Digital Era and Franchising Challenges in Malaysia: A Review

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Abstract. The World in moving to digital era and most of the industries and sectors are much rely on the e-tools to develop their business. Digital franchising is getting attention by franchisors and franchisees especially during the Covid-19 pandemic era. To use the available e-tools in franchise business, franchisors need to enforce rules on the mechanism the franchisees use these tools so that both parties can cooperate to transfer into the digital space area. The paper is aims to discuss the digital environment in the modern global and competitive economy and its influence on franchising changes. The paper discuss the various challenges of using internet business, information assurance and related ideas in franchising business in digital era. This study applies qualitative in nature. Being so, research methodologies of library research and critical analysis have been used in analysing relevant materials, data and information. Changing the traditional franchise business to digital franchise business would need to take note few issues, including revising the contents of the franchising agreements to reflect these business procedure developments.

Keywords: Business · Digital · Franchise · Malaysia

1 Introduction

Europe has started a franchise business system 100 years ago and the franchise system was subsequently developed rapidly by the United States [1]. The development of the franchise has begun to gain a foothold in Malaysia since the 1940s. The history of the franchise business in Malaysia begins with the history of the lowland livestock system, which involves efforts to cultivate land or livestock in the Malay community through the granting of certain rights [2]. The traditional face-to-face transaction may need to transform to e-commerce, e-marketing, e-banking and etc. as the World is now changing towards a digital transformation. Thus, franchise business is part of the commercial sector and this business system may take more innovative direction by applying the digital technology to expand the business without limitation to international boundary. Obviously, some franchisees are generally hesitant to embrace change as this may incur higher costs and skills.

The Corona Virus Disease 2019 ('COVID-19') pandemic is affecting the global business activities drastically and essentially impact on the retail and administration

organisations including the franchise section. On 18th March 2020, Movement Control Order ('MCO') has been imposed by the government of Malaysia in order to overcome the impact of COVID-19 to the country. However, implementation of MCO has also resulted most of the business activities has to temporary shutdown including both franchisors and franchisees had to close the doors of their stores during the MCO period. Although currently the business is allowed to operate under strict standards of procedure (SOP), but the impact of COVID-19 on the global economy as well as on the franchise industry is massively terrible. Thus, with the development of digitalisation in business world, both franchisors and franchisees may expand their business globally without subject to the impacts brought by COVID-19. However, by implementation of the e-tools in franchise business, both franchisors and franchisees will face a lot of challenges.

2 Literature Review

2.1 Franchise and Technology

Franchising offers numerous advantages to businessman and entrepreneurs that grow their business by selling the franchise locations as franchisors (Murray, 2006) [3] or to entrepreneurs starting new ventures as franchisees by using the brand, name, product and etc. from the franchisors (Shane, 2005) [4]. Disruptive technologies increase companies' productivity by increasing business value, streamlining management, and improving production processes (Gerus, 2019) [5].

According to Mrs. Hsien Naidu from Astreem Consulting Pte Ltd (2020), the World is now turning from traditional face-to-face communication to the digitalisation period. Many businesses are now focus on the web-based business and there is no more issue of hindrances of section for worldwide contest and business. In franchise business, franchisors can control his own income sources, dealing with the quality control, sped up advancement and guarantee the business congruity arranging. Technology will help the franchisors and franchisees in tracing the owners and customers trends, conduct the training to the workers, market the products to the customers and subsequently increase the sales of the products.

2.2 Franchise and Digital Era

Taking into the account of Covid-19 Pandemic situation in Malaysia and global, the Ministry of Domestic Trade and Consumer Affairs (MDTCA) Malaysia in association with the Malaysian Franchise Association (MFA) has organised the Digital Franchise International Malaysia Exhibition and Conference in 2020 and 2021. This digital exhibition and conference have obtained warm welcome from all the participants. With this opportunity, franchise business is now able to explore beyond the domestic walls and expand the business abroad. Tumanggor & Wiyanto (2021) [6], argue that technology is becoming increasingly complex and smart in the choosing of a franchise firm, especially in the current period.

3   Research Methodology

This study applies qualitative in nature. Being so, research methodologies of library research and critical analysis have been used in analysing relevant materials, and information. This study has collected relevant materials and information on franchising in digital era in Malaysia. The approach to be applied involves a content analysis of existing laws, regulations and guidelines on the legal issues and challenges of digital franchise business particularly during Covid-19 pandemic.

Data collection techniques are divided into several stages. Firstly, a structure work was held to get the overview of the study. A review of the literature has also been conducted. This study used primary data and secondary data. The primary data for this study is the statutes, regulations and rules related to digital franchise business. Secondary data of this study comprises of books, legal documents, and articles from journals and online resources.

Methods of data collection for this study is by library research. For library research, data have been collected from law library of Siti Hasmah Digital Library of Multimedia University, International Islamic University Malaysia, Universiti Kebangsaan Malaysia and Universiti Malaya. Generally, the primary legal data and secondary data have be analysed using content analysis.

4   Franchising in Digital Era

With the advance development of E-business, business exercises have changed essentially, and specific accentuation is put on the open doors given by innovation execution to foster business processes. Thus, digital transformation in franchising business isn't just about innovation, moving to work with web advertising procedures and instruments, or making portable applications but to move forward to computerised change implies conveying carefully empowered items to target markets. Combining big data from modern innovations (such as smartphones) with limited services (such as water and energy utilities) is one solution to enhance digital transformation (George, Haas & Pentland, 2014) [7].

With the enhancement in digital technology, it represents a significant force for franchising development. Gladilina (2019) [8] has done the studied and shown that several local or global factors drive transformation from traditional to digital franchising. Digital transformation could be application in franchise system management to create competitive advantage. With digital technology and business transformation, both franchisor and franchisee could be more innovative and competent in running the business and subsequently increase the productivity, be more efficiency in leadership and manpower management.

Sitnicki (2018) [9] has listed down ten criteria of differences between traditional and digital franchising, including but not limited to (1) the possibility of expanding the network; (2) speed of interaction; (3) level of managerial flexibility; (4) cost for building network; (5) financial control; (6) rate of return; (7) brand management; (8) the speed of information about new services; (9) updating the system/renewal; and (10) need for operational management. He has made the comparison between the traditional model and digital model of franchising. The results are presented in Table 1.

Table 1. Drivers to digital franchising (Source: Sitnicki, 2018)

Criteria	Traditional franchising model	Digital franchising model
The possibility of expanding the network	Limited by material resources	Global, intercontinental
Speed of interaction	Slow, limited by the distance and capabilities of communication tools	Instant, due to the complete automation of business processes, maintenance, briefing, and interaction
Level of management flexibility	Low	High
Cost for building network	Significant, permanent	Moderate
Financial control	Complicated	Automatic reporting and control of all transactions of franchisees
Rate of return	Moderate	High
Brand management	Centralized slow	Centralized dynamic
The speed of information about new services	Operational	Instant
Updating the system/Renewal	Slow, with a high probability of adaptation of individual modules and procedures, regional features	Fast and at the same time, all network partners
Need for operational management	In some instances	Absent

Thus, based on the studied done by Sitnicki, we could conclude that the digital franchising model permits acquiring additional control over franchisees to ensure the business is runs at optimum efficacy level and to reduce the financial cost and time. That's the ultimate goal for each company is looking for, which is reducing cost and obtain the optimum profit in the shortest time frame.

To move forward to digitisation franchise business, both franchisee and franchisor could adopt few digital tools. Firstly, the Internet of Things (IoT) can help with improving business processes of franchise systems and to work with digital images of the franchisee; (ii) The information of the customers could be collected and stored safely by using Big Data tool. It will be helpful in searching the information effectively and can be used for increasing advertising tools effectiveness; (iii) customers' experience and satisfaction of the digital franchise business could be increased by using artificial intelligence i.e. the online customer service could be perform at any time (Gerus, 2019) [10].

5 Legal Challenges Faced by Franchise Business in Digital Era

During the Covid-19 pandemic, many traditional businesses including franchising faces a survive-or-die issue. According to the survey done by British Franchise Association NatWest franchise survey in 2018, there were approximately 710,000 people were employed in UK franchise industry and is currently worth £17.2 billion to the UK economy. In addition, 93% of franchisees are of the view that their businesses are profitable, while 60% of franchises turn over more than £250,000 annually [11]. Although these figures look encouraging, there are many legal challenges faced by franchise business in digital era.

Generally, a franchisor would have to discover his prospective franchisees or teaching the brand's operational system to the existing franchisees physically. However, due to pandemic COVID-19, online portal and virtual franchise expo are getting popular. In Malaysia, Malaysia Digital Franchise Expo (MyDIGIFEX) is another initiative by Malaysian Franchise Association under Enhance Franchise Development Program (EFDP). MyDIGIFEX has provided many opportunities to the franchisors to promote their business and to encourage the franchisees to participate the same via digital platform. Digital platform encourages better interaction. The franchisors and franchisees are now able to meet the experts from around the world virtually.

Technology goes hand-in-hand with franchising. Because of the challenges imposed by the pandemic, mobile technology, omni-channel marketing, online purchasing are now essential key components for a business's survival. The F&B sector, for instance, should offer delivery and online ordering systems or even drive-thru lanes; or a retail franchise could use online marketplaces as a sales channel or even a delivery infrastructure; or an education franchise should take advantage of online education platforms. These tech-fuelled solutions make running a franchise more efficient and profitable.

Despite there a lot of advantages in digital franchise business, there are few challenges faced by franchisors and franchisees in running their business in this digital era.

5.1 Presenting a Consistent Online Presence

In franchise business, the franchisors required all the franchisees to abide the same standard business model. The franchisees could not promote the business at their wish without consent from the franchisors as if there is no standard business model in franchise business, it would damage to the brand and reputation of the franchises business and as the result of a non-compliant campaign.

The franchisors need to take active role in monitoring the franchise business as a whole. Brand guidelines need to be expanded to include digital advertising across all platforms, as well as how franchisees interact with consumers online.

Social media platforms are now getting more popular in running the digital business. It is nothing harmful to the franchisees to run the business via social media platforms. However, in order to protect the franchisors' business, the franchisors need to guide the franchisees to run the business in social media platforms. For example, the method to reply the online message to customers.

Subawa and Widhiasthini (2020) [12] stated that consumer hegemony in this digitalisation era is strengthened through social media, namely Facebook or Instagram.

In franchise business, the franchisors practice hegemony with franchisees until some franchisees felt they are under micromanaged by the franchisors.

5.2   Harnessing the Power of Data

Digital transformation results in the opportunity to harness the power of the internet of things. Franchisors could trace the performance of the franchisees by using cloud technology and to monitor the digital marketing activities. The challenge for franchises, especially global franchises, is the question of correct data use and management. By using the certain data of the customers, it has to follow the regulations and laws imposed by the country and for example in Malaysia, we need to abide by the Data Protection Act 2010 (Act 709) ("PDPA"). The PDPA is an Act that regulates the processing of personal data in regards to commercial transactions.

5.3   Accepting the New Franchisees

Due to digital transformation and evolution in digital era, the future franchisees or even customers alike will be interested only in those franchise systems and products that have actively embraced digital transformation. Thus, the franchisors' prospects must be attractive so that the franchisees are willing to help drive the digital transformation and take even established franchises into the digital space with passion and energy.

The power to control the franchise business is in the hand of franchisors for the certain period as per the franchise agreement. (Karmeni et al. 2018) [13]. The franchisors should encourage the new franchisees for creation and innovation of knowledge for the franchisee as part of the control application in the business. Bergfeld et al. (2020) [14] also highlighted that franchisees will be more satisfied if the entrepreneur for franchise business is independent so that they will not be interrupted by the franchisors.

5.4   Challenge in Due Diligence

Before the franchisors embark into the digitalisation, it is important to get the selection of appropriate systems to suit the respective franchise business. Firstly, make sure the franchisors' selection is based on the business need, not on cost. Some franchisors may want to reduce the cost but chose the non-related system. Second, dedicate time to reviewing processes and making changes if necessary. Third, the franchisors must make sure that all of his employees and franchisees are given time to train on the new system.

5.5   Franchise Act 1998 and Digital Era

The franchise business in Malaysia is governed by Franchise Act 1998. However, the said Act is silent about the application of digital transformation. In any event, in view of the concept of freedom to trade in business world, it is suggested that should any franchisors or franchisees who wish to run digital franchise business, their business model and plans should be governed and monitored by Malaysian Communications and Multimedia Commission. Perhaps it is the time for the government to review the current

Franchise Act and incorporated the legal provisions for digital franchise business in the said Act.

The current Franchise Act 1998 is also silent with the digital agreement. Whether the current law in Malaysia is recognising the digital franchise agreement would be a grey area too and much studies are required to venture into it.

6   Conclusion

In Malaysia, most of the industries and sectors required digital transformation, including the franchise business model. With the assistance of digital franchise model, it leads to significant changes in the approach to franchise customers, which was significantly affected by the coronavirus pandemic. Changing the traditional franchise business to digital franchise business would need to take note few issues, including revising the contents of the franchising agreements to reflect these business procedure developments. The franchising agreements will need to clarify the parties' responsibilities and roles in the new digital world. Franchising agreements will need to address different profit-sharing methods, responsibilities, and roles for collecting and processing customer data by the franchisor and the franchisee. To avoid any possible disputes, franchisor and franchisee must describe their duties and responsibilities, accurately qualify their contracts, and make exact provisions regarding digital franchise business.

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