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Research Article

The Impact Of Financial Resources On Business Survival: The Mediating Role Of Government Support In Malaysia

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ABSTRACT

Businesses worldwide have been severely impacted by the global crisis, plunging them into dire economic circumstances and threatening their financial stability, potentially leading to business collapse. This study aims to examine how franchisees' utilization of financial resources through government support influences their potential for survival. A survey study was conducted among 280 franchisee owners in Malaysia who successfully navigated the challenges of the pandemic. Out of these, 246 valid questionnaires were analyzed using IBM SPSS 26 and Smart PLS 4.0. The findings indicate that financial resources accessed through government support play a crucial role in enhancing franchisee survival. These results provide valuable insights for policymakers, industry stakeholders, and the franchise sector in developing strategic interventions to bolster business resilience during economic crises. Furthermore, this study contributes to franchise management literature by highlighting the significance of financial support mechanisms in sustaining homegrown franchises amid economic uncertainties.

Keywords: *Business survival, crisis, financial resources, franchisee, government support*

INTRODUCTION

Franchise is the most successful global business model of the 21st century. It entails the replication of a successful business system by the franchisor, encompassing specific routines, procedures, and processes. Franchisees, as entrepreneurs, pay fees and royalties to benefit from a proven brand, a well-established business image, and various forms of support such as knowledge sharing and managerial assistance [1]. Franchising represents a long-term relationship based on contractual agreements between franchisors and franchisees. Unlike independent businesses, franchisees operate within the framework set by the franchisor, adhering to policies, guidelines, and requirements [2]. The franchise sector holds significant economic value and plays a vital role in entrepreneurial development [3]. It serves as a key instrument for economic recovery, stimulating business development, and promoting technological advancement among small and medium enterprises [4].

Globally, the franchise sector contributes approximately $860.1 billion to the total economic output, with 805,000 establishments and 8.7 million jobs [5]. In Malaysia, the franchise industry, facilitated by the Malaysia Ministry of Domestic Trade and Consumer Affairs (MDTCA), boasts 1,197 registered franchises, providing 80,000 employment opportunities [6]. With RM35 billion in income, it ranks as

the third-largest GDP contributor and is deemed a national engine of recovery [7]. Recent crisis has brought about substantial environmental uncertainties for business operations, shown that franchisees were having survival issues [8, 12]. There were 10,875 franchised companies had permanently closed in the United States underscore the evident lack of preparedness among franchise organizations for global crises and their demonstrated low capacity and capability for business resilience, leaving them vulnerable to failure [9].

Lack of financial resources among franchisees during such times diminishes their resilience, underscoring the crucial role of government support in mitigating this impact. [10] note that a total of RM13.8 billion in subsidy schemes have been provided to all businesses, highlighting the government's efforts to alleviate financial burdens. However, studies focusing on franchisee perspectives during the current crisis remain limited [8, 13] and the determinants of franchisee survival are still unclear [9] as debates continue regarding the best strategies for franchisees to adapt and thrive amidst the crisis impact which takes more than five years to fully recovered [11]. Therefore, there is a need for further investigation to investigate the effectiveness of government support to aligned limited resources toward better franchisee business recovery and growth.

LITERATURE REVIEW

Franchising, a legal marketing concept, stands out as one of the most successful global business models that originated in the USA and has expanded to numerous industries and services worldwide since the 1950s. This method of distributing goods and services has significantly bolstered both the global and national economies, contributing to entrepreneurial development and fostering new business and employment opportunities. Since the 1950s, franchising has established itself as a popular business start-up model in Malaysia, continuing to grow and expand into global markets. The concept of organizational survival, also known as organizational resilience [14], has garnered increasing importance and interest among academics, particularly in light of the COVID-19 pandemic [15]. Discussions on franchise survival encompass various aspects, including the intention to remain within the system, sustained operations, and the ability to retain ownership and solvency.

Past research indicates that businesses with fewer resources and financial difficulties are more prone to bankruptcy during crises. Franchise survival factors usually correlated to franchise age and size, where these two indicators secure franchise resources, capabilities, experience, brand name, and resources, especially financial resources [16,17]. The magnitude of financial resource and access to fund increase chances of business survival [18] as it is the main sources to enable business operation [19] and execution of strategies to achieve sustainable competitive advantage [20], performance [21] and survival during a crisis [22].

A lack of financial resources limits a firm’s ability to develop effective and efficient strategic plans, increasing its vulnerability to external shocks [23]. Financial constraints also put franchises at risk of failure and bankruptcy [24,17]. However, this result contradicts the findings of [25], which found no impact of financial resources on business resilience in Indonesia. Therefore, prior to the crisis, firms

with financial fragility faced more severe survival challenges than those with stronger financial resources.

Financial resources are important to allow the franchisee to keep the business going through the hardships or struggles; one can invest in infrastructures, marketing, as well as innovating. These include financial resources obtained internally and externally [36], financial activities or strategies [37], and financial resources derived from within the organization [38]. Similarly, financial assets, considered internal resources of franchises, exert a substantial influence on the survival, growth, and development of franchises, as outlined in franchise literature [17]. Thus, franchise resources contribute to the increased tendency of firm growth and resilience through crises. The following hypothesis is proposed:

H1: Financial resources have a positive relationship with business survival among franchisee.

Businesses rely on governmental assistance in the form of economic instruments, policies, and support systems to aid in their recovery and survival amidst turbulent economic, political, and environmental conditions [28]. External support enhances the potential of resources and capabilities that influence a business's likelihood of survival [29,23]. Businesses can receive support to maintain their operations during a crisis in the form of government financial aid, technical assistance, and policy regulations [30,26]. Existing literature on the current pandemic crisis has demonstrated a clear and substantial correlation between government support and business success during the pandemic [31]. However, little is known about the efficacy of government support in assisting franchisee business survival [32].

Given that financial fragility contributed to the failure of SMEs during the current crisis, [39] concluded that government assistance has a positive effect on businesses that survive the crisis. By supplementing their financial resources, government support can enhance the resilience of businesses, enabling them to weather the storm and emerge stronger [41]. [26] suggest that governments can further enhance business resilience by offering subsidies, facilitating credit access, reducing regulatory burdens, stabilizing markets, and establishing social safety nets. This notion identifies government subsidy support, taxation policies, and training support that could actually lower the operations burden on firms and offer greater avenues for an efficient utilization process [44]. Therefore, it is hypothesized that,

H2: Government support mediates the relationship between financial resources and business survival ability.

Resource Scarcity Theory (RST) is employed for clarifying the market performance of a franchise, attributing its survival [33], success or failure to resource inadequacies [34] and growth [35]. Due to a crisis, the business experienced financial challenge, a decline in operations and economic activity. In turbulence, franchisee has a hard time with limited resources and huge uncertainty in implementing strategy, therefore they develop alliance capability to gain external resources which was through government support. Figure 1 illustrates the developed research model.

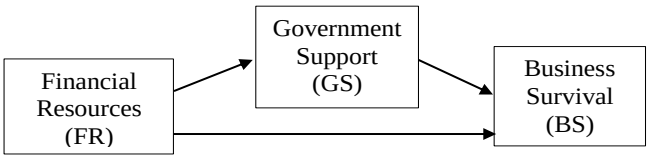

Figure 1. Research Model

METHODOLOGY

Sample and Data Collection

This study adopts a quantitative approach and conducts a cross-sectional survey among homegrown franchisees in Malaysia, employing purposive sampling. Specifically, the sample criteria dictate that franchise businesses must have been operating before the pandemic. A total of 280 questionnaires were distributed among these franchisees, resulting in 246 valid responses and an 87.9% response rate. For further insights, Table 1 presents a summary of the respondents' characteristics.

Table 1. Demographic Respondents

	Description	Percentage (%)
Years of Operation	Less than 5 years	47.2
	Between 6 to 10 years	33.3
	Between 11 to 15 years	12.6
	Between 16 to 20 years	2.4
	More than 20 years	4.5
Location by Area	City	56.9
	Town	41.5
	Rural	1.6
Number of Employees	Below 5 employees	38.6
	Between 5 to 29 employees	52.4
	Between 30 to 75 employees	5.3
	More than 75 employees	3.7

Instruments and Measures

A survey instrument was developed using well-established scales for franchisee resilience, guided by the work of [45]. Specific modifications were made to the original scales to tailor them for application in franchisee businesses, including the utilization of a seven-point scale in this questionnaire. Business survival consisting of six items was adapted from the works of [30] and [26]. The government support scale, comprising 10 items, was adapted from [41] and [46]. Additionally, financial resources (8 items) were sourced from [47] and [48]. The questionnaire underwent preliminary testing involving three academics and three franchisees to verify the comprehensibility, adequacy, and accuracy of its content and measurement scales. Items were selected based on expert rankings calculated via the Content

Validity Index (CVI) [49] with items scoring above 80% retained, those between 70-80% modified, and those below 70% deleted [50]. Subsequently, a pilot study involving 30 franchisees owners was conducted to test the validity and reliability of the measurement items. The pilot test yielded Cronbach's alpha (α) values exceeding 0.80 for all constructs, indicating reliability [45]. Further validation was conducted using Pearson Correlation analysis, revealing validity coefficients (T values) exceeding 0.21, thus confirming the validity of all items [51].

Data Screening

Data screening is crucial for enhancing the reliability and validity of collected data. In this study, the Statistical Package for the Social Sciences (SPSS) was utilized to conduct basic data screening. Initially, skewness and kurtosis values were analyzed to determine the normality of the dataset. Subsequently, outliers were detected using graphical methods such as stem-and-leaf plots, box plots, and scatter plots, leading to the elimination of 13 cases. Ultimately, a final dataset comprising 246 valid entries was utilized for conducting confirmatory factor analysis (CFA) and hypothesis testing through Smart PLS 4.0.

Common Method Variance (CMV) issues have the potential to artificially inflate or deflate correlations. Factors such as response error or bias, including response involvement, compliance, or respondent dishonesty, contribute to this common variance, leading to distorted results. CMV can result in 'spurious correlations', leading to incorrect conclusions. To assess convergent validity, the average variance extracted (AVE) from each construct is evaluated, with a recommended threshold of greater than 0.50 [52]. After removing items with loadings lower than 0.708, both the composite reliability (CR) and AVE increase. Consequently, all AVE values exceeding 0.50 meet the CMV criteria. Examination of Table 2 reveals that all constructs exhibit acceptable CMV values, indicating satisfactory convergence. Therefore, in this study, there is no issue with CMV.

FINDINGS AND DISCUSSION

Structural Equation Modeling (SEM) is employed in this study for the multivariate analysis of latent variables. The structural equation model was tested using Partial Least Squares (PLS). PLS-SEM, a variance-based SEM approach utilizing SMARTPLS 4.0, is well-suited for exploratory research and testing empirical frameworks.

Measurement Model Assessment

The measurement model and structural model are evaluated to validate the model and meet empirical work quality standards. Reflective measurement models were used for all constructs. In Table 2, all items' reliability met the standardized reflective indicator loadings of 0.708. Then, the model was then assessed for internal consistency, indicator, convergent, and discriminant validity. According to Table 2, indicator reliability has been established where only items that exceed 0.708 loadings were retained in the analysis [52]. Internal consistency of the measurement criteria was met when all constructs achieve Composite Reliability value greater than 0.70 (0.879 to 0.940) and Cronbach Alpha (CA) value

was between 0.814 to 0.928, indicating good internal reliability. Convergence validity results of Average Variance Extracted (AVE) for each construct was established, thus the constructs explained 50% of the variance of the items [53]. Therefore, all constructs meet the average variance extracted criteria for convergent explanation of more than 50% of items.

Table 2. Measurement Model

	Items	Loading	AVE	VIF	CR
Business Survival	BS3	0.871	0.787	2.422	0.917
	BS5	0.919		3.107	
	BS6	0.870		1.964	
Financial Resources	FR4	0.718	0.645	1.325	0.879
	FR6	0.822		2.03	
	FR7	0.861		2.619	
	FR8	0.805		1.943	
Government Support	GS3	0.804	0.635	2.507	0.94
	GS4	0.786		2.410	
	GS5	0.785		2.838	
	GS6	0.847		3.357	
	GS7	0.840		2.853	
	GS8	0.825		3.108	
	GS9	0.737		2.387	
	GS1	0.773		2.264	
	GS2	0.768		2.327	

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Structural Model Assessment

After successfully assessing the measurement models of the constructs, we examined the structural model for collinearity using variance inflation factor (VIF) values, which is crucial for structural model regression analysis in Common Method Variance Analysis. Table 2 indicates that the structural model exhibited low collinearity, with VIF values below five for the outer model. Similarly, the inner model displayed acceptable VIF values (below 3) for all constructs (FR -> BS=1.454, FR -> GS=1.000 & GS -> BS=1.454). Furthermore, Table 3 demonstrates that discriminant validity was achieved, as evidenced by the Heterotrait-Monotrait Ratio of Correlations (HTMT) mean value of item correlations, which were all below 0.90, indicating that the constructs were distinct from each other.

Table 3. Heterotrait-Monotrait Ratio of Correlations (HTMT)

	FR	FSA	GS
FR	1	0.34	0.594
FSA	0.34	1	0.435
GS	0.594	0.435	1

Next, the model fit indices, as suggested by Tenenhaus [in 56] were tested using the Standardized Root Mean Square Residual (SRMR). [56] recommend SRMR values below 0.08, and the model achieved an acceptable fit with an SRMR value of 0.066, which is less than 0.08. For explanatory research, the R2 value, according to Falk and Miller's rule [in 56], should be above 0.10. In this study, the R^2 value has been reached.

Hypotheses Testing

The bootstrapping procedure, with a resample of 5000, was performed to determine path estimates and t-statistics for the proposed structural paths. This analysis aimed to evaluate the direct effect of FR on BS (H1) and the mediating role of GS on the relationship between FR and BS (H2). Table 4 presents the results of the direct effect.

Table 4. Hypotheses Testing for Direct Effect

	β	t-value	p-value	R^2	f^2
FR -> BS	0.12	1.392	0.082	0.163	0.012

The findings revealed that the direct effect of financial resources (FR) on business survival (BS) was insignificant (H1: $\beta = 0.12$, $t = 1.392$, $p = 0.082$) with an explained variance of 16.3%. This is further supported by the very small effect size ($f2 = 0.012$) observed for the direct effect (FR → BS). Therefore, Hypothesis 1 was not accepted, indicating that financial resources had no significant relationship with business survival among homegrown franchisee. This highlights how franchisee face financial challenges during disruptive pandemics, which often leads to many of them being unable to sustain themselves during such periods of crisis. This finding aligns with the results of [25], who found no impact of financial resources on business resilience in Indonesia.

This can be attributed to the fact that the majority of respondents in this study are micro and small businesses engaged in franchising. Thus, it is not surprising that franchisees' ability to manage finances,

especially in investing money into the business, is limited. This limitation stems from the pandemic's impact on business outcomes, causing them to struggle to stay afloat during the economic downturn it precipitates. This is in line with the statement of [18,22] that the absence of sufficient financial resources indicates that the organization lacks the necessary funds, investments, and financial operations to face the catastrophic event.

Table 5. Hypotheses Testing for Indirect Effect

	β	t-value	p-value	R^2	f^2
FR -> GS -> BS	0.171	3.640	0.000	0.271	0.35

Table 5 presents the results of the indirect effect. Hypothesis 2 was confirmed, indicating that government support serves as a significant mediator between financial resources and business resilience (β = 0.171, t = 3.640, p = 0.000) with an explained variance of 27.1%. The effect size further supports this, with a large value (f2= 0.350) obtained for the indirect effect. This finding is significant as it indicates that micro and small businesses, particularly those operating through franchising, can enhance their resilience and survivability with government support, especially during times of crisis such as the pandemic.

According to [53] when the indirect effect is significant but not the direct effect, it indicates indirect-only mediation (full mediation). Therefore, complete mediation or full mediation exists between financial resources and business survival, indicating that the predictor variable exerts its total influence on the mediating variable, government support. This aligns with similar outcomes reported in the literature, as demonstrated by [19] and [31], where government support was found to improve businesses' ability to navigate the crisis by enhancing their understanding of the business environment. Therefore, government support for franchisees is crucial and aids them in addressing the economic effects of the pandemic.

These research findings align with theoretical perspectives, particularly the Resource Scarcity Theory that clarifies the limited internal which enhanced through external factors, which enhance a firm’s competitiveness and lead to superior franchise outcomes [2]. According to this view, franchisees can alleviate the financial constraints they face by leveraging government financial support mechanisms such as moratoriums, tax deferments, wage subsidies, long-term financing options, and access to grants or recovery funds. Therefore, this study enhances our understanding of how government support positively mediates the impact of financial resources on franchisee business survival during the crises. Furthermore, it contributes to the literature by contextualizing the research within the framework of internal and external resources within the context of the franchise business landscape in Malaysia

CONCLUSION

The study offers a framework to explore how government support mechanisms influence the relationship between financial resources and franchisee resilience, providing valuable insights for academic research and policy formulation. The results demonstrate that financial resources, when

facilitated through government support, have a statistically significant and positive impact on franchisees' ability to navigate and overcome the challenges posed by the COVID-19 pandemic. These findings align with logical theoretical perspectives, particularly the resource-based theory, which suggests that government financial and non-financial assistance can address the financial constraints faced by franchisee businesses.

This study is limited in that it solely relies on quantitative methods for data collection, overlooking the valuable insights that could be obtained through interview analysis. Future studies could benefit from incorporating interviews to gain a more comprehensive understanding of the subject matter. By addressing this limitation, it becomes evident that further research is needed to explore additional resources and capabilities that contribute to franchisee resilience.

The study suggests future directions for franchising stakeholders, particularly franchisors, who play a crucial role in franchisee development. Additionally, it recommends that governments take action by providing access to funds, grants, and loans, as well as formulating appropriate policies to address franchisee resilience challenges during catastrophes. Aligning policy and strategy implementation with the conditions faced by franchisees is crucial. Therefore, further studies should focus on government and franchising networks to effectively address problems identified through research investigations.

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