How do ESG factors influence the internationalization of Brazilian franchise chains? A comparative study of developed and emerging economies

Abstract

This study analyzes the role of ESG (environmental, social, and governance) practices as factors that attract or hinder the internationalization of Brazilian franchise chains, comparing developed and emerging economies. The analysis draws on secondary data from 131 Brazilian franchise chains with confirmed international operations in 80 countries, totaling 1,515 franchised units. Using a quantitative approach and multiple regression models, the study examines the effects of ESG performance, institutional risks, and macroeconomic indicators in the host countries. The results indicate that, in developed economies, strong ESG performance enhances market attractiveness, whereas in emerging economies, governance-related ESG aspects play a more decisive role in mitigating risks. The findings suggest that the influence of ESG factors varies depending on the economic and regulatory context. This research contributes to the literature by integrating ESG variables into the analysis of franchise internationalization, emphasizing the moderating role of GDP per capita and institutional quality. The study enhances the understanding of expansion strategies in heterogeneous institutional environments and offers both theoretical and practical insights into the international growth of franchise networks.

Key-words: Internationalization of franchise chains; ESG practices; ESG risks; Institutional risks; Emerging markets.

1. Introduction

The intensification of business globalization, driven by technological transformations, geopolitical shifts, and growing demands for sustainability, has stimulated the international expansion of companies, including Brazilian franchise chains, in pursuit of growth and diversification in foreign markets (Hu et al., 2023; Jiang et al., 2024). Although the classical foundations of internationalization remain valid, the contemporary landscape imposes new criteria for institutional legitimacy and regulatory pressure, making ESG (environmental, social, and governance) factors increasingly decisive in shaping global expansion strategies (Friede et al., 2015; Legendre et al., 2024).

The adoption of ESG practices has evolved from a reactive response to legal requirements into a proactive strategy for competitive differentiation and risk mitigation across diverse institutional contexts (Hu et al., 2023; Daugaard & Ding, 2022; Jiang et al., 2024). This dynamic is particularly relevant for franchise chains operating in multiple countries, as they face heterogeneous regulatory requirements and stakeholder expectations (Lanfranchi et al., 2021a; Perrigot et al., 2021).

The internationalization of Brazilian franchise chains has been consolidating over recent decades, driven by market diversification strategies, the pursuit of international legitimacy, and the exploitation of opportunities across different institutional contexts (Melo et al., 2019; Bretas et al., 2020). Studies have highlighted that factors such as business model replicability, cultural adaptation, and governance mode selection are critical to the success of this process (Bretas et al., 2019; Rocha & Spers, 2019).

Despite growing attention to ESG factors in the internationalization literature, there remains a significant gap concerning their specific role in shaping market attractiveness for Brazilian franchise chains. Much of the literature continues to focus on traditional multinationals, overlooking the unique characteristics of the franchising model, which relies on standardized process replication and faces distinct institutional challenges (Lanfranchi et al., 2021b; Bretas & Alon, 2021; Melo et al., 2015; Ettalibi et al., 2025). A recent systematic review confirms this gap, revealing that while international franchising studies have progressed, ESG-related dimensions remain underexplored in this field (Alon et al., 2021).

Recent research indicates that ESG performance can enhance corporate reputation, attract stakeholders, and facilitate access to capital, all of which support international expansion, particularly in highly regulated markets (Kuchinke & Linnenluecke, 2022; Chaieb et al., 2024; Zhao et al., 2024; Xu & Sun, 2025). However, the institutional contexts of destination countries, including ESG-related risks, institutional maturity, and economic development, remain underexplored in studies involving Brazilian franchise chains.

Additionally, variables such as GDP per capita may moderate the relationship between ESG and internationalization, influencing strategic decisions in different contexts (Rahat & Nguyen, 2024; Duque-Grisales & Aguilera-Caracuel, 2021). For franchise chains originating in emerging economies, the strategic communication of ESG practices can serve as a differentiating mechanism to legitimize their presence in developed markets (Jiang et al., 2024; Khalid et al., 2021; Lanfranchi et al., 2021b).

To address these gaps, this study investigates how ESG performance and institutional risks in host countries influence the market attractiveness for Brazilian franchise chains. The research is grounded in institutional theory (North, 1990; Doh et al., 2016), internalization theory (Dunning, 1998), stakeholder theory (Freeman, 1984), and resource dependence theory (Pfeffer, 1987), articulating these frameworks with recent empirical evidence on institutional risks, ESG governance, and international franchising strategies (Rovere, 2024; Lanfranchi et al., 2021a; Jiang et al., 2024; Stocker et al., 2022; Bretas et al., 2021; Melo et al., 2019).

The study employs a quantitative methodology based on secondary data from 131 Brazilian franchise chains operating in 80 countries, encompassing 1,515 franchised units. These data were obtained from the Brazilian Franchising Association (ABF) and subsequently validated by the researchers through external sources confirming the international operations of the reported networks. Multiple regression models were applied to test the proposed hypotheses and compare emerging and developed economies, in accordance with best practices in the literature (Matos, 2020; Hair et al., 2019; Akinwande et al., 2015).

This study contributes to the literature by integrating ESG performance and ESG-related risks into the analysis of franchise chain internationalization, emphasizing the moderating role of GDP per capita and the quality of local institutions. It also enhances the understanding of the key success factors for Brazilian franchise chains in international markets, particularly in light of the institutional diversity across host countries (Lanfranchi et al., 2021a; Bretas et al., 2020). The findings offer empirical insights to guide the strategic alignment of franchise networks with the institutional and economic conditions of target markets.

The remainder of the article presents the theoretical framework, followed by the development of research hypotheses, a description of the methodological procedures, the analysis of empirical results, a discussion of the findings, and, finally, the conclusions and suggestions for future research.

2. Literature Review

2.1. ESG and institutional environments in the internationalization of franchise chains

Environmental, social, and governance (ESG) practices have become central elements of corporate strategies within an increasingly regulated and interdependent global environment. Incorporating ESG criteria transcends legal compliance, positioning itself as a strategy for risk mitigation, institutional legitimacy, and responsiveness to diverse stakeholder pressures (Friede et al., 2015; Matos, 2020). In the franchising context, this discussion gains relevance, as franchise chains operate across multiple jurisdictions and must adapt their operations to local regulatory requirements, often distinct from those of their home country (Lanfranchi et al., 2021b; Perrigot et al., 2021).

From the perspective of institutional theory (North, 1990; Doh et al., 2016), firms encounter varying levels of institutional maturity when expanding internationally, requiring adaptive strategies. Emerging markets, for instance, often exhibit institutional voids – characterized by the absence of clear regulations or effective enforcement mechanisms – thereby increasing transaction costs and operational uncertainties (Mooneeapen et al., 2022; Daugaard & Ding, 2022). In such environments, adopting ESG practices serves as a legitimizing mechanism, signaling responsibility and the capability to operate ethically and sustainably (Hu et al., 2023; Jiang et al., 2024).

Internalization theory (Dunning, 1998) further explains how Brazilian franchise chains prioritize expansion into markets with greater institutional and environmental stability. Stable structures, clear environmental policies, and robust governance frameworks reduce monitoring costs and enhance operational predictability, thus encouraging franchising as a preferred entry strategy (Cuervo-Cazurra & Genc, 2008; Legendre et al., 2024).

Stakeholder theory (Freeman, 1984) highlights the influence of franchisees, consumers, investors, and governments, particularly in countries with more demanding ESG standards, on franchise governance, marketing, supply chain management, and community engagement practices (Singhania & Saini, 2022; Khalid et al., 2021).

Recent studies demonstrate that robust ESG practices strengthen reputation, facilitate access to capital, and increase resilience in times of crisis (Chenh et al., 2023; Kuchinke & Linnenluecke, 2022). These factors are crucial for international franchise chains that depend on replicating a value proposition while managing institutional risks (Rahat & Nguyen, 2024; Jiang et al., 2024).

Specifically for Brazilian franchise chains, the adoption of ESG practices not only mitigates operational risks but also enhances adaptability and legitimacy in foreign markets, as emphasized by recent studies on governance and international strategies (Bretas et al., 2020; Melo et al., 2019). Additionally, the entry mode into international markets is often shaped by the need to align with governance and stakeholder management practices (Bretas et al., 2024).

In summary, ESG practices should be regarded not merely as regulatory obligations but as strategic drivers of international competitiveness. For franchise chains from emerging economies, the strategic adoption of ESG practices can facilitate legitimacy, reduce institutional barriers, and sustain expansion into increasingly demanding markets (Legendre et al., 2024; Rovere, 2024).

2.2. Internationalization of companies in emerging markets

When expanding internationally, firms from emerging markets face distinct challenges compared to multinationals from developed economies. These challenges include institutional disadvantages, reputational skepticism, and limited access to capital and advanced technologies

(Cuervo-Cazurra & Genc, 2008; Hoskisson et al., 2000). Emerging Market Multinational Enterprises (EMNEs) often adopt global ESG standards as mechanisms for legitimization and signaling reliability (Jiang et al., 2024; Matos, 2020).

The literature indicates that pressure from global stakeholders, foreign investors, and multilateral organizations has accelerated the institutionalization of ESG practices among emerging market firms (Singhania & Saini, 2022; Elango & Pattnaik, 2019). Furthermore, companies operating in environments characterized by institutional voids tend to internalize robust governance practices as strategies to mitigate risks and enhance competitiveness (Doh et al., 2016; Mooneeapen et al., 2022).

Rovere (2024) emphasizes that strategic internationalization enables firms to expand market reach and learn, gain scale, and access more demanding sustainability standards, which can later be incorporated into their domestic operations. Stocker et al. (2022) complement this view, asserting that risk perception significantly influences the pace of internationalization, with institutional preparedness acting as a critical competitive advantage.

2.3. Internationalization of franchise chains in emerging and developed markets

The internationalization process of franchise chains possesses specific characteristics that differentiate it from the expansion strategies of traditional firms. This model heavily depends on standardization, know-how transfer, and adaptation to local conditions, all strongly influenced by institutional differences between emerging and developed countries (North, 1990; Cavusgil et al., 2012).

When expanding into developed markets, Brazilian franchise chains must adapt their operational models to institutional environments marked by high regulatory standards, strict compliance requirements, and formalized procedures (Khalid et al., 2021; Legendre et al., 2024; Bretas et al., 2019).

Conversely, when entering emerging markets, these chains face challenges such as legal instability, inconsistent law enforcement, and widespread informal practices (Baena, 2011). In these contexts, franchising can serve as an effective mechanism for indirect control, enabling local flexibility while preserving brand identity and minimum ESG standards (Melo et al., 2015; Lanfranchi et al., 2021a).

Studies by Leite et al. (2014), Bretas and Alon (2021), and Lanfranchi et al. (2021a) highlight that Brazilian franchise chains encounter cultural, institutional, and operational barriers during international expansion, and that mastering these variables significantly increases the likelihood of success. In this regard, adopting ESG practices is a valuable reputational asset, signaling commitment to international standards of conduct (Bretas & Alon, 2021).

Melo et al. (2015) and Rovere (2024) analyzed the preferred destinations for Brazilian franchises, revealing that regulatory stability, cultural compatibility, and market structure are decisive factors in country selection. In developed markets, governance and transparency standards render ESG integration almost mandatory. In contrast, regulatory flexibility can offer competitive advantages in emerging markets, provided that institutional risks are adequately managed.

The internationalization of Brazilian franchise chains thus reveals a strategic pattern distinct from traditional multinational corporations. These chains favor lower-capital entry modes, such as master franchising and direct franchising, to mitigate exposure in unstable environments (Melo et al., 2019; Bretas et al., 2020). In this setting, governance mode selection becomes critical for minimizing uncertainties and protecting intangible assets (Bretas et al., 2024).

Furthermore, market selection is heavily influenced by institutional stability, law enforcement quality, and the protection of intangible assets, factors that directly impact internationalization decisions (Lanfranchi et al., 2021a; Rocha & Spers, 2019). Flexibility in cultural and operational adaptation is also crucial for success, particularly in emerging markets where formal institutions are less consolidated (Bretas et al., 2019; Melo et al., 2019). Reconciling brand standardization with local adaptation emerges as a significant competitive advantage.

Thus, internationalizing franchise chains requires not only strategic alignment with local institutional environments but also the ability to foster sustainable business practices that reinforce global legitimacy. This highlights the need for franchise chains to develop context-sensitive strategies that leverage ESG practices as risk mitigation tools and sources of competitive advantage (Lanfranchi et al., 2021a; Jiang et al., 2024).

3. Hypotheses Development

3.1. ESG performance and international expansion

The increasing relevance of environmental, social, and governance (ESG) practices has reshaped how companies are evaluated globally, particularly regarding internationalization. Incorporating ESG criteria transcends regulatory compliance, serving as a competitive differentiator that enhances reputation, facilitates access to capital, and improves acceptance in foreign markets (Jiang et al., 2024; Chen et al., 2025; Kuchinke & Linnenluecke, 2022).

According to institutional theory (North, 1990), organizations tend to align with the normative demands of the contexts in which they operate. Countries with strong ESG performance generally provide more stable and demanding environments, encouraging the adoption of sustainable standards to secure legitimacy (Hu et al., 2023; Jiang et al., 2024). This legitimacy is crucial for firms seeking to thrive in stringent regulatory settings, where alignment with robust ESG practices offers a significant competitive advantage (Rahat & Nguyen, 2024; Chen et al., 2025).

For franchise chains, which rely on replicability, long-term contracts, and know-how transfer, robust institutional governance increases predictability and mitigates contractual risks (Melo et al., 2015; Lanfranchi et al., 2021a; Bretas et al., 2024). Internalization theory (Dunning, 1998) reinforces this view, suggesting that companies prefer markets characterized by lower transaction costs and reduced institutional risks, conditions often present in countries with strong ESG performance (Hu et al., 2023; Stocker et al., 2022; Jiang et al., 2024).

Moreover, stakeholder theory (Freeman, 1984) underscores the growing sensitivity of consumers, investors, and governments to ESG issues, especially in developed economies, where ESG performance often becomes a critical factor in partner and brand selection (Zhang et al., 2024). Therefore, the following hypotheses are proposed:

Hypothesis 1a: Countries with better ESG performance attract a greater number of Brazilian franchise chains.

Hypothesis 1b: Countries with better ESG governance are more likely to attract Brazilian franchise chains, as they offer greater transparency and lower regulatory risks.

3.2. ESG risks and the expansion of franchise chains

Although strong ESG performance enhances companies' legitimacy abroad, the absence of such practices – manifested in regulatory instability, corruption, and enforcement failures – poses significant barriers to internationalization, particularly for franchising models dependent on contractual standardization (Hu et al., 2023; Duque-Grisales & Aguilera-Caracuel, 2021).

Institutional theory (North, 1990) suggests that environments with low institutional quality heighten transaction costs and deter foreign entry. For franchises, unstable environments jeopardize operations, given their reliance on stable contracts and standardized processes. Weak governance, therefore, undermines brand protection, compliance with operational standards, and contract enforcement (Cuervo-Cazurra & Genc, 2008; Baena, 2011; Melo et al., 2015; Lanfranchi et al., 2021a; Stocker et al., 2022; Rovere, 2024).

From a stakeholder theory perspective (Freeman, 1984), exposure to ESG risks such as poor environmental or social performance can erode legitimacy and provoke boycotts or legal action. Resource dependence theory (Pfeffer & Salancik, 2015) further explains that weak institutional environments compromise access to critical resources such as credit, infrastructure, and support systems, intensifying the risks of international expansion (Lanfranchi et al., 2021a; Perrigot et al., 2021).

Moreover, poor governance decisions during international entry can exacerbate vulnerabilities, particularly in unstable environments (Bretas et al., 2024). Consequently, the following hypotheses are proposed:

Hypothesis 2a: Countries with high levels of ESG risk are less attractive for the expansion of Brazilian franchise chains.

Hypothesis 2b: Countries with weak ESG governance present greater institutional risks, discouraging Brazilian franchise chains from entering these markets.

3.3. The moderating role of economic development in the international expansion of franchise chains

The level of economic development, reflected in GDP per capita, plays a significant role in shaping the attractiveness of international markets. Higher-income countries typically offer better infrastructure, greater institutional stability, and consumers more attuned to ESG concerns, thus supporting the scalability of franchise models (Rovere, 2024).

From the institutional theory perspective (North, 1990), more developed economies possess stronger regulatory frameworks, more effective enforcement mechanisms, and robust support structures for investment. In such settings, ESG compliance transitions from a competitive advantage to an essential requirement, heavily valued by stakeholders (Ioannou & Serafeim, 2012; Jiang et al., 2024). Internalization theory (Dunning, 1998) similarly posits that environments with lower risk and greater predictability encourage franchising as an entry mode (Hu et al., 2023; Chen et al., 2025).

Recent studies indicate that ESG performance assumes greater importance in high-income markets, where it conveys competitive and reputational benefits (Chen et al., 2025; Rahat & Nguyen, 2024). By contrast, in lower-income countries, ESG practices tend to have limited resonance, as consumers often prioritize affordability and basic access to products and services (Martins, 2022; Yu et al., 2025).

GDP per capita may also act as a buffer against institutional weaknesses. Even in countries with sporadic challenges, strong economies often possess structural safeguards, such as active judicial systems and reliable conflict resolution mechanisms, that mitigate perceived risks (Ettalibi et al., 2025; Khalid et al., 2021). Thus, the following hypotheses are proposed:

Hypothesis 3a: The destination country's GDP per capita positively moderates the relationship between ESG performance and the international expansion of Brazilian franchise chains.

Hypothesis 3b: The GDP per capita of the destination country negatively moderates the relationship between institutional risks and the international expansion of Brazilian franchise chains.

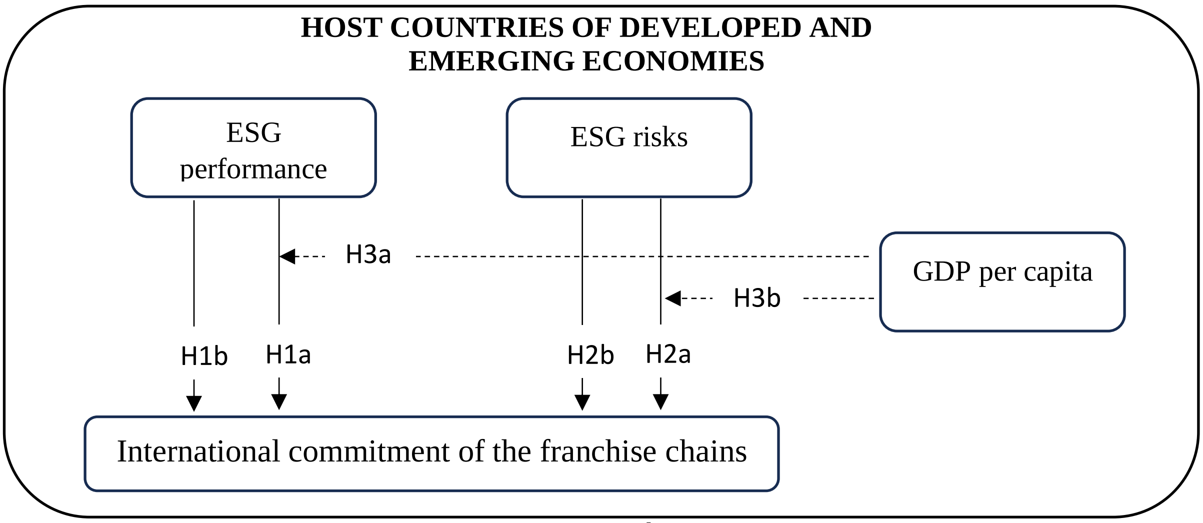
3.4. The role of ESG in emerging and developed economies

Distinguishing between emerging and developed economies is essential to understanding how ESG practices influence the internationalization of franchise chains. Developed markets typically feature consolidated institutions, robust regulatory frameworks, and stakeholders who place a high premium on social and environmental responsibility (North, 1990; Ioannou & Serafeim, 2012), making ESG adherence a strategic prerequisite (Jiang et al., 2024; Zhang et al., 2024).

In contrast, emerging markets are often characterized by regulatory volatility, institutional voids, and informal practices. However, they also present opportunities for growth and local adaptation (Baena, 2011; Lanfranchi et al., 2021b). In such environments, the strategic adoption of ESG practices serves as a legitimization mechanism, helping to mitigate risk perceptions and bolster brand reputation (Duque-Grisales & Aguilera-Caracuel, 2021). Furthermore, companies from emerging markets that internalize strong ESG standards often develop adaptive capabilities that enhance their competitiveness in similar contexts (Stocker et al., 2022; Yu et al., 2025).

Accordingly, this study adopts an analytical segmentation between developed and emerging economies to identify distinct patterns influencing the attraction of Brazilian franchise chains. It aims to understand how the strategic deployment of ESG practices can enhance or hinder the success of international expansion across different institutional contexts, consistent with Lanfranchi et al. (2021b), who emphasize the role of the home institutional environment in shaping internationalization strategies.

Figure 1 – Research Framework



Source: Authors

4. Methodology

4.1. Data and variables

This study employed a cross-sectional design based on secondary data for the year 2023. The sample comprises 131 Brazilian franchise chains with confirmed international operations across 80 countries, totaling 1,515 franchised units. These data were initially obtained from the Brazilian Franchising Association (ABF) and subsequently validated by the researchers in 2024 through external sources confirming the international presence of the reported networks. A franchise chain was classified as internationalized if it operated at least one franchised unit abroad at the time of data collection.

For analytical purposes, each franchise chain's operation in a specific country was treated as a unit of observation. Country-level indicators were then assigned to each case to assess how contextual variables influence the international density of Brazilian franchised units.

The dependent variable is the degree of international commitment, measured as the density of franchised units in each destination country, calculated by the ratio between the number of units in the foreign market and the total number of units in the network (Melo et al., 2015, 2019).

The independent variables consist of ESG performance and ESG risk scores of the destination countries. ESG performance scores were obtained from the Robeco platform, which aggregates environmental, social, and governance metrics based on the UN Principles for Responsible Investment. ESG risk scores were retrieved from the Global Risk Profile database, which provides multidimensional risk assessments based on institutional, regulatory, and social indicators. These variables were matched to each destination country using standardized identifiers. In cases of missing ESG data, listwise deletion was applied, following established econometric procedures (Hair et al., 2019).

The moderating variable, GDP per capita, was sourced from the World Bank and serves as a proxy for economic development. Control variables included total GDP (market size), population, and a dummy variable distinguishing emerging and developed economies, in line with prior studies on international expansion (Cuervo-Cazurra & Genc, 2008; Lanfranchi et al., 2021a).

To improve robustness, outliers in continuous variables were addressed using 2% winsorization at both tails, preserving variability while minimizing distortion from extreme values (Gujarati & Porter, 2020).

4.2. Analytical methods

The analysis proceeded in two main stages. First, descriptive statistics and Mann-Whitney U tests were conducted to compare ESG performance, ESG risks, and economic variables between emerging and developed economies. The non-parametric Mann-Whitney U test was selected due to the absence of normality in several variables, verified through Shapiro-Wilk tests (Siegel & Castellan, 2006).

In the second stage, multiple linear regression models were estimated using ordinary least squares (OLS) to test the direct effects of ESG indicators on the degree of internationalization and the moderating role of GDP per capita. Interaction terms between ESG indicators and GDP per capita were included to assess moderation effects. Following best practices, all continuous independent variables involved in interactions were mean-centered to reduce multicollinearity (Aiken & West, 1991).

Model specification included controls for total GDP, population, and economic type to account for structural differences across countries. Variance Inflation Factors (VIF) were systematically monitored, and all VIF values remained below 3.0, indicating no multicollinearity issues and supporting the reliability of the estimated coefficients (Akinwande et al., 2015).

The statistical analyses were conducted using R software version 4.3.0 (R Core Team, 2024). Regression diagnostics, including residual analysis and heteroscedasticity assessment, were performed to validate model assumptions. When heteroscedasticity was detected, robust standard errors were employed, ensuring consistent estimators.

This methodological framework allows a comprehensive evaluation of how ESG factors, institutional risks, and economic development levels influence the international expansion patterns of Brazilian franchise chains, contributing to the broader literature on firm internationalization in heterogeneous institutional environments (Stocker et al., 2022; Cuervo-Cazurra & Genc, 2008).

5. Results

5.1. Descriptive analysis

The exploratory analysis revealed distinct patterns in the distribution of the study variables. Economic indicators – GDP per capita (PIBCAP), total GDP (PIBTOT), and the percentage of internationalized units (PERCUNID_INT) – exhibited considerable dispersion and the presence of outliers. This reflects the heterogeneity among countries regarding consumption capacity, market scale, and the intensity of Brazilian franchise chains' international presence. These findings are consistent with Bretas et al. (2020), who emphasized the necessity of differentiated strategies across diverse institutional contexts.

In contrast, the ESG performance and risk variables (environmental, social, and governance) displayed a more homogeneous distribution. This pattern may indicate the growing standardization of ESG metrics and practices globally, particularly among countries signatories to multilateral agreements (Matos, 2020; Robeco, 2024).

To mitigate the influence of extreme values, the winsorization[1] technique at the 2% level was applied to the PERCUNID_INT, PIBTOT, and POPMIL variables, reserving 98% of the original data variability (Gujarati & Porter, 2020). This procedure aimed to maintain robustness without distorting the overall distribution.

Comparative analyses between emerging and developed economies were conducted using the Mann-Whitney test, appropriate for non-parametric samples (Siegel & Castellan, 2006). Statistically significant differences were identified. Developed economies exhibited higher scores in ESG governance and total ESG performance, reinforcing their characterization as environments with greater institutional maturity, effective regulation, and heightened stakeholder pressure for compliance (Ioannou & Serafeim, 2012; Khalid et al., 2021). These economies also showed significantly higher GDP per capita and total GDP, highlighting their superior economic and institutional capacity to foster ESG practices and attract international franchise operations (Rovere, 2024; Rahat & Nguyen, 2024).

Conversely, emerging economies exhibited higher ESG risk scores, particularly in the governance dimension, indicating greater regulatory instability, weaker enforcement mechanisms, and broader institutional risks undermining franchise confidence (Stocker et al., 2022; Mooneeapen et al., 2022). The POPMIL variable did not show significant differences

[1] Winsorization is a statistical technique that limits extreme values in the data by replacing a specified percentage of the highest and lowest values with the nearest values within that range. This helps reduce the influence of outliers while preserving the overall structure of the dataset.

between groups, suggesting that population size alone cannot determine market attractiveness or ESG adherence.

Finally, correlation analyses confirmed strong relationships among several variables; however, their separate inclusion in regression models prevented multicollinearity issues (Hair et al., 2019; Gujarati & Porter, 2020). All Variance Inflation Factor (VIF) values remained below the critical threshold of 3.0, supporting the robustness of the regression models (Akinwande et al., 2015).

5.2. Correlation analysis

This section presents the results of the statistical analyses for the six proposed hypotheses, based on multiple regression models across three contexts: overall, developed economies, and emerging economies. The objective is to identify the determinants of Brazilian franchise chains' internationalization under different institutional conditions.

In the overall sample, the ESGTOTAL (H1a) coefficient was positive but not statistically significant ($p > 0.05$), with an R^2 of 0.10. This suggests that, across countries, ESG performance does not significantly affect the internationalization of Brazilian franchise chains. These findings align with Bretas et al. (2021) and Rovere (2024), who emphasize the need to consider institutional heterogeneity in internationalization studies.

Segmenting the data by type of economy revealed contrasting patterns. In developed economies, the coefficient was negative and statistically significant ($p < 0.05$), with an R^2 of 0.47. Contrary to expectations, Brazilian franchise chains expanded more into countries with weaker ESG performance. This finding refutes Hypothesis 1a and suggests that, in developed markets, firms may prioritize environments with lower regulatory pressures or sustainability requirements to benefit from reduced compliance costs or greater operational flexibility (Stocker et al., 2022; Lanfranchi et al., 2021a).

In emerging economies, the coefficient was also negative but not statistically significant ($p > 0.05$), with an R^2 of 0.04. This indicates that other factors, such as entry costs, local partnerships, or market growth prospects, may be more decisive than ESG performance in shaping internationalization strategies in these markets (Leite et al., 2014; Melo et al., 2019).

Table 1 – Regression results for ESG_{TOTAL} (Hypothesis 1a)

Economy	**Coefficient**	**R²**
General	2.884e-03	0.10
Developed	-0.028**	0.47
Emerging	-1.91e-03	0.04

Source: Authors

Note: Significance level: *10%; **5%; *1%.

Hence, Hypothesis 1a is refuted for developed economies and not confirmed for emerging economies. These findings emphasize the critical role of institutional and regulatory differences in shaping internationalization strategies.

In the overall analysis, the ESGG (H1b) coefficient was positive but not statistically significant ($p > 0.05$), with an R^2 of 0.03. This indicates a limited influence of ESG governance performance on the internationalization of Brazilian franchise chains when considering all destination countries (Lanfranchi et al., 2021b).

When analyzing the results by type of economy, divergent patterns emerged. In developed economies, the ESGG coefficient was negative and not significant ($p > 0.05$), with an R^2 of 0.40. This suggests that, in these contexts, the level of ESG governance does not serve as a differentiating factor in attracting Brazilian franchise chains, possibly because governance standards are already high and widely institutionalized, thus reducing the discriminative power of this variable (Rovere, 2024; North, 1990).

Conversely, in emerging economies, the ESGG coefficient was positive and statistically significant ($p < 0.10$), with an R^2 of 0.16. This finding confirms that better ESG governance performance positively influences the internationalization of Brazilian franchise chains in emerging markets. Good governance signals lower institutional risks, greater regulatory predictability, and improved operational conditions for franchises (Stocker et al., 2022; Khauaja & Toledo, 2011). This reinforces conclusions drawn by Bretas et al. (2020) and Bretas et al. (2024) regarding the strategic relevance of choosing markets with stronger governance frameworks in volatile environments.

Table 2 – Regression results for ESGG (Hypothesis 1b)

Economy	Coefficient	R^2
General	9.884e-04	0.03
Developed	-0.0235	0.40
Emerging	9.10e-03*	0.16

Source: Authors

Note: Significance level: *10%; **5%; *1%.

Consequently, Hypothesis 1b is confirmed only for emerging economies, where ESG governance acts as a crucial element of trust and risk mitigation in internationalization strategies.

The overall results indicate that the RISKESG_SCORE (H2a) coefficient was negative but not significant ($p > 0.05$), with an R^2 of 0.21. This suggests that, in aggregate, ESG risk does not exert a robust influence on the decision to internationalize, reinforcing the institutional diversity already discussed (Lanfranchi et al., 2021a; Melo et al., 2015; Cuervo-Cazurra & Genc, 2008).

The segmented analysis revealed relevant distinctions. In developed economies, the coefficient was negative and significant ($p < 0.05$), with an R^2 of 0.50, indicating that ESG risk reduces the attractiveness of these markets. This result supports the hypothesis and aligns with the literature that points to a greater sensitivity of chains to institutional risks in more demanding regulatory contexts (Cuervo-Cazurra & Genc, 2008; Stocker et al., 2022).

Although the coefficient was also negative in emerging economies, it was not statistically significant ($p > 0.05$), with an R^2 of only 0.06. This reinforces the fact that, in these markets, other factors, such as expansion opportunities, operating costs, or regulatory gaps, may prevail in the decision to internationalize, as suggested by Rovere (2024) and Khauaja and Toledo (2011).

Table 3 – Regression results for $RISK_{ESG\_SCORE}$ (Hypothesis 2a)

Economy	Coefficient	R^2
General	-5.328e-04	0.21
Developed	-4.699**	0.50
Emerging	-5.200e-04	0.06

Source: Authors

Note: Significance level: *10%; **5%; *1%.

Therefore, Hypothesis 2a is only confirmed for developed economies, where ESG risk acts as a perceived barrier to entry. The absence of significance in emerging markets indicates that such risks are inherent in the business environment.

The results show that the RISKG (H2b) coefficient was negative, suggesting that high levels of ESG governance risk reduce the attractiveness of countries for Brazilian franchise chains. However, the effect was not significant ($p > 0.05$), with an R^2 of 0.22, indicating that the effect of ESG governance should be interpreted according to the institutional context (Bretas et al., 2021).

In developed economies, the coefficient was also negative and insignificant ($R^2 = 0.41$), suggesting that institutional resilience and normative predictability mitigate governance risks (Lanfranchi et al., 2021a; North, 1990).

In emerging economies, however, the RISKG coefficient was negative and significant ($p < 0.05$), with an R^2 of 0.20, confirming the hypothesis that weak governance represents a significant entry barrier. This result is consistent with studies showing that institutional fragility increases transaction costs and undermines legal certainty (Bretas et al., 2019; Melo et al., 2019; Bretas et al., 2024).

These findings also corroborate the literature associating low governance quality with greater contractual and operational risks, making it challenging to maintain standardization and protect brand integrity abroad (Cuervo-Cazurra, 2006; Khauaja & Toledo, 2011; Lanfranchi et al., 2021a; Stocker et al., 2022).

Table 4 – Regression results for $RISK_G$ (Hypothesis 2b)

Economy	**Coefficient**	**R^2**
General	-5.760e-04	0.22
Developed	-1.14e-04	0.41
Emerging	-1.09e-03**	0.20

Source: Authors

Note: Significance level: *10%; **5%; *1%.

Thus, Hypothesis 2b is confirmed only for emerging economies, where ESG governance risks significantly hinder internationalization. In contrast, in developed economies, institutional stability neutralizes the adverse effects of weak governance on the strategic decisions of franchise chains.

In the general analysis, the interaction coefficient between ESGTOTAL and GDP per capita (H3a) was negative and not significant ($p > 0.05$), contradicting the hypothesis of positive moderation. Although the individual variables had positive coefficients, the interaction was not influential in the aggregate context. The model's R^2 was 0.13, indicating limited explanatory power. This lack of significance may reflect the institutional heterogeneity of the countries analyzed, reinforcing challenges previously pointed out by Dunning (1998), Jiang et al. (2024), and Rahat & Nguyen (2024).

However, segmented results reveal important differences. In developed economies, the interaction coefficient between ESGTOTAL and GDP per capita was positive and significant ($p < 0.05$), with an R^2 of 0.49. This suggests that in high-income markets, ESG performance more strongly enhances the attractiveness of Brazilian franchise chains. These findings align with Bretas et al. (2021) and corroborate studies highlighting greater appreciation for sustainable practices in developed environments (Atz, 2023; Rovere, 2024; Friede et al., 2015).

Although the coefficient was positive in emerging economies, it was not significant ($p > 0.05$), with a low R^2 of 0.04. This suggests that ESG and GDP per capita have a limited combined impact in these markets, likely overshadowed by institutional instability and legal informality (Cuervo-Cazurra & Genc, 2008; Bretas et al., 2020; Lanfranchi et al., 2021a).

Table 5 – Regression results for $ESG_{TOTAL} \times GDP_{CAP}$ (Hypothesis 3a)

Economy	**Coefficient**	**R²**
General	-0.2280	0.13
Developed	-3.001e-07**	0.49
Emerging	-2.441e-08	0.04

Source: Authors

Note: Significance level: *10%; **5%; *1%.

Therefore, Hypothesis 3a is confirmed only in developed economies, where GDP per capita amplifies the positive influence of ESG performance. In emerging economies, other institutional factors prevail.

In the general analysis, the interaction between ESG risk and GDP per capita (H3b) yielded a negative but non-significant coefficient ($p > 0.05$) and a moderate R^2 of 0.16. This reflects the broad institutional diversity among the countries examined (Cuervo-Cazurra, 2006; Lanfranchi et al., 2021a; Bretas et al., 2020).

However, in the segmented analysis, the interaction coefficient in developed economies was positive and significant ($p < 0.10$), with an R^2 of 0.50. Although the sign was positive, this result reinforces the idea that, in developed countries, institutional risks are more visible and have a stronger negative effect on expansion decisions (Stocker et al., 2022; Matos, 2020; Bretas et al., 2024). Bretas and Alon (2021) also suggest that stakeholder pressure is greater in these contexts, making franchise chains more sensitive to governance failures.

In emerging economies, the coefficient was positive but not significant ($p > 0.05$), with an R^2 of only 0.09, suggesting that structural instability, economic volatility, and informality continue to dominate business decisions (Khauaja & Toledo, 2011; Mooneeapen et al., 2022).

Table 6 – Regression results for $RISK_{ESG\_SCORE} \times GDP_{CAP}$ (Hypothesis 3b)

Economy	**Coefficient**	**R²**
General	1.649e-08	0.16
Developed	7.023e-08*	0.50
Emerging	4.923e-08	0.09

Source: Authors

Note: Significance level: *10%; **5%; *1%.

Accordingly, Hypothesis 3b is confirmed only in developed economies, where GDP per capita exacerbates the adverse effects of ESG risks on the attractiveness of franchise chains.

5.3. Summary of results by economy

Table 7 summarizes the identified patterns according to the type of economy based on the hypotheses tested.

Table 7 – Hypotheses confirmed by type of economy

Hypothesis	Economy	Summary of survey results
1a	Developed	Countries with weaker ESG performance attract more franchise chains, suggesting lower regulatory pressure and greater operational flexibility.
1b	Emerging	Better ESG governance attracts franchise chains, emphasizing the importance of governance practices.
2a	Developed	High ESG risk reduces the attractiveness of franchise chains, demonstrating a greater institutional impact.
2b	Emerging	Weak ESG governance discourages franchise chains, highlighting the influence of institutional risks.
3a	Developed	GDP per capita strengthens the positive relationship between ESG performance and franchise chain attraction.
3b	Developed	GDP per capita intensifies the negative effect of ESG risks on franchise chain attraction.

Source: Authors

In developed economies, factors related to ESG risk and ESG performance, moderated by GDP per capita, have a stronger impact, reinforcing the literature on institutional pressure and stakeholder expectations (Stocker et al., 2022; Bretas et al., 2021; Jiang et al., 2024).

In emerging economies, the emphasis is on ESG governance as a driver of trust, showing that institutional environments require differentiated strategic responses (Melo et al., 2019; Lanfranchi et al., 2021a; Bretas et al., 2020).

Therefore, the results confirm that the international expansion of Brazilian franchise chains is conditioned not only by economic factors or ESG performance but also by how these variables interact with each market's institutional context.

6. Discussion

This chapter interprets the empirical results in the light of institutional, resource dependency, internalization, and stakeholder theories, as well as recent literature on ESG, institutional risks, and the internationalization of Brazilian franchise chains. The findings show that the effects of the variables analyzed are conditioned by the type of economy (emerging or developed), reinforcing the relevance of the institutional context for strategic decision-making (North, 1990; Cuervo-Cazurra, 2006; Lanfranchi et al., 2021a).

6.1. ESG and governance

Hypothesis 1a was refuted in developed economies, where countries with worse ESG performance attracted more Brazilian franchise chains. This finding contradicts studies such as those by Ioannou and Serafeim (2012) and Friede et al. (2015), which suggest that markets with better ESG indicators tend to be more attractive to foreign investment.

However, it aligns with the propositions of Cuervo-Cazurra (2006) and Leite et al. (2014), who argue that companies from emerging countries may seek markets with lower institutional requirements to facilitate entry and reduce adaptation and compliance costs. This perspective is also confirmed by more recent studies, such as those by Jiang et al. (2024), Hu et al. (2023), and Bretas et al. (2019), which show that Brazilian franchise chains tend to seek less regulated environments to maximize flexibility and reduce institutional costs in international expansion.

On the other hand, Hypothesis 1b was confirmed in emerging economies, where ESG governance performance positively influenced the attraction of franchise chains. This reinforces the role of governance as a structure for reducing uncertainty (Khauaja & Toledo, 2011; Freeman, 1984), especially in environments with low institutional predictability.

In line with Bretas et al. (2020) and Melo et al. (2019), solid governance also favors the safe replication of the business model in fragile institutional environments. These findings are also consistent with Rovere (2024) and Lanfranchi et al. (2021a), who emphasize the importance of support institutions and minimum regulatory frameworks to enable the efficient replication of franchising models.

Thus, ESG practices should be interpreted as contextual strategic assets, whose relevance depends on the degree of institutional maturity and the trade-offs perceived by companies in terms of risk, cost, and legitimacy.

6.2. ESG risks and weak governance

Hypotheses 2a and 2b explored the role of institutional risks. Hypothesis 2a was confirmed in developed economies: the higher the ESG risk, the lower the country's attractiveness. This result is consistent with the literature by Doh et al. (2016) and Stocker et al. (2022), which associates high levels of institutional risk with barriers to foreign entry, particularly in sectors that depend on standardization and predictability, such as franchising.

Similarly, Hypothesis 2b was confirmed in emerging economies: weak governance discouraged the entry of franchise chains. As shown by Melo et al. (2015) and Lanfranchi et al. (2021a), legal and regulatory risks in countries with fragile governance structures increase operational costs and complicate the application of franchise contracts with legal certainty.

Additionally, Rocha and Spers (2019) point out that, in these contexts, adapting institutionally becomes essential to protecting intangible assets and brand reputation abroad. This finding is reinforced by Perrigot et al. (2021) and Khauaja and Toledo (2011), who highlight that weak governance limits chains' ability to monitor standards and ensure brand consistency internationally.

Therefore, these results suggest that ESG risks act as institutional brakes on international expansion and highlight the need for companies to develop differentiated risk mitigation strategies according to the context.

6.3. GDP per capita as a moderator

Hypotheses 3a and 3b analyzed the role of GDP per capita as a moderator in the relationship between ESG performance, institutional risks, and internationalization. Hypothesis 3a was supported in developed economies, confirming that higher GDP per capita amplifies the positive effect of ESG performance on the attraction of franchise chains.

This finding is consistent with Atz et al. (2023) and Jiang et al. (2024), who associate economic development with greater demand for ethical and sustainable standards, given the greater sensitivity of consumers and stakeholders in these markets. Bretas et al. (2021) further highlight that GDP per capita catalyzes institutional pressure toward ESG compliance, shaping the receptiveness of developed economies to franchise internationalization.

However, the moderating effect was not significant in emerging economies. Studies by Melo et al. (2015) and Leite et al. (2014) suggest that the main criteria for internationalization decisions in these markets are still linked to cost structures, regulatory flexibility, and growth opportunities.

Additionally, recent studies indicate that weaker institutional pressures and stakeholder expectations in emerging markets limit the role of ESG practices as a competitive advantage (Yu et al., 2025; Jiang et al., 2024).

Hypothesis 3b was also supported in developed economies. The results indicate that higher GDP per capita intensifies the negative effect of ESG risks on country attractiveness, suggesting that institutional and reputational risks are more severely penalized in high-income, mature markets (Stocker et al., 2022; Rovere, 2024; Bretas et al., 2021).

By contrast, in emerging economies, the moderating effect was not significant, indicating that institutional risks are already embedded in companies' strategic planning, as suggested by Hu et al. (2023) and Cuervo-Cazurra (2006).

6.4. Theoretical implications

This research confirms that the internationalization of Brazilian franchise chains cannot be explained solely by economic factors or the isolated adoption of ESG practices. Rather, the internationalization behavior reflects a strategic adaptation to each destination country's regulatory frameworks, perceived risks, and institutional opportunities.

Institutional theory (North, 1990) is particularly valuable for explaining how regulatory stability and governance influence market attractiveness. Recent studies (Lanfranchi et al., 2021a; Jiang et al., 2024; Melo et al., 2019) reinforce that environments with strong institutional quality and robust ESG governance offer lower transaction costs and greater predictability.

On the other hand, the findings also suggest that in some developed markets, the absence of excessive regulatory pressure may allow companies greater operational flexibility, even when ESG standards are lower, as argued by Cuervo-Cazurra (2006).

The evidence also corroborates stakeholder theory (Freeman, 1984), showing that legitimacy based on adherence to social and environmental standards is increasingly relevant in emerging markets. In these contexts, adopting strong ESG governance practices is fundamental for building trust, attracting local partners, and mitigating reputational risks (Yu et al., 2025; Bretas et al., 2024).

Resource dependence theory (Pfeffer & Salancik, 2015) helps to explain why franchise chains are more sensitive to institutional risks in environments with low legal predictability. In such cases, high ESG risks compromise access to financing, infrastructure, and local institutional support, making market selection crucial (Stocker et al., 2022).

Finally, internalization theory (Dunning, 1998) complements these interpretations by indicating that franchise chains seek to internalize advantages in countries with lower risks of opportunism and stronger adherence to standardized models. The evidence from Rahat and Nguyen (2024) and Chen et al. (2025) shows that this trend is accentuated in markets with higher GDP per capita, where ESG performance and institutional risks significantly shape expansion strategies.

Recent empirical studies (Rovere, 2024; Lanfranchi et al., 2021a; Leite et al., 2014; Jiang et al., 2024; Stocker et al., 2022) reinforce the notion that the successful internationalization of Brazilian franchise chains hinges on their ability to adapt to ESG pressures and institutional conditions. Moreover, the systematic review by Alon et al. (2021) highlights the role of ESG governance as a competitive advantage in emerging markets and ESG performance as a requirement in developed economies.

Thus, this study demonstrates that ESG factors and institutional risks should be seen as dynamic, context-sensitive elements rather than static, universal barriers. Instead, they are context-dependent variables that require strategic responses tailored to the institutional maturity and economic development stage of each destination market.

7. Conclusion

This study examined how ESG practices, governance, and institutional risks influence the internationalization of Brazilian franchise chains, considering the specificities of developed and emerging economies. By integrating consolidated theoretical approaches – such as institutional theory (North, 1990; Jiang et al., 2024; Lanfranchi et al., 2021a), stakeholder theory (Freeman, 1984; Bretas & Alon, 2021; Yu et al., 2025), resource dependence theory (Pfeffer & Salancik, 2015; Stocker et al., 2022), and internalization theory (Dunning, 1998; Rahat & Nguyen, 2024) – with recent empirical evidence, the results demonstrate that a combination of regulatory pressures, risk perceptions, and institutional maturity shapes international expansion decisions.

The main contribution of this research lies in the integrated incorporation of ESG variables, risk indicators, and economic development into the analysis of franchise chains, a topic still underexplored in contemporary literature (Bretas et al., 2020; Bretas et al., 2024; Melo et al., 2019). The study deepens and updates recent contributions (Rovere, 2024; Lanfranchi et al., 2021a; Leite et al., 2014; Hu et al., 2023) by revealing that the influence of ESG factors on internationalization is not uniform but mediated by the institutional conditions and income levels of destination countries.

The findings indicate that, in developed economies, robust ESG practices and moderate institutional risks relative to GDP per capita are critical elements for successful expansion. In contrast, in emerging economies, ESG governance performance appears more decisive than overall ESG performance, suggesting that mitigating institutional uncertainties is key to attracting franchise chains (Bretas et al., 2020). Thus, the study advances the literature by demonstrating that the internationalization of franchise chains responds not only to economic drivers but also to contextual pressures that demand differentiated strategies contingent upon market type.

This research also contributes to franchising by showing how franchise chains adapt their ESG strategies according to the institutional environment. Corporate governance mitigates risks in emerging markets and strengthens local legitimacy (Rocha & Spers, 2019; Perrigot et al., 2021; Bretas et al., 2024). This strategic adjustment, aligned with stakeholder expectations, reinforces that ESG practices should be understood as a competitive advantage in specific markets and a minimum institutional requirement in others (Ioannou & Serafeim, 2012; Jiang et al., 2024).

From a managerial perspective, the study offers practical guidelines: in regulated and high-income markets, emphasis should be placed on proactive ESG policies, transparency, and alignment with international standards. In emerging markets, strategies centered on risk mitigation, local partnership development, and strengthening of institutional governance prove to be more effective than generic ESG approaches (Cuervo-Cazurra & Genc, 2008; Lanfranchi et al., 2021a).

Among the limitations of this study are the absence of cultural variables and the exclusive focus on the franchising sector. While the quantitative methodology enabled robust hypothesis testing, future research could incorporate qualitative approaches to explore the perceptions of managers and franchisees, particularly in hybrid or transitional institutional environments. Additionally, the study assessed ESG practices in aggregate form, without disaggregating environmental, social, and diversity dimensions, a promising direction for future research (Hu et al., 2023).

Further investigations could examine the specific impact of each ESG pillar on internationalization strategies, explore the dynamics of middle-income countries undergoing institutional transitions, and analyze how digitalization and innovation affect the deployment of ESG practices in global franchise chains (Hu et al., 2023). Moreover, studying consumer perceptions of ESG initiatives across different institutional contexts — particularly their reputational and loyalty effects — offers a valuable avenue for future studies (Hu et al., 2023; Jiang et al., 2024).

In summary, this study advances the understanding of the relationship between ESG practices, institutional risks, and internationalization in the franchising sector, demonstrating that international success depends on strategic alignment with economic and regulatory conditions and the ability to adapt corporate practices to the evolving realities of each market.

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