XXIII SemeAd
Seminários em Administração

novembro de 2020
ISSN 2177-3866

THE IMPACT OF THE INSTITUTIONAL ENVIRONMENT OF THE DESTINATION COUNTRY ON THE INTERNATIONALIZATION OF FRANCHISE CHAINS

ANDREA GIOVANI LANFRANCHI
ESCOLA SUPERIOR DE PROPAGANDA E MARKETING (ESPM)

SUZANE STREHLAU
ESCOLA SUPERIOR DE PROPAGANDA E MARKETING (ESPM)

PEDRO LUCAS DE RESENDE MELO
UNIVERSIDADE PAULISTA (UNIP)

ROSILENE CARLA VIEIRA
ESCOLA SUPERIOR DE PROPAGANDA E MARKETING (ESPM)

Agradecimento à orgão de fomento:
This study was financed in part by the Coordenação de Aperfeiçoamento de Pessoal de Nível Superior - Brasil (CAPES) - Finance Code 001

THE IMPACT OF THE INSTITUTIONAL ENVIRONMENT OF THE DESTINATION COUNTRY ON THE INTERNATIONALIZATION OF FRANCHISE CHAINS: A comparative study between franchise chains from emerging countries and from developed countries

1. INTRODUCTION

Entry into the international market has been a topic widely examined in the literature. Since the 2000s, there has been a growing number of studies focused on the internationalization of franchise chains from multiple perspectives (Dant & Grunhagen, 2014) due to their prominent role in the international economy, especially American franchise chains (Melo et al., 2019). On the other hand, there are few studies on the behavior of franchise chains in emerging countries, that is, there is a concentration of research on the internationalization of american franchise chains, causing a limitation in the understanding of the process of internationalization of franchises chains from other markets in the world (Dant & Grunhagen, 2014; Merrilees, 2014). Thus, we have the opportunity to study this group of franchise chains from emerging markets. These chains have been progressively committed to having operations abroad, so that there is an opposite flow of internationalization of franchise chains, related to the internationalization movement of companies from emerging countries towards both other emerging and developed countries (Hoskisson et al., 2013; Melo et al., 2019). This behavior drew the attention of academic researchers to understand the particularities of the franchise chains from emerging countries.

Companies from emerging countries internationalize according to a market and management logic that is particular to their realities, due to the late internationalization process and the institutional characteristics of their home markets (Cuervo-Cazurra & Genc, 2008; Hoskisson et al. , 2013; Peng, 2014). Thus, it is possible that the process of selecting countries for internationalization is also based on different criteria, which reflect different institutional preferences. In this sense, the objective of this research is to investigate how the institutional environment of the destination country can impact the selection of countries for the international expansion of franchise chains from emerging and developed countries. We seek to identify institutional particularities between the chains from emerging and developed countries, and thus contribute to the theoretical development of the Macro Perspective research stream. This stream is represented by studies that specialize in the internationalization of franchise chains, understanding the characteristics of the receiving and originating markets of these companies (Dant & Grunhagen, 2014).

This study assumes the recognition of four essential institutional dimensions for attracting international investment through franchise chains: (1) Laws and regulations; (2) Political stability; (3) Economic stability; and (4) Development of the financial system (Aliouche & Schlentrich, 2011; Alon, 2006; Baena, 2015). These are requirements involved in the relationship with the franchisee and the consumer public, in order to reduce risks and evaluate expansion opportunities with reference to institutional structures for the protection of franchise chains and operational efficiency, due to the predictability conditions provided to the businesses. For this purpose, a sample of 427 franchise chains from emerging markets, composed of Brazil, Russia and India, and from developed markets, composed of Germany, Spain and Australia, was used.

In short, two academic contributions are intended: (1) Institutional theory: identifying the particular characteristics of the institutional environment that are most attractive to franchise chains from emerging and developed markets (Aliouche & Schlentrich, 2011; Hoffman et al., 2016; Melo et al., 2015); and (2) Internationalization of franchise chains: contribute to the

theoretical Macro Perspective stream, dedicated to the analysis of destination markets for franchise chains (Aliouche & Schlentrich, 2011; Baena, 2015; Dant et al., 2011; Dant & Grünhagen, 2014; Hoffman et al., 2016; Melo et al., 2015; 2019), thus complementing studies on Macro Perspective through the use of institutional theory (Aliouche & Schlentrich, 2011; Baena, 2015; Dant & Grünhagen, 2014; Hoffman et al., 2016; Melo et al., 2015; 2019).

This article is structured by an introduction involving the theoretical foundations that supported the development of the research. Then, the hypotheses are formulated. The methodology follows, discussion of the analysis of results, ending with the final considerations.

2. LITERATURE REVIEW

2.1. Internationalization of Franchise Chains

When analyzing the theoretical perspectives on the internationalization of franchise chains, Dant and Grünhagen (2014) identified five theoretical streams with specific characteristics: (1) Macro Perspective: analyzes the conditions of the destination country and its impact on internationalization; (2) Mode of entry into a new market; (3) Choice of governance modes for international franchise chains; (4) Driving forces for the international expansion of franchise chains; and (5) Relationship between franchisee and franchisor (Dant & Grünhagen, 2014).

This study is in the Macro perspective stream. Previous studies on this stream indicate that the internationalization behavior of franchise chains in developed countries tends to follow the same pattern of North American franchise chains, that is, starting in markets that are culturally and geographically close to the domestic market. In this way, the company reduces risks, costs with monitoring and does not need to make major adaptations of the brand or concepts (Baena, 2015). However, some authors claim that cultural similarity is not the primary factor in choosing the market for international expansion, pointing out the growth potential of the destination country, the costs involved in expansion, population income and industry development as more relevant (Quinn, 1998). On the other hand, the internationalization of franchise chains from emerging countries began late in the 1990s, with an intensification from the 2000s onwards. Since then, it appears that such franchise chains prefer markets with cultural and institutional characteristics similar to their country of origin, in addition to valuing geographical proximity (Liuhto & Majuri, 2014; Melo et al., 2015; 2019).

2.2. Institutional theory

Institutional theory is fundamental to understand the context in which companies operate, since it addresses the influence of political, social and economic systems on the behavior of companies From this point of view, institutions are more than the background of the competition environment, they determine what strategy options a company can adopt to achieve its goals (Hoffman et al., 2016; Meyer et al., 2009 ; Peng et al., 2008). Recent studies have incorporated institutional factors in the theory of transaction costs, building the approach of the new institutional economics (Hoskisson et al., 2000; Rocha & Ávila, 2015), which is focused on the interaction between institutions and companies and has expanded from the work of North (1990, 1991) and Williamson (2000).

According to North (1990, 1991), institutions provide the rules of society's game, which are defined as the limits designed by man to structure political, economic, and social interaction. In establishing and managing the rules of the game, institutions play an important role in the behavior of companies, since they can reduce transaction costs by reducing uncertainty by establishing a stable institutional structure (Hoskisson et al., 2000 ; Meyer, 2001; North, 1990,

1991). In this way, the rules of the game can influence strategies, the way companies enter foreign markets, create barriers and reduce foreign investment in the country, or induce foreign investors to overcome barriers through access to local resources and partnerships (Meyer et al., 2009).

The institutions and the effectiveness of the execution determine the transaction cost. Effective institutions increase the benefits of cooperative solutions or the costs of desertion. In terms of transaction costs, institutions reduce transaction and production costs through exchanges, so that potential gains from trade are achievable. Consequently, institutions determine transaction and production costs and, therefore, profitability and the viability of being involved in economic activity (North, 1991).

Since 2010, institutional theory has been widely used in international business studies, addressing differences between countries and their impact on companies' strategies. Research converges to the conclusion that companies have more difficulty in establishing themselves in institutional environments vastly different from the environment of their origin country (Rocha & Ávila, 2015).

3. HYPOTHESES

3.1 Legal system

The legal system includes laws, rules, regulations and their application (Aliouche & Schlentrich, 2011; 2010; Cuervo-cazurra & Genc, 2008; Rocha & Ávila, 2015). An unstable and unreliable legal structure is considered one of the most important factors that prevent companies from making investments (Alon, 2006; Baena, 2013; Dumludag, 2009). This is because in an inefficient structure, changes in the law may not have an impact on the reality of companies, institutional uncertainties are greater, making transaction costs more expensive due to the difficulty of establishing and executing contracts (Dumludag, 2009).

As the franchise chains system is an organizational form based on a contractual arrangement, the legal system is especially important because of the possibility of enforcing the contract through the courts and by protecting property rights. The lack of these characteristics in a market discourages partnerships with local franchisees, since there is no guarantee that the company's intangible assets, such as brand and patent, will not be misused by opportunistic franchisees (Aliouche & Schlentrich, 2011; Alon, 2006; Baena, 2013; Shane, 1996). Opportunistic franchisees can appropriate the brand benefits without following the rules, causing damage to the brand image and quality standard (Fladmoe-Lindquist & Jacque, 1995). Therefore, for franchise chains, dealing with obstacles or unstable legal situations can become expensive and create problematic relationships with franchisees (Alon, 2006; Melo et al., 2019).

However, franchise chains from emerging countries usually come from countries where there is already a scarce quality of the judiciary. Therefore, it is likely that these chains have developed skills to operate in unstable and fragile institutional environments (Cuervo-cazurra & Genc, 2008). Thus, franchisors from emerging countries are better prepared to operate in environments with unfavorable institutional situations, which can be considered an advantage over franchisors from developed countries, so that they are more willing to invest in these markets. As a result, even though the business model of franchise chains is based on contracts, it is expected that the internationalization of franchise chains from emerging countries will not be driven by the quality of the judicial system. Based on the preceding insights, the following hypothesis was constructed:

H1: Franchise chains from emerging countries are more likely to internationalize to countries with lower quality of the legal system than franchise chains from developed countries.

3.2 Economic system

The economic dimension is one of the most relevant in the attractiveness of the market and one of the most present in internationalization studies (Aliouche & Schlentrich, 2011; Baena, 2015; Berry et al., 2010; Melo et al., 2019), as it is correlated with purchasing power and with the stability and openness of the economy (Berry et al., 2010). The literature on international expansion highlights that companies prefer to enter markets with low levels of macroeconomic uncertainty to avoid risks (Baena, 2015; Garcia-Canal & Guillén, 2008). The higher the economic uncertainty, the higher the transaction cost associated with entering the foreign market and the greater the risk perceived by the franchisor, due to the possibility of low profits and high costs (Baena, 2013, 2015; Hoffman et al., 2016). The number of franchisors willing to internationalize for a given country increases according to its development and economic stability (Baena, 2015).

However, franchise chains from emerging countries can promote internationalization to other emerging countries due to the advantage of operating in countries with conditions similar to their country of origin (Cuervo-Cazurra & Genc, 2008; 2011; Melo et al., 2019). In particular, companies from emerging countries are better positioned to meet the needs of customers with less purchasing power, because they were created in environments with distorted distribution and low levels of wealth. In contrast, companies from developed countries may have difficulties in understanding the preferences of these consumers and may be required to make additional investments to adapt their products and processes, such as reducing the size of the product and using lower cost ingredients (Cuervo-Cazurra & Genc , 2008). Thus, the following hypothesis was formulated:

H2: Franchise chains from emerging countries are more likely to internationalize to countries with less economic stability than franchise chains from developed countries.

3.3 Political system

Several studies on the internationalization of franchises chains highlight the importance of the political dimension (Aliouche & Schlentrich, 2011; Baena, 2015; Melo et al., 2019). This dimension is especially important in emerging countries, because in the absence of a developed market economy, government institutions need to intervene to facilitate market transactions (Hoffman et al., 2016; Hoskisson et al., 2000; Meyer, 2001).

An unstable political environment can lead to a change in the power structure, making relational resources inaccessible or irrelevant, so franchisors are more likely to choose politically stable countries to internationalize (Garcia-Canal & Guillén, 2008; Hoffman et al., 2016). However, franchisors from emerging countries know how to deal effectively with this type of situation due to their experience in current or past totalitarian regimes in their country of origin and, unlike companies in developed countries, are not under pressure from NGOs or local government. (Cuervo-Cazurra & Genc, 2008).

Franchise chains from emerging countries can also be more flexible in relation to law enforcement and more used to managing outside the scope of contractual relationships, as they are used to an environment in which contractual disputes are unlikely to be resolved efficiently. Therefore, they can work better with political instability, as they are used to it in their country of origin and have the capacity to manage efficiently in difficult political conditions (Cuervo-Cazurra & Genc, 2008; Melo et al., 2019). Meanwhile, franchise chains from developed countries are used to operating with stable institutions that establish property rights and limit the government's ability to change its policies arbitrarily and to influence the economy. Thus, they see the risk of not acting in a stable environment, which limits the amount of investment

in environments with this characterization (Cuervo-Cazurra & Genc, 2008; De Soto, 2000). Therefore, the following hypothesis was formulated:

H3: Franchise chains from emerging countries are more likely to internationalize to countries with less political stability than franchise chains from developed countries.

3.4 Financial system

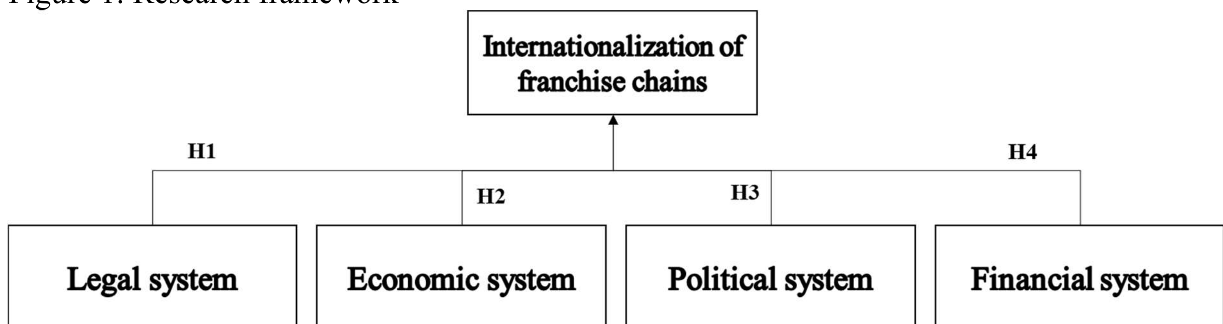
The literature on internationalization based on institutional theory, together with the economic dimension, values aspects of the financial system (Baena, 2015; Berry et al., 2010; Hoffman et al., 2016). Countries at different levels of economic development have implemented and evolved different financial systems, which affects the way companies finance their operations (Berry et al., 2010). Financial regulation associated with high tax rates and a barrier to obtaining credit can make it costly and prevent the creation of new companies, making it difficult to enter the international market, restricting the entry of small companies into the market and slowing their growth. On the other hand, regulations associated with investment incentives and lower tax rates attract foreign investments and result in more market-oriented institutions (Hoffman et al., 2016; Klapper et al., 2006).

Financial regulation with strict credit policies impairs the availability of credit for both franchise chains and potential franchisees in the destination market (Hoffman et al., 2016; Klapper et al., 2006). Consequently, the franchise chain is forced to seek informal financial support, such as personal and informal credit networks, to replace formal institutions, increasing the uncertainty and risk of the operation, which reflects in the increase in transaction costs. Economically more developed countries have greater access to credit, so franchise chains would prefer these markets, since these factors directly affect the repatriation of profits (Hoffman et al., 2016).However, franchise chains from emerging countries are not used to operating with such financial conditions in their country of origin, being used to operating in environments with inefficient financial systems, so that this factor does not necessarily characterize an environment with greater risk for these franchise chains. Thus, the following hypothesis was formulated:

H4: Franchise chains from emerging countries are more likely to internationalize to countries with a less developed financial system than franchise chains from developed countries.

With the development of the hypotheses, a conceptual model is proposed, composed of four indicators of the institutional environment linked to the relationship with the country selection process for international expansion by the franchise chains (Figure 1).

Figure 1: Research framework



Source: authors.

4. METHODOLOGY

The research was quantitative. The sample used included franchise chains from six countries, three developed and three emerging. The developed countries selected were Germany, Australia and Spain, these countries were chosen because they are countries that are frequently explored in the literature on the internationalization of franchise chain, have a robust economy, outstanding global influence and present a mature and well-established sector of franchise chains (Dant et al., 2011; Dant & Grünhagen, 2014; Hoffman et al., 2016; Merrilees & Frazer, 2013).. The emerging countries selected were Brazil, Russia and India, these countries were selected because they are countries that are part of the BRICS, and because they are markets of high geographical extension, exercising regional influence and presenting similar characteristics in relation to the level of economic development (Grünhagen et al., 2012; Hoskisson et al., 2013). These countries additionally present the franchise chain sector in a phase of growth and international expansion (U.S. Department of Commerce, 2016)

International franchise chains were considered to be those with at least one franchised operation abroad in the year 2017. The identification of these chains, and the countries where they operated, was done by means of the collection of official secondary data published by franchise associations of the countries studied (DFV – *Deutscher Franchise Verband*; FCA – *Franchise Council of Australia*; AEF – *Associacion Española de Franquiciadores*; ABF – Associação Brasileira de Franchising; RFA – *Russian Franchise Association*, FAI – *Franchising Association of India*; FASA – *Franchise Association of South Africa*). Table 1 shows the sample of internationalized franchise chains.

Regarding the method, logistic regression was chosen because this method is a specialized form of regression used to predict and explain a binary categorical variable, effected through the JASP software (Hair et al., 2009).

The binary dependent variable of this study is represented by the classification of the country of origin of the franchise chain, emerging or developed. This classification follows that defined by the International Monetary Fund.

Table 1: Sample of internationalized franchise chains

Country of origin	Classification	Number of internationalized franchise chains	Number of destination countries
Brazil	Emerging	93	49
Russia	Emerging	102	47
India	Emerging	59	76
Germany	Developed	62	65
Australia	Developed	66	41
Spain	Developed	45	103

Source: authors.

The data for institutional variables come from the indicators in the Heritage Foundation's economic freedom report for the year 2019. Previous research on the internationalization of franchise chain was conducted using public data from international investment support institutions (Baena, 2013; 2015; Hoffman et al., 2016; Melo et al., 2019; 2015). The selected indicators, which correspond to the independent variables of the statistical analysis, can be seen in Table 2.

Table 2: Independent variables

Hypothesis	Variables	Description
H1	Judicial Effectiveness	Corresponds to the effectiveness and efficiency of the judicial system, and the guarantee that the laws are respected and that legal actions are taken against violations. The index is obtained by averaging the scores of three sub-factors: (1) Judicial independence; (2) Quality of the judicial process; and (3) Favoritism in the decisions of government officials.
H2	Fiscal Health	Corresponds to the general fiscal health of a country, being associated with macroeconomic instability and economic uncertainty. The indicator is composed of average deficits as a percentage of GDP in the most recent three years and debt as a percentage of GDP.
H3	Monetary Freedom	Corresponds to the level of government intervention in the economy through mechanisms of price control, inflation and microeconomic intervention. The index is composed of the inflation rate of the last three years and the level of price control.
H4	Financial freedom	Corresponds to the measure of independence of the financial sector. The indicator analyzes: (1) The extent of government regulation of financial services; (2) The degree of State intervention in financial companies; (3) The government's influence on credit allocation; (4) The extent of the development of the financial and capital markets; and (5) Openness to foreign competition.

Source: Prepared by the authors based on Heritage Foundation 2019 Economic Freedom report.

5. RESULTS

Before the logistic regression analysis, a correlation analysis of the selected variables was performed in order to make sure that there was no strong correlation between them so that the statistical analysis was not unviable. As can be seen in Table 3, the variables present a slight or moderate correlation with each other (<0.7), significant at the level $p < 0.001$ (Fávero & Belfiore, 2017; Hair et al., 2009).

Table 3: Correlation matrix (Pearson)

	Judicial Effectiveness	Fiscal Health	Monetary Freedom	Financial freedom
Judicial Effectiveness	—			
Fiscal Health	0.189 ***	—		
Monetary Freedom	0.505 ***	0.302 ***	—	
Financial freedom	0.537 ***	0.172 ***	0.642 ***	—

*** p<0.001

Source: authors.

Subsequently, the sample outliers were checked. Using JASP software outlier analysis with the following configurations: Casewise Diagnostics - residual standard> 3, nine destination countries were found that were characterized as outliers: Cuba, Egypt, Angola, Ukraine, Iran, Argentina, Mozambique, Venezuela, and South Africa. Analyzing these

countries, it is clear that they are countries that, at the time of data collection, had generalized institutional instability - especially political, economic and social - due to several factors, from war and totalitarian regimes to the lack of capacity of government officials to exercise an effective administrative management. Therefore, the analysis disregarded these countries, in order to avoid further distortions in the analysis.

Afterwards, logistic regression was performed, the results of which can be seen in Tables 5 and 6. Regarding the statistical significance of the model, the p-value is significant at the level $p < 0.001$. The quality of the adjustment of the logistic regression model can be assessed in two ways, the first is the evaluation of the "pseudo R" values, similar to that of multiple regression. The second is predictive accuracy through performance metrics (Hair et al., 2009).

The model's R^2 measurements range from 0.176 (McFadden R^2) to 0.216 (Nagelkerke R^2), considered a low value. This value may occur because the model disregards the market potential and the geographical distance between the country of origin and destination, and these two variables are recognized in the literature as having a great influence on the choice of the destination country for the international operation (Aliouche & Schlentrich, 2011; Alon, 2006; Baena & Cerviño, 2014)

The performance metrics of the model, on the other hand, are acceptable, since it presents AUC (Area under the ROC curve) of 0.771, indicating that the model has the capacity to discriminate emerging markets from developed markets (> 0.7). In addition, the sensitivity of the model, which describes the proportion of true positives, is 0.674; the specificity of the model, which refers to the proportion of true negatives, is 0.754, which indicates that the model has a good predictive capacity, with an accuracy of 0.748 (Hair et al., 2009).

Table 4: Summary

Model	Deviance	AIC	BIC	df	X^2	p	McFadden R^2	Nagelkerke R^2	Tjur R^2	Cox & Snell R^2
H_0	1885.99	1887.99	1893.20	1361						
H_1	1554.75	1564.75	1590.83	1357	331.238	< .001	0.176	0.216	0.180	0.216

Source: authors.

Regarding the analysis of the coefficients, the Wald statistic is especially important since it shows the statistical significance for each estimated coefficient. When the coefficient is significant, it is understood that it impacts the estimated probability (Hair et al., 2009). The logistical coefficients related to the variables Fiscal health and Monetary freedom are significant at level $p < 0.01$ and Financial freedom at level $p < 0.05$. Therefore, it is understood that these three variables have an impact on the estimated probability. The variable Judicial effectiveness did not present a significant coefficient in the analysis. Thus, it does not impact the estimated probability.

The direction of the relationship, that is, whether it is positive or negative, is verified using the Odds Ratio and reflects the changes in the dependent variable associated with changes in the independent variable (Hair et al., 2009). A positive relationship means that an increase in the independent variable is associated with an increase in the predicted probability, and vice versa for a negative relationship. Analyzing the Odds Ratio, the three significant variables presented coefficients below 1.0, which means that they are all negatively related to the predicted probability for the dependent variable (Hair et al., 2009). Therefore, it is concluded that the higher the values of the variables Fiscal health, Monetary freedom and Financial freedom, the lower the probability of the franchise chain to be from an emerging country.

Table 5: Logistic regression coefficients

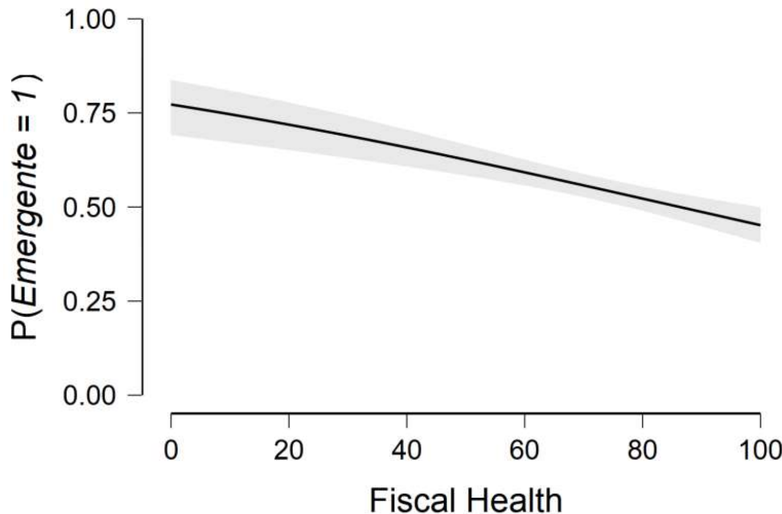
	Estimate	Standard Error	Odds Ratio	z	Wald Statistic	df	p
(Intercept)	10.861	0.885	52103.296	12.274	150.642	1	< .001
Judicial Effectiveness	-0.001	0.004	0.999	-0.285	0.081	1	0.775
Fiscal Health	-0.014	0.003	0.986	-5.108	26.093	1	< .001
Monetary Freedom	-0.116	0.013	0.891	-8.623	74.352	1	< .001
Financial freedom	-0.012	0.005	0.989	-2.399	5.754	1	0.016

Note. Emergent level '1' coded as class 1.
Source: authors.

In relation to H1, the analysis showed that the variable Judicial effectiveness is not significant, that is, the quality of the judicial system in the destination country does not impact the likelihood of internationalization of franchise chains from emerging countries, so that H1 was not confirmed.

The plots shown below show the calculated probability for all levels of a specific independent variable, considering the reference level of the other variables. This reflects how the estimated probability fluctuates with the variation of the independent variable. The gray shadow around the line represents the 95% confidence intervals.

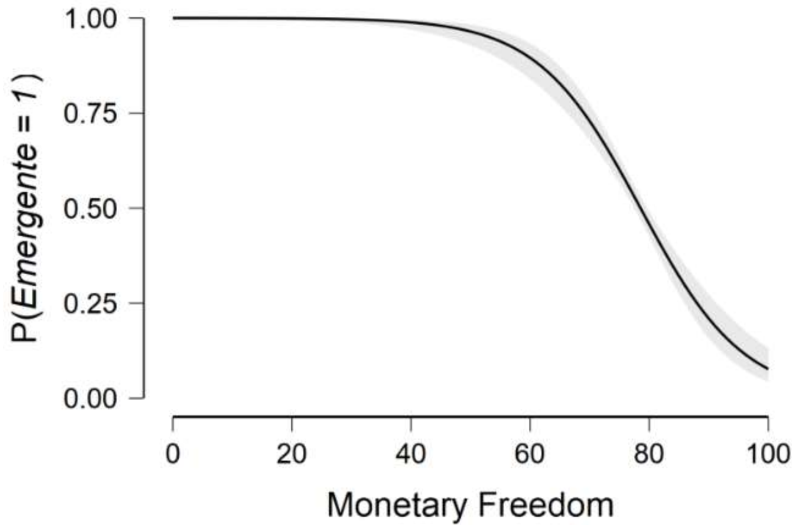
Figure 2: Plot of the variable Fiscal Health



Source: authors.

In relation to H2, the fiscal health variable was significant, negatively impacting the probability, so that the lower the economic stability of the destination country, the greater the probability of internationalization of the franchise chain from emerging countries to this particular country. This is in line with the understanding that franchise chains from emerging countries can promote internationalization to countries with economic instability due to the advantage of operating in countries with conditions similar to their country of origin (Cuervo-Cazurra & Genc, 2008, 2011; Melo et al., 2015; 2019). That said, H2 is confirmed.

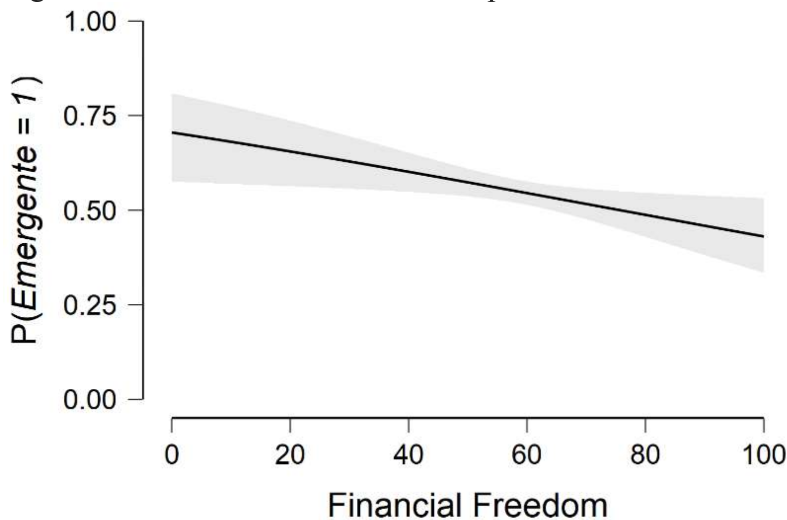
Figure 3: Plot of the Monetary Freedom variable



Source: authors.

In relation to H3, the variable Monetary freedom proved to be significant, negatively impacting the probability, so that the lower the political stability of the destination country, the greater the probability of internationalization of franchise chains from emerging countries to this particular country. This reiterates the understanding that the franchise chains of emerging countries develop capacities to deal with political instability, and the advantage of internationalizing for countries in this situation outweighs the risk (Cuervo-Cazurra & Genc, 2008; De Soto, 2000; Melo et al., 2015; 2019). Thus, H3 was confirmed.

Figure 4: Financial Freedom variable plot



Source: authors.

In relation to H4, the variable Financial freedom was shown to be significant, negatively impacting the probability, so that the less developed the financial system of the destination country, the greater the probability of internationalization of franchising chains from emerging countries to this particular country. This result reinforces the understanding that, since franchise chains from emerging countries are not used to operating with favorable financial conditions in their country of origin, this factor does not necessarily characterize an environment with greater risk. Finally, H4 was also confirmed.

6. CONCLUSIONS

This study contributes academically to institutional theory, insofar as it identifies a set of characteristics that explains the selection of international markets, and to the internationalization research of franchise chains, specifically for the Macro Perspective line. The results reinforce previous studies that indicate that companies tend to seek institutional markets similar to their country of origin to internationalize (Alon & Welsh, 2002; Baena, 2015; Hoffman et al., 2016; Rocha & Ávila, 2015). However, this result was not confirmed in relation to the judicial system. This result is probably because the effectiveness of a country's judiciary substantially influences the franchise chain business, since it is a contractual arrangement and the possibility of executing the contract substantially reduces transaction costs. (Aliouche & Schlentrich, 2011; Alon, 2006; Melo et al., 2019). Therefore, the judicial system would be equally relevant for franchise chains from developed and emerging countries, as well as an institutional element capable of reducing the transaction costs and consequently the agency costs of different international operations. This creates greater security in relation to the franchise mix represented by the brands and know-how constituted in the business model by the franchisor.

In addition, the contribution of the research should be recognized by the heterogeneity of the sample of countries used (6 countries of origin), the number of franchise chains analyzed (427) and the range of cases analyzed (1362), strengthening the credibility of the results and supplying the need for studies with comprehensive samples (Dant and Grünhagen, 2014; Merrilees, 2014).

As a managerial contribution, the results achieved can help franchise chain managers to make decisions related to the process of choosing countries for international expansion, based on the institutional characteristics of the markets, in order to select the destination most compatible with the objectives of franchise chain. The results also promote a better understanding of the benefits that franchise chains can have in each country in which they are present, which can assist in more efficient management and risk reduction. In this way, it can provide an even more careful selection of the markets in which it operates.

As research limitations, there are: (1) restriction of the sample of franchise chains associated with organizations representing franchises in their countries of origin, disregarding franchise chains not affiliated with associations; (2) the timeframe of the analysis was restricted to the countries' institutional situation in 2017; and (3) lack of analysis of the effect of institutional distance. Suggestions for future studies consist of the inclusion of institutional variables other than those used and the consideration of the institutional condition of the country of origin of the franchise chain and its influence on the internationalization process associated with institutional distance.

REFERENCES

Aliouche, E. H., & Schlentrich, U. A. (2011). Towards a Strategic Model of Global Franchise Expansion. *Journal of Retailing*, *87*(3), 345–365.

Alon, I. (2006). Market Conditions Favoring Master International Franchising. *Multinational Business Review*, *14*(2), 67–82.

Alon, I., & Welsh, D. H. B. (2002). Global Franchising in Emerging and Transitioning Markets. *International Journal of Business and Economics*, *2*(1), 332–343.

Baena, V. (2013). Insights on International Franchising: Entry Mode Decision. *Latin American Business Review*, *14*(1), 1–27.

Baena, V. (2015). European franchise expansion into Latin America: Evidence from the

Spanish franchise system. *Management Research Review*, *38*(2), 149–165.
Baena, V., & Cerviño, J. (2014). International Franchising Decision-Making: A Model for Country Choice. *Latin American Business Review*, *15*, 13–43.
Berry, H., Guillén, M. F., & Zhou, N. (2010). An institutional approach to cross-national distance. *Journal of International Business Studies*, *41*, 1460–1480.
Brookes, M., & Altinay, L. (2011). Franchise partner selection: perspectives of franchisors and franchisees. *Journal of Services Marketing*, *25*(5), 336–348.
Cuervo-cazurra, A., & Genc, M. (2008). Transforming disadvantages into advantages : developing-country MNEs in the least developed countries. *Journal of International Business Studies*, *39*, 957–979.
Cuervo-Cazurra, A., Narula, R., & Annique Un, C. (2015). Internationalization motives: sell more, buy better, upgrade and escape. *The Multinational Business Review*, *23*(1), 25–35.
Dant, R. P., & Grünhagen, M. (2014). International Franchising Research: Some Thoughts on the What, Where, When, and How. *Journal of Marketing Channels*, *21*(3), 124–132.
Dant, R. P., Grünhagen, M., & Windsperger, J. (2011). Franchising Research Frontiers for the Twenty-First Century. *Journal of Retailing*, *87*(3), 253–268.
De Soto, H. (2000), *The Mystery of Capital - why capitalism triumphs in the west and fails everywhere else,* Transworld Publishers, London.
Dumludag, D. (2009). An analysis of the determinants of foreign direct investment in turkey: The role of the institutional context. *Journal of Business Economics and Management*, *10*(1), 15–30.
Fávero, L. P., & Belfiore, P. (2017). *Manual de análise de dados: estatística e modelagem multivariada com Excel®, SPSS® e Stata®*. Elsevier Brasil
Fladmoe-Lindquist, K., & Jacque, L. L. (1995). Control Modes in International Service Operations: The Propensity to Franchise. *Management Science*, *41*(7), 1238–1249.
Grünhagen, M., Dant, R. P., & Zhu, M. (2012). Emerging Consumer Perspectives on American Franchise Offerings: Variety Seeking Behavior in China. *Journal of Small Business Management*, *50*(4), 596–620.
Hair, J. F., Black, W. C., Babin, B. J., Anderson, R. E., & Tatham, R. L. (2009). *Multivariate data analysi,* Upper Saddle River, Nova Jersey: Prentice Hall; Edição 7
Hoffman, J., & Preble, J. F. (2008). International Franchise Expansion : Does Market Propinquity Matter ? *Multinational Business Review*, *16*(4), 25–52.
Hoffman, R., Munemo, J., & Watson, S. (2016). International Franchise Expansion: The Role of Institutions and Transaction Costs. *Journal of International Management*, *22*, 101–114.
Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). Strategy in Emerging Economies. *The Academy of Management Journal*, *43*(3), 249–267.
Hoskisson, R. E., Wright, M., Filatotchev, I., & Peng, M. W. (2013). Emerging Multinationals from Mid-Range Economies: The Influence of Institutions and Factor Markets. *Journal of Management Studies*, *50*(7), 1295–1321.
Klapper, L., Laeven, L. and Rajan, R. (2006), “Entry regulation as a barrier to entrepreneurship”, *Journal of Financial Economics*, *82*, 591–629.
Lafontaine, F. (1992). Agency Theory and Franchising: Some Empirical Results. *The Rand Journal of Economics*, *23*(2), 263–283.
Liutho, K. & Jumpponen, J. (2001) Where Does Russian Business Expansion Lead ? *Russian Economic Trends*, v. 10, n. 3/4, p. 19-29
Melo, P. L. de R., Borini, F. M., & Ogasavara, M. H. (2019). Latin American franchise internationalization: The impact of institutional environment. *Thunderbird International Business Review*, v.61, 217-228.
Melo, P. L. de R., Borini, F. M., Oliveira Jr., M. de M., & Parente, R. C. (2015). International analysis of the countries where Brazilian franchise chains operate. *Revista de*

Administração RAUSP, *50*(1), 26–39.
Merrilees, B. (2014). International Franchising: Evolution of Theory and Practice. *Journal of Marketing Channels*, *21*(3), 133–142.
Meyer, K. E. (2001). Institutions, Transaction Costs, and entry mode choice in Eastern Europe. *Journal of International Business Studies*, *32*(2), 357–367.
Meyer, K. E., Estrin, S., Bhaumik, S. K., & Peng, M. W. (2009). Institutions , resources , and entry strategies in emerging economies. *Strategic Managemnt Journal*, *30*, 61–80.
North, D. C. (1990). *Institutions, institutional change and economic performance*. New York: Cambridge University Press.
North, D. C. (1991). Institutions. *Journal of Economic Perspectives*, *5*(1), 97–112.
Peng, M. W. (2014), “New research directions in the institution-based view”, *Research in Global Strategic Management*, *16*, 59–78.
Peng, M. W., Wang, D. Y. L., & Jiang, Y. (2008). An institution-based view of international business strategy: a focus on emerging economies. *Journal of International Business Studies*, *39*, 920–936.
Quinn, B. (1998). Towards a framework for the study of franchising as an operating mode for international retail companies. *The International Review of Retail, Distribution and Consumer Research*, *8*(4), 445–467.
Rocha, A. D, & Ávila, H. (2015) Teoria Institucional E Modos De Entrada De Multinacionais De Países Emergentes. *Revista de Administração de Empresas*, *55*(3), 246–257.
Shane, S. A. (1996). Why franchise companies expand Overseas. *Journal of Business Venturing*, *11*, 73–88.
U.S. Department of Commerce. (2016). *2016 Franchise Top Markets Report - Country case study*.
Williamson, O. E. (2000) The New Institutional Economics: Taking Stock, Looking Ahead. *Journal of Economic Literature*, v. 38, p. 595–613