DO ESG PRACTICES INTERFERE WITH THE FINANCIAL RESULTS OF FRANCHISE CHAINS?

ABSTRACT

The franchise sector in Brazil has experienced robust growth, contributing significantly to the country's economy. In this scenario, Environmental, Social and Governance (ESG) practices emerge as critical factors that can influence the financial performance of franchise chains. This quantitative study aims to investigate whether the adoption of ESG practices is associated with superior financial performance in Brazilian franchises. Using a sample of 138 franchise chains, multiple linear regression models were used to analyze the relationship between ESG practices and financial performance, considering control variables such as chain age and sector of activity. The results indicate that, although ESG practices do not present a significant direct relationship with financial performance, the combination of governance practices with environmental or social aspects reveals positive and robust effects. Furthermore, the heterogeneity in the adoption of ESG practices across different retail sectors highlights the need for personalized strategies. The implications of this study are relevant from both a theoretical and managerial point of view, offering insights into how the integration of ESG practices can be an effective strategy to improve financial performance and strengthen the sustainability of franchise chains in Brazil.

KEYWORDS: Franchise chains; ESG; Financial performance, Sustainability; Corporate governance.

1. INTRODUCTION

Environmental, social and governance (ESG) practices have emerged as a central theme in recent years, driven by a growing awareness of sustainability and corporate responsibility. Especially given the challenges posed by the Covid-19 pandemic, the ability to adapt demonstrated by companies during the pandemic, as discussed by Grezole and Bueno (2023), highlights the need for organizational resilience to sustain effective ESG practices. Companies from different sectors face increasing pressure from stakeholders to adopt and implement ESG practices (Duque-Grisales & Aguilera-Caracuel, 2021; M. A. Khan, 2022). The disclosure of ESG practices, linked to sustainability reports, is fundamental to improving corporate reputation and reducing information asymmetry between the company and its stakeholders (Odriozola & Baraibar-Diez, 2017).

In today's global market, franchising is recognized as an effective method of business operation and growth. A franchise is a license granted by the franchisor to the franchisee, allowing the latter to use the franchisor's brand, business techniques and secret procedures to sell goods and services. The franchisee typically pays the franchisor an initial cost and annual licensing fees in exchange for obtaining a franchise (Jang & Park, 2019). The agreement between franchisors and franchisees details the division of profits generated by the franchise business (Lee et al., 2021). Franchising is crucial to modern businesses due to its significant role as an engine of growth, offering thousands of options for small business owners and millions of job opportunities (Khan, 2013).

Despite the growing importance of ESG practices and the franchising model, the sector has received little academic attention in this context. Empirical studies on the success of franchise chains are more common than those focused on sustainability (Gorovaia & Windsperger, 2010). A bibliometric analysis and systematic review revealed a gap in the

literature on ESG in franchising, highlighting the need for additional research in this area (Carlsson Hauff & Nilsson, 2023; Rounok et al., 2023).

In this scenario, the present study aims to analyze the relationship between ESG practices and financial performance in franchise chains in Brazil. Franchising, which represents 10% of the Brazilian retail sector and employs approximately 1.6 million people, offers a unique context to explore the interaction between sustainability and business management (ABF, 2022). This study adopts stakeholder theory, which suggests that corporate social responsibility practices can improve relationships with stakeholders (Freeman, 2010), and resource-based theory, which indicates that larger companies are more likely to deliver superior performance in ESG practices (Barney, 1991).

The relationship between ESG and financial performance has been the subject of contradictory studies. While some studies point to a positive impact of ESG on financial performance (Aboud & Diab, 2018; Eliwa et al., 2021; Friede et al., 2015), others found negative effects (Jha & Rangarajan, 2020; Shahbaz et al., 2020) or did not identify a significant relationship (Hasan et al., 2021; Jha & Rangarajan, 2020; Shahbaz et al., 2020). This divergence in results highlights the complexity of the relationship between ESG and financial performance and the need for more research, especially in the context of franchises.

Given this gap, the present study aims to investigate whether franchise chains that disclose ESG practices have superior financial performance compared to franchise chains that do not disclose such practices. This research is particularly relevant in the Brazilian context, where the franchise market has demonstrated robust growth and represents a significant portion of the retail sector (ABF, 2022). By exploring the relationship between ESG and financial performance in franchise chains, this study seeks to contribute to academic literature and offer practical insights for franchise chain managers interested in the intersection between sustainability and business management.

2. LITERATURA REVIEW

2.1. Resource-based theory

This approach emphasizes that companies have fundamental resources and capabilities to maintain lasting competitive advantages (Barney, 1991). Differences in company performance often result from variations in intangible resources, which are difficult to acquire, develop and replicate. The growing importance of ecological and social issues suggests the need to incorporate them into the RBV, enhancing new competitive paths. Hart (1995) provides a robust framework for this integration, indicating that environmental and social pressures can stimulate the creation of intangible resources, serving as sources of competitive advantage. Furthermore, economic crises such as the COVID-19 pandemic highlight the importance of robust ESG practices for organizational resilience (Mesquita et al., 2024).

On the other hand, engaging in ESG practices requires a significant commitment of corporate resources, such as financial investments and human resources, which can represent distractions and financial burdens, affecting competitiveness and increasing uncertainty (Sun & Gunia, 2018). These investments also raise concerns about companies' ability to manage their core activities, affecting the stability of cash flows and potentially putting socially responsible companies at a competitive disadvantage (Bhandari & Javakhadze, 2017). In addition, increased ESG activities can lead to conflicts between different stakeholders, reduce adaptability to market changes and cause managers to pursue their own interests to the detriment of the company's objectives (Chen et al., 2018).

Sharma et al. (2019) investigated the impact of ESG practices on financial performance using resource-based theory in an emerging economy. They found that, while environmental disclosure may be inversely related to financial indicators, social practices positively impact

financial performance, especially in large organizations, contributing to a sustainable competitive advantage. This study highlights the complexity of the effects of ESG practices, showing how different resources can generate different financial returns, and highlights the importance of a strategic approach when implementing such initiatives.

In a comprehensive study, Tahmid et al. (2022) observed that social and environmental practices significantly improve the financial performance of companies, strengthening the workforce, human rights and the environment, which contributes to a sustainable competitive advantage according to the RBV. In contrast, governance practices had a negative impact, indicating that not all ESG dimensions are equally effective. This finding emphasizes the importance of a selective and strategic approach in implementing governance practices, aiming to align these initiatives with stakeholder expectations and maximize returns on investments in sustainability.

As noted, there is considerable ambiguity in studies on the impact of ESG practices on companies' financial performance, with research revealing both positive and negative effects of social, environmental and governance initiatives. This variability reflects the dependence of the effectiveness of these practices on contextual factors, such as the sector, the size of the company and the geographic region in which they operate. This research seeks to more deeply understand the relationship between ESG and financial performance specifically in the context of franchise chains, investigating how ESG practices influence financial performance in this sector.

2.2. Stakeholder theory

Stakeholders can be defined as individuals or groups that can influence or be affected by the achievement of the organization's objectives (Freeman, 2010), and the theory suggests that the true success of a company lies in the satisfaction of all stakeholders, not just shareholders. It further proposes that the interests of all stakeholders should be considered as the main objective of managers (Freeman et al., 2021), and that managing in favor of stakeholders does not inherently require a commitment to a company's financial performance. Also, a significant body of research in the domain of stakeholder management demonstrates that a company's performance can be increased when it responds to the needs of its stakeholders (Deng et al., 2013; Gillan et al., 2021).

However, ESG practices, when analyzed from a more detailed lens, reveal greater complexity in their relationships with financial performance. According to Mardini (2022), environmental and governance factors have a positive impact on the market evaluation of companies, which reinforces the notion that sustainable and good governance practices can improve the perception of the company's value by stakeholders. On the other hand, the social factor showed a significant negative impact on market indicators, suggesting that, although essential for corporate sustainability, they can imply immediate costs that do not translate into short-term financial benefits.

Conversely, other academics believe that stakeholder dissatisfaction can harm productivity and compromise a company's future. The satisfaction of diverse stakeholder groups significantly encourages increasing economic performance (Orlitzky et al., 2014). According to the stakeholder concept, a company's dedication to reporting non-financial variables is linked to the connections between the various stakeholders. Companies can better choose the evidence to include in their sustainability report, involving stakeholders (Saini et al., 2023). Following the same reasoning, Li et al. (2021), they suggest that companies that respond better to stakeholders' ESG requirements will perform better than irresponsible companies.

Based on the above, ESG practices play a prominent role in contemporary business management and interactions with stakeholders. However, it is crucial to investigate whether these practices influence the financial performance of companies in the retail context, a topic

that has been little explored and suggested in bibliometric studies conducted by Carlsson Hauff & Nilsson (2023) and Rounok et al. (2023).

2.3. ESG and the financial performance of franchise chains

Economic sustainability is an increasingly present concern in companies, given its importance for long-term survival and success. It is achieved when companies can balance their financial results with the needs of stakeholders, such as employees, suppliers, customers and local communities (Hastalona & Sadalia, 2021). It is also related to the company's ability to generate economic value, maintaining competitiveness and long-term profitability (J. Chen & Yang, 2021). To achieve this sustainability, it is necessary to adopt responsible and efficient financial management practices, which promote the good use of financial resources and reduce operational costs (Hastalona & Sadalia, 2021).

In the context of franchises, the implementation of ESG practices demonstrates important impacts on corporate image and the long-term orientation of consumers. According to a study carried out by Wan (2023), it was identified that environmental and social factors of ESG practices contribute positively to companies' image and strengthen customers' long-term loyalty. However, governance aspects did not show a significant effect on long-term orientation, indicating possible consumer distrust regarding the effectiveness of corporate governance. These results highlight the complexity of ESG practices in franchising, where some areas may yield tangible benefits, while others may require additional efforts to achieve positive results perceived by consumers.

Studies such as that of Pereira et al. (2020) augment this perspective by demonstrating that stakeholders' positive perception of ESG practices can not only enhance corporate image but also bolster profitability and long-term financial stability. This study noted that, despite the presence of a positive relationship between social and financial performance, the intensity and direction of this relationship can vary significantly depending on the transparency and governance practices involved.

In franchising, it is crucial to analyze the franchisors' ability to meet the needs of franchisees, who are important stakeholders. Although economic sustainability is essential, it is not sufficient to guarantee the company's overall sustainability. Franchisors must create economic stability and value for franchisees by developing trusting relationships (Closs et al., 2011). Alon et al. (2011) note that franchisees' needs are generally linked to financial clauses, such as franchise fees and royalties, but there are no requirements related to social, environmental or governance responsibility. Besides, most studies on franchising have been conducted in developed countries, leaving a gap in how economic sustainability is approached in developing countries (Mukhtarov, 2022).

Despite the insights provided by the few existing studies on the interaction between ESG practices and financial performance in the franchise sector, there remains a significant gap in understanding specifically how these practices impact different types of franchise chain in different geographic areas. Most research, as highlighted by Chen and Yang (2021) and Hastalona and Sadalia (2021), focuses on large corporations or specific sectors, leaving little explored the effect of ESG practices on smaller franchise chains or in emerging markets, where economic and cultural conditions can significantly differentiate sustainability dynamics. This research seeks to fill this gap by exploring how ESG practices can be adapted and implemented in diverse franchise contexts to optimize both corporate image and financial performance, considering local and sectoral specificities.

3. HYPOTHESES

3.1. Environmental Dimension

The adoption of environmental practices has become increasingly relevant, extending beyond sectors traditionally associated with pollution, also reaching the services and retail sectors (Baah et al., 2020; Chan & Hsu, 2016). In franchising, this trend brings into focus the influence of franchisees, employees, local communities and local governments (Kim & Lee, 2020). Although there may be an alignment of interests between franchisees and franchisors (Hörisch et al., 2014), the concern of franchisees with short-term profitability may contrast with the vision of long-term sustainability (Barthélemy, 2011).

Perrigot et al. (2021) highlight that the effective implementation of environmental practices in franchise chains depends significantly on the dynamics between stakeholders. The central position of franchisees, with their ability to influence employees and customers, is crucial to promoting sustainability. The variety of franchises requires environmental strategies adapted to their specific characteristics, especially in sectors such as food and beverages, where the environmental impact is accentuated using packaging and waste generation (Correa-García & Vásquez-Arango, 2020; X. Liu et al., 2021).

Including the perspective of resource dependence theory (Pfeffer, 1992; Tiew et al., 2015), we observe that franchisees with control over critical resources play a fundamental role in the adoption of environmental practices. Additionally, increased environmental awareness among consumers puts additional pressure toward more sustainable practices (Watson et al., 2020).

Therefore, we formulate a hypothesis that is based on the idea that franchise chains that effectively engage their franchisees, control critical resources and meet consumers' environmental demands, as discussed by Perrigot et al. (2021) and can achieve improved financial performance. Given this, we can deduce:

Hypothesis 1: Franchise chains that adopt environmental practices present superior financial performance compared to franchise chains that do not adopt them.

3.2. Social Dimension

Corporate social responsibility is a form of participation and contribution to social activities and other activities inside and outside the company with the aim of reducing social inequality in the environment, developing the environment, prospering people's lives, as well as improving and building the economy to make it more sustainable (Hermawan et al., 2023).

It is essential to recognize the growing importance of corporate social responsibility practices in franchise chains. As highlighted by Le Bot et al. (2022) social initiatives are fundamental for stakeholder management and brand reputation, potentially influencing financial performance. Franchises face unique challenges in implementing such practices due to the independent nature of franchisees. It is crucial to align the franchisor's social responsibility practices with those of franchisees to ensure consistency and effectiveness (Le Bot et al., 2022).

Corporate social responsibility has become an area of growing interest. It is evidenced by the influence that these practices have on stakeholder management and brand perception, as highlighted by Perrigot et al. (2015, 2021). This relevance is even more pronounced in franchising, where consistency between the actions of the franchisor and franchisee is crucial to the overall effectiveness of the business model.

However, implementing social responsibility in a franchise environment presents unique challenges. As Meiseberg & Ehrmann (2012) note, franchisee autonomy can lead to a

lack of uniformity in such practices, which requires a conscious effort to align goals and actions between all parts of the chain.

The impact of social practices on franchise financial performance is an area of particular interest. Studies such as those by Jeon and Gleiberman (2017) and Kim and Lee (2020) suggest that social responsibility can lead to an increase in customer loyalty and operational efficiency. These factors can contribute to stronger financial performance, indicating that franchises with robust practices can not only promote social good but also experience tangible financial benefits.

However, research on corporate social responsibility in franchising, although limited, offers some valuable insights. As noted by Jell-Ojobor (2019); Meiseberg and Ehrmann, (2012) and Perrigot et al. (2015) the study of social responsibility practices in franchises reveals several determinants of their performance, including the characteristics of the chain (Choi & Lee, 2018) and managerial aspects (Jell-Ojobor, 2019; Jeon & Gleiberman, 2017). These studies also highlight the consequences of CSR practices on brand image (Perrigot et al., 2015; Utgård, 2018) and explore franchisors' communication about their social activities (Meiseberg & Ehrmann, 2012; Sebastiani et al., 2014). Given this:

Hypothesis 2: Franchise chains that adopt social practices present superior financial performance compared to franchise chains that do not adopt them.

3.3. Governance Dimension

Governance is a system established to balance and coordinate in a stable and long-term manner the relationships between company management and stakeholders, such as shareholders, employees, suppliers, customers and the community, fully considering the economic and non-economic interests of all involved parties (Clarkson et al., 2019). Governance aims to promote the creation of long-term value for the company and society, through the integrated and sustainable management of risks and opportunities related to the environment, social issues and governance (Serafeim, 2020).

In the context of corporate governance in franchise chains, academic literature highlights the importance of governance practices as a critical factor for financial and operational success (Ludvigsson-Wallette & Lawrence, 2020). Bradach and Eccles' (1989) research on the relational nature of franchising highlights the importance of trust and cooperation between franchisors and franchisees, a fundamental pillar of governance. Additionally, studies such as Shane (1998) highlight how effective governance can mitigate conflicts and align interests between parties.

The stakeholder-oriented approach, emphasized by Freeman (2010), is particularly relevant in franchising, where the satisfaction of franchisees, customers and employees is crucial. Implementing governance practices that consider all stakeholders can lead to a better reputation, greater loyalty and, ultimately, superior financial performance. In this sense, it requires the company to establish a management structure that considers the economic, social and environmental impacts of its activities, as well as transparency and accountability for all stakeholders (Clarkson et al., 2019).

Moreover, the integration of ESG criteria into governance practices, as discussed by Eccles and Serafeim (2013), can improve the sustainability and social responsibility of franchises, resulting in competitive and financial advantages.

The adoption of good governance practices can lead to economic benefits, such as increasing the company's profitability and value, as well as social benefits, such as improving the company's image and reputation among society and its stakeholders (Friede et al., 2015). However, the franchise industry in Brazil is still lagging behind in adopting ESG governance practices, indicating a gap between theory and practice. Although some studies have addressed

the impact of ESG on financial performance in the context of franchises (Jabbour, 2013), there is still a lack of research on governance mechanisms that can promote ESG practices in franchises. Therefore, there is a need for more recent studies that examine the effects of ESG practices on different stakeholders and how they are related to franchise performance (P. Liu et al., 2022). Thus, we can deduce:

Hypothesis 3: Franchise chains that adopt governance practices present superior financial performance compared to franchise chains that do not adopt them.

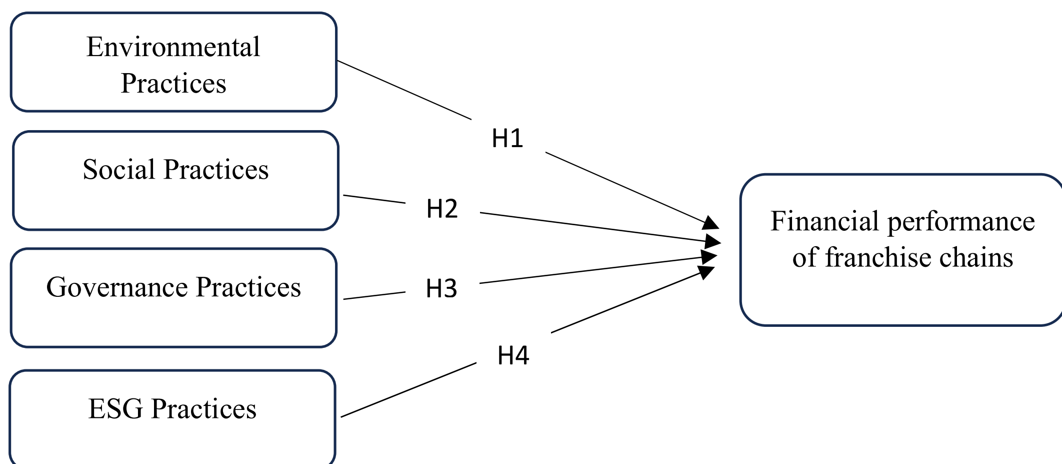
3.4. ESG Dimension

The analysis of the literature on franchising revealed a predominance of empirical studies related to the success of franchise chains, highlighting the lack of focus on ESG themes (Gorovaia & Windsperger, 2010; Iddy, 2020). Bibliometric research and systematic reviews have addressed various facets of franchising, such as knowledge management, internationalization, market selection and relationships between franchisees and franchisors (Alon et al., 2021; Bretas & Alon, 2021; Bui & Jambulingam, 2022; Iddy & Alon , 2019) However, the reviewed literature did not significantly address issues related to corporate social responsibility and sustainability in the context of franchising, suggesting a gap that deserves attention in future studies (Zhu et al., 2023).

Although there is evidence that the adoption of sustainable practices can boost companies' financial performance, the lack of empirical research that explores this relationship in the context of franchises is notable (Jang & Park, 2019). The few studies on sustainability in franchising have been carried out in developed countries, leaving open the question of how economic sustainability is addressed in developing country contexts (Mukhtarov, 2022). Hence, this research focuses on filling this gap and will specifically address the intersection between franchising and ESG practices. Therefore:

Hypothesis 4: Franchise chains that adopt combined ESG practices present superior financial performance compared to franchise chains that do not adopt them.

Figure 1: Research Framework



Source: Authors

4. METHODOLOGY

4.1. Data and sample collection

The data was collected from the "Guia de Franquias", audited by Serasa Experian and published by the magazine "Pequenas Empresas e Grandes Negócios (PEGN)", and from the "Guia Oficial de Franquias" of the Brazilian Franchising Association (ABF). These sources provided a sample of 138 franchise chains operating in Brazil, classified as 5-star chains, for the years 2021 to 2023. The financial performance of franchise chains, the dependent variable, was evaluated based on the chain performance data for 2022 and 2023. An analysis of ESG practices reported by franchises on their corporate websites was carried out, using measurement indicators based on the study by Sica et al. (2023), which focuses on defining metrics, criteria and performance indicators for ESG-based valuation practices. The methodology used in this analysis follows a similar approach to that of Viana et al. (2022) who explored the relationship between satisfaction and performance in franchise chains using complex analytical techniques.

Franchise ESG practices were examined in the context of economic changes arising from the Covid-19 pandemic, enabling a comprehensive analysis of franchise performance throughout different stages of the pandemic and the identification of trends over three years. The choice to consult the companies' own websites to obtain information about ESG practices was motivated by the limited adherence to the Corporate Sustainability Index (ISE B3) in Brazil and the fact that many franchise chains are privately held, making access to these difficult. information for investors. This method of collecting secondary data has been used in previous studies on franchising and is essential to ensure the relevance and validity of research results.

To analyze the information on ESG practices that each franchise reports on its corporate website, the measurement indicators are described in Table 1. These indicators are supported by the study by Sica et al. (2023), which migrated from a traditional sustainability model of three pillars (economic, social and environmental) with a focus on defining metrics, criteria and performance indicators that can be used to support valuation practices based on ESG (Environmental, Social and Governance).

Table 1: Independent variables

Environmental (E)	Social (S)	Governance (G)
Climate change management and reduction	Promote community growth and inclusion	Business ethics and efficiency, risk mitigation, sustainable achievement of goals
Sustainable use and protection of water resources	Responsible marketing and investment practices	Preventing adverse or unethical governance practices
Diffusion of clean technologies to ensure the sustainable use of natural resources	Consumer protection and respect	Transparency in remuneration and tax planning
Waste management and recycling strategies	Promote sustainable social development	Transparency in sustainability objectives and targets
Installation, maintenance and repair of renewable energy technologies	Ensure respect for human rights	Moral principles and values in behavior and decision-making
Planning, implementing, monitoring and improving practices and policies to reduce negative environmental impacts	IT security and data protection and privacy	Responsible lobbying and political involvement

Protection and restoration of biodiversity and ecosystems	Promote equality and non-discrimination at work	Protect integrity by preventing corruptive phenomena
Optimization and efficiency of the production and distribution process of goods, products and services	Ensure healthy and safe products and services	Diversity of board members
Pollution prevention and control	Promote respectable working conditions	Effective and transparent brand management
Integration of eco-efficiency practices in production processes (products and services)		

Source: Adapted from Sica; Tajani; Sáez-Pérez & Marín-Nicolás (2023).

As a result, what was identified on each website is the existence or not of information on the ESG indicators developed in Table 1, coding them with «1» if they reported activities for at least one indicator, and «0» if they did not report any activity. This data access approach is aligned with the concept of materiality (Adams et al., 2021; M. Khan et al., 2016). The results obtained were organized into the sample profile, as shown in Table 2.

Table 2: Sample profile

SECTOR	FRANCHISE CHAINS	ESG PRATICES 2021	
		# CHAINS	PARTICIPATION
FOOD	25	9	36%
CAFETERIA AND CONFECTIONERY	11	5	45%
HOUSE AND CONSTRUCTION	11	5	45%
COSMETICS, PERFUMERY AND PHARMACY	7	2	29%
CULTURE AND LEISURE	5	0	0%
LANGUAGE TEACHING	8	4	50%
HEALTH AND WELLNESS	23	9	39%
AUTOMOTIVE SERVICES	2	1	50%
CLEANING AND MAINTENANCE SERVICES	7	7	100%
GENERAL SERVICES	14	4	29%
TRAINING AND COURSES	12	5	42%
CLOTHING, FOOTWEAR AND ACCESSORIES	13	10	77%
TOTAL	**138**	**61**	44%

Source: Authors

5. RESULTS ANALYSIS

5.1. Analytical Procedures

To reduce the possibility of simultaneity influence, a lag was used with the variation of the dependent variable together with the independent variables of interest. In this way, the chain performance variable (DES_REDE) was calculated as the difference between the years 2023 (DES_REDE_23) and 2022 (DES_REDE_22), representing the variation (Δ) present in that period (DES_{23-2}). The independent variables are related to the lag equivalent to the year 2021. The simplified formal specification of the model is presented below,

$$DES_{\Delta(23-22)} = \beta_0 + \beta_1 * ESG_{21} + \sum sector$$

where β_0 represents the intercept, $\beta_1 * ESG_{21}$ represents the effects to be captured by the hypotheses of interest and $\sum$ $sector$ represents the fixed effects of the sectors. The central idea of this model is to separate the variability contained in past events from the variation occurring in the next moment – avoiding the same temporal cohort for independent and dependent variables (Wooldridge, 2012). To this end, an ordinary least squares estimation was used in the software R (Hothorn et al., 2022; Zeileis & Lumley, 2022) – this estimation considered the robust correction for standard errors (Zeileis & Lumley, 2022).

5.2. Results Analysis

According to Table 3, governance practices are those that have the lowest proportion among the companies analyzed in the present study, varying between 20% and 25%. The other two dimensions also increase over time but are already more expressive at the beginning of the adopted historical series. Since at least 25% start adopting 'E' and 'S' in 2021, a feat achieved by 'G' in 2023 (see third quartile, Q3). The average performance is close to grade 7 in the three years analyzed.

Table 3: Sample Description

Variables	Average	SD	Min.	Q1	Q2	Q3	Max.
DES_REDE_21	7.00	1.52	0.00	6.31	7.26	7.80	9.53
DES_REDE_22	7.10	1.45	0.00	6.39	7.29	8.00	9.32
DES_REDE_23	6.80	1.78	0.00	6.35	7.12	7.74	9.23
DES_REDE	-0.24	1.04	-3.48	-0.68	-0.22	0.32	3.11
E_21	0.30	0.46	0.00	0.00	0.00	1.00	1.00
S_21	0.35	0.48	0.00	0.00	0.00	1.00	1.00
G_21	0.20	0.40	0.00	0.00	0.00	0.00	1.00
ESG_21	0.16	0.37	0.00	0.00	0.00	0.00	1.00
E_22	0.33	0.47	0.00	0.00	0.00	1.00	1.00
S_22	0.36	0.48	0.00	0.00	0.00	1.00	1.00
G_22	0.23	0.42	0.00	0.00	0.00	0.00	1.00
ESG_22	0.19	0.39	0.00	0.00	0.00	0.00	1.00
E_23	0.37	0.48	0.00	0.00	0.00	1.00	1.00
S_23	0.41	0.49	0.00	0.00	0.00	1.00	1.00
G_23	0.25	0.44	0.00	0.00	0.00	0.75	1.00
ESG_23	0.23	0.42	0.00	0.00	0.00	0.00	1.00

Source: authors

In general, the results expressed in the correlation matrix (Table 4) mean that the ESG variables have a significant correlation with each other (p-value < 0.01 in all coefficients). The direction of the coefficients is also the same for all findings, with the positive sign being an expression that on average those franchises that have one practice also have the other and vice versa. While the strongest correlations (above .90) are those between the same practices, but with the exact previous or next moment in time – a result that represents that companies maintain the practices in the short term. It is also possible to highlight that the performance variables have a positive and significant correlation.

Table 4: Correlations

	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	DES_REDE_21		0.012	0.041	0.915	0.130	0.611	0.469	0.894	0.127	0.470	0.355	0.646	0.440	0.370	0.217	0.000
2	DES_REDE_22	0.70		0.000	0.370	0.180	0.276	0.399	0.677	0.098	0.082	0.216	0.953	0.279	0.057	0.072	0.000
3	DES_REDE_23	0.23	0.35		0.433	0.555	0.993	0.445	0.623	0.609	0.835	0.566	0.982	0.355	0.485	0.828	0.000
4	DES_REDE	-0.19	-0.40	0.48		0.720	0.478	0.113	0.234	0.337	0.176	0.055	0.196	0.207	0.318	0.097	0.000
5	E_21	-0.01	-0.08	-0.07	-0.09		0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
6	S_21	0.14	0.12	0.05	-0.03	0.49		0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
7	G_21	0.05	0.09	0.00	-0.06	0.60	0.60		0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
8	ESG_21	0.07	0.07	-0.07	-0.14	0.67	0.60	0.88		0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
9	E_22	0.01	-0.04	-0.04	-0.11	0.92	0.45	0.54	0.62		0.000	0.000	0.000	0.000	0.000	0.000	0.000
10	S_22	0.14	0.14	0.04	-0.09	0.47	0.91	0.58	0.58	0.55		0.000	0.000	0.000	0.000	0.000	0.000
11	G_22	0.07	0.15	0.02	-0.12	0.51	0.50	0.90	0.79	0.59	0.62		0.000	0.000	0.000	0.000	0.000
12	ESG_22	0.08	0.11	-0.05	-0.17	0.58	0.50	0.79	0.90	0.68	0.64	0.88		0.000	0.000	0.000	0.000
13	E_23	0.04	0.01	0.00	-0.12	0.85	0.42	0.53	0.57	0.92	0.52	0.61	0.63		0.000	0.000	0.000
14	S_23	0.07	0.09	0.08	-0.11	0.40	0.82	0.52	0.53	0.48	0.91	0.59	0.58	0.53		0.000	0.000
15	G_23	0.08	0.16	0.06	-0.09	0.46	0.48	0.85	0.75	0.58	0.60	0.94	0.83	0.66	0.64		0.000
16	ESG_23	0.11	0.16	0.02	-0.15	0.49	0.48	0.74	0.81	0.61	0.61	0.86	0.90	0.70	0.65	0.92	

Source: authors

The initial models presented in Table 5 are the first tests to explore the relationship between the independent and dependent variables. Between models M1 and M3, the isolated effects of each hypothesis are tested, M1 tests for ‘E’, M2 tests for ‘S’ and M3 tests for ‘G’. In none of them it is possible to find a significant effect (p-value > 0.1). The same result can be described in relation to the last model, M4, which combines all independent variables – also without a result that represents the same direction as the hypotheses. This result reflects the same significance found in the correlation coefficients and the simplicity of these initial models may be the cause of similar findings. However, this is the purpose of sensitivity analysis, to understand the different layers of relationships between variables.

Table 5: Testing initial models

	M1			M2			M3			M4		
Variables	**β**	**sig.**		**β**	**sig.**		**β**	**sig.**		**β**	**sig.**	
E_21	-0.019	0.952								-0.040	0.896	
	(0.321)									(0.303)		
S_21				0.193	0.422					0.315	0.141	
				(0.239)						(0.212)		
G_21							-0.122	0.746		-0.291	0.462	
							(0.376)			(0.393)		
Intercepto	-3.461	0.002	**	-3.673	0.001	***	-3.358	0.002	**	-3.465	0.002	**
R^2 adjusted	3.6%			4.4%			3.8%			2.8%		

Source: authors

First, in hypothesis H1 it is stated that "Franchise chains that adopt environmental practices present superior financial performance in relation to franchise chains that do not adopt them". This direct result was not significant (p-value > 0.1) but can be confirmed by the indirect effect when combined with governance (p-value < 0.01).

Second, for hypothesis H2 it is stated that "Franchise chains that adopt social practices present superior financial performance in relation to franchise chains that do not adopt them". The result of the direct effect was not found in accordance with what was described in the hypothesis (p-value > 0.1), but it exists when combined with governance (p-value < 0.01).

Third, hypothesis H3 states that "Franchise chains that adopt governance practices present superior financial performance relative to franchise chains that do not adopt them". The evidence for the direct effect is rejection of the hypothesis, because even when finding statistical significance (p-value < 0.01), the result points in the opposite direction of the hypothesis – with governance decreasing performance. The other side of the coin for partial confirmation of this hypothesis are the indirect effects mentioned in the last two paragraphs.

The result found points to the rejection of hypothesis H4, "Franchise chains that adopt combined ESG practices present superior financial performance compared to franchise chains that do not adopt them". For this hypothesis, by having the practices of 'E', 'S' and 'G' at the same time it is possible to see a negative impact on the performance obtained subsequently. The next three hypotheses are partially confirmed by the results obtained indirectly in interactions between practices, as the exclusive and direct effects point to their rejection.

Between hypotheses H1 and H3, Table 6, it is possible to highlight an interesting result in the patterns found in the analyses. The two positive effects found are from other practices with ‘G’. This means that when combining governance with environment or governance with social it is possible to observe an increase in performance. On average, this increase is 4 points for the first case and 2.9 for the second.

The non-significance found in the previous models (namely, the initial ones) may point to evidence that the effects found in the interactions represent a strong moderation. This concept represents the strongest type of combination between two variables, when they alone do not produce effects on the dependent variable – only when combined (Baron & Kenny, 1986). Additionally, it is possible to describe that ESG practice variables explain a restricted slice of the total existing performance variability. In the present study, an R^2 greater than 5% was not found, meaning that other variables can still be added to understand this phenomenon.

Table 6: Testing final models

	M1			M2			M3			M4		
Variables	**β**	**sig.**		**β**	**sig.**		**β**	**sig.**		**β**	**sig.**	
E_21	-0.297	0.508		-0.140	0.669		-0.052	0.866		-0.514	0.276	
	(0.446)			(0.327)			(0.305)			(0.468)		
S_21	0.221	0.333		0.328	0.133		0.273	0.213		0.149	0.549	
	(0.227)			(0.216)			(0.217)			(0.247)		
G_21	-0.358	0.360		-0.651	0.200		-0.960	0.297		-2.740	0.000	***
	(0.389)			(0.503)			(0.913)			(0)		
Interactions												
E_21 * S_21	0.432	0.459								0.796	0.259	
	(0.581)									(0.699)		
E_21 * G_21				0.525	0.455					4.059	0.000	***
				(0.699)						(0.638)		
S_21 * G_21							0.738	0.427		2.888	0.000	***
							(0.923)			(0.266)		
E_21 * S_21 * G_21										-4.602	0.000	***
										(0.678)		
Intercepto	-3.478	0.002	**	-3.541	0.002	**	-3.479	0.002	**	-3.515	0.002	**
R² adjusted	2.0%			2.0%			2.1%			3.7%		

Source: authors

6. DISCUSSION OF RESULTS

This study investigated the relationship between Governance, Social and Environmental (ESG) practices and financial performance in franchise chains in Brazil. The results indicated that individual ESG practices did not have a significant direct relationship with financial performance (H1, H2 and H3 not significant). However, when environmental practices (E) are combined with governance practices (G) and social practices (S) are combined with governance (G), we observe positive and robust effects on financial performance.

The lack of direct significance of individual ESG practices can be attributed to several factors. Firstly, the complexity of ESG practices and the need for an integrated approach to obtain financial benefits can make it difficult to identify direct effects (Hasan et al., 2021; Shahbaz et al., 2020). Furthermore, the isolated adoption of ESG practices may not be sufficient to generate positive financial impacts, as suggested by Di Giuli and Kostovetsky (2014).

Additionally, the study by Pereira et al. (2020) highlights that stakeholders' positive perception of ESG practices can not only enhance corporate image but also strengthen profitability and long-term financial stability. This finding suggests that beyond the ESG practices themselves, the way they are perceived by stakeholders can be crucial to the observed financial impact, complementing the view that integrating ESG practices can enhance the financial performance of franchise networks

On the other hand, the positive effects found when ESG practices are combined, especially the combination of E and G, as well as S and G, highlight the importance of governance in facilitating and enhancing the benefits of environmental and social practices. This is in line with resource-based theory (Barney, 1991) and stakeholder theory, which emphasize the need for integrated and strategic management of resources and stakeholders to achieve competitive advantages and superior financial performance (Eliwa et al., 2021; Friede et al., 2015).

Analysis of the sample profile reveals significant variations in the adoption of ESG practices between different retail sectors. While sectors such as "Cleaning and Maintenance Services" and "Clothing, Footwear and Accessories" have high adoption rates, with 100% and 77% respectively, other sectors such as "Food" (36%), "Health and Wellbeing" (39%) and "Cosmetics, Perfumery and Pharmacy" (29%) demonstrate a moderate to low adoption of ESG practices, despite being areas often associated with sustainability concerns.

The low adoption of ESG in retail sectors, which are intrinsically linked to sustainability, raises questions about the importance given to investing in ESG practices. Recent studies, such as that by Saini et al. (2023), suggest that a company's dedication to reporting non-financial variables is linked to the connections between the various stakeholders. Companies that are more responsive to stakeholders' ESG requirements tend to perform better than irresponsible companies (Li et al., 2021). Therefore, low ESG adoption in some retail sectors may represent a missed opportunity to improve financial performance and brand reputation.

The results of this study have significant practical implications for franchise chain managers. They suggest that the adoption of ESG practices must be accompanied by strong governance to maximize financial benefits. The integration of governance practices with environmental and social practices can be an effective strategy to improve the financial performance of franchise chains. Heterogeneity in ESG adoption highlights the need for a more strategic and inclusive approach to implementing sustainable practices.

In conclusion, this study highlights the need for a change in perspective regarding ESG practices in the retail sector. While combining environmental, social and governance practices can bring robust financial benefits, inconsistent adoption across different sectors suggests a missed opportunity for many franchise chains. The findings challenge businesspeople to reflect on what they really value: short-term financial performance or long-term sustainability and responsibility? The discrepancy in ESG adoption across different sectors suggests that while the rhetoric around sustainability is popular, concrete practice is not yet widespread.

Therefore, it is imperative to question whether franchise chain managers are truly committed to integrating ESG practices into their business strategies or whether these practices are merely adopted as a facade to meet market expectations. This study serves as a provocative reminder that the true value of ESG practices goes beyond financial performance, lying in building an ethical brand and contributing to a sustainable future. The challenge for business owners is to balance these imperatives authentically and effectively.

7. FINAL CONSIDERATIONS

This study aimed to investigate the relationship between Governance, Social and Environmental (ESG) practices and financial performance in franchise chains in Brazil. We used a quantitative approach, based on the secondary data collection method, with a sample of 138 franchise chains operating in Brazil. We used multiple linear regression models to compare franchise chains that disclose ESG practices with those that do not, considering control variables such as the age of the chain and the sector in which it operates (Correa-García & Vásquez-Arango, 2020; Kim & Lee, 2020).

We found that although individual ESG (environmental, social and governance) practices do not have a significant direct relationship with financial performance, the combination of governance practices with environmental or social aspects results in positive and robust effects on financial performance. These findings are aligned with resource-based theory (Barney, 1991) and stakeholder theory (Freeman, 2010), which emphasize the importance of integrated and strategic management of resources and stakeholders to achieve competitive advantages and superior financial performance (Eliwa et al., 2021; Friede et al., 2015). Sample profile analysis also revealed significant variations in the adoption of ESG

practices across different retail sectors, highlighting the need for a more strategic and inclusive approach to implementing sustainable practices.

This study advances the theoretical understanding of the relationship between ESG practices and financial performance in franchise chains, contributing to the academic literature in the following aspects: First, by investigating the impact of Environmental, Social and Governance (ESG) practices on financial performance, this study expands the scope of stakeholder theory (Freeman, 2010) and resource-based theory (Barney, 1991), providing empirical evidence of how the integration of ESG practices can enhance the financial performance of franchise chains. Second, the results corroborate and expand previous studies that highlight the importance of governance in facilitating and enhancing the benefits of environmental and social practices (Eliwa et al., 2021; Friede et al., 2015), by demonstrating that the combination of governance practices with environmental or social aspects results in positive and robust effects on financial performance.

By identifying the low adoption of ESG practices in relevant sectors, such as Food, Health and Wellbeing, and Cosmetics, Perfumery and Pharmacy, this study brings new perspectives on the barriers to implementing ESG practices in these areas, suggesting the need for further investigation more in-depth information about the factors that influence this adoption. This finding contributes to the debate on the effectiveness of ESG practices and their impact on financial performance, enriching the academic dialogue on sustainability in the retail sector and providing a basis for future research to explore the specific dynamics of these sectors.

This study also addresses a gap in the literature by focusing on franchise chains in Brazil, a context little explored previously in research on ESG practices. In doing so, it offers insights into the Brazilian institutional environment and its influence on the adoption of ESG practices, contributing to the understanding of the variability in the implementation of these practices in different geographic and sectoral contexts.

From a managerial point of view, the results provide important insights for franchise chain managers, suggesting that the adoption of integrated ESG practices must be accompanied by strong governance to maximize financial benefits. Integrating governance practices with environmental and social practices can be an effective strategy to improve the financial performance of franchise chains and strengthen brand reputation. This highlights the importance of a holistic and strategic approach in managing ESG practices (Li et al., 2021; Saini et al., 2023).

In terms of social contribution, this study highlights the relevance of ESG practices for the retail sector, one of the main drivers of the economy. By promoting the adoption of ESG practices, franchise chains not only improve their financial performance, but also contribute to sustainable development and corporate social responsibility, aligning with the growing demands of consumers and stakeholders for ethical and sustainable business practices.

Regarding limitations, this study recognizes the need for a more in-depth analysis of the internal dynamics of franchise chains and the specific mechanisms through which ESG practices influence financial performance. Additionally, reliance on secondary data can limit the ability to capture industry-specific nuances and organizational culture.

For future studies, we recommend a more detailed investigation into the role of mediating and moderating variables in the relationship between ESG practices and financial performance, as well as carrying out longitudinal studies to understand the evolution of this relationship over time. Moreover, it would be valuable to explore the relationship between ESG practices and financial performance in different geographic and sectoral contexts to gain a more comprehensive understanding of the challenges and opportunities associated with implementing ESG practices.

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