influence continuity (Amankwah et al., 2021). Organizational survivability is defined as the capacity to maintain operations indefinitely, highlighting the importance of resilience and adaptability in ensuring long-term success (Suraya et al., 2020). Resilience, in this context, is the ability to avoid failure (Giunipero et al., 2022) and recover during extended periods of crisis (Sugianto et al., 2023). Survival strategies are designed to optimize resources and capabilities, enhancing productivity, efficiency, and performance while achieving outcomes such as revenue growth, sustained operations, and employee retention (Bleady et al., 2018). In this study, business survival refers to a company’s ability to sustain operations over time, particularly when confronted with challenges and uncertainties. To avoid failure, businesses must proactively address threats to their existence, such as economic downturns or market disruptions (Ortiz & Sotoca, 2018).

Although the franchise model is often seen as structured and tested, it does not guarantee the success or survival of franchise entrepreneurs. Business failures in this model can result from environmental challenges or firm-specific factors (Amankwah et al., 2021). Franchisees, particularly in the retail sector, often encounter significant difficulties during the startup phase, with failure rates higher than those of independent businesses (Bates, 1998). Shane and Foo (1999) reported that nearly 75% of new franchise systems failed within 12 years, illustrating the challenges of achieving long-term success in franchising. Additionally, concerns have been raised about the accuracy of publicly reported franchise failure rates by franchisors (Lafontaine et al., 2019). This ongoing debate among academics and practitioners underscores the need for further research, particularly on franchisee survival within specific contexts, such as Malaysia.

Financial resources play a pivotal role in franchise survival, enabling businesses to implement contingency plans and sustain operations during crises (Sundarakani & Onyia, 2021; Amankwah et al., 2024). Studies have shown that financial resilience and support are critical to overcoming economic turbulence (Portillo et al., 2018). Financial resources refer to the assets owned by franchisees that enable a company's ability to recover, survive, and maintain business operations during crises. Additionally, brand orientation provides firms with unique resources that enhance performance and create competitive differentiation (Yang & Yu, 2022). A strong brand fosters customer loyalty and marketplace distinctiveness, with brand value driving the differentiation of products and services, thereby supporting business survivability (Othman et al., 2025). Furthermore, franchises can achieve greater growth by aligning stakeholder needs—such as those of customers, franchise participants, and suppliers—while remaining attuned to market trends and competitor strategies through a market-oriented approach (Bui et al., 2021; Ghantous & Christodoulides, 2020).

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Value proposition is another critical aspect of survival. A firm's success depends on its ability to generate and capture value through a well-defined value proposition, including propositions tailored to customers, employees, and suppliers (Othman et al., 2023). Government support also plays a significant role in franchise success, with both financial and non-financial assistance demonstrating positive impacts on performance (Yang & Yu, 2022). During the COVID-19 pandemic, government support enhanced operational resilience and survival rates, creating a more favorable business environment through policies, advisory services, and development programs (Zaato et al., 2021; Yang & Yu, 2021). Despite the structured nature of the franchise model, success hinges on effectively navigating a mix of internal and external factors. This study focuses on franchisee resilience, adaptability, and resource optimization as crucial strategies for overcoming challenges, particularly during crises.

This study integrates two theoretical frameworks to enhance franchisee survival; the Resource-Based View (RBV) and Institutional Theory. RBV provides insights into how firms navigate crises by leveraging unique internal resources and capabilities. It posits that firms with valuable, rare, inimitable, and non-substitutable (VRIN) resources—such as financial capital, expertise, and innovative processes—are better positioned to succeed during turbulent periods (Shafi et al., 2020). According to Garrido et al. (2024), RBV emphasizes that internal capabilities, like adaptability and resilience ability have to be capitalized on to overcome uncertainties on the market and improve organizational performance. Strategic alignment between franchisors and franchisees ensures cohesive resource utilization, enhancing resilience against economic shocks and enabling sustained competitiveness (Halim et al., 2024).

Institutional Theory complements RBV by highlighting the influence of external environments on organizational behavior. This theory suggests that firms seek legitimacy by conforming to societal norms, regulatory requirements, and cultural expectations, often resulting in uniform practices within industries or regions. For franchises, Institutional Theory emphasizes the need to balance competitive strategies with institutional conformity. Adapting to local regulatory, cultural, and consumer contexts is critical when expanding into new markets. Strategic flexibility—such as modifying products, branding, or marketing approaches—ensures alignment with regional expectations. By integrating RBV's focus on internal resource optimization with Institutional Theory's emphasis on external legitimacy, franchises can develop a robust framework for survival and growth. This dual approach enables franchises to harness their unique strengths while remaining responsive to societal demands, ultimately fostering long-term resilience and success.

## Methodology

### *Sample and Instrument*

This study employs a cross-sectional design and surveys 165 franchisee business owners. Purposive sampling was employed to select franchisee owners whose businesses have been operating for over three years, ensuring the inclusion of individuals relevant to the study's focus on business survival. Data were collected using a questionnaire, with items adapted from established sources: financial resources (5 items) from Othman et al. (2015), brand orientation (7 items) from Kusi et al. (2022), value proposition (6 items) from Rintamäki et al. (2007), government support (6 items) from Yang and Yu (2021), and franchisee survival (6 items) from Adam et al. (2021) and Najib et al. (2021). A pilot study involving 30 franchise owners confirmed the reliability of the questionnaire, with all variables achieving Cronbach's Alpha values above 0.8. Specifically, government support scored 0.898, brand orientation 0.876,

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value proposition 0.812, financial resources 0.806, and franchisee survival 0.885, indicating strong internal consistency for each construct.

### *Data Analysis*

The questionnaire data was analyzed using IBM SPSS version 26. Regression analysis was employed to assess the contributions of the variables. Stepwise regression was specifically chosen for this study, as it involves an iterative, step-by-step process that automatically selects the most relevant independent variables for the regression model. The equation for multiple regression analysis is expressed as:

Y=a + b1X1 + b2X2 +b3X3+ ... bnXn where
Y= dependent variable
a= intercept
bn= regression coefficient for the independent variables
Xn= independent variable

Before analyzing the data, it is necessary to test the assumptions required for multiple regression analysis. Multiple linear regression requires that all variables follow a normal distribution, which can be assessed using a P-P plot. Normality can also be evaluated through a goodness-of-fit test. In this study, the researchers used P-P plots to check the normality of residuals (Fig. 1). The data points closely follow the diagonal line, indicating that the residuals are normally distributed, appearing as a random scatter of points.

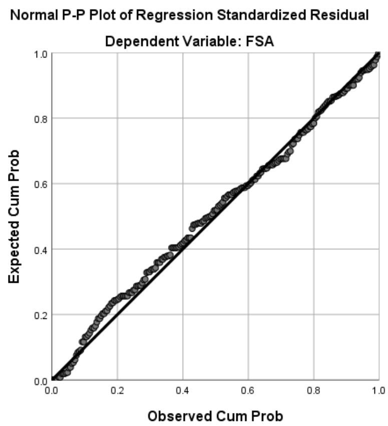


**Figure 1: Normal P-P Plot of Regression**

## Findings and Discussion

### *Descriptive Analysis*

Table 1 presents the demographic characteristics of the franchisee respondents. The data shows that 51.52% of the businesses have been operating for 6 to 10 years, while only 1.8% have a history of over 20 years. Most businesses are small, with 54.55% employing fewer than 5 people and 43.64% having between 5 and 29 employees. The Food and Beverage sector is the most prevalent, accounting for 66.06% of all businesses, followed by Education and Childcare Services at 23.64%.

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**Table 1: Respondents Demographics**

| | | Frequency | Per cent (%) |
|---|---|---|---|
| Years of Operation | Between 3 to 5 years | 46 | 27.88 |
| | Between 6 to 10 years | 85 | 51.52 |
| | Between 11 to 15 years | 25 | 15.15 |
| | Between 16 to 20 years | 6 | 3.64 |
| | More than 20 years | 3 | 1.82 |
| Total Number of Employee | Below 5 employees | 90 | 54.55 |
| | Between 5 to 29 employees | 72 | 43.64 |
| | Between 30 to 75 employees | 3 | 1.82 |
| Sector of operation | Food and Beverage | 109 | 66.06 |
| | Education and childcare | 39 | 23.64 |
| | Beauty and Healthcare concepts | 3 | 1.82 |
| | Convenience Store | 12 | 7.27 |
| | Clothing and Accessories | 1 | 0.61 |
| | Accessories | 1 | 0.61 |

***Multiple Regression Analysis***

Multiple linear regression analysis was conducted to examine the influence of financial resources, brand orientation, value proposition, and government support on predicting franchisee survival. The hypothesis for the analysis was formulated as follows:

H1: Financial resources, brand orientation, value proposition, and government support contribute to franchisee survival.

This study found that all independent variables were significantly correlated with the dependent variable ($p<0.05$). However, regression analysis revealed that only three out of the four independent variables had a significant impact on the dependent variable. As shown in Model 3 in Table 2 and Table 3, the F-value of 19.489 is statistically significant ($p<0.05$), indicating that the regression model, which includes Government Support, Value Proposition, and Financial Resources, can partially explain the variation in the dependent variable (Franchisee Survival)

**Table 2: Variance Analysis**

| | Model | Sum of squares | df | Mean square | F | Sig. |
|---|---|---|---|---|---|---|
| 3 | Regression | 29.284 | 3 | 9.761 | 19.489 | 0.001 |
| | Residual | 80.639 | 161 | 0.501 | | |
| | Total | 109.924 | 164 | | | |

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**Table 3: Coefficients**

| | Model | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Sig |
|---|---|---|---|---|---|---|
| 3 | (Constant) | 0.458 | 0.373 | | | |
| | Government Support | 0.224 | 0.083 | 0.214 | 2.685 | 0.008 |
| | Value Proposition | 0.363 | 0.100 | 0.254 | 3.645 | 0.001 |
| | Financial Resources | 0.249 | 0.076 | 0.256 | 3.288 | 0.001 |

Moreover, each of the beta values is accompanied by a standard error, which indicates the degree of variability of these values across different samples. These standard errors are utilized to assess whether the b value significantly differs from zero. Thus, if the t-test associated with a b value shows significance ($p < 0.05$), it suggests that the predictor contributes significantly to the model. In Model 3, government support ($t(165) = 2.685$, $p < 0.05$), value proposition ($t(165) = 3.645$, $p < 0.05$), and financial resources ($t(165) = 3.288$, $p < 0.05$) are all identified as significant predictors of franchisee survival.

**Table 4: Model Summary**

| Model | Independent Variable | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics: R Square Change | F Change | df1 | df2 | Sig. F Change |
|---|---|---|---|---|---|---|---|---|---|---|
| 3 | Government Support | 0.516 | 0.266 | 0.253 | 0.708 | 0.161 | 31.370 | 1 | 163 | 0.001 |
| | Value Proposition | | | | | 0.056 | 11.538 | 1 | 162 | 0.001 |
| | Financial Resources | | | | | 0.049 | 10.810 | 1 | 161 | 0.001 |

Additionally, Table 4 reveals that the $R^2$ value for Model 3 is 0.266, indicating that 26.6% of the variation in franchisee survival (the dependent variable) can be explained by government support, value proposition, and financial resources (the independent variables). Among these, government support makes the largest contribution, accounting for 16.1% of franchisee survival, followed by the value proposition at 5.6%, and financial resources at 4.9%. From Table 3, the Y-intercept (constant) is 0.458, with government support having a coefficient of 0.224, the value proposition at 0.363, and financial resources at 0.249. Therefore, the regression equation can be expressed as:

$$Y' = 0.458 + 0.224(X1) + 0.363(X2) + 0.249(X3)$$

The regression analysis in this study revealed that not all hypothesized variables were supported. Stepwise regression analysis identified government support, value proposition, and financial resources as having significant positive effects on business survival, while brand orientation was found to have no meaningful contribution. Among these factors, government

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support emerged as the most critical determinant of business survival. Abd Ghani et al. (2022) emphasized the importance of government financial assistance, including grants, loans, and subsidies, in helping businesses cover operational costs, retain employees, and manage disruptions during the pandemic. Governments also implemented tax relief measures and wage subsidy programs to mitigate revenue losses and encourage staff retention.

To remain competitive, businesses must differentiate themselves through unique products and services. The franchisor plays a pivotal role in crafting a strong value proposition, which is essential for franchisee resilience during crises. Small and medium-sized enterprises (SMEs) enhance their value propositions by introducing innovative products and services and strengthening customer relationships. By addressing customer needs, standing out from competitors, and adopting flexible strategies, businesses help franchisees overcome pandemic-related challenges and achieve sustainable success (Panda et al., 2023; Zaato et al., 2021). Consequently, the study underscored the significant influence of a well-managed value proposition on franchisee continuity.

The study also highlighted the substantial positive relationship between financial resources and franchisee resilience. This finding aligns with prior research by Nyazenga et al. (2023), which underscores the importance of adequate financial resources for enabling innovation, adapting business models, and recovering from crises. Franchisees often struggle with financial management, resorting to measures such as deferring rent, reducing employee salaries, and minimizing expenses to survive. Amankwah et al. (2024) identified poor financial management as a primary cause of business failures during the pandemic. Therefore, businesses that are unable to adopt innovative financing strategies face greater challenges in sustaining their operations.

In the franchising context, brand positioning and communication are integral to the franchisor-franchisee relationship (Ghantous & Christodoulides, 2020; Halim et al., 2024). However, brand development and management are typically the franchisor's responsibility, meaning franchisees' ability to represent the brand effectively depends on the franchisor's leadership and communication. During periods of market turbulence, gaps between firms and consumers can erode brand differentiation and weaken stakeholder engagement (Rego et al., 2021). This aligns with the study's finding that brand orientation had no significant impact on franchisee survival during the crisis. The costs associated with maintaining brand identity, particularly during turbulent times, may strain franchisees, further diminishing its influence on resilience. Thus, in the context of the pandemic, brand management by franchisors was found to have limited positive effects on franchisee survival.

## Conclusion
This study offers valuable insights into the factors influencing franchisee business survival, emphasizing the unequal importance of the variables tested in the hypothesis. Government support emerged as the most critical determinant of franchisee resilience, highlighting its essential role in maintaining operations during crises. Financial assistance, subsidies, and tax relief measures played a key role in helping franchisees manage disruptions, retain employees, and stabilize their operations during the pandemic. Alongside government support, a strong value proposition significantly contributed to franchisee survival by improving customer retention and promoting competitive differentiation. Financial resources also proved vital, providing the necessary foundation for operational continuity, innovation, and recovery efforts.

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In contrast, brand orientation did not show a meaningful impact on franchisee survival in this study. This suggests that, during crises, the immediate financial and operational challenges faced by franchisees may outweigh the benefits of brand alignment. Furthermore, the franchisor's control over brand development and communication often limits the franchisee's ability to leverage brand orientation as a strategy for resilience. These findings emphasize the need to prioritize operational and financial strategies over brand-focused initiatives during periods of economic uncertainty. Looking ahead, future research should explore the transformative potential of technology in strengthening franchisee resilience. The adoption of digital tools and platforms offers significant opportunities to enhance various aspects of franchise operations. Therefore, exploring these areas will provide valuable insights into how franchisees can better adapt to an increasingly digitalized business environment.

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