ENVIRONMENTAL UNCERTAINTY AND WORKPLACE DYNAMICS IN FRANCHISING: HOW COMPLIANCE SHAPE THE FRANCHISE EFFECTIVENESS

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Abstract: Franchising represents an important business model in Malaysia; however, increasing environmental uncertainty on recent boycott movements have created new challenges for franchise businesses. This study examines the relationship between franchise's employees and the owner of the franchise outlet (franchisee) in the Malaysian franchising industry. Despite the growing significance of these issues, limited research has explored how compliance influence workplace relationships within the franchise systems. Hence, this study addresses this gap by providing a comprehensive theoretical perspective on the role of relational factors in strengthening franchise business sustainability. Grounded in Social Exchange Theory, this study propose trust as the independent variable, while compliance as the dependent variable. In addition, the environmental uncertainty is further examined as a moderating factor that may influence these relationships especially in the context of boycott pressures in franchise industry. This conceptual study examines the relationship between franchise employees and franchisees from the employee's perspective within the Malaysian franchising industry. Therefore, this study aims to address this gap by proposing a comprehensive conceptual framework to better understand relational governance in franchising systems. Practically, this study offers valuable insights for franchisors, franchisees, and policymakers in developing trust-based and resilient workplace strategies to sustain franchise business performance in uncertain environments. In conclusion, this conceptual study advances the franchising literature that explains how compliance influence the employee-franchise relationships in franchising industry.

Keywords: Compliance, Environmental Uncertainty, Franchisee, Franchise's Employee, Trust

1. Introduction

Franchising industry has emerged as a substantial business model which contributes directly and indirectly to economic growth, job creation, job seekers, and entrepreneurship development worldwide. In Malaysia, this franchising industry continues to expand rapidly due to the extensive government policies, emerging of entrepreneurs to operate established brands through franchise systems, and increasing numbers of franchise companies (Othman et. al., 2023). Thus, this franchising model allows the businesses to expand their operations, services, and goods while maintaining standardized procedures from the franchisor, brand consistency of the outlets, and follow the right operational guidelines. Hence, it can shape franchise effectiveness through compliance procedures.

Despite its advantages, this franchise systems rely heavily on the relationship between franchisor and franchisee (Yahaya, 2025). This relationship is an important push factors to ensure that the franchise business went well. According to Halim et. al. (2024), the interaction between both parties plays a critical role in ensuring operational smooth and successful. However, the employees for every

franchise's outlet also plays an important role to ensure the business success. Most of the study will be highlighted on the franchisor and franchisee in this franchise business, but the employees as well as important to the business. Moreover, employees are responsible for executing daily operations, taking care on the service quality, and adhering to the operational standards set by both franchisor and franchises. Thus, employee compliance with organizational rules and procedures is essential for maintain the rules and integrity of the franchise business model.

In recent years, franchise businesses have been exposed to increasing the environmental uncertainty especially after the pandemic Covid-19. There were both external and internal pressures such as economic fluctuations, political developments, social movement including boycott campaigns which created an additional challenge for franchise operations. In addition, this can give impact to the employees in this franchise industry both directly and indirectly (Halim et. al., 2024). Moreover, these uncertainties can affect employee attitudes attitude and behaviours, workplace setting and relationships, and operational effectiveness (Abd Aziz et. al., 2022).

Based on this franchise setting related to environmental uncertainty, trust become the main subject in maintaining workplace stability during these unexpected conditions. Trust between employees and their franchisee are more likely to demonstrate cooperative behaviour and comply with organizational expectations. However, limited research has examined on the trust influences compliance within the franchise outlets stakeholder, particularly under conditions of environmental uncertainty. Therefore, this study aims to examine the relationship between trust and compliance within the franchisee and franchise employees which moderating by the environmental uncertainty in this industry.

1.1 *Background of the Study*

The Malaysian government actively promotes the franchise industry which it has become one of the key contributors to Malaysia's economic development. The Malaysian government has continuously supported the development of franchise businesses through policies and programs aimed at strengthening the franchising ecosystem (Yahaya, 2025). Within the franchise system, the franchisee operates the outlet based on guidelines provided by the franchisor. The business model and outlets set up also come from the franchisor and the franchisee must follow the standards. However, the employee working in franchise outlets are responsible for ensuring that operational standards and service quality are maintained (Abd Aziz et. al., 2022). This structure requires a strong relationship between employees and franchisees to ensure compliance with organizational rules and operational procedures.

The recent changes such as boycott movements and shifting consumer sentiments have created environmental uncertainties for franchise businesses. These external pressures may affect employee morale, lack of motivation, untrusted toward the franchisee, workplace relationships, and operational compliance. Consequently, understanding how trust influences compliance within the workplace becomes increasingly important for sustaining franchise effectiveness.

1.2 *Problem Statement*

The external pressure for the franchise industry such as economic fluctuations, boycott campaigns, and urgency incidents may influence employee perspective and changes of their behaviour (Yongmei, 2025). Although franchising has grown significantly in Malaysia, many franchise businesses are currently facing challenges due to environmental uncertainty. Hence, this could lead to the trust issues among franchise employees towards their franchisee. Thus, the franchisee should enhance the trust from their employees.

Next, compliance become the main issues that related with organizational rules, service standards, working practices, and operational procedures. Employees compliance becomes one of the major challenges within franchise outlets in remaining a good service especially to all outlets. Furthermore, compliance is essential in franchising because franchise outlets must maintain consistency with the franchisor's brand standards.

The previous studies focused on the relationship between franchisor-franchisee while paying less attention to the employees working at the outlets. The environmental uncertainty is not only affecting the franchisor and franchisee buat the employees as well. Furthermore, the impact of environmental uncertainty on these workplace dynamics remains underexplored. Therefore, this study attends this research gap by examining the relationship between trust and compliance while considering environmental uncertainty as a moderating factor.

1.3 *Research Objectives*

This study aims to examine workplace dynamics within franchise outlets in Malaysia. Specifically, the objectives of the study are:

1. To examine the relationship between trust and employee compliance in franchise outlets.

2. To identify the moderating role of environmental uncertainty in the relationship between trust and compliance.

1.4 *Research Questions*

The study is guided by the following research questions:

1. What is the relationship between trust and employee compliance in franchise outlets?

2. Does environmental uncertainty moderate the relationship between trust and compliance?

1.5 *Significance of the Study*

This study provides an important contribution for both academic and practical purposes in the franchise industry. Furthermore, this study offers valuable insights to the relational dynamics influence employee behaviour and organizational effectiveness. Hence, both contributions will ensure that the franchise industry continues to success. The significance of this study can be discussed from both theoretical and practical perspectives such as:

1.5.1 Theoretical Contribution

From a theoretical perspective, this study contributes to the existing literature in the fields of franchising, organizational behaviour, and workplace relationships. Although franchising research has extensively examined the relationship between franchisors and franchisees, relatively limited ttention has been given to the internal dynamics within franchise outlets, particularly the relationship between franchise employees and franchisees (Halim et. al., 2024). This study addresses this gap by focusing on the employee–franchisee relationship and examining how trust influences employee compliance within the workplace.

Furthermore, the study extends the application of Social Exchange Theory in the franchising context by emphasizing the role of relational exchanges between employees and franchisee leaders. Social Exchange Theory suggests that positive interactions between individuals create reciprocal behaviours that strengthen organizational relationships. In this study, trust is conceptualized as a key relational factor that encourages employees to reciprocate through compliance with organizational rules and operational standards.

1.5.2 Practical Contribution

The findings of this study may provide a valuable insight for both employees and franchisee with the franchising ecosystem. The franchisee who are directly responsible for their franchise outlet in term of

the standard operation and procedure. The findings suggest that trust between employees and franchisee is a key factor that can influence the compliance (Yongmei, 2025). However, it is dependent on the level of trust from the employees to the franchisee.

In addition, the existing of uncertainty environments will strengths the relationship between trust and compliance. However, if there is a lot of uncertainty happen, hence the relationship could be lost, and the employee's performance will be drop. The franchisee should consider the contribution of the employees. Thus, this study will be highlighting the perception of the employees toward the franchisee when any external urgency happen.

2. Literature Review

2.1 *Social Exchange Theory*

Social Exchange Theory (SET) explain on the theoretical foundation of understanding relationship between two parties in an organization set up (Ahmad et. al., 2023). The SET highlighted on the social interaction, which is based on reciprocal exchanges, where individuals respond to the positive treatment with positive behaviour (Blau, 1964). In the context of franchise study, the franchisee demonstrates the respect to the employees and franchisor. It is because both employees and franchisor are the stakeholder for the franchisee. Furthermore, this theory related to the concept of franchise study. The business must involve by both parties' franchisor and franchisee, and franchisee and employees. Thus, this SET helps in explaining on how trust-based relationships within franchise outlets can enhance employee compliance and contribution to the overall effectiveness and sustainability of franchise operations.

2.2 *Trust*

Trust is generally recognized as a primary component of effective workplace relationships. In organizational settings, trust refers to employees' confidence in the integrity and fairness of their leaders or supervisors (Koo & Lee, 2024). For instance, when employees trust their leaders, they are more likely to demonstrate commitment, cooperation, and compliance with organizational strategies. Furthermore, trust is a key for both employees and leader to ensure the continuous successful in organization. According to Putra et. al. (2022), the existing of trust in the relationship between employee and leaders contribute to the values for the organizational decisions are made in their best interest. Hence, trust plays a critical role at the organizational level.

2.3 *Compliance*

Compliance refers to the willingness of employees to comprehend organizational rules, procedures, and standards. In franchising systems, compliance is particularly important because franchise outlets must maintain standardized practices to protect brand consistency and service quality (Wibowo et. al, 2024). In addition, compliance becomes even more critical due to the need for uniformity across multiple outlets operating under the same brand. Thus, compliance is not just about following rules, but about aligning employee behaviour with organizational standards.

2.4 *Environmental Uncertainty*

Environmental uncertainty refers to unpredictable changes in external environments that may affect organizational operations. It arises when the organization face some difficulties without getting any forecasting future conditions including economic fluctuations and unexpected social changes (Selamat et. al., 2024). Moreover, In the franchising context, environmental uncertainty may arise from economic fluctuations, market competition, political developments, or social movements such as boycott campaigns. Thus, environmental uncertainty is an unavoidable aspect of today's dynamic business environment.

2.5 *Relationship between Trust and Compliance*

The relationship between trust and compliance is both strong and balancing in the organizational setting. Trust can be the key antecedent of compliance, meaning that when employees have confidence in their leaders, they are more likely to willingly follow organizational rules, and procedures (Sabaran et. al., 2025). In contrast, low levels of trust may lead to reluctant or minimal compliance. Employees may follow rules only to avoid sanctions and punishment, Hence, the situation maybe different based on the field and industry.

Hypothesis 1: There is a significant relationship between trust and compliance in franchisee-employee relationship.

2.6 *Environmental Uncertainty as the Moderator*

Environmental uncertainty refers to the degree to which the external environmental experience uncertainty avoidance without any control. In highly uncertain environments, organizations often face ambiguity in decision-making and reduced clarity regarding future outcomes. According to Selamat et. al. (2024), this environmental uncertainty will loosen the relationship between franchise relationship if it is uncontrolled. For instance, the franchisee could not solve the problem when it became worst. Hence, all of which can influence how employees respond to leadership and organizational expectations.

Hypothesis 2: The impact of trust on compliance is higher with lower levels of environmental uncertainty than with higher levels of environmental uncertainty.

2.7 *Conceptual Framework*

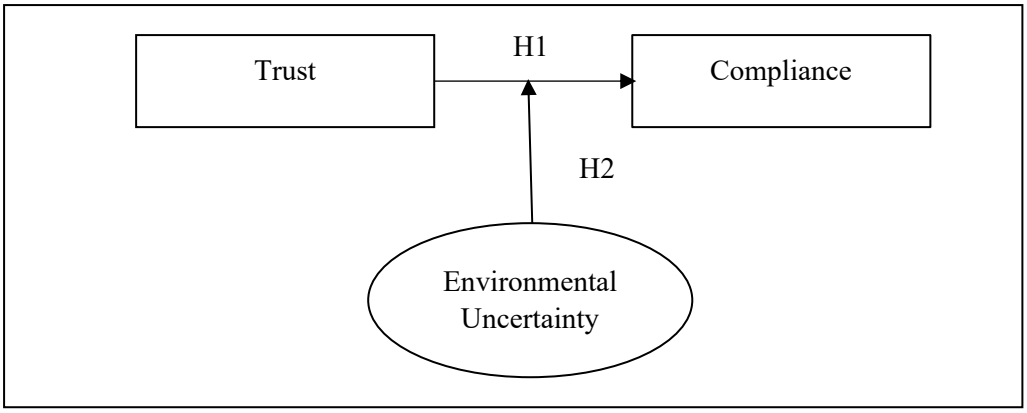


Figure 1: Conceptual Framework

3. Research Methodology

This study adopted a quantitative research design which focused on the relationship between trust, compliance, and environmental uncertainty within the franchisee and employees. This approach is considered appropriate as it allows for the systematic measurement of variables and the testing of hypothesized relationships using statistical techniques. The study is cross-sectional in nature, where data are collected at a single point in time to capture employees' perceptions of trust, their level of compliance, and the degree of environmental uncertainty experienced in their workplace. In line with a conceptual framework approach, this study propose compliance as the dependent variable, trust as an independent variable, and environmental uncertainty as the moderator. Thus, this design enables the study to examine the moderator effect of this relationship.

The population of this study consists of employees working at the franchise outlets in Malaysia which covering only for food and beverage franchise industry. This population are considered suitable

respondents as they directly involved in a daily operations and procedures by the franchisee. The sample of respondents will be selected by using a survey-based sampling approach and a set of questionnaires will be distribute to the respondents. This study aims to obtain a sufficient sample size to ensure that the sample can be generalize the population. Moreover, all measurement items will be adapted from established and validated scales from previous study. Responses will be measured using 5 Likert-scale which ranging from 1 (strongly disagree) to 5 (strongly agree). Lastly, the collected data will be analysed using a statistical software such as SPSS and/or SmartPLS. For the moderation analysis, it will involve interaction terms (in regression) or multi-group / moderation analysis (in Structural Equation Modelling SEM).

4. Results

The result is expected to have a significant positive relationship between trust and compliance from the employee's perspective. For instance, employees who have a trust on their franchisee leaders are more likely to comply with organizational rules and operational standards. Rather than complying due to external pressure or fear of sanctions, employees demonstrate voluntary and compliance, which is more sustainable and effective in the long term. Moreover, in the franchise industry, the standard procedures are essential to maintain the quality and the branding (Yahaya, 2025). In addition, existing of trust will reduce the ambiguity in the organization. Hence, trust as well will contribute to the overall organizational performance within the franchise systems.

Next, the environmental uncertainty is expected to loosen up the relationship between trust and compliance in the franchise setting outlets. By having an uncertainty avoidance, the relationship will not comply, and its relative importance may be high pronounced compared to a lower uncertain context. As the overall, the environmental uncertainty is expected to moderate the relationship between trust and compliance, strengthening the influence of trust in uncertain environments. This suggests that in franchise industry, particularly the unpredictable external conditions will lose the compliance between both parties. However, in this study highlighted the employee's perspective towards their franchisee.

5. Conclusion

In this uncertainty environments, franchising continues to play a vital role in Malaysia's business area which serve as a key driver for the economic growth. The exposure and challenges arise from the uncertainty environments will disrupt the trust of the employees towards their franchisee. The disruptions consist of economic fluctuations, social pressure, and socio-political pressures such as boycott movements. To response on this matter, this study emphasized the important of employee's trust on their franchise while all these issues arise.

Based on the Social Exchange Theory, this study proposed compliance as a key for the franchise system success. According to this theory, when employees perceive their leaders as trustworthy, they are more likely to reciprocal through positive behaviour in the organizations. Thus, they will comply with the issues if the leaders show their empathy and counter the problems. As conclusion, this reciprocal relationship highlights that compliance is not merely driven by formal authority, but also by the quality of social exchanges within the workplace.

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