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TECHNOLOGY ADOPTION IN FRANCHISING BUSINESS: UNDERSTANDING FACTORS AND CHALLENGES

[1]Nur Nabila Huda Sabaran, [2,*]Nurul Ashykin Abd Aziz

[1,2] Faculty of Industrial Management,
Universiti Malaysia Pahang Al-Sultan Abdullah
Lebuhraya Persiaran Tun khalil Yaakob
26300, Kuantan Pahang

Corresponding author: ashykin@umpsa.edu.my

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ABSTRACT

In today's era, franchising is a widely adopted business model used by companies to expand domestically and internationally. Undoubtedly, technology serves as the backbone for efficient management of day-to-day operations in franchise outlets. This paper aims to offer a general overview of technology integration in franchise business, providing an initial understanding. Our research involved a review of previous studies on franchising that included technological adaptation. The focus of this paper is to increase the understanding of the use of technology in franchise businesses, addressing the factors and challenges faced by franchise businesses seeking technology integration. The review method was used to explore this topic more deeply. Factors have been discussed where it explains what the purpose of the franchise business is to adopt technology and how it helps operations. In addition, challenges are also explained where they are related to what these franchise businesses are facing in maintaining the adoption of the technology they use in a competitive market. Finally, this study identifies future research directions that can be a guide for both future studies and industry players involved in franchise development.

Keywords: Franchising, Technology, Franchise Business

INTRODUCTION

Franchising is a globally recognised business method with several advantages over chain ownership (Baena et al., 2012). According to Noraini (2000), the term 'franchise' originally emerged from the French word 'franco,' conveying the concept of freedom. While the name 'franchise' has French roots, the franchise industry is believed to have originated in Europe over a century ago and subsequently spread to the United States. Significant growth in business distribution has been observed (Hoffman et al., 2003; Perry et al., 1999). Franchising, as pointed out by Shumba et al. (2017), plays a crucial role in promoting economic development by fostering employment opportunities, entrepreneurial growth, and improving living standards. Undoubtedly, the franchise functions as both a commercial and social model, profoundly impacting the economy and society, particularly in terms of job creation, economic modernization, and its emergence as a commercial and social role model (Alon et al., 2004; Naatu et al., 2019). Franchise businesses directly influence revenue, employment, and market expansion, even on an international scale (Elango, 2019). With many governments in Asian countries actively promoting it, most businesses increasingly recognize the success of the franchise model as a platform for expanding their presence in the international market (Hong Kong Trade Development Council, 2014). The franchise sector is experiencing continuous growth in Malaysia, where the government prioritizes its expansion. It is estimated that by 2020, this sector will contribute 9.4% to the country's GDP and establish itself as a franchise hub in Southeast Asia (Tyre et al., 2013). The Malaysian government has launched various initiatives to support local entrepreneurs in promoting a highly competitive franchise industry globally (Abd Aziz et al., 2020; Abd Aziz et al., 2021; Abd Aziz et al., 2022).

Furthermore, franchise businesses are popular in Malaysia, especially among young entrepreneurs aspiring to start their enterprises. Franchising, as suggested by Abdul Ghani et al. (2022), is a successful method of marketing and distribution relying on the relationship between the franchisor and the franchisee. The franchise industry undergoes growth in three primary phases and is primarily employed by service-based sectors, where independent businesses utilise a similar production process while operating under a single trademark. The Malaysian franchise market has significantly advanced, standing as one of the nation's fastest-growing industries (Hanafiah et al., 2022). Malaysian franchise businesses abroad can facilitate the international marketing of more products and services, thereby boosting national exports and enhancing the presence of Malaysian brands globally. Malaysia's total trade surged by 26% to RM1.1 trillion in the first half of 2021, marking the highest half-year value ever recorded for trade, exports, and imports.

Franchise technology refers to the application of various technological tools and solutions in the franchising industry to enhance customer experiences, increase operational performance, and promote corporate expansion. Applications falling under this category include point-of-sale (POS) systems, inventory management software, mobile apps, digital marketing strategies, and data analytics platforms (Dant et al., 2014). Siong et al. (2022) elaborate on the intimate relationship between technology and franchising. Nowadays, businesses need to leverage mobile technologies, online commerce, and omni-channel marketing to thrive. Merchants can utilise online marketplaces as sales channels and delivery infrastructure, the food and beverage industry to offer drive-thru and online ordering, and educational franchisees to take advantage of online learning settings. These technologically advanced solutions increase the profitability and effectiveness of franchise operations. Rao and Frazer (2006) claimed that while integrating internet-based technologies into franchise systems could result in significant gains in terms of revenue, profit, and communication, there is a dearth of information about the most effective ways to strategically employ these technologies. Ignorance in this area could cost online businesses money, damage their reputations, or cause them to miss opportunities. However, the full repercussions of using the internet are still unknown. Factors such as the impact of environmental and contextual constraints on internet use, industry adoption rates, inter-organizational interactions, and adoption orientation toward technology must all be considered.

Therefore, this study was conducted to gain a better understanding of how technology is applied in the franchising sector and to chart the growth of technology utilisation in Malaysian franchise businesses.

LITERATURE REVIEW

Definition of Franchising

Franchising represents a contractual arrangement distinguishing itself as a business model between the franchisor and the franchisee. According to this agreement, the franchisor grants the franchisee permission to utilise its well-known brand, operational procedures, and support systems in exchange for payments such as fees, royalties, or other financial agreements (Gupta & Majumder, 2020). Through this relationship, the franchisee operates a company under the franchisor's brand, leveraging its popularity and customer base. In return, the franchisor retains control over various aspects of business operations, including branding, marketing tactics, and product quality, to ensure consistency across all franchise units (Tatoglu et al., 2018).

Due to its higher success rate compared to independent businesses, franchising has gained popularity as a business opportunity for individuals (Lafontaine et al., 2017). A franchise agreement, outlining the rights and responsibilities of both parties and the terms of the relationship, typically serves as the legal foundation for franchising (Combs & Ketchen, 1999). This collaborative business model has expanded to various sectors, including fast food, retail, and hospitality, and continues to grow as a strategy for business expansion (Michael & Combs, 2008). To maximize their chances of success in this business model, prospective franchisees must fully comprehend the intricacies of franchising and conduct thorough due diligence.

In the commercial arrangement known as franchising, a franchisor offers a franchisee the opportunity to operate a business using the franchisor's well-established name, proven business strategy, and back-office infrastructure in exchange for fees, royalties, or other financial benefits (DePamphilis, 2019). This partnership is governed by a legally enforceable franchise agreement that specifies the terms, responsibilities, and obligations of both parties. As the franchisor expands its business and extends the reach of its brand through a network of independently owned and operated locations, the franchisee can benefit from an established brand and a tested business strategy.

Technology in Franchising

George et al. (2014) highlighted how the advanced development of e-business has fundamentally changed business activities, emphasising the role of innovative execution in assisting business processes. Consequently, embracing digital transformation implies delivering finely crafted goods to target audiences. This indicates that the digital transformation of the franchising industry involves more than just innovation, web advertising tool adoption, or the development of mobile applications. Utilities represent one approach to enhancing digital transformation, blending scarce resources like water and energy with big data from modern devices such as cellphones. The business sector has progressed significantly alongside information technology and the development of IT applications. Nowadays, entrepreneurs leverage technology for advertising and promoting their goods (Tumanggor et al., 2021).

UNDERPINNING THEORIES

Part I: Review of Theories on Franchising Study

Numerous theories have arisen from substantial academic research on franchising, aiming to describe its dynamics and the factors influencing franchise systems. One such prominent theory is the Agency Theory, which focuses on the principal-agent relationship between franchisors and franchisees. This theory posits that discrepancies in information and objectives between the two parties can lead to conflicts. While franchisees pursue independence and prosperity, franchisors aim to protect their brand and ensure consistency. Effectively managing these differing interests is pivotal for a successful franchise partnership (Dant & Gundlach, 1999).

From the perspective of agency theory (AT), a franchise is defined as the franchisee acting as an agent, engaging in activities and paying an entrance fee and royalties to the franchisor, who acts as the principal, assigning, arranging, and guiding the endeavor. The franchisee operates within the franchisor's business model for a specific duration, subject to certain constraints (Lafontaine, 1992; Pardo-del-Val et al., 2014). Another significant theory in franchising research is the Resource-Based View (RBV). This concept underscores the value of unique assets and competencies that franchisors possess. It suggests that franchisors gain a competitive advantage by providing franchisees access to valuable resources such as brand recognition, training programs, and marketing support. In turn, franchisees leverage these resources to create value and establish a sustained competitive edge in their local markets (Barney, 1991). In the franchising industry, the relationship between franchisors and franchisees is pivotal in nurturing and expanding franchise brand equity (Nyadzayo et al., 2011). Moreover, it relies on advertising strategies that generate tangible and intangible revenue directly through decision-making and transaction execution (Kang et al., 2018; Lai et al., 2015). Hussain et al. (2020) investigated a significantly positive correlation between market performance and brand equity.

Part II: Review of Theory on Technology

The Unified Theory of Acceptance and Use of Technology (UTAUT) is a technology business model emphasising technology acceptance for unification purposes. UTAUT aims to elucidate the motivations guiding users' technological and behavioral choices. Venkatesh et al. (2003) delineate UTAUT into four key components: (i) performance expectancy, (ii) expected expectancy, (iii) social influence, and (iv) facilitating conditions. Moreover, according to Venkatesh et al. (2016), UTAUT stands out as the most effective model for assessing technology acceptability. Within the UTAUT framework, six fundamental constructs exist: (i) performance expectations, (ii) effort expectancies, (iii) social influence, (iv) facilitation circumstances, (v) behavioral intention to utilise the system, and (vi) usage behavior.

Ahmad (2014) highlighted that organizations continually strive to meet the demands of their risky, uncertain, and ever-evolving business environments, leading individuals to turn to technology to satisfy their information needs. UTAUT has been extensively employed in information systems and various disciplines for over a decade, contributing significantly to research on technology adoption and usage (Venkatesh et al., 2003). Meanwhile, Jing et al. (2022) observe that the rapid advancement of technology compels businesses and other entities to embrace it for the value and productivity enhancements it consistently offers when utilised. Abd Aziz et al. (2021) state that UTAUT not only outlines the adoption of information technology and system technology but also delineates the framework for their appropriate usage.

To elucidate the main theories (Agency Theory and Resource-Based View), researchers argue that these theories have limitations in explicitly explaining how to apply technology in the franchise business. Each theory (Agency Theory and Resource-Based View) focuses on different contexts or areas within franchise studies. However, the primary theory relevant to technology in this study is UTAUT—a technology business model prioritizing technology use for unification purposes. In summary, the extensively covered idea has been employed in earlier research to elucidate technology and franchising. These theories explain distinct facets differently, yet their integration bolsters conclusions drawn from foundational study facts, strengthening the overall explanation.

METHODOLOGY

This study used the review technique as methodology. Reviewing serves as a research methodology strategy involving meticulous examination of prior studies to assess their credibility, relevance, and contribution to the field. This technique aids researchers in gaining insights into the existing body of knowledge, identifying deficiencies, and shaping the direction of their study (Patel & Patel, 2019). Typically, it involves methodically evaluating previous investigations' techniques, data gathering, analysis, and results. In the context of technology implementation in franchising, this review method would entail analysing various studies exploring technology adoption within franchise systems. Researchers would analyse multiple elements influencing technology adoption, including the dynamics of franchisor-franchisee relationships, operational efficiency effects, and market trends' impact on technology integration (Luo,2022).

Researchers investigating technology adoption in franchising would explore multiple facets. They would evaluate the study's methodology by discussing criteria like sample size, data gathering methods, and statistical analysis to ensure the findings' reliability. Additionally, they would analyse the theoretical framework used to comprehend technology adoption within the franchising context. Thoroughly assessing the findings' implications for both academic and industrial sectors is essential. Furthermore, researchers might compare this study with others in the same domain to identify commonalities, disparities, or gaps, offering guidance for future research or practical applications in technology adoption within franchising (Creswell, 2014; Creswell & Plano, 2011).

The review technique in research methodology acts as a navigational tool, guiding researchers through the vast array of current studies. It aids in understanding the strengths and weaknesses of prior research, shaping hypotheses or research inquiries, and ensuring that new studies contribute significantly to the existing knowledge base. When contemplating technology use in franchising, comprehensive evaluation remains crucial. This assessment establishes a strong foundation to guide franchise systems in effectively integrating and utilising technology to attain their objectives and achieve success (Synder, 2019).

FINDING AND DISCUSSION

The Adaption of Technology Among Franchising Business

The franchise sector in Malaysia has embraced technology to boost efficiency and competitiveness. This includes the adoption of mobile applications, online ordering systems, integration of point-of-sale (POS) systems, and the implementation of digital marketing techniques, all representing significant advancements. The use of digital marketing has become increasingly crucial in recent years for expanding the customer base. In Malaysia, franchise businesses have engaged with customers and promoted their brands through social media, search engine optimization (SEO), and online advertising. Furthermore, the integration of POS systems has enhanced the accuracy and efficiency in managing customer, inventory, and sales data. To meet the rising demand for online ordering and delivery, many franchises have also developed mobile apps and websites (Siong et al., 2022).

When implemented within a firm, relevant technology can have a positive impact. Technology and business should coexist harmoniously as an integral component of a company. Ignoring the adoption of technology can make businesses less competitive, both locally and globally. Franchise businesses are a form of marketing or distribution where the parent company typically grants permission, rights, or privileges to smaller entities or individuals to operate according to established procedures within a defined timeframe and location for the distribution of existing goods or services (Ganebnykh et al., 2018). With over 620 million users, Malaysia boasts one of the highest rates of internet penetration in the region. This data suggests that Malaysia is well-positioned to benefit from the digital transformation era (Malaysian Investment Development Authority, 2018). In 2017, the ICT sector accounted for 18.3 percent of the economy, compared to 16.4 percent just four years earlier. Franchise businesses and local industry players must now capitalize on Malaysia's current level of digital readiness. The use of technology is promoted to ensure that organizations can adopt more advanced practices over time.

Franchising gained prominence in Malaysia after the government initiated The Franchise Development Programme (FDP) in 1992. This program, administered by the Minister's Department, aimed to increase the number of franchise business owners, and promote the use of in-house products and services in franchise operations. In collaboration with FDP, the government established The Malaysian Franchise Association (MFA) in 1994 to support government programs and foster entrepreneurship through franchising. This partnership allows the government to serve as a resource hub for both current and future franchisees and franchisors. The MFA has played a crucial role in ensuring and supporting the development of franchising into a lucrative business model, particularly among immigrant entrepreneurs launching new ventures. The heavy emphasis on technology adoption is intended to prevent franchise businesses from falling behind as the world advances in a more technologically advanced direction. Initially, franchise businesses were confined to physical locations where customers had to visit in person. Technology is now employed in various aspects, including machinery, business websites, payment processing, and menu displays (Abd Aziz, 2023).
It can be concluded that franchise firms use technology extensively, which boosts productivity, simplifies workflows, and enhances customer satisfaction. Improved communication between franchisors and franchisees, data-driven decision-making, and competitiveness in an increasingly digital environment are all facilitated by it. In the franchise industry, embracing technology is essential for long-term success and expansion. Technology and franchising are closely associated since it increases the competitiveness of businesses on a local and international level. The government also frequently offers training programs, financial support, and a favorable regulatory environment as part of its efforts to empower franchisees. Authorities hope to increase the success rate of franchise enterprises, encourage entrepreneurship, and boost the economy by creating a friendly environment. These initiatives are essential for creating a robust and varied business ecosystem.

Factors Influencing the Use of Technology in Franchise Business

Franchise businesses have increasingly embraced technology to enhance their operations and maintain competitiveness. The adoption of technology in the franchise sector has been driven by various factors, with operational efficiency being paramount. In the realm of franchise enterprises, which often involve numerous locations, technology plays a pivotal role in streamlining operations. Point-of-sale (POS) systems, inventory management software, and scheduling programs are among the tools that franchisees can effectively utilise to manage daily tasks. This efficiency ensures consistency in the customer experience across all franchise outlets, leading to significant reductions in operating expenses (Kumar & Kumar, 2019). Furthermore, the integration of technology into franchise operations is motivated by two key factors: data analysis and consumer insights. Franchise businesses now have access to valuable data analysis tools that enable them to gain a deeper understanding of consumer preferences, purchasing behaviors, and market trends. By leveraging customer data, franchisees can adjust their marketing strategies, menu offerings, and services to align with evolving consumer preferences (Huang et al., 2019).

A major driver of technology adoption in the franchising sector is the aim to enhance customer engagement and satisfaction. Franchises that invest in technologies such as mobile apps, online ordering platforms, and personalized marketing tools can effectively connect with tech-savvy customers, resulting in increased customer loyalty. These technologies cater to the modern consumer's high regard for convenience and personalization (Gladilina et al., 2019). One of the factors driving technology use in the franchise business is to facilitate customer interaction with the franchise. Customers may browse items more swiftly and easily using the internet, enabling self-service rather than relying on sales personnel. Customer service is no longer limited by time, as customers can send online service requests and inquiries to the franchisor, who will respond comprehensively within a day (Lancioni et al., 2003). The internet can be used to increase speed to market, expand globally, and reduce barriers to entry, especially for small businesses seeking profitability (Rao & Frazer, 2006).

Another significant factor is increased interaction with customers. Franchises are increasingly engaging their customer base through technology. Mobile applications, loyalty programs, and online ordering systems enable customers to place orders conveniently and foster greater loyalty. Additionally, franchisees can connect with their clientele through social media and digital marketing strategies, fostering a sense of community and boosting brand awareness (Kim et al., 2019). In brief several factors, including market demands, financial concerns, scalability, and the need for operational efficiency, influence the adoption of technology in franchising enterprises. A strategic approach emphasising the alignment of technical solutions with business goals is necessary for successful integration. Understanding the demands of franchisees, along with flexibility and adaptability, are crucial for effectively utilizing technology in this fast-paced, competitive market.

Challenges In Adapting the Use of Technology for Franchise Businesses

Rao and Frazer (2006) highlighted that while integrating internet-based technologies into franchise systems could result in significant gains in terms of revenue, profit, and communication, there is a dearth of information about the most effective ways to strategically employ these technologies. This ignorance could cost many online businesses money, damage their reputations, or cause them to miss out on opportunities. The initial investment cost poses one of the challenges that franchise firms face when integrating technology into their operations. The initial expenditure required stands as a major obstacle that franchise firms encounter when utilising technology. Implementing new technology, software, or systems can be expensive; therefore, franchisees may need to allocate funds for these changes. This could prove problematic, especially for franchisees operating with modest budgets or limited resources (Weaven et al., 2016).

Data security and compliance present additional challenges as franchise operations incorporate technology, raising significant concerns regarding data security. Franchise companies handle private consumer information, financial data, and proprietary systems, making it a formidable challenge that demands ongoing attention to ensure data security and compliance with relevant laws (Huang et al., 2019). Resistance to change among franchisees emerges as one of the major obstacles to implementing technology within franchise companies, alongside franchise opposition and training issues. Franchisees may be accustomed to current procedures and thus reluctant to embrace new technology due to concerns about disruption and unfamiliarity. Consequently, technology-driven initiatives may experience slower adoption rates and diminished enthusiasm due to this resistance (Kumar & Kumar, 2019).

Compatibility and integration problems may also arise when attempting to integrate new technologies with existing systems. Common systems within franchise organisations include point-of-sale (POS) systems, inventory control, and customer relationship management (CRM) software. Achieving flawless compatibility and integration between new and old systems can pose significant technical challenges (Huang et al., 2019)**.** Franchising resistance to change, different technology literacy levels, and the requirement for standardised solutions are some of the issues that come with using technology in the franchising industry. A complete approach is needed to overcome these obstacles, one that emphasises proving concrete advantages, open communication, and efficient training programs. In the changing world of franchising, using technology is essential for maintaining competitiveness and promoting long-term growth, despite obstacles (Abd Aziz et al., 2023).

CONCLUSION

In conclusion, the adoption of technology within the franchising industry has ushered in a new era marked by enhanced productivity, connectivity, and expansion. As we've witnessed, technology has enabled franchisors and franchisees to streamline processes, enhance client interactions, and broaden their outreach. From advanced customer relationship management systems to data analytics supporting informed decision-making, technology has become an indispensable tool for both established franchisors and emerging companies seeking to enter the market. Furthermore, with ongoing technological advancements, we can anticipate the emergence of even more innovative solutions that will reshape and enhance the franchising landscape, making it a compelling area to monitor in the years ahead.

Despite the considerable benefits that technology offers, it's essential to recognise that franchising encounters challenges during its integration. Franchisees and franchisors must adapt to the evolving environment, invest in training, and remain vigilant regarding issues related to data security and privacy. Nevertheless, there's no denying that technology has had an overall positive impact on franchising, promising sustained growth, heightened levels of customer satisfaction, and a thriving future for the sector. In today's technologically advanced world, franchises are continually evolving, and those that embrace these changes and harness technology effectively will thrive in this competitive market.

The incorporation of technology into franchising enterprises is a revolutionary change that presents both many benefits and difficulties. Positively, technology makes the franchise ecosystem more robust and competitive by streamlining operations, facilitating communication, and improving consumer involvement. Nonetheless, the effective integration of technology necessitates a cautious approach to overcoming impediments, including upfront investment expenses, possible opposition from franchisees, and the requirement for uniform yet adaptable solutions that suit the heterogeneous characteristics of franchises. In an ever-changing business environment, franchisors looking to harness technology sustainably and successfully must strike the appropriate balance between creativity and practicality. Franchising businesses need to see technology as a strategic facilitator for long-term growth as well as an efficient tool. A competitive edge in the market may be ensured by adopting a forward-thinking approach, making investments in extensive training programs, and encouraging an adaptable culture. These strategies will equip both franchisors and franchisees to prosper in the dynamic junction of technology and franchising. Future studies are suggested to conduct empirical studies either using quantitative or qualitative methodology to examine further and in-depth what are the factors, challenges and practices regarding technology adoption among franchise industry players to ensure the survival and development of their business in a competitive market.

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