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Institutional Environment and Internationalization of Franchise Chains: A Regional and Global Analysis

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Institutional Environment and Internationalization of Franchise Chains:

A Regional and Global Analysis

Abstract

Purpose: In this study we identify how formal institutional environments in destination countries matter to franchise chains as they internationalize. The institutional environment of the destination countries of franchise chains is characterized according to three institutional dimensions necessary to attract international investment—public governance, ease of doing business, and legal processes—and analyzed in the context of regional and global franchise expansion.

Design/methodology/approach: The descriptive quantitative study involved 625 franchise chains from Australia, Brazil, Germany, India, Russia, South Africa, and the United States, with a total of 2,939 observations.

Findings: Results suggest that franchise chains from emerging markets are guided by the institutional conditions of ease of doing business and the quality of legal processes in global expansion, and guided by ease of doing business, quality of legal processes and governance in regional expansion. On the other hand, franchise chains from developed markets are guided by the ease of doing business, quality of legal processes, and governance in global expansion and by governance and ease of doing business in regional expansion.

Research limitations/implications: The sample included only franchise chains associated with organizations that represent franchises in their countries of origin, and the study does not analyze the effect of institutional distance between countries of origin and destination.

Originality/value: This study identifies the formal institutional characteristics that explain selection and commitment in international markets by franchise chains from different countries. The contribution is in analyzing the phenomenon through the lens of institutional theory and showing, through a global sample, that institutions matter to franchise chains from different types of countries (developed and emerging) and with different strategies for internationalization (global and regional).

Keywords: Institutional environment. Franchise chains. International markets. Internationalization.

1 INTRODUCTION

Spreading rapidly across the world's regions in the past decade, the franchise chain business model has become one of the most widely used approaches to doing business in today's global economy (Hoffman and Preble, 2003; Quinn and Doherty, 2000). In their initial international expansions, franchises from developed markets expanded into other developed markets with geographic and institutional proximity. With the saturation of those markets franchises have redirected their expansion toward emerging markets such as Brazil, Russia, India, China, and South Africa (BRICS), as well as ones in Eastern Europe, which pose more uncertainty but less competition than their developed counterparts (Baena and Cerviño, 2014; Dant and Grünhagen, 2014; Grünhagen *et al*., 2012). Recently, the opposite flow of internationalization of emerging market franchises has been observed (Melo *et al*., 2019) in relation to the internationalization movement of emerging market companies (Hoskisson *et al.,* 2013). In other words, the internationalization of franchise chains can be understood as a global phenomenon.

The global scope of internationalization of franchise chains, however, necessitates a comprehensive understanding (Merrilees, 2014, Dant and Grünhagen, 2014). In a review of the literature, Dant and Grünhagen (2014) have pointed out that current understandings of the phenomenon do not consider institutional theory. They maintained that, as a result, literature on the internationalization of franchise chains demonstrates a significant gap in knowledge about how the institutional characteristics of countries affect their attractiveness to foreign franchise chains (Dant and Grünhagen, 2014). To address that gap, researchers have recently analyzed the internationalization of franchise chains from the perspective of institutional theory. Whereas some have adopted the institutional perspective to analyze the business model used by international franchise chains (Baena and Cerviño, 2014; Hoffman *et al*., 2016), emphasized that the formal institutions of destination countries may be conditioning factors for the internationalization of franchise chains (Baena, 2015; Hoffman *et al.,* 2016; Melo *et al.,* 2019). Nevertheless, especially in relation to the institutional factors of destination countries, research on the internationalization of franchise chains needs to be global in scope and not focused on the internationalization of franchise chains in only one country (Baena, 2015) or, more rarely, in only one region (Melo *et al.,* 2019). Despite highlighting the importance of formal institutions in destination countries, such research has produced only limited results because it has not involved analyzing all sets of formal institutions that matter.

Therefore, the present work aims to contemplate these two underexamined topics in literature on the internationalization of franchise chains: the global scope of their internationalization and the impact of formal institutions in that process. With this objective, this study is oriented toward identifying the importance of the formal institutions in destination countries to franchise chains as they go international.

As firms from emerging markets internationalize in particular markets and management logic (Cuervo-Cazurra and Genc, 2008; Hoskisson *et al.,* 2013), it is possible that they select countries for internationalization according to various criteria that might reflect preferences regarding the institutional environment distinct from those of firms from developed markets. To detect such differences in behavior, we analyzed franchise chains from emerging markets and ones from developed markets separately — more precisely, 625 franchise chains from either emerging markets (i.e., Brazil, Russia, India, and South Africa) or developed ones (i.e., the United States, Germany, and Australia). In that way, the research and its results can contribute to current understandings of the internationalization of franchise chains from the perspective of institutional theory (Aliouche and Schlentrich, 2011; Hoffman *et al.,* 2016; Melo *et al*., 2015) as well as from a macro perspective (Alon and McKee, 1999;

Aliouche and Schlentrich, 2011; Baena, 2015; Dant and Grünhagen, 2014; Dant *et al*., 2011; Hoffman *et al.,* 2016; Melo *et al.,* 2015, 2019; Rosado-Serrano *et al*., 2018).

Specifically, this study is based on the recognition of three central dimensions of formal institutions that are essential for attracting international franchise investments: (1) laws and regulations, (2) facilitating conditions for doing business, and (3) institutions that guarantee governance.

Regarding the first dimension, the formal institutions guarantee the regulations and effective application of the law (Aliouche and Schlentrich, 2011; Melo *et al.,* 2015, 2019). The reason is that the franchise chain system is based on franchise agreements that have to be honored so that the most valuable assets of the franchise chain, which are intangible (such as patents and trademarks), are protected from misuse by opportunistic franchisees (Aliouche and Schlentrich, 2011; Alon, 2006; Baena, 2013; Shane, 1996). Thus, working in an institutional environment without these guarantees of protection is a risk for franchise chains (Alon, 2006; Melo *et al.,* 2019). Second, studies also indicate the relevance of an institutional environment that facilitates business. Having the facility and security to deal with the procedures inherent to hiring employees, approvals, obtaining credit, and bureaucratic processes for business operations is crucial for the franchise chains (Alon and Welsh, 2002; Asmussen, 2009; Hoffman *et al.,* 2016; Hoffman and Preble 2003; Klapper *et al*., 2006). Third and last, another critical aspect is the presence of institutions that guarantee good governance practices in the international market. Governance practices influence relational activities and the transaction costs of franchising internationalization (Hoffman *et al.,* 2016; Meyer, 2001).

Thus, the present research sought to explore the characteristics of the institutional environment, based on data from 625 different franchise chains from emerging countries and developed countries (in global expansion and regional expansion), totaling 2,939 observations, across 7 countries of origin and 179 countries of destination. The considered features (associated with the selection of franchise chains markets for international expansion) comprehended the ease of doing business, governance quality, legal conditions, and market size. The main contribution intended is the comparative evaluation of these dimensions as intervening variables in the internationalization of emerging and developed countries franchise chains in regional and global expansion decisions.

2 LITERATURE REVIEW

In analyzing theoretical perspectives on the internationalization of franchise chains, Dant and Grünhagen (2014) identified five distinct streams in literature on the topic: (1) macro perspective, which focuses on analyzing the conditions of destination countries and how they affect the internationalization of franchise chains; (2) mode of entry into new markets; (3) choice of governance modes of international franchising chains; (4) driving forces for the international expansion of franchise chains; and (5) relationship between franchisees and franchisors. Rosado-Serrano et al. (2018) later endorsed that classification by categorizing studies on the internationalization of franchises chains as focusing on (1) micro perspective, (2) macro perspective, (3) governance mode, (4) franchisor–franchisee relationship, and (5) driving forces of franchise chain internationalization.

According to those classifications, the aim of our study was to develop the macro perspective from institutional theory framework (Dant and Grünhagen, 2014; Rosado-Serrano *et al.,* 2018), and it could be classified as a franchise chain growth study that examines replication or adaptation to business survival (Iddy and Alon, 2019). In particular, that perspective borrowed from Rosado-Serrano et al.'s (2018) understanding of the "dimensions of international franchising market selection" (Alon and McKee, 1999) to inform "a strategic model of global franchise expansion" (Aliouche and Schlentrich, 2011). In this line of research, the focus is the destination country and its impact on the internationalization of franchise chains based on the idea that these enterprises are attracted to developed economies with cultural similarities to their country of origin.

Research on the internationalization of franchise chains has indicated that international expansion begins in markets that are culturally and geographically close to the domestic market, due to factors of comparative perspective, such as, munificence and uncertainty between home and host countries (Madanoglu *et al*., 2017). In that way, the expanding company can reduce risks, better monitor costs, and does not need to significantly modify branding or business concepts (Baena, 2015; Quinn and Alexander, 2002; Wong and Merrilees, 2006). Even chains from the United States of America, which rank in the vanguard of international business, prefer to avoid uncertainty while pursuing international growth, and for that reason host markets that are less munificent or less stable than home markets are less attractive (Madanoglu *et al*., 2017).

However, some authors have argued that, for businesses, not cultural similarity but the context in which companies operate is the primary factor of international growth (Quinn, 1998; Welch, 1989).

Findings from previous research have similarly highlighted the importance of understanding the context in which companies operate. To that end, institutional theory, guided by new organizational institutionalism (Hoskisson *et al.,* 2000), is a suitable lens because it addresses the influence of regulatory, political, technological, economic, social, and cultural institutions on the behavior of companies (Alon, 2006; Hoffman *et al.,* 2016; Kostova, 1997). More than merely standing in the background of the competitive environment, institutions determine which strategic options a company can deploy to achieve its objectives (Hoffman *et al.,* 2016; Meyer *et al*., 2009; Peng *et al*., 2008; Wright *et al*., 2005).

The institutional environment encompasses all of the formal and informal rules and requirements that organizations need to follow to gain legitimacy and support (Zoogah *et al*., 2015). Reflected in legal, policy, regulatory, and economic guidelines, formal rules determine property rights, channels of access to financing, ways of developing skills and knowledge, and labor relations. By contrast, uncodified but commonly practiced in a cultural environment, informal rules prescribe patterns of behavior related to trust, collaboration, identity, and subordination, including sanctions, taboos, social codes of conduct, and norms of behavior embedded in culture and ideology (Dumludag, 2009; Hessels and Terjesen, 2010; Meyer *et al.,* 2009; North, 1990, 1991; Schwens *et al*., 2011; Watson and Dada, 2017).

The efficient and effective functioning of formal and informal rules as mechanisms of execution and coordination determines the transaction costs of operating in the institutional environment (North, 1991). In general, effective institutions increase the benefits of cooperative solutions and the costs of exiting the market. In terms of transaction costs, institutions can reduce the transaction and production costs involved in trade so that trade gains are achievable, which, in turn, conditions the profitability and feasibility of engaging in economic activity (North, 1991). Conversely, an institutional environment is deficient when it cannot guarantee an effective market or if it exhibits corrupt commercial practices that hinder entrepreneurial activities (Aidis *et al*., 2008; Meyer *et al.,* 2009).

Therefore, implementing the formal and informal rules of each country is crucial for franchise chains to decide on whether to have greater or lesser commitment in one or another country in its internationalization movement. The international commitment of the franchise chain varies from country to country because it represents the total number of units in the destination country compared with the total number of internationalized units (Melo *et al.,* 2019). The commitment is influenced by the company's experience and activity in the international market (Johanson and Vahlne, 2009), and the experience is an important learning process for the company to build knowledge about a market. The set of knowledge influences the decisions about the level of commitment, that is, the establishment of more franchise units in a specific destination country. Therefore, it was assumed that the clearer and more efficient the formal rules of a country, the better and faster the learning process, inducing the greater commitment of the franchise chain in the destination country.

3 HYPOTHESES

In this study, following the indications of the literature (Baena, 2015; Hoffman *et al.,* 2016; Melo *et al.,* 2018), the efficiency of formal institutions is considered as a determinant of the commitment of franchise chains. Specifically, the efficiency of public governance, ease of doing business, and legal procedures are analyzed. Figure 1 presents the adopted research framework.

-- Insert Figure 1 here ---

3.1 Public Governance

Addressing the internationalization of franchise chains, several researchers have highlighted the importance of political factors (Aliouche and Schlentrich, 2011; Baena, 2015; Berry *et al*., 2010; Melo *et al.,* 2015). One of the most cited points in relation to political factors is governance, which is understood as traditions and institutions by which the authority of a country is exercised, including the process by which governments are selected, monitored, and replaced; the ability of the government to formulate and effectively implement sound policies; and the respect of the citizens and the state for the institutions that govern economic and social interactions between them (World Bank, 2017). Governance is important for companies that intend to internationalize because political institutions play a key role in facilitating market transactions. Governance collaborates to increase institutional legitimacy, facilitate the development of relational assets, and reduce transaction costs for business entry (Hoffman *et al.,* 2016; Meyer, 2001), and thereafter enables the greater commitment of franchise chains in a country.

By contrast, ineffective governance is characterized by corruption. Corruption influences foreign investment by increasing uncertainty about the market's stability, raising transaction costs, generating distortions, and favoring some firms with preferential access to profitable markets (Baena, 2012; Hoffman *et al.,* 2016). Government corruption results in ineffective governance, not only because of the direct costs of bribery but also due to the diversion of government contracts to potentially less efficient providers of goods and services (Hoffman *et al.,* 2016). On the other hand, anti-corruption measures result in a more favorable business environment (Klarin and Ray, 2019). In countries characterized by a high level of corruption, franchise chains have difficulties to develop, often preferring to relinquish a higher level of commitment or choose another expansion strategy, as well as opt for own units, due to the fear that their know-how would be expropriated (Alon, 2006).

In conclusion, the lack of control of corruption and, consequently, of governance, leads to political instability (García-Canal and Guillén, 2008), causing companies to suffer arbitrariness and restrictions of government, increasing risk and thus raising the cost of doing business in these markets. For this reason, franchisors are more likely to choose politically stable countries with good governance to internationalize (Baena, 2012, 2015; García-Canal and Guillén, 2008; Hoffman *et al.,* 2016). Based on the preceding insights, the following hypothesis is constructed:

H1: The international commitment of franchise chains is positively associated with good governance conditions in the destination country.

3.2 Ease of Doing Business

The ease of doing business in a market considers the barriers to opening a new business. Barriers are the constraints that aspiring entrepreneurs find when trying to access a formal economy. Barriers consist of officially required or commonly performed procedures as well as the time and cost to complete those procedures and the minimum capital requirement to start a business. These procedures include licenses, authorizations, and completion of all notifications, verifications, or registrations required for the company and employees. Excessively onerous and bureaucratic procedures impose a disadvantage on formal entrepreneurs with limited resources in their effort to formalize their business as future franchisees (de Soto, 2000; Djankov *et al*., 2002).

Countries differ significantly in how they regulate the entry of new business. In some countries, more strictly regulation of entry is related to higher levels of corruption and informality of companies and not related to the higher quality of public or private goods or services. In others, less regulation of entry is related to democratic governments and less political intervention in the economy (Djankov et al., 2002). In any case, the lowest cost to start a business relates to the business density in the given economy (World Bank, 2017). Thus, excessive regulatory tends rule out entrepreneurs' option to become 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. These policies may cause difficulty in raising funds for new projects, favoring large companies rather than small businesses. Consequently, this condition impairs the availability of credit for franchise chains and potential franchisees in the destination country (Hoffman and Preble, 2003; Hoffman *et al.,* 2016; Klapper *et al*., 2006). Thus, the franchise chain has to seek informal financial support, such as from personal networks and other creditors, to replace formal institutions, thereby increasing transaction risk and uncertainty, and raising transaction costs (Meyer and Peng, 2005).

The ease of doing business is one of the indicators that reflect the efficiency of the market (Meyer *et al.,* 2009). For franchise chains, when the cost of opening a new business is relatively high, transaction and agency costs also increase. In this context, the franchise chain is likely to prefer expanding internationally to countries with better conditions of doing business (Alon and Welsh, 2002; Asmussen, 2009). Thus, the following hypothesis is formulated:

H2: The international commitment of franchise chains is positively associated with good conditions of doing business in the destination country.

3.3 Legal Processes

The legal system is one of the most important attributes of a country's infrastructure, involving laws, rules, regulations and their application, and tends to vary widely between countries (Aliouche and Schlentrich, 2011). The legal environment can be considered in four interrelated aspects: (1) rule of law and its applicability, (2) protection of corporate and investor rights, (3) enforcement of property rights, and (4) protection of consumer rights (Sun *et al*., 2015).

Economic and social progress cannot be achieved without respect for the rule of law and the effective protection of rights. Both require a well-functioning judiciary that is accessible to the public and resolves cases within a reasonable amount of time. Countries with efficient judiciaries involving courts that can effectively enforce contractual obligations have highly developed credit markets and a high level of economic development. Increasing the quality of judicial process is also associated with the promotion of innovation, the growth of small businesses, the attraction of foreign investment, increased access to credit, increased tax revenues, and business efficiency (World Bank, 2017). The efficiency of judicial process favors the greater commitment of franchise chains in a particular country.

By contrast, an unstable and unreliable legal structure is one of the most important factors that prevent franchises from increasing the commitment of their investments (Alon, 2006; Baena, 2013; Dumludag, 2009). When the judicial process is inefficient, changes in the law affect the contractual reality of franchises, heighten institutional uncertainties for foreign investors, and raise transaction costs due to the difficulty of establishing and executing contracts (Dumludag, 2009; Wu and Chen, 2014), all of which run counter to the franchising system. Enforcing legal contracts and intellectual property laws is crucial for franchise chains because their most valuable assets, such as patents and trademarks, are intangible and can be misused by opportunistic franchisees in the absence of adequate protection (Aliouche and Schlentrich, 2011; Alon, 2006; Baena, 2013; Shane, 1996). More fundamentally, the system of franchise chains is based on the franchise agreement between franchisor and franchisee, whose strict compliance is an indispensable condition for success. Thus, the legal environment has direct relevance in the franchise chain internationalization, however other factors associated with security and stability effectively influence the decision of markets to be explored (de Almeida *et al.*, 2018). Therefore, for franchise chains, dealing with obstacles or unstable legal situations can become prohibitively expensive and generate problematic relationships with franchisees (Alon, 2006; Melo *et al.,* 2019). That is critical, since satisfaction with such relationships drives international performance, including in terms of contract adaptation (Ghantous and Das, 2018). Based on these conditions, the following hypothesis is proposed:

H3: The international commitment of franchise chains is positively associated with good quality of the judicial process in the destination country.

3.4 Regional versus Global Expansion

Studies on internationalization behavior have found evidence of the effect of the regional dimension (Arregle *et al*., 2009; 2013; Rugman and Verbeke, 2004). In that sense, a region can be understood as a geographical concept, which emphasizes the proximity between countries that are defined as a group related through continuity and/or physical proximity, with the premise that the latter is a precondition for having a sense of shared units or properties (Arregle *et al.,* 2009; Banalieva and Dhanaraj, 2013). When internationalizing, most companies limit the geographical scope of their expansion to their region of origin (Arregle *et al.,* 2009; 2013; Banalieva and Dhanaraj, 2013; Chaves, 2018; Cuervo-Cazurra and Genc, 2008; Ghemawat, 2003; Rugman and Verbeke, 2004).

The high cost of conducting operations at great distances, whether cultural, geographic, or economic (Banalieva and Dhanaraj, 2013; Ghemawat, 2003; Meyer, 2006), creates complexity for global operations that prompts companies to focus on entering regional markets (Banalieva and Dhanaraj, 2013; Hoffman and Preble, 2003; Johanson and Vahlne, 2009; Welsh *et al*., 2006). Among its benefits, the strategy of regional internationalization increases the company's responsiveness and diminishes the liability of its foreignness (Arregle *et al.,* 2013; Hoon Oh and Rugman, 2014). For franchise chains in particular, operating in a market close to home reduces information asymmetry, which minimizes the agency problem as well as transaction costs (Hoffman *et al.,* 2016). A considerable part of the success of franchise chains stems from their standardization of the business model. Implementing and monitoring the standardization model requires visits and constant travel. Consequently, regional expansion compared to global expansion reduces costs and risks for the franchise chain. Accordingly, the international commitment of the franchise chain within the region of origin and outside the region of origin may be associated with different institutional factors. Therefore, the hypotheses presented have to be evaluated in the context of both the regional and global expansion.

3.5 Target Market Size

Regardless of whether the market is regional or global, its size is as important aspect to be controlled. Briefly, the size of a target market can override the institutional costs and risks involved in international expansion there (Quinn, 1998; Welch, 1989). In fact, the size of the destination country's market may be one of the most important explanatory factors in the attractiveness and selection of a country for the international expansion of a business (Baena, 2015). Market size is related to potential consumption, attractiveness, and growth (Berry *et al.,* 2010; Melo *et al.,* 2015), and can also influence a company's degree of internationalization in a given country and the sequence of its international expansions over time (Campa and Guillen, 1999).

Accordingly, market size is a deciding factor for various firms in their final decisions to enter an international market (Alon, 2006). In particular, larger markets pose three advantages, which make them more attractive to companies: greater return potential, greater possibility of economies of scale, and greater possibility of coexistence with competing firms (Aliouche and Schlentrich, 2011; Rothaermel *et al.*, 2006). The number of companies that start operations in a foreign country increases as the potential and attractiveness of its market increases in relation to the domestic market (Campa and Guillen, 1999). Thus, market size is an essential aspect of control because of its explanatory power for the international commitment of franchise chains.

4 METHODOLOGY

This study is characterized by the quantitative approach based on the method of collecting secondary data through forms. The data sample includes franchise chains from seven countries: South Africa, Germany, Australia, Brazil, the US, India, and Russia. Brazil, Russia, India, and South Africa, as BRICS member countries, were selected to represent the emerging countries because they constitute markets with a large geographic extent, exerting regional influence and presenting similar characteristics in relation to the level of economic development (Grünhagen *et al.,* 2012; Hoskisson *et al.,* 2013). Additionally, these countries present the sector of franchise chains undergoing growth and international expansion (US Department of Commerce, 2016). The US, Germany, and Australia were chosen because these markets have been repeatedly explored in the literature on the internationalization of franchise chains, have a strong economic footprint, outstanding global influence, and present a mature and well-established franchise chain industry (Dant *et al.,* 2011; Dant and Grünhagen, 2014; Hoffman *et al.,* 2016; Merrilees and Frazer, 2013).

Internationalized franchising chains were considered as those with at least one franchised operation abroad in 2016, disregarding strategic alternatives insertions in foreign markets, such as commission agent model, traditional business-format franchising model or opening its own company-owned outlets to test the market (Alon and Lattemann, 2016). Such franchise chains and the countries where they operate were identified through the collection of official secondary data published by franchise associations in the studied countries in documents, reports, statistical records, and other sources of information about associated franchise chains generated by franchise associations (e.g., Entrepreneur - Top Global US-based Franchises, Associação Brasileira de Franchising, Russian Franchise Association, Franchising Association of India, Franchise Association of South Africa, Franchise Council of Australia, and Deutscher Franchise Verband). Table 1 details the sample of internationalized franchise chains.

The dependent variable was the commitment of franchise chains in the destination countries. 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.,* 2015, 2019).

-- Insert Table 1 here --

Data concerning the institutional variables were obtained from the public databases of international investment support institutions (e.g., World Bank, Heritage Foundation, and World Economic Forum) for 2016. Previous research on the internationalization of franchise chains has been conducted using data from those international institutions (Baena, 2012, 2013, 2015; Melo *et al.,* 2015, 2019; Hoffman *et al.,* 2016). These data correspond to the independent variables of the statistical analysis.

-- Insert Table 2 here --

To reduce the number of variables, a factor analysis was performed, which allowed the extraction of three factors according to the rotating component matrix. Table 3 shows the factors rotated in the varimax method and with KMO .838 ($p < 0.001$), commonalities above .500, and total explained variance of 78.32% (F1 42.01%, F2 21.60%, and F3 14.71%).

The governance factor, corresponding to H1, consists of the following variables: government integrity, rule of law, ethics and corruption, and regulatory quality. All of these variables are associated with positive coefficients, which implies that the higher the indicator of the factor, the better is the governance of the destination country. The business factor, which corresponds to H2, consists of the variables strength of legal rights, time needed to start a business, and time to import; the first has a positive coefficient and the following has negative coefficients, thereby implying that the higher the indicator, the better are the conditions of doing business in the destination country. The legal factor, which corresponds to H3, consists of the variables time needed to enforce contracts and quality of the judicial processes; the first one has a negative coefficient and the second has a positive coefficient, which implies that the higher the factor indicator, the better the quality of the judicial process in the destination country.

-- Insert Table 3 here --

In addition, the market size was used as the control variable. Data concerning market size were obtained from the World Economic Forum's Global Competitiveness Report for 2016 and corresponded to the size of the domestic market in the country obtained by the sum of gross domestic product and the value of imports of goods and services, minus the value of exports of goods and services, normalized on a 0 to 7 scale.

Regarding regional context, since most international companies limit the geographic scope of their expansion to their region of origin (Arregle *et al.,* 2009; Banalieva and Dhanaraj, 2013), the geographical proximity and influence of the country of origin of the franchise chains in relation to the destination country were considered to determine the regional market of each country. Regional markets were defined as follows: (1) Brazil: Latin

America; (2) Russia: Commonwealth of Independent States (3) India: Southwest Asia; (4) South Africa: Africa; (5) Germany: Western Europe; (6) United States: North America; and (7) Australia: Oceania. The remaining markets for each country of origin were considered to be global markets.

To operationalize our results, we opted to use multiple linear regression models. In order to promote a comparison of franchise chains from emerging and developed markets, we developed Model 1 to present the results of the global and regional analysis of franchise chains from emerging markets and Model 2 to present the results of the global and regional analysis of franchise chains from developed markets.

Among the independent variables, no multicollinearity exists because they are from a varimax factorial extraction. Although the market size has a weak and significant correlation (value less than .300 and $p < 0.05$), the multicollinearity test proves its absence by obtaining VIF results below five.

5 RESULTS AND DISCUSSION

Table 4 presents the results of the multiple linear regression models used to test the hypotheses, which shows the values obtained for the linear regressions developed for emerging markets franchise chains (Model 1) and for developed markets franchise chains (Model 2). Both models consider international commitment as the dependent variable, Market size as control variable and the factors extracted from the Factor Analysis (Governance, Business, and Legal) as independent variables.

-- Insert Table 4 here --

The results analysis is presented, evaluating the relationship between each independent variable and the international commitment, comparing both models (representing emerging markets franchise chains - Model 1, and developed markets franchise chains - Model 2, respectively).

5.1 International Commitment and Governance Factor (Model 1 x Model 2)

Model 1 indicates that governance in the global context is not significant and, in the regional context, is significantly and negatively associated with the commitment of emerging country franchise chains. Thus, statistically the lower the governance in a foreign country, the greater the franchise commitment. Possibly, this is due to the fact that emerging market franchise chains have greater competences in dealing with lower quality governance in their domestic market, just as their franchisors have developed greater ability to interact with authoritarian political regimes, flexibly cope with enforcement, law, and corruption, especially small forms of corruption, such as payments to speed up procedures, obtain licenses and contracts (Cuervo-Cazurra, 2006; Cuervo-Cazurra and Genc, 2008; de Soto, 2000).

For those seasoned franchisors, governance abroad is not significant in the global context, as they know how manage efficiently under conditions of poor governance due to experiences at home (Cuervo-Cazurra and Genc, 2008; Melo *et al.,* 2015), nor does it indicate higher transaction costs. In the regional context, that result probably stems from the fact that emerging markets are typically in regions with other emerging markets. Because international expansion usually begins in culturally similar and geographically close countries, franchise chains from emerging markets can hardly begin to expand internationally but by entering other emerging markets nearby, that provide unfavorable governance conditions in the regional expansion (Baena, 2015; Johanson and Vahlne, 2009; Quinn and Alexander, 2002).

Regarding the results in Model 2, governance is significantly and positively associated with the greater commitment of the franchise chain ($p < 0.01$). That condition implies that franchise chains from developed markets are more attracted to markets that present more efficient and effective governance. For a franchise chain system to thrive, the franchisor needs to have control over all franchisees, and good governance should ensure the means necessary for the franchisor to maintain such control, as well as contribute to the efficiency of exchanges in the market and the valuation of the franchisors' relational assets (Hoffman *et al.,* 2016; Sashi and Karuppur, 2002). Thus, a market with good governance reduces the risk and transaction costs incurred by franchisors, who are more likely to choose countries with such characteristics for international expansion (Baena, 2012, 2015; García-Canal and Guillén, 2008; Hoffman *et al.,* 2016).

Considering the obtained results, H1 is partially confirmed, alluding to the need for additional efforts to evaluate the positive association between franchise chains' international commitment and business environment quality in the destination country.

5.2 International Commitment and Business Factor (Model 1 x Model 2)

Regarding the ease of doing business in the destination country, the results of Models 1 and 2 revealed a significant positive association ($p < 0.01$) between that factor and the commitment of franchise chains. That finding implies that franchise chains are more attracted to markets in which opening a business is a fast, simple process. In this situation, we should consider the specific characteristics of franchise chains, such as the relationship with local entrepreneurs and franchisees, and the transaction costs involved in opening each franchise unit. An institutional environment that offers greater ease and speed in operational procedures required to operate a business reduces transaction and agency costs and is therefore preferable by franchise chains from emerging and developed markets alike (Alon and Welsh, 2002; Asmussen, 2009; Ghantous and Das, 2018; Ghantous *et al*., 2018; Melo *et al.,* 2019; Welsh *et al.,* 2006). This result confirms H2, indicating the effective presence of a positive association between franchise chains' international commitment and business conditions in the destination country.

5.3 International Commitment and Legal Factor (Model 1 x Model 2)

Last, regarding the legal processes, the results of Model 1 also indicate that the commitment of franchise chains from emerging markets was positively and significantly associated ($p < 0.05$) with that factor. Such a condition implies that franchise chains are more attracted to markets with institutional environments that provide a structured legal environment. Institutional environments without legal guarantees for the enforcement of laws and contracts are particularly risky for franchise chains, because the franchise chain system is based on franchise agreements (Alon, 2006; Melo *et al.,* 2019) and because firms' most valuable assets are intangible and may be exploited by opportunistic franchisees (Aliouche and Schlentrich, 2011; Alon, 2006; Baena, 2013; Shane, 1996). Thus, environments with those characteristics make franchisors vulnerable, which may relate to their trend of prioritizing markets for internationalization according to the legal environment offered (Dant *et al.,* 2011; Melo *et al.,* 2019).

However, corresponding results for franchise chains from developed markets (Model 2) indicate that, in the regional context, legal processes are not significant and in the global context significantly and negatively associated with the greater commitment of the franchise chain. Simply put, the lower the quality of legal processes in a country, the greater the franchise's commitment. In the regional context, that result likely derives from the fact that legal risks in regional markets are similar to those in the market of origin, which encourages franchise chains from developed markets to prioritize governance and ease of doing business.

In the global context, the result should be interpreted together with indicators related to the variable market size, recognized as a positive predictor for the franchise chain's international commitment, due to its significant ($p < 0.05$) and positive (0.239) association. Both results suggest that franchise chains from developed markets are willing to accept greater risks in the legal environment of the destination country in exchange for presence in large consumer markets.

Such thinking aligns with arguments that firms are more willing to accept uncertainties stemming from risks in a destination country with a larger market, as exemplified by the recent preference of U.S. franchise chains for emerging Asian markets despite precarious institutional conditions and significant risk (Aliouche and Schlentrich, 2011; Alon, 2006; Dant and Grünhagen, 2014; Grünhagen *et al.,* 2012; Rothaermel *et al.,* 2006).

Finally, the results did not support H3, indicating that data analysis did not show a positive association between the franchise chains' international commitment and judicial process quality in the destination country.

5.4 Institutional aspects for regional versus global internationalization

Regarding the varying importance of institutional aspects in regional versus global internationalization, the results suggest that the priorities on the ease of doing business do not differ, due to the positive correlations evidenced and confirmed by the direct relationship and coefficient significance in the models, suggesting the Business variable as a predictor in all conceived regressions

The same is not true for the Governance and Legal variables when examining the results for the regression parameters in both models. In particular, governance was not significant in the global expansion of franchise chains from emerging markets. Meanwhile, legal processes were not significant in the regional expansion of franchise chains from developed markets, although it was significantly negative for them in their global expansion efforts.

Such distinctions point out how the ease of doing business matters to franchise chains as they expand regionally and globally, as well as highlight differences between franchise chain internationalization from emerging countries, potentially influenced by the quality of the judicial systems in the target region, and those from developed countries, which are potentially influenced by the target region's quality of governance.

5.5 International Commitment and Market size

Results point out that in addition to the institutional environment, market size is a relevant variable in the commitment of a franchise chain's in an internationalization destiny decision. However, the results indicate different situations for franchises from emerging and developed countries, considering the significance of this variable for Models 1 and 2, suggesting different levels of strategic importance. Market size presents itself as a positive predictor to the commitment to the regional expansion of emerging countries franchise chains and, simultaneously, of commitment to the global expansion of franchise chains in developed countries.

Considering the developed markets franchise chains, the results point to two distinct perspectives associated with the regional and global expansion strategy. The regional internationalization of these franchise chains, that is, often for mature markets, market size is not a decisive variable, probably due to these markets' evolutionary conditions. On the other hand, developed market franchise chains apparently tend to tolerate operations in countries with less favorable institutional environments to access larger markets, considering global expansion processes, that is, involving geographically distant regions. Thus, the size of the target market may override institutional costs and risks in the process of choosing target markets for international expansion (Alon, 2006; Quinn, 1998; Welch, 1989).

For emerging market franchise chains, the results also point to two distinct perspectives associated with the regional and global expansion strategy. However, for these franchise chains, the market size presents predictive capacity and positive association for regional internationalization processes, not intervening in global expansions. This finding suggests that globally expanding emerging market franchise chains may not be driven by the need for operations in a large consumer market, but rather prioritize access to markets that are endowed with greater stability and security.

6 CONCLUSION

Drawing from a significant sample of developed and emerging market franchise chains, this study aimed to identify institutional environment characteristics in destination countries that are associated with the selection of markets for the international expansion of franchise chains. This expansion was classified into two perspectives: regional and global internationalization, considering geographic demarcations, correlated to the proximity of institutional environments.

The results indicated that, in global expansion, the international commitment of franchise chains from emerging markets is driven by the institutional conditions of ease of doing business and the quality of legal processes. Meanwhile, in regional expansion, governance is as important as these conditions.

On the other hand, the commitment of developed-market franchise chains is driven by the ease of doing business, the quality of legal processes, and governance for global expansion; and governance and the ease of doing business for regional expansion. The results further indicated that the market size is relevant to the regional expansion of emerging markets franchise chains and in the global expansion of developed markets. These outputs offer relevant contributions that can be presented as theoretical and managerial implications.

6.1 Theoretical Implications

The findings contribute to institutional theory by identifying formal institutional features that explain the selection and international commitment of franchise chains from different countries, depending on their condition, emerging or developed. By identifying the dimensions of the institutional environment and focusing on three factors (i.e., governance, ease of doing business, and legal processes) directly related to such commitment, we have expanded research on the internationalization of franchise chains, particularly from a macro perspective. The phenomenon analysis, from the perspective of institutional theory and from the examination of a global sample, provides robust indications about the importance attached to institutions in deciding or attracting destinations for franchise chains from different types of countries (developed and emerging) with different internationalization strategies (global and regional). Such findings complement and consolidate the dispersed results in the literature on the internationalization of franchise chains, which follow the macro-perspective research line, by analyzing the formal institutions (Aliouche and Schlentrich, 2011; Alon and McKee, 1999; Baena, 2015; Dant and Grünhagen, 2014; Hoffman *et al.,* 2016; Melo *et al.,* 2015, 2019; Rosado-Serrano *et al.,* 2018).

In addition, the contribution of the study to the heterogeneity of the sample of countries used (7 countries of origin and 179 destination countries), number of franchise chains analyzed (i.e., 625), and breadth of analyzed observations (i.e., 2,939) should be recognized, strengthening the credibility of the results and addressing the need for studies with comprehensive samples (Dant and Grünhagen, 2014; Merrilees, 2014). Another benefit of this study is in the analysis of the regional dimension. The influence of this dimension on the selection of countries for international expansion is modestly investigated in the literature (Banalieva and Dhanaraj, 2013). To measure the regional and global dimensions, we narrowed the strand of research relevant to the management of multinational companies while continuing to focus on regionalization (Arregle *et al.,* 2009; Ghemawat, 2003; Rugman and Verbeke, 2004).

6.2 Managerial Implications

Concerning its managerial contribution and practical implications, the findings are directed toward franchisors and their supervisors of international expansion by highlighting aspects of the formal institutional environment (i.e., public governance, ease of doing business, and legal processes) relevant to international operations. That contribution goes beyond analyses restricted to international expansion due to psychic, cultural, or demographic proximity by adding institutional aspects that structure the business environment abroad. Those aspects can contribute to more profound managerial analyses about the choice of countries in which to invest.

6.3 Research limitations and agenda for future studies

The research had four limitations that warrant attention. First, the study restricts the sample to franchise chains associated with organizations that represent franchises in their respective countries of origin, thus disregarding franchise chains not affiliated with the associations. Second, the timeframe for analysis limited the evaluation to the institutional situation of the destination country in 2016 and thus disregards the institutional situation in the year of entry of the franchise chain to the destination country. Third, the study did not observe the institutional conditions of the country of origin of internationalized franchise chains. Fourth, the study did not consider the effects of firm-specific characteristics, such as financial ability and age, or other macro factors such as the economic environment, which impact on results and understanding, and that can potentially intervenient analysis outputs, for instance, interpretation of the market size role. Fifth and last, the study does not analyze the effect of institutional distance between countries of origin and destination.

Directions for future research consist of inclusion of institutional variables different from those used in the present study to analyze various aspects of the institutional environment of the destination country, and of studies that specifically compare the process of internationalization of franchise chains of emerging and developed origins to investigate similarities and distinctions in selecting countries for their expansion. Additionally, we suggest examining the institutional conditions of the franchise chain's country of origin and not only the country of destination, as well as the influence of such conditions on the internationalization process with consideration of the institutional distance.

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Table 1: Internationalized franchise chains

Country	Economy	Internationalized franchise chains	Total international franchised units	Destination countries
Brazil	Emergent	108	979	60
Russia	Emergent	102	789	48
India	Emergent	59	2.376	79
South Africa	Emergent	72	517	25
Australia	Developed	66	1.133	41
Germany	Developed	62	2.242	68
United States	Developed	171	126.151	188

Source: Authors

Table 2: Independent variables

Independent variable	Description	Source
Government integrity	Demonstrates the integrity of the government measured by the level of public corruption. The indicator ranges from 0 to 100. The higher the integrity of the government, the higher the indicator.	Heritage
Rule of law	Reflects the perception of the extent to which agents have confidence in the rules of society, the quality of 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.	World Economic Forum
Ethics and corruption	Indicates the level of government ethics by the amount of misappropriation of public funds, public trust in politicians, and irregular payments and bribes. The indicator ranges from 0 to 7. The higher the level of government ethics, the higher the indicator.	World Economic Forum
Regulatory quality	The quality of regulations reflects perceptions about the government's ability to formulate and implement sound policies and regulations that enable and promote private sector development. The indicator varies from –2.5, reflecting a negative perception, to 2.5, representing a positive perception.	World Economic Forum
Strength of legal rights	The force of legal rights measures the extent to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. The indicator ranges	Doing Business

	from 0 to 12. The higher the indicator, the greater the strength of the laws.	
Time needed to start a business	Time (measured in days) needed to complete each procedure required to start a business, excluding the time spent collecting information.	Doing Business
Time to import	Time (measured in hours) to fulfill documentation when importing a product.	Doing Business
Time needed to enforce contracts	Time in days required to enforce the contract through the courts. Counted from the time when the applicant decides to close the proceedings in court until payment.	Doing Business
Quality of judicial processes	Measures the adoption of good practices in the judicial system in 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 greater the indicator.	Doing Business

Source: Authors

Table 3: Rotary component matrix

	Components		
	H1 Governance	H2 Business	H3 Legal
Government integrity	**.943**		
Rule of law	**.933**		
Ethics and corruption	**.922**		
Regulatory quality	**.864**		
Strength of legal rights		**.722**	
Starting a business		**−.718**	
Time to import		**−.606**	
Time to enforce contracts			**−.906**
Quality of judicial processes			**.591**

Source: Authors

Table 4: Regression models 1 and 2

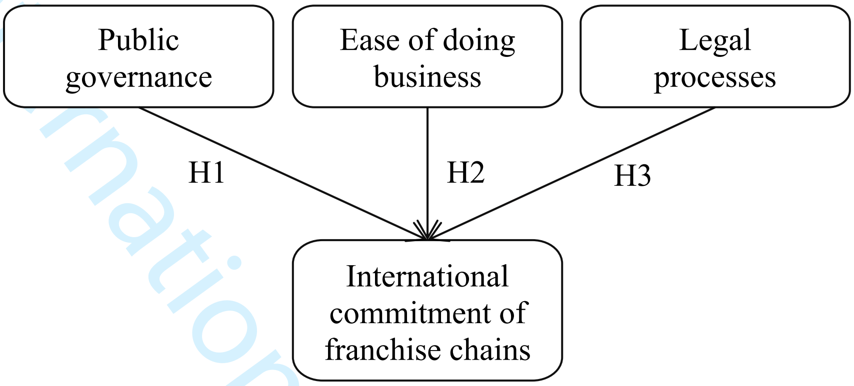
Variables	Model 1 Emerging countries				Model 2 Developed countries			
Independent variable	**Global**		**Regional**		**Global**		**Regional**	
Governance	-.064	-1.820	-.105	-2.605**	.332	14.457**	.439	5.871**
Business	.160	4199**	.286	6.630**	.239	10.418**	.308	5.606**
Legal	.263	7332**	.338	8.045**	-.063	-2.753**	.029	.372
Control variable								
Market size	.027	0.701	.239	5.536**	.114	4.978**	-.065	-.935
F	21.716**		45.860**		84.275**		20.720**	
R^2 adjusted	.100		.291		.173		.160	
N	909		539		2039		486	

Dependent variable: International commitment

** p <0.01, * p <0.05

Source: Authors' computations

Figure 1: Research framework



Source: Authors.