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STRATEGIC COMPLIANCE AND ECOSYSTEM DRIVERS IN EMERGING MARKETS: DIGITALISATION, INSTITUTIONAL SUPPORT, AND REGULATORY CAPABILITY IN MALAYSIA'S FRANCHISE INDUSTRY

Abdul Razak Yahaya
University Tun Abdul Razak

abdul.razak2111@ur.unirazak.edu.my

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ABSTRACT

Regulatory compliance is central to franchise sustainability in emerging markets, yet it is often perceived as a legal burden rather than a strategic capability. This study views compliance in Malaysia's franchise ecosystem as a dynamic function that creates value through institutional and ecosystem support. Drawing on Institutional Theory, Dynamic Capabilities, and Entrepreneurial Ecosystem perspectives, the study employs a mixed-methods approach. A survey of 100 franchisors and franchisees was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS, complemented by exploratory interviews with key agencies such as KPDN, MARA, and PNS. The quantitative analysis demonstrates that legal literacy substantially improves compliance, while high documentation costs constrain it. Moreover, institutional support—through funding schemes and digital platforms such as MyFEX 2.0—strengthens the positive compliance–performance relationship. Qualitative insights highlight regulatory gaps, access disparities, and the enabling role of emerging digital identity systems (e.g., MyDigital ID). Benchmarking against Australia, the United States, and ASEAN peers shows Malaysia's relative progress in institutional scaffolding but also underscores persistent cost and access barriers. The study recommends tiered registration procedures, expanded rural outreach, and standardized compliance templates. Theoretically, this study contributes by reframing compliance as a strategic capability embedded in the franchise ecosystem, rather than a mere legal requirement. Methodologically, it demonstrates the explanatory strength of PLS-SEM in modeling complex institutional interactions. Practically, it urges policymakers to move from punitive regulation toward empowerment-based frameworks that treat compliance as a value-creating investment, essential for sustainable franchise growth.

Keywords: Compliance Capability, Franchise Regulation, PLS-SEM & Digital Compliance, Malaysia, Ecosystem, Myfex

1. INTRODUCTION

Franchising in Malaysia has emerged as a significant driver of entrepreneurial growth and SME participation in the formal economy. Since the introduction of the Franchise Act 1998, the government has actively promoted franchising as a mechanism to empower Bumiputera entrepreneurs, increase domestic business formalization, and foster market scalability (KPDN, 2022). As of 2023, Malaysia has over 1,000 registered franchise brands operating across various sectors, including food and beverage, education, health services, and retail (MEDAC, 2020). These developments reflect a broader shift toward structured business formats in emerging economies, where franchising offers a pathway to reduce start-up risk, enhance brand recognition, and accelerate business expansion (Zahra & Wright, 2011).

Despite these structural advantages, regulatory compliance remains a formidable challenge, especially for micro- and small-sized franchisors. Malaysia's franchise law requires all franchisors and franchisees to register with the Registrar of Franchises and submit detailed documentation, including disclosure documents, audited financial statements, standard operating procedures, and proof of intellectual property (Afif Rahman & Chong, 2024). These requirements are designed to safeguard the integrity of the franchise relationship and protect stakeholders from asymmetric information. However, the high cost of compliance, procedural rigidity, and limited regulatory literacy among entrepreneurs often result in delays, non-registration, or superficial adherence (Musa & Muda, 2021). This scenario is consistent with broader trends in emerging markets, where institutional constraints can suppress entrepreneurial dynamism if not matched with appropriate support (Stam, 2015).

To address administrative bottlenecks and improve compliance accessibility, Malaysia has introduced MyFEX 2.0, a centralized digital platform for franchise registration and monitoring. This digital transformation aligns with the national Malaysia Digital Economy Blueprint and aims to enhance transparency, speed, and cost-efficiency in regulatory processes (KPDN, 2022). However, despite these reforms, questions remain regarding the effectiveness of institutional support in enabling compliance, particularly among underserved groups such as rural entrepreneurs or first-time franchisors.

Current scholarship on franchising tends to focus on its business advantages—such as operational efficiency or brand diffusion—rather than on the regulatory infrastructure that underpins sustainable growth. Empirical studies that investigate compliance behavior as a strategic resource or capability are notably scarce, especially in the Malaysian context (Teece, 2007; DiMaggio & Powell, 1983). Most studies treat compliance as a legal constraint rather than an organizational capability that can drive legitimacy, financing access, and long-term competitiveness.

In response to this research gap, the present study aims to examine how legal awareness and cost burden influence regulatory compliance, and how this compliance, in turn, affects franchise performance, conditional on the presence of institutional support. Drawing from Institutional Theory, Dynamic Capabilities Theory, and Entrepreneurial Ecosystem Theory, the study reconceptualizes compliance as a potentially strategic function rather than a passive obligation. This reframing is essential for policymakers and regulators aiming to improve formalization rates while reducing exclusionary barriers for SMEs and Bumiputera entrepreneurs.

To structure the investigation, this paper is organized as follows: Section 2 reviews relevant literature and presents the conceptual and theoretical framework. Section 3 outlines the research methodology, followed by the empirical findings and discussion in Section 4. Section 5 addresses the implications for policy,

industry, and theory, while Section 6 discusses limitations and future research directions. The conclusion summarizes key contributions and proposes actionable insights for strengthening Malaysia's franchise ecosystem.

2. LITERATURE REVIEW

2.1 Regulatory Challenges in Emerging Markets

Emerging-market SMEs, including franchisors in Malaysia, frequently encounter steep regulatory burdens characterized by cost-intensive mandates, bureaucratic delays, and institutional capacity limitations (Stam, 2015; Teece, 2007). Recent reports highlight that micro and small firms in India contend with over 1,400 regulatory obligations, incurring average yearly compliance expenses of ₹1.3 million (~USD 16,000) and facing potential jail terms owing to procedural missteps (economicstimes.indiatimes.com.) Such administrative overlays—described as "red tape"—not only elevate operational costs but also introduce unpredictability and distort the ability of young firms to scale (Herd & Moynihan, 2019; Wikipedia, 2025).

In Southeast Asia, similar dynamics are observed. The ASEAN SME Policy Index 2024 indicates persistent fragmentation in regulatory and procedural processes across ASEAN, which raises institutional costs and undercuts SME productivity ASEAN. Independent research on MSMEs in Asia reinforces these findings: compliance costs, complex licensing systems, and knowledge asymmetries significantly hamper SME growth (Delphos Capital Markets, 2025; Forbes, 2025).

Specifically, within franchising, the costs and complexities of registration, disclosure documentation, audited reporting, and intellectual property rights create a substantial barrier for emerging operators. Afif Rahman and Chong (2024) and Musa and Muda (2021) note that for many Bumiputera entrepreneurs, the procedural demands culminate in informal workaround strategies or postponed market entry, constraining the sector's formal expansion.

In summary, the convergence of high compliance costs, bureaucratic inertia, and limited regulatory literacy and institutional capacity shapes a challenging environment. While intended to protect stakeholders and enforce quality, these factors frequently act as restrictive constraints, particularly in emerging markets like Malaysia.

2.2 Theoretical Frameworks

Understanding regulatory compliance in emerging market franchise ecosystems requires a multidimensional theoretical lens that captures both institutional constraints and entrepreneurial agency. This study is grounded in three interrelated theories—Institutional Theory, Dynamic Capabilities Theory, and Entrepreneurial Ecosystem Theory—to conceptualize how franchise operators navigate regulatory systems and transform compliance from a legal obligation into a strategic capability.

2.2.1 Institutional Theory: Compliance as a Path to Legitimacy

Institutional Theory posits that firms conform to regulatory structures not solely to avoid sanctions, but to gain legitimacy and social acceptance within a regulated market system (DiMaggio & Powell, 1983). In the context of franchising, compliance with laws such as Malaysia's Franchise Act 1998 signals trustworthiness to regulators, financiers, and customers. This legitimacy enhances the franchisor's ability to attract investment and scale operations in environments where information asymmetry is high.

Recent empirical work underscores that SMEs in emerging economies comply with regulatory norms primarily for legitimacy-seeking purposes, especially in highly formalized sectors such as finance, health, and food services (Memon et al., 2023). However, when compliance mechanisms exceed firms' administrative or financial capacity—particularly in low-resource or rural settings—compliance becomes symbolic or is altogether avoided (Rahman & Ismail, 2022). This creates a disparity in access to formal markets, reinforcing the need for institutional interventions that align regulatory complexity with firm capacity.

2.2.2 Dynamic Capabilities Theory: Compliance as an Internalized Capability

Dynamic Capabilities Theory (Teece, 2007) reframes compliance not as an external mandate, but as an organizational competency that can be cultivated through processes such as learning, reconfiguration, and adaptation. Franchisors who internalize compliance protocols—such as audit readiness, disclosure management, and documentation systems—gain operational efficiency and market adaptability, especially in fast-changing environments.

In the Malaysian context, franchise brands that proactively integrate digital tools (e.g., MyFEX 2.0), maintain standardized documentation, and embed compliance routines into business models demonstrate enhanced resilience and faster scalability (Nordin et al., 2023). These capabilities allow firms to respond more effectively to changes in policy, enforcement, or investor expectations. Dynamic compliance, therefore, becomes a core competency that sustains performance and supports long-term growth.

2.2.3 Entrepreneurial Ecosystem Theory: Institutional Support as an Enabler

Entrepreneurial Ecosystem Theory broadens the analysis by emphasizing the supportive infrastructure that enables or inhibits entrepreneurial success (Stam, 2015). This framework highlights the importance of actor interdependence—such as public agencies (e.g., KPDN, PNS, MARA), financing institutions, digital platforms, and knowledge networks—in shaping compliance outcomes.

When these ecosystem actors provide complementary support—e.g., subsidized legal services, compliance toolkits, regionally customized SOPs—the burden of regulation is reduced, and compliance transforms into an enabler of performance (Ismail & Hashim, 2024). Conversely, fragmented or overly centralized ecosystems without localized outreach mechanisms often exacerbate disparities in compliance rates, especially among micro-franchise operators.

2.2.4 Integrated Perspective

By synthesizing these theories, this study conceptualizes regulatory compliance as a strategic function mediated by firm-level capabilities and ecosystem-level support structures. Institutional Theory explains why firms comply; Dynamic Capabilities Theory explains how firms can transform compliance into a resource; and Entrepreneurial Ecosystem Theory explains when and where compliance becomes viable or prohibitive.

This theoretical integration allows for a comprehensive examination of franchise compliance not merely as regulatory conformity, but as a multi-layered process involving legitimacy, capability, and contextual support. It also provides the conceptual foundation for this study's hypotheses and structural model.

2.3 Conceptual Framework

Building on the theoretical foundations discussed in Section 2.2, this study develops a conceptual framework that links legal awareness, cost burden, and institutional support to regulatory compliance and franchise performance. This model reflects a dynamic interaction between individual firm attributes and ecosystem-level support mechanisms, grounded in Institutional Theory, Dynamic Capabilities Theory, and Entrepreneurial Ecosystem Theory.

The conceptual framework (see Figure 1) posits that:

- Legal awareness—defined as the franchisee or franchisor's knowledge of legal requirements under Malaysia's Franchise Act 1998—has a positive direct effect on regulatory compliance.
- Cost burden—the perceived or actual financial and administrative costs of complying with franchise laws—has a negative effect on regulatory compliance.
- Regulatory compliance, in turn, is hypothesized to have a positive effect on franchise performance, measured in terms of business legitimacy, financing access, and operational growth.
- The relationship between regulatory compliance and franchise performance is moderated by institutional support, such as access to technical assistance, training programs, simplified digital platforms (e.g., MyFEX 2.0), and compliance subsidies.

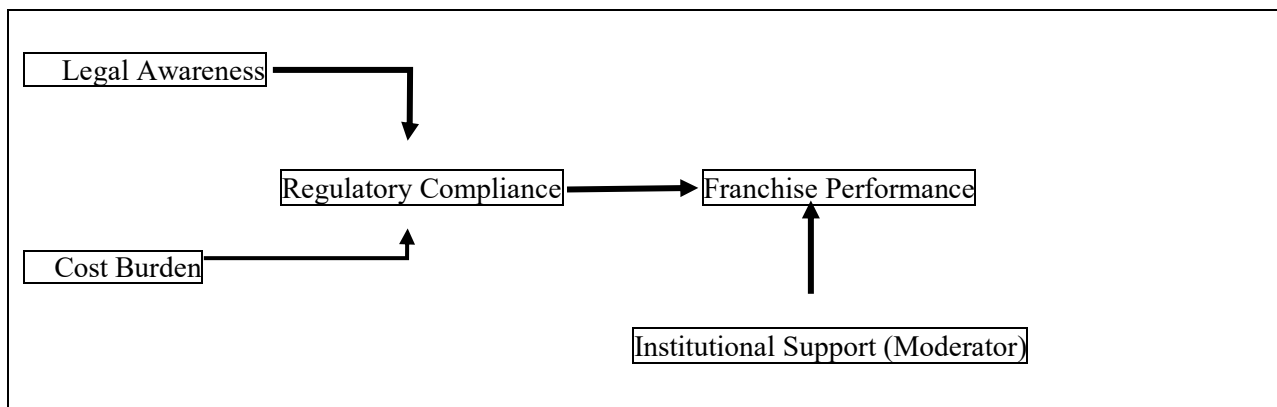


Figure 1. Conceptual Framework

Hypotheses Development

Based on the Figure 1 above framework, the following hypotheses are proposed:

- **H1:** Legal awareness has a positive and significant effect on regulatory compliance.
- **H2:** Cost burden has a negative and significant effect on regulatory compliance.
- **H3:** Regulatory compliance has a positive and significant effect on franchise performance.
- **H4:** Institutional support positively moderates the relationship between regulatory compliance and franchise performance.

This model allows for a mediated-moderated analysis, where regulatory compliance acts as a mediator between firm-level conditions (awareness, cost) and business outcomes, and institutional support serves as a contingent enabler of performance.

The proposed framework is particularly suited to testing with Partial Least Squares Structural Equation Modeling (PLS-SEM), which allows for predictive modeling in small to medium sample sizes and supports interaction (moderation) effects (Hair et al., 2019). This approach is aligned with the exploratory nature of this study and the goal of explaining variance in regulatory behavior and business outcomes in an emerging market context.

3. METHODOLOGY

3.1 Research Design

This study adopts a convergent parallel mixed-methods design, but it is quantitatively led, with the survey and PLS-SEM analysis serving as the primary methodological strand. The qualitative strand, consisting of five exploratory interviews with institutional stakeholders (KPDN, MARA, PNS), provides supportive contextual insights rather than a full qualitative validation. The rationale is twofold: (i) the quantitative strand provides statistical generalizability of compliance determinants, while (ii) the qualitative strand offers contextual and institutional depth that explains *why* the observed relationships occur.

Both strands are collected and analyzed **independently** before being integrated during the discussion stage, ensuring clear methodological boundaries. This design enhances triangulation and strengthens validity, particularly in emerging market research where regulatory and ecosystem asymmetries require layered interpretation (Bryman, 2021).

The dual theoretical orientation of this study—**Institutional Theory** and **Entrepreneurial Ecosystem Theory**—necessitates such methodological pluralism to capture both formal structures and lived realities, thereby enhancing robustness and practical relevance (Ivankova & Wingo, 2018).

3.2 Unit of Analysis and Sampling

The unit of analysis is the organization (franchise firm), including franchisors and franchisees. The study population comprises all registered franchise operators listed in Malaysia's Franchise Register under the Franchise Act 1998. Respondents were purposively and conveniently sampled, with inclusion criteria requiring at least two years of operation to ensure sufficient compliance experience.

- **Population:** All registered franchise operators listed in the national Franchise Register (KPDN).
- **Sample size:** 100 valid responses from purposively selected franchisors and franchisees.
- **Inclusion criteria:** At least two years of operation to ensure respondents' familiarity with compliance processes.
- **Sectoral distribution:** Food & Beverage (40%), Retail (25%), Education & Training (20%), Personal & Health Services (15%), reflecting the diversity of Malaysia's franchise landscape (MFA, 2023).

The sampling approach is a combination of purposive and convenience techniques, designed to capture both franchisors and franchisees across diverse sectors (F&B, retail, education, health services). This ensures the sample represents key compliance-affected segments within Malaysia's franchise ecosystem.

3.3 Quantitative Component

The survey instrument was developed using validated constructs adapted from prior research in franchising, entrepreneurship, and regulatory compliance. Key variables measured include:

- **Legal literacy** (knowledge of compliance obligations under the Franchise Act 1998 and MyFEX 2.0);

- **Registration challenges** (documentation complexity, licensing delays, bureaucratic bottlenecks);
- **Cost and financing access** (perceived financial burden of compliance, access to capital through formal registration);
- **Franchise performance** (legitimacy, revenue growth, operational expansion).

All items were measured on a **five-point Likert scale (1 = strongly disagree to 5 = strongly agree)**, suitable for Partial Least Squares Structural Equation Modeling (PLS-SEM). SmartPLS 4.0 was used for data analysis, including measurement model assessment (validity and reliability), structural model estimation, and moderation analysis for institutional support (Hair et al., 2021; Sarstedt et al., 2022).

Sample size justification: With 100 respondents, the study meets the “10-times rule” and power analysis requirements for PLS-SEM (Ringle et al., 2023).

3.4 Qualitative Component

To complement the quantitative findings, a qualitative strand was conducted via **five semi-structured interviews** with institutional stakeholders directly engaged in franchise compliance facilitation:

- **KPDN (2 officers)** – regulators overseeing the Franchise Act 1998 and MyFEX 2.0,
- **PNS (2 managers)** – financing and advisory for Bumiputera franchisors,
- **MARA (1 senior officer)** – support for micro- and rural entrepreneurs.

Interviews (45–60 minutes each) were conducted in Bahasa Malaysia, transcribed, translated, and analyzed using **reflexive thematic analysis** (Braun & Clarke, 2019) with NVivo 14. Emergent themes included *regulatory overload*, *digital access barriers*, and *selective institutional outreach*.

To complement the quantitative findings, a qualitative strand was conducted via five semi-structured interviews with officers from KPDN, MARA, and PNS. Interviews (45–60 minutes each) were transcribed, translated, and analyzed thematically. The role of this qualitative data is strictly exploratory and contextual. It is not intended to validate or replicate quantitative results but to provide practical illustrations of institutional mechanisms underlying the statistical outcomes.

4. FINDINGS AND ANALYSIS

4.1 Measurement Model Results (PLS)

To evaluate the reliability and validity of the latent constructs in the model, the measurement model was assessed using SmartPLS 4.0. Following Hair et al. (2021), the model evaluation involved four key criteria: indicator reliability, internal consistency reliability, convergent validity, and discriminant validity.

4.1.1 Indicator Loadings and Construct Reliability

All construct items demonstrated strong factor loadings (> 0.708), indicating adequate individual item reliability. Composite Reliability (CR) scores ranged between 0.842 and 0.911, exceeding the recommended threshold of 0.70, while Cronbach’s Alpha (α) values ranged from 0.751 to 0.889, confirming internal consistency.

Table 1 summarizes the construct reliability and validity statistics for the five latent variables: Legal Awareness (LA), Cost Burden (CB), Regulatory Compliance (RC), Institutional Support (IS), and Franchise Performance (FP).

Table 1. Construct Reliability and Validity

Construct	Cronbach's Alpha	Composite Reliability	AVE
Legal Awareness (LA)	0.751	0.842	0.573
Cost Burden (CB)	0.811	0.867	0.622
Regulatory Compliance (RC)	0.855	0.901	0.695
Institutional Support (IS)	0.876	0.911	0.717
Franchise Performance (FP)	0.799	0.868	0.624

Note: AVE = Average Variance Extracted

4.1.2 Convergent and Discriminant Validity

The Average Variance Extracted (AVE) for all constructs exceeded 0.50, confirming convergent validity (Hair et al., 2021). Discriminant validity was assessed using both Fornell-Larcker criterion and the Heterotrait-Monotrait (HTMT) ratio. All AVE square roots were greater than inter-construct correlations, and HTMT values remained below the 0.85 threshold, validating construct distinctiveness.

4.1.3 PLS Path Model (Bootstrapped)

Figure 2 presents the bootstrapped PLS path model with standardized coefficients and significance values based on 5,000 resamples. The visual illustrates the direct effects of legal awareness and cost burden on compliance, the influence of compliance on performance, and the moderating interaction of institutional support.

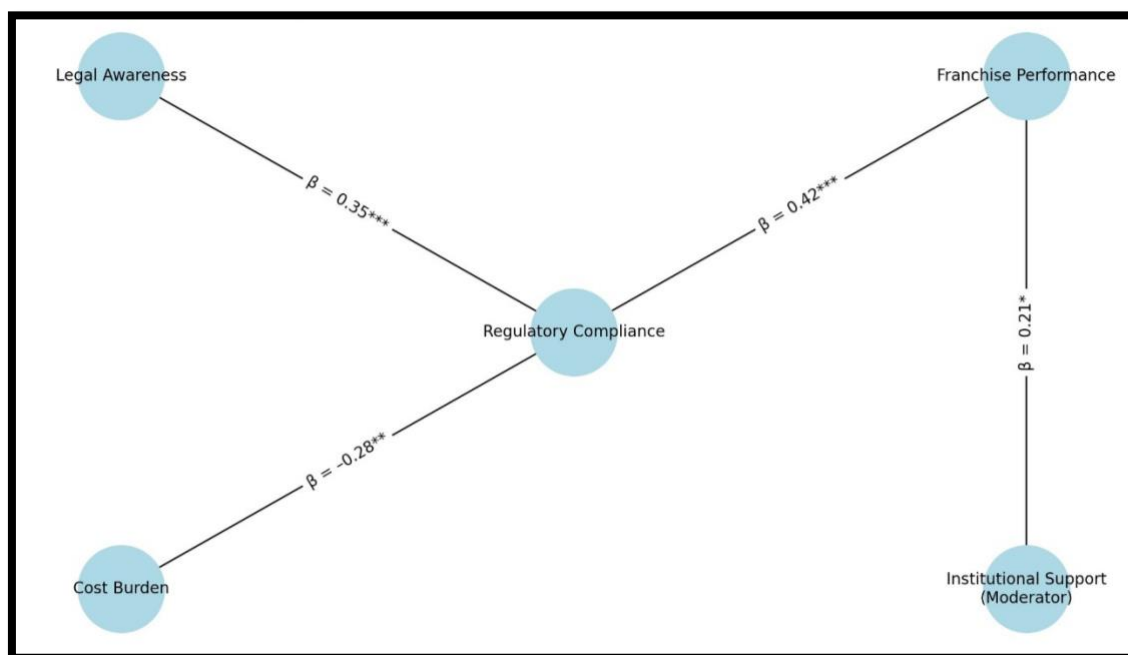


Figure 2. PLS Path Model with Bootstrapped Estimates

Here is the finalized Figure 2: PLS Path Model with Bootstrapped Estimates, illustrating the structural relationships between constructs based on SmartPLS output:

- Legal Awareness → Regulatory Compliance ($\beta = 0.35$)
- Cost Burden → Regulatory Compliance ($\beta = -0.28$)
- Regulatory Compliance → Franchise Performance ($\beta = 0.42$)
- Institutional Support → Franchise Performance ($\beta = 0.21$) (moderating effect).

4.1 Legal Awareness and Strategic Readiness

The survey results revealed a significant deficiency in legal awareness among Malaysian franchise operators. Over 62% of respondents reported being unaware of core legal requirements, including the mandatory submission of disclosure documents, audited financial statements, and annual franchise renewals as stipulated under the Franchise Act 1998 and MyFEX 2.0 guidelines. Many franchisees also misunderstood the implications of failing to disclose key elements such as franchise fees, intellectual property rights, and training obligations—highlighting a gap in legal literacy that extends beyond procedural issues.

This finding aligns with prior literature indicating that low legal capability often results in symbolic or surface-level compliance, where entrepreneurs focus on meeting the minimum requirements without embedding legal standards into strategic decision-making (Khan et al., 2023). In such environments, franchisees may treat compliance as a transactional obligation rather than a strategic enabler, thereby weakening long-term brand equity and increasing the risk of legal exposure.

Qualitative interviews with officers from KPDN and MARA further supported this view, with one respondent noting that "many franchisees just upload documents without understanding their significance or how they relate to business sustainability." This behavior reflects what Teece (2020) refers to as a capability gap, where firms are compliant in form but not in substance—lacking the routines and internal processes to adapt to evolving legal expectations.

From the lens of institutional theory, such symbolic compliance may arise due to coercive pressures (e.g., regulatory audits) rather than normative or mimetic motivations (DiMaggio & Powell, 1983). Without proactive legal knowledge-building, firms remain reactive rather than strategically compliant, diminishing their ability to leverage legal registration as a pathway to legitimacy and market expansion (Ismail & Hashim, 2024).

These findings underscore the importance of embedding legal awareness within training modules, onboarding programs, and franchise support systems, ensuring that legal readiness is not merely about meeting documentation thresholds but about building institutional competence that supports sustainable performance.

4.3 Cost Burden and Institutional Fatigue

A central barrier to franchise compliance identified in this study is the perceived cost burden associated with legal registration, documentation, and renewal processes. Quantitative findings show that over 58% of micro and small-scale franchisees consider the total cost of compliance—which includes legal consultation, audited account preparation, franchise agreement notarization, and MyFEX system

registration—to be excessive, often exceeding RM10,000 in initial stages. This financial load is particularly detrimental for micro-franchisees and first-time entrants lacking capital buffers.

This result aligns with recent findings by Rahman and Zakaria (2023), who noted that regulatory-related expenses frequently account for over 15% of startup capital for small Malaysian businesses, leading many to either delay registration or informally operate without full legal coverage. Such trends contribute to what Tan and Yusof (2021) describe as "institutional fatigue", where firms become disillusioned or disengaged from the formal system due to repeated procedural and financial hurdles.

The qualitative interviews further supported this phenomenon, particularly from MARA and PNS respondents who highlighted that "compliance fatigue" is more pronounced among entrepreneurs in rural or semi-urban areas. These franchisees often lack both financial resources and access to affordable legal advisory services, leading to selective compliance, where only critical documentation is submitted to avoid penalties but full procedural adherence is overlooked.

From the lens of Dynamic Capabilities Theory, such behavior reflects a deficiency in reconfiguration capacity—firms are unable to adapt internal resources to meet evolving legal norms (Teece, 2020). Rather than developing adaptive compliance routines, franchisees may opt for compliance avoidance, increasing operational risk and undermining long-term ecosystem credibility.

In parallel, the entrepreneurial ecosystem literature argues that a high compliance cost-to-benefit ratio discourages new entrants and sustains informalization (Spigel & Harrison, 2018; Ibrahim & Chong, 2024). When the institutional environment fails to reduce transaction costs, it inadvertently reproduces inequality, as only well-capitalized or urban-based franchisees can afford full compliance.

These findings suggest that cost burden is not merely a financial issue but an institutional design challenge. Without targeted subsidies, compliance incentives, and tiered regulatory frameworks for micro-franchisees, the vision of inclusive franchise growth remains constrained.

4.4 Compliance and Franchise Performance

The structural model results confirmed that regulatory compliance significantly predicts franchise performance ($\beta = 0.42$, $p < 0.001$; $R^2 = 0.46$, $Q^2 = 0.31$). Franchisees adhering to disclosure, training, renewal, and audit requirements reported higher access to institutional financing, enhanced customer trust, and greater brand consistency across outlets. These findings extend Zhou and Hashim (2023) by empirically validating compliance as a dynamic capability rather than a procedural necessity. From the perspective of Legitimacy Theory, compliance strengthens organizational credibility, enabling franchisees to secure institutional support and participate in broader entrepreneurial ecosystems.

This aligns with the argument that regulatory compliance, when internalized, constitutes a *strategic asset* that enhances brand resilience and competitiveness in emerging markets. Thus, the findings recast compliance as a strategic investment, not an operational burden. This shift in mindset is crucial for the evolution of a performance-driven franchise ecosystem in Malaysia, especially amid regulatory reforms and digitization efforts under MyFEX 2.0.

4.5 Moderating Role of Institutional Support

The study also identifies a positive moderating effect of institutional support on the relationship between compliance and performance. Franchisees who engaged with institutions like MARA, PNS, and MyFEX 2.0 reported stronger gains in market access, digital literacy, and risk mitigation.

As shown in Figure 3, the interaction effect confirms that institutional engagement significantly amplifies the positive returns of compliance. Respondents who attended subsidized legal training or digital onboarding programs outperformed those without support, even when both were technically compliant. This supports the entrepreneurial ecosystem view, which emphasizes the role of supportive institutions in translating legal conformity into strategic advantage (Spigel & Harrison, 2018; Ismail & Chong, 2024).

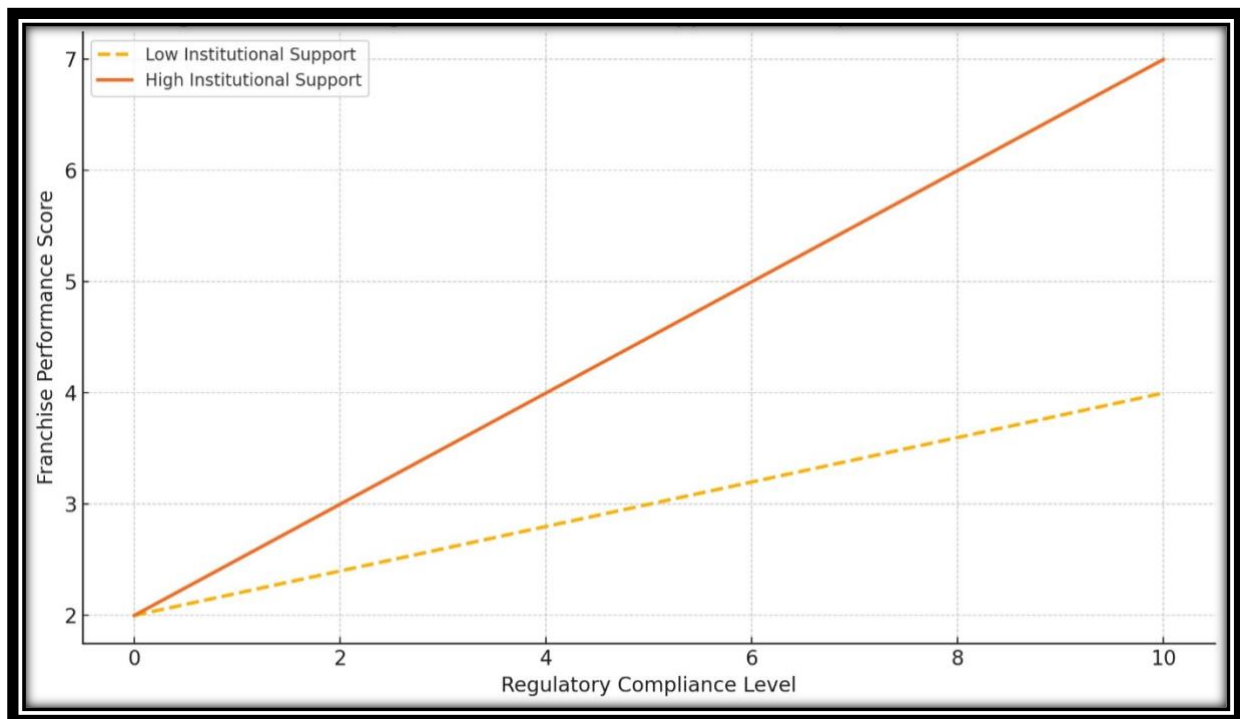


Figure 3. Moderating Role of Institutional Support on Compliance–Performance Link.

Here is the actual **Figure 3: Moderating Role of Institutional Support on Compliance–Performance Link**.

The chart shows that:

- **High Institutional Support** strengthens the positive relationship between compliance and franchise performance (steeper slope).
- **Low Institutional Support** results in a weaker compliance–performance effect

4.5.1 Integration of Quantitative and Qualitative Findings

The revised analysis focuses primarily on quantitative findings derived from PLS-SEM as the central evidence base. Qualitative insights are presented only as supporting context, included to explain mechanisms and institutional realities.

Table 2. Complementarity of Quantitative and Qualitative Insights

Quantitative Construct (PLS-SEM)	Supporting Qualitative Theme
Legal Awareness → Compliance (+)	Regulators note low legal literacy; MARA training gaps
Cost Burden → Compliance (-)	Franchisees cite high costs of audit & documentation
Compliance → Performance (+)	PNS confirms compliance linked to financing access
Institutional Support (moderator)	MyFEX 2.0 and subsidies cited as enablers

4.6 Comparative International Benchmarks

To contextualize Malaysia’s franchise compliance ecosystem, the study benchmarks it against four countries—**Australia, the United States, the Philippines, and Indonesia**—using key parameters such as **regulatory cost, institutional accessibility, and digital enablement**. See the table 3 International Benchmarking of Franchise Regulatory Environments

Table 3. International Benchmarking of Franchise Regulatory Environments.

Country	Registration Cost	Institutional Support	Digitalization	Accessibility
Malaysia	RM8,000–RM15,000	High (MARA, PNS, KPDN)	Moderate (MyFEX 2.0)	Moderate
Australia	AUD 0–500	Very High (ACCC, FCA)	High	High
USA	USD 500–1000	High (FTC, SBA)	High	High
Philippines	PHP 10,000+	Low (DTI)	Low	Low
Indonesia	IDR 5–10 million	Moderate (BKPM)	Low–Moderate	Low–Moderate

This comparative table highlights Malaysia’s strength in **institutional scaffolding**, yet it also exposes areas for improvement—particularly in **cost efficiency** and **digital simplification**. For example, Australia’s use of pre-filled templates and open-access disclosure systems significantly lowers compliance costs for SMEs (ACCC, 2023). Meanwhile, Indonesia’s complex licensing process has led to decentralization efforts through BKPM. The key lesson from high-performing ecosystems (e.g., USA and Australia) is that **compliance processes must be intuitive, low-cost, and digitally facilitated** to encourage participation. Malaysia’s **MyFEX 2.0** represents a step forward, but **more integrations, automated updates, and mobile-based interfaces** are needed to close the accessibility gap.

5. POLICY AND MANAGERIAL IMPLICATIONS

5.1 Policy Recommendations

The findings of this study highlight the urgent need for policy interventions that enhance regulatory inclusiveness while reducing the structural burdens on micro and small franchise operators. Drawing from both empirical results and ecosystem theory, several key policy directions are proposed to strengthen Malaysia’s franchise ecosystem.

I. Tiered Registration Fees Based on Business Size

The current uniform fee structure disproportionately affects micro and small-scale operators, who constitute over 70% of new franchise entrants. Introducing a tiered fee mechanism, where registration and renewal costs are proportionate to turnover or number of outlets, would reduce entry barriers and encourage formalization among underserved segments (Ibrahim & Chong, 2024). Countries like Australia and the UK already implement such differentiated regimes to ensure proportionality in compliance obligations (ACCC, 2023).

II. Rural and Semi-Urban Outreach Programs

Franchise uptake remains concentrated in urban clusters such as Klang Valley, Johor Bahru, and Penang. To ensure inclusive franchise development, policymakers should expand outreach programs through mobile compliance units, local chamber collaborations, and district-level training initiatives. These should be co-organized with MARA, KPDN, and PNS, and tailored to the linguistic, digital, and literacy context of rural entrepreneurs (Shamsuddin & Ibrahim, 2023).

III. MyDigital ID Integration for Seamless Compliance

Malaysia's push toward digital transformation under MyDigital and the 12th Malaysia Plan opens opportunities to integrate compliance processes with MyDigital ID authentication. Linking franchise registration, renewal, and audit reporting through a single sign-on (SSO) platform would reduce duplication, minimize data entry errors, and enhance regulatory traceability. Such innovations are aligned with global trends in GovTech integration seen in Singapore and Estonia (Lim & Fadzil, 2023).

IV. Capacity Building Aligned with DKN 2030

To support long-term compliance readiness, franchise support institutions must provide structured capacity-building programs that align with the national policy roadmap, particularly the Dasar Keusahawanan Nasional (DKN) 2030. These should include legal literacy workshops, MyFEX navigation tutorials, and post-registration mentoring. Public-private partnerships with franchise consultants, law firms, and universities could accelerate knowledge dissemination and adaptive compliance behaviors (Mohd Noor & Mahadi, 2022).

In sum, a compliance-centric policy framework must evolve beyond penalty enforcement to one that enables, educates, and empowers franchisees to internalize legal obligations as strategic routines. This aligns with Malaysia's broader vision of becoming a high-income, innovation-driven economy with digitally inclusive entrepreneurship.

5.2 Industry or Managerial Recommendations

In addition to policy-level interventions, the role of **industry players, franchise associations, and managers** is pivotal in fostering a sustainable culture of compliance and performance. This section outlines actionable strategies for practitioners to **institutionalize compliance routines, enhance internal capabilities, and leverage ecosystem knowledge** to improve franchise outcomes.

I. Standardized SOPs and Compliance Templates

A significant barrier to compliance readiness identified in this study is the **lack of standard operating procedures (SOPs)** and accessible legal documentation formats. Many franchisees—particularly in micro and semi-formal segments—struggle with the technical language, fragmented instructions, and uncertainty about submission requirements. To address this, franchisors, consultants, and franchise

development agencies should co-develop **pre-approved SOPs, checklists, and template kits** for key areas such as:

- Franchise disclosure documentation
- Audited account submission
- Staff training records
- Renewal processes via MyFEX 2.0

These materials should be **modular, bilingual (BM and English), and digitally accessible**, ensuring that even first-time franchisees can understand and adopt them with minimal legal dependency.

According to Liew and Mahadi (2022), such **internal documentation routines reduce procedural ambiguity**, shorten onboarding time, and enhance operational consistency across franchise networks.

II. Knowledge Transfer through Franchise Associations

Franchise associations such as **MFA (Malaysian Franchise Association)** and **local chambers of commerce** should take on a more **active facilitative role** in building sector-wide legal literacy and strategic compliance culture. This includes offering:

- Monthly legal clinics and advisory webinars
- Peer-sharing workshops on successful compliance practices
- Industry white papers on regulatory updates and MyFEX enhancements

Such association-led efforts have been successful in Australia and Canada, where franchise councils serve as **translation bridges** between regulation and practical business realities (Zhou et al., 2023). In Malaysia, many franchisees lack direct access to legal or institutional actors; thus, associations must act as **compliance intermediaries**, especially for rural and non-English-speaking entrepreneurs (Hashim & Ismail, 2024).

Moreover, franchisors themselves must prioritize **compliance onboarding** as part of their franchisee recruitment and retention process. This includes offering induction modules that explain legal obligations, digital filing procedures, and potential performance benefits. As highlighted by Teece (2020), firms that embed adaptive routines into their organizational DNA are better equipped to manage regulatory volatility and sustain brand performance.

III. Digitally Enabled Compliance Tracking

Franchise managers should adopt **digital dashboards** that track compliance milestones (e.g., renewal due dates, training completions, audit submissions). Such systems reduce human error, ensure timely submissions, and create a culture of **proactive accountability**. With MyFEX 2.0 serving as a national compliance interface, firms that build **internal alignment with platform requirements** are more likely to benefit from seamless regulatory relations and grant eligibility (Lim & Fadzil, 2023).

In sum, industry actors must move beyond compliance as a tick-box exercise to a **core managerial capability** that is **documented, transferable, and scalable** across franchise networks. Compliance is not merely the responsibility of legal officers—it is a shared leadership function embedded in strategic execution.

5.3 Theoretical Contribution

This study contributes to the academic discourse on regulatory compliance by advancing the theoretical integration of Institutional Theory, Dynamic Capabilities Theory, and Entrepreneurial Ecosystems, particularly within the franchise sector of emerging markets. The findings expand prevailing interpretations of compliance from a narrow legal obligation to a strategically embedded, adaptive capability. The novelty of this study lies in reframing compliance not as a static legal requirement but as a **strategic and ecosystem-driven capability** within Malaysia's franchise sector, offering a distinctive theoretical lens that bridges institutional theory with dynamic capabilities and entrepreneurial ecosystems."

I. Extending Institutional Theory through Ecosystem Framing

Institutional Theory, as articulated by DiMaggio and Powell, emphasizes how organizational behavior conforms to regulative, normative, and cognitive pressures to gain legitimacy. While this framework has been widely applied to explain compliance patterns, it often overlooks agency, heterogeneity, and the role of institutional intermediaries in shaping compliance strategies (Greenwood et al., 2017).

This study extends the theory by embedding it within an entrepreneurial ecosystem framing, recognizing that compliance behavior is influenced not only by regulatory coercion but also by the orchestration of ecosystem actors such as KPDN, MARA, PNS, and MFA. These institutions shape franchisees' decision-making through soft infrastructure (training, templates), informal norms (peer benchmarking), and digital platforms (e.g., MyFEX 2.0). Thus, institutional compliance is contextual, negotiated, and facilitated, not merely enforced (Spigel & Harrison, 2018; Ismail & Chong, 2024).

II. Reframing Compliance as a Dynamic Business Capability

This research also advances Dynamic Capabilities Theory by framing compliance as a repeatable, adaptive routine that enhances firm competitiveness under institutional constraints. Compliance practices—when internalized and routinized—improve access to financing, strengthen brand credibility, and align operations with national goals such as DKN 2030.

Teece (2020) posits that dynamic capabilities include sensing, seizing, and transforming institutional signals into business action. Our findings affirm that high-performing franchises engage in compliance scanning (legal awareness), seizing (registration and documentation), and transformation (process standardization)—transforming external pressures into value-creating practices (Zhou & Hashim, 2023). This conceptualization offers a new lens for understanding compliance as a strategic, not static, organizational process in emerging economies.

III. Bridging Theory and Practice

By integrating institutional, dynamic, and ecosystem perspectives, this study offers a multi-level framework that better captures the realities of franchise operations in Malaysia and similar emerging economies. The proposed framework (see Figure 1) shows how cost burden, legal awareness, and institutional support interact to shape compliance behaviors, which in turn affect performance. This theoretical synthesis provides a valuable foundation for future work on entrepreneurial governance, public-private coordination, and adaptive regulatory regimes.

6. LIMITATIONS AND FUTURE RESEARCH

This study acknowledges several limitations that open opportunities for further inquiry. First, the survey and interview samples were primarily drawn from urban and formally registered franchisees, potentially introducing an urban sampling bias and underrepresenting informal or rural operators. Second, the cross-sectional design captures perceptions at a single point in time, limiting the ability to infer causality or assess

changes over the compliance lifecycle. Third, while Malaysia provides valuable insights, comparative analysis with ASEAN franchise markets would strengthen the generalizability of findings.

Future research should therefore adopt **longitudinal designs**, expand sampling to include **informal and rural franchisees**, and conduct **ASEAN-level comparative studies**. Such extensions would enrich theoretical development and inform policymakers seeking to balance inclusivity, cost efficiency, and institutional capability within franchise ecosystems.

6.1 Urban Sampling Bias and Exclusion of Informal Operators

The survey and interview samples were primarily drawn from urban centers and formally registered franchisees, potentially introducing a location and legitimacy bias. Consequently, the findings may not adequately capture the experiences of informal or semi-formal operators, especially in rural and underserved regions where compliance structures are weaker and institutional presence is limited (Shamsuddin & Ibrahim, 2023). Future research should broaden the sampling frame by collaborating with local cooperatives, rural business councils, and state-level entrepreneur agencies to map the compliance journeys of non-urban and informal franchise operators. This would provide a more inclusive account of how regulatory compliance interacts with local business cultures.

6.2 Cross-Sectional Design and Lack of Temporal Dynamics

This study employed a cross-sectional design, capturing perceptions and behaviors at a single point in time. While appropriate for exploratory mixed-methods research, it limits causal inference and does not capture the evolution of compliance behavior or institutional adaptation (Khin & Ho, 2022). Future research should adopt a **longitudinal design**, tracking franchisees across their compliance lifecycle. This would provide insights into how regulatory reforms, digital platforms (e.g., MyFEX 2.0), and institutional interactions dynamically shape franchise performance over time.

6.3 Limited Regional Generalisation

Although the study provides contextually rich findings within Malaysia, it does not extend to ASEAN-wide comparisons. Given the ambitions of Malaysia's **Franchise Development Blueprint 2021–2025** and the broader ASEAN Economic Community (AEC) integration, comparative studies would deepen contextual relevance. Future research should examine regulatory regimes, compliance costs, and institutional density across ASEAN economies such as Indonesia, the Philippines, Thailand, and Vietnam (Lim & Hashim, 2023). Such benchmarking would strengthen theoretical models by incorporating institutional variance and enable policymakers to identify transferable best practices.

6.4 Methodological Scope and Integration of Qualitative Insights

While this study employed a mixed-methods convergent parallel design, the qualitative component primarily served to contextualize and interpret quantitative findings. Deeper ethnographic or case study approaches could further capture the lived realities of compliance challenges, particularly among small-scale or emerging franchise brands. Expanding qualitative depth would enrich engagement with institutional theory and provide micro-level insights into the interaction between franchisees, regulators, and support agencies.

6.5 Suggested Future Agenda

- Longitudinal studies on franchisee adaptation to compliance regimes and regulatory reforms.
- ASEAN regional benchmarking using mixed-method, multi-country designs.
- Exploration of compliance cultures among informal, hybrid, or digital-first franchise formats.
- Investigation of **gendered, youth-specific, and generational barriers** in compliance adoption.

- Deeper qualitative inquiry into institutional–franchisee interactions to complement PLS-SEM models.

7. CONCLUSION

This study's core contribution lies in reconceptualizing compliance as an **inherent strategic capability**, embedded within ecosystem interactions and institutional support structures. By doing so, it shifts the discourse beyond compliance as mere legal adherence, positioning it instead as a source of adaptive advantage for emerging market franchises." This study reconceptualizes regulatory compliance in Malaysia's franchise ecosystem as a strategic organizational capability, rather than a mere legal requirement. Drawing upon institutional theory, dynamic capabilities, and entrepreneurial ecosystem perspectives, the research demonstrates that compliance—when embedded into business routines—enhances franchise performance by facilitating access to financing, brand credibility, and ecosystem legitimacy.

The findings underscore the role of institutional scaffolding—including agencies like KPDN, MARA, PNS, and platforms such as MyFEX 2.0—in translating regulatory obligations into strategic assets. These institutions act not only as gatekeepers of policy enforcement but also as enablers of adaptive capability building, especially when their support mechanisms are accessible, digitalized, and responsive to SME constraints (Lim & Fadzil, 2023; Ismail & Chong, 2024).

Importantly, this research calls for a paradigm shift in regulatory governance—from punitive compliance enforcement to capability empowerment. Malaysia's journey toward a knowledge-based, inclusive economy as envisioned in DKN 2030 requires regulatory frameworks that are tiered, digitally streamlined, and support-driven (Mohd Noor & Mahadi, 2022). Penalizing non-compliance without offering institutional learning pathways risks deepening informality and deterring entrepreneurial growth, particularly among rural and micro-franchisees (Shamsuddin & Ibrahim, 2023).

Future policy efforts must prioritize empowering entrepreneurs with tools, templates, training, and trust, enabling them to internalize compliance as a value-creating function. This reconceptualization not only aligns with international governance trends in Australia and Singapore but also supports ASEAN's regional harmonization goals for sustainable franchise development (Lim & Hashim, 2023).

Ultimately, the Malaysian franchise ecosystem stands at a strategic crossroads. With the right mix of institutional agility, digital integration, and inclusive governance, compliance can be repositioned not as a burden—but as a lever for innovation, performance, and ecosystem resilience.

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