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DOES ORIGIN MATTER?
The impact of the institutional environment of the origin country on the internationalization of franchise chains

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DOES ORIGIN MATTER?

The impact of the institutional environment of the origin country on the internationalization of franchise chains

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ABSTRACT

Purpose: The purpose of this research is to identify the impacts of the country of origin of a franchise chain on its commitment in the destination countries, verifying institutional particularities between the chains from emerging and developed countries.

Methodology: The research is descriptive and quantitative, and involved 724 franchise chains from ten countries of origin (Brazil, Russia, India, South Africa, Argentina, United States, Germany, Australia, Spain and Portugal), spread over 174 destination countries, totaling 3513 cases.

Findings: The results indicate that institutional preferences do not vary according to the country of origin, but rather according to the destination country.

Research implications: The article contributes to institutional theory by identifying a set of characteristics that explains the selection of international markets and the commitment of franchise chains.

Practical implications: The results obtained can help managers of franchise chains to make decisions related to the selection of destination countries for international expansion based on the institutional characteristics of the markets and their compatibility with the objectives of the franchise chains.

Originality/value: Companies in emerging countries internationalize according to different management logics from those of companies from developed countries. Thus, it is possible that the process of selecting countries for internationalization is also based on different criteria, reflecting different institutional preferences. The thesis defended in the article is that market potential is more important to franchisees from emerging markets while contract enforcement is more important to franchisees from developed markets.

Keywords: Franchise chains; Internationalization; Emerging markets; Country of origin; Institutional theory; Institutional environment.

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1 INTRODUCTION

The present article is dedicated to investigating the conditions of countries of origin and their impacts on international franchise chains. The international market selection will be explored from the institutional theory perspective (Dunning and Lundan, 2008; Peng, *et al.*, 2008; Rocha and Ávila, 2015; Zoogah *et al.*, 2015). Companies in emerging countries internationalize according to different backgrounds and management logics from those of companies from developed countries (Cuervo-cazurra and Genc, 2008; Hoskisson *et al.*, 2013). Thus, it is possible that the process of selecting destination countries for internationalization is also based on different criteria that reflect different institutional preferences. Therefore, the purpose of this research is to investigate the impacts of the origin of a franchise chain on the chain's commitment in the destination countries of internationalization, identifying the differences between the institutional preferences of franchise chains from emerging countries and franchise chains from developed countries.

Two institutional dimensions are essential for attracting international investment from franchise chains: (1) Laws and regulations; and (2) Market potential (Aliouche and Schlentrich, 2011; Alon, 2006; Baena, 2013; Shane, 1996). These are considerations made in order to reduce risks and increase opportunities for expansion in the relationship with the franchisee and the consumer public. The legal requirements stem from the legal nature of the franchise chain system based on the franchise agreement, which must be honored so that the most valuable intangible assets of the franchise chains such as patents and trademarks, are protected and cannot be misused by opportunist franchisees (Alon, 2006; Melo *et al.*, 2019). On the other hand, market potential signals the capacity of the franchise chain to expand through the presence of public consumers (Alon, 2006; Campa and Guillen, 1999).

We argue that franchisees from emerging markets have a different focus compared to those from developed markets with regards to destination countries (Cuervo-cazurra and Genc, 2008; Hoskisson *et al.*, 2013). Specifically, we argue that the market potential is more important to franchisees from emerging markets because once they are already used to precarious judicial systems in their country of origin, they are expected to start operations in foreign countries as the potential and attractiveness of the foreign market increases in relation to those in domestic market (Alon, 2006; Baena and Cerviño, 2014; Campa and Guillen, 1999; Melo *et al.*, 2015); and that the effect of contract enforcement

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is more important to franchisees from developed markets because they face difficulties in internationalizing to countries with precarious judicial systems since they are not used to these conditions, which increases they perception of risk (Cuervo-cazurra and Genc, 2008; Cuervo-Cazurra *et al.*, 2015; Hoffman *et al.*, 2008).

We investigated the internationalization decisions of franchise chains from ten countries: five developed countries and five emerging countries, in a total number of 724 franchisee chains and 174 destination countries. The results of this research contribute to studies on internationalization of franchise chains by identifying specific impacts of the country of origin and the institutions of destination countries on the attraction of franchise chains; it thus complements studies on the macro perspective through the use of institutional theory (Aliouche and Schlentrich, 2011; Baena, 2015; Dant and Grünhagen, 2014; Dant *et al.*, 2011; Hoffman *et al.*, 2016; Melo *et al.*, 2019, 2015).

2 LITERATURE REVIEW

2.1. Transaction Costs Theory

Formal governance mechanisms between franchisors and franchisees occur through the execution of contracts. The contracts reduce risks arising from the signed franchise and the control of operating costs, avoiding opportunistic deviations in these transactions. Such exchanges involve the transfer of knowledge and the use of brands from the franchisor. In this way, contracts with longer durations can be beneficial because they allow more time to build value in the face of such operational elements (Gorovaia & Windsperger, 2018; Vargo & Lusch, 2016).

The transaction costs theory (TCT) applies to franchise chains as it is dedicated to understanding the relevance of contracts. The contractual instrument can be approached as a rational organization of the franchise chain, generating greater control of its operations (Gorovaia & Windsperger, 2018; Williamson, 1985; Argyres & Mayer, 2007).

According to TCT, the definition of the duration of the contract and its level of detail will depend on transaction values and the level of uncertainty involved in the relationship between the parties involved. TCT has particularly been in used extensively in several studies on franchise chains (Gorovaia & Windsperger, 2018; Argyres & Bercovitz, 2015; García-Herrera & Llorca-Vivero, 2010; Lafontaine & Blair, 2009). In general, these studies confirm the assumption that investments risk control during the set-

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up of a franchise unit (equipment, marketing actions and franchise fees) can be reduced through longer-term contracts. However, the environment of institutional uncertainty tends to force the establishment of shorter-term contracts (Gorovaia & Windsperger, 2018; Garcia-Herrera & Llorca-Vivero, 2010; Brickley, Misra, & Van Horn, et al., 2006).

TCT has also contributed to the identification of the importance of informal ties in the relationship between franchisors and franchisees. Building trust in these relationships can mitigate the need to execute contracts as there is a reduction in risk due to the opportunity actions between the parties; this trust facilitates knowledge sharing, increasing network learning (Thorgren & Wincent, 2011; Cao & Lumineau, 2015).

2.2. Property Rights Theory

Studies on franchise chains frequently explore the theme of property rights. According to the property rights theory, the allocation of residual rights will depend on the contractual coverage capacity of related assets in the franchise chains. From the franchisees' perspective, intangible assets include local know-how, customer relations, quality control of the franchise, and management of the franchise's operational human resources. On the other hand, the franchisor has as intangible assets, the know-how of the business model, including its brands and products (Hussain & Windsperger, 2013; Baker, Gibbons & Murphy, 2008 Brynjolfsson, 1994; Hall, 1993). Therefore, the degree of tangibility of the assets is crucial in determining the residual control rights. The theory of property rights is thus understood to be dedicated to understanding the allocation of property and consequently, decision rights in a relationship involving delegation of powers, in which the franchisor grants franchisees the use of its brand and know-how (Hussain & Windsperger, 2013; Baker, Gibbons & Murphy, 2008).

The division between strategic and operational decisions serves as a guide for defining contractual parameters. It is up to the franchisor who is in possession of strategic decisions, to define the operational actions that may be delegated to franchisees; for example, local adjustments to the marketing mix, training and recruitment of employees at points of sale could be some of the delegated activities (Mumdziev & Windsperger, 2011; Windsperger, 2004).

In situations where there is greater dependence on the franchisee's knowledge of local markets, there is a debate on the structure of decision rights considering the degree of formality and contract details. It is recognized that a greater degree of freedom reduces

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contractual details, allowing for greater exploitation of local markets. Thus, the discussion revolves around which decision rights can be delegated to intangible assets in specific situations in the relationship between franchisor and franchisees (Mumdziev & Windsperger, 2011).

Property rights theory can be debated alongside transactions costs theory. This is because according to property rights theory, the degree of know-how associated with the franchisee is relevant for the franchisor to determine their choice of ownership (Windsperger & Dant, 2006), while transaction costs influence the choice of ownership, especially when it involves assets that are difficult to contractually secure (Williamson, 1985).

2.3. Institutional Theory

According to North (1990, 1991), institutions provide the societal rules of the game, which are defined as the limits conceived by man to structure political, economic, and social interaction. In establishing and administering the rules of the game, the country's institutions play an important role in organizational behaviors, as they can reduce transaction costs and uncertainty by establishing a stable institutional structure (Buckley *et al.*, 2012; Hoskisson *et al.*, 2000; Meyer, 2001; North, 1990, 1991). Thus, the rules of the game can influence strategies and the way companies enter foreign markets; the rules can create barriers and reduce foreign investments in a country; and can also grant foreign investors access to local resources and partnerships to enable them overcome barriers (Meyer *et al*., 2009; Meyer and Nguyen, 2005).

Among the various institutions in a country, the legal system is considered the most relevant for the franchise chains business (Aliouche and Schlentrich, 2011; Fladmoe-Lindquist and Jacque, 1995; Shane, 1996). The legal system is one of the most important attributes of a country's infrastructure; it includes laws, rules, regulations, and their application, and is related to the uniform or discretionary application of the rules and rules of the game (Aliouche and Schlentrich, 2011; Arslan amd Larimo, 2010; Cuervo-cazurra and Genc, 2008; Rocha and Ávila, 2015). The main variables of the legal system are (1) protection property rights; (2) consistency of judicial decisions; (3) independence of the judiciary; and (4) impartiality and integrity of the courts and judges. Property protection boosts economic growth as it reduces the likelihood of expropriation of assets by other citizens. Alternatively, the government can increase investment incentives and

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decrease spending on asset protection. Increased consistency of court decisions allows agents to anticipate contractual costs and benefits in order to make more efficient decisions, and reduce transaction costs and contract enforcement with deterrent mechanisms, including litigation and criminal prosecution. Judicial independence (which means that courts should not be subject to governmental or private influence and judges must be independent of all authority except that of the law) together with judicial impartiality and integrity significantly increase the economic benefits due to increased credibility and reduced risks and transaction costs (Fairbairn, 2016; Feld and Voigt, 2003; Fuentelsaz *et al.*, 2018; Melton and Ginsburg, 2014).

Since the franchise chain system is an organizational form based on a contractual arrangement, the legal system is especially important due to the possibility of enforcing the contract through judicial channels and the protection of property rights. The lack of such characteristics in a market discourages partnerships with local franchisees since there is no guarantee that the company's intangible assets such as trademark and patent will not be misused by opportunistic franchisees (Aliouche and Schlentrich, 2011; Rocha and Ávila, 2015). Opportunistic franchisees can take advantage of the franchise chain's notoriety by appropriating the brand's benefits without following the standards, which can cause damage to the franchisor's brand image and quality standard (Combs *et al.*, 2004; Fladmoe-Lindquist and Jacque, 1995).

On the other hand, some authors affirm that the market potential of the destination country can override the institutional costs and risks involved in international expansion (Quinn, 1998; Welch, 1989). The market size is one of the most important explanatory factors in a country's attractiveness for international expansion due to its relationship with potential future consumption, attractiveness and market growth rate (Baena, 2015; Berry *et al.*, 2010; Campa and Guillen, 1999; Melo *et al.*, 2015).

Larger markets have three associated advantages, which make them more attractive to companies: (1) greater return potential; (2) possibility of economies of scale; and (3) greater possibility of coexistence of competing companies (Aliouche and Schlentrich, 2011; Rothaermel *et al.*, 2006). Companies are expected to start operations in foreign countries as the potential and attractiveness of the foreign market increases relative to the domestic market (Campa and Guillen, 1999). In this way, companies may be willing to accept some level of uncertainty due to the institutional instability of the destination country in larger markets (Alon, 2006; Rothaermel *et al.*, 2006).

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2.4. Institutional aspects that impact the business environment

Many aspects of the institutional environment can influence the process of selecting countries for internationalization besides the size of the market and the effect of executing contracts. The purpose of this study is to explore the effects of these two factors. However, it is important that other aspects including the economy, the ease of doing business, the infrastructure, and the technology, are controlled.

The economy of the destination country can be considered one of the most important determinants of the attractiveness of a country when it comes to selecting a market for international expansion (Aliouche & Schlentrich, 2011; Baena, 2015; Melo et al., 2015). As the franchise chains sector is dominated by services or products associated with services, a viable economy and disposable income are crucial for the growth of commercial activity through franchises. High per capita income is associated with the growth of the franchise network sector because consumers can pay for services instead of performing them on their own (Baena & Cerviño, 2014; Hoffman & Preble, 2001). Contrariwise, an unstable and poorly developed economy increases transaction costs associated with entering a foreign market, increasing the risk perceived by franchisors who are less likely to expand in markets without favorable economic growth, due to possible scarcity of resources (Baena, 2013, 2015; Hoffman et al., 2016).

The ease of doing business is one of the indicators of market efficiency (Meyer et al., 2009), considering the barriers to starting a new business. Barriers consist of officially required or commonly performed procedures, as well as the time and cost to complete the procedures and the minimum capital requirement to start a business. Excessively onerous and bureaucratic procedures impose a disadvantage for formal entrepreneurs in their efforts to formalize their business as future franchisees (de Soto, 2000; Djankov et al., 2002). Likewise, excessive regulations rule out the option of entrepreneurs becoming franchisees because the environment leads them to informality.

Financial regulation and credit policies are also relevant to the ease of doing business in a country as these policies can cause difficulties in raising funds, favoring large companies. Therefore, financial regulations and credit policies affect the availability of credit for franchise chains and possible franchisees in the destination country (Hoffman and Preble, 2003; Hoffman et al., 2016; Klapper et al., 2006). When the cost of starting a new business is relatively high, transaction and agency costs also increase. Consequently,

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it is likely that franchise chains prefer to expand internationally to countries with better conditions for doing business (Alon and Welsh, 2002; Asmussen, 2009).

The infrastructure contributes to the ability to do business and the attractiveness of a country. Infrastructure refers to the tangible and intangible networks that connect institutions and facilitate transactions between them inside and outside national borders, such as communication and transport systems, among others (Hoffman et al., 2016). For the franchise chains' internationalization process, infrastructure is important because it includes the presence of qualified market research companies that provide reliable information about the consumer market, presence of local raw material suppliers that provide inputs of accepted quality, logistics networks for transporting raw materials and finished products and communication infrastructure that allows the development and maintenance of the image and value of the brand (Dumludarg, 2009; Hoffman et al., 2016; Hoskisoon et al., 2013; Melo et al., 2019). When the destination country's infrastructure is deficient, franchise chains take longer to adapt their products to the needs of local consumers and have logistic challenges, which increase information asymmetry and transaction costs (Hoffman et al., 2016; Melo et al., 2019).

Technology has been an important factor in increasing the productivity of the retail sector in the past two decades (Andonova, 2006; Lafontaine, 2014). Communication technologies include radio, television, and telephone and internet, the latter being the most relevant for franchise chains in the contemporary times (Hoffman & Preble, 2001; Hoffman et al., 2016; Rothaermel et al., 2006). The internet is a dimension used to evaluate a country's level of globalization, as it facilitates communication across borders and contributes to the interdependence between institutions and citizens. The widespread use of the internet is positively associated with economic growth, increased exports, increased brand communication and brand recognition (Hoffman et al., 2016).

Communications technology is associated with the ability of franchise chains to create market value and increase their market penetration. The internet specifically assists franchisors in managing the supply chain and disseminating communications from headquarters (Hoffman et al., 2016). Therefore, well-developed technological infrastructure reduces the risks perceived by the franchisor, reducing transaction costs (Andonova, 2006; Hoffman et al., 2016). However, as an organizational form, franchise chains present some challenges when it comes to the adoption, diffusion and use of technology, especially linked to the benefits and costs resulting from the use of new technologies, which are different for franchisors and franchisees (Lafontaine, 2014).

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3 HYPOTHESIS

3.1 Franchise chains from developed countries

American chains in the 1960s were the first to be involved in international expansions targeting Canada, Western Europe, and Australia due to geographic and cultural proximity and political and economic stability. Studies show that the decision to include the emerging economies such as the BRICS and Eastern Europe, whose markets had a higher level of uncertainty but less competition, only came with the saturation of the initial markets in the expansion plan (Baena and Cerviño, 2014; Dant and Grünhagen, 2014; Grünhagen *et al.*, 2012).

This behavior of the American franchise chains is in line with the idea defended by most studies: Franchise chains are attracted to developed economies with institutional similarities to their countries of origin. Franchise chains tend to opt for international markets similar to their domestic markets because these markets provide less resistance, facilitate knowledge transfer, and thus provide less risk and lower transaction costs (Dant and Grünhagen, 2014; Hoffman *et al.*, 2008).

The institutional aspect that most impacts the franchise chains business is the regulations and the effective application of laws (Aliouche and Schlentrich, 2011; Baena, 2015; Hoffman *et al.*, 2016; Melo *et al.*, 2019). This happens because the franchise chain system is based on a franchise agreement, which needs to be honored, so enforcing legal contracts and intellectual property protection laws is especially important for franchise chains as their most valuable assets such as trademarks, patents and trademarks, may be misused by opportunistic franchisees if they are not adequately protected (Aliouche and Schlentrich, 2011; Alon, 2006; Baena, 2013; Shane, 1996). Therefore, acting in an institutional environment without the guarantee of protection is a risk for franchise chains (Alon, 2006; Melo *et al.*, 2019), because dealing with obstacles or unstable legal situations can be costly and can result in problematic relationships with franchisees (Alon, 2006; Melo *et al.*, 2019).

Additionally, an unstable and unreliable legal framework is considered one of the most important factors preventing companies from making investments (Alon, 2006; Baena, 2013; Dumludag, 2009). In an inefficient legal framework, changes in the law may have no impact on the actual operations of companies, institutional uncertainties for

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foreign investors are greater and there is an increase in transaction costs due to the difficulty of establishing and executing contracts (Dumludag, 2009; Wu and Chen, 2014).

Franchise chains in developed countries are accustomed to operating in an environment with a structured independent legal system, with consistent decisions and well-defined rules of the game. They face difficulties in their internationalization in countries with poor judicial systems due to the absence of well-developed regimes of contracts and intellectual property rights, as they are not accustomed to these conditions. This increases the franchisor's perception of risk hence making him more reluctant to invest in a destination country where excessive regulations exist or where regulations may vary inaccurately (Cuervo-cazurra and Genc, 2008; Cuervo-Cazurra *et al.*, 2015). In addition, political and legal differences between countries' markets increase the costs of cross-border monitoring of activities by franchisors, which may also compromise the quality standard of the franchise chain (Hoffman *et al.*, 2008). Based on the preceding insights, the following hypothesis was constructed:

H1: The effect of contract enforcement is greater than the effect of market size on the international commitment of franchise chains from developed countries.

3.2 Franchise chains from emerging countries

Companies from emerging countries internationalize according to a different market and management logic from that of companies from developed countries (Cuervo-cazurra and Genc, 2008; Hoskisson *et al.*, 2013). Franchising chains from emerging countries usually come from countries where there is political intervention in the economy in general, which may make regulatory rules excessive or absent; as well as political instability and poor judicial quality. As a result, they are likely to have developed skills to operate in challenging institutional environments characterized by inefficient hiring practices, poorly developed market mechanisms, poor judiciary, and unpredictable regulations (Cuervo-cazurra and Genc, 2008). Thus, franchisors from emerging countries are better prepared than franchisors from developed countries to deal with unfavorable institutional situations in destination countries. Operating in the emerging economy environment can thus become an advantage for franchisors from emerging countries, who are more willing to invest in these markets.

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Therefore, even with the franchise chain business being based on contracts, it is expected that the internationalization of franchise chains from emerging countries would not be significantly influenced by the quality of the judicial system, as they are accustomed to precarious conditions in their countries of origin. Therefore, franchise chains from emerging market economies are expected to start operations in foreign countries as the potential and attractiveness of the foreign market increases relative to the domestic market (Campa and Guillen, 1999).

The institutional theory considers the demographic aspect as one of the key dimensions in companies' internationalization decisions (Berry *et al.*, 2010; Campa and Guillen, 1999). This refers mainly to size and growth characteristics of the market, which may influence the level of competition and consumer behavior, and are related to potential future consumption, attractiveness and market growth rate (Berry *et al.*, 2010; Melo *et al.*, 2015). Market size can influence both the level of internationalization of a company in a particular country as well as the sequence of international expansions over time (Campa and Guillen, 1999). The market opportunities provided by foreign countries are key incentives for internationalization, and market size is considered the decisive argument in the final choice to enter a specific international market (Alon, 2006; Baena and Cerviño, 2014). Thus, the following hypothesis was formulated:

H2: The effect of market size is greater than the effect of contract enforcement on the international commitment of franchise chains from emerging countries.

4 METHODOLOGY

The research was quantitative. The sample used included franchise chains from ten countries: five developed countries and five emerging countries. The selected developed countries were the United States, Germany, Australia, Portugal, and Spain, while the emerging countries selected were Brazil, Russia, India, South Africa, and Argentina.

International franchise chains were considered to be those with at least one franchised operation abroad in the year 2017. The identification of these chains and the countries where they operated, was done by means of the collection of official secondary data published by franchise associations of the countries studied (Entrepreneur - Top Global U.S. Based Franchises; ABF - Associação Brasileira de Franchising; RFA -

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Russian Franchise Association, FAI - Franchising Association of India; FASA - Franchise Association of South Africa; AAMF - Associacion Argentina de Marcas y Fraquicias; APF - Associação Portuguesa de Franchising; AEF - Associacion Española de Franquiciadores; FCA - Franchise Council of Australia; DFV - Deutscher Franchise Verband). Table I shows the internationalized franchise chains considered as samples in the study. The dependent variable in this study was represented by the commitment of franchise chains in destination countries. In order to calculate the commitment, we used the percentage of international franchised units in a given destination country in relation to the total number of international franchised units for each franchise chain analyzed (Melo *et al.*, 2019, 2015).

--- Table I --

The data of the institutional variables came from public databases of international investment support institutions (World Bank, Heritage Foundation, World Economic Forum and Doing Business) for the year 2017. Previous research on the internationalization of franchise chains was carried out using data from these international institutions (Baena, 2012, 2013, 2015; Hoffman *et al.*, 2016; Melo *et al.*, 2019, 2015). These data correspond to the independent variables of the statistical analysis.

--- Table II --

Data from the same public databases were used to compose the control variables. These variables were chosen to represent aspects of the institutional environment that can impact the activities of companies as a whole: economic environment, ease of doing business, infrastructure, and technology.

-- Table III --

In order to reduce the number of variables, a factorial analysis was performed, which allowed the extraction of one factor according to the rotating component matrix. Table III presents the factor in the varimax method and with KMO .756 ($p < 0.001$) and total explained variance of 76.07%.

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-- Table IV --

A multiple linear regression was performed for each hypothesis; one with the franchise chains from developed countries and another with franchise chains from emerging countries. The country of destination of the franchise chains was used as a control because a series of studies indicate that companies tend to internationalize to countries that present characteristics closer to those of their countries of origin, which would reduce the risks and costs of transaction. Thus, there may be variations in the institutional conditions that impact on the international commitment of the franchise chain depending on the similarities between the country of destination and the country of origin of the franchise chain. Therefore, each analysis is divided between developed and emerging destination countries.

Hence, the analyses are divided into four groups: (1) franchise chains from developed countries operating in other developed countries; (2) franchise chains from developed countries operating in emerging countries; (3) franchise chains from emerging countries operating in developed countries; and (4) franchise chains from emerging countries operating in other emerging countries.

5 RESULTS

Tables IV and V present the multiple linear regression models that test the hypotheses. Model 1 presents the independent variables applied to group (1) - developed country of origin and developed destination country; while model 2 presents the independent variables applied to group (2) - developed origin country and emerging destination country.

-- Table V ---

The results from model 1 show that the factor contract enforcement is positively associated with greater commitment of the franchise chain in the international market ($p < 0.01$); while the market size variable is not significant in the analysis. On the other hand, model 2 shows the opposite result, market size is significantly and positively associated with greater commitment of the franchise chain ($p < 0.01$); and the factor contract

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enforcement is significantly but negatively associated with greater commitment of the franchise chain ($p < 0.05$).

This means that when franchise chains from developed countries internationalize to other developed countries, judicial quality and the possibility of requiring contracts to be legally fulfilled is an important factor in the institutional framework of the destination country, and the greater the facility of execution of contracts the greater the commitment of the franchise chain. Contrarily, when franchise chains from developed countries internationalize to emerging countries, the importance of market size prevails, and franchise chains are willing to sacrifice contract enforcement to operate in a larger market, so the greater the market in the emerging destination country, the greater the commitment of the franchise chain.

Regarding the control variables, in model 1, GPD ($p < 0.05$), infrastructure and technology level ($p < 0.01$) negatively impact the commitment of the franchise chain. This is an indication that the priority of franchise chains is to operate in an environment with legal efficiency, regardless of the country's other institutional conditions. In model 2, the only significant control variable was the level of technology, which positively impacts the commitment of the franchise chain.

Model 3 presents the independent variables applied to group (3) - emerging country of origin and developed destination country, while model 4 presents the independent variables applied to the group (4) - emerging country of origin and emerging destination country.

--- Table VI ---

The results from model 3 show that the contract enforcement factor is positively associated with greater commitment of the franchise chain in the international market ($p < 0.01$), while the market size variable is not significant in the analysis. On the other hand, model 4 shows the opposite result, where market size is positively associated with greater commitment of the franchise chain ($p < 0.01$), while the contract enforcement factor is not significant.

This implies that when franchise chains from emerging countries internationalize to developed countries, the ease of executing contracts through judicial channels is important in the institutional framework of the destination country, and the greater the ease of execution of contracts, the greater the commitment of the franchise chain. The

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market size is negatively associated, which means that the smaller the market size, the greater the commitment of the franchise chain. The interpretation of these data suggests that when franchise chains from emerging countries internationalize to developed countries, they do so because of the institutional quality of the judiciary even if the size of the market is small. On the other hand, when the franchise chains from emerging countries internationalize to other emerging countries, the execution of contracts is not a relevant factor, since the importance of the market size prevails, and the larger the market in the emerging destination country the greater the commitment of the franchise chain.

Regarding the control variables, in model 3 only the technological level was significant in the analysis, being negatively associated with greater commitment of the franchise chain ($p < 0.01$). Gross domestic product (GDP), infrastructure, and goods market efficiency were not significant in the analysis. This indicates that these institutional factors do not have as much impact as the contract enforcement on the commitment of the franchise chains. In model 4, GDP is negatively associated with greater commitment of the franchise chains ($p < 0.01$), this may occur because these are emerging destination countries, which naturally have lower GDP. The level of technology is positively associated with greater commitment of the franchise chains ($p < 0.01$). Infrastructure and Goods market efficiency are not significant in the analysis. Table VII shows the synthesis of the analysis.

--- Table VII ---

Thus, hypothesis 1 - The effect of the contract enforcement is greater than the effect of market size on the international commitment of franchises chains from developed countries - and hypothesis 2 - The effect of the market size is greater than the effect of the contract enforcement on the international commitment of franchise chains from emerging countries - were not supported.

6 DISCUSSION

Our thesis was that franchisees from emerging markets have a differentiated focus regarding destination countries when compared with franchisees from developed markets. Specifically, we argued that market potential is more important to franchisees from emerging markets and that the effect of contract enforcement is more important to

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franchisees from developed markets. Overall, the results do not confirm our thesis. The focus is not the origin but the destination. The results show that franchise chains from emerging and from developed countries behave in the same way and that international commitment is not dependent on the country of origin but on the destination country. The conclusion of the analysis is that when franchise chains, independent of their origin, internationalize to developed countries, the ease in executing contracts is relevant, and when they internationalize to emerging countries, the market size is more important.

From this scenario, it is understood that when the franchise chains from emerging countries internationalize to developed countries, they are seeking better institutional quality related to the judiciary, even if they have to sacrifice market size for this. Franchise chains from emerging countries seek this feature because the ease of execution of contracts in the judicial sphere is important for the business model of franchise chain (Aliouche and Schlentrich, 2011; Alon, 2006; Baena, 2013; Shane, 1996). Even if they are not accustomed to these conditions in the country of origin and know-how to deal with inefficient judicial institutions (Cuervo-cazurra and Genc, 2008), the results showed that it is important for franchise chains to have a presence in a country where institutions are stable and consolidated. We understand that this is due to two reasons: (1) for the security and stability that an efficient and stable institutional environment in relation to the judicial sphere can offer to the business, which is better than what can be attained in the country of origin of the franchise chain; and (2) because acting in an efficient institutional environment forces the franchise chain to improve their contractual management and improve their governance, so that they can develop their intellectual property rights protection policy and to improve the efficiency of partnerships and monitoring of franchisees.

On the other hand, the results also showed that when the franchise chains from developed countries internationalize to emerging countries, they are seeking market potential, even if this represents an increase in risk from the institutional point of view. We understand that this is because the franchise chains do not expect to find a stable and developed institutional environment in emerging countries, and they already expect the judiciary to be deficient and institutions to be inefficient. Although the execution of contracts is important for the business model of franchise chains, the decision to enter an emerging country is made due to the market potential, thus accepting to leave favorable institutional conditions in exchange for a large consumer market. Therefore, the ease of execution of contracts is not relevant in emerging destinations because the franchise

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chains already expect that this institutional aspect is deficient. Also the decision to go to an emerging country is based exclusively on the market potential; this behavior can be exemplified by the American franchise chains, which in recent years have internationalized to countries with great market potential such as China, despite the significant institutional differences and the high risk involved in executing legal contracts (Baena, 2015; Dant and Grünhagen, 2014; Grünhagen *et al.*, 2012; Rothaermel *et al.*, 2006). This result is in agreement with authors who argue that the companies accept certain levels of uncertainties and risk due to institutional instability with the possibility of acting in countries with larger market size (Alon, 2006; Quinn, 1998; Rothaermel *et al.*, 2006; Welch, 1989).

The results also differ from recent studies on the impact of the country of origin on the internationalization of multinational companies. Previous research has found evidence that multinational companies from emerging and from developed countries diverge on the internationalization strategies and in their behavior pattern of expansion as a consequence of country of origin factors, highlighting the location strategies of multinationals from emerging countries in search for regional strategic assets. However, the analysis identified that the international commitment of the franchise chains is not dependent on the country of origin but on the destination country (Crescenzi *et al.*, 2016; Oh *et al.*, 2009; Puig *et al.*, 2020; Zhang *et al.*, 2018). We believe that this may indicate that franchise chains do not follow the standard internationalization behavior of multinational companies. Specifically, this can occur because it is a contractual arrangement with local partners, which characterizes an entry mode with lower transaction costs than entry modes typically adopted by multinationals, such as wholly owned subsidiaries and joint ventures (Hoffman *et al.*, 2016).

Regarding the control variables, the results related to GDP and infrastructure indicate that the search for effective contracts in developed destination countries and market size in emerging destination countries overlaps the search for a prosperous economic situation and for adequate infrastructure. The goods market efficiency variable was not significant in any of the statistical models, which means that the efficiency of the goods and services market has no impact on the commitment of the franchise chain. We understand that this result is due to the fact that the developed destination countries naturally have a more efficient and less bureaucratic markets. The intention of franchise chains is operating in a large market, making the market efficiency and bureaucracy irrelevant.

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In addition, tech readiness is relevant in the internationalization of franchise chains from emerging and developed countries to emerging countries. We understand that this result is associated only with the emerging destination country because: (1) Technological dissemination is associated with the franchise chain's ability to increase its market penetration (Hoffman et al., 2016). Since the result of the statistical analysis was that franchise chains internationalize to emerging countries in search of a larger market potential, an emerging destination country with greater tech readiness would be ideal for the franchise chain to achieve the objective of expanding its consumer market more easily; and (2) A well-developed technological infrastructure reduces transaction costs and, consequently, the risks perceived by the franchisor (Andonova, 2006; Hoffman et al., 2016). Therefore, as emerging markets naturally present more institutional risks than developed markets, the search for a country with greater tech readiness would reduce the risks associated with international expansion.

7 CONCLUSION

The purpose of this study was to investigate how the origin of the franchise chain impacts institutional preferences on the commitment in the destination country of internationalization, identifying the differences between franchise chains from emerging countries and franchise chains from developed countries. The results indicate that institutional preferences do not vary according to the countries of origin of the franchise chains, but rather depend on the destination country. The quality of laws, regulations, efficiency and impartiality of the judiciary are considered important factors of consideration in developed destinations; for emerging country destinations on the other hand, market potential is the most important factor.

The article contributes to institutional theory once it identifies a set of characteristics that explains the selection of international markets and the commitment of franchise chains. The study also contributes to research on the internationalization of franchise chains, specifically from the macro perspective, through the discovery that the institutional factors that interfere in the commitment of franchise chains are not associated with the countries of origin of the franchise chains, but rather with the destination countries of international expansion. The results obtained partially contradict previous studies that measure both internationalization and market penetration, which indicates that companies tend to seek markets institutionally similar to those of their countries of

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origin to internationalize or to increase their international presence, facing difficulties when in different environments, and that the distance between institutional environments matters more than the absolute level of quality of institutions of the country of destination (Alon and Welsh, 2002; Baena, 2015; Hoffman et al., 2016; Quinn and Alexander, 2002; Rocha and Ávila, 2015; Wong and Merrilees, 2007). On the other hand, the results confirm studies that indicate that the franchise chains of developed countries are willing to accept some level of institutional risk to act in major international markets (Aliouche and Schlentrich, 2011; Baena and Cerviño, 2014; Dant and Grünhagen, 2014). Moreover, franchise chains in emerging countries tend to take into account the quality of the legal environment in the country of destination in addition to market size (Alon, 2004; Melo *et al.*, 2019).

Additionally, the contribution of the research should be recognized by the heterogeneity of the sample of countries used (10 countries of origin and 174 countries of destination), the number of franchise chains analyzed (724) and the range of cases analyzed (3513), strengthening the credibility of the results and supplying the need for studies with comprehensive samples (Dant and Grünhagen, 2014; Merrilees, 2014).

Finally, as a managerial contribution, the results achieved in the study can help franchise chains' managers to make decisions in the selection of countries for international expansion based on the institutional characteristics of the markets, in order to select countries that are most compatible with the objectives of the franchise chains. Moreover, it is important to highlight the managerial contribution in relation to the tech readiness variable, which can help managers to make more assertive decisions when selecting emerging countries for international expansion in order to select countries with characteristics that can favor their growth. Besides, the results also promote a better understanding of the benefits that franchise chains can have in each destination country in which they are present and can help in more efficient management.

The research limitations are as follows: (1) restricting the sample to franchise chains associated with organizations representing franchises in their respective countries of origin, while disregarding franchise chains not affiliated to the associations; (2) the timeframe of the analysis restricted the institutional situation of the destination countries in 2017 while disregarding the institutional contexts of the destination countries in the year of entry of the franchise chain; (3) the analysis was restricted to the institutional characteristics of the destination country and did not consider specific characteristics of

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each internationalized franchise chain; and (4) absence of analysis of the effect of institutional distance between country of origin and destination.

Suggestions for future studies consist of (1) the inclusion of institutional variables different from those used in this research as well as firm level variables; (2) the analysis of different aspects of the institutional environment of the destination country; and (3) studies that consider the institutional condition of the country of origin of the franchise chain and its influence on the internationalization process, considering the institutional distance.

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Table I: Internationalized franchise chains

Country	Classification	No. of internationalized franchise chains	No. of destination countries
Brazil	Emerging	108	60
Russia	Emerging	102	48
India	Emerging	59	79
South Africa	Emerging	72	25
Argentina	Emerging	23	14
USA	Developed	171	188
Australia	Developed	66	41
Germany	Developed	62	68
Spain	Developed	45	103
Portugal	Developed	16	24
Total		**724**	**174**

Source: authors.

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Table II: Independent Variables

Variable	Description	Source
Quality of judicial processes	Measures the adoption of good practices in the judicial system over four areas: judicial structure and procedures, process management, judicial automation, and alternative dispute resolution. The indicator ranges from 0 to 18, the higher the good practices the higher the indicator.	Doing Business
Judicial Effectiveness	Measures the degree to which the laws are respected regarding judicial independence, the quality of the judicial process and the likelihood of obtaining judicial decisions favorable to the protection of the rights of all citizens against unlawful acts of third parties. The greater the judicial effectiveness, the greater the indicator.	Heritage
Property Rights	It assesses the extent to which a country's legal structure allows individuals to freely accumulate private property by measuring the extent to which a country's laws protect private property rights and to what extent these laws are respected. It also assesses the likelihood that private property will be expropriated by the state. The more effective the legal protection of property, the greater the indicator.	Heritage
Judicial Independence	Measures the independence of the judicial system from the influences of government, individuals, and companies in an indicator that varies from 1 to 7. The greater the independence, the greater the indicator.	World Economic Forum
Efficiency of Legal Framework	Measures the efficiency of legal and judicial systems for companies in dispute resolution in an indicator that ranges from 1 to 7. The greater the efficiency, the greater the indicator.	World Economic Forum
Rule of Law	Reflects the perception of the extent to which agents have confidence in the rules of society, the quality of	World Bank

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	contract enforcement, property rights, the police and the courts, and the likelihood of crime and violence. The indicator ranges from −2.5 to 2.5.	
Market Size	The market size considers the size of the domestic market in the country, in an indicator ranging from 0 to 7.	World Economic Forum

Source: Authors

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Table III: Control Variables

Variable	**Description**	**Source**
GDP per capita	Competitive measure used to compare countries' economies. It is calculated using the value of the Gross Domestic Product and dividing it by the total population of the country.	World Bank
Infrastructure	Measures the quality of infrastructure in each country: It consists of a composition of quality of overall infrastructure, quality of roads, railroad infrastructure, port infrastructure, air transport infrastructure, and electricity supply, coupled with mobile-cellular telephone subscriptions and fixed-telephone lines.	World Economic Forum
Goods Market Efficiency	It measures the efficiency of the goods and services market, considering local competition, the ease of doing business, and the sophistication of consumers. It is an indicator composed of the following indices: intensity of local competition, effectiveness of antimonopoly policy, effect of taxation on incentives to invest, number of procedures required to start a business, time required to start a business, prevalence of nontariff barriers, trade tariffs, prevalence of foreign ownership, imports as a percentage of GDP, degree of customer orientation, and buyer sophistication.	World Economic Forum
Tech Readiness	Measures the agility with which an economy adopts existing technologies to enhance the productivity of its industries. It is an indicator composed of the availability of latest technologies, firm level technology absorption, technology transfer, internet users, internet subscriptions, internet bandwidth, and mobile-broadband subscriptions.	World Economic Forum

Source: Authors

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Table IV: Component Matrix

	Component
	Contract enforcement
Quality of Judicial Processes	.483
Judicial Effectiveness	.976
Property Rights	.933
Judicial Independence	.936
Efficiency of the Legal Framework	.861
Rule of Law	.945

Source: Authors

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Table V: Regression models 1 and 2

Variables	**Model 1**		**Model 2**	
Independent variables	**Developed - Developed**		**Developed - Emerging**	
Contract Enforcement	.459	7.902**	-.193	-3.452*
Market Size	.060	1.561	.235	7.111**
Control variables				
GDP	-.082	-2.012*	.001	0.013
Infrastructure	-.168	-3.520**	.030	.439
Goods Market Efficiency	.104	1.740	.048	.914
Tech Readiness	-.219	-3.503**	.105	1.969*
F	19.803**		10.257**	
R^2 adjusted	0.102		0.045	
N	1112		1413	

Dependent variable: International commitment
** p<0.01; *p<0.05
Source: Authors

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Table VI: Regression models 3 and 4

Variables	**Model 3**		**Model 4**	
Independent variables	**Emerging - Developed**		**Emerging - Emerging**	
Contract Enforcement	.441	2.689**	-.077	-1.146
Market Size	-.129	-1.344	.177	3.929**
Control variables				
GDP	-.018	-.137	-.239	-3.713**
Infrastructure	-.089	-.858	.018	.189
Goods Market Efficiency	.204	1.044	.115	1.872
Tech Readiness	-.411	-2.636**	.231	2.719**
F	4.630**		10.471**	
R^2 adjusted	0.111		0.076	
N	183		805	

Dependent variable: International commitment

** p<0.01; *p<0.05

Source: Authors.

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Table VII: Synthesis of results analysis

Hypotheses	**Origin Country**	**Destination Country**	**Analysis result**
H1	Developed	Developed	Contract enforcement positively associated with greater commitment of the franchise chain
	Developed	Emerging	Market size positively associated with greater commitment of the franchise chain
H2	Emerging	Developed	Contract enforcement positively associated with greater commitment of the franchise chain
	Emerging	Emerging	Market size positively associated with greater commitment of the franchise chain

Source: Authors

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