

**iCSSP2024: International Conference on Social Science & Public Policy**  
**Virtual Conference, 23 & 24 October 2024**  
Organised by: Universiti Teknologi MARA, Kedah, Malaysia

## **Understanding Human Resources Best Practices in Franchise Relationship Management: Franchisors' Perspectives**

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### **Abstract**

As their market share increases, franchising faces challenges in maintaining brand relationships and standards, which affects the business landscape. Six in-depth interviews with Malaysian food and beverage franchisors are used in this study to explore how franchises effectively manage human resources. The three themes are effective communication, standardised policies, and consistent training and development. This study highlights how important it is to improve human resource management, strengthen ties between franchisors and franchisees, and promote long-term success. In order to help Malaysia's franchise industry solve present issues and increase sustainability in a cutthroat market, it is imperative that the study's conclusions be operationalized in order to strengthen franchise networks and provide suggestions for further research.

**Keywords:** Franchising; human resource management; relationship management; franchisor-franchisee

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DOI: <https://doi.org/10.21834/e-bpj.v10iSI30.6888>

### **1.0 Introduction**

Franchising is a business model widely used today in franchisors' efforts to expand their businesses locally and globally. Franchising refers to a relationship between two parties, namely the franchisor and the franchisee, where the franchisor allows the franchisee to use its brand, products and business operation. In return, the franchisee must pay some franchise fees and royalties to signify their ongoing business relationship (Abd Aziz et al., 2022). The franchising industry has played a crucial role in the global economy for the past four decades through employment generation and brands international dissemination. Its resilience in various market conditions has made it increasingly attractive, leading to heightened interest in this business approach (Bretas & Ilan, 2021). The survival and success of franchises are through a mutually beneficial relationship between the franchisors and the franchisees (Lanchimba et al., 2024). In Malaysia, the franchise industry has seen substantial growth across multiple sectors, including food and beverage, retail, education, and health services (Abd Aziz et al., 2022; Hanafiah & Abd Aziz, 2023).

The established business framework, brand recognition, and lower franchising risk than independent business ventures drive this growth. It is marked by a shift from company-owned businesses to franchisee-owned units, which has allowed franchisors to tap into

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additional human and financial resources (Balsarini et al., 2022). The growth of franchises has replaced independent businesses and subsequently contributed to job creation, economic modernisation, and the development of other franchise entrepreneurs. Naatu and Alon (2019) have emphasised the direct influence of franchise businesses on revenue and employment, as well as their potential for international expansion. As suggested by Bui (2022), there is a need for further research on how franchisors adapt their human resource strategies to match the diverse cultural and operational contexts of different franchisees, which affects the overall effectiveness of relationship management. Thus, this study explores human resources' best practices in franchise relationship management.

## 2.0 Literature Review

### 2.1 Overview of Franchising in Malaysia

Franchising in Malaysia has become a crucial part of the country's business environment, playing a significant role in economic expansion (Abd Aziz et al., 2021). This has been shown since the implementation of the Franchise Act in 1922. Since then, more local and international companies have been established in diverse sectors, namely food and beverage, education, and retail (Hanafiah & Abd Aziz, 2023). The government has strongly supported this industry through various financial and training initiatives. The growth of the franchising sector in Malaysia can be attributed to several factors, including the country's advantageous geographical location in Southeast Asia, rapid middle-class growth, and increasing consumer demand for high-quality goods and services (Abd Aziz et al., 2023). Malaysia has great potential for international companies to enter due to its diverse population and high purchasing power. In addition, local franchisees have expanded their footprint overseas and are growing rapidly in the Malaysian domestic market. The Franchise Development Program is one of the government programs that has been very helpful in encouraging the growth of the industry and the expansion of local brand franchises.

### 2.2 Agency Theory

According to Eisenhardt (1989), Agency Theory is described as an arrangement of a principal(s) hiring an agency or agent under a contract to achieve the intended aims of the exchange for compensation. Since then, more disciplines have demonstrated applications of the Agency Theory, particularly entrepreneurship. The relationship between the agent and principal could be analysed through five key elements: (i) variations in issues among agents, (ii) the agent's actions influencing the principal's desired outcomes, (iii) random factors impacting the agent's actions toward the outcomes, (iv) the existence of different types of outcomes, and (v) the presence of asymmetrical data.

Agency Theory suggests that a franchise system is an effective motivator, where franchisors can increase their competitive advantage by converting company-owned assets into franchisees, thereby reducing agency costs. For instance, financial capital and managerial expertise can establish and sustain market knowledge to enhance growth and embrace risks in joining the franchising system. Barthélemy (2011) particularly focused on embracing risks in franchising, as he claimed that competitors' widespread use of franchising shed light on the differences in how focal chains utilised franchising, particularly concerning the risks of franchisee exploitation and opportunism. Overall, numerous studies suggested that integrating Agency Theory and Institutional Theory could effectively describe decision-making processes in franchising (Abd Aziz et al., 2021; Ramdan et al., 2022).

## 3.0 Methodology

Agency Theory suggests that a franchise system is an effective motivator, where franchisors can increase their competitive advantage by converting company-owned assets into franchisees, thereby reducing agency costs. For instance, financial capital and managerial expertise can establish and sustain market knowledge to enhance growth and embrace risks in joining the franchising system. Barthélemy (2011) particularly focused on embracing risks in franchising, as he claimed that competitors' widespread use of franchising shed light on the differences in how focal chains utilised franchising, particularly concerning the risks of franchisee exploitation and opportunism. Overall, numerous studies suggested that integrating Agency Theory and Institutional Theory could effectively describe decision-making processes in franchising (Abd Aziz et al., 2021; Ramdan et al., 2022). Six in-depth interviews were conducted with franchisors to fulfil the objective of the exploratory study. The selection of informants was determined through purposive sampling. This sampling involves identifying and selecting valuable cases which are limited in resources (Campbell et al., 2020). Selecting individuals or groups with specific knowledge related to the phenomenon of interest will enable researchers to obtain accurate findings through detailed qualitative findings (Gill, 2020). Specific informant selection criteria were determined, which were: (i) franchisors registered with the Ministry of Domestic Trade and Consumer Affairs, (ii) operating for at least 5 years, and (iii) having at least one franchise outlet. The number of participants was guided by data saturation, with previous studies showing that saturation can often be achieved with only six interviews, and even a small sample can still produce significant findings.

The interviews with six (6) franchisors from the food and beverages industry who are owners or decision makers in their businesses were conducted face-to-face, semi-structured, and lasted approximately on average, 60 minutes. Thematic analysis was applied which involved six stages: transcribing audio recordings from interviews, reviewing transcripts to identify essential points related to the research topic, conducting initial coding of relevant data to identify patterns or themes, scrutinising themes to ensure that they accurately represent

data, review and refine themes and subthemes to ensure consistency and validity and finally, interpret themes, define key concepts, and present findings (Guest et al., 2020).

## 4.0 Findings

The interviews revealed three themes as shown in Table 1 which are (i) Consistent Training and Development; (ii) Effective Communication; and (iii) Standardised Policies.

### 4.1 Consistent Training and Development

Training in franchising is an essential component. In the franchise ecosystem, consistency is vital in strengthening the business relationship between franchisor and franchisees, especially in terms of human resource development. Franchisees can improve their knowledge by regularly participating in training from the franchisor. In addition, franchisees can understand the basic culture of the organisation while building strong trust in the franchisor. Also, franchisees can obtain the necessary skills and knowledge from the franchisor. This is important to ensure that franchisees can provide the same consistent customer experience as the franchisor offers in each location. In addition, franchisees who consistently receive training will be better prepared to face the real world of franchise business. Training will also help franchisees improve their ability to extend the lifespan of their operations in a competitive market. This will help franchisees maintain consistent standards in their daily operations, in line with the rapid development of the franchise industry and create a culture of constant learning among their employees: "Franchisees require that every franchisee follow brand guidelines and consistently deliver a positive customer experience. As a result, ongoing training is necessary to ensure franchisees' continuous success..."[P1]. Frequent training sessions can promote better conversation, best practice sharing, and constructive criticism among franchisees, all of which can advance both parties. To ensure successful franchise relationship management, training and growth are essential: "A franchise's success depends on its people, and ongoing training equips franchisees and their teams to maintain good brand values and vision..." [P6].

### 4.2 Effective Communication

Most respondents agreed on the importance of communication's effectiveness in the success of the dynamic franchisor-franchisee relationship. Trust in this relationship will be constantly assured with regular transparent communication. It is essential that clear and consistent messaging from the franchisor enables franchisees to understand better business expectations, operational procedures, and brand values. Effective communication reflects a strong relationship between the franchisor and the franchisee, especially regarding skills development. Sharing company policies, work processes, and franchise strategies with franchisees makes franchisees an integral component in ensuring the success of their franchise system. Franchisees will obtain the support they need once there is a conducive environment for strengthening their commitment to their brand: "Communication helps to understand the company's rules and how to run the business, making them feel supported and valued..." [P5]. Meanwhile, communication involves sharing knowledge, showing deep understanding, and giving constructive feedback to franchisees by the franchisor. This two-way communication allows franchisors to gain valuable insights from those on the front lines, leading to improved strategies and processes: "When franchisees perceive that their opinions and concerns are acknowledged and considered, they feel a greater sense of authority and control, which will increase satisfaction..." [P4].

### 4.3 Standardised Policies

Most respondents agreed that maintaining a good relationship between both parties, which are the franchisor and the franchisee, is closely linked to human resource policies. In order to promote integrity and build confidence between the franchisor and the franchisee, it is crucial to adhere to thorough rules. A strong relationship between franchisor and franchisee can be enhanced by adhering to standard policies, especially when it comes to work management. Clear rules for employee management covering recruitment, training, and evaluation are essential in maintaining a smooth quality of service at each franchise outlet. This will foster a positive and professional work environment while motivating employees to be more positive and focused. Maintaining consistent policies is crucial to preserving the strength of the brand because it guarantees that consumers have the same experience at every franchise site: "This is important because miscommunications within the franchise system can damage the brand's reputation. Both parties should have clear roles in order to eliminate any confusion and boost efficiency. This will also promote success and efficiency..." [P2]. Clear human resources policies that are in line with business practices will continue to support the companies' brand values: "Franchisees can successfully manage their teams, brand reputation and achieve consistent and reliable success by implementing good standard practices..." [P3].

## 5.0 Discussion

This study explores the perspective of human resources' best practices from the lens of the franchisor-franchisee relationship. This includes three best practices, namely (i) effective communication, (ii) standardised policies, and (iii) consistent training. Maintaining a series of training sessions will enhance the relationship between franchisors and franchisees. Additionally, new training programs enabled franchisees to remain informed about the latest services and products. Inconsistent service delivery will be drastically reduced in any related locations, which shows the significance of investing in new training for the growth and sustained success of franchisees (Abd Aziz et al., 2022). This approach also helped retain franchisees by reducing turnover rates, as they felt supported and valued by

the franchisor (Sabaran et al., 2023). Not only that, but consistent training and development also improve operational efficiency and create a culture of continuous improvement within the franchise system.

Communication that is effective between both parties is another essential aspect of successful franchise relationship management. It is revealed by Abd Aziz et al (2020) that effective communication will reduce misalignment of expectations between both parties through applying open communication with transparency. This will maintain teamwork with less conflict when communication is consistent across the franchise network (Abd Latif et al., 2021). Promoting efficient communication within the franchise system will lead to better conflict resolution and teamwork. Good teamwork will subsequently lead to engaging ideation and solutions that are innovative towards a sustainable business strategy (Alon et al., 2020). Constant effective communication can be achieved are through mentoring session, meetings and other digital platforms.

The third theme is standardised policies, where most informants agree that it is one of the most important elements in franchise relationship management. The establishment of procedures and guidelines will lead to clearer and more consistent operations throughout all franchisees' locations. This will ensure franchisors maintain the standards of quality while ensuring brand integrity. Examples of policies are related to protocols of services and products, activities of franchises and strategies in marketing. Ultimately, most of the risks will be mitigated while being able to protect the intellectual property of their franchisors accordingly (Jiang et al., 2022). The overall performance of a franchise is highly dependent on dedicated employees through the provision of good and quality service. Engaged employees are more likely to remain with the franchise and provide exceptional customer service, thus ensuring sustainable and effective service delivery and reducing employee turnover (Al-Suraihi et al., 2021). Furthermore, by actively promoting employee engagement through training programmes, recognition initiatives, and career development opportunities, franchisors have the potential to improve operational effectiveness and business operation, as well as increase trust within their franchise network (Ramdan et al., 2022; Abd Aziz et al., 2021).

## 6.0 Conclusion and Recommendation

In conclusion, this study offers an in-depth understanding of the essential components of successful franchise relationship management in Malaysia. The results highlight the value of consistent training and development, which gives franchisees the know-how to uphold brand standards and guarantee a uniform customer experience throughout all locations. Another crucial element is effective communication, which promotes openness and alignment between franchisors and franchisees, allowing for prompt problem-solving and developing a cooperative atmosphere. Maintaining operational consistency and regulatory compliance are critical for upholding brand integrity and customer trust; thus, they require standardised practices. The results of this study are more context-specific and, therefore, cannot be generalised, which is a limitation of the study. Future studies should examine human resource management procedures in different industries for a more comprehensive understanding.

## Acknowledgement

This study was funded by Tabung Persidangan Dalam Negara (TPDN) to meet the requirements of the Social Science Research Grant (RDU223407) by the Department of Research and Innovation, Universiti Malaysia Pahang Al-Sultan Abdullah (UMPSA).

## Paper Contribution to Related Field of Study

This study contributes to the understanding of the concept of franchising from the perspective of human resource management and emphasises the role of the franchisor as a principal to the franchisee as an agent in the franchise contract relationship.

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