UNIVERSIDADE PAULISTA - UNIP

ROSMARY CARDOSO SAAD

ESG AND THE INTERNATIONALIZATION OF BRAZILIAN FRANCHISE CHAINS: AN ORGANIZATIONAL AND INSTITUTIONAL PERSPECTIVE

SÃO PAULO
2026

ROSMARY CARDOSO SAAD

ESG AND THE INTERNATIONALIZATION OF BRAZILIAN FRANCHISE CHAINS: AN ORGANIZATIONAL AND INSTITUTIONAL PERSPECTIVE

Thesis submitted to the Graduate Program in Business Administration at Universidade Paulista – UNIP for the degree of Doctor of Philosophy (Ph.D.) in Business Administration.

Advisor: Professor Pedro Lucas de Resende Melo, Ph.D.

SÃO PAULO
2026

Saad, Rosmary Cardoso.
ESG and the internationalization of brazilian franchise chains: an organizational and institutional perspective / Rosmary Cardoso Saad. -2026.
136 f.: il. color. + CD-ROM.

Tese de Doutorado apresentada ao Programa de Pós-Graduação em Administração da Universidade Paulista, São Paulo, 2026.

Área de concentração: Redes Organizacionais.
Orientador: Prof. Dr. Pedro Lucas de Resende Melo.

1. Environmental, Social and Governance (ESG). 2. International business. 3. Franchising. 4. Emerging markets. 5. Governance. 6. Institutional theory. 7. Resource-based view. 8. Stakeholder theory. I. Melo, Pedro Lucas de Resende (orientador). II. Título.

Ficha elaborada pelo Bibliotecário Rodney Eloy CRB8-6450

ROSMARY CARDOSO SAAD

ESG AND THE INTERNATIONALIZATION OF BRAZILIAN FRANCHISE CHAINS: AN ORGANIZATIONAL AND INSTITUTIONAL PERSPECTIVE

Thesis submitted to the Graduate Program in Business Administration at Universidade Paulista – UNIP for the degree of Doctor of Philosophy (Ph.D.) in Business Administration.

Aprovado em: ____/____/____

____

Advisor: Professor Pedro Lucas de Resende Melo, Ph.D. – UNIP

____

External Examiner: Professor Thelma Valeria Rocha Rodrigues, Ph.D. – ESPM

____

External Examiner: Professor Matheus Dermonde Gonçalves, Ph.D. – FEA/USP

____

Internal Examiner: Professor João Maurício Gama Boaventura, Ph.D. – UNIP

____

Internal Examiner: Professor Renato Telles, Ph.D. – UNIP

DEDICATION

To my father, *in memoriam*, who instilled in me a sense of curiosity, a love of learning, and the conviction that we should never stop seeking knowledge. It was he who taught me that knowledge is a lifelong treasure that no one can ever take away and that learning accompanies us throughout our lives. His example remains present in everything I do and will always be one of the greatest inspirations of my life.

To my mother, for her constant strength, her unwavering presence, and the example of courage and resilience with which she has always faced life. Throughout our journey together, her support and confidence have always given me strength. I take great pride in the remarkable woman she is and in everything she represents in my life.

To my family, for their love, understanding, and constant encouragement throughout this journey.

With all my love and everlasting gratitude.

ACKNOWLEDGMENTS

This thesis reflects years of learning, intellectual growth, and a commitment to understanding and contributing to knowledge. It would not have been possible without the support, encouragement, and generosity of the many people and institutions that accompanied me throughout this process.

To my advisor, Professor Pedro Lucas de Resende Melo, Ph.D., I express my sincere gratitude for his guidance, trust, constant encouragement, and scientific rigor, which shaped this work. His high academic standards, thoughtful guidance, and constant encouragement were fundamental to the development of this research and to my growth as a scholar.

I also thank Universidade Paulista – UNIP and its Graduate Program in Business Administration for providing an environment of academic excellence in which this research could be conducted. I am equally grateful to CAPES, through the PROSUP Program, for the financial support provided during an important stage of my doctoral studies.

I would also like to thank the faculty members of the Graduate Program, who shared their knowledge and experience throughout my academic training, as well as the members of my qualification committee, whose thoughtful comments significantly strengthened this thesis. I also extend my sincere appreciation to the members of my doctoral defense committee for their willingness to participate in this important milestone of my doctoral studies.

I am also grateful to Faculdade Sebrae for its continued support for academic and scientific development, which enabled me to balance my professional responsibilities with this important stage of my education.

Finally, I would like to thank my family, my closest friends, and everyone who, in one way or another, contributed to this achievement. This accomplishment also reflects the generosity, trust, and support of the many people who have been part of my life.

ABSTRACT

This thesis investigates the organizational and institutional conditions under which environmental, social, and governance (ESG) practices generate strategic value in the internationalization of Brazilian franchise chains. Despite the growing prominence of ESG in corporate strategy and academic research, empirical evidence remains heterogeneous, suggesting that its strategic implications depend on how ESG is embedded in organizational capabilities, governance mechanisms, and heterogeneous institutional environments rather than arising from universal or linear relationships. To address this research problem, the thesis integrates Institutional Theory, Stakeholder Theory, the Resource-Based View, governance theory, and the international business literature through three complementary quantitative studies based on large-scale secondary data obtained from the Brazilian Franchising Association, the International Monetary Fund, Global Risk Profile, Robeco, and the World Bank. Collectively, the three studies progressively examine how ESG relates to financial performance, how institutional conditions shape international expansion, and how governance mechanisms influence international commitment in decentralized franchise systems. The findings consistently demonstrate that ESG does not generate strategic value in isolation. Instead, its strategic relevance depends on the interaction among organizational capabilities, governance mechanisms, and institutional conditions operating across different stages of the internationalization process. Overall, the thesis contributes to the literature by proposing an integrated explanation of ESG. It conceptualizes ESG as an organizational capability whose strategic role depends on the articulation between governance mechanisms and institutional conditions in the internationalization of franchise chains.

Keywords: Environmental, Social and Governance (ESG); International Business; Franchising; Emerging Markets; Governance; Institutional Theory; Resource-Based View; Stakeholder Theory.

RESUMO

Esta tese investiga as condições organizacionais e institucionais sob as quais práticas ambientais, sociais e de governança (ESG) geram valor estratégico na internacionalização de redes de franquias brasileiras. Apesar da crescente relevância do ESG nas agendas corporativa e acadêmica, as evidências empíricas permanecem heterogêneas, sugerindo que suas implicações estratégicas dependem da forma como o ESG é incorporado às capacidades organizacionais, aos mecanismos de governança e aos ambientes institucionais heterogêneos, em vez de decorrerem de relações universais ou lineares. Para responder a esse problema de pesquisa, a tese integra a Teoria Institucional, a Teoria dos Stakeholders, a Visão Baseada em Recursos, a teoria da governança e a literatura de Negócios Internacionais por meio de três estudos quantitativos complementares, baseados em dados secundários de larga escala obtidos junto à Associação Brasileira de Franchising, ao Fundo Monetário Internacional, à Global Risk Profile, à Robeco e ao Banco Mundial. Em conjunto, os três estudos examinam progressivamente como o ESG se relaciona com o desempenho financeiro, como as condições institucionais moldam a expansão internacional e como os mecanismos de governança influenciam o comprometimento internacional em sistemas de franquias descentralizados. Os resultados demonstram, de forma consistente, que o ESG não gera valor estratégico de maneira isolada. Em vez disso, sua relevância estratégica depende da interação entre capacidades organizacionais, mecanismos de governança e condições institucionais que atuam em diferentes etapas do processo de internacionalização. De modo geral, a tese contribui para a literatura ao propor uma explicação integrada do ESG. Nessa perspectiva, o ESG é concebido como uma capacidade organizacional cujo papel estratégico depende da articulação entre mecanismos de governança e condições institucionais na internacionalização de redes de franquias.

Palavras-chave: Environmental, Social and Governance (ESG); Negócios Internacionais; Redes de Franquias; Mercados Emergentes; Governança; Teoria Institucional; Visão Baseada em Recursos; Teoria dos Stakeholders.

LIST OF TABLES

LIST OF FIGURES

LISTS OF ABBREVIATIONS AND ACRONYMS

ABF – Brazilian Franchising Association

AIC – Akaike Information Criterion

B3 – Brasil, Bolsa, Balcão

COVID-19 – Coronavirus Disease 2019

CSR – Corporate Social Responsibility

ESG – Environmental, Social and Governance

ESGI – Environmental, Social and Governance Intelligence

GCI – Global Competitiveness Index

GDP – Gross Domestic Product

IMF – International Monetary Fund

ISE B3 – B3 Corporate Sustainability Index

Max. – Maximum

Min. – Minimum

OLS – Ordinary Least Squares

PEGN – Pequenas Empresas & Grandes Negócios (Small Businesses & Big Business)

Q1 – Quartile 1

Q2 – Quartile 2 (Median)

Q3 – Quartile 3

RBV – Resource-Based View

SMEs – Small and Medium-sized Enterprises

UN – United Nations

VIF – Variance Inflation Factor

SUMMARY

1. INTRODUCTION

Despite the growing prominence of environmental, social, and governance (ESG) practices in corporate strategy and academic research, there is still no consensus regarding whether, how, and under what conditions ESG generates strategic value. While a growing body of empirical research associates ESG with superior financial performance, greater organizational legitimacy, competitive advantage, lower risk exposure, and improved internationalization outcomes (Friede et al., 2015; Shahbaz et al., 2020; Hasan et al., 2021; Gillan et al., 2021; Ftiti et al., 2024), other studies report weak, null, or even contradictory relationships. Rather than converging toward a coherent explanation, empirical evidence has become increasingly heterogeneous, suggesting that the strategic implications of ESG cannot yet be fully explained through universal or linear relationships.

Consequently, recent research has gradually shifted the debate from asking whether ESG creates value to investigating the organizational and institutional conditions under which such value is more likely to emerge. Instead of treating ESG as a universally beneficial organizational attribute, an increasing number of studies argue that its strategic implications depend on firms' internal characteristics, the extent to which ESG is embedded in organizational capabilities and routines, and the institutional environments in which firms operate (Freeman, et al., 2021; Linnenluecke et al., 2022; Popli et al., 2022; Cuervo-Cazurra et al., 2021). This emerging perspective suggests that heterogeneous ESG outcomes may reflect not only differences in ESG adoption itself, but also variation in the organizational capabilities through which ESG practices are implemented and the institutional contexts in which they are enacted.

These challenges become particularly relevant in organizational forms characterized by decentralized decision-making and shared responsibility for strategy implementation. Franchise chains represent one of the clearest examples of such arrangements. By combining centralized strategic direction with legally independent operating units, franchise systems enable rapid expansion, local market adaptation, and entrepreneurial initiative while creating coordination challenges associated with maintaining strategic alignment, organizational consistency, and brand legitimacy across geographically dispersed units (Bradach & Eccles, 1989; Dant & Kaufmann, 2003; Perrigot et al., 2021; Gorovaia & Hussain, 2025).

Within this context, implementing ESG practices extends beyond the formulation of corporate policies, requiring their translation into organizational routines and capabilities across legally independent business units whose objectives, incentives, and capabilities may differ (Barney, 1991; Freeman et al., 2021; Linnenluecke et al., 2022).

The complexity of this process becomes even greater when franchise chains expand internationally. Operating across countries exposes firms to heterogeneous institutional environments characterized by distinct regulatory frameworks, stakeholder expectations, cultural norms, and governance requirements, potentially altering both the implementation and the strategic implications of ESG practices. Institutional research argues that organizations expanding across national borders must establish legitimacy within the regulatory, normative, and cognitive structures of host environments (Suchman, 1995; Scott, 2013), while recognizing that these institutional arrangements vary substantially across countries (North, 1990). Likewise, international business scholars argue that firms expanding abroad must continuously adapt their firm-specific capabilities and governance arrangements to heterogeneous institutional conditions (Peng et al., 2008; Lanfranchi et al., 2021; Cuervo-Cazurra et al., 2021).

Accordingly, understanding the relationship between ESG and internationalization requires analytical approaches capable of integrating organizational characteristics, governance arrangements, and institutional conditions, rather than assuming universal ESG effects across firms and institutional contexts (Verbeke & Forootan, 2012).

Against this background, franchise chains provide a particularly suitable context for examining why ESG practices generate heterogeneous strategic outcomes. Unlike vertically integrated firms, franchise systems constitute hybrid organizational arrangements that combine centralized strategic direction with decentralized execution through legally independent business units, requiring strategic initiatives to be implemented across organizational boundaries (Bradach & Eccles, 1989; Dant & Kaufmann, 2003). This organizational configuration creates inherent tensions between standardization and local adaptation, control and autonomy, and network-wide consistency and entrepreneurial initiative (Bradach, 1997; Dant & Kaufmann, 2003; Perrigot et al., 2021).

Therefore, translating ESG principles into consistent organizational practices depends not only on strategic intent but also on organizational capabilities and coordination mechanisms enabling legally independent actors to align routines, incentives, and resource deployment across the franchise chain (Bradach, 1997; Jell-Ojobor et al., 2022; Linnenluecke et al., 2022).

These characteristics suggest that ESG implementation in franchise systems should be understood as an organizational process rather than merely as the adoption of corporate sustainability policies, as its effectiveness depends on how ESG principles are embedded within organizational routines and capabilities (Linnenluecke et al., 2022). Although franchisors typically define strategic priorities and ESG-related guidelines, franchisees retain substantial operational autonomy, making the effectiveness of sustainability initiatives dependent on governance mechanisms capable of fostering coordination, knowledge transfer, incentive alignment, and the consistent implementation of organizational routines across the network (Bradach & Eccles, 1989; Perrigot et al., 2021; Dada et al., 2024; Bretas et al., 2024).

In this context, franchise systems provide a particularly appropriate setting for examining how organizational capabilities, governance mechanisms, and institutional conditions jointly influence the extent to which ESG practices are translated into strategic outcomes (Verbeke & Forootan, 2012; Peng et al., 2008).

These implementation challenges become even more complex when franchise chains expand internationally. Operating across multiple countries exposes franchise systems to heterogeneous institutional environments characterized by distinct regulatory frameworks, stakeholder expectations, cultural norms, and governance requirements, increasing the difficulty of maintaining consistent organizational practices while simultaneously adapting to local conditions (North, 1990; Scott, 2013; Peng et al., 2008; Cuervo-Cazurra et al., 2021). Although previous studies have generated important insights into ESG, franchising, and international business, comparatively less attention has been devoted to integrating these perspectives in order to explain how organizational characteristics, governance arrangements, and institutional conditions jointly shape the strategic implications of ESG in international franchise systems (Verbeke & Forootan, 2012; Jell-Ojobor et al., 2022).

This need for greater theoretical integration is consistent with recent international business research, which emphasizes that firms' international outcomes emerge from the interaction between firm-specific capabilities and heterogeneous institutional environments rather than from isolated organizational or environmental factors (Verbeke & Forootan, 2012; Popli et al., 2022).

Taken together, these observations and recent theoretical developments suggest that explaining the strategic implications of ESG requires moving beyond analytical approaches that examine organizational, institutional, or governance-related factors in isolation (Milgrom & Roberts, 1995; Verbeke & Forootan, 2012; Linnenluecke et al., 2022). Rather, ESG outcomes are increasingly understood as emerging from the interaction among these dimensions, particularly in organizational settings where strategic implementation depends on coordinating multiple actors across heterogeneous institutional environments.

This organizational context therefore offers an especially appropriate empirical setting for examining these interactions because it simultaneously combines hybrid organizational arrangements, complex governance mechanisms, and heterogeneous institutional environments within a single organizational form (Bretas et al., 2024).

Accordingly, this thesis investigates how organizational characteristics, governance arrangements, and institutional conditions jointly shape the strategic implications of ESG for the internationalization of Brazilian franchise chains (Freeman et al., 2021; Peng et al., 2008; Milgrom & Roberts, 1995; Verbeke & Forootan, 2012). Rather than examining these dimensions in isolation, the thesis adopts an integrated analytical perspective to explain how these mechanisms interact within decentralized organizational systems operating across heterogeneous institutional environments.

Franchise chains operating across international markets provide an appropriate empirical setting for examining these interdependent mechanisms because they combine hybrid organizational arrangements, complex governance structures, and heterogeneous institutional environments within a single organizational form (Bradach & Eccles, 1989; Bretas et al., 2024; Perrigot et al., 2021).

To investigate this overarching research problem, the thesis is structured as three complementary and sequential studies, each examining a distinct yet interconnected dimension of the relationship between ESG and the internationalization of Brazilian franchise chains. Collectively, the three studies build an integrated understanding of the conditions under which ESG becomes strategically relevant by examining firm-level outcomes, institutional environments, and organizational governance mechanisms, consistent with recent research emphasizing that firms' strategic outcomes emerge from the interaction between organizational capabilities and heterogeneous institutional environments (Verbeke & Forootan, 2012; Peng et al., 2008; Freeman et al., 2021).

Table 1 synthesizes the three empirical studies comprising this thesis, summarizing their objectives, theoretical foundations, methodological approaches, principal findings, and complementary contributions to the overarching research problem.

Taken together, the three studies integrate complementary theoretical perspectives, including Institutional Theory, Stakeholder Theory, the Resource-Based View, governance research, and international business, to explain the organizational and institutional conditions under which ESG becomes strategically relevant in decentralized franchise systems (Freeman, 2010; Scott, 2013; Freeman et al., 2021; Peng et al., 2008; Verbeke & Forootan, 2012; Bretas et al., 2024).

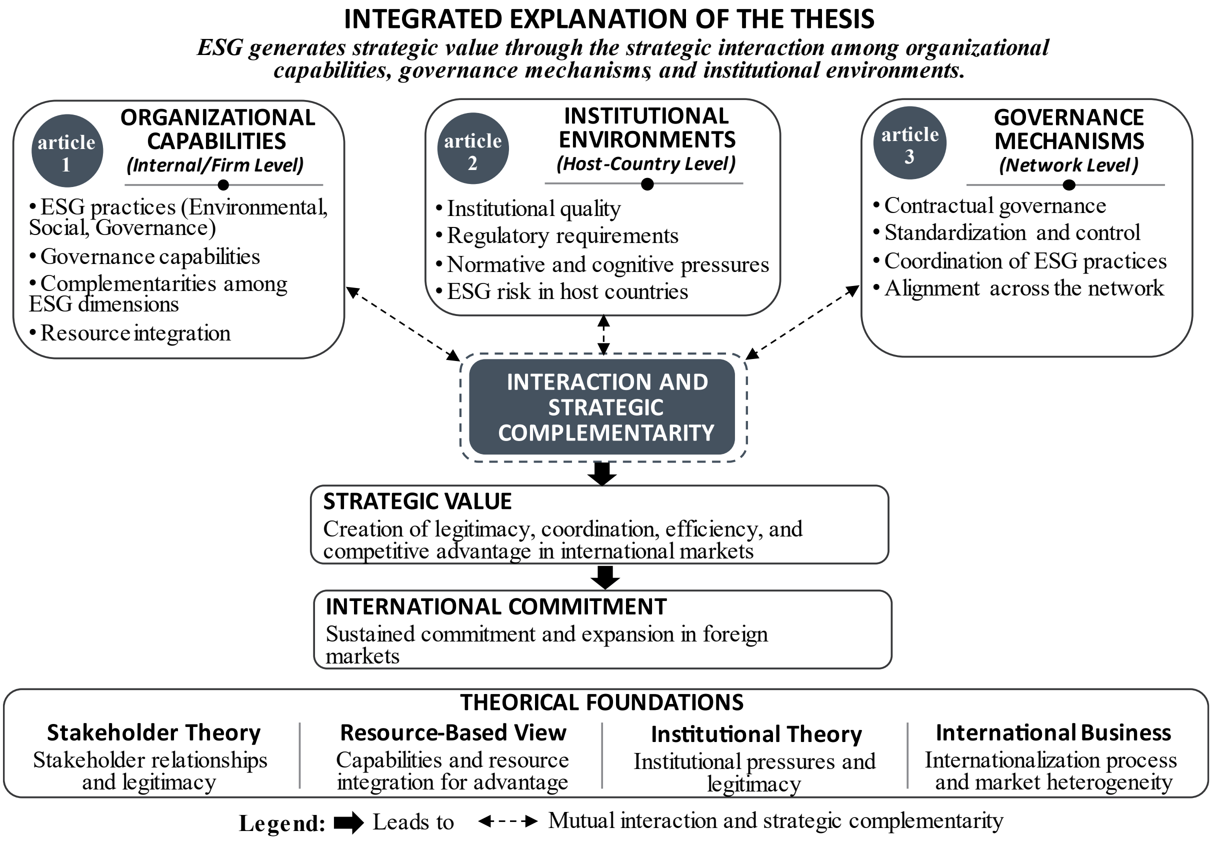
Table 1: Summary of the three studies comprising the thesis

Element	Article 1	Article 2	Article 3
Title	Do ESG practices interfere with the financial results of franchise chains?	How do ESG factors influence the internationalization of Brazilian franchise chains? A comparative study of developed and emerging economies	Beyond institutions and ESG: Contractual governance as a coordination mechanism for international commitment in franchise chains
Research problem	To examine whether and under which conditions ESG practices influence financial performance in Brazilian franchise chains.	To examine how ESG performance, ESG risk, and destination-country institutional conditions jointly influence the international expansion of Brazilian franchise chains.	To examine how contractual governance arrangements, ESG practices, and institutional conditions jointly influence the international commitment of Brazilian franchise chains.
Objective	To investigate the relationship between ESG practices and financial performance by examining the individual and complementary effects of the environmental, social, and governance dimensions.	To investigate how ESG performance, ESG risk, and destination-country institutional conditions influence the international expansion of Brazilian franchise chains across developed and emerging economies.	To evaluate how contractual governance arrangements, ESG practices, and institutional conditions influence the intensity of international commitment among Brazilian franchise chains.
Predominant theoretical	Stakeholder Theory; Resource-Based View (RBV); Franchise Governance	Institutional Theory; Stakeholder Theory; Internalization; Resource Dependence	Institutional Theory; Contractual Governance; Resource-Based View; Internalization Theory
Method	Quantitative study using secondary data from 138 Brazilian franchise chains. Multiple linear regression models with time-lagged ESG measures.	Quantitative study using secondary data from 131 Brazilian franchise chains operating in 80 countries. Multiple regression models comparing developed and emerging economies.	Quantitative study using secondary data from 104 Brazilian franchise chains operating across 69 countries, totaling 2,364 international units. OLS and fractional logit models with robustness analyses.
Main finding	Individual ESG dimensions do not exert consistent direct effects on financial performance; rather, governance enables complementary interactions between environmental and social practices.	The strategic relevance of ESG and ESG risk for international expansion depends on destination-country institutional conditions and differences between developed and emerging economies.	International commitment is shaped primarily by governance arrangements and organizational characteristics rather than by ESG practices alone, highlighting the importance of coordination under heterogeneous institutional conditions.
Theoretical contribution	Challenges linear interpretations of the ESG-performance relationship by showing that governance enables complementary interactions among ESG dimensions in franchise systems.	Extends ESG research to the international context by demonstrating that the strategic relevance of ESG is contingent upon destination-country institutional conditions.	Advances the internationalization literature by explaining how contractual governance coordinates ESG implementation across heterogeneous institutional environments.
Managerial contribution	Highlights the need to complement ESG initiatives with governance mechanisms capable of coordinating decentralized organizational practices.	Supports international market selection by emphasizing the importance of evaluating both ESG conditions and institutional quality in destination countries.	Reinforces the role of contractual governance in sustaining coordinated international expansion across heterogeneous institutional environments.
Integrative role in the thesis	Establishes that the strategic value of ESG depends on organizational capabilities and governance conditions rather than on direct linear effects.	Demonstrates that the strategic relevance of ESG is contingent upon heterogeneous institutional environments.	Explains how governance mechanisms transform ESG into sustained international commitment within decentralized franchise systems.
Analytical level	Firm level.	Institutional (host-country) level.	Organizational/Governance level.

Source: Developed by the author.

Figure 1 synthesizes the integrated theoretical framework developed throughout this thesis. Rather than examining ESG through isolated organizational, institutional, or governance perspectives, the framework conceptualizes strategic value as emerging from the strategic interaction and complementarity among organizational capabilities, governance mechanisms, and heterogeneous institutional environments. Collectively, the three empirical studies demonstrate how these analytical dimensions interact to generate strategic value and sustain international commitment in franchise systems.

Figure 1: Integrated explanation of the thesis



Source: Developed by the author based on the theoretical foundations and empirical findings presented in this thesis.

This integrated perspective suggests that ESG should not be viewed as a universally beneficial organizational attribute, but rather as an organizational capability whose strategic value depends on the interaction among organizational capabilities, governance mechanisms, and heterogeneous institutional environments. The broader theoretical, managerial, and institutional implications of this integrated explanation are discussed in the concluding chapter.

2. ARTICLES

2.1.Article 1: Do ESG practices interfere with the financial results of franchise chains?

Purpose: This study aims to investigate whether and under which conditions Environmental, Social, and Governance (ESG) practices influence the financial performance of Brazilian franchise chains. Specifically, it examines the individual and complementary effects of the environmental, social, and governance dimensions on firm performance.

Design/methodology/approach: A quantitative approach was employed using secondary data from 138 Brazilian franchise chains. Multiple linear regression models were estimated using time-lagged ESG measures while controlling for firms' sector of activity to examine the relationship between ESG practices and financial performance.

Findings: The results indicate that individual ESG dimensions do not exert significant direct effects on financial performance. However, complementary interactions between governance and both environmental and social practices are positively associated with financial outcomes, suggesting that governance enhances the strategic effectiveness of ESG implementation within decentralized franchise systems.

Practical implications: The findings suggest that franchise chains should move beyond isolated ESG initiatives and adopt integrated sustainability strategies supported by robust governance mechanisms. Strengthening governance capabilities may improve strategic coordination, financial performance, and organizational legitimacy while aligning ESG implementation across decentralized franchise networks.

Social implications: By emphasizing the integration of governance with environmental and social practices, the study supports more effective ESG implementation, contributing to responsible business conduct, stronger stakeholder relationships, and sustainable organizational development.

Originality/value: This study contributes to the ESG and franchising literature by demonstrating that the strategic value of ESG depends on complementarities among its

dimensions rather than on isolated practices. It advances Resource-Based View and Stakeholder Theory by showing that governance acts as an enabling organizational capability that enhances the effectiveness of environmental and social initiatives in decentralized franchise systems.

Keywords: ESG; Franchise chains; Financial performance; Governance; Stakeholder theory; Resource-Based View.

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. Companies across various sectors face increasing pressure from stakeholders to adopt and implement ESG practices (Duque-Grisales & Aguilera-Caracuel, 2021; Khan, 2022). The disclosure of ESG practices, particularly through sustainability reports, is fundamental for enhancing 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).

Despite the increasing importance of ESG practices and the franchising model, the intersection of these areas has received little academic attention. A bibliometric analysis and systematic review revealed a significant gap in the literature concerning ESG practices within franchising, underscoring the need for further research in this area (Carlsson Hauff & Nilsson, 2023; Rounok et al., 2023). This gap is particularly critical given the potential for ESG practices to drive sustainable growth and competitive advantage within franchise chains.

In this context, the present study aims to analyze the relationship between ESG practices and financial performance in franchise chains in Brazil. Franchising, which accounts for 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 View, which posits that firms with valuable, rare, inimitable, and non-substitutable resources, such as ESG practices, are more likely to achieve superior performance (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 (Eliwa et al., 2021), others found negative effects (Jha & Rangarajan, 2020; Shahbaz et al., 2020) or did not identify a significant relationship (Hasan et al., 2021). This divergence in results highlights the complexity of the relationship between ESG and financial performance, which can vary significantly across different governance systems, as demonstrated by Ftiti et al. (2024), who found that the governance pillar plays a crucial role in enhancing financial outcomes, particularly in Germanic and Latin governance systems.

Given this gap, the present study seeks to investigate whether franchise chains that disclose ESG practices demonstrate superior financial performance compared to those that do not. This research is particularly relevant in the Brazilian context, where the franchise market has shown robust growth and constitutes a significant portion of the retail sector (ABF, 2022). By exploring the ESG-financial performance nexus within franchise chains, this study aims to contribute to academic literature and provide practical insights for franchise chain managers at the intersection of sustainability and business management.

2. LITERATURE REVIEW

2.1. The Resource-Based View (RBV)

The Resource-Based View (RBV) posits that a company's unique resources and capabilities are key to achieving and sustaining competitive advantages (Barney, 1991). These resources and capabilities are challenging to develop and replicate and are becoming increasingly crucial as companies integrate ecological and social considerations into their strategic frameworks (Hart, 1995). Recent challenges, like the COVID-19 pandemic, have underscored the need for robust ESG practices to enhance organizational resilience (Mesquita et al., 2024).

However, the adoption of ESG practices involves substantial investment, which can distract from core activities and increase uncertainty, potentially causing conflicts among stakeholders and reducing market adaptability (Sun & Gunia, 2018; Chen et al., 2018). Research by Sharma et al. (2019) illustrates the mixed effects of ESG practices on financial performance, noting that while environmental disclosures may negatively correlate with financial outcomes, social practices tend to enhance financial performance, particularly in larger organizations.

Similarly, Tahmid et al. (2022) found that social and environmental practices could significantly boost financial performance by enhancing human rights, workforce quality, and environmental sustainability. However, governance practices sometimes negatively affected performance, highlighting the importance of tailoring these initiatives to align with stakeholder expectations and maximize sustainability returns.

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.

To address these ambiguities, this study conceptualizes ESG practices as strategic organizational resources and capabilities within the RBV framework, operationalized through specific indicators that capture the environmental, social, and governance dimensions. These indicators operationalize ESG practices through measures that capture attributes associated with the value, rarity, inimitability, and non-substitutability (VRIN) of organizational resources (Barney, 1991). By exploring how these ESG resources contribute to sustained competitive advantage, particularly in contexts where resource control is critical, such as in the adoption of environmental practices (Pfeffer & Salancik, 2015), this research seeks to clarify their impact on the financial performance of franchise chains.

2.2. Stakeholder theory

Stakeholders are individuals or groups impacted by or capable of impacting an organization's objectives (Freeman, 2010). Stakeholder theory asserts that true business success involves satisfying all stakeholders, not just shareholders. It suggests that the welfare of all stakeholders should be a primary managerial focus (Freeman et al., 2021). Addressing stakeholder needs can significantly enhance company performance (Deng et al., 2013; Gillan et al., 2021).

In this research, ESG practices are examined through the lens of Stakeholder Theory, where they are evaluated based on how effectively they meet the demands and expectations of various stakeholders (Freeman, 2010). The indicators used to measure ESG performance are designed to capture the alignment between corporate actions and stakeholder needs, which is critical for enhancing company performance and long-term sustainability (Freeman et al., 2021). This approach allows the study to investigate the impact of stakeholder-oriented ESG practices on financial outcomes, particularly in areas such as social responsibility and governance.

However, the relationship between ESG practices and financial performance reveals complexities. Mardini (2022) points out that while environmental and governance aspects positively influence market evaluations, social factors might have a negative impact, suggesting that these practices, despite being crucial for sustainability, may entail upfront costs without immediate financial returns.

On the other hand, dissatisfaction among stakeholders can undermine productivity and jeopardize future prospects. The thorough integration of non-financial variables in reporting is crucial as it strengthens stakeholder relations, enhancing the quality of sustainability reports (Saini et al., 2023). Li et al. (2021) further argues that companies that more effectively meet stakeholder ESG expectations tend to outperform those that do not.

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 crucial for a company's long-term success, achieved by balancing financial results with the needs of stakeholders such as employees, customers, and local communities (Hastalona & Sadalia, 2021). It involves adopting responsible financial management practices that maximize resource use and minimize costs, thus maintaining competitiveness and long-term profitability (Chen & Yang, 2021; Hastalona & Sadalia, 2021).

In franchising, ESG practices significantly impact corporate image and consumer loyalty. According to a study by Wan (2023), while environmental and social aspects of ESG practices enhance corporate image and customer loyalty, governance aspects showed no significant effect, suggesting potential consumer scepticism about the effectiveness of corporate governance. Furthermore, Pereira et al. (2020) demonstrated that a positive perception of ESG practices not only boosts corporate image but also bolsters profitability. However, the strength and direction of this relationship can vary greatly depending on the transparency and governance involved.

Franchising requires careful consideration of franchisors' ability to meet franchisees' needs, who are crucial stakeholders. Economic sustainability alone does not ensure overall sustainability; franchisors must also build trust with franchisees (Closs et al., 2011). Research predominantly from developed countries leaves a gap in understanding economic sustainability in developing contexts (Mukhtarov, 2022).

Despite some insights from existing studies on ESG practices in franchising, there is a notable gap in understanding their impact across different franchise types and regions. Most studies focus on large corporations, overlooking the effects on smaller franchises or those in emerging markets, where economic and cultural differences can influence sustainability outcomes (Chen & Yang, 2021; Hastalona & Sadalia, 2021). This research aims to address these gaps by exploring how ESG practices can be effectively adapted and implemented in diverse franchise settings to enhance both corporate image and financial performance, considering local and sector-specific factors.

By integrating both Resource-Based View and Stakeholder Theory, this study assesses how ESG practices serve as strategic resources while also fulfilling stakeholder expectations. The combination of these theoretical perspectives provides a comprehensive framework for understanding the complex relationship between ESG practices and financial performance in franchise chains (Barney, 1991; Freeman et al., 2021). This integrated approach is particularly relevant in exploring the combined effects of ESG dimensions on performance, as hypothesized in the study.

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). 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; Liu et al., 2021).

Including the perspective of resource dependence theory (Pfeffer & Salancik, 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).

Environmental formulates 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.

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) 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 Corporate Social Responsibility practices on brand image (Perrigot et al., 2015; Utgård, 2018) and explore franchisors' communication about their social activities. 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).

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 (Eliwa et al., 2021). 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 (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.*

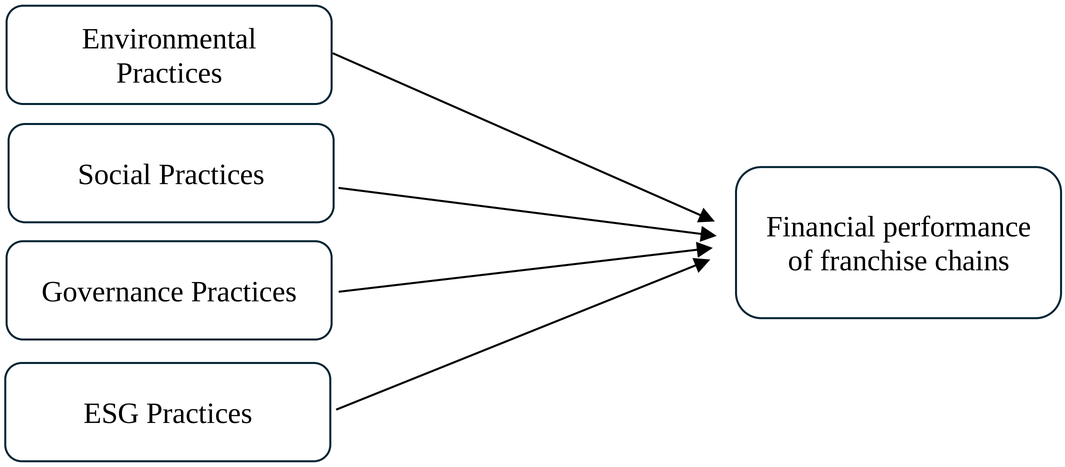
3.4. ESG Dimension

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 (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 integrated ESG practices present superior financial performance compared to franchise chains that do not adopt them.*

Figure 1: Research framework



Source: Author

4. METHODOLOGY

4.1. Data and sample collection

The data were 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 the franchise chains, the dependent variable, was assessed by analyzing the chain performance data for 2022 and 2023. The impact of ESG practices reported in 2021 was evaluated on the financial performance in the subsequent years. To capture this, we used a lagged data approach, examining how the ESG practices adopted in 2021 influenced the performance in 2022 and 2023.

An analysis of the ESG practices reported by franchises on their corporate websites was conducted 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. This methodology 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.

The study period encompasses the economic recovery following the COVID-19 pandemic, allowing the analysis of franchise performance during different stages of post-pandemic adjustment over the three-year period. The decision to consult the companies' own websites for ESG information was driven by the limited adherence to the Corporate Sustainability Index (ISE B3) in Brazil, and the fact that many franchise chains are privately held, making it difficult for investors to access this information. This approach has been employed in previous franchising studies and contributes to the relevance and validity of the research.

The information on ESG practices reported by each franchise on its corporate website was analyzed using the environmental, social, and governance measurement indicators proposed by Sica et al. (2023). These indicators encompass a broad set of practices related to environmental management, social responsibility, and corporate governance, providing a structured framework for assessing the public disclosure of ESG practices by franchise chains.

Documentary evidence available on the corporate websites of the franchise chains was systematically examined according to these criteria.

For each ESG dimension, the presence of at least one of the indicators associated with that dimension was coded as «1», whereas its absence was coded as «0». This binary coding procedure enabled the construction of the ESG variables based on publicly disclosed information and is consistent with the concept of materiality (Adams et al., 2021). The results obtained were organized into the sample profile, as shown in Table 1.

Table 1: Sample profile

Sector	Franchise chains (a)	ESG practices 2021	
		# Chains (b)	Participation (b/a)
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: Author

5. RESULTS ANALYSIS

5.1. Analytical Procedures

To reduce the possibility of simultaneity bias, a lagged specification was adopted 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_{23-22}). 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, $\beta_1 * ESG_{21}$ captures the effects 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 (White, 1980; Zeileis & Lumley, 2022).

The decision to utilize only the 2021 ESG data as independent variables in the regression models, despite having data available for subsequent years, is grounded in the need to clearly isolate the impact of prior ESG practices on subsequent financial performance. By focusing on the 2021 data, we ensure that the independent variables are temporally separated from the dependent variables (performance in 2022 and 2023), reducing the risk of reverse causality and providing a clearer causal interpretation. The inclusion of ESG data from 2022 or 2023 could introduce simultaneity bias, as these practices might have been influenced by the performance outcomes within the same period.

5.2. Results Analysis

According to Table 2, 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% had already adopted the environmental and social dimensions 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 2: 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: Author

In general, the correlation analysis showed that the ESG variables have significant correlations with each other (p-value < 0.01 for all coefficients). The coefficients consistently showed a positive direction, indicating that franchises typically practice multiple ESG dimensions simultaneously. The strongest correlations, exceeding .90, occurred between the same practices at adjacent time points, suggesting that companies maintain these practices over time. Additionally, the performance variables also displayed positive and significant correlations.

The initial models presented in Table 3 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 3: Initial model testing

Variables	M1 β	M1 sig.		M2 β	M2 sig.		M3 β	M3 sig.		M4 β	M4 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)		
Intercept	-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: Author

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 direct effect does not support 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. On the other hand, the indirect effects described in the previous two paragraphs provide partial support for this hypothesis.

The results lead to the rejection of Hypothesis H4, which proposed that franchise chains adopting integrated ESG practices would exhibit superior financial performance compared to those that do not. Contrary to this expectation, the simultaneous presence of the environmental, social, and governance dimensions was associated with a negative effect on subsequent financial performance. However, the following three hypotheses receive partial support through the interaction effects, suggesting that the strategic value of ESG emerges from complementarities among its dimensions rather than from their isolated or merely simultaneous adoption.

Between hypotheses H1 and H3, Table 4, 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.

Table 4: Final model testing

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

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.

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 were not directly associated with financial performance, providing no support for H1, H2, and H3. 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). This aligns with the findings of Di Giuli and Kostovetsky (2014), who suggest that the isolated adoption of ESG practices may not be sufficient to generate positive financial impacts. The franchise model, with its distinct separation between franchisor and franchisee operations, adds another layer of complexity. Unlike centralized corporations, where uniform ESG policies can be more easily enforced, franchise chains may require tailored strategies that account for the varying levels of autonomy and resources among franchisees. This complexity might explain the lack of significant direct effects observed for individual ESG dimensions.

Furthermore, stakeholders' positive perception of ESG practices can play a crucial role in determining their financial impact. Pereira et al. (2020) highlight that stakeholders' positive perception of ESG practices can enhance corporate image, strengthen profitability, and contribute to 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, supporting the idea that integrating ESG practices can enhance the financial performance of franchise chains. This notion is consistent with Stakeholder Theory (Freeman, 2010), which posits that fulfilling stakeholder expectations is essential for sustained business success.

The positive effects found when ESG practices are combined, especially the combination of E and G, as well as S and G, underscore the importance of governance in facilitating and enhancing the benefits of environmental and social practices. This is in line with Resource-Based View (Barney, 1991), which emphasizes that the integration of valuable, rare, inimitable, and non-substitutable (VRIN) resources, such as governance capabilities, is essential for achieving competitive advantages. The combination of these practices appears to create a synergistic effect, where governance acts as a facilitator that amplifies the impact of environmental and social initiatives, thereby leading to superior financial performance. This finding is further supported by Eliwa et al. (2021), who argue that integrated ESG strategies are more likely to yield financial benefits, particularly when strong governance structures are in place.

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. This discrepancy raises important questions about the prioritization of ESG investments within the retail sector. The low adoption of ESG practices in sectors intrinsically linked to sustainability may indicate a disconnect between sustainability rhetoric and actual practice, as highlighted by Saini et al. (2023). This observation is consistent with the findings of Li et al. (2021), who suggest that companies more responsive to stakeholders' ESG requirements tend to perform better than those that neglect these responsibilities. Therefore, the 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. This finding is further supported by Eliwa et al. (2021), who argue that integrated ESG strategies are more likely to yield financial benefits, particularly when strong governance structures are in place. Similarly, Ftiti et al. (2024) identify that the governance dimension significantly contributes to financial performance, especially in countries with Germanic and Latin governance systems, highlighting the importance of governance as a critical enabler for the effective implementation of environmental and social practices. Moreover, the heterogeneity in ESG adoption across different sectors underscores the need for a more strategic and inclusive approach to implementing sustainable practices, particularly in sectors where ESG adoption is currently low.

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 suggest that franchise chains should balance short-term financial objectives with longer-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. This observation aligns with the critiques posed by Mukhtarov (2022) regarding the gap between sustainability discourse and practice in emerging markets.

Therefore, these findings suggest that franchise chain managers should carefully consider how ESG practices are integrated into their business strategies. Rather than being implemented primarily to meet external expectations, ESG practices appear to generate greater strategic value when they are consistently embedded in organizational processes and supported by effective governance mechanisms. This study reinforces that the value of ESG extends beyond short-term financial performance, contributing to the development of organizational legitimacy, stronger stakeholder relationships, and long-term sustainability. For franchise chains, the challenge lies in integrating these dimensions into strategic decision-making through governance structures capable of ensuring consistent implementation across decentralized organizational systems.

7. FINAL CONSIDERATIONS

This study aimed to investigate the relationship between Environmental, Social, and Governance (ESG) practices and financial performance in franchise chains in Brazil. Employing a quantitative approach based on secondary data from 138 franchise chains operating in Brazil, we utilized multiple linear regression models to compare the financial outcomes of franchise chains that disclose ESG practices with those that do not, while accounting for sectoral differences (Correa-García & Vásquez-Arango, 2020; Kim & Lee, 2020).

The findings reveal that individual ESG practices (environmental, social, and governance) do not exhibit a significant direct relationship with financial performance. However, the integration of governance practices with environmental or social aspects demonstrates positive and robust effects on financial outcomes. These results align with Resource-Based View (Barney, 1991) and stakeholder theory (Freeman, 2010), underscoring the importance of strategically managing resources and stakeholders to achieve competitive advantages and superior financial performance (Eliwa et al., 2021). Additionally, the analysis of the sample profile highlighted significant variations in the adoption of ESG practices across different retail sectors, emphasizing the need for a more strategic and inclusive approach to the implementation of sustainable practices.

This study contributes to the theoretical understanding of the relationship between ESG practices and financial performance in franchise chains by extending the scope of stakeholder theory (Freeman, 2010) and Resource-Based View (Barney, 1991). It provides empirical evidence that the strategic value of ESG depends on the complementary interaction between governance and environmental and social practices, rather than on the isolated adoption of ESG dimensions. Furthermore, the results corroborate and expand upon previous studies by demonstrating that the combination of governance practices with environmental or social dimensions results in substantial financial benefits (Eliwa et al., 2021).

By identifying the relatively low adoption of ESG practices in key sectors such as Food, Health and Wellbeing, and Cosmetics, Perfumery, and Pharmacy, this study offers new perspectives on the barriers to ESG implementation within these industries. This finding contributes to the ongoing 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 foundation for future research to explore the specific dynamics within these sectors.

This study also addresses a gap in the literature by focusing on franchise chains in Brazil, a context that has been underexplored in previous research on ESG practices. By doing so, it offers insights into the Brazilian institutional environment and its influence on the adoption of ESG practices, thereby contributing to a better understanding of the variability in the implementation of these practices across different geographic and sectoral contexts.

From a managerial perspective, the findings provide valuable insights for franchise chain managers, suggesting that the adoption of integrated ESG practices should be supported by strong governance to maximize financial benefits. The findings suggest that governance acts as an enabling mechanism through which environmental and social practices are more effectively translated into financial performance. This highlights the importance of adopting a holistic and strategic approach to managing ESG practices (Li et al., 2021; Saini et al., 2023).

In terms of social contribution, this study underscores the significance of ESG practices for the retail sector, one of the major drivers of the economy. By promoting the coordinated implementation of ESG practices supported by effective governance, franchise chains can not only improve their strategic 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.

However, this study acknowledges several limitations. A more in-depth analysis of the internal dynamics of franchise chains and the specific mechanisms through which ESG practices influence financial performance is required. Additionally, reliance on secondary data may limit the ability to capture industry-specific nuances and the impact of organizational culture.

Future studies may further examine mediating and moderating mechanisms, particularly governance arrangements and organizational capabilities, as well as conduct longitudinal analyses to understand how this relationship evolves over time. Furthermore, exploring the relationship between ESG practices and financial performance across different geographic and sectoral contexts would provide a more comprehensive understanding of the challenges and opportunities associated with ESG implementation.

REFERENCES

Adams, C. A., Alhamood, A., Wang, J., & Wang, L. (2021). *The double-materiality concept. Application and issues*. http://go.qub.ac.uk/oa-feedback

Alon, I., Apriliyanti, I. D., & Henríquez Parodi, M. C. (2021). A systematic review of international franchising. *Multinational Business Review*, *29*(1), 43–69. https://doi.org/10.1108/MBR-01-2020-0019/FULL/PDF

Baah, C., Jin, Z., & Tang, L. (2020). Organizational and regulatory stakeholder pressures friends or foes to green logistics practices and financial performance: Investigating corporate reputation as a missing link. *Journal of Cleaner Production*, *247*, 119125. https://doi.org/10.1016/J.JCLEPRO.2019.119125

Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, *17*(1), 99–120. https://doi.org/10.1177/014920639101700108

Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology*, *51*(6), 1173–1182. https://doi.org/10.1037/0022-3514.51.6.1173

Barthélemy, J. (2011). Agency and institutional influences on franchising decisions. *Journal of Business Venturing*, *26*(1), 93–103. https://doi.org/10.1016/J.JBUSVENT.2009.05.002

Bradach, J., & Eccles, R. (1989). Price, authority, and trust: From ideal types to plural forms. *Annual Review of Sociology*, *15*(1), 97–118. https://doi.org/10.1146/annurev.so.15.080189.000525

Bretas, V. P., & Alon, I. (2021). Franchising research on emerging markets: Bibliometric and content analysis. *Journal of Business Research*, *133*, 51-65. https://www.sciencedirect.com/science/article/pii/S0148296321003118

Bui, T., & Jambulingam, M. (2022). A Bibliometric Analysis. *International Journal of Modern Trends in Social Sciences*, *5*(21), 30–48. https://doi.org/10.35631/IJMTSS.521003

Carlsson Hauff, J., & Nilsson, J. (2023). Is ESG mutual fund quality in the eye of the beholder? An experimental study of investor responses to ESG fund strategies. *Business Strategy and the Environment*, *32*(4), 1189–1202. https://doi.org/10.1002/BSE.3181

Chen, J., & Yang, C. C. (2021). Competitive Revenue Strategies in the Medical Consumables Industry: Evidence from Human Resources, Research and Development Expenses and Industry Life Cycle. *International Journal of Environmental Research and Public Health 2021, Vol. 18, Page 3180*, *18*(6), 3180. https://doi.org/10.3390/IJERPH18063180

Chen, Y. C., Hung, M., & Wang, Y. (2018). The effect of mandatory CSR disclosure on firm profitability and social externalities: Evidence from China. *Journal of Accounting and Economics*, *65*(1), 169–190. https://doi.org/10.1016/J.JACCECO.2017.11.009

Choi, S., & Lee, S. (2018). Revisiting the financial performance – corporate social performance link. *International Journal of Contemporary Hospitality Management*, *30*(7), 2586–2602. https://doi.org/10.1108/IJCHM-04-2017-0195

Clarkson, P., Li, Y., Richardson, G., & Tsang, A. (2019). Causes and consequences of voluntary assurance of CSR reports: International evidence involving Dow Jones Sustainability Index Inclusion and Firm Valuation. *Accounting, Auditing and Accountability Journal*, *32*(8), 2451–2474. https://doi.org/10.1108/AAAJ-03-2018-3424/FULL/PDF

Closs, D. J., Speier, C., & Meacham, N. (2011). Sustainability to support end-to-end value chains: the role of supply chain management. *Journal of the Academy of Marketing Science*, *39*(1), 101-116. https://doi.org/10.1007/s11747-010-0207-4

Correa-García, J. A., & Vásquez-Arango, L. (2020). Desempeño ambiental, social y de gobierno (ASG): incidencia en el desempeño financiero en el contexto latinoamericano. *Revista Facultad de Ciencias Económicas: investigación y reflexión*, *28*(2), 67-84. https://doi.org/10.18359/rfce.4271

Deng, X., Kang, J. koo, & Low, B. S. (2013). Corporate social responsibility and stakeholder value maximization: Evidence from mergers. *Journal of Financial Economics*, *110*(1), 87–109. https://doi.org/10.1016/J.JFINECO.2013.04.014

Di Giuli, A., & Kostovetsky, L. (2014). Are red or blue companies more likely to go green? Politics and corporate social responsibility. *Journal of Financial Economics*, *111*(1), 158–180. https://doi.org/10.1016/J.JFINECO.2013.10.002

Duque-Grisales, E., & Aguilera-Caracuel, J. (2021). Environmental, Social and Governance (ESG) Scores and Financial Performance of Multilatinas: Moderating Effects of Geographic International Diversification and Financial Slack. *Journal of Business Ethics*, *168*(2), 315–334. https://doi.org/10.1007/S10551-019-04177-W/METRICS

Eliwa, Y., Aboud, A., & Saleh, A. (2021). ESG practices and the cost of debt: Evidence from EU countries. *Critical Perspectives on Accounting*, *79*, 102097. https://doi.org/10.1016/J.CPA.2019.102097

Freeman, R. E. (2010). *Strategic management: A stakeholder approach*. Cambridge University press.

Freeman, R. E., Dmytriyev, S. D., & Phillips, R. A. (2021). Stakeholder Theory and the Resource-Based View of the Firm. *Journal of Management*, *47*(7), 1757–1770. https://doi.org/10.1177/0149206321993576/ASSET/IMAGES/10.1177_0149206321993576-IMG2.PNG

Ftiti, Z., Jeriji, M., Louhichi, W., Mensi, Y., & Zenaidi, A. (2024). ESG dimensions, firm performance and corporate governance systems. *International Journal of Business Governance and Ethics*, *18*(4-5), 492-521. https://doi.org/10.1504/IJBGE.2024.139684

Gillan, S. L., Koch, A., & Starks, L. T. (2021). Firms and social responsibility: A review of ESG and CSR research in corporate finance. *Journal of Corporate Finance*, *66*, 101889. https://doi.org/10.1016/J.JCORPFIN.2021.101889

Hart, S. (1995). A natural-resource-based view of the firm. *Academy of Management Review*, *20*(4), 986–1014. https://doi.org/10.5465/amr.1995.9512280033

Hasan, I., Singh, S., & Kashiramka, S. (2021). Does corporate social responsibility disclosure impact firm performance? An industry-wise analysis of Indian firms. *Environment, Development and Sustainability 2021 24:8*, *24*(8), 10141–10181. https://doi.org/10.1007/S10668-021-01859-2

Hastalona, D., & Sadalia, I. (2021). Literature Review ESG and Sustainability Finance. *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)*, *4*(3), 3548–3557. https://doi.org/10.33258/birci.v4i3.2122

Hermawan, S. A., Afita Sari, Y. B., Biduri, S. C., Rahayu, D. D., & Arizanda Rahayu, R. E. (2023). Corporate Social Responsibility, Firm Value, and Profitability: Evidence from Pharmaceutical Companies in Indonesia and Malaysia. *International Journal of Professional Business Review: Int. J. Prof.Bus. Rev., ISSN 2525-3654, ISSN-e 2525-3654, Vol. 8, Nº. 2, 2023*, *8*(2), 1. https://doi.org/10.26668/businessreview/2023.v8i2.625

Hörisch, J., Freeman, R. E., & Schaltegger, S. (2014). Applying Stakeholder Theory in Sustainability Management: Links, Similarities, Dissimilarities, and a Conceptual Framework. *Organization and Environment*, *27*(4), 328–346. https://doi.org/10.1177/1086026614535786/ASSET/IMAGES/LARGE/10.1177_1086026614535786-FIG1.JPEG

Hothorn, T., Zeileis, A., Farebrother, R. W., Cummins, C., Millo, G., & Mitchell, D. (2022). Package 'lmtest': Testing Linear Regression Models. In The Comprehensive R Archive Network.

Iddy, J. J. (2020). Knowledge transfer mechanisms in franchise network. *Journal of Knowledge Management*, *25*(5), 1006–1026. https://doi.org/10.1108/JKM-03-2020-0195/FULL/PDF

Iddy, J. J., & Alon, I. (2019). Knowledge management in franchising: a research agenda. *Journal of Knowledge Management*, *23*(4), 763–785. https://doi.org/10.1108/JKM-07-2018-0441/FULL/XML

Jabbour, C. J. C. (2013). Environmental training in organizations: From a literature review to a framework for future research. *Resources, Conservation and Recycling*, *74*, 144–155. https://doi.org/10.1016/J.RESCONREC.2012.12.017

Jang, S. C. (Shawn), & Park, K. (2019). A sustainable franchisor-franchisee relationship model: Toward the franchise win-win theory. *International Journal of Hospitality Management*, *76*, 13–24. https://doi.org/10.1016/J.IJHM.2018.06.004

Jell-Ojobor, M. (2019). Strategic CSR and the competitive advantage of franchise firms. In *Design and Management of Interfirm Networks: Franchise Networks, Cooperatives and Alliances* (pp. 91-111). Cham: Springer International Publishing. https://doi.org/10.1007/978-3-030-29245-4_6

Jeon, H. J. (Jean), & Gleiberman, A. (2017). Examining the Role of Sustainability and Green Strategies in Channels: Evidence from the Franchise Industry. *Journal of Marketing Theory and Practice*, *25*(2), 189–199. https://doi.org/10.1080/10696679.2016.1270766

Jha, M. K., & Rangarajan, K. (2020). Analysis of corporate sustainability performance and corporate financial performance causal linkage in the Indian context. *Asian Journal of Sustainability and Social Responsibility 2020 5:1*, *5*(1), 1–30. https://doi.org/10.1186/S41180-020-00038-Z

Khan, M. A. (2022). ESG disclosure and Firm performance: A bibliometric and meta-analysis. *Research in International Business and Finance*, *61*, 101668. https://doi.org/10.1016/J.RIBAF.2022.101668

Kim, B., & Lee, S. (2020). The impact of material and immaterial sustainability on firm performance: The moderating role of franchising strategy. *Tourism Management*, *77*, 103999. https://doi.org/10.1016/J.TOURMAN.2019.103999

Le Bot, C., Perrigot, R., Déjean, F., & Oxibar, B. (2022). Corporate Social Responsibility in franchise chains: Specificities, insights from French franchise chains' CSD, and avenues for future research. *Journal of Retailing and Consumer Services*, *66*, 102945. https://doi.org/10.1016/J.JRETCONSER.2022.102945

Lee, E., Kim, J. H., & Rhee, C. S. (2021). Effects of marketing decisions on brand equity and franchise performance. *Sustainability (Switzerland)*, *13*(6). https://doi.org/10.3390/su13063391

Li, T. T., Wang, K., Sueyoshi, T., & Wang, D. D. (2021). ESG: Research Progress and Future Prospects. *Sustainability, Vol. 13, Page 11663*, *13*(21), 11663. https://doi.org/10.3390/SU132111663

Liu, P., Zhu, B., Yang, M., & Chu, X. (2022). ESG and financial performance: A qualitative comparative analysis in China's new energy companies. *Journal of Cleaner Production*, *379*, 134721. https://doi.org/10.1016/J.JCLEPRO.2022.134721

Liu, X., Wu, H., Wu, W., Fu, Y., & Huang, G. Q. (2021). Blockchain-enabled esg reporting framework for sustainable supply chain. *Smart Innovation, Systems and Technologies*, *200*, 403–413. https://doi.org/10.1007/978-981-15-8131-1_36/COVER

Ludvigsson-Wallette, M., & Lawrence, B. (2020). Expanding the conceptual domain of governance in franchising. *Industrial Marketing Management*, *90*, 314–323. https://doi.org/10.1016/J.INDMARMAN.2020.07.023

Mardini, G. H. (2022). ESG factors and corporate financial performance. *Inderscience*, *14*(3), 247–264. https://doi.org/10.1504/IJMFA.2022.123895

Mesquita, E., Townsend, T., & Lopes, E. L. (2024). Entrepreneurship by necessity in times of pandemic: Entrepreneurial motivation and the regulatory focus in explaining the intention to undertake. *REGEPE Entrepreneurship and Small Business Journal*, *13*(1), e2266. https://doi.org/10.14211/regepe.esbj.e2266

Mukhtarov, S. (2022). The impact of carbon pricing on international competitiveness in the case of Azerbaijan. *Environmental Science and Pollution Research*, *29*(22), 33587–33594. https://doi.org/10.1007/S11356-022-18606-3/METRICS

Odriozola, M. D., & Baraibar-Diez, E. (2017). Is Corporate Reputation Associated with Quality of CSR Reporting? Evidence from Spain. *Corporate Social Responsibility and Environmental Management*, *24*(2), 121–132. https://doi.org/10.1002/CSR.1399

Pereira, A. F. A., Stocker, F., Mascena, K. M. C. D., & Boaventura, J. M. G. (2020). Corporate social performance and financial performance in Brazilian companies: analysis of the influence of disclosure. *BBR. Brazilian Business Review*, *17,* 540-558. https://doi.org/10.15728/bbr.2020.17.5.4

Perrigot, R., Oxibar, B., & Déjean, F. (2015). Corporate Social Disclosure in the Franchising Sector: Insights from French Franchisors' Websites. *Journal of Small Business Management*, *53*(2), 321–339. https://doi.org/10.1111/JSBM.12074

Perrigot, R., Watson, A., & Dada, O. (Lola). (2021). Sustainability and green practices: the role of stakeholder power in fast-food franchise chains. *International Journal of Contemporary Hospitality Management*, *33*(10), 3442–3464. https://doi.org/10.1108/IJCHM-02-2021-0269/FULL/PDF

Pfeffer, J., & Salancik, G. (2015). External control of organizations - Resource dependence perspective. In *Organizational behavior 2* (pp. 355-370). Routledge.

Rounok, N., Qian, A., & Alam, M. A. (2023). The Effects of ESG issues on investment decision through corporate reputation: Individual investors' perspective. *International Journal of Research in Business and Social Science (2147- 4478)*, *12*(2), 73–88. https://doi.org/10.20525/IJRBS.V12I2.2354

Saini, M., Aggarwal, V., Dhingra, B., Kumar, P., & Yadav, M. (2023). ESG and financial variables: a systematic review. *International Journal of Law and Management*, *65*(6), 663–682. https://doi.org/10.1108/IJLMA-02-2023-0033/FULL/PDF

Serafeim, G. (2020). Social-impact efforts that create real value. *Harvard Business Review*, *98*(5), 38-48.

Shahbaz, M., Karaman, A. S., Kilic, M., & Uyar, A. (2020). Board attributes, CSR engagement, and corporate performance: What is the nexus in the energy sector? *Energy Policy*, *143*, 111582. https://doi.org/10.1016/J.ENPOL.2020.111582

Shane, S. A. (1998). Making new franchise systems work. *Strategic Management Journal*, *19*(7), 697–707. https://doi.org/10.1002/(SICI)1097-0266(199807)19:7%3C697::AID-SMJ972%3E3.0.CO;2-O

Sharma, D., Bhattacharya, S., & Thukral, S. (2019). Resource-based view on corporate sustainable financial reporting and firm performance: evidence from emerging Indian economy. *Inderscience*, *13*(4), 323–344. https://doi.org/10.1504/IJBGE.2019.099565

Sica, F., Tajani, F., Sáez-Pérez, M. P., & Marín-Nicolás, J. (2023). Taxonomy and Indicators for ESG Investments. *Sustainability*, *15*(22), 15979. https://doi.org/10.3390/SU152215979/S1

Sun, X., & Gunia, B. C. (2018). Economic resources and corporate social responsibility. *Journal of Corporate Finance*, *51*, 332–351. https://doi.org/10.1016/J.JCORPFIN.2018.06.009

Tahmid, T., Hoque, M. N., Said, J., Saona, P., & Azad, M. A. K. (2022). Does ESG initiatives yield greater firm value and performance? New evidence from European firms. *Cogent Business and Management*, *9*(1). https://doi.org/10.1080/23311975.2022.2144098

Utgård, J. (2018). Retail chains' corporate social responsibility communication. *Journal of Business Ethics*, *147*(2), 385–400. https://doi.org/10.1007/S10551-015-2952-2/TABLES/8

Vianaa, T. R., Azevedo, A. C., & Pereira, R. M. (2022). Association between satisfaction and performance in franchise networks-a study from the perspective of correspondence analysis. *Iberoam. J. Entrep. Small Bus*, v.*1*. https://doi.org/10.14211/ibjesb.e2187

Wan, J. S. (2023). A Study on the Impact of Consumers' Awareness of ESG Activities in Coffee Shops on Corporate Image and Long-Term Orientation. *Journal of Logistics, Informatics and Service Science*, *10*(1), 169–188. https://doi.org/10.33168/JLISS.2023.0209

Watson, A., Senyard, J., & Dada, O. (Lola). (2020). Acts of hidden franchisee innovation and innovation adoption within franchise systems. *Industrial Marketing Management*, *89*, 431–445. https://doi.org/10.1016/j.indmarman.2020.03.005

White, H. (1980). A Heteroskedasticity-Consistent Covariance Matrix Estimator and a Direct Test for Heteroskedasticity. *Econometrica*, *48*(4), 817. https://doi.org/10.2307/1912934

Wooldridge, J. (2012). *Introductory Econometrics: A Modern Approach* (20th ed.). South-Western College Publishing.

Zeileis, A., & Lumley, T. (2022). Package "sandwich": Robust Covariance Matrix Estimators. In *The Comprehensive R Archive Network*. https://doi.org/10.18637/jss.v095.i01

Zhu, J. J., Liu, Z., Shen, X., Shan, L., & Zhang, X. (2023). Corporate social responsibility (CSR) in the service industry: a systematic review. *Frontiers in Environmental Science*, *11*, 1150681. https://doi.org/10.3389/FENVS.2023.1150681/BIBTEX

Article 2: How do ESG factors influence the internationalization of Brazilian franchise chains? A comparative study of developed and emerging economies

Purpose: This study aims to investigate how ESG (environmental, social and governance) practices influence the internationalization of Brazilian franchise chains by comparing developed and emerging economies. It examines whether ESG performance and ESG-related risks affect market attractiveness and how these effects are conditioned by institutional context and moderated by gross domestic product (GDP) per capita.

Design/methodology/approach: A quantitative approach was employed using secondary data from 131 Brazilian franchise chains operating in 80 countries, totaling 1,515 franchised units. ESG performance indicators were obtained from Robeco, and ESG risk scores from Global Risk Profile. Multiple linear regression models and interaction terms were applied to test five hypotheses, distinguishing between developed and emerging economies.

Findings: In developed economies, ESG performance alone is not positively associated with internationalization; however, when moderated by GDP per capita, it enhances market attractiveness, whereas higher ESG risks reduce internationalization, particularly in high-income contexts. In emerging economies, ESG governance emerges as the most relevant driver of international expansion, reflecting its role in mitigating institutional uncertainty. Overall, the results confirm that ESG effects vary across institutional maturity and economic development.

Practical implications: The findings can guide franchise chains in adapting ESG strategies to institutional contexts, highlighting the need for differentiated approaches across developed and emerging economies to optimize international expansion choices.

Social implications: By promoting context-sensitive ESG practices, the study supports responsible business conduct and sustainable development in host markets.

Originality/value: This study is among the first to incorporate both ESG performance and ESG-related risks into the analysis of franchise internationalization. It advances theoretical insights by integrating institutional theory, stakeholder theory, internalization theory and

resource dependence theory, offering a comprehensive framework for understanding international strategies in heterogeneous markets.

Keywords: Internationalization, Franchise chains, ESG practices, Institutional risks, ESG-related risks, Emerging market

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. As a result, ESG (environmental, social and governance) factors have become increasingly decisive in shaping global expansion strategies (Friede et al., 2015; Jiang 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 and 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 and Spers, 2019).

Despite growing attention to ESG factors in the internationalization literature, a significant gap remains regarding 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 and 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 (Liu and Song, 2025; Chaieb et al., 2024; Zhao et al., 2024; Xu and 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, particularly when these dimensions are analyzed jointly rather than in isolation.

In addition, variables such as gross domestic product (GDP) per capita may moderate the relationship between ESG and internationalization, thereby influencing strategic decisions across contexts (Rahat and Nguyen, 2024; Duque-Grisales and Aguilera-Caracuel, 2021). For franchise chains originating in emerging economies, strategic communication of ESG practices can serve as a differentiator 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 examines how ESG performance and institutional risks in host countries affect the market attractiveness of Brazilian franchise chains. The research is grounded in institutional theory (North, 1990; Doh et al., 2016), internalization theory (Dunning, 2009), stakeholder theory (Freeman, 1984) and resource dependence theory (Pfeffer, 1987). These theoretical lenses are articulated 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 adopts a quantitative research design based on secondary data from 131 Brazilian franchise chains operating in 80 countries, encompassing 1,515 franchised units. The data were obtained from the Brazilian Franchising Association (ABF) and subsequently validated using external sources that confirmed the international operations of the reported franchise chains. Multiple regression models were used to test the proposed hypotheses and to compare developed and emerging economies, in line with established best practices in the literature (Hair et al., 2019; Matos, 2020; 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 understanding of the key success factors for Brazilian franchise chains in international markets, particularly given 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 chains with the institutional and economic conditions of target markets.

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

In this study, the term “franchise chains” refers to franchising chains comprising a franchisor and multiple franchised units operating across countries.

2. LITERATURE REVIEW

2.1. Environmental, social, and governance and institutional environments in the internationalization of franchise chains

ESG practices have become central to corporate strategies in an increasingly regulated, interdependent global environment. Incorporating ESG criteria transcends legal compliance and increasingly serves as a strategy for risk mitigation, institutional legitimacy and responsiveness to diverse stakeholder pressures (Friede et al., 2015; Matos, 2020). However, the strategic relevance of ESG practices may vary across institutional contexts, particularly in internationalization processes. In the franchising context, this discussion is particularly relevant, 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, which increase transaction costs and operational uncertainties (Mooneeapen et al., 2022; Daugaard and Ding, 2022). In such environments, adopting ESG practices may serve as a legitimizing mechanism, signaling responsibility and the capability to operate ethically and sustainably (Hu et al., 2023; Jiang et al., 2024; Shah and Saqib, 2023).

Internalization theory (Dunning, 2009) 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 in contexts where institutional demands and compliance pressures are high (Cuervo-Cazurra and Genc, 2008; Jiang 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 and Saini, 2023; Khalid et al., 2021). In these contexts, ESG governance assumes a more prominent role as a coordination and risk-reduction mechanism.

Recent studies demonstrate that robust ESG practices strengthen reputation, facilitate access to capital and increase resilience in times of crisis (Wang et al., 2023; Liu and Song, 2025). Nevertheless, the extent to which these benefits translate into international expansion advantages depends on the institutional maturity and risk profile of host countries, especially for franchise chains that depend on standardized replication of their business models (Rahat and 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, particularly in emerging or institutionally volatile environments, as emphasized by recent studies on governance and international strategies (Bretas et al., 2020; Melo et al., 2019). In addition, 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 context-dependent 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. In more mature economies, their role may interact with regulatory intensity and cost considerations (Jiang 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 and Genc, 2008; Hoskisson et al., 2000). Emerging Market Multinational Enterprises (EMNEs) often adopt global ESG standards as mechanisms for legitimization and signaling reliability in foreign markets (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 and Saini, 2023; Elango and Pattnaik, 2007). Furthermore, companies operating in environments characterized by institutional voids tend to internalize robust governance practices as strategic responses aimed at mitigating risks and enhancing competitiveness (Doh et al., 2016; Mooneeapen et al., 2022).

Rovere (2024) emphasizes that strategic internationalization enables firms to expand their market reach, learn from foreign environments, gain scale and access more demanding sustainability standards. These standards may later be incorporated into 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, knowledge transfer and adaptation to local conditions. These dimensions are 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 characterized by high regulatory standards, strict compliance requirements and formalized procedures, thereby increasing the relevance of ESG alignment and transparency (Khalid et al., 2021; Jiang 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 governance and sustainability standards (Melo et al., 2015; Lanfranchi et al., 2021a).

Recent studies on franchising in emerging economies highlight the importance of entrepreneurial orientation and institutional context in shaping the strategic behavior of franchise chains during international expansion. In this regard, Shah and Saqib (2023), in their study of franchisors operating in India, show that entrepreneurial tendencies are strongly conditioned by governance mechanisms, institutional constraints and the degree of strategic autonomy delegated to franchisees. Their findings indicate that franchising activities in emerging economies are influenced by regulatory quality, risk perceptions and institutional stability. These factors shape international expansion decisions and performance outcomes (Doh et al., 2016; Melo et al., 2015; Lanfranchi et al., 2021a; Stocker et al., 2022).

While prior research has focused mainly on entrepreneurial behavior, governance structures and domestic franchise dynamics (Melo et al., 2015; Leite et al., 2014), this study argues that ESG performance, ESG governance and ESG risk constitute additional and relevant mechanisms through which institutional quality and legitimacy are assessed in cross-border expansion processes (Doh et al., 2016; Jiang et al., 2024). For Brazilian franchise chains, these ESG-related signals are expected to play differentiated roles across host-country contexts, particularly between developed and emerging economies, where legitimacy requirements, stakeholder expectations and institutional pressures vary substantially (Cuervo-Cazurra and Genc, 2008; Lanfranchi et al., 2021b).

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 and facilitating legitimacy in heterogeneous institutional environments (Bretas and Alon, 2021).

Melo et al. (2015) and Rovere (2024) analyzed the preferred destinations of Brazilian franchise chains, showing that regulatory stability, cultural compatibility and market structure are decisive factors in host-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 through governance mechanisms and contractual safeguards.

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 such as brand reputation and know-how (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 and 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 and governance structures as risk mitigation tools and sources of competitive advantage (Lanfranchi et al., 2021a; Jiang et al., 2024).

3. HYPOTHESES DEVELOPMENT

3.1. Environmental, social, and governance performance and international expansion

The increasing relevance of ESG practices has reshaped how companies are evaluated globally, particularly regarding internationalization. Incorporating ESG criteria transcends regulatory compliance and increasingly serves 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; Liu and Song, 2025).

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 and Nguyen, 2024; Chen et al., 2025).

The distinction between emerging and developed markets regarding ESG performance and ESG governance lies fundamentally in differences in institutional frameworks, levels of information disclosure and the ways markets evaluate sustainability performance. Developed markets are characterized by a more rigorous regulatory environment, greater adoption of ESG practices and a stronger focus on socio-cultural rights and economic and environmental sustainability (Naeem, Cankaya and Bildik, 2022).

Companies in developed markets face significant pressure to incorporate ESG into their strategies, and there is growing value placed on ESG practices. In contrast, emerging markets present institutional challenges, such as a lack of adequate legislation, limited incentives and less efficient systems, resulting in ESG voids (Laeven and Valencia, 2020; Naeem, Cankaya and Bildik, 2022; Bilyay-Erdogan, 2022; Bilyay-Erdogan and Öztürkkal, 2023; Mazzioni et al., 2024; Yu et al., 2025).

In turn, there is a growing trend of disclosure and higher ESG scores in emerging markets, as many companies in these markets tend to place greater emphasis on the Governance dimension than on the Environmental and Social pillars (Hieu and Hai, 2023; Mazzioni et al., 2024).

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, 2009) reinforces this view by suggesting that companies prefer markets characterized by lower transaction costs and reduced institutional risks. Such conditions are 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:

H1a: *Countries with better ESG performance attract a greater number of Brazilian franchise chains.*

H1b: *Countries with better ESG governance are more likely to attract Brazilian franchise chains, as they offer greater transparency and lower regulatory risks.*

3.2. Environmental, social, and governance risks and the expansion of franchise chains

Although strong ESG performance enhances companies' legitimacy abroad, the absence of such practices may create significant barriers to internationalization, particularly for franchising models that depend on contractual standardization. Regulatory instability, corruption and enforcement failures are examples of institutional conditions that intensify these barriers (Hu et al., 2023; Duque-Grisales and Aguilera-Caracuel, 2021).

Institutional theory (North, 1990) suggests that environments with low institutional quality heighten transaction costs and deter foreign entry. For franchise chains, 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 and 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 and 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).

The distinction between emerging and developed markets is relevant when analyzing ESG risk, particularly given significant structural differences that shape corporate transparency and risk perception. In emerging markets, the operating environment is less regulated than in developed markets, exacerbating agency issues. Most of the evidence on the quality and determinants of ESG disclosure comes from developed markets. In contrast, in emerging markets, companies often operate under institutional voids, characterized by weak regulatory frameworks, limited oversight capabilities and underdeveloped market mechanisms (Lavin and Montecinos-Pearce, 2021; Lavin and Montecinos-Pearce, 2022; Nandan and Sinku, 2024).

In these contexts, governance practices assume a dual role of disclosure and signaling to the market regarding ESG commitments, becoming particularly important in emerging markets characterized by lower levels of transparency. Weak governance increases ESG risk by intensifying information asymmetry, agency costs and uncertainty regarding corporate growth opportunities. As a result, financing costs tend to increase, especially when governance mechanisms fail to reduce informational opacity. Consequently, ESG risk assessment in emerging markets becomes more complex and heterogeneous than in developed markets, where stronger governance practices are generally associated with lower costs of capital (Lavin and Montecinos-Pearce, 2021; Lavin and Montecinos-Pearce, 2022).

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

H2: *Countries with higher levels of ESG risk are less attractive for the international expansion of Brazilian franchise chains.*

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

This wealth disparity is reflected in several socioeconomic indicators. For example, higher life expectancy in developed markets is generally associated with higher nominal GDP per capita than in emerging markets (Pasionek, 2020; Sezgin et al., 2023). In general, high GDP per capita in more developed countries is considered a natural consequence of an effective public production structure (Kozlovskyi et al., 2020).

Despite lower per capita wealth, emerging markets stand out for higher GDP per capita growth than developed markets. For example, GDP per capita in BRICS countries grew by almost 89% between 1997 and 2017, whereas growth in G7 countries was considerably lower, at less than 24% (Pasionek, 2020).

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 chains (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 and Serafeim, 2012; Jiang et al., 2024). Internalization theory (Dunning, 2009) 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 is increasingly important in high-income markets, where it confers competitive and reputational benefits (Chen et al., 2025; Rahat and 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:

H3a: *The destination country's GDP per capita positively moderates the relationship between ESG performance and the international expansion of Brazilian franchise chains.*

H3b: *The GDP per capita of the destination country negatively moderates the relationship between institutional risks and the international expansion of Brazilian franchise chains.*

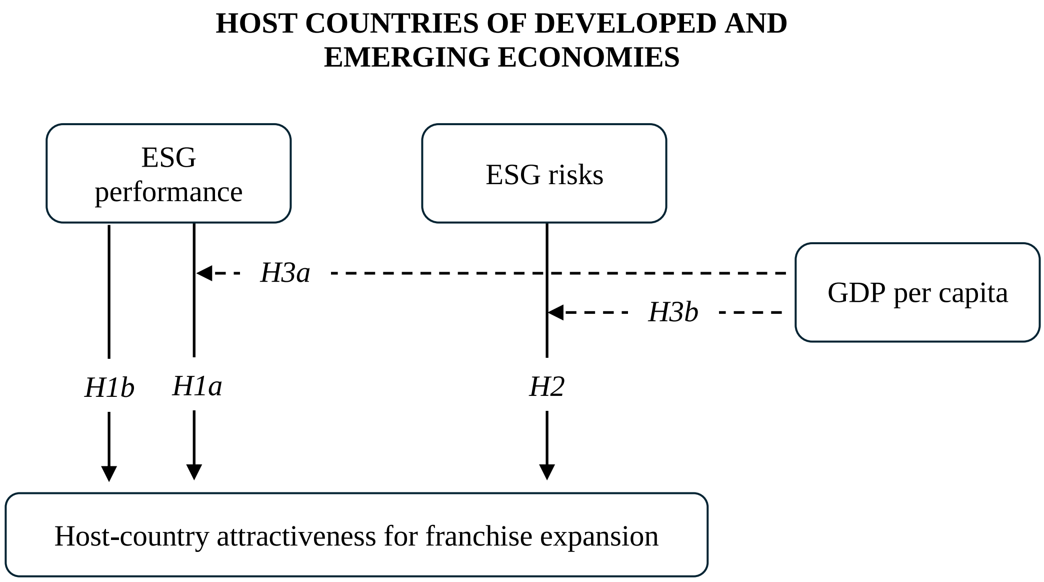
3.4. The role of Environmental, social and governance in emerging and developed economies

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 and Serafeim, 2012). In these contexts, ESG adherence increasingly becomes 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 and 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. This perspective is consistent with Lanfranchi et al. (2021b), who emphasize the role of the home institutional environment in shaping internationalization strategies. Figure 1 summarizes the proposed research framework, illustrating the relationships between ESG performance, ESG risk, economic development and host-country attractiveness for franchise expansion.

Figure 1: Research framework



Note(s): Dashed arrows indicate moderating effects
Source: Author

4. METHODOLOGY

4.1. Data and variables

This study adopted a cross-sectional design based on secondary data from 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 using external sources to confirm the international presence of the reported franchise chains. A franchise chain was classified as internationalized if it operated at least one franchised unit abroad at the time of data collection.

To further contextualize the sample, the internationalized Brazilian franchise chains are distributed across a broad range of economic segments. Franchise chains operating in health, beauty and well-being account for approximately 20.6% of the sample, followed by fashion (19.8%), food services (19.1%) and education (14.5%). Other segments include services and business solutions, home and construction, communication and technology, cleaning services, automotive services, hospitality and tourism and entertainment. This sectoral diversity highlights the heterogeneity of Brazilian franchise chains operating internationally and suggests that internationalization is not concentrated within a single industry profile.

These characteristics are presented solely for descriptive purposes and do not constitute variables in the empirical analyzes.

Table 1 presents the distribution of Brazilian franchise chains and franchised units across host countries, distinguishing between developed and emerging economies and providing an overview of the empirical structure of the sample. As franchise chains may operate in multiple host countries, the same chain may appear more than once in the country-level distribution.

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

Table 1: Distribution of Brazilian franchise chains and units across host countries

#	Country	Number of Internationalized Franchise Chains	Number of Internationalized Franchise Units	% of Internationalized Units (*)
1	Portugal	41	246	16,2%
2	United States of America	48	183	12,1%
3	Spain	14	88	5,8%
4	Japan	6	29	1,9%
5	Australia	9	27	1,8%
6	Canada	10	18	1,2%
7	Italy	4	13	0,9%
8	France	7	11	0,7%
9	Ireland	5	7	0,5%
10	Switzerland	2	6	0,4%
11	Israel	4	5	0,3%
12	New Zealand	3	4	0,3%
13	Malta	1	3	0,2%
14	United Kingdom	2	3	0,2%
15	Germany	2	2	0,1%
16	Belgium	2	2	0,1%
17	Greece	2	2	0,1%
18	Puerto Rico	1	2	0,1%
19	Austria	1	1	0,1%
20	Cyprus	1	1	0,1%
21	Slovenia	1	1	0,1%
22	Netherlands	1	1	0,1%
23	Lithuania	1	1	0,1%
24	Luxembourg	1	1	0,1%
25	Norway	1	1	0,1%
DEVELOPED ECONOMIES		170	658	43,4%
1	Colombia	16	128	8,4%
2	Paraguay	34	114	7,5%
3	Argentina	12	108	7,1%
4	Mexico	16	69	4,6%
5	Ecuador	12	48	3,2%
6	Chile	15	43	2,8%
7	Bolivia	20	39	2,6%
8	Guatemala	9	33	2,2%
9	Peru	11	30	2,0%
10	Angola	13	28	1,8%
11	Uruguay	11	27	1,8%
12	Costa Rica	9	23	1,5%
13	United Arab Emirates	5	23	1,5%
14	Saudi Arabia	3	18	1,2%
15	Venezuela	3	14	0,9%
16	El Salvador	6	11	0,7%
17	Qatar	2	10	0,7%
18	China	2	10	0,7%
19	Panama	6	10	0,7%

20	Kuwait	3	9	0,6%
21	Dominican Republic	4	5	0,3%
22	Netherlands Antilles	1	4	0,3%
23	India	4	4	0,3%
24	Aruba	2	3	0,2%
25	Cape Verde	2	3	0,2%
26	Nicaragua	2	3	0,2%
27	Thailand	2	3	0,2%
28	South Africa	2	2	0,1%
29	Croatia	1	2	0,1%
30	Egypt	2	2	0,1%
31	Honduras	2	2	0,1%
32	Indonesia	1	2	0,1%
33	Morocco	2	2	0,1%
34	Mozambique	2	2	0,1%
35	Suriname	2	2	0,1%
36	Turkey	2	2	0,1%
37	Antigua and Barbuda	1	1	0,1%
38	Algeria	1	1	0,1%
39	Bahrain	1	1	0,1%
40	Bangladesh	1	1	0,1%
41	Barbados	1	1	0,1%
42	Belarus	1	1	0,1%
43	Bulgaria	1	1	0,1%
44	Dominica	1	1	0,1%
45	Grenada	1	1	0,1%
46	Guyana	1	1	0,1%
47	British Virgin Islands	1	1	0,1%
48	Jamaica	1	1	0,1%
49	Jordan	1	1	0,1%
50	Malaysia	1	1	0,1%
51	Poland	1	1	0,1%
52	Romania	1	1	0,1%
53	Saint Lucia	1	1	0,1%
54	Saint Kitts and Nevis Nevis	1	1	0,1%
55	Trinidad and Tobago	1	1	0,1%
EMERGING ECONOMIES		260	857	56,6%
80	TOTAL	430	1515	100,0%

Note(s): Percentages represent each country's share of the total international franchise units (N = 1,515). The total number of franchise chains reported (430) refers to country-network observations, as a Brazilian franchise chain may operate in multiple host countries and is therefore counted once per destination. Overall, the sample comprises 131 Brazilian franchise chains operating across 80 host countries. Countries are classified as developed or emerging economies according to the World Bank income classification, following prior internationalization studies.

Source: Author

The dependent variable captures host-country attractiveness for franchise expansion, operationalized as the relative density of Brazilian franchised units in each destination country. Specifically, it is measured as the share of franchised units in each host country relative to the total number of internationalized units of the franchise chains. This operationalization reflects the extent to which host-country characteristics attract franchise expansion rather than firm-level strategic commitment. It is also consistent with prior international franchising research focused on spatial distribution and market attractiveness (Melo et al., 2015, 2019).

The independent variables consist of ESG performance and ESG risk scores for destination countries. ESG performance was measured using country-level indicators from the Robeco platform. Robeco aggregates ESG metrics from approximately 50 indicators grouped into 15 criteria, following principles aligned with the UN Principles for Responsible Investment (Gratcheva et al., 2021; Tajani et al., 2024; Hollnagel & Bueno, 2025). ESG risk was operationalized using ESG risk scores from the Global Risk Profile database, which provides multidimensional risk assessments based on institutional, regulatory, and social indicators. All variables were matched to destination countries using standardized identifiers, and observations with missing ESG data were excluded through listwise deletion (Hair et al., 2019).

ESG risk indicators were retrieved from the ESG Index (ESGI), developed by Global Risk Profile and disseminated by the Risk Watch Initiative. The ESGI provides multidimensional risk assessments reflecting structural exposure to environmental vulnerabilities, human rights conditions and health & safety risks, based on 65 variables sourced from internationally recognized organizations such as the United Nations, World Bank, ILO and WHO (Giese et al., 2019; Singhania and Gupta, 2024).

It is important to emphasize that ESG performance and ESG risk represent conceptually distinct constructs and are derived from different data sources. While ESG performance indicators reflect the quality of institutional frameworks and sustainability-oriented practices at the country level, ESG risk indicators capture structural exposure to environmental, human rights and health-related vulnerabilities. This conceptual distinction underpins the study’s analytical framework and justifies the simultaneous consideration of performance- based and risk-based ESG dimensions (Giese et al., 2019).

Figure 2 presents the analytical framework illustrating the relationships among ESG performance, ESG risk, economic development, and host-country attractiveness for franchise expansion. Tables 2 and 3 summarize the operational definitions, measurement scales, data sources, and coding procedures for the ESG variables included in the study.

Figure 2: ESG performance and ESG risk metrics at the host-country level

ASPECT	ESG PERFORMANCE (Robeco)			ESG RISK (Global Risk Profile – ESGI)		
	Environmental	**Social**	**Governance**	**Environmental**	**Human rights**	**Health & safety**
Conceptual focus	Quality of environmental policies and practices at the country level	Social responsibility standards and stakeholder-related practices	Institutional and governance quality	Exposure to environmental and climate-related vulnerabilities	Structural risk related to human and civil rights	Population exposure to health & safety vulnerabilities
Main aspects captured	Climate and energy policies; pollution prevention; chemical management; climate adaptation strategies; resource efficiency; biodiversity protection	Labor relations; working conditions; equality of opportunity and non-discrimination; human rights protection; community relations; consumer protection	Board and institutional oversight; business ethics; capital allocation; transparency; protection of minority shareholders; adherence to accounting and risk standards	Air pollution; climate change exposure; greenhouse gas emission trends; resource efficiency risks; biodiversity and ecosystem degradation	Civil, political, social and collective rights; ratification of international conventions; press freedom; minority rights; peace and self-determination	Life expectancy; access to drinking water; occupational safety; social protection systems; health conditions; urban-rural inequality

Note(s): ESG performance indicators are sourced from the Robeco platform and reflect country-level environmental, social, and governance practices based on approximately 50 indicators grouped into 15 criteria, aligned with the UN Principles for Responsible Investment. ESG risk indicators are obtained from the ESG Index (ESGI), developed by Global Risk Profile, and capture structural exposure to environmental vulnerabilities, human rights conditions, and health & safety risks using 65 variables compiled from internationally recognized organizations, including the United Nations, World Bank, ILO, and WHO. The two constructs are conceptually distinct and derived from independent data providers.

Source: Author

Table 2: ESG performance variables at the country level

Independent variables	Description	Measure / direction	Source	Dataset code
Environmental performance (E)	Measures country-level environmental performance, including climate and energy policies, environmental risk management, pollution control, greenhouse gas emissions, biodiversity protection, and ecosystem sustainability.	Score 1–10; higher values indicate better environmental performance	Robeco Country Sustainability Ranking	ESG_E
Social performance (S)	Captures social performance related to human and labor rights, education, health, social inclusion, labor standards, workplace safety, and social stability at the country level.	Score 1–10; higher values indicate better social performance	Robeco Country Sustainability Ranking	ESG_S
Governance performance (G)	Assesses the quality of governance institutions, including control of corruption, rule of law, institutional effectiveness, political stability, transparency, accountability, and protection of property and minority rights.	Score 1–10; higher values indicate better governance performance	Robeco Country Sustainability Ranking	ESG_G
ESG performance – Overall score	Composite ESG performance indicator calculated as a weighted score of Environmental (30%), Social (30%), and Governance (40%) dimensions.	Score 1–10; higher values indicate better overall ESG performance	Robeco Country Sustainability Ranking	ESG_TOTAL
ESG performance – Rank	Relative position of each country in the Robeco ESG performance ranking.	Rank; lower values indicate better ESG performance	Robeco Country Sustainability Ranking	ESG_POS

Note(s): ESG performance indicators are based on Robeco's Country Sustainability Ranking, which evaluates approximately 150 countries using 50 indicators grouped into 15 criteria across Environmental, Social, and Governance dimensions. Scores range from 1 (lowest performance) to 10 (highest performance).
Source: Author's elaboration based on Robeco.

Table 3: ESG risk variables at the country level

Independent variables	Description	Measure / direction	Source	Dataset code
ESG risk – Environment	Measures environmental risk exposure, including air pollution, climate change vulnerability, greenhouse gas emissions trends, biodiversity loss, and ecosystem degradation.	Score 0–100; higher values indicate higher ESG-related environmental risk	ESGI – Global Risk Profile / Risk Watch Initiative	RISK_E
ESG risk – Human rights	Captures risk related to human rights conditions, including civil, political, social, and collective rights, ratification of international conventions, press freedom, minority rights, and social freedoms.	Score 0–100; higher values indicate higher human rights risk	ESGI – Global Risk Profile / Risk Watch Initiative	RISK_HR
ESG risk – Health & safety	Measures health & safety risks, including life expectancy, access to drinking water, occupational safety, social protection systems, and spatial inequalities between urban and rural areas.	Score 0–100; higher values indicate higher health & safety risk	ESGI – Global Risk Profile / Risk Watch Initiative	RISK_HS
ESG risk – Overall score	Composite ESG risk index calculated through a weighted geometric mean of Environmental (30%), Human rights (50%), and Health & safety (20%) risk dimensions.	Score 0–100; higher values indicate higher overall ESG risk	ESGI – Global Risk Profile / Risk Watch Initiative	RISK_ESG_SCORE
ESG risk – Rank	Relative position of each country in the overall ESG risk ranking.	Rank; higher values indicate worse ESG risk position	ESGI – Global Risk Profile / Risk Watch Initiative	RISK_ESG_RANK

Note(s): ESG risk indicators are derived from the ESG Index (ESGI) developed by Global Risk Profile and disseminated by the Risk Watch Initiative. The index aggregates 65 variables obtained from internationally recognized sources (e.g., UN, World Bank, ILO, WHO). Scores range from 0 (lowest risk) to 100 (highest risk).
Source: Author's elaboration based on ESGI – Global Risk Profile.

GDP per capita, the moderating variable, 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, consistent with prior studies on international expansion (Cuervo-Cazurra & Genc, 2008; Lanfranchi et al., 2021a).

In cases of missing ESG data, listwise deletion was applied, following established econometric procedures for cross-sectional analyses (Hair et al., 2019). To improve robustness, outliers in continuous variables were winsorized at the 2% level in both tails. This procedure preserves variability while minimizing distortions caused by extreme values (Gujarati and Porter, 2020).

4.2. Analytical methods

The methodological design adopted in this study follows established practices in international business and franchising research, which rely on cross-sectional, country-level secondary data to examine location attractiveness and the institutional influences on international expansion patterns. Prior studies have used similar approaches to assess how institutional quality, economic development and risk conditions shape international market selection and expansion intensity (Cuervo-Cazurra and Genc, 2008; Lanfranchi et al., 2021a; Melo et al., 2015; Stocker et al., 2022). The use of country-level ESG performance and ESG risk indicators is particularly appropriate in this context, as franchise expansion decisions are susceptible to institutional environments, regulatory stability and socio-environmental conditions in host markets.

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 nonparametric Mann–Whitney U test was selected because several variables failed normality tests, as verified by Shapiro–Wilk tests (Siegel and Castellan, 2006).

In the second stage, multiple linear regression models were estimated using ordinary least squares to test the direct effects of ESG indicators on host-country attractiveness for franchise expansion 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, 1991).

Model specification included controls for total GDP, population and economic type to account for structural differences across countries. Variance inflation factors (VIFs) were systematically monitored, and all VIFs remained below 3.0, indicating no multicollinearity 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 used to ensure consistent estimators.

Studies have shown that country-level indicators related to governance quality, institutional risk and economic structure play a central role in firms' international location decisions, particularly in franchising and other hybrid governance modes (Cuervo-Cazurra and Genc, 2008; Melo et al., 2015, 2019; Lanfranchi et al., 2021a; Stocker et al., 2022). By integrating ESG performance and ESG risk indicators with economic controls, the present study aligns with this stream of literature while extending it through the joint assessment of performance-based and risk-based ESG dimensions as determinants of host-country attractiveness for franchise expansion.

Although the model specification adopted in this study is intentionally parsimonious, it is consistent with prior cross-sectional research in international business and franchising that prioritizes interpretability and comparability across institutional contexts (Cuervo-Cazurra and Genc, 2008; Lanfranchi et al., 2021a). Given the exploratory nature of integrating ESG performance and ESG risk into international franchising research, the model was designed to isolate key institutional effects while maintaining analytical transparency.

In addition, the sample presents an uneven geographic distribution of franchise operations across host countries, with some markets concentrating a larger share of Brazilian franchise units than others. Rather than constituting a sampling distortion, this distribution reflects the actual configuration of Brazilian franchise internationalization patterns. Franchise operations tend to concentrate in markets that are institutionally and geographically proximate, while remaining more limited in others.

5. RESULTS

5.1. Descriptive analysis

The exploratory analysis revealed distinct patterns in the distribution of the study variables. Economic indicators, GDP per capita (GDPCAP), total GDP (GDPTOT) and the percentage of internationalized units (PERCUNID_INT) exhibited considerable dispersion and the presence of outliers. This reflects cross-country heterogeneity in terms of consumption capacity, market scale and the concentration of Brazilian franchise chains' international operations. These findings are consistent with those of Bretas et al. (2020), who emphasized the need for differentiated strategies across diverse institutional contexts. Table 4 presents the descriptive statistics of all variables used in the empirical analysis, including the number of observations, central tendency measures and dispersion indicators.

Table 4: Descriptive statistics of the variables

Statistics	**Variables**							
	$PERC_{UNID\_INT}$	**ESG_{TOTAL}**	**ESG_{G}**	**$RISK_{ESG\_SCORE}$**	**GDP_{CAP}**	**GDP_{TOT}**	**POP_{MIL}**	**ECO**
Median	0,00	5,70	5,85	38,18	18540,59	198,77	10,45	
Mean	0,01	6,02	6,06	35,81	27082,25	1154,98	34,71	
Standard deviation	0,03	1,44	1,38	10,56	26728,66	3668,35	60,04	
Minimum	0,00	3,86	2,90	15,96	608,44	0,65	0,03	0
Maximum	0,16	9,03	8,50	59,82	128259,40	27360,94	334,91	1
Coefficient of variation (%)	300,00	23,92	22,77	29,49	98,69	317,61	172,98	
Observations	80	70	70	75	80	80	78	80
Statistics	**Variables Winsor**							
	$PERC_{UNID\_INT}$	**ESG_{TOTAL}**	**ESG_{G}**	**$RISK_{ESG\_SCORE}$**	**GDP_{CAP}**	**GDP_{TOT}**	**POP_{MIL}**	**ECO**
Median	0,00	5,70	5,85	38,18	18540,59	198,77	10,45	
Mean	0,01	6,02	6,06	35,81	27082,25	842,00	33,13	
Standard deviation	0,02	1,44	1,38	10,56	26728,66	1779,47	53,00	
Minimum	0,00	3,86	2,90	15,96	608,44	1,22	0,06	0
Maximum	0,10	9,03	8,50	59,82	128259,40	10058,34	244,53	1
Coefficient of variation (%)	200,00	23,92	22,77	29,49	98,69	211,34	159,98	
Observations	80	70	70	75	80	80	78	80

Note(s): Continuous variables were winsorized at the 2% level (both tails). PERCUNID_INT represents the share of franchised units in each host country; ESGTOTAL and ESGG are country-level ESG performance indicators; RISKESG_SCORE captures aggregate ESG risk;

GDPCAP and GDPTOT are measured in US dollars; POPMIL denotes population (millions); ECO is a dummy variable for advanced (1) and emerging (0) economies.
Source: Author's calculations based on research data.

In contrast, the ESG performance and risk variables (ESG) displayed a more homogeneous distribution. This pattern may indicate the growing standardization of ESG metrics and practices globally, particularly among countries that are signatories to multilateral agreements (Matos, 2020; Robeco, 2024). As shown in Table 4, ESG-related variables exhibit lower coefficients of variation than economic variables, reinforcing their comparatively more stable distribution across countries.

To mitigate the influence of extreme values, the winsorization technique at the 2% level was applied to the percentage of internationalized units (PERCUNID_INT), total GDP (GDPTOT) and population in millions (POPMIL) variables, preserving 98% of the original data variability (Gujarati and Porter, 2020). This procedure aimed to maintain robustness while avoiding distortion of the overall distribution. Both original and winsorized descriptive statistics are reported in Table 4 to ensure transparency regarding data treatment.

Comparative analyzes between emerging and developed economies were conducted using the Mann–Whitney test, which is appropriate for nonparametric samples (Siegel and Castellan, 2006). Statistically significant differences were identified. Developed economies exhibited higher scores in ESG governance and total ESG performance. This finding reinforces their characterization as environments with greater institutional maturity, effective regulation and heightened stakeholder pressure for compliance (Ioannou and 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 chains (Rovere, 2024; Rahat and 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 chains (Stocker et al., 2022; Mooneeapen et al., 2022). The POPMIL variable did not show significant differences 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 and Porter, 2020). Table 5 reports the correlation matrix for all variables included in the study, and all VIFs remained below the critical threshold of 3.0, supporting the robustness of the regression models (Akinwande et al., 2015).

Table 5: Correlation matrix of variables

	$PERC_{UNID\_INT}$	ESG_{TOTAL}	ESG_G	$RISK_{ESG\_SCORE}$	GDP_{CAP}	GDP_{TOT}	POP_{MIL}	ECO
$PERC_{UNID\_INT}$	1,00							
ESG_{TOTAL}	0,04	1,00						
ESG_G	0,03	0,95	1,00					
$RISK_{ESG\_SCORE}$	-0,10	-0,94***	-0,91***	1,00				
GDP_{CAP}	0,00	0,77***	0,79***	-0,69***	1,00			
GDP_{TOT}	0,44***	0,15	0,22*	-0,12	0,30**	1,00		
POP_{MIL}	0,29**	-0,14	-0,07	0,22*	-0,02	0,71***	1,00	
ECO	0,09	0,85***	0,80***	-0,77***	0,70***	0,29**	0,04	1,00

Note(s): Pearson correlation coefficients: $p < 0.10$ (*), $p < 0.05$ (**), $p < 0.01$ (***).
Source: Author's calculations based on research data.

5.2. Regression 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 coefficient for the total ESG performance index (ESGTOTAL), corresponding to *H1a*, 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. The corresponding regression results are reported in Table 6.

Table 6: Regression results for ESG_TOTAL (Hypothesis 1a)

Economy	**Coefficient**	**R²**	**N**
General	2.884e-03	0.10	70
Developed	-0.028**	0.47	24
Emerging	-1.91e-03	0.04	46

Note(s): Significance level: *10%; **5%; ***1%.
Source: Author

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).

Thus, *H1a* is refuted for developed economies and not supported for emerging economies. These findings emphasize the critical role of institutional and regulatory differences in shaping internationalization strategies.

In the overall analysis, the coefficient for the ESG governance index (ESGG), corresponding to *H1b*, was positive but not statistically significant ($p > 0.05$), with an R2 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). The results for this hypothesis are summarized in Table 7.

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 R2 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).

Table 7: Regression results for ESG_G (Hypothesis 1b)

Economy	Coefficient	R²	N
General	9.884e-04	0.03	70
Developed	-0.0235	0.40	24
Emerging	9.10e-03*	0.16	46

Note(s): Significance level: *10%; **5%; ***1%.
Source: Author

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.

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 (*H2*) 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 ESG risk estimates are reported in Table 8.

Table 8: Regression results for RISK_ESG_SCORE (Hypothesis 2)

Economy	Coefficient	R²	N
General	-5.328e-04	0.21	75
Developed	-4.699**	0.50	24
Emerging	-5.200e-04	0.06	51

Note(s): Significance level: *10%; **5%; ***1%.
Source: Author

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).

Therefore, *H2* is confirmed only for developed economies, where ESG risk serves as a perceived barrier to entry. The absence of statistical significance in emerging markets may indicate that such risks are perceived as inherent to the business environment.

Table 9 presents the regression results for the interaction between ESG performance and GDP per capita across the overall sample and by type of economy.

Table 9: Regression results for ESGTOTAL × GDPCAP (Hypothesis 3a)

Economy	**Coefficient**	**R^2**	**N**
General	-0.2280	0.13	70
Developed	-3.001e-07**	0.49	24
Emerging	-2.441e-08	0.04	46

Note(s): Significance level: *10%; **5%; ***1%.
Source: Author

Building on these findings, 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 (2009), Jiang *et al.* (2024), and Rahat & Nguyen (2024).

However, once the sample is segmented, important differences emerge. 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 *et al.*, 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).

Therefore, *H3a* is confirmed only in developed economies, where GDP per capita amplifies the positive influence of ESG performance. In emerging economies, other institutional factors prevail.

Table 10 reports the regression results for the interaction between ESG risk and GDP per capita across the overall sample and by type of economy.

In the general analysis, the interaction between the ESG risk score (RISKESG_SCORE) and GDP per capita (*H3b*) yielded a negative but non-significant coefficient ($p > 0.05$) and a moderate R2 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 10: Regression results for RISK_ESG_SCORE × GDPCAP (Hypothesis 3b)

Economy	Coefficient	R^2	N
General	1.649e-08	0.16	75
Developed	7.023e-08*	0.50	24
Emerging	4.923e-08	0.09	51

Note(s): Significance level: *10%; **5%; ***1%.
Source: Author

Accordingly, *H3b* 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 11 summarizes the identified patterns according to the type of economy based on the hypotheses tested, providing an integrated view of how ESG performance, ESG risk, and economic conditions shape the internationalization of Brazilian franchise chains across different institutional contexts.

In developed economies, factors related to ESG risk and ESG performance, particularly when moderated by GDP per capita, exhibit a stronger influence on international expansion decisions. These results reinforce the literature on institutional pressure, regulatory scrutiny, and heightened stakeholder expectations in advanced markets (Stocker *et al.*, 2022; Bretas *et al.*, 2021; Jiang *et al.*, 2024).

Table 11: Hypotheses confirmed by type of economy

Hypothesis	Economy	Summary of survey results
H1a	Developed	Countries with weaker ESG performance attract more franchise chains, suggesting lower regulatory pressure and greater operational flexibility.
H1b	Emerging	Better ESG governance attracts franchise chains, emphasizing the importance of governance practices.
H2	Developed	High ESG risk reduces the attractiveness of franchise chains, reflecting greater sensitivity to institutional risk.
H3a	Developed	GDP per capita strengthens the positive relationship between ESG performance and franchise chain attraction.
H3b	Developed	GDP per capita intensifies the negative effect of ESG risks on franchise chain attraction.

Source: Author

In emerging economies, the results highlight the central role of ESG governance as a driver of trust and market attractiveness. This finding indicates that, in contexts characterized by greater institutional volatility, governance quality operates as a key mechanism for risk mitigation and strategic alignment, requiring differentiated responses from franchise chains (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 the interaction between ESG dimensions and the institutional characteristics of host countries, underscoring the importance of context-sensitive internationalization strategies.

To ensure that these patterns are not driven by model specification choices or sample segmentation, robustness tests were conducted, as reported in the following section.

5.4. Robustness tests

To assess the robustness of the estimated relationships, we compared the general models with the models estimated separately for developed and emerging economies. Table 12 reports the robustness tests, summarizing the estimated coefficient signs and significance levels, as well as model fit metrics (R^2, AIC, and BIC) for each specification.

Overall, the robustness assessment reinforces the main results by showing substantial heterogeneity across institutional contexts. In the general models, ESGTOTAL and ESGG present positive signs but limited explanatory power ($R^2 = 0.10$ and 0.03, respectively).

In developed economies, several specifications exhibit notably higher explanatory power ($R^2 \approx 0.40$–0.50), indicating that ESG-related factors and their interactions with income levels are more strongly associated with Brazilian franchise chain attraction in advanced markets. In contrast, explanatory power is consistently lower in emerging economies ($R^2 \approx$ 0.04–0.20), suggesting that additional structural or institutional factors beyond ESG and macroeconomic indicators may play a more prominent role in these contexts.

Model selection criteria provide convergent evidence. In general, AIC and BIC values indicate better model fit for developed economies across the tested specifications, consistent with the stronger statistical significance observed in Tables 6–10. Taken together, these results suggest that the estimated relationships are more stable and predictive in developed economies. In contrast, in emerging economies, the weaker fit and lower significance levels point to greater variability and context-specific dynamics.

Table 12: Robustness tests

VARIABLE	MODEL											
	GENERAL				DEVELOPED				EMERGING			
	Coef	R^2	BIC	AIC	Coef	R^2	AIC	BIC	Coef	R^2	AIC	BIC
ESG_{TOTAL}	+	0,10	-266,561	-279,789	$-^{**}$	0,47	-87,568	-80,500	-	0,04	-202,404	-191,837
ESG_{G}	+	0,03	-266,311	-279,539	-	0,40	-85,193	-78,124	$+^{*}$	0,16	-208,248	-197,681
$RISK_{ESG\_SCORE}$	-	0,21	-275,100	-288,328	$-^{**}$	0,50	-87,568	-80,500	-	0,06	-202,404	-191,837
$ESG_{TOTAL} \times GDP_{CAP}$	-	0,13	-264,929	-280,362	$-^{**}$	0,49	-86,001	-77,755	-	0,04	-200,408	-188,080
$RISK_{ESG\_SCORE} \times GDP_{CAP}$	+	0,16	-266,709	-282,142	$+^{*}$	0,50	-90,455	-81,030	+	0,09	-206,958	-192,868

Note(s): Coef = expected sign of the estimated coefficient; R^2 = coefficient of determination; AIC = Akaike Information Criterion; BIC = Bayesian Information Criterion. ESG_{TOTAL} = overall ESG performance score; ESG_{G} = governance performance score; $RISK_{ESG\_SCORE}$ = overall ESG risk score; GDP_{CAP} = host-country GDP per capita. $ESG_{TOTAL} \times GDP_{CAP}$ and $RISK_{ESG\_SCORE} \times GDP_{CAP}$ represent interaction terms.
Statistical significance: * $p < 0.10$; ** $p < 0.05$.
Source: Author

6. DISCUSSION

This section interprets the empirical results in the light of institutional, resource dependency theory, internalization and stakeholder theories, as well as recent literature on ESG, institutional risks and the internationalization of Brazilian franchise chains. Building on the results presented in Section 5, 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).

Our findings are partially aligned with prior studies on the internationalization of franchise chains, which emphasize the importance of institutional environments, governance mechanisms and strategic capabilities in shaping cross-border expansion decisions. Consistent with earlier research, our results confirm that franchise chains originating from emerging economies face distinct institutional constraints and legitimacy challenges when expanding internationally.

However, this study also extends and contrasts with existing literature by explicitly demonstrating that ESG-related dimensions operate as differentiated strategic signals rather than uniform drivers of internationalization. Unlike studies that treat sustainability or governance as homogeneous constructs, our findings reveal that ESG performance, ESG governance and ESG risk exert distinct effects across destination contexts. In particular, the influence of ESG-related factors varies between developed and emerging economies, suggesting that franchise internationalization strategies are contingent upon context-specific legitimacy expectations and institutional pressures. By incorporating ESG as a multidimensional construct, this study advances the franchising and international business literature by offering a more nuanced understanding of how firms from emerging economies navigate heterogeneous institutional environments during international expansion.

6.1. Environmental, social and governance

H1a was refuted in developed economies, where countries with worse ESG performance attracted more Brazilian franchise chains. As shown in the regression results, 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 behavior is consistent with the logic of internalization theory, in which firms balance legitimacy gains against the costs of institutional compliance. This perspective is also supported 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, *H1b* was confirmed in emerging economies, where ESG governance performance positively influenced the attraction of franchise chains (Bretas et al., 2020; Melo et al., 2019; Shah and Saqib, 2023). This result highlights governance as a central dimension of ESG, reinforcing its role as a mechanism for reducing uncertainty (Khauaja and 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. From a resource dependence perspective, governance reduces exposure to opportunism and institutional volatility, enabling franchise chains to maintain control and standardization. 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 strategic assets whose relevance is context-dependent, varying according to the degree of institutional maturity and the trade-offs companies perceive in terms of risk, cost and legitimacy. Rather than exerting a uniform effect, ESG dimensions play distinct strategic roles depending on the institutional environment in which internationalization occurs.

6.2. Environmental, social and governance risks and institutional context

H2 explored the role of ESG-related institutional risks in shaping the internationalization of Brazilian franchise chains. The results indicate that ESG risk plays a context-dependent role, being particularly relevant in developed economies. As shown in the regression results, *H2* was confirmed only for developed economies: the higher the ESG risk, the lower the country's attractiveness for Brazilian franchise chains.

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. In developed economies, where regulatory frameworks are more stringent and stakeholder scrutiny is higher, ESG-related risks become more salient and costly, increasing firms' sensitivity to institutional instability (Doh et al., 2016; Stocker et al., 2022; Shah and Saqib, 2023).

In contrast, *H2* was not confirmed in emerging economies, where ESG risk did not present a statistically significant effect on franchise chain attraction. This finding suggests that institutional risk is often perceived as an inherent feature of the business environment in emerging markets, rather than a decisive deterrent to international expansion. As argued by Melo et al. (2015) and Lanfranchi et al. (2021a), firms expanding into these contexts may already internalize higher levels of uncertainty and compensate for institutional weaknesses through alternative governance mechanisms, local partnerships or contractual flexibility.

In addition, Rocha and Spers (2019) highlight that, in emerging economies, adaptation strategies and relational governance often substitute for formal institutional safeguards, allowing firms to protect intangible assets and brand reputation despite weaker institutional frameworks. This helps explain why ESG risk does not operate as a binding constraint in these markets, contrasting with its deterrent effect in developed economies.

Therefore, the findings indicate that ESG risk functions as an institutional barrier primarily in developed economies, where regulatory compliance, reputational exposure and stakeholder pressures increase its relevance. Rather than exerting a uniform effect, ESG risk shapes international expansion decisions in a context-sensitive manner, reinforcing the importance of aligning risk assessment strategies with the institutional characteristics of host countries (Shah and Saqib, 2023).

6.3. Gross domestic product per capita as a moderator

H3a and *H3b* analyzed the role of GDP per capita as a moderator in the relationship between ESG performance, institutional risks and internationalization. *H3a* 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 result suggests that, in high-income contexts, ESG practices function as a stronger legitimacy signal, 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 higher sensitivity of consumers and stakeholders in these markets. Bretas et al. (2021) further highlights that GDP per capita catalyzes institutional pressure toward ESG compliance, shaping the attractiveness of developed economies as destination markets for franchise chain 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 remain cost structures, regulatory flexibility and growth opportunities rather than ESG performance. This finding reinforces the argument that ESG operates unevenly across institutional environments, depending on economic development and stakeholder expectations.

In addition, 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).

H3b 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. In such environments, ESG risks undermine legitimacy and increase perceived uncertainty, as noted by Stocker et al. (2022), Rovere (2024), and 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. This supports the notion that risk tolerance and adaptation mechanisms differ across institutional contexts, 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. Instead, internationalization behavior reflects strategic and contingent adaptations 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. Our findings extend this perspective by demonstrating that institutional quality does not operate uniformly across contexts, but rather interacts with ESG performance and risk dimensions. Recent studies (Lanfranchi et al., 2021a; Jiang et al., 2024; Melo et al., 2019) reinforce the idea that environments with strong institutional quality and robust ESG governance entail lower transaction costs and greater predictability.

On the other hand, the findings also suggest that in some developed markets, the presence of comparatively lower regulatory pressure may allow companies greater operational flexibility, even when ESG standards are less stringent, as argued by Cuervo-Cazurra (2006). This nuance contributes to the literature by showing that high institutional development does not necessarily imply uniform ESG stringency as a determinant of internationalization decisions.

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 such environments, ESG governance emerges as a key signaling mechanism, enabling firms to compensate for institutional fragility by building trust, attracting local partners and mitigating reputational risks (Yu et al., 2025; Bretas et al., 2024).

Resource dependence theory (Pfeffer and Salancik, 2015) helps to explain why franchise chains are more sensitive to institutional risks in environments with low legal predictability. High ESG risks exacerbate firms' dependence on external resources, such as financing, infrastructure and regulatory support, making market selection and governance quality critical strategic variables (Stocker et al., 2022).

Finally, internalization theory (Dunning, 2009) complements these interpretations by suggesting that franchise chains seek to internalize advantages in countries with a lower risk of opportunism and greater 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 ESG governance as a competitive advantage in emerging markets, while ESG performance tends to function more as a legitimacy requirement in developed economies.

Thus, this study advances the theoretical debate by demonstrating that ESG factors and institutional risks operate as dynamic, context-sensitive strategic elements, rather than static or universal barriers. They should be understood as contingent variables whose relevance depends on the interaction between institutional maturity, economic development and firms' strategic positioning, requiring differentiated internationalization strategies across markets.

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 and Alon, 2021; Yu et al., 2025), resource dependence theory (Pfeffer and Salancik, 2015; Stocker et al., 2022) and internalization theory (Dunning, 2009; Rahat and Nguyen, 2024), this study demonstrates that international expansion decisions are shaped by the interaction between regulatory pressures, ESG-related risks, economic development and institutional maturity.

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, an area that remains underexplored in contemporary literature (Bretas et al., 2020; Bretas et al., 2024; Melo et al., 2019). By explicitly modeling these dimensions across different institutional contexts, 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 contingent upon the institutional conditions and income levels of destination countries.

The results reveal apparent differences across market types. In developed economies, robust ESG practices, when conditioned by GDP per capita, are critical drivers of internationalization alongside ESG-related risks. In contrast, in emerging economies, ESG governance performance plays a more decisive role than overall ESG performance, suggesting that mitigating institutional uncertainty and governance-related risks is central to attracting franchise chains (Bretas et al., 2020). These findings advance the literature by showing that franchise internationalization responds not only to economic incentives but also to context-specific institutional pressures that require differentiated strategic approaches.

This research also contributes to franchising studies by showing how franchise chains strategically adapt their ESG orientation to institutional environments. Strong governance structures serve as mechanisms for legitimacy building and risk mitigation in emerging markets, reinforcing contractual stability and brand protection (Rocha and Spers, 2019; Perrigot et al., 2021; Bretas et al., 2024). This strategic adjustment, aligned with stakeholder expectations, supports the interpretation of ESG practices as a competitive advantage in institutionally volatile markets and as a minimum legitimacy requirement in more mature economies (Ioannou and Serafeim, 2012; Jiang et al., 2024). From a broader theoretical perspective, the findings suggest that ESG dimensions operate as context-dependent strategic mechanisms in international franchising, with franchise chains leveraging governance and legitimacy-building practices differently from traditional multinational enterprises across developed and emerging markets.

From a managerial perspective, the study offers practical guidelines for franchise chains operating across different institutional environments. In regulated and high-income markets, franchise chains should prioritize proactive ESG policies, transparency, compliance mechanisms and alignment with international standards, particularly regarding governance practices and ESG disclosure. In emerging markets, strategies focused on institutional risk mitigation, governance strengthening, careful partner selection and local partnership development tend to be more effective than generic ESG approaches, especially in contexts characterized by regulatory uncertainty and institutional volatility (Cuervo-Cazurra and Genc, 2008; Lanfranchi et al., 2021a).

At the institutional level, these findings suggest that policymakers and support institutions can contribute by fostering governance frameworks, improving regulatory transparency, strengthening dispute-resolution mechanisms and supporting internationalization initiatives for franchise chains operating across heterogeneous institutional environments.

Despite its contributions, this study has limitations that should be acknowledged. First, the analytical model adopts an intentionally parsimonious specification designed to isolate the effects of ESG performance, ESG-related risks and economic development on host-country attractiveness for franchise expansion. Although this approach is consistent with prior cross-sectional research in international business and franchising, more complex model specifications may capture additional contextual or franchise chain-level dynamics not fully addressed here (Cuervo-Cazurra and Genc, 2008; Melo et al., 2015, 2019; Lanfranchi et al., 2021a).

Second, the sample presents an uneven geographic distribution of franchise operations across host countries, reflecting the actual concentration patterns of Brazilian franchise chains across international markets, particularly in geographically and institutionally proximate markets (Leite et al., 2014; Bretas et al., 2024). While this characteristic enhances empirical realism, it may constrain statistical balance across contexts. In addition, the study focuses exclusively on Brazilian franchise chains, which may limit the generalizability of findings to franchise chains originating from different institutional environments.

Third, the use of secondary quantitative data, while enabling robust hypothesis testing across multiple countries and institutional contexts, did not allow the direct observation of managerial perceptions, informal coordination mechanisms or ESG-related dynamics at the franchisee level, factors recognized as relevant in decentralized organizational systems (Dada et al., 2024; Gorovaia and Hussain, 2025). Moreover, ESG practices were assessed in aggregate form, which may obscure potential differences among environmental, social, governance and diversity-related dimensions, a limitation frequently discussed in ESG research (Singhania and Saini, 2023; Hu et al., 2023).

Future research may further examine the specific impact of individual ESG pillars on internationalization strategies through more granular analyzes of environmental, social, governance and diversity-related dimensions. Such approaches may contribute to a better understanding of how different sustainability components influence franchise chain expansion across institutional contexts.

Comparative studies involving franchise chains from different countries may also help assess whether the patterns identified among Brazilian franchise chains remain consistent across distinct institutional environments, particularly in middle-income economies undergoing institutional transitions. In addition, qualitative or mixed-method approaches could deepen the understanding of managerial perceptions, informal governance mechanisms and ESG-related dynamics at the franchisee level in decentralized franchise chains.

Further research may also explore how digitalization, innovation and data intelligence shape the deployment of ESG practices and international expansion strategies in global franchise chains. Finally, investigating consumer perceptions of ESG initiatives across different institutional contexts, particularly their effects on reputation, trust and loyalty, represents a promising 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. It demonstrates that international success depends on the strategic alignment between ESG-related practices, governance mechanisms and institutional and market conditions, as well as firms' ability to adapt internationalization strategies to different contexts, rather than on the uniform application of sustainability practices.

REFERENCES

Aiken, L. S. (1991). *Multiple regression: Testing and interpreting interactions*. Newbury Park, CA: sage.

Akinwande, M., Dikko, H. and Samson, A. (2015) Variance Inflation Factor: As a Condition for the Inclusion of Suppressor Variable(s) in Regression Analysis. *Open Journal of Statistics*, 5, 754-767. http://dx.doi.org/10.4236/ojs.2015.57075

Alon, I., Apriliyanti, I. D., & Henríquez Parodi, M. C. (2021). A systematic review of international franchising. *Multinational Business Review*, 29(1), 43-69. https://doi.org/10.1108/MBR-01-2020-0019

Atz, U., Van Holt, T., Liu, Z. Z., & Bruno, C. C. (2023). Does sustainability generate better financial performance? review, meta-analysis, and propositions. *Journal of Sustainable Finance & Investment*, *13*(1), 802-825. https://doi.org/10.1080/20430795.2022.2106934

Baena, V. (2011). The effect of corruption on global franchising in emerging markets. *International Journal of Business and Emerging Markets*, 3(1), 57-74. https://doi.org/10.1504/IJBEM.2011.037685

Bilyay-Erdogan, S. (2022). Corporate ESG engagement and information asymmetry: the moderating role of country-level institutional differences. *Journal of Sustainable Finance & Investment*, 1-37. https://doi.org/10.1080/20430795.2022.2128710

Bilyay-Erdogan, S., & Öztürkkal, B. (2023). The role of environmental, social, and governance (ESG) practices and ownership on firm performance in emerging markets. *Emerging Markets Finance and Trade*, *59*(12), 3776-3797. https://doi.org/10.1080/1540496X.2023.2223930

Bretas, V. P. G., Rocha, T. V., Spers, E. E., & Melo, P. L. D. R. (2020). Modos de governança em redes de franquias internacionalizadas: seleção de parceiros e relacionamentos. *Revista Brasileira de Marketing*, *19*(1), 150-173. https://doi.org/10.5585/remark.v19i1.17139

Bretas, V. P., & Alon, I. (2021). Franchising research on emerging markets: Bibliometric and content analysis. *Journal of Business Research*, 133, 51-65. https://doi.org/10.1016/j.jbusres.2021.04.067

Bretas, V. P., Alon, I., Rocha, T. V., & Galetti, J. R. (2021). International governance mode choice: Evidence from Brazilian franchisors. *Journal of International Management*, *27*(2), 100851. https://doi.org/10.1016/j.intman.2021.100851

Bretas, V. P., Galetti, J. R., & Rocha, T. V. (2019). Fatores Relacionados a Internacionalização das Redes de Franquias Brasileiras: Dispersão Geográfica e Pertencimento a Grupos. *Internext*, *14*(1), 01-13. https://doi.org/10.18568/internext.v14i1.495

Bretas, V. P., Galetti, J. R., Alon, I., & Rocha, T. V. (2024). Do stakeholders matter in entry mode decisions? An investigation of international franchise governance mode choice. *Journal of Business Research*, *178*, 114673. https://doi.org/10.1016/j.jbusres.2024.114673

Cavusgil, S. T., Ghauri, P. N., & Akcal, A. A. (2012). *Doing business in emerging markets*. Sage.

Chaieb, I., Errunza, V., & Lu, L. Y. (2024). Nature Risk Management in Domestic and Foreign Institutional Investments. *Journal of Impact & ESG Investing*, v. 5, n. 2, p. 8, 10.3905/jesg.2024.1.111

Chen, S. H., Hsu, H. C., & Lin, S. T. (2025). The Joint Effects of Firm's Globalization and ESG Rating on Financial Performance: Evidence from Food Industry in Taiwan. *Sustainability*, 17(6), 2580. https://doi.org/10.3390/su17062580

Cuervo-Cazurra, A. (2006). Who cares about corruption? *Journal of International Business Studies*, *37*, 807-822. https://doi.org/10.1057/palgrave.jibs.8400223

Cuervo-Cazurra, A., & Genc, M. (2008). Transforming disadvantages into advantages: Developing-country MNEs in the least developed countries. *Journal of International Business Studies*, 39(6), 957-979. https://doi.org/10.1057/palgrave.jibs.8400390

Dada, O., Perrigot, R., & Watson, A. (2024). Influential factors of pro-environmental behaviors among franchisees in the fast-food sector. *Business Strategy and the Environment*, *33*(3), 2301-2313. https://doi.org/10.1002/bse.3599

Daugaard, D., & Ding, A. (2022). Global drivers for ESG performance: The body of knowledge. *Sustainability*, *14*(4), 2322. https://doi.org/10.3390/su14042322

Doh, J. P., Rodrigues, S., Saka-Helmhout, A., & Makhija, M. (2016). International business responses to institutional voids. *Journal of International Business Studies*, 47(3), 308-329. https://doi.org/10.1057/s41267-017-0074-z

Dunning, J. H. (2009). Location and the multinational enterprise: a neglected factor? *Journal of International Business Studies*, *40*(1), 5-19. https://doi.org/10.1057/jibs.2008.74

Duque-Grisales, E., & Aguilera-Caracuel, J. (2021). Environmental, social and governance (ESG) scores and financial performance of multilatinas: Moderating effects of geographic international diversification and financial slack. *Journal of Business Ethics*, 168(2), 315-334. https://doi.org/10.1007/s10551-019-04177-w

Elango, B., & Pattnaik, C. (2007). Building capabilities for international operations through networks: A study of Indian firms. *Journal of International Business Studies*, *38*, 541-555. https://doi.org/10.1057/palgrave.jibs.8400280

Ettalibi, N., Arunachalam, M., Nguyen, T., & ur Rehman, K. (2025). The influence of institutional void and socio-cultural factors on the internationalization of emerging multinationals. *Research in International Business and Finance*, 73, 102605. https://doi.org/10.1016/j.ribaf.2024.102605

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Cambridge University Press.

Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment*, 5(4), 210-233. https://doi.org/10.1080/20430795.2015.1118917

Giese, G., Lee, L. E., Melas, D., Nagy, Z., & Nishikawa, L. (2019). Performance and risk analysis of index-based ESG portfolios. *The Journal of Index Investing*, *9*(4), 46-57. 10.3905/jii.2019.9.4.046

Gorovaia, N., & Hussain, D. (2025). From Strategy to Storefront: CSR and Brand Competitiveness in Franchise Networks. *Corporate Social Responsibility and Environmental Management*, *32*(4), 5420-5429. https://doi.org/10.1002/csr.3252

Gratcheva, E., Emery, T., & Wang, D. (2021). Demystifying sovereign ESG. *Available at SSRN 3854177*. http://dx.doi.org/10.2139/ssrn.3854177

Gujarati, DN, & Porter, DC (2020). Basic Econometrics (6th ed.). McGraw-Hill Education.

Hair, JF, Black, WC, Babin, BJ, & Anderson, RE (2019). Multivariate data analysis (8th ed.). Cengage Learning.

Hieu, V. M., & Hai, N. T. (2023). The role of environmental, social, and governance responsibilities and economic development on achieving the SDGs: evidence from BRICS countries. *Economic research-Ekonomska istraživanja*, *36*(1), 1338-1360. https://doi.org/10.1080/1331677X.2022.2086598

Hollnagel, H. C., & Bueno, R. L. P. (2025). Corporate Governance Features and ESG Risk: A Comparative Analysis of Listed Companies in Brazil and the United States. *International Journal of Risk, Fraud and Reliability*, *1*(1), 79-93. https://www.researchlakejournals.com/index.php/IJRFR/article/view/549/439

Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). Strategy in emerging economies. *Academy of management journal*, 43(3), 249-267. https://doi.org/10.5465/1556394

Hu, H., Tu, Z., Chen, A., & Huang, J. (2023). Enterprises' globalization and ESG performance. *Finance Research Letters*, 58, 104653. https://doi.org/10.1016/j.frl.2023.104653

Ioannou, I., & Serafeim, G. (2012). What drives corporate social performance? The role of nation-level institutions. *Journal of International Business Studies*, 43(9), 834-864. https://doi.org/10.1057/jibs.2012.26

Jiang, L., Chang, Z., Yao, W., Huang, L., & Zhou, S. (2024). Transcend local for global: ESG as a legitimacy signal in the global expansion of emerging multinational enterprises. *Finance Research Letters*, 69, 106174. https://doi.org/10.1016/j.frl.2024.106174

Khalid, F., Sun, J., Huang, G., & Su, C. Y. (2021). Environmental, social and governance performance of Chinese multinationals: A comparison of state-and non-state-owned enterprises. *Sustainability*, 13(7), 4020. https://doi.org/10.3390/su13074020

Khauaja, D. M. R., & Toledo, G. L. (2011). O processo de internacionalização de empresas brasileiras: estudo com franqueadoras. *Internext*, *6*(1), 42-62. https://doi.org/10.18568/1980-4865.6142-62

Kozlovskyi, S., Pasichnyi, M., Lavrov, R., Ivanyuta, N., & Nepytaliuk, A. (2020). An empirical study of the effects of demographic factors on economic growth in advanced and developing countries. https://doi.org/10.18778/1508-2008.23.27

Laeven, L., & Valencia, F. (2020). Systemic banking crises database II. *IMF Economic Review*, *68*(2), 307-361. https://doi.org/10.1057/s41308-020-00107-3

Lanfranchi, A. G., Strehlau, S., Borini, F. M., & Melo, P. L. D. R. (2021b). Does origin matter? The impact of the institutional environment of the origin country on the internationalization of franchise chains. *Multinational Business Review*, *29*(1), 96-115. https://doi.org/10.1108/MBR-01-2020-0020

Lanfranchi, A., Melo, P. L. D. R., Borini, F. M., & Telles, R. (2021a). Institutional environment and internationalization of franchise chains: a regional and global analysis. *International Journal of Emerging Markets*, 16(4), 726-744. https://doi.org/10.1108/IJOEM-03-2019-0188

Lavin, J. F., & Montecinos-Pearce, A. A. (2021). ESG disclosure in an emerging market: an empirical analysis of the influence of board characteristics and ownership structure. *Sustainability*, *13*(19), 10498. https://doi.org/10.3390/su131910498

Lavin, J. F., & Montecinos-Pearce, A. A. (2022). Heterogeneous firms and benefits of ESG disclosure: Cost of debt financing in an emerging market. *Sustainability*, *14*(23), 15760. https://doi.org/10.3390/su142315760

Leite, H. L R., Mendonça, P. S. M., & Buzzo, E. J. (2014). Estudo de internacionalização de franquias brasileiras: desafios e barreiras. *Revista Gestão da Produção Operações e Sistemas*, (1), 85-85. https://doi.org/10.15675/gepros.v0i1.1144

Liu, E. X., & Song, Y. (2025). ESG Performance, Environmental Uncertainty, and Firm Risk. *Journal of International Financial Management & Accounting*. https://doi.org/10.1111/jifm.12227

Martins, H. C. (2022). Competition and ESG practices in emerging markets: Evidence from a difference-in-differences model. Finance Research Letters, 46, 102371. https://doi.org/10.1016/j.frl.2021.102371

Matos, P. (2020). ESG and responsible institutional investing around the world: A critical review. https://dx.doi.org/10.2139/ssrn.3668998

Mazzioni, S., Soschinski, C. K., Leite, M., Magro, C. B. D., & Sanches, S. L. R. (2024). ESG performance in emerging economies. *Macro Management & Public Policies*, 6(1), 21-35. https://doi.org/10.30564/mmpp.v6i1.6202

Melo, P. L. D. R., Borini, F. M., & Ogasavara, M. H. (2019). Latin American franchise internationalization: The impact of institutional environment. *Thunderbird International Business Review*, 61(2), 217-228. https://doi.org/10.1002/tie.21975

Melo, P. L. D. R., Borini, F. M., Oliveira, M. D. M., & Parente, R. C. (2015). International analysis of the countries where Brazilian franchise chains operate. *Revista de Administração (São Paulo)*, 50(1), 26-39. https://doi.org/10.5700/rausp1182

Mooneeapen, O., Abhayawansa, S., & Mamode Khan, N. (2022). The influence of the country governance environment on corporate environmental, social and governance (ESG) performance. *Sustainability Accounting, Management and Policy Journal*, *13*(4), 953-985. https://doi.org/10.1108/SAMPJ-07-2021-0298

Naeem, N., Cankaya, S., & Bildik, R. (2022). Does ESG performance affect the financial performance of environmentally sensitive industries? A comparison between emerging and developed markets. *Borsa Istanbul Review*, *22*, S128-S140. https://doi.org/10.1016/j.bir.2022.11.014

Nandan, S. P. K., & Sinku, S. (2024). The impact of ESG ratings on firm financial performance and foreign institutional ownership in India: A systematic literature review. *ShodhKosh: Journal of Visual and Performing Arts*. https://doi.org/10.29121/shodhkosh.v5.i5.2024.3083

North, D. C. (1990). *Institutions, institutional change, and economic performance*. Cambridge University Press.

Pasionek, J. (2020). Countries of BRICS group on Forex market. *Ekonomia i Prawo. Economics and Law*, *19*(1), 99-117. http://doi.org/10.12775/EiP.2020.008

Perrigot, R., Watson, A., & Dada, O. (2021). Sustainability and green practices: the role of stakeholder power in fast-food franchise chains. *International Journal of Contemporary Hospitality Management*, *33*(10), 3442-3464. https://doi.org/10.1108/IJCHM-02-2021-0269

Pfeffer, J. (1987). A resource dependence perspective on intercorporate relations. *Intercorporate relations: The structural analysis of business*, *1*(1), 25-55.

Pfeffer, J., & Salancik, G. (2015). External control of organizations-Resource dependence perspective. In *Organizational behavior 2* (pp. 355-370). Routledge.

R Core Team (2024). R: A language and environment for statistical computing. R Foundation for Statistical Computing, Vienna. Avaliable at: <https://www.R-project.org> (Accessed on January 14, 2025).

Rahat, B., & Nguyen, P. (2024). The impact of ESG profile on Firm's valuation in emerging markets. *International review of financial analysis*, 95, 103361. https://doi.org/10.1016/j.irfa.2024.103361

Robeco (2024), *Robeco Integrated Annual Report 2024*, Robeco, Rotterdam, available at: https://www.robeco.com/files/docm/docu-robeco-integrated-annual-report-2024.pdf

Rocha, T. V., & Spers, E. E. (2019). Brand building of Brazilian Franchise Networks abroad. *Research that transforms*, 184-il. https://pesquisa.espm.br/wp-content/uploads/2019/11/Pesquisa_que_transforma_virtual.pdf

Rovere, C. A. D. (2024). Internacionalização de Empresas: Estratégias, Benefícios e Importância Atual. *Revista Sistemática*, *14*(3), 701–708. https://doi.org/10.56238/rcsv14n3-019

Sezgin, F. H., Tekin Turhan, G., Sart, G., & Danilina, M. (2023). Impact of financial development and remittances on educational attainment within the context of sustainable development: A panel evidence from emerging markets. *Sustainability*, *15*(16), 12322.

Shah, G., & Saqib, N. (2023). Entrepreneurial tendencies in franchisors: evidence from India. *International Journal of Innovation Science*, 15(3), 530-557. https://doi.org/10.1108/IJIS-02-2022-0024

Siegel, S., & Castellan Jr, N. J. (2006). *Nonparametric statistics for the behavioral sciences*. Artmed Editora.

Singhania, M., & Gupta, D. (2024). Impact of Environmental, Social and Governance (ESG) disclosure on firm risk: A meta-analytical review. *Corporate Social Responsibility and Environmental Management*, *31*(4), 3573-3613. https://doi.org/10.1002/csr.2725

Singhania, M., & Saini, N. (2023). Institutional framework of ESG disclosures: comparative analysis of developed and developing countries. *Journal of Sustainable Finance & Investment*, *13*(1), 516-559. https://doi.org/10.1080/20430795.2021.1964810

Stocker, F., de Mascena, K. M. C., Abib, G., & Irigaray, H. A. R. (2022). Risk perception and internationalization of born global firms in emerging markets. *Revista Brasileira de Gestão de Negócios*, 24, 332-350. https://doi.org/10.7819/rbgn.v24i2.4171

Tajani, F., Sica, F., Morano, P., Guarini, M. R., & Roma, A. (2024). A Clustering Analysis to Support the Definition of Effective ESG Impact Assessment Practices. In *International*

Symposium: New Metropolitan Perspectives (pp. 400-409). Cham: *Springer Nature Switzerland*. https://doi.org/10.1007/978-3-031-74716-8_40

Wang, K., Yu, S., Mei, M., Yang, X., Peng, G., & LV, B. (2023). ESG performance and corporate resilience: an empirical analysis based on the capital allocation efficiency perspective. *Sustainability*, *15*(23), 16145. https://doi.org/10.3390/su152316145

Xu, X., & Sun, M. (2025). Digital Transformation, Internationalization and ESG Performance of Multinational Companies. *Managerial and Decision Economics*. https://doi.org/10.1002/mde.4496

Yu, P., Chen, Y., & Zhao, Y. (2025). Overcoming the ESG Voids at Home: Supplier ESG Performance and the Internationalization of Emerging Market Multinational Enterprises. *Management International Review*, 1-37. https://doi.org/10.1007/s11575-025-00573-9

Zhang, J., Chen, S., & Tan, H. (2024). The Internationalization-Environmental Performance Relationship: Does it Differ between MNEs in Advanced and Less Advanced Economies? *Business Strategy and the Environment*, 33(7), 6125-6138. https://doi.org/10.1002/bse.3797

Zhao, P., Yao, X., & Shen, R. (2024). Capital market internationalization and firms' ESG performance: Evidence from the inclusion of China A-shares in the MSCI Emerging Market Index. *Energy Economics*, 133, 107415. https://doi.org/10.1016/j.eneco.2024.107415

Article 3: Beyond institutions and ESG: Contractual governance as a coordination mechanism for international commitment in franchise chains

Abstract

Purpose: This study investigates how institutional risk and observable ESG practices relate to international commitment in Brazilian franchise chains, emphasizing the role of contractual governance in coordinating organizational responses under conditions of institutional uncertainty and resource constraints. Drawing on a capability-based perspective, it examines whether these factors are associated with international commitment in franchise systems.

Design/methodology/approach: A quantitative approach was adopted using franchise chain-country data from 104 Brazilian franchise chains operating across 69 countries, totaling 2,364 international units. International commitment intensity was operationalized as the proportion of units allocated to each foreign market relative to the chain's total international units. Institutional risk indicators were combined with measures of observable ESG practices derived from publicly available corporate information. Ordinary least squares (OLS) and fractional logit models were estimated, alongside robustness tests.

Findings: The results indicate that neither institutional risk nor ESG capabilities are statistically associated with international commitment intensity, and no moderating effect of ESG capabilities was identified. These findings suggest that contractual governance functions as the central coordinating mechanism sustaining international commitment under institutional uncertainty and resource constraints. They also indicate that ESG capabilities do not generate automatic strategic effects, as their effectiveness depends on coordination and internalization across decentralized organizational structures.

Originality/value: This study advances international business literature by proposing a configurational perspective on international commitment in franchise chains. It suggests that, in contractual governance systems such as franchising, institutional conditions and ESG capabilities do not independently determine international commitment. Instead, contractual governance emerges as the central coordinating mechanism through which organizations

integrate resources and capabilities under conditions of institutional dysfunction and resource constraints.

Keywords: International commitment; Institutional risk; ESG; Contractual governance; Franchise chains; Small businesses.

1. INTRODUCTION

The international business literature has long recognized the central role of institutions in shaping firms' strategies in foreign markets, particularly through their effects on transaction costs, predictability, and contractual security (North, 1990; Cuervo-Cazurra & Genc, 2008). In this perspective, institutional conditions influence location advantages, market selection, and the structure of foreign operations (Dunning, 2001; Li et al., 2024; Gómez-Mera & Varela, 2024). However, this approach tends to assume relatively functional markets in which institutions operate in a predictable manner.

In emerging markets, by contrast, institutional voids, regulatory fragility, and weak contractual enforcement reshape firms' strategic behavior (Khanna & Palepu, 1997). Under such conditions, international operations unfold in environments that require alternative mechanisms of coordination and organizational adaptation, particularly for firms originating from emerging economies (Lanfranchi et al., 2021b; Ettalibi et al., 2025). Accordingly, the effects of institutional environments on internationalization are unlikely to be linear, depending instead on firms' organizational responses and capabilities.

In parallel, environmental, social, and governance (ESG) practices have gained prominence in international business research due to their association with legitimacy, reputation, and the reduction of information asymmetries (Freeman, 1984; Ioannou & Serafeim, 2017). Recent studies suggest that such practices may mitigate risk perceptions and facilitate operations in complex institutional environments (Popli et al., 2022; Liu & Song, 2025; Hu et al., 2023; Duque-Grisales & Aguilera-Caracuel, 2021). Moreover, evidence suggests that the relationship between ESG and internationalization may be reciprocal, with international expansion itself contributing to the development of firms' ESG capabilities (Zhou et al., 2025).

In this study, observable ESG practices are treated as empirical manifestations of underlying ESG capabilities, allowing the analysis to examine how the strategic effects of these capabilities depend on organizational coordination rather than on the mere adoption of isolated practices. However, these strategic effects are not uniform and are contingent upon organizational factors and the extent to which such capabilities are effectively embedded within organizational processes (Endrikat et al., 2021; Oduro & Haylemariam, 2025; Linnenluecke et al., 2022; Wu & Chang, 2022; Fiaschi et al., 2020).

This discussion becomes particularly relevant in franchise chains, which are typically composed of resource-constrained firms with heterogeneous capabilities (Perrigot et al., 2021; Alon et al., 2021; Welsh et al., 2025). Such characteristics may hinder the effective development and implementation of ESG capabilities, as well as firms' ability to cope with institutional complexity. Moreover, while prior studies often treat institutional risk and ESG as direct and independent determinants of internationalization, recent research calls for more integrated approaches that account for the interaction between institutional conditions and organizational capabilities (Peng et al., 2009; Cuervo-Cazurra et al., 2021).

This gap becomes even more evident when considering international commitment rather than market entry. Although the literature has extensively examined entry decisions, less attention has been devoted to the intensity of firms’ engagement in foreign markets, reflected in their operational exposure and strategic dependence (Verbeke & Forootan, 2012; Li et al., 2024). This issue is particularly salient in franchise chains. Franchise chains rely on contractual governance and local partners, which may reduce exposure to institutional risk while increasing adaptability to heterogeneous contexts. However, they face substantial coordination and alignment challenges across decentralized organizational structures (Alon et al., 2021; Perrigot et al., 2021; Jell-Ojobor et al., 2022a; Sørensen et al., 2023; Dermonde et al., 2025; Lanfranchi et al., 2021b).

Therefore, this study investigates how institutional risk and observable ESG practices relate to international commitment in Brazilian franchise chains, emphasizing the role of contractual governance in coordinating organizational responses under conditions of institutional uncertainty and resource constraints. Drawing on institutional and capability-based perspectives (Peng et al., 2009; Cuervo-Cazurra et al., 2021; Yu et al., 2025), we argue that, in environments characterized by institutional dysfunction and resource constraints, international commitment may not be directly determined by institutional conditions or ESG capabilities alone. Rather, international commitment is conditioned by governance mechanisms that enable coordination and adaptation within decentralized organizational arrangements (Khanna & Palepu, 1997; Penrose, 1959).

This study contributes to the international business literature in three main ways. First, by shifting the focus from entry decisions to the intensity of international commitment, it advances the understanding of how firms deepen their presence in foreign markets (Verbeke & Forootan, 2012; Li et al., 2024). Second, by integrating institutional risk, ESG capabilities, and governance mechanisms within a contingency-based framework, it responds to recent calls for more integrated approaches that simultaneously consider external factors and organizational capabilities (Peng et al., 2009; Cuervo-Cazurra et al., 2021; Linnenluecke et al., 2022).

Third, the study advances a governance-based and configurational perspective on international commitment by proposing that the effects of institutional conditions and ESG capabilities are contingent upon governance mechanisms that coordinate organizational responses within decentralized franchise structures. From this perspective, contractual governance functions as the central coordinating mechanism, attenuating the direct influence of the institutional environment while shaping the strategic effects of ESG through the coordination of organizational resources and capabilities (Perrigot et al., 2021; Sørensen et al., 2023; Li et al., 2024). Accordingly, the explanation of international commitment shifts away from direct effects toward contingent organizational coordination, emphasizing the role of governance in articulating the relationship between institutional conditions, organizational capabilities, and strategic behavior (Cuervo-Cazurra & Genc, 2008; Endrikat et al., 2021; Li et al., 2024).

2. THEORETICAL BACKGROUND

2.1. Institutional context and emerging markets

The international business literature has long emphasized the central role of institutions in shaping firms’ strategies by structuring incentives, reducing uncertainty, and influencing transaction costs (North, 1990; Peng et al., 2009). From this perspective, the institutional characteristics of host countries shape location advantages and affect firms’ decisions regarding foreign market presence and operations (Dunning, 2001; Cuervo-Cazurra & Genc, 2008). Institutional risk, often associated with regulatory instability, weak legal enforcement, and political unpredictability, constitutes a major source of uncertainty influencing both market attractiveness and post-entry strategic behavior (Li et al., 2024; Gómez-Mera & Varela, 2024; Jell-Ojobor et al., 2022a).

Traditional approaches, however, often assume relatively functional institutional environments in which market mechanisms operate predictably and consistently. In contrast, research on emerging markets highlights the prevalence of institutional voids, characterized by the absence or inefficiency of intermediary market institutions, which undermines economic coordination and increases transaction costs (Khanna & Palepu, 1997). Under such conditions, firms operate in contexts marked by institutional dysfunctions that require organizational adaptation and alternative coordination mechanisms, particularly in international franchise systems originating from emerging economies (Lanfranchi et al., 2021b; Ettalibi et al., 2025).

This perspective suggests that the effects of institutional environments on strategic decisions are neither linear nor homogeneous. Rather, firms' responses to institutional fragility depend on their organizational capabilities and governance structures (Cuervo-Cazurra et al., 2021; Li et al., 2024). Consequently, international operations in emerging markets rely not only on external institutional conditions but also on firms' ability to develop internal coordination mechanisms capable of compensating for these limitations (Cuervo-Cazurra et al., 2021; Jell-Ojobor et al., 2022b).

2.2. ESG as a contingent organizational capability

The incorporation of environmental, social, and governance (ESG) practices has become increasingly central in the strategy and international business literature, particularly due to their association with legitimacy building, reputation enhancement, and the reduction of information asymmetries in foreign markets (Freeman, 1984; Ioannou & Serafeim, 2017, 2023). Empirical evidence suggests that such practices may reduce risk perceptions and facilitate operations in complex institutional environments, particularly for firms originating in emerging economies (Popli et al., 2022; Liu & Song, 2025; Hu et al., 2023; Duque-Grisales & Aguilera-Caracuel, 2021; Yu et al., 2025).

Although empirical studies typically observe ESG through organizational practices and public disclosures, these observable practices can be interpreted as manifestations of ESG capabilities embedded within firms' organizational processes. From a Resource-Based View, ESG represents a complex organizational capability resulting from the integration of governance systems, operational routines, and stakeholder engagement mechanisms. It exhibits path-dependent characteristics and is difficult to imitate (Barney, 1991; Linnenluecke et al., 2022). However, developing such capabilities depends on the availability and coordination of resources across the organization, which may limit their effectiveness in contexts characterized by operational constraints and organizational heterogeneity.

Nevertheless, recent literature shows that the effects of ESG are not uniform across firms and contexts. Instead, they are strongly conditioned by institutional and organizational factors (Endrikat et al., 2021; Oduro & Haylemariam, 2025; Wu & Chang, 2022). In particular, the effectiveness of these capabilities depends not only on the extent to which they are embedded in organizational routines but also on firms' ability to coordinate their implementation consistently across diverse institutional environments and distributed organizational structures (Linnenluecke et al., 2022; Fiaschi et al., 2020).

Accordingly, ESG should not be interpreted as an automatic source of competitive advantage. Instead, it represents a contingent organizational capability whose effects vary according to the institutional environment and firms' capacity to mobilize and coordinate resources for its implementation. This contingent nature becomes especially salient in decentralized organizational arrangements, where the implementation of ESG practices is distributed across multiple organizational actors.

2.3. Resource constraints and franchise chains

Unlike traditional hierarchical organizations, franchise chains can be understood as an organizational system composed of multiple interdependent small businesses, operating under resource constraints and characterized by heterogeneous capabilities distributed across the network (Alon et al., 2021; Perrigot et al., 2021; Welsh et al., 2025). This structure implies that international expansion occurs under conditions of resource limitation not only at the focal firm level, but also across the different actors within the franchise chains. This may affect both the ability to implement strategic practices and the capacity to respond to complex institutional environments.

In franchise chains, franchisor capabilities and characteristics are key determinants of international presence (Dermonde et al., 2025). However, franchisees' ability to operate across diverse institutional contexts also plays a critical role. This organizational heterogeneity increases the relevance of resource constraints, particularly in emerging markets, where institutional and operational limitations tend to be more pronounced (Lanfranchi et al., 2021a; Melo et al., 2019; Dermonde et al., 2025).

In this context, implementing complex organizational capabilities, such as those associated with ESG, becomes particularly challenging. Their effectiveness depends not only on central strategic guidelines but also on the franchise chain’s ability to mobilize and coordinate resources consistently across geographically dispersed units. In organizational structures composed of resource-constrained small businesses, such coordination tends to be limited. This may compromise the internalization and effectiveness of these capabilities throughout the franchise chain (Penrose, 1959; Barney, 1991; Linnenluecke et al., 2022; Perrigot et al., 2021).

Accordingly, the internationalization of franchise chains should be understood as a process conditioned not only by external factors, but also by the chain’s collective ability to articulate resources and coordinate their allocation across distinct institutional environments (Alon et al., 2021; Perrigot et al., 2021; Lanfranchi et al., 2021b). This characteristic makes organizational coordination a central challenge, particularly in contexts of institutional dysfunction, where formal market mechanisms are insufficient to align network actors (Lanfranchi et al., 2021a; Cuervo-Cazurra et al., 2021).

2.4. Governance as a coordination mechanism in international franchise chains

In franchise chains, organizational governance is a central element for coordinating activities and sustaining international operations. Unlike hierarchical structures, these chains rely on contractual governance, in which alignment between franchisors and franchisees is supported by formal and informal mechanisms of coordination, monitoring, and control (Alon et al., 2021; Sørensen et al., 2023; Jell-Ojobor et al., 2022b; Dermonde et al., 2025).

In institutional environments characterized by greater uncertainty, weak legal enforcement, and regulatory unpredictability, coordination costs tend to increase, and exposure to opportunistic behavior becomes more pronounced (Perrigot et al., 2021; Lanfranchi et al., 2021a). Under such conditions, governance plays a fundamental role by complementing or partially substituting formal institutional mechanisms, enabling the coordination of network activities in adverse institutional contexts and compensating for limitations associated with the dysfunctions of emerging markets (Cuervo-Cazurra et al., 2021).

Moreover, organizational governance influences chains' ability to consistently implement strategic practices, such as ESG, across geographically dispersed units. By strengthening mechanisms of control, standardization, and strategic alignment, governance enables the integration of resources distributed throughout the franchise chain. This is a necessary condition for the effective implementation of complex organizational capabilities in structures composed of multiple actors with different levels of resources and capabilities (Sørensen et al., 2023; Bretas et al., 2024; Jell-Ojobor et al., 2022a).

Accordingly, in international franchise chains, governance can be understood not merely as a supporting organizational mechanism, but as the structural condition that enables the articulation of organizational capabilities with heterogeneous institutional environments, particularly under conditions of institutional dysfunction and resource constraints (Alon et al., 2021; Cuervo-Cazurra et al., 2021).

2.5. Theoretical Framework

Based on the preceding literature, this section presents the study's theoretical framework. The following propositions articulate the mechanisms through which institutional conditions, ESG capabilities, and governance structures are expected to shape international commitment in franchise chains. Although governance mechanisms are not directly operationalized in the empirical analysis, these propositions establish the conceptual basis for interpreting the relationships examined in the subsequent sections.

The international business literature recognizes that the institutional environment of host countries directly influences firms' strategies by shaping transaction costs, uncertainty, and contractual security (North, 1990; Cuervo-Cazurra & Genc, 2008; Dunning, 2001). In particular, institutional risk affects not only market attractiveness but also firms' strategic behavior after entry (Li et al., 2024; Gómez-Mera & Varela, 2024; Jell-Ojobor et al., 2022a). However, research on emerging markets suggests that the effects of institutional conditions on internationalization are neither linear nor homogeneous, as firms differ in their ability to develop organizational arrangements capable of operating under institutional dysfunction (Khanna & Palepu, 1997; Cuervo-Cazurra et al., 2021).

In franchise chains, this issue becomes particularly relevant due to the decentralized nature of the organizational structure. International operations rely on coordination among geographically dispersed actors with heterogeneous levels of resources and capabilities (Alon et al., 2021; Perrigot et al., 2021; Welsh et al., 2025). Under such conditions, international commitment therefore depends not only on the institutional characteristics of host countries but also on governance mechanisms that enable franchise chains to coordinate activities and sustain operations across heterogeneous institutional environments.

Accordingly, the relationship between institutional risk and international commitment is expected to depend on governance mechanisms that enable franchise chains to coordinate operations and adapt to adverse institutional contexts.

Proposition 1*: The relationship between institutional risk and international commitment intensity in franchise chains is contingent upon governance mechanisms that support coordination and adaptation across heterogeneous institutional environments.*

Recent literature has emphasized that environmental, social, and governance (ESG) practices can be interpreted as empirical manifestations of broader ESG capabilities associated with legitimacy building, the reduction of information asymmetries, and the strengthening of organizational reputation in foreign markets (Linnenluecke et al., 2022; Ioannou & Serafeim, 2017, 2023). In international contexts, particularly for firms originating in emerging economies, these capabilities may help reduce risk perceptions and facilitate operations in complex institutional environments (Popli et al., 2022; Jiang et al., 2024; Hu et al., 2023; Duque-Grisales & Aguilera-Caracuel, 2021; Yu et al., 2025).

From a Resource-Based View perspective, ESG can be understood as an organizational capability that depends on the integration of routines, governance systems, and coordination mechanisms across organizational units (Barney, 1991; Linnenluecke et al., 2022). In franchise chains, this challenge becomes more pronounced due to the decentralized and heterogeneous nature of the organizational structure, in which the implementation of strategic practices depends on coordination among multiple actors operating under distinct institutional and operational conditions (Sørensen et al., 2023; Perrigot et al., 2021).

Accordingly, the strategic effects of ESG capabilities are not expected to emerge automatically or uniformly across franchise chains. From a theoretical perspective, their effectiveness is expected to depend on governance mechanisms that enable these capabilities to be effectively coordinated and consistently internalized throughout the organizational structure.

Proposition 2: *The strategic effects of ESG capabilities on international commitment intensity are contingent upon governance mechanisms that enable the coordination and internalization of ESG practices across decentralized organizational structures.*

Although prior studies suggest that ESG practices may help firms mitigate vulnerabilities associated with institutional instability (Popli et al., 2022; Hu et al., 2023; Liu & Song, 2025), recent literature indicates that these effects are strongly conditioned by organizational capabilities and coordination processes (Endrikat et al., 2021; Oduro & Haylemariam, 2025; Fiaschi et al., 2020). In decentralized organizational systems such as franchise chains, ESG practices are expected to generate strategic effects only when supported by governance mechanisms that effectively coordinate organizational responses across the network (Perrigot et al., 2021; Sørensen et al., 2023; Bretas et al., 2024).

Moreover, franchise chains already incorporate governance mechanisms designed to reduce uncertainty and facilitate adaptation through local partners, partially redistributing exposure to institutional risk (Jell-Ojobor et al., 2022a; Cuervo-Cazurra & Genc, 2008). Under such conditions, the strategic effects of ESG capabilities depend less on the formal adoption of ESG practices and more on how these capabilities are articulated within the governance structure of the franchise chain.

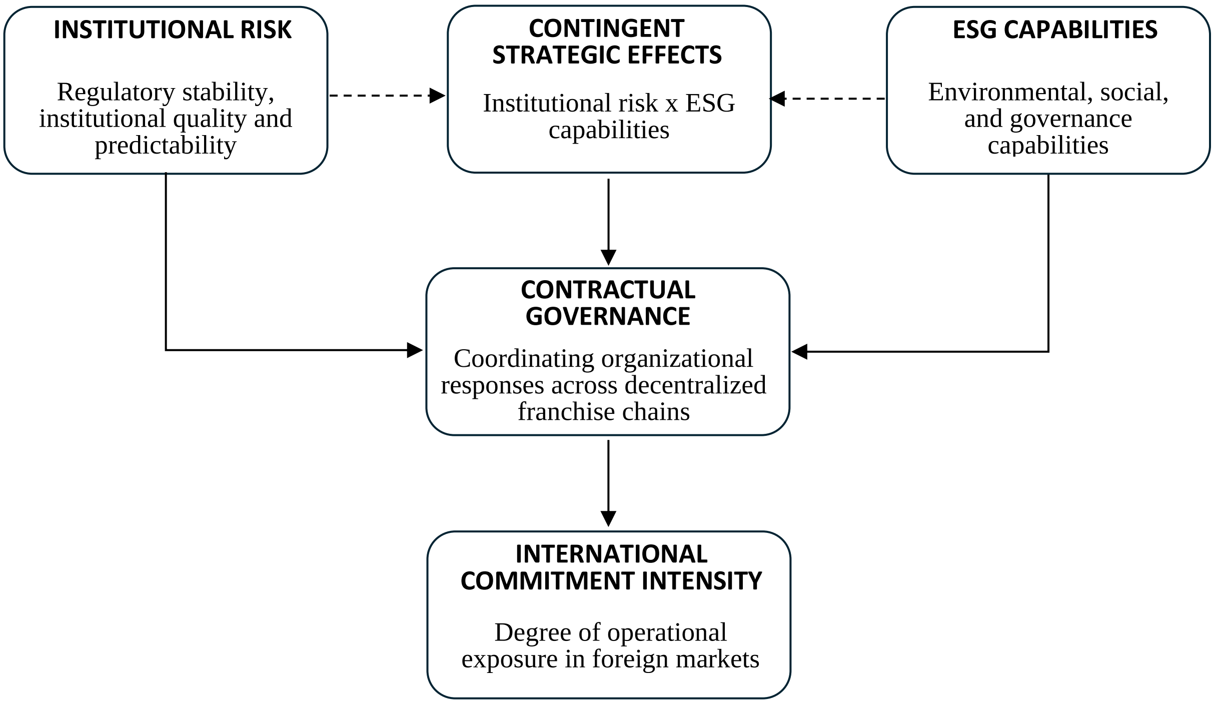
Thus, the relationship between institutional risk, ESG, and international commitment should be understood as contingent upon the governance mechanisms that coordinate organizational responses across heterogeneous institutional environments.

Proposition 3: *In franchise chains, the strategic potential of ESG capabilities to mitigate the effects of institutional risk on international commitment intensity is contingent upon governance mechanisms that effectively coordinate organizational responses across decentralized organizational structures.*

By integrating institutional conditions, ESG capabilities, and governance mechanisms within a single analytical framework, this study adopts a configurational and contingency-based perspective on internationalization. Rather than treating institutional risk and ESG as isolated determinants of international commitment, the framework conceptualizes how these dimensions interact to shape internationalization outcomes within decentralized franchise structures (Cuervo-Cazurra et al., 2021; Linnenluecke et al., 2022; Jell-Ojobor et al., 2022b).

Figure 1 summarizes this integrated theoretical framework, in which governance functions as the central coordination mechanism linking institutional conditions, ESG capabilities, and international commitment in franchise chains. Although governance mechanisms are not directly operationalized in the empirical models, they provide the theoretical foundation for explaining how organizational responses are coordinated under heterogeneous institutional conditions. Accordingly, the theoretical propositions developed in this section establish the conceptual basis for interpreting the empirical findings rather than relationships tested directly.

Figure 1: Conceptual framework of the study



Source: Author

This distinction between theoretical mechanisms and empirically observable relationships provides the conceptual foundation for the interpretation developed in the Discussion section. From a contingency perspective, the absence of direct effects may therefore be interpreted as consistent with governance-based coordination mechanisms embedded within decentralized franchise structures. Accordingly, international commitment in franchise chains is understood not merely as a response to market attractiveness or institutional quality, but as the outcome of an organizational capability to coordinate resources, governance structures, and strategic practices across institutionally heterogeneous environments.

3. METHODOLOGY

This study adopts a quantitative approach to examine the observable relationships between institutional risk, ESG capabilities, and international commitment in franchise chains. Consistent with contemporary approaches that integrate institutional and organizational dimensions in the analysis of internationalization, the empirical model simultaneously considers host-country institutional factors and organizational characteristics of franchise chains (Cuervo-Cazurra et al., 2021).

3.1. Sample and data collection

The unit of analysis is the franchise chain-country relationship, allowing for the examination of how host-market institutional characteristics influence the degree of operational exposure of franchise chains across different international contexts. This approach is consistent with studies that analyze internationalization at a disaggregated level, such as those developed by Melo et al. (2015) and Bretas et al. (2024), which emphasize the importance of capturing institutional heterogeneity across countries.

The dataset was constructed in multiple stages. First, Brazilian franchise chains with an international presence were identified using institutional sources and industry databases. Next, data were collected on the distribution of these franchise chains' units across foreign countries, enabling the measurement of international commitment intensity in each host market.

Subsequently, the identified countries were matched with international institutional indicators capturing dimensions such as regulatory stability, institutional quality, and the predictability of the business environment. As discussed by Khauaja and Toledo (2011) and Melo et al. (2015), the use of comparable institutional indicators enables consistent operationalization of institutional risk in international analyses.

Observable ESG practices were identified through documentary analysis of publicly available sources from the franchise chains, including corporate websites, reports, and official communications. Consistent with the theoretical framework developed in this study, these observable practices were treated as empirical manifestations of underlying ESG capabilities. The use of secondary data is widely recognized as appropriate for identifying organizational strategic practices, particularly in contexts where primary data are difficult to obtain (Bretas et al., 2024; Linnenluecke et al., 2022; Duque-Grisales & Aguilera-Caracuel, 2021).

Data were obtained from institutional sources and international databases, including reports from the Brazilian Franchising Association (ABF, 2024), publicly available company information, and World Bank data. This enhances the comparability and replicability of empirical analyzes in studies of international franchise chains (Melo et al., 2015; Perrigot et al., 2021; Dermonde et al., 2025). The final sample comprises 104 Brazilian franchise chains with international operations, distributed across 69 countries, totaling 2,364 international units.

Although governance mechanisms are not directly operationalized, franchise chains constitute contractual governance systems, providing the theoretical basis for interpreting how coordination structures may condition the relationship between institutional conditions, ESG capabilities, and international commitment.

3.2. Variable construction

The dependent variable of this study is international commitment intensity, operationalized as PERC_UNID_INT, defined as the proportion of a franchise chain's units in a given country relative to its total number of international units. This measure is widely used to capture the degree of operational exposure in foreign markets (Verbeke & Forootan, 2012).

Institutional risk is represented by the variable RISK_INST_SCORE, which captures the aggregate level of institutional risk in the host country, including regulatory stability, institutional quality, and the predictability of the political and economic environment.

ESG capabilities are proxied by the variable ESG_INDEX, constructed based on the identification of the environmental (E), social (S), and governance (G) dimensions, coded as 1 when present and 0 when absent. Following Linnenluecke et al. (2022), this operationalization provides a consistent proxy for the extent to which ESG capabilities are reflected in publicly observable organizational practices. To examine whether ESG capabilities moderate the relationship between institutional risk and international commitment, an interaction term between RISK_INST_SCORE and ESG_INDEX is included, following a widely adopted approach in empirical moderation analysis (Linnenluecke et al., 2022).

As a robustness check, the variable ESG_CHAIN is employed, taking the value of 1 when the franchise chain simultaneously presents all three ESG dimensions and 0 otherwise. This operationalization enables the identification of franchise chains with a more comprehensive manifestation of ESG capabilities.

Control variables include franchise chain size (LN_NUM_UNIT_TOT), chain age (CHAIN_AGE), franchising experience (FRANCH_EXPERIENCE), measured as the number of years since the franchise chain began operating as a franchisor, host-country GDP per capita (LN_GDP_CAP), and market size (LN_POP_MIL). Gujarati and Porter (2009) and Wooldridge (2016) emphasize that the inclusion of control variables is essential to reduce omitted variable bias in econometric models.

Table 1 presents the definition and operationalization of the variables used in the empirical analysis.

Table 1: Definition and operationalization of the main study variables

Variable	Type	Measure	Source
PERC_UNID_INT	Dependent variable	Proportion of a franchise chain's units in a given country relative to its total number of international units	ABF - Brazilian Franchising Association
RISK_INST_SCORE	Independent variable	Aggregate indicator of institutional risk in the host country	ESGI - Global Risk Profile / Risk Watch Initiative
ESG_INDEX	Independent variable	Proxy for ESG capabilities based on the presence of environmental (E), social (S), and governance (G) practices (0–3).	Documentary analysis of publicly available sources, including corporate websites and reports
ESG_CHAIN	Robustness measure	Dummy variable equal to 1 when the franchise chain simultaneously exhibits the environmental, social, and governance dimensions (E, S, and G)	Documentary analysis of publicly available sources, including corporate websites and reports

Note(s): ESG_INDEX represents a proxy for ESG capabilities derived from observable environmental (E), social (S), and governance (G) practices. ESG_CHAIN is an alternative robustness measure equal to 1 when all three ESG dimensions are simultaneously present.
Source: Author

3.3. Empirical strategy

An econometric model was estimated at the franchise chain-country level and is represented as follows:

$$PERC\_UNID\_INT_{(i,j)} = \beta_0 + \beta_1 RISK\_INST\_SCORE_j + \beta_2 ESG\_INDEX_i + \beta_3 (RISK\_INST\_SCORE_j \times ESG\_INDEX_i) + \beta_k Controls + \varepsilon_{(i,j)}$$

In this model, $PERC\_UNID\_INT_{(i,j)}$ represents the international commitment intensity of franchise chain i in country j; $RISK\_INST\_SCORE_j$ represents the institutional risk of the host country; ESG_INDEX_i is a proxy for the franchise chain's ESG capabilities, constructed from observable ESG practices; and the interaction term examines whether ESG capabilities moderate the relationship between institutional risk and international commitment. The vector of control variables includes characteristics of both the franchise chains and the host markets.

Estimation was initially performed using ordinary least squares (OLS), a method widely used to estimate conditional relationships between continuous variables (Gujarati and Porter, 2009; Wooldridge, 2016).

As a robustness check, fractional logit models were estimated, appropriate for dependent variables bounded within the (0,1) interval (Papke and Wooldridge, 1996). This approach allows assessing the consistency of the results given the nature of the dependent variable.

Additionally, robustness analyses were conducted using an alternative ESG measure (ESG_CHAIN) and alternative model specifications. Diagnostic tests assessed the adequacy of the estimated specifications, including multicollinearity among explanatory variables and heteroskedasticity. Robust standard errors were applied when necessary. These procedures enhance the consistency, reliability, and robustness of the empirical findings.

Accordingly, the empirical model evaluates only the observable empirical relationships specified in the econometric model, examining whether institutional risk, ESG capabilities, and their interaction exhibit direct linear associations with international commitment intensity. Because governance mechanisms are not directly operationalized, they are not estimated explicitly but instead provide the theoretical basis for interpreting the observed empirical relationships, consistent with the conceptual framework developed in the previous section.

4. RESULTS

4.1. Descriptive statistics of the model variables

The descriptive statistics indicate substantial heterogeneity among the franchise chains analyzed, particularly regarding international commitment intensity. The dependent variable exhibits considerable dispersion, reflecting different levels of international presence across franchise chains.

Similarly, the ESG_INDEX variable shows meaningful variation, indicating that franchise chains differ in the extent to which publicly observable ESG practices are present. As discussed in the theoretical framework, these observable practices are interpreted as empirical manifestations of underlying ESG capabilities.

Overall, these results suggest that although international presence is common among the franchise chains analyzed, the intensity of international commitment varies considerably, reflecting heterogeneous internationalization strategies. These patterns are consistent with the descriptive statistics reported in Table 2.

Table 2: Descriptive statistics

Variable	**Mean**	**Standard deviation**	**Min**	**Median**	**Max**
PERC_UNID_INT	0.099	0.157	0.002	0.033	0.906
ESG_INDEX	1.587	1.154	0.000	1.000	3.000
RISK_INST_SCORE	36.042	13.850	12.960	33.799	72.680
CHAIN_AGE	26.904	22.586	3.000	23.000	144.000
FRANCH_EXPERIENCE	16.481	10.875	2.000	13.000	62.000
LN_NUM_UNIT_TOT	4.609	1.306	1.099	4.483	8.213
LN_GDP_CAP	9.872	0.959	7.745	10.018	11.311
LN_POP_MIL	3.553	1.351	1.231	3.372	6.772

Note(s): N = 104 Brazilian franchise chains with international operations. LN_GDP_CAP, LN_POP_MIL, and LN_NUM_UNIT_TOT denote the natural logarithms of GDP per capita, population (millions), and total number of franchise units, respectively.
Source: Author

4.2. Correlation analysis

The correlation analysis indicates low to moderate correlations among the explanatory variables, suggesting the absence of severe multicollinearity.

However, a strong negative correlation between RISK_INST_SCORE and LN_GDP_CAP is observed, indicating that countries with higher institutional risk tend to exhibit lower levels of economic development, a pattern widely documented in the international business literature. The full correlation matrix is presented in Table 3.

Table 3: Correlation matrix (Pearson)

Variable	PERC_UNID _INT	ESG _INDEX	RISK_INST _SCORE	CHAIN _AGE	FRANCH _EXPERIENCE	LN_NUM _UNID_TOT	LN_GDP _CAP	LN_POP _MIL
PERC_UNID_INT	1							
ESG_INDEX	-0.010	1						
RISK_INST_SCORE	-0.046	0.187	1					
CHAIN_AGE	-0.107	0.296**	0.160	1				
FRANCH_EXPERIENCE	-0.190	0.200*	0.082	0.573***	1			
LN_NUM_UNIT_TOT	-0.215*	0.378***	0.150	0.276**	0.444***	1		
LN_GDP_CAP	0.063	-0.207*	-0.887***	-0.164	-0.022	-0.142	1	
LN_POP_MIL	0.226*	-0.067	-0.371***	-0.122	0.077	-0.065	0.613***	1

Note(s): Pearson correlation coefficients are reported. See Table 1 for variable definitions and operationalization. Correlation coefficients above 0.70 may indicate potential multicollinearity; however, this issue was further assessed through Variance Inflation Factor (VIF) diagnostics in the regression models. Statistical significance is indicated as follows: $p < 0.05$; $p < 0.01$; $p < 0.001$.

Source: Author

4.3. Multicollinearity diagnostics

Multicollinearity diagnostics based on the Variance Inflation Factor (VIF) indicate acceptable levels for most explanatory variables in the model.

However, LN_NUM_UNIT_TOT, LN_GDP_CAP, and LN_POP_MIL exhibit relatively high VIF values, reflecting the underlying correlations among structural characteristics of franchise chains and host markets. These variables were nevertheless retained because of their theoretical relevance and their role as control variables in the empirical specification. To assess whether multicollinearity influenced the main findings, alternative model specifications were estimated as part of the robustness analyses. The complete diagnostic results are presented in Table 4.

Table 4: Variance Inflation Factor (VIF) diagnostics

Variable	**VIF**
ESG_INDEX	3.92
RISK_INST_SCORE	6.73
CHAIN_AGE	3.99
FRANCH_EXPERIENCE	6.01
LN_NUM_UNIT_TOT	21.73
LN_GDP_CAP	27.72
LN_POP_MIL	12.89

Note(s): VIF = Variance Inflation Factor. Although some VIF values exceed conventional thresholds, the variables were retained based on theoretical considerations and the robustness of the estimated models.
Source: Author

4.4. Regression results

The estimated models examine whether direct linear associations exist between institutional risk, the proxy for ESG capabilities derived from observable ESG practices (ESG_INDEX), and international commitment intensity. Institutional risk presents a negative coefficient across model specifications; however, the relationship is not statistically significant. Likewise, the proxy for ESG capabilities does not exhibit a statistically significant direct association with international commitment intensity, and the interaction term between the proxy for ESG capabilities and institutional risk also remains statistically non-significant across specifications. Taken together, these findings suggest that institutional risk, the proxy for ESG capabilities, and their interaction do not exert direct and uniform effects on international commitment across the franchise chains analyzed, providing empirical evidence consistent with the contingency-based perspective developed in the theoretical framework.

More specifically, the absence of significant direct effects indicates that institutional risk alone does not explain variations in international commitment intensity among franchise chains. This finding is consistent with Proposition 1, which argues that the relationship between institutional conditions and international commitment is contingent upon governance mechanisms that support coordination and adaptation across heterogeneous institutional environments. Although such governance mechanisms are not directly operationalized in the empirical model, the absence of a direct association is compatible with the theoretical expectation that institutional effects depend on organizational coordination mechanisms rather than operating uniformly across franchise chains.

Likewise, the absence of a statistically significant relationship between the proxy for ESG capabilities (ESG_INDEX) and international commitment intensity suggests that ESG capabilities do not operate as universally effective organizational capabilities across franchise chains. This finding is consistent with Proposition 2, which conceptualizes the strategic effects of ESG capabilities as contingent upon governance mechanisms that enable their coordination and internalization throughout decentralized organizational structures. Accordingly, the empirical evidence suggests that ESG capabilities alone may be insufficient to explain differences in international commitment when considered independently of organizational coordination mechanisms.

The non-significant interaction between ESG_INDEX and institutional risk provides additional empirical evidence consistent with Proposition 3. Rather than indicating that ESG capabilities automatically mitigate institutional vulnerabilities, the findings suggest that any such relationship is unlikely to occur through a direct linear mechanism. Instead, the absence of a significant interaction is consistent with the theoretical argument that the strategic effects of ESG capabilities depend on governance mechanisms that coordinate organizational responses across decentralized franchise structures.

Taken together, the regression results are consistent with the contingency-based perspective proposed in this study, according to which international commitment in franchise chains cannot be fully explained by isolated institutional or organizational factors. Instead, the empirical evidence is compatible with the interpretation that governance mechanisms offer an important theoretical explanation for understanding how institutional conditions and ESG capabilities may shape international commitment, even though these mechanisms are not directly estimated in the empirical model. The complete regression results are presented in Table 5.

Table 5: Regression results

Variable	(1) Institutional risk	(2) ESG capabilities	(3) Interaction model
Intercept	0.7527 (0.5015)	0.3127 (0.1894)	0.7390 (0.5200)
ESG_INDEX		0.0097 (0.0144)	0.0025 (0.0417)
RISK_INST_SCORE	-0.0024 (0.0027)		-0.0026 (0.0032)
ESG_INDEX × RISK_INST_SCORE			0.0002 (0.0012)
CHAIN_AGE	0.0004 (0.0010)	0.0003 (0.0010)	0.0002 (0.0010)
FRANCH_EXPERIENCE	-0.0025 (0.0018)	-0.0026 (0.0019)	-0.0024 (0.0019)
LN_NUM_UNIT_TOT	-0.0182 (0.0128)	-0.0208 (0.0136)	-0.0207 (0.0136)
LN_GDP_CAP	-0.0622 (0.0449)	-0.0236 (0.0201)	-0.0599 (0.0459)
LN_POP_MIL	0.0454** (0.0159)	0.0379*** (0.0142)	0.0448*** (0.0164)
N	104	104	104
R^2	0.134	0.131	0.138
Adjusted R^2	0.080	0.077	0.065
F-statistic (p-value)	2.499 (0.027)	2.429 (0.031)	1.896 (0.069)

Note(s): Dependent variable: PERC_UNID_INT. ESG_INDEX represents a proxy for ESG capabilities derived from observable ESG practices. Standard errors are reported in parentheses. Statistical significance is indicated as follows: $p < 0.05$; $p < 0.01$; $p < 0.001$.
Source: Author

4.5. Robustness tests

The robustness analyzes provide additional evidence regarding the stability of the empirical findings across alternative model specifications. Specifically, the analyzes replace ESG_INDEX with the alternative measure ESG_CHAIN, estimate a specification excluding LN_GDP_CAP, and employ a fractional logit model to account for the bounded nature of the dependent variable.

Across all alternative specifications, the main explanatory variables remain statistically non-significant, and the overall pattern of results is preserved. These findings indicate that the absence of direct associations between institutional risk, the proxy for ESG capabilities, and international commitment intensity is robust to the use of alternative ESG measures, the exclusion of GDP per capita as a control variable, and the estimation technique employed.

Accordingly, the robustness analyzes reinforce the stability of the empirical findings by showing that the results remain consistent across different modeling strategies. Rather than reflecting model specification choices, the non-significant relationships constitute a stable empirical pattern, which is consistent with the contingency-based interpretation advanced in the theoretical framework. The complete robustness results are presented in Table 6.

Table 6: Robustness analyzes

Variable	**(1) Alternative ESG measure**	**(2) Without GDP per capita**	**(3) Fractional logit model**
Intercept	0.6513 (0.5086)	0.0724 (0.0974)	8.1066 (13.5170)
ESG_INDEX		0.0118 (0.0420)	-0.0847 (0.9580)
ESG_CHAIN	0.0826 (0.1141)		
RISK_INST_SCORE	-0.0020 (0.0028)	0.0008 (0.0018)	-0.0517 (0.0870)
ESG_INDEX × RISK_INST_SCORE	-0.0005 (0.0028)	-0.0000 (0.0011)	0.0054 (0.0250)
CHAIN_AGE	0.0000 (0.0009)	0.0003 (0.0009)	0.0020 (0.0220)
FRANCH_EXPERIENCE	-0.0020 (0.0019)	-0.0026 (0.0019)	-0.0355 (0.0510)
LN_NUM_UNIT_TOT	-0.0268 (0.0138)	-0.0204 (0.0137)	-0.2129 (0.2930)
LN_GDP_CAP	-0.0500 (0.0456)		-0.9508 (1.2080)
LN_POP_MIL	0.0415* (0.0162)	0.0307* (0.0124)	0.5774 (0.4500)
N	104	104	104
R^2 (OLS) / Pseudo R^2 (Fractional logit)	0.161	0.122	0.039
Adjusted R^2	0.090	0.058	
Model F-statistic (p-value)	0.029	0.076	

Note(s): ESG_INDEX and ESG_CHAIN represent alternative proxies for ESG capabilities derived from observable ESG practices. OLS regression coefficients are reported in specifications (1) and (2), whereas fractional logit estimates are reported in specification (3). Standard errors are reported in parentheses. Adjusted R^2 and the F-statistic are not reported for the fractional logit model because these statistics are not applicable under maximum likelihood estimation. Statistical significance is indicated as follows: $p < 0.05$; $p < 0.01$; $p < 0.001$.
Source: Author

5. DISCUSSION

The results indicate that institutional risk in host countries is not statistically associated with the international commitment intensity of Brazilian franchise chains, although the estimated sign is consistent with the expected negative relationship. The international business literature suggests that environments characterized by regulatory instability and institutional fragility tend to reduce firms' operational exposure (North, 1990; Cuervo-Cazurra & Genc, 2008; Peng et al., 2009), a pattern also observed in recent analyzes of institutional risk and international strategies (Li et al., 2024; Gómez-Mera & Varela, 2024).

A plausible explanation for these findings lies in the organizational characteristics of international franchise chains. As argued by Alon et al. (2021) and Perrigot et al. (2021), franchise chains operate through decentralized structures composed of relatively autonomous units, often associated with small and medium-sized entrepreneurs (Welsh et al., 2025). In this model, the presence of local partners may facilitate adaptation to institutional conditions and redistribute risk exposure, thereby potentially reducing its direct impact on the franchise chain as a whole (Lanfranchi et al., 2021b; Jell-Ojobor et al., 2022a; Jell-Ojobor et al., 2022b). These findings also reinforce previous evidence that the internationalization of Brazilian franchise chains tends to be opportunity-driven rather than systematically planned (Dermonde et al., 2025; Aguiar et al., 2014). In other words, franchise chains tend to capitalize on opportunities created by local entrepreneurs seeking to invest in already established brands, rather than following a sequential and highly planned international expansion process.

This dynamic becomes particularly relevant in emerging markets, where institutional voids undermine the efficient functioning of market mechanisms. Khanna and Palepu (1997) demonstrate that, in such contexts, firm behavior depends on the ability to operate in environments characterized by institutional dysfunction. Recent studies further suggest that firms, particularly those originating from emerging economies, develop capabilities that reduce their sensitivity to the institutional environment, enabling them to operate under adverse conditions (Popli et al., 2022; Ettalibi et al., 2025).

Additionally, the absence of statistical significance may be understood in light of the distinction between different stages of internationalization. Verbeke and Forootan (2012) argue that the intensity of international presence reflects decisions that are distinct from initial entry, while Johanson and Vahlne (2017) highlight the role of learning and adaptation throughout the internationalization process. International commitment does not depend solely on institutional conditions but rather on a franchise chain's ability to adaptively structure its operations.

Taken together, these findings suggest that, in franchise chains, the relationship between the institutional environment and international commitment is unlikely to operate through direct linear mechanisms. Instead, the evidence is consistent with the view that this relationship depends on governance arrangements and organizational mechanisms that facilitate adaptation across heterogeneous institutional environments.

Moving to a second level of analysis, the results indicate that the level of observable ESG practices within the franchise chain is not statistically associated with international commitment intensity, although the estimated sign is consistent with the expected positive relationship. Recent literature associates ESG practices with legitimacy building, risk reduction, and the strengthening of firms' international activities (Linnenluecke et al., 2022; Ioannou & Serafeim, 2017, 2023; Hu et al., 2023; Duque-Grisales & Aguilera-Caracuel, 2021). Additionally, ESG is also considered a relevant strategic element in international markets (Zhong et al., 2025). This divergence from previous empirical evidence suggests that the effects of ESG do not manifest in a direct or linear manner but are conditioned by organizational and contextual characteristics (Wu & Chang, 2022; Yu et al., 2025).

Franchise chains are characterized by decentralized organizational structures composed of multiple actors with heterogeneous levels of resources. Under such conditions, the implementation of strategic practices depends on coordination capacity across the network (Perrigot et al., 2021; Sørensen et al., 2023; Jell-Ojobor et al., 2022b; Welsh et al., 2025). Accordingly, the implementation of ESG practices tends to occur heterogeneously across the franchise chain, limiting the development of coherent ESG capabilities and reducing their effectiveness as integrated organizational capabilities.

Evidence suggests that the effects of ESG are contingent on how these practices are implemented and integrated into organizational processes, thereby limiting their strategic effects when implementation remains superficial or inconsistent (Endrikat et al., 2021; Oduro & Haylemariam, 2025; Fiaschi et al., 2020; Yu et al., 2025). In this context, the results suggest that ESG capabilities do not act as direct determinants of international commitment but rather as capabilities whose effectiveness depends on the presence of governance mechanisms that coordinate its implementation across the chain. In decentralized structures, the absence of such coordination limits the translation of ESG into concrete strategic outcomes, reinforcing its contingent nature (Jell-Ojobor et al., 2022a; Jell-Ojobor et al., 2022b).

Finally, we observed that ESG does not exert a statistically significant moderating effect on the relationship between institutional risk and international commitment intensity. The literature suggests that ESG practices may mitigate institutional risks by strengthening governance mechanisms and reducing uncertainty (Linnenluecke et al., 2022; Popli et al., 2022; Hu et al., 2023; Duque-Grisales & Aguilera-Caracuel, 2021), supporting the expectation of a positive moderating effect in international contexts.

Recent evidence indicates that the effectiveness of these practices depends on their integration into organizational routines and their alignment with coordination mechanisms. Endrikat et al. (2021) and Oduro & Haylemariam (2025) argue that ESG practices generate strategic effects only when they are consistently embedded in organizational processes and implemented beyond a merely formal level, particularly in contexts marked by institutional complexity (Fiaschi et al., 2020; Wu & Chang, 2022).

In franchise chains, this limitation is amplified by the decentralized nature of the organizational model. Perrigot et al. (2021) and Sørensen et al. (2023) emphasize that the consistent implementation of strategic practices depends on coordination capacity between franchisors and franchisees, and is influenced by resource heterogeneity across the franchise chain (Jell-Ojobor et al., 2022b; Welsh et al., 2025).

Moreover, the logic of franchise chains already incorporates mechanisms to adapt to the institutional environment through local partners, thereby reducing direct exposure to institutional risk (Lanfranchi et al., 2021b). Studies in international business indicate that the presence of local actors can function as a mechanism for mitigating uncertainty and enabling institutional adaptation (Cuervo-Cazurra & Genc, 2008; Johanson & Vahlne, 2017). This effect is also discussed in recent analyses of the interaction between institutions and organizational structures in internationalized chains (Jell-Ojobor et al., 2022a).

Hence, the findings suggest that ESG does not operate as an independent moderator of the relationship between institutional risk and international commitment intensity, possibly because franchise chains already incorporate governance mechanisms that facilitate adaptation to institutional environments and the redistribution of institutional risk. In this context, the effectiveness of ESG capabilities depends on how they are articulated and coordinated within decentralized organizational structures (Barney, 1991; Linnenluecke et al., 2022; Yu et al., 2025).

5.1. Integration of findings and theoretical implications

Taken together, the findings support the argument that international commitment in franchise chains cannot be fully explained through direct linear relationships between institutional conditions, ESG capabilities, and internationalization outcomes. Instead, they support a contingency-based interpretation in which the strategic effects of institutional environments and organizational capabilities depend on governance structures capable of coordinating operations across decentralized organizational arrangements.

The literature on emerging markets emphasizes that institutional voids and regulatory instability increase uncertainty and constrain firms' strategic behavior (Khanna & Palepu, 1997; Cuervo-Cazurra et al., 2021). However, the absence of significant direct effects associated with institutional risk suggests that franchise chains do not respond uniformly to adverse institutional environments. Rather, their ability to sustain international operations appears to depend on organizational mechanisms that enable adaptation, coordination, and risk redistribution across geographically dispersed units (Jell-Ojobor et al., 2022a).

This interpretation is particularly relevant in franchise systems, where international operations are conducted through contractual governance structures involving multiple interdependent actors with heterogeneous levels of resources and capabilities (Alon et al., 2021; Perrigot et al., 2021; Welsh et al., 2025). In such systems, governance mechanisms may partially compensate for institutional limitations by facilitating operational alignment, monitoring, and coordination across distinct institutional contexts (Jell-Ojobor et al., 2022a; Sørensen et al., 2023). Consequently, the institutional environment influences international commitment not directly, but through the organizational structures that shape firms' exposure and adaptive capacity.

The findings also reinforce the contingent nature of ESG capabilities. Although prior studies associate ESG practices with legitimacy, reputation, and strategic advantages in international markets (Ioannou & Serafeim, 2017, 2023; Linnenluecke et al., 2022), the results indicate that ESG capabilities do not generate uniform strategic effects across franchise chains. In decentralized organizational structures, the effectiveness of these capabilities depends on the extent to which they are coordinated, internalized, and consistently implemented throughout the network.

This interpretation is aligned with recent studies suggesting that ESG practices generate strategic effects only when effectively embedded in organizational routines and supported by coordination mechanisms (Endrikat et al., 2021; Oduro & Haylemariam, 2025; Fiaschi et al., 2020). In franchise chains, where operational execution is distributed across multiple actors, governance emerges as the organizational mechanism through which ESG can be transformed from a formal organizational attribute into an effective organizational capability (Barney, 1991).

Similarly, the absence of a significant moderating effect of ESG on the relationship between institutional risk and international commitment suggests that ESG capabilities alone are insufficient to mitigate institutional vulnerabilities. Their effectiveness depends on the governance mechanisms that sustain coordination, operational consistency, and strategic alignment throughout the franchise chain. This finding reinforces the argument that organizational capabilities do not operate independently of the structures through which they are implemented and coordinated.

Accordingly, the study advances a configurational perspective on internationalization in franchise chains. Rather than treating institutional conditions and ESG capabilities as isolated determinants of international commitment, the findings suggest that internationalization outcomes emerge from the interaction between external institutional conditions, organizational capabilities, and governance mechanisms within decentralized organizational systems.

By incorporating franchise chains from an emerging economy as the empirical context, the study contributes to the international business literature by suggesting that decentralized governance structures alter how institutional environments and organizational capabilities shape international commitment. More specifically, the findings suggest that, in contractual governance systems such as franchising, contractual governance emerges as the central coordinating mechanism through which firms integrate organizational capabilities, adapt to institutional heterogeneity, and sustain international commitment under conditions of institutional uncertainty and resource constraints (Perrigot et al., 2021; Sørensen et al., 2023).

6. FINAL REMARKS

This study investigated how institutional risk and ESG capabilities relate to international commitment in Brazilian franchise chains, with particular emphasis on the role of contractual governance in coordinating organizational responses under conditions of institutional uncertainty and resource constraints. By adopting an integrative perspective that combines institutional conditions, organizational capabilities, and governance mechanisms, the study sought to advance the understanding of international commitment beyond firms' initial entry decisions, focusing instead on the intensity of operational presence in foreign markets.

The results indicate that neither institutional risk in host countries nor ESG capabilities are statistically associated with international commitment intensity, nor is there evidence that ESG capabilities moderate this relationship. These findings further suggest that the determinants of international commitment differ from those associated with market selection or international performance. This distinction is consistent with the literature that differentiates entry decisions from the subsequent deepening of firms' international presence (Verbeke & Forootan, 2012; Li et al., 2024).

6.1. Theoretical contributions

This study contributes to international business literature by advancing the understanding of the determinants of international commitment, shifting the analytical focus from market entry decisions to the determinants of international commitment after entry. While the literature has extensively examined the role of institutions and organizational capabilities in market selection and international performance, there remains a limited understanding of how these factors influence the degree of operational exposure assumed by firms after entry (Verbeke & Forootan, 2012; Johanson & Vahlne, 2017; Li et al., 2024). By addressing this gap, the study expands the analytical scope of internationalization by incorporating international commitment as a distinct strategic dimension.

Second, the study contributes by integrating institutional risk and ESG capabilities within a single analytical framework, responding to recent calls for more integrated approaches that articulate external and internal factors in explaining firms' international behavior (Peng et al., 2009; Cuervo-Cazurra et al., 2021; Linnenluecke et al., 2022). By conceptualizing ESG as an organizational capability, rather than merely as a compliance or signaling mechanism, the study reinforces its contingent nature by showing that its effectiveness depends on resource availability, the effective integration of ESG practices into organizational processes, and the governance mechanisms that coordinate their implementation. Accordingly, its effects do not manifest linearly or uniformly across different organizational contexts (Barney, 1991; Endrikat et al., 2021; Oduro & Haylemariam, 2025).

Third, the findings indicate that, in franchise chains, neither institutional risk nor ESG capabilities operate as direct determinants of international commitment intensity. This finding refines core assumptions of the institution-based view and the ESG literature by showing that their effects do not occur in isolation, but are conditioned by the organizational model through which firms structure their international activities, particularly in decentralized structures in which the effectiveness of these capabilities depends on their coordination across the franchise chain (Peng et al., 2009; Cuervo-Cazurra & Genc, 2008; Linnenluecke et al., 2022).

More specifically, the study suggests that contractual governance, a defining feature of franchise chains, acts as a structuring mechanism that enables the coordination of organizational capabilities, the redistribution of risks, and adaptation across heterogeneous institutional contexts (Alon et al., 2021; Perrigot et al., 2021; Sørensen et al., 2023; Bretas et al., 2024). In this sense, governance does not merely mediate but organizes the relationship between the institutional environment, resources, and capabilities, thereby emerging as the central coordinating mechanism explaining international commitment in franchise chains.

Finally, the study advances the literature by proposing a configurational perspective on internationalization, in which international commitment is not directly determined by institutional factors or isolated organizational capabilities, but rather by the coordination of these elements within specific organizational structures. This perspective highlights that the effectiveness of organizational capabilities depends on the governance and coordination mechanisms embedded within the organizational architecture that supports their implementation, particularly in contexts characterized by institutional dysfunction and resource constraints. This perspective is particularly relevant in structures composed of interdependent small businesses, where resource limitations and organizational heterogeneity shape the effectiveness of organizational capabilities (Cuervo-Cazurra et al., 2021; Linnenluecke et al., 2022).

6.2. Managerial implications

The findings indicate that international commitment in franchise chains is not directly determined by the institutional risk of host countries, suggesting that these organizations can sustain international operations even in adverse institutional environments when supported by effective governance and coordination mechanisms. At the same time, the results demonstrate that ESG capabilities, although relevant for legitimacy, reputation, and strategic positioning, should not be interpreted as standalone drivers of internationalization. Their effects are contingent upon the degree to which these capabilities are effectively internalized and coordinated throughout the franchise chain.

In this context, contractual governance emerges as the central coordinating mechanism through which franchise chains manage institutional uncertainty and operational complexity in foreign markets. Well-structured contractual arrangements, monitoring systems, and alignment with local partners become essential for coordinating geographically dispersed operations and mitigating vulnerabilities associated with heterogeneous institutional environments. This includes ensuring that ESG capabilities are consistently translated into operational routines across franchise units rather than remaining confined to corporate-level ESG policies. Thus, the study suggests that internationalization in franchise systems depends less on isolated external conditions or symbolic ESG practices, and more on the organizational capacity to integrate governance, coordination, and operational consistency across the network.

Accordingly, managers should prioritize the development of governance systems capable of coordinating organizational capabilities and sustaining strategic alignment among units with heterogeneous levels of resources and capabilities. This perspective reinforces the importance of a coordination-oriented approach to internationalization, in which governance assumes a pivotal role in enabling franchise chains to adapt, maintain control, and sustain international operations under conditions of institutional uncertainty and resource constraints.

6.3. Limitations and future research agenda

One important limitation of this study concerns the operationalization of ESG capabilities. Although the adopted measures allowed for the identification of observable environmental, social, and governance practices across franchise chains, they do not capture differences in the depth, consistency, or effectiveness of implementation. As recent literature suggests, ESG practices may assume either substantive or symbolic characteristics depending on the degree to which they are internalized within organizational routines (Endrikat et al., 2021). Accordingly, future research could benefit from more granular measures capable of distinguishing formal ESG adoption from effective organizational integration.

A second limitation relates to the absence of direct measures of governance and coordination mechanisms within the franchise chains. Although governance emerged as the central theoretical mechanism in the interpretation of the findings, the study inferred its role from the organizational characteristics of franchising systems rather than directly operationalizing governance structures, monitoring mechanisms, or coordination processes. Future studies could advance this discussion by incorporating explicit governance-related variables, enabling a more direct examination of how contractual governance shapes international commitment under conditions of institutional uncertainty.

The study adopts a cross-sectional design, which limits the ability to capture the dynamic nature of internationalization and ESG development over time. Both international commitment and organizational capabilities evolve throughout firms' international trajectories, particularly in decentralized systems characterized by learning and adaptation processes (Johanson & Vahlne, 2017). Longitudinal approaches could therefore provide a more comprehensive understanding of how governance, ESG capabilities, and institutional conditions interact across different stages of internationalization.

Moreover, the analysis is restricted to Brazilian franchise chains, which may limit the generalizability of the findings to other institutional contexts and organizational forms. Franchise systems originating from different countries may exhibit distinct governance structures, resource configurations, and internationalization patterns. Comparative studies across countries and sectors could therefore contribute to assessing the external validity of the proposed arguments.

Additionally, although the study focused on institutional risk and ESG capabilities, the results suggest that international commitment in franchise chains is also likely to depend on additional organizational and relational dimensions, such as coordination capacity, franchisee characteristics, accumulated international experience, and network-level learning mechanisms. Future research could further explore these dimensions through configurational and multi-level approaches capable of capturing the complexity of decentralized internationalization processes.

Finally, although the study adopts a contingency-based and configurational theoretical perspective, the empirical analysis relies primarily on linear econometric models. Such models are appropriate for identifying direct associations between variables but may not fully capture the complex and conditional relationships proposed theoretically. Future research could employ configurational approaches, multi-level models, and direct measures of governance mechanisms to better examine how governance and coordination structures condition the relationship between institutional environments, ESG capabilities, and international commitment.

REFERENCES

Aguiar, H. S, Consoni, F.L., Bernardes, R.C. (2014), Estratégia de internacionalização conduzida: um estudo em redes de franquias brasileiras. *Revista Eletrônica de Ciência Administrativa*, 13(1), 114-131. https://doi.org/10.21529/RECADM.2014002

Alon, I., Apriliyanti, I. D., & Henríquez Parodi, M. C. (2021). A systematic review of international franchising. *Multinational Business Review*, 29(1), 43-69. https://doi.org/10.1108/MBR-01-2020-0019

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, *17*(1), 99-120. https://doi.org/10.1177/014920639101700108

Bretas, V. P., Galetti, J. R., Alon, I., & Rocha, T. V. (2024). Do stakeholders matter in entry mode decisions? An investigation of international franchise governance mode choice. *Journal of Business Research*, 178. https://doi.org/10.1016/j.jbusres.2024.114673

Cuervo-Cazurra, A., & Genc, M. (2008). Transforming disadvantages into advantages: Developing-country MNEs in the least developed countries. *Journal of International Business Studies*, 39(6), 957-979. https://doi.org/10.1057/palgrave.jibs.8400390

Cuervo-Cazurra, A., Dieleman, M., Hirsch, P., Rodrigues, S. B., & Zyglidopoulos, S. (2021). Multinationals' misbehavior. *Journal of World Business*, *56*(5), 101244. https://doi.org/10.1016/j.jwb.2021.101244

Dermonde, M., Fischer, B. B., & Moraes, G. H. S. M. D. (2025). Entrepreneurial and international? The role of entrepreneurial orientation in the Brazilian franchises' internationalization process. *International Journal of Emerging Markets*, *20*(10), 4157-4174. https://doi.org/10.1108/IJOEM-01-2024-0171

Dunning, J. H. (2001). The eclectic (OLI) paradigm of international production: past, present and future. *International Journal of the Economics of Business*, 8(2), 173-190. https://doi.org/10.1080/13571510110051441

Duque-Grisales, E., & Aguilera-Caracuel, J. (2021). Environmental, social and governance (ESG) scores and financial performance of multilatinas: Moderating effects of geographic international diversification and financial slack. *Journal of Business Ethics*, *168*(2), 315-334. https://doi.org/10.1007/s10551-019-04177-w

Endrikat, J., De Villiers, C., Guenther, T. W., & Guenther, E. M. (2021). Board characteristics and corporate social responsibility: A meta-analytic investigation. *Business & Society*, *60*(8), 2099-2135. https://doi.org/10.1177/0007650320930638

Ettalibi, N., Arunachalam, M., Nguyen, T., & ur Rehman, K. (2025). The influence of institutional void and socio-cultural factors on the internationalization of emerging multinationals. *Research in International Business and Finance*, 73, 102605. https://doi.org/10.1016/j.ribaf.2024.102605

Fiaschi, D., Giuliani, E., Nieri, F., & Salvati, N. (2020). How bad is your company? Measuring corporate wrongdoing beyond the magic of ESG metrics. *Business Horizons*, *63*(3), 287-299. https://doi.org/10.1016/j.bushor.2019.09.004

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Cambridge University Press.

Gómez-Mera, L., & Varela, G. (2024). Emerging market multinationals and international investment agreements. *International Business Review*, *33*(3), 102252. https://doi.org/10.1016/j.ibusrev.2023.102252

Gujarati, D. N., & Porter, D.N. (2009). *Basic Econometrics*. (5th ed.). New York: McGraw-Hill Irwin.

Hu, H., Tu, Z., Chen, A., & Huang, J. (2023). Enterprises' globalization and ESG performance. *Finance Research Letters*, 58, 104653. https://doi.org/10.1016/j.frl.2023.104653

Ioannou, I., & Serafeim, G. (2017). The consequences of mandatory corporate sustainability reporting, Harvard Business School research working paper (11–100). *Harvard Business School Publication*. https://doi.org/10.1093/oxfordhb/9780198802280.013.20

Ioannou, I., & Serafeim, G. (2023). What drives corporate social performance? The role of nation-level institutions. *Journal of International Business Studies*, 54(1), 14-23 https://doi.org/10.1057/s41267-022-00579-7

Jell-Ojobor, M., Alon, I., & Windsperger, J. (2022a). The choice of master international franchising-A modified transaction cost model. *International Business Review*, 31(2), 101942. https://doi.org/10.1016/j.ibusrev.2021.101942

Jell-Ojobor, M., Hajdini, I., & Windsperger, J. (2022b). Governance of international franchise networks: Combining value creation and value appropriation perspectives. *Journal of Business Research*, 139, 267-279. https://doi.org/10.1016/j.jbusres.2021.09.001

Jiang, L., Chang, Z., Yao, W., Huang, L., & Zhou, S. (2024). Transcend local for global: ESG as a legitimacy signal in the global expansion of emerging multinational enterprises. *Finance Research Letters*, 69, 106174. https://doi.org/10.1016/j.frl.2024.106174

Johanson, J., & Vahlne, J. E. (2017). The internationalization process of the firm-a model of knowledge development and increasing foreign market commitments. In *International business* (pp. 145-154). Routledge.

Khanna, T., & Palepu, K. (1997). Why focused strategies may be wrong for emerging markets. *Harvard Business Review*, *75*(4), 41-51.

Khauaja, D. M. R., & Toledo, G. L. (2011). O processo de internacionalização de empresas brasileiras: estudo com franqueadoras. *Internext*, 6(1), 42-62. https://doi.org/10.18568/1980-4865.6142-62

Lanfranchi, A. G., Melo, P. L. D. R., Borini, F. M., & Telles, R. (2021a). Institutional environment and internationalization of franchise chains: a regional and global analysis. *International Journal of Emerging Markets*, 16(4), 726-744. https://doi.org/10.1108/IJOEM-03-2019-0188

Lanfranchi, A. G., Strehlau, S., Borini, F. M., & Melo, P. L. D. R. (2021b). Does origin matter? The impact of the institutional environment of the origin country on the internationalization of franchise chains. *Multinational Business Review*, 29(1), 96-115. https://doi.org/10.1108/MBR-01-2020-0020

Li, Q., Li, J., & Luo, Y. (2024). The impact of research and development internationalization on environmental, social and governance: Evidence from emerging market multinational enterprises. *Business Strategy and the Environment*, *33*(7), 6451-6467. https://doi.org/10.1002/bse.3824

Linnenluecke, M. K. (2022). Environmental, social and governance (ESG) performance in the context of multinational business research. *Multinational Business Review*, *30*(1), 1-16. https://doi.org/10.1108/MBR-11-2021-0148

Liu, E. X., & Song, Y. (2025). ESG Performance, Environmental Uncertainty, and Firm Risk. *Journal of International Financial Management & Accounting*. https://doi.org/10.1111/jifm.12227

Melo, P. L. D. R., Borini, F. M., & Ogasavara, M. H. (2019). Latin American franchise internationalization: The impact of institutional environment. *Thunderbird International Business Review*, 61(2), 217-228. https://doi.org/10.1002/tie.21975

Melo, P. L. D. R., Borini, F. M., Oliveira, M. D. M., & Parente, R. C. (2015). International analysis of the countries where Brazilian franchise chains operate. *Revista de Administração (São Paulo)*, 50(1), 26-39. https://doi.org/10.5700/rausp1182

North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge University Press.

Oduro, S., & Haylemariam, L. G. (2025). Effect of social and environmental sustainability on SME competitiveness: a meta-analytic review. *Management Review Quarterly*, 1-32. https://doi.org/10.1007/s11301-025-00519-3

Papke, L. E., & Wooldridge, J. M. (1996). Econometric methods for fractional response variables with an application to 401 (k) plan participation rates. *Journal of Applied Econometrics*, *11*(6), 619-632. https://doi.org/10.1002/(SICI)1099-1255(199611)11:6%3C619::AID-JAE418%3E3.0.CO;2-1

Peng, M. W., Sun, S. L., Pinkham, B., & Chen, H. (2009). The institution-based view as a third leg for a strategy tripod. *Academy of Management Perspectives*, 23(3), 63-81. https://doi.org/10.5465/amp.2009.43479264

Penrose, E. T. (1959/1995). *The theory of the growth of the firm* (3rd ed.). Oxford University Press.

Perrigot, R., Watson, A., & Dada, O. (2021). Sustainability and green practices: the role of stakeholder power in fast-food franchise chains. *International Journal of Contemporary Hospitality Management*, 33(10), 3442-3464. https://doi.org/10.1108/IJCHM-02-2021-0269

Popli, M., Raithatha, M., & Goyal, L. (2022). Avoiding the risk of de-legitimation: Impact of internationalization on earnings management of emerging market firms. *Finance Research Letters*, *48*, 102979. https://doi.org/10.1016/j.frl.2022.102979

Sørensen, S. B., Hoetker, G., Leiblein, M. J., & Mellewigt, T. (2023). Crossing the streams of plural governance research: simultaneously considering franchising, dual distribution, and concurrent sourcing. *Journal of Management*, *49*(8), 2831-2862. https://doi.org/10.1177/01492063221115061

Verbeke, A., & Forootan, M. Z. (2012). How good are multinationality-performance (M-P) empirical studies? *Global Strategy Journal*, *2*(4), 332-344. https://doi.org/10.1111/j.2042-5805.2012.01040.x

Welsh, D. H., Lanchimba, C., & Bausch, M. (2025). Retail franchise ecosystem dynamics: Insights from countries of varied development levels. *Journal of Retailing and Consumer Services*, 82, 104096. https://doi.org/10.1016/j.jretconser.2024.104096

Wooldridge, J. M. (2016). *Introductory Econometrics: A Modern Approach*. South-Western Cengage Learning.

Wu, K. S., & Chang, B. G. (2022). The concave-convex effects of environmental, social and governance on high-tech firm value: quantile regression approach. *Corporate Social Responsibility and Environmental Management*, *29*(5), 1527-1545. https://doi.org/10.1002/csr.2289

Yu, P., Chen, Y., & Zhao, Y. (2025). Overcoming the ESG Voids at Home: Supplier ESG Performance and the Internationalization of Emerging Market Multinational Enterprises. *Management International Review*, 1-37. https://doi.org/10.1007/s11575-025-00573-9

Zhong, H., Zhou, Y., & Wang, J. (2025). How do ESG ratings promote the acceleration of enterprise internationalization? Evidence from Chinese listed companies. *International Review of Economics & Finance*, 104745. https://doi.org/10.1016/j.iref.2025.104745

Zhou, J., Wu, K., & Li, Y. (2025). Does firm internationalization improve ESG performance? Evidence from China. *International Review of Economics & Finance*, 104168. https://doi.org/10.1016/j.iref.2025.104168

3. CONCLUSION

This thesis investigated the organizational and institutional conditions under which environmental, social, and governance (ESG) practices generate strategic value in the internationalization of Brazilian franchise chains by examining their implications for financial performance, the attractiveness of international markets, and firms' commitment to foreign expansion. The research was motivated by the recognition that the ESG literature continues to report heterogeneous and often inconclusive findings, particularly in decentralized organizational settings and firms originating from emerging markets (Hasan et al., 2021; Shahbaz et al., 2020; Saini & Kharb, 2025). Recent studies have further argued that the strategic implications of ESG depend on how these practices are embedded in organizational capabilities and institutional environments (Linnenluecke et al., 2022; Popli et al., 2022; Ftiti et al., 2024). Within this context, franchise systems constitute a particularly appropriate empirical setting because they combine centralized strategic coordination with decentralized execution by legally independent actors, creating inherent tensions between standardization, local responsiveness, and decentralized coordination that make ESG implementation especially challenging (Bradach & Eccles, 1989; Perrigot et al., 2021; Gorovaia & Hussain, 2025; Dada et al., 2024).

The integrated findings of the three studies demonstrate that ESG does not constitute an automatic source of strategic value. Rather, ESG should be understood as an organizational capability whose strategic relevance depends on the interaction among internal capabilities, governance mechanisms, and institutional conditions. This conclusion is consistent with recent studies arguing that ESG outcomes vary according to how sustainability practices are embedded in organizational routines, coordinated through governance mechanisms, and conditioned by heterogeneous institutional environments (Endrikat et al., 2021; Linnenluecke et al., 2022; Ftiti et al., 2024).

At the domestic level, the findings indicate that individual ESG dimensions do not consistently explain franchise chains' financial performance, whereas governance-related complementarities produce more robust effects, reinforcing arguments regarding the complementarity between firm-specific capabilities and strategic coordination mechanisms (Barney, 1991; Milgrom & Roberts, 1995; Eliwa et al., 2021). At the international level, ESG performance and institutional risk influence the attractiveness of foreign markets differently across developed and emerging economies, corroborating research emphasizing the role of institutional environments in shaping internationalization strategies and organizational legitimacy (North, 1990; Scott, 2013; Cuervo-Cazurra, 2006; Lanfranchi et al., 2021). Finally, international commitment is explained less by the isolated adoption of ESG practices than by the interaction among governance mechanisms, institutional risk, and organizational characteristics, reinforcing the contingent and relational nature of the strategic value associated with ESG (Verbeke & Forootan, 2012; Jell-Ojobor et al., 2022; Bretas et al., 2024).

Building upon these overarching conclusions, the following sections discuss the theoretical, managerial, and institutional implications of the findings, as well as the study's limitations and avenues for future research.

3.1 Theoretical implications

The central theoretical contribution of this thesis is to advance an integrated explanation of how environmental, social, and governance (ESG) practices generate strategic value in decentralized organizational systems. Rather than conceptualizing ESG as an inherently valuable organizational attribute, the findings demonstrate that ESG should be understood as an organizational capability whose strategic value emerges from the interaction among organizational capabilities, governance mechanisms, and heterogeneous institutional environments. This perspective integrates insights from Stakeholder Theory, the Resource-Based View, Institutional Theory, and International Business research, shifting the debate from whether ESG creates value to explaining the organizational and institutional conditions under which such value is generated (Freeman, 2010; Freeman et al., 2021; Peng et al., 2008; Linnenluecke et al., 2022; Cuervo-Cazurra et al., 2021).

By emphasizing contingency and context, the thesis directly responds to recent critiques of linear interpretations of the ESG–performance relationship (Hasan et al., 2021; Gillan et al., 2021; Ftiti et al., 2024; Saini & Kharb, 2025). It also extends recent research arguing that the strategic implications of ESG depend on firms' organizational capabilities, governance arrangements, and their ability to adapt to heterogeneous institutional environments (Linnenluecke et al., 2022; Popli et al., 2022; Freeman et al., 2021; Cuervo-Cazurra et al., 2021). From this perspective, the heterogeneous findings reported in the ESG literature are better understood as reflecting the contingent and relational nature of ESG implementation rather than inconsistencies in prior empirical research, particularly in decentralized organizational systems operating under heterogeneous institutional conditions (Eliwa et al., 2021; Dada et al., 2024; Bretas et al., 2024).

Analytically, the findings indicate that the strategic value of ESG emerges from the interaction among capability development, governance mechanisms, and external legitimacy requirements. This interpretation bridges the Resource-Based View and Institutional Theory by recognizing that valuable resources and capabilities generate competitive advantage only when they are effectively organized, coordinated, and complemented within specific organizational contexts (Barney, 1991; Milgrom & Roberts, 1995). At the same time, it acknowledges that the strategic value of organizational practices varies according to the regulatory, normative, and cognitive pressures characterizing different institutional environments (North, 1990; Scott, 2013; Peng et al., 2008).

This interpretation is consistent with recent research arguing that the strategic implications of ESG depend on firms' ability to integrate sustainability into organizational capabilities, governance mechanisms, and firms' adaptive capacity developed under heterogeneous institutional conditions (Linnenluecke et al., 2022; Popli et al., 2022; Ftiti et al., 2024). It also helps explain why firms from emerging markets frequently face greater legitimacy challenges, organizational constraints, and institutional heterogeneity during international expansion, requiring additional coordination and adaptive capabilities to sustain international growth (Cuervo-Cazurra & Genc, 2008; Bretas et al., 2024). Consequently, ESG is better understood as an organizational capability whose strategic value depends simultaneously on its integration into organizational processes, the effectiveness of governance mechanisms, and its alignment with the institutional environments in which firms operate.

A second theoretical contribution of this thesis concerns the role assigned to governance within decentralized organizational systems. The findings demonstrate that, in franchise chains, governance should not be understood merely as an additional ESG dimension, but rather as a coordination mechanism that enables the strategic value of environmental and social practices to be realized. In organizational systems composed of legally independent actors, value creation depends on aligning incentives, monitoring standards, reducing conflicts, and coordinating distributed decision-making, as originally proposed by Bradach and Eccles (1989).

Recent franchising research reinforces this interpretation by showing that geographic expansion, operational heterogeneity, and increasing competitive complexity intensify the need for robust governance structures and coordination mechanisms (Perrigot et al., 2021; Jell-Ojobor et al., 2022; Bretas et al., 2024). Similarly, Gorovaia and Hussain (2025) argue that balancing local autonomy with system-wide consistency requires increasingly sophisticated governance structures, particularly when ESG practices demand simultaneous strategic standardization and adaptation across heterogeneous institutional environments. Accordingly, the findings suggest that governance functions not merely as one dimension of ESG, but as the organizational infrastructure that enables coordination, legitimacy, and the effective implementation of ESG practices in decentralized organizational systems.

The thesis also extends the franchising literature by repositioning franchise systems as hybrid organizational arrangements that provide a particularly appropriate analytical context for examining how ESG generates strategic value. Although franchising has traditionally been studied from contractual, governance, international expansion, and franchisor–franchisee relationship perspectives, its potential contribution to the ESG and organizational sustainability literature has received comparatively limited attention (Bretas et al., 2024; Dada et al., 2024).

By integrating franchising, governance, and ESG, this thesis responds to recent calls to conceptualize franchise systems as complex interorganizational arrangements composed of legally independent yet strategically interdependent actors operating under heterogeneous organizational and institutional conditions (Perrigot et al., 2021; Jell-Ojobor et al., 2022; Gorovaia & Hussain, 2025). The findings further demonstrate that translating ESG principles into strategic value depends on interorganizational coordination mechanisms, shared incentives, and distributed internal capabilities spanning both franchisors and franchisees. Consequently, the thesis extends the franchising literature by positioning franchise systems as a relevant analytical setting for investigating governance, organizational capabilities, sustainability, legitimacy, and strategic value creation in decentralized organizational systems.

The thesis also contributes to the International Business literature by demonstrating that the strategic implications of ESG vary across heterogeneous institutional environments rather than operating uniformly across foreign markets. In developed economies, characterized by stronger regulatory frameworks and higher normative expectations, ESG enhances organizational legitimacy, signals adherence to advanced competitive standards, and reduces institutional uncertainty (Lanfranchi et al., 2021; Jiang et al., 2024). In contrast, in institutionally heterogeneous environments, governance mechanisms, organizational coordination, and adaptive capabilities become increasingly important for sustaining international expansion, particularly in decentralized organizational systems such as franchise chains (Cuervo-Cazurra & Genc, 2008; Bretas et al., 2024; Jell-Ojobor et al., 2022).

These findings reinforce the institution-based view of international business by supporting the argument that firms' international strategies emerge from the interaction between firm-specific capabilities and heterogeneous institutional environments rather than from either dimension in isolation (Cuervo-Cazurra, 2006; Peng et al., 2008; Verbeke & Forootan, 2012; Cuervo-Cazurra et al., 2021). They further extend recent International Business research by demonstrating that, in international franchise systems, ESG generates strategic value only when organizational routines and governance mechanisms enable firms to achieve legitimacy and effectively coordinate operations across diverse institutional contexts (Popli et al., 2022; Linnenluecke et al., 2022; Bretas et al., 2024).

Collectively, these theoretical contributions demonstrate that the strategic implications of ESG cannot be adequately explained through isolated theoretical lenses. Rather, the findings support an integrated perspective in which organizational capabilities, governance mechanisms, and heterogeneous institutional environments jointly determine how ESG is translated into strategic value. By integrating insights from Stakeholder Theory, the Resource-Based View, Institutional Theory, governance research, and International Business literature, this thesis responds to recent calls for more comprehensive explanations of ESG that simultaneously account for organizational and institutional complexity (Freeman, 2010; Freeman et al., 2021; Verbeke & Forootan, 2012; Linnenluecke et al., 2022; Cuervo-Cazurra et al., 2021). In doing so, the thesis advances an integrated theoretical explanation of how ESG generates strategic value by demonstrating that its strategic implications emerge from the interaction among organizational capabilities, coordination mechanisms, and heterogeneous institutional environments rather than from any of these dimensions in isolation.

3.2 Managerial implications

From a managerial perspective, the findings suggest that ESG initiatives are unlikely to generate strategic value when implemented as isolated or predominantly symbolic practices. Instead, the evidence indicates that ESG creates greater strategic value when embedded in organizational strategy, supported by governance mechanisms, and integrated into firms' organizational capabilities (Li et al., 2021; Linnenluecke et al., 2022; Saini & Kharb, 2025).

In franchise systems, the findings further demonstrate that the effectiveness of ESG depends on governance structures capable of coordinating legally independent actors through aligned incentives, standardized organizational routines, and contractual governance mechanisms that support consistent implementation across the network (Perrigot et al., 2021; Jell-Ojobor et al., 2022; Gorovaia & Hussain, 2025; Bretas et al., 2024). Accordingly, ESG initiatives implemented without adequate organizational coordination or disconnected from firms' organizational capabilities are less likely to generate sustained strategic value, particularly in decentralized organizational systems operating under heterogeneous institutional conditions (Dada et al., 2024; Ftiti et al., 2024).

In the international context, the findings suggest that expansion decisions are more likely to succeed when they consider not only traditional market indicators, such as market size and income levels, but also destination-country institutional quality, regulatory predictability, and ESG-related risks (North, 1990; Lanfranchi et al., 2021; Jiang et al., 2024). Rather than adopting standardized internationalization strategies, franchise chains should align their governance structures, organizational capabilities, and ESG practices with the institutional characteristics of target markets.

In institutionally heterogeneous environments, governance mechanisms, organizational coordination, and legitimacy-building capabilities become increasingly important for sustaining international expansion and long-term international commitment, particularly in decentralized organizational systems such as franchise chains (Cuervo-Cazurra & Genc, 2008; Verbeke & Forootan, 2012; Bretas et al., 2024; Jell-Ojobor et al., 2022).

Taken together, these managerial implications reinforce that ESG should not be approached as a stand-alone sustainability initiative, but as an organizational capability that requires alignment among governance mechanisms, organizational processes, and institutional conditions to generate sustained strategic value in international franchise systems.

3.3 Institutional and public policy implications

From an institutional and public policy perspective, the findings indicate that predictable regulatory environments, reliable governance frameworks, and policies promoting transparency are likely to enhance both firms' international competitiveness and the responsible internationalization of decentralized business networks. Consistent with Institutional Theory, stable institutional environments reduce uncertainty, strengthen organizational legitimacy, and facilitate strategic coordination across organizational boundaries (Scott, 2013; Peng et al., 2008).

Recent International Business research similarly suggests that institutional improvements enhance investment attractiveness, regulatory predictability, and the international expansion of firms from emerging markets (Cuervo-Cazurra et al., 2021; Jiang et al., 2024; Lanfranchi et al., 2021). Accordingly, the findings of this thesis suggest that public policies aimed at strengthening institutional quality, regulatory transparency, and governance infrastructures may not only foster firms' international competitiveness but also create conditions under which ESG practices can be more effectively translated into sustainable strategic value, responsible internationalization, and long-term competitiveness in decentralized organizational systems.

3.4 Limitations

Despite its theoretical and empirical contributions, this thesis is subject to limitations primarily associated with its research design and analytical scope. The quantitative approach, based on large-scale integrated secondary databases, enabled the examination of a substantial number of franchise chains, countries, and international operations, providing a comprehensive perspective on ESG and internationalization across heterogeneous institutional environments. However, this methodological strategy did not allow direct observation of organizational processes underlying ESG implementation and governance within franchise systems.

Consequently, important organizational mechanisms, including informal coordination processes, negotiations between franchisors and franchisees, stakeholder perceptions, and differences in the maturity and internalization of ESG practices, could not be directly examined, despite their recognized relevance in contemporary research on governance and decentralized organizational systems (Dada et al., 2024; Gorovaia & Hussain, 2025). Moreover, although secondary ESG indicators provide comparable and objective measures across firms, they cannot fully capture qualitative differences in how ESG is embedded within firms' organizational capabilities, governance arrangements, and organizational routines. This limitation has been widely acknowledged in recent ESG research (Hasan et al., 2021; Linnenluecke et al., 2022; Saini & Kharb, 2025).

3.5 Future research

The research agenda emerging from this thesis offers several opportunities to advance the literature on ESG, governance, and international business in decentralized organizational systems. Longitudinal studies could examine how ESG-related firm-specific capabilities evolve over time and how learning processes, governance mechanisms, and institutional adaptation jointly influence firms' financial performance, international expansion, and long-term international commitment (Hasan et al., 2021; Linnenluecke et al., 2022; Popli et al., 2022). Comparative studies involving franchise systems from different countries of origin could also assess whether the patterns identified among Brazilian franchise chains are replicated across firms from other emerging and advanced economies, thereby extending understanding of how institutional heterogeneity shapes the strategic implications of ESG (Cuervo-Cazurra et al., 2021; Jiang et al., 2024; Bretas et al., 2024).

Future research may also benefit from qualitative and mixed-methods approaches capable of directly examining how ESG practices are translated into organizational routines, governance arrangements, and coordination mechanisms within franchise systems. Such studies could provide richer evidence regarding how contractual governance, organizational capabilities, and stakeholder interactions jointly influence the implementation of ESG across legally independent yet strategically interdependent actors (Jell-Ojobor et al., 2022; Dada et al., 2024; Gorovaia & Hussain, 2025). More broadly, future investigations adopting configurational, multilevel, or mixed-method designs may contribute to a more comprehensive understanding of how organizational capabilities, governance mechanisms, and institutional environments interact to generate strategic value in decentralized organizational systems.

Ultimately, the findings demonstrate that ESG should not be viewed as an end in itself, but as an organizational capability whose strategic value depends on the interaction among governance mechanisms, firm-specific capabilities, and heterogeneous institutional environments. By advancing this integrated explanation, this thesis contributes to a more comprehensive understanding of how ESG generates strategic value in decentralized organizational systems operating across heterogeneous institutional environments.

REFERENCES

Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, *17*(1), 99–120. https://doi.org/10.1177/014920639101700108

Bradach, J. L. (1997). Using the plural form in the management of restaurant chains. *Administrative Science Quarterly*, 42(2), 276-303. https://doi.org/10.2307/2393921

Bradach, J. L., & Eccles, R. (1989). Price, authority, and trust: From ideal types to plural forms. *Annual Review of Sociology*, *15*(1), 97–118. https://doi.org/10.1146/annurev.so.15.080189.000525

Bretas, V. P., Galetti, J. R., Alon, I., & Rocha, T. V. (2024). Do stakeholders matter in entry mode decisions? An investigation of international franchise governance mode choice. *Journal of Business Research*, 178. https://doi.org/10.1016/j.jbusres.2024.114673

Cuervo-Cazurra, A. (2006). Who cares about corruption? *Journal of International Business Studies*, *37*, 807-822. https://doi.org/10.1057/palgrave.jibs.8400223

Cuervo-Cazurra, A., & Genc, M. (2008). Transforming disadvantages into advantages: Developing-country MNEs in the least developed countries. *Journal of International Business Studies*, 39(6), 957-979. https://doi.org/10.1057/palgrave.jibs.8400390

Cuervo-Cazurra, A., Dieleman, M., Hirsch, P., Rodrigues, S. B., & Zyglidopoulos, S. (2021). Multinationals' misbehavior. *Journal of World Business*, *56*(5), 101244. https://doi.org/10.1016/j.jwb.2021.101244

Dada, O., Perrigot, R., & Watson, A. (2024). Influential factors of pro-environmental behaviors among franchisees in the fast-food sector. *Business Strategy and the Environment*, *33*(3), 2301-2313. https://doi.org/10.1002/bse.3599

Dant, R. P., & Kaufmann, P. J. (2003). Structural and strategic dynamics in franchising. *Journal of retailing*, *79*(2), 63-75. https://doi.org/10.1016/S0022-4359(03)00011-3

Eliwa, Y., Aboud, A., & Saleh, A. (2021). ESG practices and the cost of debt: Evidence from EU countries. *Critical Perspectives on Accounting*, *79*, 102097. https://doi.org/10.1016/J.CPA.2019.102097

Endrikat, J., De Villiers, C., Guenther, T. W., & Guenther, E. M. (2021). Board characteristics and corporate social responsibility: A meta-analytic investigation. *Business & Society*, *60*(8), 2099-2135. https://doi.org/10.1177/0007650320930638

Freeman, R. (2010). *Strategic management: A stakeholder approach.* Cambridge University Press.

Freeman, R. E., Dmytriyev, S. D., & Phillips, R. A. (2021). Stakeholder theory and the resource-based view of the firm. *Journal of management*, *47*(7), 1757-1770. https://doi.org/10.1177/0149206321993576

Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment*, 5(4), 210-233. https://doi.org/10.1080/20430795.2015.1118917

Ftiti, Z., Jeriji, M., Louhichi, W., Mensi, Y., & Zenaidi, A. (2024). ESG dimensions, firm performance and corporate governance systems. *International Journal of Business Governance and Ethics*, *18*(4-5), 492-521. https://doi.org/10.1504/IJBGE.2024.139684

Gillan, S., Koch, A., & Starks, L. (2021). Firms and social responsibility: A review of ESG and CSR research in corporate finance. *Journal of Corporate Finance*, *66*, 101889. https://doi.org/10.1016/J.JCORPFIN.2021.101889

Gorovaia, N., & Hussain, D. (2025). From Strategy to Storefront: CSR and Brand Competitiveness in Franchise Networks. *Corporate Social Responsibility and Environmental Management*, *32*(4), 5420-5429. https://doi.org/10.1002/csr.3252

Hasan, I., Singh, S., & Kashiramka, S. (2021). Does corporate social responsibility disclosure impact firm performance? An industry-wise analysis of Indian firms. *Environment, Development and Sustainability 2021 24:8*, *24*(8), 10141–10181. https://doi.org/10.1007/S10668-021-01859-2

Jell-Ojobor, M., Hajdini, I., & Windsperger, J. (2022). Governance of international franchise networks: Combining value creation and value appropriation perspectives. *Journal of Business Research*, 139, 267-279. https://doi.org/10.1016/j.jbusres.2021.09.001

Jiang, L., Chang, Z., Yao, W., Huang, L., & Zhou, S. (2024). Transcend local for global: ESG as a legitimacy signal in the global expansion of emerging multinational enterprises. *Finance Research Letters*, 69, 106174. https://doi.org/10.1016/j.frl.2024.106174

Lanfranchi, A., Melo, P. L. D. R., Borini, F. M., & Telles, R. (2021). Institutional environment and internationalization of franchise chains: a regional and global analysis. *International Journal of Emerging Markets*, 16(4), 726-744. https://doi.org/10.1108/IJOEM-03-2019-0188

Li, T., Wang, K., Sueyoshi, T., & Wang, D. (2021). ESG: Research Progress and Future Prospects. *Sustainability 2021*, *Vol. 13, Page 11663*, *13*(21), 11663. https://doi.org/10.3390/SU132111663

Linnenluecke, M. K. (2022). Environmental, social and governance (ESG) performance in the context of multinational business research. *Multinational Business Review*, *30*(1), 1-16. https://doi.org/10.1108/MBR-11-2021-0148

Milgrom, P., & Roberts, J. (1995). Complementarities and fit strategy, structure, and organizational change in manufacturing. *Journal of accounting and economics*, *19*(2-3), 179-208. https://doi.org/10.1016/0165-4101(94)00382-F

North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge University Press.

Peng, M. W., Wang, D. Y., & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, *39*(5), 920-936. https://doi.org/10.1057/palgrave.jibs.8400377

Perrigot, R., Watson, A., & Dada, O. (2021). Sustainability and green practices: the role of stakeholder power in fast-food franchise chains. *International Journal of Contemporary Hospitality Management*, *33*(10), 3442-3464. https://doi.org/10.1108/IJCHM-02-2021-0269

Popli, M., Ahsan, F. M., & Mukherjee, D. (2022). Upper echelons and firm internationalization: A critical review and future directions. *Journal of Business Research*, *152*, 505-521. https://doi.org/10.1016/j.jbusres.2022.07.048

Saini, N., & Kharb, R. (2025). Strategic enablers for ESG adoption: A modified TISM perspective. *Journal of Financial Reporting and Accounting*. https://doi.org/10.1108/JFRA-06-2024-0349

Scott, W. R. (2013). *Institutions and organizations: Ideas, interests, and identities*. Sage publications.

Shahbaz, M., Karaman, A., Kilic, M., & Uyar, A. (2020). Board attributes, CSR engagement, and corporate performance: What is the nexus in the energy sector? *Energy Policy*, *143*, 111582. https://doi.org/10.1016/J.ENPOL.2020.111582

Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of management review*, *20*(3), 571-610. https://doi.org/10.5465/amr.1995.9508080331

Verbeke, A., & Forootan, M. Z. (2012). How good are multinationality-performance (M-P) empirical studies? *Global Strategy Journal*, *2*(4), 332-344. https://doi.org/10.1111/j.2042-5805.2012.01040.x