

RESEARCH ARTICLE

Exploring regulatory challenges in franchising governance for international business expansion

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ABSTRACT - This study aims to explore the challenges of franchise governance in international business expansion with a focus on the food and beverage industry in Malaysia. While franchising is rapidly growing as an economic driver, a research gap exists in understanding how local and international regulations impact Malaysian franchise operations overseas. The study used a qualitative approach with semi-structured interviews with six registered franchise companies, and the data was analyzed using ATLAS.ti software version 25 through thematic analysis methods. Three main themes were identified, namely (i) Law and Regulation, (ii) Registration and Compliance, and (iii) Intellectual Property. Discussions indicate that complex legal issues, varying registration regulations, and weak enforcement of intellectual property rights pose significant challenges to the sustainability and consistency of franchise brands in international markets. However, this study is limited to the context of the food and beverage industry only and is not intended to be generalized to other sectors. This study provides practical benefits to franchise industry players in formulating stronger international compliance strategies and to policymakers in establishing more effective governance frameworks and intellectual property protection to support the expansion of Malaysian franchises globally.

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1. INTRODUCTION

In today's business landscape, franchising has experienced significant expansion and sustained growth (Mahmood, 2015). Globally, franchising serves as a pivotal platform for business distribution and has evolved notably in recent decades (Hoffman & Preble, 2003; Perry & Rajiv, 1999). It offers numerous advantages over chain ownership models (Baena & Cerviño, 2012) and plays an essential role in fostering economic development by creating jobs, fostering entrepreneurship, and improving living standards (Shumba, Zindiye, & Donga, 2017). According to Grewal, Iyer, Javalgi, and Radulorich (2011), franchising represents a rapidly advancing form of global business that remains central to entrepreneurship studies. Since the early 1980s, franchising has demonstrated worldwide growth as founders increasingly rely on partnerships with franchisees to scale business models and access both human and financial capital. The shift from company-owned to franchisee-owned units continues to gain prominence (Paynter & Arthanari, 2000). Among various sectors, fast-food businesses remain among the most prominent contributors to global entrepreneurship (Shumba et al., 2017).

Undoubtedly, franchising models significantly impact economies and societies, influencing job creation, economic modernization, and the development of franchise entrepreneurs (Alon, 2004; Naatu & Alon, 2019). These models directly affect income, employment, and international market expansion (Elango, 2019; Naatu & Alon, 2019), exemplified by studies on franchise shareholders in Brazil (Bretas & Alon, 2020). In Asia, franchising has gained momentum among middle-income populations seeking international brand opportunities, contrasting with the mature domestic markets of Western countries. Asian governments actively support franchising, as seen in Malaysia's robust industry growth and government initiatives projecting significant GDP contributions (Tyre & Han, 2013; Abu Bakar et al., 2003). Malaysian entrepreneurs increasingly embrace franchising for niche products and unique value propositions (Malaysia-Franchising, 2017). The franchise industry's impact is notable in the United States, contributing significantly to GDP and job creation (U.S. Department of Commerce, 2018). Internationally, the franchise model facilitates entry into global markets, evidenced by its widespread adoption across various sectors (Krupskiy et al., 2017). In Malaysia, the franchise sector's steady growth is poised to achieve substantial GDP contributions, supported by continuous expansion and governmental backing (Malaysian Franchise Association, 2018). The industry's trajectory underscores its vital role in economic strategy and fostering local entrepreneurship (Mohd Amy Azhar et al., 2011).

Although trust and integrity form the foundation of relationships between franchisors and franchisees, existing research examines these factors from a domestic perspective, overlooking the complex regulatory challenges involved in international expansion. Trust enables franchisors to delegate responsibilities and maintain brand consistency, while franchisees rely on fair treatment and continuous support (Abd Aziz et al., 2024). However, the presence of diverse legal

systems, differing compliance requirements, and inconsistent enforcement of intellectual property (IP) rights complicates these dynamics. Integrity, which underpins ethical standards and transparency, has received limited empirical attention regarding how governance frameworks institutionalise such values across fragmented regulatory systems (Abd Aziz et al., 2021). To achieve operational efficiency, profitability, and sustainable partnerships in a highly competitive globalised franchise environment, it is essential to examine how trust and integrity interact with regulatory challenges across law, registration, compliance, and IP (Sabaran & Abd Aziz, 2023). Therefore, this study aims to explore the regulatory difficulties in franchising governance for international business expansion.

2. LITERATURE REVIEW

2.1 Agency Theory

According to Eisenhardt (1989), Agency Theory defines an agency as an entity hired by one or more parties known as principals under a contract, compensated by the principal to achieve specified goals. Eisenhardt (1989a) also noted that Agency Theory has been extensively utilized across various fields including economics, finance, social sciences, organizational behavior, and entrepreneurship. Petersen (1993) identified five elements that characterize the relationship between agents and principals: (i) differing preferences among agents; (ii) the principal's desired outcomes influenced by agent actions; (iii) random factors affecting agent actions towards outcomes; (iv) various types of outcomes; and (v) asymmetric information.

Despite the benefits franchisors derive from mixed ownership forms, such as sustainability over time, there is greater support for converting existing company-owned outlets to access larger resources, as argued by Dant, Grunhagen, and Windsperger (2011). In contrast, Rubin (1978) emphasized the critical role of human capital for franchising survival, proposing enhancements to Agency Theory. Brickley (2002) argued against the Resource Scarcity Theory, asserting that the franchising system effectively manages the principal-agent problem and highlights conflicting interests between franchisors and franchisees. Key issues include whether franchisees align their efforts with franchisors' goals or pursue their own interests. Agency Theory underscores franchising as a powerful motivator for franchisors to convert company-owned properties into franchises, reducing agency costs and gaining competitive advantages. Franchising serves as a significant platform for organizing the distribution sector. Scholars have developed models like partial monitoring, where franchisors oversee only a subset of their outlets (Cliquet & Pénard, 2012).

Ishak, Chuah, Wei, and Rahim Romle (2016) argued that franchising facilitates rapid expansion by leveraging franchisee resources such as financial capital and managerial expertise, supporting market knowledge development. Barthélemy (2011) suggested that widespread franchising among competitors reflects varied uses of the franchise model, influenced by local management inputs and the risk of franchisee opportunism. Overall, empirical studies, including Gillis et al. (2011), demonstrate that franchisors employ multi-unit franchising to mitigate agency problems, rewarding franchisees and promoting knowledge sharing through routines. Ishak et al. (2016) reiterated that franchising accelerates expansion by leveraging franchisee resources, while Cliquet and Pénard (2012) illustrated partial monitoring models where franchisors selectively oversee their outlets.

2.2 Transaction Cost Theory

Coase (1937) introduced Transaction Cost Theory in his book "The Nature of the Firm," which later earned him a Nobel Prize. According to this theory, franchising represents a shift from market-based trading to intra-firm trading, effectively minimizing transaction costs for the firm. Wong and Wong (2010) elaborate that chain stores can reduce information costs by centralizing trading partners compared to independent stores within a single company. Enhanced information exchange among supply chain members improves the efficiency and quality of franchise operations. In addition, Coase (1937) identified three primary components of transaction costs: opportunity costs, contract costs, and monitoring costs. Opportunity costs require firms to anticipate consumer demand and respond promptly. Contract costs entail thorough investigation and negotiation before development, involving expenditures of money, manpower, and time (Coase, 1937). Additionally, David and Han (2004) note that monitoring costs are essential for overseeing enterprise performance post-purchase, ensuring contract execution.

Klein (1980) extends Transaction Cost Theory to emphasize that investments and environmental uncertainty significantly influence governance mechanisms. Combs and Ketchen (1999) argue that franchisors expect franchisees to invest in transaction-specific assets, fostering commitment to the franchise system. Moreover, Hussain, Moritz, and Windsperger (2012) find that early-stage investments by franchisees strengthen contractual enforcement, particularly in multi-unit franchise operations. Empirical studies by Hussain, Moritz, and Windsperger (2012) reveal that single-unit franchise models suit franchisors in high uncertainty environments, motivating entrepreneurial initiatives to exploit local market opportunities. Mumdziev and Windsperger (2013) further suggest that trust within the Transaction Cost model influences decision rights allocation in franchising, moderating franchisors' delegation of decision-making to franchisees.

2.3 Trust and Integrity in Franchising

Trust and integrity are foundational principles in franchising governance, essential for nurturing enduring relationships between franchisors and franchisees. Central to trust in franchising governance are transparency, open communication, and a dedication to ethical practices (Cotte, 2020). Given the significant investments and long-term commitments involved

in franchise agreements, trust plays a critical role in ensuring both parties fulfill their obligations and expectations. Integrity complements trust by emphasizing honesty, fairness, and adherence to ethical standards across all facets of the franchising relationship. Effective franchising governance establishes trust through clear contractual agreements that delineate rights, responsibilities, and mechanisms for resolving disputes (Davies et. al, 2011). These agreements should be comprehensive yet adaptable to accommodate the evolving needs of franchisors and franchisees. Transparent disclosure of financial performance, operational guidelines, and marketing strategies further strengthens trust by empowering franchisees to make informed decisions and effectively manage their businesses (Ludvigsson Walette & Lawrence, 2020)

Integrity in franchising governance necessitates that franchisor uphold their commitments, treating franchisees equitably and honoring their promises. This involves respecting franchisee autonomy within the brand's framework while supporting them with ongoing training, operational guidance, and marketing support (Painter, 2023). Conversely, franchisees are expected to operate within the franchisor's guidelines, maintaining the brand's reputation through quality service and adherence to standards. Ultimately, trust and integrity in franchising governance foster sustainable and mutually beneficial relationships. By prioritizing transparency, fairness, and ethical conduct, franchisors can cultivate loyalty among franchisees and enhance the franchise system's reputation and longevity. This trust not only promotes growth and profitability but also fosters a positive organizational culture rooted in mutual respect and shared achievements (Cotte, 2020).

3. METHODOLOGY

In order to investigate the challenges in franchising governance for international business expansion, this study used a qualitative approach (Lim, 2024). This research methodology emphasizes a thorough understanding of social phenomena through the exploration of participants' experiences, perspectives, and shared meanings. Six franchise companies from Malaysia's food and beverage sector participated in the study using a purposive sampling technique (Shaheen, Pradhan, & Ranajee, 2018). Participants were chosen based on these criteria: (i) they had to be registered with the Ministry of Entrepreneur Development and Cooperatives; (ii) they had to have been in business for at least five years and (iii) had opened at least one outlet in the international market. Semi-structured interviews lasting 40 to 50 minutes were used to gather data. The ATLAS.ti software version 25 was then used to analyze the interview transcripts and produce themes via thematic analysis about the challenges in franchising governance for global business expansion (Rosairo, 2023). This study has limitations in that the findings do not aim for generalization and are only focused on the context of the food and beverage industry. Therefore, future studies are suggested to explore other industry governance challenges in the franchise sector such as the education industry where they may be different from the context of this study. Furthermore, the propositions resulting from this study can also be tested in future studies.

4. RESULTS

Based on the analyzed data, three main themes were identified: (i) Law and Regulation, (ii) Registration and Compliance, and (iii) IP. The details are as follows:

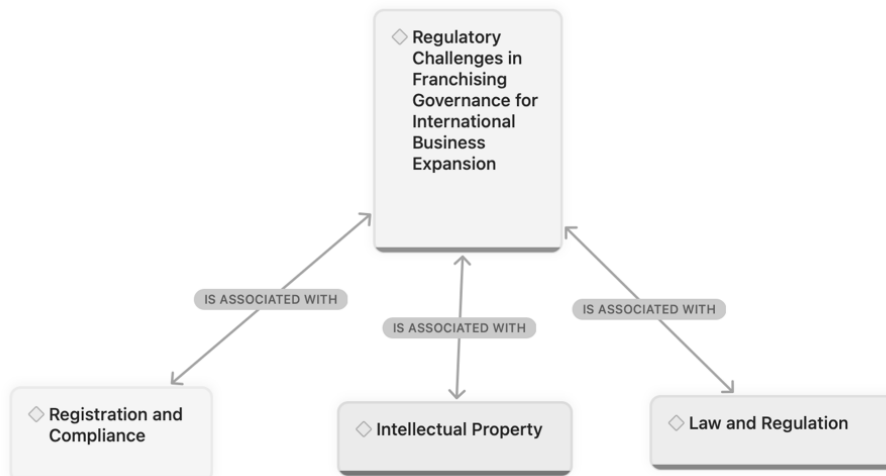


Figure 1. Network Analysis Atlas.ti version 25 by Researchers

Table 1. Distribution of themes

Themes	P1	P2	P3	P4	P5	P6
Law and Regulation	/	/				/
Registration and Compliance			/	/	/	
Intellectual Property	/			/		/

4.1 Law and Regulation

Expanding a franchise business into international markets presents numerous legal and regulatory challenges, primarily because it requires navigating diverse legal systems and regulatory frameworks across countries. One significant difficulty involves ensuring compliance with local laws governing franchising agreements, which can vary significantly from one jurisdiction to another. These laws often determine the content and enforceability of franchise contracts, covering issues such as IP rights, operational standards, and dispute-resolution mechanisms. Adherence to these regulations is crucial to minimise legal risks and maintain the integrity of the franchisor-franchisee relationship.

“The law was the first problem we came into when we took our business abroad. Every country had its own rules, and occasionally things went considerably differently than they did in Malaysia. We could not just copy and paste our model. We had to hire local lawyers to help us; otherwise, we might have broken the law without even knowing it”-P2

“The rules around foreign ownership definitely slowed us down. We had to adjust our approach in one market solely to meet their needs. It cost us a lot of time and money, but if we had not done it, our entire growth plan would have fallen apart”-P6.

Furthermore, international franchising requires compliance with broader international trade laws and treaties that shape market-entry strategies and operational practices. Issues such as tariffs, import and export regulations, and restrictions on foreign investment can all affect the feasibility and profitability of expanding a franchise abroad. Franchisors must also navigate local consumer protection laws, employment regulations, and taxation policies. Each presents substantial challenges that require carefully tailored compliance strategies. Successfully managing these legal and regulatory complexities demands comprehensive research, strategic planning, and in many cases, the involvement of legal experts.

“Going global is not just about obtaining new customers; it also requires dealing with a lot of local laws. We cannot use the same method everywhere because each country has its own standards for workers, consumers, and taxes. That is why we need to conduct thorough research, plan carefully, and seek guidance from local lawyers. If we do not, expanding can be an expensive error”-P1.

4.2 Registration and Compliance

Expanding a franchise business into international markets presents significant challenges, particularly in navigating diverse legal and regulatory landscapes. Each country maintains its own frameworks for business registration and operations, which often differ substantially from those of the franchise’s home country. Managing these differences successfully requires extensive research and frequently necessitates local legal expertise to ensure full compliance with host-country laws.

“The legal side was the first problem we had when we entered new areas. The rules for registering a business and running it were different in each country. We had to rely on local lawyers and conduct extensive research to ensure we adhered to the local rules, as what worked at home did not necessarily apply there”-P5.

“Going overseas is never easy because every country has its own rules. There can be many differences in the rules and laws, and if we do not grasp them well, we could be late or face fines. We need local legal help to move forward safely, which is why we need it”-P3.

Key considerations include understanding foreign investment regulations and complying with local labour laws, both of which significantly influence the feasibility and success of expansion initiatives. Franchise businesses must also navigate differing regulatory environments that may require adjustments to their operational models. For instance, some countries enforce strict consumer protection policies or advertising restrictions that differ from those in the franchise’s domestic market. Achieving compliance with such regulations requires not only legal proficiency but also strategic flexibility to adapt operational practices while preserving the brand’s core identity. Overcoming these legal challenges demands proactive engagement with legal advisors, thorough due diligence, and a willingness to adapt to diverse regulatory frameworks without compromising operational efficiency or brand integrity.

“The hardest part of looking into new markets was figuring out the restrictions for foreign investment and labor. There were different rules for each region, and we occasionally had to adjust our business practices to fit in. Some countries have firm rules about advertising and protecting consumers, so what worked at home did not work elsewhere. To stay in business, we had to work closely with local lawyers, conduct extensive research, and be willing to adapt our approach without losing our brand's character”-P4.

4.3 Intellectual Property

Enforcing intellectual property rights is essential to operating a franchise system because it protects the consistency, integrity and long-term sustainability of the brand. Franchisors must outline clear contractual obligations, implement monitoring systems and establish compliance procedures to ensure that franchisees adhere to the established brand standards, thereby demonstrating strong governance. Strong enforcement of intellectual property rights across multiple countries reduces the risk of trademark dilution, unauthorized use and counterfeiting, ultimately strengthening the

franchise framework. Franchisors face operational risks when the legal framework is ineffective or governance procedures are inadequate, thereby hindering expansion efforts and reducing market confidence.

“For us, preserving intellectual property is the most important part of franchising. Without adequate IP protection, people can copy, misuse, or even make fake versions of our brand. That is why we make sure our contracts are very explicit and that franchisees follow the same rules everywhere. The problem is that the judicial system is relatively weak in some countries. If IP regulations are not followed correctly, it could hurt our growth and make investors less sure about the brand”-P1.

IP protection is closely tied to integrity, reflecting the commitment of both franchisors and franchisees to fairness, transparency and accountability in their operations. Compliance with trademarks, copyrights and trade secrets helps prevent unethical practices such as imitation, exploitation and misrepresentation. Upholding integrity also strengthens trust among franchisors, franchisees and consumers, who depend on the authenticity and quality associated with the franchise brand. Therefore, robust IP governance is not only a legal necessity but also an ethical obligation that upholds the integrity of the franchise ecosystem, enhancing its legitimacy and competitiveness in both domestic and international markets.

“Protecting intellectual property is not just about the law; it is about integrity. When franchisees respect trademarks and copyrights, it shows fairness and accountability. It stops people from copying or misusing the brand, and that builds trust with both partners and customers”-P4.

“For us, IP protection is an ethical responsibility as much as a legal one. If we do not safeguard our brand, it opens the door to exploitation and misrepresentation. Strong IP governance helps keep the brand authentic and gives consumers the confidence that they are getting the real quality we promise”-P6.

5. DISCUSSIONS

Based on the findings, it was noted that expanding into international markets posed significant challenges due to local regulatory frameworks in the countries where Malaysian franchisors ventured. These regulations restricted access and imposed legal constraints, complicating the franchisors' efforts to establish their businesses abroad. The study underscored the complexity of international expansion, highlighting the substantial costs and efforts involved in navigating legal requirements, hiring legal counsel, delivering quality franchise services, and adhering to local standards. Participants strongly agreed that successful franchising and international expansion necessitated a comprehensive understanding of local laws and regulations. Furthermore, they emphasized the financial investments required to address regional legal issues, cautioning that a misstep in strategy could result in business failure. In a related study by Alon, Alpeza, and Erceg (2010) focusing on the Croatian market, franchise legal regulations were identified as a significant barrier to franchise development. These regulations were crucial in ensuring the legitimacy and transparency of franchise documentation, reinforcing stakeholders' trust in the franchise process (Bekhouche & Kahlessenane, 2018). Therefore, this study posits:

P1: The higher the costs and efforts required to comply with local legal and regulatory frameworks, the lower the likelihood of Malaysian franchisors successfully expanding into international markets.

Furthermore, the franchise industry in various international markets is governed by specific rules and regulations that Malaysian franchisors must comply with when expanding abroad. These regulations encompass competition laws, foreign trade or investment regulations, and core franchise laws concerning issues like tying arrangements, price maintenance, and exclusivity. These regulatory frameworks present significant barriers for Malaysian franchisors aiming to enter foreign markets. Despite well-planned strategies by Malaysian franchisors to expand internationally, there is no universally accepted international regulatory framework for franchising. Each country has its own distinct franchising laws, creating substantial challenges for Malaysian franchisors seeking to expand internationally. Scholars argue that franchisors facing numerous corporate ownership changes or legal challenges may experience reduced opportunities for collaboration and knowledge sharing (Husted & Michailova, 2002; Szulanski, 2000). Instances exist where inadequate legal frameworks hinder the development and proliferation of franchising systems, underscoring the importance of robust franchise laws over commercial agency laws (Alharbi, 2014). Furthermore, the study's findings underscored the significant impact of rules and regulations on the international expansion process. Thus, this study suggests:

P2: The more restrictive the regulatory frameworks across international markets, the lower the likelihood of Malaysian franchisors successfully expanding their businesses internationally.

Intellectual property is the foundation of franchising governance as it enables franchisors to license critical assets such as trademarks, trade secrets, and proprietary know-how, thereby ensuring consistency of brand identity and business models across international markets (Elsaman, 2024). By embedding clear intellectual property licensing terms and enforcement mechanisms into franchise agreements, franchisors establish legal control and operational integrity, strengthening governance structures essential for sustainable growth (Ding & Yang, 2025). Strong safeguards against misuse—such as imitation, unauthorized modifications, or misrepresentation, not only enhance consumer trust but also protect the reputational capital necessary for franchise success in diverse markets (Emerson, 2025). The integrity and sustainability of international franchising systems are further tied to the strength of intellectual property protection, as weak enforcement mechanisms often lead to counterfeiting and brand dilution, undermining long-term profitability

(Azmi, Abdullah, & Rahman, 2023). In many emerging markets, underdeveloped legal systems compel franchisors to rely heavily on contractual provisions and continuous monitoring to preserve operational consistency and brand reputation (Wu, 2022). Moreover, compliance with trademarks and copyrights across jurisdictions reduces risks of exploitation while reflecting ethical responsibility and fairness within franchisor and franchisee relationships (Elsaman, 2024). Consequently, robust IP governance functions not only as a legal safeguard but also as a strategic imperative, fostering consumer trust, enhancing market competitiveness, and legitimizing the franchise model for international business expansion (Azmi et al., 2023). Hence, this study recommends:

P3: The weaker the intellectual property protection and enforcement in international markets, the lower the likelihood of Malaysian franchisors successfully sustaining their brand identity and expanding internationally.

6. CONCLUSIONS

In brief, regulatory challenges in franchise governance present significant challenges due to complex legal compliance and operational standards. Key concerns include managing multiple regulatory frameworks across different jurisdictions, leading to enforcement gaps and compliance burdens for franchisors. Moreover, striking a balance between franchisee autonomy and franchisor control remains an ongoing challenge in ensuring operational fairness and effectiveness. An effective governance framework needs to address this complexity by establishing clear legal guidelines, standardizing operational practices and promoting transparent communication channels. This approach aims to reduce regulatory risk and promote sustainable relationships within the franchise. Furthermore, as part of governance, intellectual property (IP) protection needs to be given top priority because robust IP enforcement not only protects proprietary knowledge and trademarks but also improves brand consistency, fosters consumer trust, and increases the long-term viability of international franchise expansion.

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AUTHORS CONTRIBUTION

This study is completely conducted by researchers with their respective roles as follows:

A.A. Nurul Ashykin (Methodology, Writing Original Draft)

S. Nur Nabila Huda (Data Collection, Data Validation)

R. Mohamad Rohieszan (Conceptualization, Review and Editing)

A.A. Khairunnisa (Formal Analysis, Software)

AVAILABILITY OF DATA AND MATERIALS

The data supporting this study's findings are available on request from the corresponding author.

ETHICAL STATEMENT

Not applicable.

CONFLICT OF INTEREST

The authors declare no conflicts of interest.

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