International Franchising Governance Modes: An Emerging Market Perspective

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Vanessa P. G. Bretas
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Abstract

This dissertation analyzes the governance mode choice of Brazilian franchisors expanding their operations abroad. The purpose is to understand which aspects influence the international governance mode choice from an emerging market franchisor standpoint. Four papers were developed. The first article offers an in-depth analysis of franchising literature in emerging and developing markets using bibliometric techniques. The following three articles address different theoretical lenses to provide a comprehensive understanding of a multidimensional decision-making process as the international governance mode choice. The second article tests an integrative model of governance mode choice through a quantitative approach using a representative sample of data from the Brazilian Franchising Association - ABF. The integrative model encompasses the transaction cost, agency, resource-based, and organizational capabilities theories. The third article evaluates the applicability of internalization theory assumptions of asset specificity and host country's protection of intellectual property in an emerging market context through a mixed-method approach. The fourth article explores stakeholders' influence, namely business groups, government, and local network of stakeholders, on the Brazilian franchisors' governance mode decision through statistical tests with ABF data. The study encompasses the lack of research on international governance mode and emerging markets firms expanding to international markets, contributing to the entry mode and international franchising literature. Moreover, Brazil offers an interesting context in which to investigate the topic. Brazilian franchisors with operations abroad represent emerging market multinationals, which possess unique characteristics in their international expansion strategies. We explore how specificities in the home country of EM firms might affect the existing theories' predictions, contributing to Goldilocks' debate about the suitability of mainstream theoretical perspectives.

Keywords: International franchising; Governance modes; Entry modes; International business; Emerging markets
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List of Abbreviations and Acronyms

ABF – Brazilian Franchising Association
AT – Agency Theory
BRICS - Brazil, Russia, India, China, South Africa
CEPII – Center d'études prospects et d'informations internationals
ECG - Environmental, Social, and Governance
EFI – Economic Freedom Index
EM – Emerging Markets
GDP - Gross Domestic Product
IB – International Business
ICRG - International Country Risk Guide
IMF – International Monetary Fund
IPP – Intellectual Property Protection
IT – Internalization Theory
MNC – Multinational Company
OCT – Organizational Capability Theory
OECD - Organisation for Economic Co-operation and Development
OLS – Ordinary Least Squares
RBT – Resource-based Theory
SASB - Sustainability Accounting Standards Board
ST – Stakeholder Theory
TCT – Transaction Cost Theory
UK – United Kingdom
US – United States
WFC – World Franchising Council
1. Introduction

This dissertation approaches the international governance mode choices of franchisors from an emerging market under multiple theoretical lenses. Governance modes are organizational arrangements adopted by companies in foreign markets. Multiple configurations can be implemented. The most common international franchising modes are direct investment, joint ventures of franchising, direct franchising, master franchising, and area development. They vary in terms of residual income, ownership, and the allocation of decision rights. In other words, the degree of the franchisor's investment required and the level of control increase from modes such as master franchising and area development to joint ventures of franchising and company-owned outlets because more residual income, ownership, and decision rights are allocated to the franchisor (Benito, Petersen, & Welch, 2009; Jell-Ojobor & Windsperger, 2014).

Several factors affect the franchisors' decision-making process regarding governance modes. As the choice of governance modes in international markets configures a complex and multidimensional phenomenon, it requires theoretical diversity for a comprehensive understanding. For this reason, we adopted the article format to explore the topic from different angles, expanding the one-dimensional focus to a multiple and dynamic approach. We analyze the franchisors' decisions under the lenses of transaction cost, agency, resource-based, organizational capability, internalization, and stakeholder theories. In that way, we account for different critical aspects with increased explanatory power.

Moreover, the majority of the entry and governance mode studies have been focused on advanced economies, despite the growing relevance of emerging markets (EM). For instance, India, Taiwan, and Brazil appear among the top five countries worldwide in the number of franchise brands (Bretas & Alon, 2020; FASA, 2020). Nevertheless, over the last two decades, most of the work on franchising has used data from the United States, Canada, and Western Europe (Aguiar, Luppe, & Nascimento, 2017; Nielsen, Hannibal, & Larsen, 2018; Wright, Filatotchev, Hoskisson, & Peng, 2005). We intend to contribute to the Goldilocks debate (Cuervo-Cazurra, 2012) by entering the discussion on whether the main existing theories based on the analysis of firms in developed countries can explain EM companies' strategies or require new and specialized theories. We explore how various factors in the home country of EM firms might affect the existing theories' predictions.
In the next sections of this introduction, we present the context that will be explored, the research purpose, contributions, methods, and format of the dissertation.

1.1 Context

Franchising can be described as a contractual business relationship between two legally independent entities, franchisor and franchisee. The franchisee pays the franchisor for the right to sell products or services using its brand and business system. In other words, a firm (franchisor) sells the right to use its brand, operating systems, product, or services specifications to another firm (the franchisee) (Castrogiovanni, Combs, & Justis, 2006; Dant & Grünhagen, 2014).

The franchising sector has been showing steady growth as a business model worldwide and as an entry mode option in international markets. Franchising economic impacts include outputs and job creation, economic modernization, entrepreneurship development, and others. (Alon, 2004; Welsh, Alon, & Falbe, 2006). According to the World Franchise Council, 2 million franchised businesses were responsible for approximately 19 million jobs globally (FASA, 2020).

The growing relevance of the franchise sector in the economy is reflected in academic research. According to Dant, Grünhagen and Windsperger (2011), franchising as a unique organizational model has generated a large amount of multidisciplinary research. As franchising had its visibility increased, researchers from different academic streams, such as entrepreneurship, marketing, strategic management, organizational economics, and international business, started to develop studies about it (Cavusgil, Knight, & Riesenberger, 2017; Combs, Michael, & Castrogiovanni, 2004; Mumdžiev, 2011).

From the perspective of entrepreneurship, franchising is analyzed as a business ownership mode. From the standpoint of marketing, it is an important distribution channel. To strategic management, franchising is studied as an organizational form (Combs et al., 2004). From the perspective of organization economics, several directions can be pointed out, such as the choice between franchising and vertical integration, franchising modes of foreign market entry, and design and provisions of franchise contracts (Mumdžiev, 2011). From the international business perspective, our focus in this study, franchising is an entry mode in foreign markets (Cavusgil et al., 2017).
Jell-Ojobor and Windsperger (2014) classify the international franchising research into five major streams: comparison between franchise internationalization and domestic operations; host country conditions; propensity to franchise internationally; cross-border franchisor-franchisee relationship and choice of international franchising governance modes. This dissertation investigates the latter, focusing on the factors that influence these decisions.

Governance modes are organizational arrangements used by companies to conduct their international business. These governance modes differ in the level of control and resource commitment and are a broader concept than entry mode in international markets. Entry-mode literature classifies franchising as a medium-control mode, but it does not expose the differences between the governance structure possibilities when a company chooses franchising as an entry mode. Companies can keep multiple arrangements. That means, when firms choose franchising as entry mode in international markets, they can implement different modes of governance in foreign markets (Benito et al., 2009; Jell-Ojobor & Windsperger, 2014; Rosado-Serrano, Paul, & Dikova, 2018).

Based on the property rights theory and its concept of control, the franchisor's governance structure in international markets is related to the allocation of control rights (ownership and decision rights) to the franchisor and the local partners in the foreign countries. In franchising, the distribution of decision rights is important because the party with the decision rights also has control over the use of an asset (Jell-Ojobor & Windsperger, 2014; Mumdžiev, 2011). The main governance modes in international franchising are master franchising, area development franchising, joint venture franchising, company-owned units, and franchised units. The control structures of each international franchising governance mode make them unique compared with other types of multinational firms (Dant et al., 2011; Jell-Ojobor & Windsperger, 2014).

In the last three decades, literature focus had been the franchising growth in the United States and Europe. Recently, because in the United States, Canada, and Western Europe franchising has reached saturation in the domestic market while there are opportunities in emerging markets, scholars started to pay attention to other regions (Alon, 2004; Welsh et al., 2006). The potential growth of the franchising model and its impacts on income, establishments, employment, and achievement of social goals is observed mostly in emerging markets, such as China, India, and Brazil (Alon, Welsh, & Falbe, 2010; Elango, 2019; Naatu & Alon, 2019).
For instance, the franchise concept became known in China in the early 1990s. By 2016, China was the biggest market in the number of franchise brands (4,500 brands) and the second-biggest market in the number of establishments with 330 thousand units. India had almost 1,800 brands and 100,000 units. In Brazil, the franchising sector revenue registered a growth of 34 percent from 2015 to 2019, with nearly 3,000 brands and 160 thousand units, according to the Brazilian Franchising Association. Brazilian franchisors are responsible for 1.36 million direct jobs (ABF, 2020; Alon, 2006).

Nevertheless, most of the studies regarding international franchising focused on emerging markets analyze the issue from the perspective of developed markets' franchisors who choose to expand to countries classified as emerging markets. For instance, Welsh et al. (2006) conducted a literature review on franchising in emerging markets. A total of 31 papers from 1988 to 2005 about Central and Eastern Europe, Mexico and South America, Asia, and other areas were analyzed. All the reviewed articles explore the emerging markets' potential, opportunities and risks, advantages, and disadvantages for franchisors expanding to these markets. Still, no study in the review addresses the perspective of franchisors from emerging markets.

1.2 Research purpose and contribution

The general purpose of this dissertation is to understand the international franchising governance mode choice of emerging market franchisors under different theoretical perspectives. In that sense, we aim to answer the following question: which aspects influence the international governance mode choice from an emerging market franchisor standpoint? Due to the complexity of the phenomenon and the broad scope of the research question, four papers were developed. The first article analyses the evolution of franchising research in emerging and developing countries. We examine how shifts in the international environment, such as the increase in global trade, cross-border integration, and China's rise as a world power, are reflected in academia and explore the state of franchising research in contemporary scholarly debates. The following three articles address the research question through different theoretical lenses, each one with specific objectives.

Dant et al. (2011) pointed out nine research areas in franchising to be explored in future studies. Among them, works about countries not included in the
North American context, the question of ownership and control in different governance modes, new approaches to data collection, and the use of new theoretical lenses to analyze franchising. Jell-Ojobor and Windsperger (2014) highlighted the scarcity of theoretical explanations of the governance modes in international franchising. Most studies are exploratory or descriptive, and only a few apply different theoretical perspectives to explain the governance modes phenomena. Combs et al. (2004) also suggest that theoretical diversity can benefit future research and enhance explanatory power.

Following the insights of Combs et al. (2004), Dant et al. (2011), and Jell-Ojobor and Windsperger (2014; 2017), this dissertation encompasses the lack of research on international governance mode, specifically in the context of emerging markets franchisors. We provide a deep understanding of the intellectual and conceptual structure of the literature about franchising in emerging and developing markets. Then, we employ statistical tests to verify the influence of different factors on Brazilian franchisors' decisions, contributing to the entry mode and international franchising literature. Moreover, Brazil offers an interesting context in which to investigate the topic. Brazilian franchisors with operations abroad represent emerging market multinationals, which possess unique characteristics in their international expansion strategies contributing to Goldilocks' debate about the suitability of existing theories (Cuervo-Cazurra, 2012).

1.3 Methodology

To answer the above-mentioned proposed question, this dissertation comprises four articles. The first article provides an overview of the franchising literature in emerging and developing countries through bibliometric and content analyses. The following three articles approach the international franchising governance mode choice. Each one includes an empirical study, verifying the impact of independent variables from different theoretical perspectives in the same dependent variable, the choice of the governance mode level of control. The governance modes are categorized as high control or low control modes, based on the franchisor's degree of control and by its partners. Company-owned outlets and joint ventures of franchising are classified as high control governance modes. Franchisee-operated arrangements, such as master franchising and area development agreements, configure low control modes (Jell-Ojobor & Windsperger, 2014; Rosado-Serrano et al., 2018).
We adopted quantitative methods in all articles, using secondary data from the Brazilian Franchising Association. The ABF database provides information about Brazilian franchisors with international operations, classified as company-owned units, franchisee units, master franchisees, and area developers' operations. It includes the number of outlets in foreign markets, outlets per country, number of outlets in Brazil, years in the franchising system, franchising fees, advertising fees, average revenue, initial investment of the franchisee, among other information.

Besides, we used other public databases such as the World Bank World Economic Forum, International Monetary Fund, and Global Entrepreneurship Index databases, with information regarding the economy, networks, and institutional environment in countries where Brazilian franchisors have operations. CEPII database (*Center d'études prospects et d'informations internationales*) was used as a source of information about the geographical distance between the countries of origin and destination. In the second article, we adopted a mixed-method approach to explore further the theoretical possibilities identified through the quantitative findings.
1.4 Overview of the articles

Table 1 synthesizes the four dissertation articles.

Table 1: Synthesis of the four dissertation articles information.

<table>
<thead>
<tr>
<th>General purpose</th>
<th>Article 1</th>
<th>Article 2</th>
<th>Article 3</th>
<th>Article 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Article</strong></td>
<td>Franchising in Emerging and Developing Markets: Bibliometric and Content Analyses</td>
<td>The Choice of International Governance Mode: Evidence from Brazilian Franchisors</td>
<td>Brazilian franchising multinationals: testing the internalization theory</td>
<td>International franchising governance mode choice: A stakeholder perspective</td>
</tr>
<tr>
<td><strong>Specific purpose</strong></td>
<td>To examine the evolution of research about franchising in emerging and developing countries, identify its patterns, challenges, and new directions</td>
<td>To test a novel, integrative model* of governance mode selection in the context of international franchising from Brazil</td>
<td>To empirically test the boundaries of the internalization theory regarding asset specificity and intellectual property protection and verify if it explains the Brazilian franchisors’ governance modes decisions</td>
<td>To analyze the international franchising governance mode choice through the stakeholder perspective, verifying the influence of internal and external stakeholders on the franchisor decision</td>
</tr>
<tr>
<td><strong>Theories</strong></td>
<td>N/A</td>
<td>TCT / AT / RBT / OCT**</td>
<td>Internalization Theory</td>
<td>Stakeholders Theory</td>
</tr>
<tr>
<td><strong>Method</strong></td>
<td>Bibliometric and Content analyses</td>
<td>Logistics regression models</td>
<td>OLS and Logistic regression models / In-depth interviews</td>
<td>OLS regression model</td>
</tr>
<tr>
<td><strong>Data</strong></td>
<td>Scopus database</td>
<td>ABF / World Bank's Doing Business index / CEPII</td>
<td>ABF / World Economic Forum / Interviews with 2 franchisors and ABF international manager</td>
<td>ABF / International Monetary Fund and Global Entrepreneurship Index</td>
</tr>
</tbody>
</table>
The first article is titled "Franchising in Emerging and Developing Markets: Bibliometric and Content Analyses." It provides an overview of the research about franchising in emerging and developing countries. We employed bibliometric techniques and content analysis to identify the field's intellectual and conceptual structure, trends, and new directions. Findings show two main clusters of articles, those on international franchising and social franchising. Most of the papers analyze franchising in emerging and developing countries from developed countries' point of view. Due to their increased relevance in international business, we suggest that future research focus on the decision-making processes of franchisors headquartered in emerging and developing countries.

The second article is titled "The Choice of International Governance Mode: Evidence from Brazilian Franchisors." It seeks to test the influence of variables related to organizational economics and strategic management perspectives on Brazilian franchisors' international governance mode choice between high and low control modes. The organizational economics perspective highlights the reducing cost aspect and the potential to increase residual income in governance mode choice. The strategic management perspective focuses on the gain of competitive advantage through governance mode choice. The main purpose is to verify the influence of the multi-theoretical variables of the conceptual, integrative model proposed by Jell-Ojobor and Windsperger (2014) on Brazilian franchisors' international governance mode decisions.

The integrative model encompasses variables from transaction cost theory (TCT) and agency theory (AT): environmental uncertainty, behavioral uncertainty, and transaction-specific investments; resource-based theory (RBT) and
organizational capability theory (OCT): system-specific assets, local market assets, and financial assets; and property rights theory (intangibility of assets). Jell-Ojobor and Windsperger (2017) evaluated the model empirically with a case study analysis focused on the automotive rental industry and extended the model, including an international strategy variable (standardization and adaptation strategy) as an antecedent of the international governance mode choice. The results showed that both organizational economics and strategic management factors are relevant to European franchisors' governance mode choice. The authors suggested testing the model by conducting large-scale surveys in different markets and industries.

Thus, following Jell-Ojobor and Windsperger's (2014; 2017) insights, we empirically tested the integrative model using a representative sample of data from the Brazilian Franchising Association related to the year 2018. Moreover, we added and tested another variable in the model concerning the environmental distance between the home (Brazil) and host countries. We intended to determine whether the model needs to be extended to the emerging market context by considering the role of environmental distance. The results show that the existing model can adequately explain emerging markets firms' governance modes choice despite contextual differences. The environmental distance does not influence the internationalization strategies of Brazilian firms.

The third article is titled "Brazilian franchising multinationals: testing the internalization theory." It tests the boundaries of the internalization theory in explaining the choices that Brazilian franchising multinationals make regarding their international governance modes. We provide statistical tests to determine whether the internalization theory's main assumptions related to asset specificity and host country's protection of intellectual property are valid with regard to the emerging market context. A mixed-method approach was adopted, involving quantitative data from the Brazilian Franchising Association with 463 observations about franchisors' operations in international markets and the World Economic Forum database. In-depth interviews with practitioners were conducted to flesh out the results of the quantitative analysis. Findings reveal that the internalization theory's premises related to asset specificity and the host country's protection of intellectual property do not hold in the context of emerging markets. We argue that the new internalization theory's developments (Verbeke & Kano, 2015), considering the role of resource recombination and institutions, are more suitable to explain emerging markets franchisors' decisions.
The fourth article is titled "International franchising governance mode choice: A stakeholder perspective." It analyzes the international franchising governance mode choice through the stakeholder perspective, verifying internal and external stakeholders' influence on the franchisor decision. We employed a quantitative using data from ABF, International Monetary Fund, and Global Entrepreneurship Index. Results show that business groups, government agencies, and host markets' networks of stakeholders influence Brazilian franchisors' decisions. In other words, several aspects besides the factors considered by rational models of mode choice influence the Brazilian franchisors' choice of the international governance mode.

Figure 1 shows the integration of the four dissertation articles.

Figure 1: Integration between the four dissertation articles

Source: Elaborated by the authors.

2. Article 1\textsuperscript{1} - Franchising in Emerging and Developing Markets: Bibliometric and Content Analyses

2.1 Abstract

This study reviews the literature about franchising in emerging and developing markets. We used the “Bibliometrix” package in R software to perform a bibliometric analysis of 297 articles between 1989 and 2020 obtained from the Scopus database. We combined bibliometric coupling, historiographic citation, and conceptual thematic analysis with a content analysis of the most cited articles based on total global and local citations. We identified two main research clusters: international franchising and social franchising. This article provides a deep understanding of the intellectual and conceptual structure of the academic field. It complements existing qualitative reviews and attempts at characterizations, and suggests future research directions.

Keywords: franchising; emerging markets; developing markets; bibliometric analysis; literature review

\textsuperscript{1} Authors: Vanessa P. G. Bretas, Ilan Alon. Article submitted to the Journal of Business Research.
2.2 Introduction

Franchising can be described as a contractual relationship between two legally independent entities, a franchisor and a franchisee, in which the franchisee pays fees to the franchisor for the right to sell products or services using its brand and business system (Castrogiovanni et al., 2006; Dant & Grünhagen, 2014). The franchising system has been growing steadily as both a commercial and social organization model worldwide. Its economic and social impacts include outputs and job creation, economic modernization, the development of entrepreneurship, and the alleviation of social problems (Alon, 2004; Naatu & Alon, 2019).

According to the survey on the economic impact of franchising conducted by the World Franchise Council in 2017, 2 million franchised businesses were responsible for approximately 19 million jobs globally. The United States, the pioneer in the consolidation and diffusion of modern franchises, is one example of the economic relevance of the franchising sector. In 2019, franchising created 8.434 million jobs and generated $787.5 billion of revenue in the country (FASA, 2020; International Franchise Association, 2020).

The potential growth of the franchising model and its impact on income, employment, and the achievement of social goals is most noticeable in emerging and developing markets (Alon, Welsh, et al., 2010; Elango, 2019; Naatu & Alon, 2019). Dant and Nasr (1998) identified three major global trends that have affected the growth of the franchising model in these countries: 1) the decline of communism in Eastern Europe and Russia, 2) the increasing prospects for stability in areas previously characterized by war or civil unrest, such as South Africa and the Middle East, and 3) the reduction in protective trade barriers in countries such as China, India, and Brazil.

For instance, the franchise concept came to China in the early 1990s. By 2016, China had nearly 4,500 franchise and retail brands, and almost 330,000 units. India had almost 1,800 brands and 100,000 units, and Brazil had 3,039 brands and 142,593 units. In Brazil, the franchising sector revenue registered a growth of 36% from 2014 to 2018, according to the Brazilian Franchising Association. Brazilian franchisors are responsible for 1.3 million direct jobs in the country (ABF, 2020; Alon, 2006b).

Several reviews about the general franchising literature have been published (Alon et al., 2020; Combs et al., 2004; Dant et al., 2011; Dant &
Grünhagen, 2014; Elango, 2019; Fried & Elango, 1997; Jell-Ojobor & Windsperger, 2014; Lafontaine, 2014; Rosado-Serrano et al., 2018). Nevertheless, these reviews do not consider or emphasize the growing relevance of franchising in emerging and developing markets. Only in the last decades has the need for more studies about franchising in these areas started to be reflected in the academic research (Baena, 2012b; Dant et al., 2011; Dant & Grünhagen, 2014). To date, there have been relatively few studies that have explored the expansion of this particular topic. They provided an initial understanding of the field, identifying the characteristics of emerging countries in terms of economic development, growth, and market potential for franchisors from developed economies (Alon & Welsh, 2001; Welsh et al., 2006; Welsh & Alon, 2001, 2002).

These previous works made essential contributions. However, other fundamental developments in the global scenario are leading to new configurations involving these countries. The increase in global trade, cross-border integration, and China's rise as a world power paved the way for the international expansion of franchisors headquartered in emerging markets. At the same time, the uneven distribution of gains from free trade hurt the losers of globalization, such as some developing countries (Meyer, 2017; Rodrik, 2011; Stiglitz, 2002). In addition to its role in creating employment and alleviating poverty, these recent changes in the global economy have enhanced the importance of franchising as a resilient business format influencing local development in poor and emerging countries, especially after the 2008 economic crisis.

Thus, given the growing importance of franchising in light of the shifts in the international environment, we must determine how these movements are reflected in academia and explore the state of franchising research in contemporary scholarly debates. For instance, is the acknowledged importance of the theoretical Goldilocks’ debate (Cuervo-Cazurra, 2012) concerning emerging economies’ specificities explored in the franchising research? We aim to fill this void by examining how the research about franchising in emerging and developing countries has evolved, considering changes in these countries’ role in the global economy.

Thus, our goal is to describe the evolution of the field, and identify its patterns, challenges, and new directions. To do so, we will conduct bibliometric and content analyses. Using the bibliometric approach, which involves the aggregation of large amounts of bibliographic data, makes the study less susceptible to judgment bias and the idiosyncrasies of the reviewers reflected in
qualitative reviews (Elango, 2019; Vogel & Güttel, 2013; Zupic & Čater, 2015). We seek to identify the research clusters in this field, how it evolved, and the trends for future research. We used the “Bibliometrix” package in the R software, as well as the content analysis approach.

The paper is organized as follows. In the next section, we introduce the methodology and data extraction process. Then, the results of the bibliometric analysis are presented, outlining the most influential journals, articles, institutions, and authors. We also note the research clusters revealed in the bibliographic coupling, the historical evolution of the field, and the conceptual structure of the literature. After that, we identify four research categories through the content analysis of the most cited articles, coupled with the bibliographic techniques. Finally, we present future research directions for studying franchising in emerging and developing markets based on the previous analyses.

2.3 Methodology

2.3.1 Bibliometric and Content Analysis Methods

There are different types of qualitative and quantitative literature review methods. Examples include systematic literature reviews, meta-analyses, bibliometric analyses, and content analyses (Apriliyanti & Alon, 2017; Gaur & Kumar, 2018; Maditati et al., 2018; Zupic & Čater, 2015). This study employs a combination of bibliometric analysis techniques (bibliographic coupling, citation and historiographic citation analysis, and conceptual thematic mapping) and the content analysis method to explore our research questions.

Bibliometric analysis techniques are based on a quantitative approach designed to identify, describe and evaluate published research. Using transparent, reproducible search and review processes increases the reliability of the results and reduces the subjective bias of the literature reviews (Garfield, 1979; Maditati et al., 2018; Zupic & Čater, 2015). The content analysis is useful for summarizing the trends in the literature, identifying “hot spots” and “blind spots” and obtaining a more comprehensive understanding of the articles reviewed (Gaur & Kumar, 2018; Sassmannshausen & Volkmann, 2018). In other words, the content analysis enables the identification of the most developed (hot spots) and the less developed topics (blind spots) within the literature that, combined with other bibliometric
techniques, suggest future research avenues. According to Gaur and Kumar (2018), the potential of content analysis lies in its combination with other methods.

First, we present a performance citation analysis of the most relevant studies, authors, journals, and institutions in the field. After that, we utilize bibliographic coupling and historiographic citation analysis to describe the intellectual structure and evolution of the literature on franchising in emerging and developing markets. Bibliographic coupling analyzes the similarity between two documents using the number of references shared by them. The authors of the articles establish the connection (Elango, 2019; Sanchez-Famoso et al., 2020; Zupic & Čater, 2015). For bibliographic coupling, we use the Bibliometrix R louvain clustering algorithm and association normalization. For visualization, we use the R packages ggraph and graphlayouts, and Kamada–Kawai layout. Historiographic direct citation analysis reveals the chronological evolution of the most relevant citations (Aria & Cuccurullo, 2017; Zupic & Čater, 2015).

We use a conceptual thematic map to illustrate the conceptual structure of the field and how the research streams are positioned in terms of centrality and density (Aria & Cuccurullo, 2017; Zupic & Čater, 2015). Finally, we conduct a content analysis to increase the understanding of the intellectual and conceptual structures that emerged using the previous techniques (Gaur & Kumar, 2018), identify the literature's theoretical lenses and trends, and suggest avenues for future research (Alon et al., 2018).

2.3.2 Data Extraction Process

For the data analysis and visualization, we used the “Bibliometrix” package in the R software, which is one of the most comprehensive bibliometric tools, with the most extensive set of techniques (Moral-Muñoz et al., 2020). The basis for this review is a collection of bibliographic data from the Scopus database. The Bibliometrix R-package works with data extracted from the two main bibliographic databases, Clarivate Analytics’ Web of Science (WoS) and Scopus (Aria & Cuccurullo, 2017). The WoS database has narrower coverage than Scopus. Scopus covers over 20,000 peer-reviewed journals, including those published by Elsevier, Emerald, Taylor and Francis, Springer, Informs, and Inderscience. Web of Science includes only ISI indexed journals, and is limited to 12,000 journals (Fahimnia et al., 2015; Yong-Hak, 2013).
Therefore, Scopus is more suitable for mapping smaller research areas that would be insufficiently covered by other databases (Zupic & Čater, 2015), which is the case for the literature about franchising in emerging and developing markets. Furthermore, several articles about emerging and developing markets are published in local journals. The Scopus database has more indexed journals from these countries. For instance, there are 1,954 journals from BRICS countries indexed in Scopus and only 434 in Web of Science (Elsevier, 2020; Web of Science Group, 2020).

We adopted a two-stage data extraction approach, following Alon et al. (2018), Apriliyanti and Alon (2017), and Fetscherin et al. (2010). Table 1 shows the detailed data search and extraction process.
<table>
<thead>
<tr>
<th>Step</th>
<th>Keyword Search</th>
<th># Articles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(((&quot;franchis*&quot; AND (&quot;emerging&quot; AND ((&quot;market*&quot; OR &quot;econom*&quot; OR &quot;countr*&quot;))) OR (&quot;developing&quot; AND (&quot;market*&quot; OR &quot;econom*&quot; OR &quot;countr*&quot;)))))</td>
<td>305</td>
</tr>
<tr>
<td>2</td>
<td>(((&quot;franchis*&quot; AND (&quot;emerging&quot; AND (&quot;market*&quot; OR &quot;econom*&quot; OR &quot;countr*&quot;))) OR (&quot;developing&quot; AND (&quot;market*&quot; OR &quot;econom*&quot; OR &quot;countr*&quot;) OR &quot;china&quot; OR &quot;brazil&quot; OR &quot;brasil&quot; OR &quot;russia&quot; OR &quot;india&quot; OR &quot;africa&quot; OR &quot;latin america&quot; OR &quot;brics&quot;)))</td>
<td>741</td>
</tr>
<tr>
<td>3</td>
<td>(((&quot;franchis*&quot; AND (&quot;emerging&quot; AND (&quot;market*&quot; OR &quot;econom*&quot; OR &quot;countr*&quot;))) OR (&quot;developing&quot; AND (&quot;market*&quot; OR &quot;econom*&quot; OR &quot;countr*&quot;) OR &quot;china&quot; OR &quot;brazil&quot; OR &quot;brasil&quot; OR &quot;russia&quot; OR &quot;india&quot; OR &quot;africa&quot; OR &quot;latin america&quot; OR &quot;brics&quot;)))</td>
<td>487</td>
</tr>
</tbody>
</table>

**After initial analysis of 487 articles, we excluded articles with the terms “enfranchisement”, "franchise value*", "suffrage", “democrac*", "sport", "game", "cinema", "religion" and articles that are not related to the franchising model**
First, we developed a keyword search in the Scopus database and executed it in January 2020. We considered a combination of the following search terms: (1) “franchis*”, in order to capture all variations of the term such as franchising, franchisor, franchisee, franchisor, franchise, franchiser; “AND” (2) emerging or developing market, econom*, countr*. However, some studies contributed to the literature using data from specific countries or regions. To capture these articles, we used a combination of the terms in (1) that mentioned China or Brazil or Russia or India or Africa or Latin America or BRICS. After refining the search by including only documents and only studies written in English, Portuguese, or Spanish, we were left with 487 articles for consideration in the first stage. The language filter was applied to enable the full comprehension of the articles in the second stage of data extraction process.

The second stage consisted of a detailed examination of the articles. First, we read the abstracts to check whether the articles identified in the first stage were suitable for the analysis (López-Fernández, Serrano-Bedia, & Pérez-Pérez, 2016). We removed duplicate documents and the articles with the terms "enfranchisement", "franchise value", “suffrage”, “democrac*”, "sport", "game", "cinema", or "religion" that are related to other meanings of the term franchise, such as the right to vote in a country’s elections, a set of films, video games, sports teams, and religious units. We also excluded articles that were not related to the franchising model utilized for commercial or social purposes, for instance, articles from the fields of politics, veterinary medicine, physics and astronomy, mathematics, and chemistry. If the abstract did not provide enough information to verify these conditions, we read the complete work to check it. As a result of this process, we were left with 297 studies for bibliometric analysis.

After the data extraction process for the bibliographic analysis, we selected key articles based on total global and local citations for the content analysis. Using this approach that is based on previous bibliometric studies allowed us to identify the leading research categories and streams, trends, and suggestions for future studies (Alon et al., 2018; Maditati et al., 2018). Articles with more than 10 total global citations and at least one local citation were selected. After applying the selection criteria, 31 articles were identified. We conducted a comprehensive reading and assessment of the articles, and developed a concept matrix as part of the coding process (Alon et al., 2018; Maditati et al., 2018; Sanchez-Famoso et al., 2020). The matrix contained the main information about the articles (title, authors, year of publication), research sub-themes (categories and streams), the scope of
the study (purpose and research questions), type and methodology, theories, key findings, and future research suggestions. We adopted these coding categories following the suggestions of Gaur and Kumar (2018) for literature reviews focused on research themes with a narrow scope.

Along with the studies identified in the bibliometric database extraction process, we added other relevant publications such as books and important local journals not indexed in Scopus to make the analysis more comprehensive. For instance, the book series about franchising in emerging markets edited by Welsh and Alon was the first structured investigation of this field, making a significant contribution to the analysis (Alon & Welsh, 2001; Welsh & Alon, 2001, 2002). The book chapter about micro franchising (Nunes et al., 2019), the book series about the internationalization of Brazilian franchise chains (Rocha et al., 2012, 2014, 2016, 2018), and other relevant local articles (Bretas et al., 2020; Cantoni et al., 2019) also provided additional pertinent insights.

2.4 Bibliometric analysis

The bibliometric analysis can be developed through different techniques, such as citation, co-citation, and bibliometric coupling. The choice of the method depends on the goal of the investigation. Citation analysis provides information about the influence of the publications, usually presenting lists of the most cited studies, authors, or journals as a measure of their importance. Co-citation analysis assumes that the analyzed articles build their research on similar articles previously published. It reflects the frequency with which two papers are cited together by other works. Bibliographic coupling reveals the connection between documents based on overlapping bibliographic references. It considers documents despite their citations, reflecting the production in the field and capturing more recent contributions (Vogel & Güttel, 2013; Zupic & Ćater, 2015).

We conducted a citation analysis and bibliographic coupling using the articles extracted from the Scopus database. Citation analysis shows the most relevant journals, articles, institutions, and authors, and bibliographic coupling identifies the interconnections of the literature. Bibliographic coupling is more suitable than co-citations in this case because it can be used for new publications that are not cited yet, emerging fields, and smaller subfields (Zupic & Ćater, 2015). Moreover, to complement the analysis, we also verified the historical evolution of the
2.4.1 Initial Data Statistics

The final sample of 297 articles was written by 737 authors and published in 214 journals, with an average citation level per document of 9.61. The oldest articles were published in 1989. Most of the authors wrote multi-authored documents (652 authors). Figure 1 illustrates the yearly publication on franchising in emerging and developing markets. The annual growth rate of publications in this field was 7.87%. The production level was quite low until 2006, when the first qualitative review article was published (Welsh et al., 2006). The output before 2006 was 60 publications, but from 2006 until January of 2020 it spiked to 237, representing 79.8% of the total number of publications.

The number of funded research studies also increased from 2006 onwards (Figure 1). The funded articles published from 2006 until January of 2020 represent 94.1% of all of the financed production in the area. The participation of funded research in the total output increased from 3.3% (1989 to 2005) to 13.5% (2006 to 2020). These figures show an increasing interest in the research on franchising in emerging and developing markets and the growing relevance of funding to this knowledge field.
2.4.2 Most Relevant Journals, Articles, Institutions, and Authors

The bibliometric citation analysis revealed the most relevant journals, articles, relevant institutions, and impactful authors. Table 2 outlines the top journals that published studies about franchising in emerging and developing markets. Since franchising is an interdisciplinary topic, the journals belong to various academic areas such as international business, management, health, and hospitality. Of the 215 journals, two journals published more than eight articles about the subject: *Journal of Marketing Channels (JMC)* (nine articles), and *Health Policy and Planning (HPP)* (eight articles). In terms of impact (h-index), these two journals had the most substantial impact, followed by the *Journal of Small Business Management and Global Health Science and Practice*. 
Table 3: Ranking of 20 most productive and influential journals (sorted by publication)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Journal</th>
<th>Publications</th>
<th>h_index</th>
<th>Total Citations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Journal of Marketing Channels</td>
<td>9</td>
<td>5</td>
<td>57</td>
</tr>
<tr>
<td>2</td>
<td>Health Policy and Planning</td>
<td>8</td>
<td>6</td>
<td>191</td>
</tr>
<tr>
<td>3</td>
<td>Journal of Small Business Management</td>
<td>4</td>
<td>4</td>
<td>209</td>
</tr>
<tr>
<td>4</td>
<td>Global Health Science and Practice</td>
<td>4</td>
<td>4</td>
<td>94</td>
</tr>
<tr>
<td>5</td>
<td>International Journal of Entrepreneurship And Small Business</td>
<td>4</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>Espacios</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Textile Outlook International</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>Journal of Business Research</td>
<td>3</td>
<td>3</td>
<td>50</td>
</tr>
<tr>
<td>9</td>
<td>Bmc Health Services Research</td>
<td>3</td>
<td>3</td>
<td>34</td>
</tr>
<tr>
<td>10</td>
<td>Journal of Global Marketing</td>
<td>3</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>11</td>
<td>Bulletin of The World Health Organization</td>
<td>3</td>
<td>2</td>
<td>64</td>
</tr>
<tr>
<td>12</td>
<td>Latin American Business Review</td>
<td>3</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>13</td>
<td>Plos One</td>
<td>3</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>14</td>
<td>Thunderbird International Business Review</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>15</td>
<td>Public Enterprise</td>
<td>3</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>16</td>
<td>China Business Review</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>17</td>
<td>Asian Case Research Journal</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>18</td>
<td>International Journal of Hospitality Management</td>
<td>2</td>
<td>2</td>
<td>102</td>
</tr>
<tr>
<td>19</td>
<td>International Journal of Emerging Markets</td>
<td>2</td>
<td>2</td>
<td>56</td>
</tr>
<tr>
<td>20</td>
<td>Journal of Services Marketing</td>
<td>2</td>
<td>2</td>
<td>34</td>
</tr>
</tbody>
</table>
Table 3 reports the 20 most relevant articles about franchising in emerging and developing markets. They had the most significant impact in terms of the total local citations (TLC) and total local citations per year (TCL/t). The most influential paper in this literature is Welsh et al. (2006). The majority of the most influential articles discuss international franchising or social franchising.
Table 4: Ranking of top 20 articles (sorted by TLC/t)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Author and year</th>
<th>TLC/t</th>
<th>TLC</th>
<th>TGC/t</th>
<th>TGC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Welsh et al. (2006)</td>
<td>1.69</td>
<td>22</td>
<td>7.77</td>
<td>101</td>
</tr>
<tr>
<td>2</td>
<td>Stephenson et al. (2004)</td>
<td>1.07</td>
<td>16</td>
<td>2.73</td>
<td>41</td>
</tr>
<tr>
<td>3</td>
<td>Pereira et al. (2015)</td>
<td>1.00</td>
<td>4</td>
<td>2.50</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>Aliouche and Schlentrich (2011)</td>
<td>0.88</td>
<td>7</td>
<td>5.38</td>
<td>43</td>
</tr>
<tr>
<td>5</td>
<td>Baena (2013)</td>
<td>0.83</td>
<td>5</td>
<td>1.50</td>
<td>9</td>
</tr>
<tr>
<td>6</td>
<td>Ngo et al. (2010)</td>
<td>0.78</td>
<td>7</td>
<td>2.00</td>
<td>18</td>
</tr>
<tr>
<td>7</td>
<td>Thurston et al. (2015)</td>
<td>0.75</td>
<td>3</td>
<td>2.75</td>
<td>11</td>
</tr>
<tr>
<td>8</td>
<td>Doherty et al. (2014)</td>
<td>0.60</td>
<td>3</td>
<td>3.00</td>
<td>15</td>
</tr>
<tr>
<td>9</td>
<td>Baena, V. (2012a)</td>
<td>0.57</td>
<td>4</td>
<td>4.14</td>
<td>29</td>
</tr>
<tr>
<td>10</td>
<td>Huntington et al. (2012)</td>
<td>0.57</td>
<td>4</td>
<td>1.43</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Wang et al. (2008)</td>
<td>0.55</td>
<td>6</td>
<td>1.27</td>
<td>14</td>
</tr>
<tr>
<td>12</td>
<td>Alon (2004)</td>
<td>0.53</td>
<td>8</td>
<td>3.13</td>
<td>47</td>
</tr>
<tr>
<td>13</td>
<td>Agha et al. (2007)</td>
<td>0.50</td>
<td>6</td>
<td>1.33</td>
<td>16</td>
</tr>
<tr>
<td>14</td>
<td>Grünhagen et al. (2010)</td>
<td>0.44</td>
<td>4</td>
<td>1.44</td>
<td>13</td>
</tr>
<tr>
<td>15</td>
<td>Duvall et al. (2014)</td>
<td>0.40</td>
<td>2</td>
<td>9.80</td>
<td>49</td>
</tr>
<tr>
<td>16</td>
<td>Prata et al. (2005)</td>
<td>0.36</td>
<td>5</td>
<td>4.00</td>
<td>56</td>
</tr>
<tr>
<td>17</td>
<td>Agha et al. (2007)</td>
<td>0.33</td>
<td>4</td>
<td>1.83</td>
<td>22</td>
</tr>
<tr>
<td>18</td>
<td>Baena (2009)</td>
<td>0.30</td>
<td>3</td>
<td>1.80</td>
<td>18</td>
</tr>
<tr>
<td>19</td>
<td>Grünhagen et al. (2012)</td>
<td>0.29</td>
<td>2</td>
<td>2.14</td>
<td>15</td>
</tr>
<tr>
<td>20</td>
<td>Pine et al. (2000)</td>
<td>0.26</td>
<td>5</td>
<td>2.89</td>
<td>55</td>
</tr>
</tbody>
</table>

TLC/t Average local citations received per year; TLC Total local citations received; TGC/t Average global citations received per year; TGC = Total global citations received

The three most relevant institutions that publish research on franchising in emerging and developing markets in terms of the number of contributions are the University of California (eight articles), Fu Jen Catholic University (seven articles), and the London School of Hygiene and Tropical Medicine (six articles). Most of the institutions producing research about the topic are headquartered in developed countries. However, there are a number of institutions from developing and emerging countries as well. Among the 20 most relevant institutions (Table 4), 8 are universities and institutions from emerging and developing countries (China, South Africa, Ghana, and Singapore), and 12 are universities and
institutions from developed countries (the United States, the United Kingdom, and Spain).

The country with the most prominent scientific production is the United States (156 articles), followed by the United Kingdom (57 articles), China (41 articles), India (37 articles), South Africa (35 articles), and Brazil (28 articles). The most cited country is also the United States, with 1,235 total citations, followed by the United Kingdom (276 citations), China (199 citations), India (77 citations), Ghana (70 citations), and Spain (69 citations). These findings show that there are more contributions from institutions in developed countries, although China has the second most significant number of universities among the 20 most relevant institutions (Fu Jen Catholic University, Hong Kong Polytechnic University, Beijing Normal University, and Shanghai Jiao Tong University).
Table 5: Most relevant institutions (sorted by publications)

<table>
<thead>
<tr>
<th>Affiliations</th>
<th>Publications</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of California</td>
<td>8</td>
<td>United States</td>
</tr>
<tr>
<td>Fu Jen Catholic University</td>
<td>7</td>
<td>China</td>
</tr>
<tr>
<td>London School of Hygiene and Tropical Medicine</td>
<td>6</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Rollins College</td>
<td>5</td>
<td>United States</td>
</tr>
<tr>
<td>The Hong Kong Polytechnic University</td>
<td>5</td>
<td>China</td>
</tr>
<tr>
<td>University of Ghana</td>
<td>5</td>
<td>Ghana</td>
</tr>
<tr>
<td>University of Oklahoma</td>
<td>5</td>
<td>United States</td>
</tr>
<tr>
<td>University of Washington</td>
<td>5</td>
<td>United States</td>
</tr>
<tr>
<td>Beijing Normal University</td>
<td>4</td>
<td>China</td>
</tr>
<tr>
<td>Johns Hopkins University Bloomberg School of Public Health</td>
<td>4</td>
<td>United States</td>
</tr>
<tr>
<td>Shanghai Jiao Tong University</td>
<td>4</td>
<td>China</td>
</tr>
<tr>
<td>Tulane University</td>
<td>4</td>
<td>United States</td>
</tr>
<tr>
<td>Universidad Europea de Madrid</td>
<td>4</td>
<td>Spain</td>
</tr>
<tr>
<td>University of Limpopo</td>
<td>4</td>
<td>South Africa</td>
</tr>
<tr>
<td>University of Pretoria</td>
<td>4</td>
<td>South Africa</td>
</tr>
<tr>
<td>Duke University</td>
<td>3</td>
<td>United States</td>
</tr>
<tr>
<td>Eastern Illinois University</td>
<td>3</td>
<td>United States</td>
</tr>
<tr>
<td>International Food Policy Research Institute</td>
<td>3</td>
<td>United States</td>
</tr>
<tr>
<td>National University of Singapore</td>
<td>3</td>
<td>Singapore</td>
</tr>
<tr>
<td>Northwestern University</td>
<td>3</td>
<td>United States</td>
</tr>
</tbody>
</table>

Table 5 presents the most impactful authors in the field. Alon, Baena, Dant, and Wall are the authors with the most significant contributions. The first three researchers have backgrounds in commercial franchising, while Wall's research focus is on social franchising. In terms of total citations, Dant has the highest number, followed by Alon.
Table 6: Most impactful authors (sorted by publications)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Author</th>
<th>Current affiliation²</th>
<th>Publications</th>
<th>h_index</th>
<th>Total Citations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alon, I.</td>
<td>University of Agder</td>
<td>7</td>
<td>5</td>
<td>210</td>
</tr>
<tr>
<td>2</td>
<td>Baena, V.</td>
<td>European University of Madrid</td>
<td>6</td>
<td>5</td>
<td>77</td>
</tr>
<tr>
<td>3</td>
<td>Dant, R. P.</td>
<td>University of Oklahoma</td>
<td>5</td>
<td>4</td>
<td>216</td>
</tr>
<tr>
<td>4</td>
<td>Wall, K.</td>
<td>University of Pretoria</td>
<td>5</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>Chakraborty, N. M.</td>
<td>Metrics for Management</td>
<td>4</td>
<td>3</td>
<td>43</td>
</tr>
<tr>
<td>6</td>
<td>Montagu, D.</td>
<td>University of California</td>
<td>4</td>
<td>2</td>
<td>66</td>
</tr>
<tr>
<td>7</td>
<td>Bhagwan, J.</td>
<td>South African Water Research Commission</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Ive, O.</td>
<td>Amanz' Abantu Services</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>9</td>
<td>Grünhagen, M.</td>
<td>Eastern Illinois University</td>
<td>3</td>
<td>3</td>
<td>36</td>
</tr>
<tr>
<td>10</td>
<td>Zhu, M.</td>
<td>University of International Business and Economics</td>
<td>3</td>
<td>3</td>
<td>35</td>
</tr>
<tr>
<td>11</td>
<td>Terry, A.</td>
<td>The University of Sydney</td>
<td>3</td>
<td>3</td>
<td>26</td>
</tr>
<tr>
<td>12</td>
<td>Chen, X.</td>
<td>Commonwealth University of Virginia</td>
<td>3</td>
<td>3</td>
<td>22</td>
</tr>
<tr>
<td>13</td>
<td>Perrigot, R.</td>
<td>University of Rennes</td>
<td>3</td>
<td>2</td>
<td>88</td>
</tr>
<tr>
<td>14</td>
<td>Thurston, S.</td>
<td>Population Services International</td>
<td>3</td>
<td>2</td>
<td>62</td>
</tr>
<tr>
<td>15</td>
<td>Agha, S.</td>
<td>Bill &amp; Melinda Gates Foundation</td>
<td>3</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>16</td>
<td>Hoffman, R. C.</td>
<td>Salisbury University</td>
<td>3</td>
<td>2</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td>Preble, J. F.</td>
<td>University of Delaware</td>
<td>3</td>
<td>2</td>
<td>39</td>
</tr>
</tbody>
</table>

² Information gathered on Google Scholar and ResearchGate platforms
2.4.3 Bibliographic Coupling

Figure 2 shows the network of bibliographic couplings within the field of franchising in emerging and developing markets. The nodes symbolize the documents, and the edges represent bibliographic couplings.
Figure 3: Bibliographic coupling showing linkages across articles
Two main clusters dominate the field, and one smaller subgroup is attached to both. Based on the bibliographic coupling results and an analysis of the articles’ content in each cluster, we identified the predominant research categories. We labeled the first cluster (Number 1) “international franchising”. The documents in this cluster address two main research categories. The first is related to the specific research streams of international franchising, investigating topics associated with the international expansion of franchisors from or to emerging and developing markets. Examples include the market selection process (Aliouche & Schlentrich, 2011; Baena, 2012; Baena & Cerviño, 2014; Melo, Borini, & Ogasavara, 2019), choice of entry and international governance mode (Jell-Ojobor & Windsperger, 2017; Preble & Hoffman, 2006), and comparisons between domestic and international franchisors (Melo et al., 2015).

The second category consists of articles that deal with emerging and developing markets as context. In other words, the studies in this category analyze the main aspects of emerging and developing countries, describe their opportunities and challenges, identify the possible domestic impact of international franchising, and provide cross-cultural comparisons of the internal dynamics of franchising. Examples include articles that evaluate the economic, social, and cultural effects of international franchising in emerging and developing countries (Alon, 2004; Grünhagen et al., 2010), the dynamics of the relationship between the franchisor and the franchisee in these countries (Doherty et al., 2014), brand equity and loyalty (Chen & Su, 2014; Nyadzayo et al., 2018), and cross-cultural comparisons of plural forms of decisions (Dant et al., 2008).

The second cluster (Number 2) is called “social franchising”. The documents in this cluster can be divided into two main research categories that accord with Naatu and Alon’s (2019) conceptual framework of social franchising: (1) motivations for and performance evaluations of social franchising programs in emerging and developing countries (Chakraborty et al., 2016; Duvall et al., 2014; Munroe et al., 2015; Pereira et al., 2015; Sundari Ravindran & Fonn, 2011) and (2) modes of operation of social franchising programs. Social franchising networks can be developed by international private sector non-governmental organizations (NGOs), government or public-private partnerships, or through “stand-alone” or fractional models (Ngo et al., 2009). This category includes documents that discuss these configurations (Ngo et al., 2009, 2010; Suchman et al., 2018).
2.4.4 Historiographic Citation Analysis

The historiographic citation analysis provides a chronological map of the most relevant citations resulting from a bibliographic dataset (Aria & Cuccurullo, 2017). From our results, which appear in Figure 3, it is possible to understand the evolution of the literature about franchising in emerging and developing markets.
Figure 4: Historiographic direct citation network
The historical direct citation map reveals that the most relevant articles were published between 1998 and 2018. Furthermore, the two main clusters identified previously, international franchising and social franchising, have evolved in parallel in the last 20 years. As Figure 3 illustrates, there are three main research streams in international franchising cluster, which we denoted as A, B and C. In this cluster, Welsh et al.’s (2006) article is of particular importance because it provides a literature review about franchising in emerging markets that connects all of the research categories in this cluster.

Stream A, identified in blue in Figure 3, is related to studies that consider emerging and developing countries as context. In this stream we included articles that present characterizations of emerging and developing markets, and discuss the economic, social, and cultural impacts of international franchising in these countries. Examples include studies by Alon and Banai (2000), describing and presenting franchising opportunities in Russia, and Pine et al. (2000), characterizing the Chinese market.

Stream B, identified in purple and orange in Figure 3, is related to the category denoted in the bibliographic coupling as specific research about international franchising. This stream has articles that consider the macro and micro level factors influencing the selection of the markets to enter, the mode of doing so and the international governance modes. Examples include studies by Alon (2006a), Baena (2009), and Aliouche and Schlentrich (2011) that investigate the importance of factors such as GDP per capita, population size, market risk and uncertainty, and the franchisor’s international experience for decisions about markets to enter and the methods of doing so.

Stream C, identified in green in Figure 3, includes articles that consider the relationships and partnerships between the franchisor and franchisee in the international context and make cross-cultural comparisons of the domestic contexts (Altinay et al., 2014; Dant & Nasr, 1998; Doherty et al., 2014; Xiao et al., 2008).

We identified two research streams in the social franchising cluster that we labeled A and B. Stream A consists of studies about family planning and health services. These studies consider the adoption of social franchising to provide healthcare and family planning services in emerging and developing markets. Examples include articles by Stephenson et al. (2004), Ngo et al. (2010), and Prata et al. (2005). Stream B consists of studies that deal with technology and development (Brewer et al., 2005; Kuriyan et al., 2008). These studies consider
the franchising model a method for making technology available and creating jobs through entrepreneurship in emerging and developing markets, thereby promoting their development.

2.4.5 Conceptual Thematic Map

To reveal the conceptual structure of the literature about franchising in emerging and developing markets, we plotted the most relevant topics in the field that we identified through the authors’ keywords on a two-dimensional thematic map (Figure 4). The map indicates the strength of their internal (density) and external associations (centrality). It has four quadrants: high density and centrality (type 1), low density and high centrality (type 2), high density and low centrality (type 3), and topics with low values on both axes (type 4) (Grivel, Mutschke, & Polanco, 1995; López-Fernández et al., 2016).

Figure 5: Conceptual thematic map
The research topics in quadrant type 1, with high internal and external associations, are considered mainstream and the trending themes in the literature. Topics related to international franchising and entrepreneurship are located in this quadrant. The relevance of these topics in this specific literature is related to the role of emerging and developing markets as potential markets. Emerging markets consist of the largest and most dynamic markets for international franchisors, considering their population, per capita income, urbanization rates, and income distribution. These countries have used global franchising as a tool for entrepreneurial development (Alon, 2004, 2006a; Alon et al., 2000; Baena, 2012; Welsh & Alon, 2001).

In contrast, the research topics in quadrant type 4, with low values of density and centrality, are peripheral and weakly developed or emerging themes to be further developed. The main topic in this cluster is social entrepreneurship. Given our previous analyses presented in this study, we can conclude that this research stream is isolated from other topics in the field. It might be more connected to other areas such as health, considering the types of institutions and journals that publish these studies. For instance, some of the most relevant journals in this literature are *Health Policy and Planning* and *Global Health Science and Practice*. Their themes might have stronger ties with topics from other knowledge fields.

In quadrant type 2, with low density and high centrality, we see topics that are basic and transversal. Thus, in this cluster, there are general topics related to franchising, such as characteristics of the model, plural forms, and franchisor-franchisee relationships (Dant et al., 2008; Doherty et al., 2014). Finally, in quadrant type 3, with high density and low centrality, there are articles about specialized themes such as brand construction and awareness (Chen & Su, 2014; Nyadzayo et al., 2018; Rocha et al., 2018).

We also analyzed the keyword frequency (Figure 5), identifying the most relevant keywords based on the number of occurrences. The most frequent keyword is franchising (45 occurrences), which is used in transversal topics. Other general and transversal keywords, such as franchise and franchisee, appear among the most relevant. Keywords directly related to the trending themes in quadrant 1 such as internationalization, entrepreneurship, international franchising, and international business appear among the most frequent, with a total of 32 occurrences. In addition, keywords referring to countries or regions such as China, India, and emerging markets are also relevant. Keywords related to weakly developed themes such as social franchising and reproductive health, allocated to
quadrant type 4, are less frequent.

Figure 6: Keyword occurrence

2.5 Content analysis

2.5.1 Research Categories and Streams

Table 6 provides information about the 31 articles identified based on citations criteria, following previous bibliometric studies (Alon et al., 2018; Maditati et al., 2018). We divided the two major clusters, international franchising and social franchising, into categories and research streams. We also indicated the type of study, method, and theories used.
### Table 7: Analysis of 31 most influential articles (TGC ≥ 10 / TLC ≥ 1)

<table>
<thead>
<tr>
<th>Category</th>
<th>Stream</th>
<th>Articles</th>
<th>Type of analysis</th>
<th>Method</th>
<th>Theories</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International franchising (IF)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific IF streams</td>
<td>Market selection (macro-micro level factors)</td>
<td>Alon (2006a)</td>
<td>Quantitative</td>
<td>Descriptive statistics</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Aliouche and Schlentrich (2011)</td>
<td>Quantitative</td>
<td>Composite measures with weighting factors</td>
<td>Transaction cost theory</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Baena (2012a)</td>
<td>Quantitative</td>
<td>Regression</td>
<td>Uppsala model</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Baena (2009)</td>
<td>Quantitative</td>
<td>Regression</td>
<td>Transaction cost theory</td>
</tr>
<tr>
<td></td>
<td>International franchise partnerships</td>
<td>Dant and Nasr (1998)</td>
<td>Quali-Quant</td>
<td>In-depth study / MANOVA</td>
<td>Agency theory</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Xiao et al. (2008)</td>
<td>Quantitative</td>
<td>Descriptive statistics / X2-tests</td>
<td>Agency theory</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Resource-based theory</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Upper echelon theory</td>
</tr>
<tr>
<td>Emerging and developing markets as context</td>
<td>Market characterization</td>
<td>Alon and Banai (2000)</td>
<td>Conceptual / Descriptive</td>
<td>N/A</td>
<td>Macromarketing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pine et al. (2000)</td>
<td>Conceptual / Descriptive</td>
<td>N/A</td>
<td>Agency theory</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Welsh et al. (2006)</td>
<td>N/A</td>
<td>Stakeholder theory</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wang et al. (2008)</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Economic, social and cultural effects</td>
<td>Alon (2004)</td>
<td>Conceptual / Descriptive</td>
<td>N/A</td>
<td>Macromarketing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tsai et al. (2007)</td>
<td>Quantitative</td>
<td>Factor analysis / Importance – Performance analysis</td>
<td>Service quality</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Grünhagen et al. (2010)</td>
<td>Qualitative</td>
<td>Focus group</td>
<td>Consumer agency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Grünhagen et al. (2012)</td>
<td>Quantitative</td>
<td>MANOVA / ANOVA</td>
<td>Consumer agency</td>
</tr>
<tr>
<td></td>
<td>Domestic dynamics and cross-cultural comparison</td>
<td>Altinay et al. (2014)</td>
<td>Qualitative</td>
<td>In-depth interviews</td>
<td>Power dependence</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Doherty et al. (2014)</td>
<td>Qualitative</td>
<td>In-depth interviews</td>
<td>Social exchange</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dant et al. (2008)</td>
<td>Quantitative</td>
<td>MANOVA / ANOVA / Regression</td>
<td>Agency theory</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Institutional theory</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Agency theory</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Resource constraint</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Signaling</td>
</tr>
</tbody>
</table>
We also coupled the content analysis of the most cited articles with papers identified through bibliographic techniques and other types of relevant references to make the study more comprehensive. Four research categories emerged when we combined the bibliometric and content analyses. The cluster of international franchising is composed of articles about (a) specific international franchising streams and (b) emerging and developing countries as context. The articles about social franchising can be divided into (c) social franchising motivations and performance and (d) the modes of operation of social franchising. Figure 6 illustrates the resulting research framework of the field.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Family planning and health services</td>
<td>Quantitative</td>
<td>Regression</td>
<td>Logistic regression</td>
<td>Regression</td>
<td>In-depth study / Descriptive statistics</td>
<td>In-depth study / Descriptive statistics</td>
<td>Difference-in-difference</td>
<td>Holm’s method / Non-parametric test</td>
</tr>
<tr>
<td>Technology and development</td>
<td>Brewer et al. (2005)</td>
<td>Christensen et al. (2010)</td>
<td>Quantitative</td>
<td>Regression</td>
<td>Conceptual / Descriptive</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Operation modes</td>
<td>Prata et al. (2005)</td>
<td>Public-private partnership / Fractional model</td>
<td>Quantitative</td>
<td>Descriptive statistics</td>
<td>N/A</td>
<td>Interviews / Focus group / Semistructural observations</td>
<td>Macromarketing</td>
<td>N/A</td>
</tr>
</tbody>
</table>
2.5.2 Specific International Franchising Streams

The first category in the international franchising cluster (a) covers studies about franchising in emerging and developing markets with regard to three topics: 1) the macro and micro determinants of market selection, 2) entry and governance modes, and 3) international franchise partnerships. These categories align with Rosado-Serrano et al.’s (2018) general international franchising research categories. Most of the articles on the three topics deal with franchisors from developed countries operating in emerging and developing countries, with some exceptions involving franchisors from emerging and developing countries expanding abroad. A few studies explore the effect of aspects of emerging economies such as the institutional environment on the decisions of franchisors headquartered in these countries to internationalize. Also, few articles debate the suitability of existing theories in explaining their choices (Aguiar et al., 2017; Alon et al., 2013; Melo et al., 2015; Melo et al., 2019).
The research stream dealing with market selection investigates the macro and micro level factors that might affect the franchisor's decisions about the destination countries. Alon (2006a) evaluated the economic potential of the emerging markets according to their population, GDP per capita, urbanization level, and income distribution. He found that Brazil, Russia, and Mexico outranked China and India as the markets with the largest economies for service franchising. Aliouche and Schlentrich (2011) developed an index of international franchise expansion that ranks countries according to their attractiveness to US-based franchisors. Finally, Baena (2012a) analyzed possible determining factors that drive the international franchising expansion of Spanish franchisors into emerging markets.

Previous literature reviews have recognized the study of the entry and governance modes as one of the main areas of interest in the international franchising literature. Researchers have identified company-owned outlets, direct franchising, area development, master franchising, and franchising joint ventures as the leading governance modes in international franchising (Jell-Ojobor & Windsperger, 2014; Rosado-Serrano et al., 2018). The studies are concerned with the adequacy and the costs and benefits of the various entry and governance modes, as well as the host market’s conditions. Most studies consider the similarities and differences between the home and host countries as important factors in deciding how to enter and govern a franchise in emerging and developing markets (Baena, 2009; Preble & Hoffman, 2006).

Research about international franchise partnerships covers the process of selecting an international partner and the relationships between cross-border franchisors and franchisees. Local partners are essential to the success of international operations because of their knowledge about local practices, regulations, and customer preferences (Rosado-Serrano et al., 2018). In their study of prospective Chinese franchisees Xiao et al. (2008) indicated that they had a great deal of knowledge about and interest in franchising, affected mainly by their educational background and industry experience.

International franchising relationships face a specific set of challenges due to cultural differences, language barriers, and business practices. For example, monitoring is a significant challenge for international franchisors. Dant and Nasr (1998) investigated U.S. based franchisors’ monitoring techniques for evaluating the performance of their franchisees in the Middle East and Africa. They found that the extent of competition that franchisees face is an incentive. However, the
age of the relationship is a disincentive for the exchange of information between franchisees and franchisors.

2.5.3 Emerging and Developing Countries as Context

The second research category in the international franchising cluster (b) covers studies about three topics: 1) market characterizations, 2) the possible impacts of international franchising, and 3) domestic franchising dynamics and cross-cultural comparisons.

The articles that provide market characterizations are descriptive and highlight the main aspects, opportunities and challenges of emerging and developing countries as potential host markets (Wang et al., 2008), usually for franchisors from developed countries (Alon & Banai, 2000; Pine et al., 2000; Welsh et al., 2006).

The studies that consider the economic, social, and cultural effects of international franchising discuss the potential positive and negative impacts of international franchisors operating in emerging and developing countries. Welsh and Alon (2001) and Alon (2004) argued that emerging markets have used global franchising as a tool for economic and entrepreneurial development, employment creation, and global integration. Welsh et al. (2006) pointed out the positive effects on local development but also noted some adverse effects, such as the displacing of local businesses.

Grünhagen et al. (2010) investigated the impact of U.S. franchisors in Egypt, focusing on the consumers' acceptance of and reactions to international brands. They demonstrated that the franchising’s effects are broad and complex. Grünhagen et al. (2012), Tsai et al. (2007), Dant et al. (2016), and Jeon et al. (2016) also investigated the consumer perspective, analyzing the impact of U.S. franchising brands on consumer behavior in several emerging economies.

The articles that discuss domestic franchising dynamics and cross-cultural comparisons cover topics such as the relationship between the franchisor and the franchisee, location choices, and plural forms of decisions in the local, internal context of emerging and developing countries. Altinay et al. (2014) evaluated the antecedents of the development of the franchise relationship from the perspective of Chinese and Turkish franchisees, highlighting the role of performance and communication. Doherty et al. (2014) analyzed the franchising relationship in China, focusing on aspects of power, control, support, and conflict. Dant et al.
(2008) compared the plural form of decisions in Brazil, France, and the United States, revealing that plural forms are used almost three times more often in France and Brazil than the United States.

2.5.4 Social Franchising Motivations and Performance

The first research category in the social franchising cluster (c) identified in the bibliometric and content analyses is related to the motivations and performance evaluation of social franchising programs. Social franchising can be described as the application of business-format franchising to achieve social benefits. In other words, it is a market-based approach derived from commercial franchising adopted to organize, improve and provide quality-assured services and products of social importance, especially to low- and middle-income countries (Alon, 2014; Naatu & Alon, 2019; Pereira et al., 2015). The studies in this category can be divided into two streams: family planning and health services programs, and technology and development.

Although the model can be applied in both developed and developing countries, in the latter countries, social franchising exists predominantly in the health sector (Alon, 2014; du Toit, 2014). Among the articles that investigate motivations and performance, the majority are related to social franchising for health, family planning, or reproductive health. For instance, Stephenson et al. (2004) examined the associations between franchise membership and family planning and reproductive health outcomes in Pakistan, Ethiopia, and India. Agha et al. (2007) analyzed the impact of a reproductive health franchise on client satisfaction in Nepal. Huntington et al. (2012) evaluated the motivations of providers to join or remain within a social franchising network.

The second stream includes studies that consider franchising as a mechanism for technology diffusion and the economic development of emerging and developing countries. One of these methods is the use of the micro franchising model, defined as the establishment of small businesses with minimal start-up costs. Alon (2014) considered social and micro franchising the third generation of franchising, after the first generation (product distribution) and the second (business-format franchising). Christensen et al. (2010) analyzed the potential of micro franchising to act as an employment incubator, comparing the monthly profits of micro franchisees and stand alone businesses in Ghana. Brewer et al. (2005) studied the role of information and communications technology (ICT) in
addressing the needs of developing regions. They found that franchising is a successful way to deploy large-scale ICT projects in emerging and developing countries.

### 2.5.5 Social Franchising Operation Modes

The second research category in the social franchising cluster (d) covers the studies that investigate the modes of operation in social franchises. As mentioned before, social franchising networks can be developed by international private sector non-governmental organizations (NGOs), government, or public-private partnerships. Their modes of operation include government ownership. Some components of private sector social franchise models, such as franchising fees and royalties, are usually not applied because other stakeholders might view them as inappropriate. Moreover, the franchise arrangements may either be stand alone, in which the agreement is related to the entire franchisee operation, or fractional, in which only some of the goods or services provided by the franchised clinics are part of the branded franchisor-franchisee agreement (du Toit, 2014; Ngo et al., 2009).

Prata et al. (2005) assessed the use of social franchising to supplement government programs in the delivery of public health services in 22 sub-Saharan African countries. They concluded that the limited human resources available to governments necessitated a strategy of greater involvement with the private sector, and social franchising provided a possible solution to this problem. Ngo et al. (2009) evaluated the fractional social franchise model of reproductive health services through community public health clinics adopted in Vietnam. They found that the adaptation of the social franchise model to the public sector context could improve the quality of reproductive health care services significantly. Finally, Ngo et al. (2010) documented that the government social franchise model adopted in Vietnam increased the use of reproductive health and family planning services.

### 2.6 Theoretical Underpinnings

As Table 6 indicates, the research about franchising in emerging and developing markets uses various theoretical lenses. The core theories adopted in the most cited articles are agency theory (Alon & Banai, 2000; Dant et al., 2008; Dant & Nasr, 1998; Doherty et al., 2014; Xiao et al., 2008), transaction cost theory (Aliouche & Schlentrich, 2011; Baena, 2009; 2012), resource-based theory (Dant et al., 2008; Preble & Hoffman, 2006; Xiao et al., 2008), and macro marketing (Alon, 2004; Alon & Banai, 2000; Ngo et al., 2009).
Some theories are utilized in specific research streams. For instance, service quality and consumer agency are used in three articles about the economic, social, and cultural effects of international franchising on local consumers (Grünhagen et al., 2010, 2012; Tsai et al., 2007).

Other theoretical lenses applied are the Uppsala model, the OLI paradigm, and the power dependence, social exchange, entrepreneurship, upper echelon, institutional, and signaling theories. However, some articles, particularly those in the social franchising research cluster, are descriptive and do not mention or use the concepts of any particular theory.

2.7 Future research directions

We maintain that research would benefit from future investigations into the four categories we identified in our analysis: specific international franchising streams, emerging and developing countries as context, social franchising motivations and performance, and social franchising operation modes.

2.7.1 Research agenda for specific international franchising streams

Our review shows that most articles about specific international franchising streams, such as market selection, entry and governance modes, and international partnerships, analyze franchisors from developed countries operating in emerging and developing countries. Studies about the internationalization of firms headquartered in emerging and developing economies into other emerging countries or into developed economies have appeared more recently in the literature. However, the research in this area is rather limited (Nielsen et al., 2018; Wright et al., 2005).

Due to their increased relevance in international business, future research needs to focus on the decision-making processes of franchisors headquartered in emerging and developing countries. These markets tend to have environmental uncertainties rooted in their lesser economic development and weaker institutional settings. They might face a liability of origin due to lack of reputation and legitimacy in international markets. Home country conditions might prompt companies headquartered in these countries to follow particular paths of international expansion. These paths might affect the speed at which they can internationalize, and their entry modes, geographical scope, and location decisions...
We suggest two future research issues for further exploration in this context. First, it is important to understand the country-of-origin effects on the host countries’ partners, employees, and customers’ perceptions. In other words, scholars should explore the host countries' stakeholders' impressions about the reputation of emerging and developing franchisors. Are stakeholders willing to work with or buy from these companies, especially when the host markets are in developed countries? Do perceptions about the company’s reputation affect decisions about internationalizing? Signaling theory can be useful for addressing these questions (Mukherjee et al., 2018). The case of a Brazilian franchisor that expanded its operations to Europe in 2008 can illustrate this type of challenge that companies in emerging and developing markets face. At the beginning of the operation, local workers were unhappy about being controlled by Brazilian owners (Bretas, 2016).

Second, future studies should try to determine whether factors in the Western, developed context are relevant to emerging countries. What aspects differ between franchisors in emerging and developing economies and those in developed economies? Does the home country's institutional environment influence their behavior and decisions about international expansion with regard to location/market selection, geographical scope, and entry modes? Do the existing theories explain their choices (Cuervo-Cazurra, 2012)? Does the franchising model enable these firms to overcome the liabilities of emergingness (Scalera et al., 2020), such as the lack of reputation, information asymmetry, financial resources, distribution capacity, and technology?

2.7.2 Research agenda for emerging and developing markets as context

Our analysis shows that research about emerging and developing markets has been focused on their growing market potential, the possible impact of international franchising, and domestic franchising dynamics. Most empirical articles investigate samples or cases from a single country (Baena, 2009, 2012a; Grünhagen et al., 2010, 2012; Tsai et al., 2007; Xiao et al., 2008). In general, there is relatively little comparative research on multinationals headquartered in emerging markets (Scalera et al., 2020).

Future research could conduct cross-national investigations involving franchise companies from emerging and developing markets. Comparative studies
can improve our understanding of the similarities and differences between them and companies in developed countries. Dant et al. (2008) suggested expanding the literature about comparative international franchising by exploring legal, economic, and social issues across countries. Lafontaine (2014) and Grünhagen et al. (2012) also recommended research about franchising with cross-national data.

Cross-national research is useful not only for comparing the context of emerging and developing economies and that of developed countries but also for highlighting the differences between countries classified as emerging and developing markets. Although these countries share some attributes, there are essential specificities and various institutional characteristics (Nielsen et al., 2018) that need to be analyzed further.

2.7.3 Research agenda for social franchising motivations and performance

The studies about social franchising are predominantly descriptive and characterize the existing programs and their results. Most of the articles analyzed in this work report and empirically evaluate the motivations, performance and organizational forms of specific programs, especially in the health sector (Agha, Gage, et al., 2007; Agha, Karim, et al., 2007; Duvall et al., 2014; Munroe et al., 2015; Ngo et al., 2009; 2010; Prata et al., 2005; Thurston, Chakraborty, Hayes, Mackay, & Moon, 2015). These studies do not provide in-depth discussions about the long-term effects of social franchising on development, local wealth creation, knowledge diffusion, the effect on stakeholders and other big picture issues. There is a need for broader and more structured studies using theoretical lenses that might help explain the tenets of social franchising (Naatu & Alon, 2019).

Micro franchising is another topic that is usually studied as a social franchising model that needs additional investigation. Most studies characterize micro franchises as base–of–the–pyramid, market-oriented businesses, uniting the goals of creating profits and alleviating poverty (Alon, Mitchell, et al., 2010; Christensen et al., 2010; Kistruck et al., 2011; Naatu & Alon, 2019). However, a debate that has recently emerged is whether micro franchising is a business model that is socially oriented, with a concomitant focus on profit and alleviating poverty (Christensen et al., 2010), or whether the employment and income opportunities created are simply the unintended consequences of the expansion of profit-oriented franchises. Evidence from Brazil shows that micro franchising has been adopted to expand into areas that are difficult to reach or have logistical problems (Nunes
et al., 2019). Moreover, a case study with Brazilian micro franchisees underscored the franchisors' opportunistic behavior (Melo, Borini, & Cunha, 2014; Nunes et al., 2019). Thus, to understand the phenomenon fully, it is crucial to explore the motivations on both sides in greater depth and the possible adverse effects of micro franchising.

### 2.7.4 Research agenda for social franchising operation modes

The performance of social franchising models depends on their operation structure. They can be developed by international private sector non-governmental organizations (NGOs), government, or public-private partnerships. In all cases, financing is a major concern for social franchising programs. Their viability and long-term sustainability depend on the resources obtained from several sources, such as donations and public funding.

Several scholars have identified the need for more research about new alternatives and types of financing to scale-up social franchising programs and make them cost-effective, diversify the sources of funding and reduce the dependence on donations (Huntington et al., 2012; Pereira et al., 2015; Stephenson et al., 2004; Thurston et al., 2015). Future research can examine financing malfunctions (for instance, in the donation process), other possibilities of financing, successful and unsuccessful cases, and the potential positive impacts in terms of socio-economic development.

### 2.8 Conclusions

Using a sample of 297 articles from the literature about franchising in emerging and developing markets, we investigated the intellectual and conceptual structure of the field, identified the most influential research perspectives, and proposed a future research agenda. As a result of a bibliometric analysis through bibliographic coupling, historiographic citation, and conceptual thematic mapping, we revealed two main clusters of articles, those on international franchising and social franchising.

Specific research categories emerged by coupling the bibliometric techniques with a content analysis. In the international franchising cluster, we found two research categories: (a) studies about specific international franchising
and (b) studies about emerging and developing countries as context. In the social franchising cluster, two other research categories emerged: (c) social franchising motivations and performance and (d) the modes by which social franchising operate. We established that most of the articles analyze the franchising in emerging and developing countries from the point of view of developed countries, even though Chinese universities are gaining prominence in the number of articles produced. Another finding was that several articles, particularly in the social franchising cluster, are descriptive and do not mention or use the concepts of any theories.

Despite the growing attention in the academic and managerial literature about franchising, there have been relatively few previous attempts to fully understand the extent of the literature about franchising in emerging and developing markets. This article provides an important complement to the existing qualitative reviews and attempts to characterize the market. Moreover, we seek to advance the literature by suggesting future research on the international expansion of franchisors based on emerging or developing economies, country-of-origin effects on reputation and decision-making processes, cross-national investigations, financing alternatives for social franchising models, the effects of social franchising on the development of these countries, and more structured studies using theoretical lenses to explain the tenets of social franchising.

This study is not free of limitations. The first involves our use of the Bibliometrix package in R. It is one of the most comprehensive bibliometric tools. It is open-source and includes a large variety of analyses (Aria & Cuccurullo, 2017; Moral-Muñoz et al., 2020). As Moral-Muñoz et al. (2020) noted, “Bibliometrix and its Shiny platform contain the more extensive set of techniques implemented” (p. 16). However, it does not include certain pre-processing options, such as the removal of duplicate documents. According to Moral-Muñoz (2020), pre-processing features are underdeveloped in bibliometric tools in general. In this study, we adopted the two-stage data extraction approach to overcome this limitation, removing the duplicate documents. The data extraction process also helped us deal with limitations regarding the quality of the abstracts. If the abstract did not provide enough information to verify the adequacy of the article in the analysis (for instance, works not related to the franchising model utilized for commercial or social purposes), we read the entire work to check it. Finally, the software has a limited ability to create and edit figures. To overcome this
limitation, the data must be extracted and manipulated using other software packages, when possible.

In addition, we analyzed studies from the Scopus database, but some relevant studies produced in emerging and developing countries may not be part of international databases. We also acknowledge that relevant articles in languages other than English, Portuguese, and Spanish were not considered due to the authors' limitations in reading abstracts and full articles in other languages. Future research can expand this study to include articles written in languages from other emerging and developing countries. We added other relevant publications such as books and executive insights to make the analysis more comprehensive. Thus, our study does provide insights into the literature about franchising in emerging and developing markets.

2.9 References


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3. Article 2 - The Choice of International Governance Mode: Evidence from Brazilian Franchisors³

3.1 Abstract

The purpose of this article is to test a novel, integrative theory of governance mode selection in the context of international franchising from Brazil. Given the Brazilian emerging market context, we added and tested another variable in the model relating to environmental distance between the home (Brazil) and host countries. To test the theory, we employed two logistics regression models and representative data from the Brazilian Franchising Association in addition to the World Bank's Doing Business index, and the CEPII (Centre d’ études prospectives et d'informations internationals). Findings show that three factors influence Brazilian franchisors’ choices regarding international governance modes: the environmental uncertainty of the host countries, their behavioral uncertainty, and the franchisors' financial capacity. However, the environmental distance does not influence internationalization strategies of Brazilian firms. Emerging markets firms’ governance modes of entry can be adequately explained with the existing model despite contextual differences.

Keywords: international franchising; governance; modes of entry; international marketing; international business; emerging markets

3.2 Introduction

One of the most discussed areas in the franchising literature is international governance. When a company adopts franchising as a way of entering foreign markets, it can choose different types of governance modes that vary in terms of residual income, ownership, and the allocation of decision rights (Jell-Ojobor & Windsperger, 2014; Rosado-Serrano, Paul, & Dikova, 2018). Due to the complexity of these decisions, Jell-Ojobor and Windsperger (2014) proposed an integrative multi-theoretical model to assess both the organizational economics and strategic management factors that might influence the franchisors' choice. They evaluated the model empirically through a case study with two franchisors from Germany and France (Jell-Ojobor & Windsperger, 2017), but the authors suggested conducting quantitative research in different markets.

Following this suggestion, this study quantitatively tests the conceptual model in an emerging market. Brazil offers an interesting context in which to investigate the franchising governance mode choices, both empirically and theoretically. Empirically it is interesting because most of the work on franchising over the last two decades has used data from the United States, Canada, and Western Europe, despite the relevance and growth potential of franchisors headquartered in emerging economies (Aguiar, Luppe, & Nascimento, 2017; Lafontaine, 2014; Nielsen, Hannibal, & Larsen, 2018; Wright, Filatotchev, Hoskisson, & Peng, 2005). Few studies of international franchising from Brazil exist, but the market is large and growing. In 2019, Brazil had 2,918 franchisor brands with 160,958 operations, and revenue growth of 6.8%. Moreover, from 2010 to 2019, the number of Brazilian franchisors in international markets grew by 151% (ABF, 2020).

From a theoretical perspective, internationalizing Brazilian franchisors represent emerging market multinationals, which possess unique characteristics in their international expansion strategies contributing to the Goldilocks’ debate about the suitability of existing theories (Cuervo-Cazurra, 2012). Being used to unstable conditions and weak institutions may help emerging market multinationals in similar environments, such as those encountered in other developing countries (Cuervo-Cazurra, 2012; Cuervo-Cazurra & Genc, 2008; Ramamurti, 2012). Home country conditions such as an uncertain environment might prompt companies headquartered in emerging markets to follow particular
paths of international expansion with greater internalization on other emerging market locations.

Our article contributes to the debate by siding with the camp, argued by Ramamurti (2009), suggesting that emerging markets multinationals follow a particular path of internationalization that can be partly explained by predictions of existing theories. Emerging economies are diverse, with different institutional arrangements and heterogeneous firms. The environmental similarity may not be the only or primary aspect influencing the internationalization decisions of all emerging market companies. This is true of Brazilian franchisors. Other factors, as the host country business environment, may become more relevant to the companies’ expansion strategies (Estrin, Meyer, & Pelletier, 2018; Hoskisson, Wright, Filatotchev, & Peng, 2013; Lanfranchi, Melo, Borini, & Telles, 2020; Melo et al., 2015; Wright et al., 2005).

For instance, the most important destination country for Brazilian franchisors is the United States because of its market potential and business efficiency (Cantoni, Rocha, Galhanone, & Righetti, 2019; Melo et al., 2015). In 2019, of 163 international Brazilian franchisors, 67 had operations in the United States (ABF, 2020). In Aguiar et al.’s (2014) study, 7 of the 21 Brazilian franchisors interviewed had the US as their first foreign host market. Brazilian companies regard the US as their reference country (Fonseca & Rocha, 2018; Melo et al., 2015), despite the differences in their business environments. We conclude that the internationalization models need extensions or refinements only when the aspects of the country-of-origin are relevant (Cuervo-Cazurra, 2012).

This article aims to understand to what extent the integrative model of the international governance mode can explain the decisions of Brazilian franchisors. To achieve this goal, we tested Jell-Ojobor and Windsperger’s (2014) conceptual model empirically using data from Brazil. We expand the boundaries of the model by testing the impact of the environmental distance between the home and host countries on the choice of governance mode of Brazilian franchisors. We conducted our quantitative analysis with a logistic regression model using Brazilian Franchising Association data from 108 franchisors with international operations, the World Bank's Doing Business index, and the CEPII (Centre d'études prospectives et d'informations internationals) databases.

This study contributes to the international franchising and emerging markets literature in three ways. First, we investigated the role of the environmental distance between the home and host countries in the choice that
Brazilian franchisors made about their governance mode to determine whether the integrative model of the choice of international franchising governance mode needs to be extended to the emerging market context. Furthermore, we tested the integrative model through quantitative research, providing statistical evidence to complement the theoretical and partial results from analyses of case studies provided by previous research (Jell-Ojobor & Windsperger, 2014, 2017). Finally, most research on emerging markets multinationals is in the context of industrial companies and in particular Chinese ones (e.g., Alon et al., 2018). This study concerns service companies whose products are often unexportable because consumption and production are inseparable and, thus, home country endowments will play a lesser role.

The rest of this article is organized as follows. After this introduction, the next section presents the theoretical background. Section 3.4 introduces the model and hypotheses. Section 3.5 outlines the methodology adopted. Section 3.6 describes the empirical test of the hypotheses and results. Section 3.7 discusses the findings, and Section 3.8 presents the conclusions of the study.

3.3 Literature review

3.3.1 International entry and governance modes

The literature about international business, market entry, and retailing classifies franchising as an important mechanism through which companies enter international markets (Cavusgil, Knight, & Riesenberger, 2017; Jell-Ojobor & Windsperger, 2014; Mumdžiev, 2011). According to the hierarchical model of market entry modes (Pan & Tse, 2000), companies must make two decisions about how to enter new markets. First, they must choose between equity and non-equity modes. Second, they must choose the specific mode of entry. Possibilities include joint ventures, wholly-owned subsidiaries, exports, and contractual agreements. Franchising is classified as a non-equity, contractual, medium-control entry mode (Brown, Dev, & Zhou, 2003; Kedia, Ackerman, Bush, & Justice, 1994; Sashi & Karuppur, 2002).

A company that adopts franchising as a way to enter foreign markets can develop its operations abroad through various governance modes, meaning the organizational arrangements that companies utilize to conduct their international
business. The main international franchising governance modes are direct investment, joint ventures of franchising, direct franchising, master franchising, and area development. These modes differ in terms of the allocations of residual income and control rights (ownership and decision rights) between the franchisor and the partners in foreign countries. The degree of the franchisor’s investment required and the level of control increase from modes such as master franchising and area development to joint ventures of franchising and company-owned outlets because more residual income, ownership, and decision rights are allocated to the franchisor. Therefore, we can categorize the governance modes as high control or low control modes, based on the degree of control exercised by the franchisor and by its partners (Alon, 2000; Benito, Petersen, & Welch, 2009; Combs, David J. Ketchen, & Short, 2011; Hansmann, 1996; Jell-Ojobor & Windsperger, 2014; Mumdžiev, 2011; Rosado-Serrano et al., 2018; Windsperger, Kocsis, & Rosta, 2009).

Direct investment (company-owned outlets) and joint ventures of franchising are examples of high control governance modes. In direct investments, the franchisor invests in company-owned outlets in foreign markets, maintaining full control over the operations. In franchising joint ventures, the franchisor enters into an equity relationship with the foreign partner to set a joint venture company, making a master franchising or area development agreement with the joint venture company to expand the system. The franchisor and the joint venture partner share the ownership, decision, and residual income rights.

The major low control franchising governance modes are franchisee-operated arrangements. For instance, in direct franchising, the international franchisor sells the business concept to an individual franchisee in the host country. In a master franchising agreement, the franchisor grants to a master franchisee the right to operate franchise units and to give franchise rights to third parties. In an area development agreement, the franchisor grants the franchisees a defined territory in which they can develop units. In these modes, the local partner has only decision and residual income rights (Jell-Ojobor & Windsperger, 2014; Rosado-Serrano et al., 2018).

Several previous studies have dealt with governance modes and the factors that influence their choice using different theoretical lenses (Aguiar et al., 2017; Alon, 2000; Benito et al., 2009; Burton, Cross, & Rhodes, 2000; Dikova & Brouthers, 2016; Jell-Ojobor & Windsperger, 2014, 2017; Mumdžiev, 2011). However, the acknowledged relevance of theoretical diversity in explaining
complex phenomena such as international entry and governance modes (Anil, Tatoglu, & Ozkasap, 2014; Brouthers & Hennart, 2007; Chiao, Lo, & Yu, 2010; Combs, Michael, & Castrogiovanni, 2004; Dikova & Brouthers, 2016; Gaur, Kumar, & Singh, 2014; Merrilees, 2014; Rosado-Serrano et al., 2018) is evident in few multi-theoretical studies about international franchising governance modes, and most of these articles are conceptual, descriptive, exploratory studies (Aguiar et al., 2017; Alon, 2000, 2006a; Jell-Ojobor & Alon, 2017; Jell-Ojobor & Windsperger, 2014, 2017; Merrilees, 2014).

Moreover, the majority of the entry and governance mode studies have been focused on developed countries, despite the growing relevance of emerging markets, and manufacturing, despite the growing importance of the service sector. Franchise chains from emerging markets have different historical, cultural, economic, and social contexts. Their particular institutional environment requires further investigation to better understand their paths of international expansion (Aguiar et al., 2017; Lafontaine, 2014; Melo, Borini, & Ogasavara, 2019; Nielsen et al., 2018).

3.3.2 Specificities of emerging markets

The increasing academic interest in multinationals headquartered in developing and emerging markets has generated a debate on whether the existing theories based on the analysis of such firms in advanced economies can explain these companies’ strategies, or whether they require new and specialized theories. Some scholars posit that multinationals based in developing and emerging countries can help extend the existing theories. According to this view, not all behaviors of emerging market firms are different from those of companies in advanced economies. They may share many characteristics. The main factor that distinguishes them is the country of origin and its effects on the firms' behavior (Cuervo-Cazurra, 2012; Cuervo-Cazurra and Genc, 2008; Cuervo-Cazurra and Montoya, 2018; Ramamurti, 2012).

Emerging markets tend to have environmental uncertainties borne out of lesser economic development and weaker institutional settings. Malfunctioning or missing institutions prevalent in emerging economies increase transaction costs. The institutional voids (where existing institutional arrangements and support are absent, weak, or fail) require the development of firm capabilities to address and manage these voids and their related transaction costs. Emerging markets
multinationals, as a result, are required to be flexible, willing to take risks, and develop a higher tolerance and resilience to instability (Cuervo-Cazurra, 2012; Cuervo-Cazurra & Genc, 2008; Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Khanna, Palepu, & Sinha, 2005; Douglas C. North, 1990; Douglass C. North, 1991; Ramamurti, 2012). The ability to interact with institutional voids in their domestic market may endow emerging market franchisors with greater competences in dealing with transaction costs as compared to firms from developed economies. The similarity between the emerging markets’ institutional environments may help their firms to deal with authoritarian political regimes, corruption, fluctuation in law enforcement, and other related issues (Aguiar et al., 2017; Cuervo-Cazurra, 2012; Cuervo-Cazurra & Genc, 2008; Lanfranchi et al., 2020; Melo et al., 2015; Melo et al., 2019; Ramamurti, 2012). On the other hand, despite having typical features such as the experience dealing with uncertainties in their home country, emerging markets are heterogeneous and differ in initial conditions and competitive outcomes. Since they have different levels of institutional and factor market development, the transaction costs and resources needed to achieve competitive advantage varies significantly (Estrin et al., 2018; Hoskisson et al., 2013; Kedia, Reddy, & Bilgili, 2015; Wright et al., 2005).

Brazil is a mid-range emerging economy, with institutions, infrastructure, and factor market semi-developed. Firms from mid-range emerging economies consist of a diverse group of companies with significant organizational heterogeneity, and for this reason, they follow different strategic options (Hoskisson et al., 2013; Hoskisson, Eden, Lau, & Wright, 2000; Wright et al., 2005). Estrin et al. (2018) examined the Brazilian context and found that physical distance, although usually a significant deterrent, might be an attractive factor for Brazilian companies. Historical ties can offset the effect of distance. This is the case of several Brazilian franchisors operating in Portugal, for instance (ABF, 2020), which showed a positive disposition towards the migrant diaspora (Brazilians in the host country). In another example, the desire to live in the US might drive internationalization there. In the case of the franchising company Nutty Bavarian, family members of the owners migrated to Florida, United States, and opened their first international operations there as a result (Auriemo, 2017).

Market potential can also play a factor. Although some Brazilian companies seek host countries with similar environments, others might prioritize better market and institutional conditions in their expansion strategies. Previous studies acknowledge the relevance of both market opportunity and business efficiency as
drivers for the international expansion of Brazilian franchise chains. Host countries with more mature institutions and fewer obstacles to doing business can be more attractive in some cases. For instance, Melo et al. (2015) show that Brazilian franchisors prioritize business efficiency over market potential when expanding to some small developed countries. In other cases, the market potential can override the institutional voids of the host country (Lanfranchi et al. 2020).

According to Melo et al. (2015), Brazilian franchisors consider both market opportunity and business efficiency before establishing operations in the United States, which is by far their most important destination country. In 2019, of 163 international Brazilian franchisors, 67 had operations in the United States (ABF, 2020). In Aguiar et al.’s (2014) study, 7 of the 21 Brazilian franchisors interviewed indicated the US as their first foreign host market. Despite the differences between their environments, previous qualitative studies show that Brazilian franchisors prioritize the United States due to the perception that operating in a prestigious and competitive market will benefit their brand and create positive impressions about the quality of their products (Bretas, Rocha, Spers, & Melo, 2020; Cantoni et al., 2019; Fonseca & Rocha, 2018; Melo et al., 2015; Rocha et al., 2014, 2018).

3.4 Integrative model and hypotheses

Jell-Ojobor and Windsperger (2014) proposed an integrative model that includes organizational economics and the strategic management variables that can influence the choice of international governance mode. The organizational economics perspective highlights the effect of the choice of governance mode in reducing costs and potentially increasing residual income. The strategic management perspective focuses on the impact of this choice on the company’s competitive advantage. Thus, the integrative model considers both concerns related to reducing costs and the issue of competitive advantage.

From the organizational economics perspective (transaction cost and agency theories), the authors analyze environmental uncertainty, behavioral uncertainty, and transaction-specific investments. From the strategic management perspective (resource-based, organizational capability, and property rights theories), they consider system-specific assets, local market assets, financial assets, and intangible assets. In 2017, Jell-Ojobor and Windsperger empirically evaluated the integrative model of the choice of international franchising governance mode through a case study analysis of the automotive rental industry.
The results showed that both organizational economics and strategic management factors are relevant for European franchisors’ choice of governance mode.

3.4.1 Transaction cost theory and agency theory perspectives on the choice of international franchise governance mode

According to transaction cost theory and agency theory, the choice of governance mode in international markets is related to the franchisors’ goal of minimizing costs. Several transaction and agency costs can be associated with international franchising. Examples include the costs of monitoring international operations, transferring knowledge to distant markets, and protecting property rights, as well as possible opportunism or shirking by the local partners. Thus, franchisors choose the governance mode most likely to reduce these costs, given factors such as the environmental uncertainty of the host markets and the behavioral uncertainty of the franchisees (Baena, 2012; Burton et al., 2000; Contractor & Kundu, 1998a; Fladmoe-Lindquist & Jacque, 1995; Grewal, Iyer, Javalgi, & Radulovich, 2011; Jell-Ojobor & Windsperger, 2014; Mumdžiev, 2011).

In international markets with different socio-cultural, economic, and institutional environments, the costs related to monitoring, adaptation, information transfer, and property rights protection are higher. The uncertainties and risks of host markets make it difficult to control and coordinate foreign operations. The franchisors’ lack of information about the specificities of host countries that suffer from environmental uncertainty requires them to delegate more tasks to their local partners (Hoffman, Munemo, & Watson, 2016; Jell-Ojobor & Windsperger, 2014, 2017).

In other words, the environmental uncertainty of host markets increases the franchisors’ transaction costs related to monitoring and coordination activities. Therefore, they will be inclined to allocate more decision rights to franchisees. As a result, in host countries with greater environmental uncertainty, franchisors that choose lower control modes count on their local partners' knowledge about the specificities of those markets and give them the flexibility to deal with changes (Baena, 2012; Burton et al., 2000; Fladmoe-Lindquist & Jacque, 1995; Jell-Ojobor & Windsperger, 2014; Mumdžiev, 2011). Thus, the transaction costs incurred due to environmental uncertainty in host markets increase the likelihood that
franchisors will choose lower control modes (Jell-Ojobor & Windsperger, 2014, 2017; Mumdžiev, 2011). Hence, we posit the following hypothesis:

**Hypothesis 1a.** The greater the environmental uncertainty of the host country, the more likely a franchisor will choose a low control mode in foreign markets.

We extend the model of Jell-Ojobor and Windsperger (2014) by including features about the specificities of the emerging markets, which might be relevant for internalization or modes of entry. On the one hand, being used to institutional voids can enhance the emerging market firms’ ability to deal with transaction costs in similar environments (Cuervo-Cazurra, 2012; Ramamurti, 2012). Under this condition, emerging markets multinational might internalize foreign operations in other emerging markets more easily. On the other hand, the environmental similarity may not be the only and primary condition influencing their internationalization decisions since they are heterogeneous, have organizational diversity and face different institutional arrangements (Estrin et al., 2018; Hoskisson et al., 2013; Wright et al., 2005). Factors other than environmental similarity can influence Brazilian franchisors’ international governance mode choices, such as the host country business environment.

Thus, we propose a second model (Model 2) that includes the environmental distance between the home and host country instead of the environmental uncertainty variable of Model 1. Through the comparison of the two models, it is possible to test the following hypothesis:

**Hypothesis 1b:** The greater the environmental distance between the home and host countries, the more likely the Brazilian franchisors choose a low control mode in foreign markets.

Successfully transferring information to distant locations is a challenge to franchisors, increasing the level of behavioral uncertainty. When the geographic distance between the home and host countries is greater, the information asymmetry and the risks of opportunistic behavior, free-riding, and shirking are greater (Castrogiovanni, Combs, & Justis, 2006; Combs et al., 2004; Fladmoe-Lindquist & Jacque, 1995; Jell-Ojobor & Windsperger, 2014, 2017; Mumdžiev, 2011; Watson, Stanworth, Healeas, Purdy, & Stanworth, 2005).
Hence, the greater the geographic distance between home and host country, the greater the behavioral uncertainty and the agency problems derived from it. The geographic distance increases the monitoring costs needed to reduce opportunistic behavior and the agency costs related to the selection of poor employees abroad and possible moral hazards. By choosing lower control modes, franchisors shift the costs of these problems to the local partner. The franchise contracts align the incentives of the local partner with those of the franchisor and reduce agency costs (Contractor & Kundu, 1998a; Fladmoe-Lindquist & Jacque, 1995; Grewal et al., 2011). Thus, lower control modes can reduce monitoring costs and mitigate agency problems:

**Hypothesis 2.** The greater the behavioral uncertainty of the host country, the more likely a franchisor will choose a low control mode in foreign markets.

### 3.4.2 Resource-based theory and organizational capability theory perspectives on the choice of international franchise governance mode

Resource-based theory and organizational capability theory perspectives on the choice of international franchise governance modes focus on the creation of value from the franchisors’ assets. Franchisors gain a competitive advantage by exploring and exploiting firm-specific resources and capabilities (Erramilli, Agarwal, & Dev, 2002; Hussain, Sreckovic, & Windsperger, 2018). When a firm enters a foreign market, it must transfer its resources and capabilities to foreign operations. Therefore, it must choose an entry and governance mode that can accomplish these goals effectively (Erramilli et al., 2002; Hussain et al., 2018; Jain, Pangarkar, Yuan, & Kumar, 2015; Jell-Ojobor & Windsperger, 2014, 2017; Moraes, Oliveira, & Kovacs, 2008).

The resource-based perspective point outs that franchisors must have sufficient resources such as financial capital, brand name recognition, and managerial and routine-processing know-how before internationalizing (Mariz-Pérez and García-Alvarez, 2009; Perrigot et al., 2004). Therefore, the allocation of these critical resources and capabilities needed to operate in foreign markets, such as system-specific and financial assets, between the franchisor and partners in international markets influences the choice of governance mode (Jell-Ojobor & Windsperger, 2014).

Financial assets are related to the ability of the franchisor and the local partners to fund the operations in the host market. Franchisors that need capital to
grow use franchising to obtain resources for their expansion. Therefore, they will rely on investment fees and royalties to fund their expansion. If the franchisor has financial constraints, the local partner’s resources will be necessary for the international expansion. The international expansion increases the franchisor’s costs significantly (Castrogiovanni et al., 2006; Combs et al., 2004; Jell-Ojobor & Windsperger, 2014, 2017).

Lower control modes such as master franchising and area development agreements can make international expansion less expensive for the franchisor. Thus, we posit that franchisors with limited financial resources to internationalize their operations will favor lower control modes and count on their local partners’ financial assets. On the other hand, franchisors that have financial resources from their domestic operations might choose high control modes in their international operations (Combs et al., 2004; Jell-Ojobor & Windsperger, 2014, 2017; Melo et al., 2015).

**Hypothesis 3.** The greater the franchisor’s financial ability to invest in international expansion, the greater the likelihood of choosing a high control mode in foreign markets.

System-specific assets are related to the franchisor’s resources and capabilities. Other factors important in this area are capabilities that are difficult to codify, transfer, and imitate such as business know-how, brand name, marketing, R&D capabilities, advertising, and promotion. When the franchisor's system-specific assets are more relevant than the franchisee’s local market assets in creating residual income, the franchisor will retain the decision rights (Castrogiovanni et al., 2006; Fladmoe-Lindquist, 1996; Jell-Ojobor & Windsperger, 2014, 2017; Windsperger & Dant, 2006).

One of the essential system-specific assets of the franchisor is brand name. Previous studies have underscored the importance of intangible resources such as brand name and reputation for the success of a franchise network. The research highlights brand reputation as a franchisor-owned strategic asset that gives franchisors a competitive advantage in international expansion (Barthélemy, 2008; Elango, 2007; Fladmoe-Lindquist, 1996; Ghantous & Das, 2018; Gillis, Combs, & J. Ketchen, 2014; Grewal et al., 2011; Perrigot, López-Fernández, & Eroglu, 2013; Rocha et al., 2018; Shane, 1996). Franchisors that count on a reliable brand name as an essential asset and the competitive advantage derived from it will be more likely to retain a higher level of control (Alon, 2006a, 2006b; Jain et al.,
2015). Therefore, franchisors with a prestigious brand name are more likely to keep their decision and ownership rights.

Another system-specific asset critical to the franchising system is business know-how, including factors such as store layout, product mix, operating procedures, location selection priorities, monitoring capabilities, advertising, and R&D. Such know-how is unique to the franchisor, and thus considered a proprietary advantage. As with brand name, business know-how is difficult to transfer across firm boundaries and cannot be easily imitated. Therefore, it is quite likely to generate rents (Jell-Ojobor & Windsperger, 2014, 2017; Shane, 1996).

Thus, we propose the following hypothesis:

**Hypothesis 4.** The more relevant the system-specific assets of the franchisor are, the greater the likelihood of choosing a higher control mode in foreign markets.

### 3.5 Methodology

#### 3.5.1 Sample

To test our hypotheses, we used a quantitative, descriptive approach with a representative sample of data from the Brazilian Franchising Association – ABF – from 2018. According to ABF, in 2018, there were 145 Brazilian franchisors with international operations in 114 countries. The database used in this study provides information about 108 Brazilian franchisors, 74.5% of the total number of Brazilian franchisors operating abroad, and the 55 countries where those franchisors had operations in 2018. Thus, in total there are 267 observations in our study.

In addition, we also used the 2018 data from the World Bank’s database Doing Business, which contains information regarding the institutional environment in the countries in which Brazilian franchisors have operations. We also utilized a database from CEPII (*Centre d’études prospectives et d’informations internationales*) with data about the geographic distance between home and host countries. We adopted the country classifications of the World Economic Outlook from the International Monetary Fund as to whether they were advanced economies or emerging and developing economies. All of our measures refer to 2018.
3.5.2 Variables and measures

Table 1 summarizes the variables adopted, measures, and sources of data. The dependent variable is a dummy indicator of high control and low control modes in each foreign market. The variable received the value of 1 if the franchisor adopted at least one high control mode—company-owned outlets. Those that adopted only low control modes in each market—franchisee-owned outlets, master franchisee outlets, and area developers’ outlets—received the value of 0.
Table 8: Variables, measures and sources of data

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measure</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variable</strong></td>
<td>Dummy indicator: Franchisors that adopt at least one high-control mode in each market (1) / Franchisors that adopt only low-control modes in each market (0)</td>
<td>ABF database (2018)</td>
</tr>
<tr>
<td>High-control modes (1) / Low-control modes (0)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td>Composite measure of the indicators: &quot;ease of starting a business&quot;, &quot;getting credit&quot;, &quot;protecting minority investors&quot;, and &quot;enforcing contracts&quot;</td>
<td>World Bank’s Doing Business index (2018)</td>
</tr>
<tr>
<td>Environmental uncertainty</td>
<td>Geographic distance between home and host countries</td>
<td>CEPII (2011)</td>
</tr>
<tr>
<td>Behavioral uncertainty</td>
<td>Dummy indicator of the existence of an advertisement fee applied to franchisees, 0 or 1</td>
<td>ABF database (2018)</td>
</tr>
<tr>
<td>System-specific assets: Brand</td>
<td>Number of training courses and technical support areas</td>
<td>ABF database (2018)</td>
</tr>
<tr>
<td>System-specific assets: Business know-how</td>
<td>Composite measure of initial fee and collection of royalties</td>
<td>ABF database (2018)</td>
</tr>
<tr>
<td>Financial capacity</td>
<td>Composite measure (&quot;ease of starting a business&quot;, &quot;getting credit&quot;, &quot;protecting minority investors&quot;, and &quot;enforcing contracts&quot;) of the distance between the 55 host countries and Brazil</td>
<td>World Bank’s Doing Business index (2018)</td>
</tr>
<tr>
<td>Distance between home and host countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Control variables</strong></td>
<td>Franchisors' years of existence since their founding</td>
<td>ABF database (2018)</td>
</tr>
<tr>
<td>Age</td>
<td>Number of outlets in the domestic market</td>
<td>ABF database (2018)</td>
</tr>
<tr>
<td>Network size</td>
<td>ABF classification into 11 sectors</td>
<td>ABF database (2018)</td>
</tr>
<tr>
<td>Sector</td>
<td>Dummy indicator of the country classification between &quot;Emerging and developing economies&quot; (1) and &quot;Advanced economies&quot; (0)</td>
<td>World Economic Outlook - IMF</td>
</tr>
<tr>
<td>Host country classification</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The hypotheses involve several independent variables. *Environmental uncertainty* is a composite measure obtained from the World Bank’s Doing Business database (Ang & Michailova, 2007; Dikova & Van Witteloostuijn, 2007; Michailova & Ang, 2008). As the business environment is a crucial factor in international franchising (Baena, 2012; Fladmoe-Lindquist & Jacque, 1995; Grewal et al., 2011), information from this source was suitable for assessing environmental uncertainty.

We calculated the proxy for environmental uncertainty as a composite measure of four rankings of business environment indicators (ease of starting a business, protecting minority investors, enforcing contracts, and access to credit). The rankings provide information about the country’s performance relative to the performance of other countries (“Doing Business,” 2019). We averaged the rank position of each country for the selected indicators and the resulting composite measure presents higher scores for countries with greater environmental uncertainty. These indicators were selected based on their relevance for franchising companies as driving factors that may influence their governance mode decisions. Institutions and regulations related to the application of the law and contract enforcement are important as they protect the franchise chains’ intangible assets, such as brand and know-how. An environment condition that facilitates business transactions, for instance, friendly credit and bureaucratic procedures, are also crucial to franchise operations (Baena, 2012, 2013; Contractor & Kundu, 1998a; Grewal et al., 2011; Lanfranchi et al., 2020).

We measured *behavioral uncertainty* using the geographic distance between the home and host countries (Fladmoe-Lindquist & Jacque, 1995; Jell-Ojobor & Windsperger, 2014, 2017), based on the geographic definition of the “distance between two points on the surface of the earth, as given by latitudinal and longitudinal coordinates” (Beugelsdijk, Ambos, & Nell, 2018). To obtain the information needed for these calculations, we used a database from CEPII (*Centre d’études prospectives et d’informations internationales*) (Mayer & Zignago, 2011). We then calculated the geographic distance in kilometers between the 55 countries’ capitals and Brazil’s capital ( Brasília).

*System-specific assets* consisted of the franchisors’ brand name and business know-how. The proxy used to measure brand name is the existence of an advertisement fee applied to franchisees. Many empirical studies that evaluate the relevance of the brand to the international franchising from a resource-based perspective have used this proxy. The more important the franchisor’s brand name
assets, more revenues from advertising fees are required to maintain the brand value through investments in communication and advertising (Lafontaine & Shaw, 2005; Mariz-Pérez & García-Álvarez, 2009; Perrigot et al., 2013; Windsperger, 2004; Windsperger & Yurdakul, 2007). The proxy used to measure the business know-how, also based on previous studies (Windsperger & Yurdakul, 2007), is the number of training courses and technical support areas that the franchisors offer to the franchisee. The number of training courses and technical support areas required is greater if the franchisor’s business know-how is more specific and challenging to transfer.

The franchisees’ investment, along with the on-going taxes charged by the franchisors in the domestic market, contributes to the franchisor's financial capacity to fund its international expansion. The franchisors report the minimum and maximum initial investment required to the Brazilian Franchising Association, and we calculated the average initial investment. The royalties are an on-going payment made by the franchisee. As there are several ways to charge royalties such as a fixed monthly fee, a percentage of gross sales, or a percentage per transaction, we considered just the existence of regular on-going payments, regardless of the collection mode. Thus, we devised a composite measure to proxy for the franchisors’ financial assets that considered the existence of both an initial investment and on-going payments.

To measure institutional distance, international business researchers have usually used data from the World Bank, the Heritage Foundation EFI, and ICRG scores (Beugelsdijk et al., 2018). In order to include the effects of the home market and measure the distance between the home and host countries, we used the environmental uncertainty composite measure previously calculated, based on the four business environment indicators (ease of starting a business, protecting minority investors, enforcing contracts, and access to credit). We considered the distances (absolute values) between each of the 55 host countries and Brazil’s position in the composite measure. The smaller the absolute value of the distance between Brazil and a specific country, the more similar their business environment. For instance, as Brazil is a mid-range economy, it is nearer to other BRICS countries, such as India and South Africa, and more distant from both developed countries as Australia and poor ones as Guinea-Bissau.

In addition to these independent variables, we also controlled for four other variables. First, we considered the franchisors' age, calculated as the number of years since their founding. As firms get older, they gather more experience in
partner and site selection, monitoring, and control, which is essential to develop international operations (Alon & McKee, 1999; Alon, Ni, & Wang, 2012; Alon, Yeheskel, Lerner, & Zhang, 2013; Burton et al., 2000; Dikova & Brouthers, 2016; Madanoglu, Alon, & Shoham, 2017; Ni & Alon, 2010).

Second, we controlled for the size of the network, measured by the number of domestic operations of the Brazilian franchisors. Several studies have documented that a firm’s size affects its choice of mode of entry and governance. The size indicates the availability of resources that a firm can commit to the international operations and also its ability to manage distant localized partners, influencing the governance mode decision (Alon & McKee, 1999; Brouthers & Hennart, 2007; Burton et al., 2000; Contractor & Kundu, 1998a, 1998b; Dikova & Brouthers, 2016; Madanoglu et al., 2017). Other studies have established that a firm’s size affects the relationship between the institutional aspects of the host countries and the level of commitment abroad (Melo et al., 2019). We also controlled for the franchisors’ sectors according to the ABF classification that categorizes business activities into 11 sectors: food; construction; technology and electronics; recreation; travel and hotel; cleaning and maintenance; fashion; health and personal care; automotive; business services; and education.

In Model 2, we controlled for the host countries’ classification as an advanced economy or an emerging and developing economy by assigning a dummy variable the value of 1 if the company was from an emerging country. By measuring the distance between the home and host countries and controlling for the host countries’ classification, we sought to determine whether the similarity between the home and host countries’ environments affected the choice of international governance mode (Cuervo-Cazurra, 2012; Cuervo-Cazurra and Genc, 2008; Surdu et al., 2018; Wright et al., 2005).

Research design

Table 2 shows the means, standard deviations, and correlation coefficients for all of the variables under study. We conducted a binomial logistic regression analysis in order to test the hypotheses presented. We used this statistical model because of the dichotomous nature of the dependent variable and the mix of continuous and categorical independent variables (Hair, Anderson, Tatham, & Black, 1995). We followed other studies that used logistic regressions to investigate choices about international entry and governance modes (Ang & Michailova, 2007; Chiao et al., 2010; Contractor & Kundu, 1998a, 1998b; Dikova
In the binomial logistic regression, the regression coefficients estimate the impact of the independent (or control) variables on the probability that the international franchisor will choose a high control mode (which carries the value of 1). The model can be expressed as

\[ P(Y) = \frac{1}{1 + e^{-Z}} P, \]  

(1)

where \( Y \) is the dependent variable, and \( Z \) is the linear combination of the independent and control variables. That is,

\[ Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \cdots + \beta_n X_n, \]  

(2)

where \( \beta_0 \) is the intercept, \( \beta_1 \ldots \beta_n \) are the regression coefficients and \( X_1 \ldots X_n \) are the independent and control variables. To facilitate the comparisons, we normalized all of the non-binary variables by subtracting the mean and dividing by the standard deviation.\(^4\) Another econometric issue is that the data might be correlated with several operations of the same franchisor. To address this issue, we used robust standard errors clustered at the firm and country-of-operation level (Cameron & Trivedi, 2005).

We conducted the analysis by creating two models. Model 1 estimates the effects of the first set of predictor variables (environmental uncertainty, behavioral uncertainty, system-specific assets, and financial assets) on the likelihood of a firm choosing a high control mode. Model 2 estimates the effects of the second set of predictor variables (home and host countries’ environmental distance, behavioral uncertainty, system-specific assets, and financial assets) on the likelihood of choosing a high control mode. By comparing the two models, we can determine whether the similarity between the home and host countries has an impact on the choice of international governance mode. If there is an effect, the result might suggest that firms from emerging and developing countries behave differently than those from advanced economies. In contrast, if there is no effect, the result might suggest that Brazilian franchisors follow the same patterns reported in the traditional governance mode literature.

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\(^4\) Transforming this variable also helps avoid the potential multicollinearity issue that could appear, especially when including the additional interaction terms. Indeed, the variance inflation factor (VIF) used to identify the presence of multicollinearity between variables is below the suggested threshold value of 10 (Baum, 2006).
Table 9: Means, standard deviations and correlations

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>s.d.</th>
<th>1.</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5.</th>
<th>6.</th>
<th>7.</th>
<th>8.</th>
<th>9.</th>
<th>10.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. High control mode</td>
<td>0.19</td>
<td>0.39</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Environmental uncertainty</td>
<td>99.1</td>
<td>49.5</td>
<td>-0.33**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Home and host distance</td>
<td>35.8</td>
<td>20.9</td>
<td>0.01</td>
<td>0.15*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Behavioral uncertainty</td>
<td>5,873</td>
<td>3,657</td>
<td>0.05</td>
<td>-0.51**</td>
<td>0.00</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. System-specific: Brand</td>
<td>0.75</td>
<td>0.44</td>
<td>0.00</td>
<td>0.03</td>
<td>0.08</td>
<td>0.10</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. System-specific: Know-how</td>
<td>27.1</td>
<td>6.9</td>
<td>-0.03</td>
<td>-0.06</td>
<td>-0.11</td>
<td>0.09</td>
<td>-0.01</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Financial capacity</td>
<td>324,731</td>
<td>253,302</td>
<td>0.04</td>
<td>0.13*</td>
<td>0.03</td>
<td>-0.14*</td>
<td>0.01</td>
<td>-0.32**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Host country classification</td>
<td>0.61</td>
<td>0.49</td>
<td>-0.30**</td>
<td>0.70**</td>
<td>-0.06</td>
<td>-0.55**</td>
<td>0.03</td>
<td>-0.03</td>
<td>0.25**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Size</td>
<td>378</td>
<td>702</td>
<td>-0.03*</td>
<td>0.16**</td>
<td>0.09</td>
<td>0.00</td>
<td>0.15*</td>
<td>-0.12</td>
<td>0.31**</td>
<td>0.15*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>10. Age</td>
<td>25.4</td>
<td>19.8</td>
<td>-0.14</td>
<td>0.21**</td>
<td>0.03</td>
<td>-0.18**</td>
<td>-0.01</td>
<td>-0.06</td>
<td>0.34**</td>
<td>0.16**</td>
<td>0.30**</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: High control mode (1=high-control, and 0=low-control); System-specific: Brand (1= apply advertisement fee, and 0= do not apply); Financial: Royalties (1= apply royalties, and 0= do not apply); Host country classification (1= emerging and developing economies, and 0 = advanced economies). Coefficients are statistically significant at the *p < 0.05; **p < 0.01 levels.
3.6 Results

Table 3 reports the results for Models 1 and 2.

Table 10: Logistic regression results

*Dependent variable: High control mode*

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>coefficient</td>
<td>coefficient</td>
</tr>
<tr>
<td>Environmental uncertainty</td>
<td>-1.45970***</td>
<td>-0.07095</td>
</tr>
<tr>
<td></td>
<td>(0.30116)</td>
<td>(0.30325)</td>
</tr>
<tr>
<td>Home and host distance</td>
<td>-0.76341**</td>
<td>-0.69570**</td>
</tr>
<tr>
<td></td>
<td>(0.35236)</td>
<td>(0.29900)</td>
</tr>
<tr>
<td>Behavioral uncertainty</td>
<td>1.14492</td>
<td>1.17016*</td>
</tr>
<tr>
<td></td>
<td>(0.75228)</td>
<td>(0.66901)</td>
</tr>
<tr>
<td>System-specific: Brand</td>
<td>0.27308</td>
<td>0.33629</td>
</tr>
<tr>
<td></td>
<td>(0.33846)</td>
<td>(0.31944)</td>
</tr>
<tr>
<td>System-specific: Know-how</td>
<td>0.50072*</td>
<td>0.78083**</td>
</tr>
<tr>
<td></td>
<td>(0.29003)</td>
<td>(0.30367)</td>
</tr>
<tr>
<td>Financial capacity</td>
<td>-2.61340***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.51589)</td>
<td></td>
</tr>
<tr>
<td>Host country classification</td>
<td>-1.39836***</td>
<td>-1.60067***</td>
</tr>
<tr>
<td></td>
<td>(0.54140)</td>
<td>(0.56213)</td>
</tr>
<tr>
<td>Size</td>
<td>0.46286*</td>
<td>0.48076**</td>
</tr>
<tr>
<td></td>
<td>(0.25401)</td>
<td>(0.23556)</td>
</tr>
<tr>
<td>Age</td>
<td>-2.35410***</td>
<td>-0.53188</td>
</tr>
<tr>
<td></td>
<td>(0.80655)</td>
<td>(0.98438)</td>
</tr>
<tr>
<td>Observations</td>
<td>267</td>
<td>267</td>
</tr>
<tr>
<td>Sector Fixed Effects</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Log Likelihood</td>
<td>-84.48289</td>
<td>-86.29970</td>
</tr>
<tr>
<td>Overall Chi-square</td>
<td>91.459***</td>
<td>87.825***</td>
</tr>
<tr>
<td>Nagelkerke R²</td>
<td>0.4656</td>
<td>0.4500</td>
</tr>
</tbody>
</table>
Note: The dependent variable high control mode equals 1 if firm $i$ chooses to enter the host country market with a high control mode, and zero otherwise. All of the non-binary independent variables are standardized by subtracting the mean and dividing by the standard deviation. Heteroskedasticity-robust standard errors (clustered at the firm level and operationalized by the country level) are shown in parentheses. Coefficients are statically significant at the *$p < 0.1$; **$p < 0.05$; ***$p < 0.01$ levels.

3.6.1 Hypotheses related to the theories of transaction and agency costs

We tested the influence of the environmental uncertainty of the host countries in the choice of governance mode. The results of the Model 1 support Hypothesis 1a. Consistent with the traditional international franchising governance mode literature based on transaction cost theory and agency theory (Baena, 2012; Fladmoe-Lindquist & Jacque, 1995; Jell-Ojobor & Windsperger, 2014), environmental uncertainty had a significant ($p < 0.01$) negative relationship with the likelihood of choosing a high control mode. Thus, when the environmental uncertainty increases, the probability of a firm choosing a high control mode decreases.

Moreover, considering all of the variables on average, the likelihood of an outstanding franchisor choosing a high control mode was 8.67%. The probability of choosing a high control mode increased to 29.0% if the franchisors operated in countries with less environmental uncertainty (all other variables remained constant). In other words, considering that higher scores in the composite measure correspond to greater environmental uncertainty, in countries with 1 standard deviation below the average franchisors are more likely to choose a high control mode. For instance, they are more likely to select a low control mode in India and South Africa than Ireland and France.

Behavioral uncertainty, measured by the geographic distance, had a significant ($p < 0.05$) and negative relationship with the likelihood of choosing a high control mode. Thus, in countries that are further from the home country, franchisors are more likely to choose a low control mode. As the geographic distance from the home market increases, so does behavioral uncertainty. This result supports Hypothesis 2. The probability of choosing a high control mode increased from 8.67%, with all variables on average, to 16.93% when Brazilian franchisors operated in countries closer to home (1 standard deviation less than the average distance and all other variables remain constant). For example, they are more likely to select a low control mode in Guatemala and Angola than Uruguay and Argentina.
The results of Model 2 for the distance between home and host countries were not statistically significant. Thus, Hypothesis 1b is not supported. Results for behavioral uncertainty in Model 2 remained significant ($p < 0.05$) and had a negative relationship with the likelihood of choosing a high control mode.

The results of Models 1 and 2 imply that Brazilian franchisors consider the environmental uncertainty of host countries a primary factor in their choice of the governance mode, regardless of the home country’s conditions and its relative distance to the host countries. Thus, the traditional transaction cost theory and agency theory arguments for the choice of international governance mode choice also apply to the franchisors from Brazil that internationalize their operations. Similarities between the home and host countries are not relevant to Brazilian franchisors' decisions about their mode of international governance.

Moreover, the control for the host countries' classification was also significant in Model 2 ($p < 0.01$) and indicated a negative relationship between operating in emerging and developing host countries and the likelihood of choosing a high control mode. In other words, Brazilian franchisors do not choose high control modes in other emerging and developing countries because of their similar home country conditions. With all variables on average, the probability of choosing high control declined from 37.0% when the host country was an advanced economy to 4.13% when the host country was an emerging or developing economy.

### 3.6.2 Hypotheses related to the resource-based and organizational capabilities theories

The significant ($p < 0.1$) and positive relationship between the companies’ financial capacity and the likelihood of choosing a high control mode provide support for Hypothesis 3. Given their revenues in the domestic market, franchisors have more financial capacity to fund their international expansion, increasing the probability of a higher control mode. Thus, our results support the literature claiming that franchisors with limited financial resources to internationalize their operations will favor lower control modes and count on their local partners' financial assets (Combs et al., 2004; Jell-Ojobor and Windsperger, 2014, 2017).

Regarding Hypothesis 4, the results for brand name and business know-how were not statistically significant, although their coefficients were positive, as expected. Thus, these results do not support the hypothesis that system-specific
assets, specifically, brand name and business know-how, increase the probability of choosing a high control mode in foreign markets.

The results of the franchisors’ size as a control variable revealed a significant \( (p < 0.1) \) and positive relationship with the likelihood of a high control mode, meaning that franchisors with more units in the domestic market favor high control modes abroad. The firm’s age had a negative and significant \( (p < 0.01) \) relationship with the likelihood of choosing a high control mode. In other words, franchisors with more years in business are more likely to adopt low control modes with local partners. Previous studies found mixed results regarding the effect of the franchisors’ experience on the modes of entry and governance. Some reported that franchisors with more experience should have the resources to choose high control modes and avoid intermediary-related costs (Contractor & Kundu, 1998a, 1998b). Others did not find significant relationships (Erramilli et al., 2002). Our findings are aligned with Burton et al. (2000), who reported that more experienced franchisors employed intermediaries in their governance modes, and with Fladmoe-Lindquist and Jacque (1995), who documented a relationship between more experienced franchisors and the likelihood of using franchising contracts. Franchisors’ experience and improved ability to select and monitor competent intermediaries despite the agency costs might explain the results.

### 3.6.3 Robustness tests

To conduct robustness tests of Model 1, we used other variables related to the host country's environmental uncertainty as an independent variable. The results for Models 3 and 4 appear in Table 4. In the first test, we changed the composite measure of the business environment by using the 2019 OECD Country Risk Classification, which measures the country's credit risk and the likelihood that a country will service its external debt (Model 3). In the second test in Model 4, we changed the composite measure of the business environment by using the GDP per capita based on purchasing power parity (constant in 2011 international dollars). Several papers have used country risk and economic development (GDP) as proxies for environmental uncertainty (Alon, Welsh, & Falbe, 2010; Brouthers & Hennart, 2007; Contractor & Kundu, 1998a, 1998b; Morschett, Schramm-Klein, & Swoboda, 2010). Given that both of these factors are associated with measures of the business environment, we substituted them in Model 1 to check if the effects remained the same.
Results for Model 3 showed that country risk had a significant ($p < 0.01$) and negative relationship with the likelihood of choosing a high control mode. The riskier the host country, the greater the probability of Brazilian franchisors choosing low control modes. Furthermore, the results for Model 4 indicated that the lower the GDP per capita of the host countries, the greater the probability of low control modes. These results are in line with our previous results.

Our findings support the behavioral uncertainty and financial capacity hypotheses in all models. Results for business know-how remained not statistically significant. However, in Model 3, the results for brand name were positive and statistically significant, consistent with Hypothesis 4.
Table 11: Logistic regression results - Robustness tests

*Dependent variable: High control mode*

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental uncertainty</td>
<td>-1.45970*** (0.30116)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk</td>
<td></td>
<td>-1.40880*** (0.29539)</td>
<td></td>
</tr>
<tr>
<td>GDP per capita</td>
<td></td>
<td></td>
<td>1.09179*** (0.20183)</td>
</tr>
<tr>
<td>Behavioral uncertainty</td>
<td>-0.76341** (0.35236)</td>
<td>-0.70342** (0.30544)</td>
<td>-0.60767** (0.29100)</td>
</tr>
<tr>
<td>System-specific: Brand</td>
<td>1.14492 (0.75228)</td>
<td>1.29769* (0.68994)</td>
<td>0.88266 (0.71152)</td>
</tr>
<tr>
<td>System-specific: Know-how</td>
<td>0.27308 (0.33846)</td>
<td>0.27266 (0.32306)</td>
<td>0.24849 (0.33625)</td>
</tr>
<tr>
<td>Financial capacity</td>
<td>0.50072* (0.29003)</td>
<td>0.64053** (0.32377)</td>
<td>0.65053** (0.28096)</td>
</tr>
<tr>
<td>Size</td>
<td>0.46286* (0.25401)</td>
<td>0.51659** (0.25569)</td>
<td>0.44404* (0.23741)</td>
</tr>
<tr>
<td>Age</td>
<td>-1.39836*** (0.54140)</td>
<td>-1.50472*** (0.56975)</td>
<td>-1.68677** (0.65765)</td>
</tr>
<tr>
<td>Constant</td>
<td>-2.35410*** (0.80655)</td>
<td>-2.33321*** (0.86484)</td>
<td>-1.97451** (0.77527)</td>
</tr>
</tbody>
</table>

| Observations | 267 | 267 | 267 |
| Sector Fixed Effects | Yes | Yes | Yes |
| Log Likelihood    | -84.48289 | -85.83874 | -86.79767 |
| Overall Chi-square | 91.459*** | 88.747*** | 86.829*** |
| Nagelkerke R²     | 0.4656 | 0.4540 | 0.4456 |

Note: The dependent variable high control mode equals 1 if firm \( i \) chooses to enter the host country market with a high control mode, and zero otherwise. All of the non-binary independent variables are standardized by subtracting the mean and dividing by the standard deviation. Heteroskedasticity-robust standard errors (clustered at the firm level and operationalized by the country level) are shown in parentheses. Coefficients are statistically significant at the *\( p < 0.1 \); **\( p < 0.05 \); ***\( p < 0.01 \) levels.
3.6.4 Extensions

In this section, we extend the analysis based on our earlier findings. Previous results demonstrated that the environmental uncertainty of host countries has an impact on the Brazilian franchisors’ choice of international governance mode but the distance between the home and host countries does not influence their decision. Thus, considering Model 1 as our basic model, we modified it to include the interactive effects between environmental uncertainty and the impact of brand name (Model 1.1), business know-how (Model 1.2), financial capacity (Model 1.3), and behavioral uncertainty (Model 1.4) on the choice of governance mode.

Jell-Ojobor and Windsperger (2014, 2017) suggested negative interactive effects between environmental uncertainty and the impact of financial assets and behavioral uncertainty on the franchisor's tendency to use high control modes. Furthermore, our previous results showed that the impact of system-specific assets such as brand name and business know-how have no significant impact on the choice of international governance modes of Brazilian franchisors. As some scholars argue, the impact of a firm’s specific resources on this choice is not uniform, and the firm’s advantages may vary depending on the country. Institutional dimensions might also influence the ability of companies to exploit specific resource-based advantages (Brouthers, Brouthers, & Werner, 2008; Hennart & Slangen, 2015). For this reason, we also tested the interactive effects between environmental uncertainty and the impact of brand name and business know-how on the franchisor's tendency to use high control modes.
### Table 12: Logistic regression results - Interaction effects

*Dependent variable: High control mode*

<table>
<thead>
<tr>
<th></th>
<th>Model 1.1</th>
<th>Model 1.2</th>
<th>Model 1.3</th>
<th>Model 1.4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental uncertainty</td>
<td>-1.54684***</td>
<td>-1.55731***</td>
<td>-1.46348***</td>
<td>-1.39213***</td>
</tr>
<tr>
<td></td>
<td>(0.47351)</td>
<td>(0.35408)</td>
<td>(0.30566)</td>
<td>(0.27014)</td>
</tr>
<tr>
<td>Behavioral uncertainty</td>
<td>-0.76310**</td>
<td>-0.81586**</td>
<td>-0.75621**</td>
<td>-0.52493</td>
</tr>
<tr>
<td></td>
<td>(0.35286)</td>
<td>(0.39773)</td>
<td>(0.35272)</td>
<td>(0.33976)</td>
</tr>
<tr>
<td>System-specific: Brand</td>
<td>1.20529</td>
<td>1.19972*</td>
<td>1.16171</td>
<td>1.12084</td>
</tr>
<tr>
<td></td>
<td>(0.74113)</td>
<td>(0.72070)</td>
<td>(0.75551)</td>
<td>(0.75449)</td>
</tr>
<tr>
<td>System-specific: Know-how</td>
<td>0.27558</td>
<td>0.63041†</td>
<td>0.27489</td>
<td>0.22477</td>
</tr>
<tr>
<td></td>
<td>(0.33744)</td>
<td>(0.32227)</td>
<td>(0.33859)</td>
<td>(0.33847)</td>
</tr>
<tr>
<td>Financial capacity</td>
<td>0.50268*</td>
<td>0.50294*</td>
<td>0.56909*</td>
<td>0.46682*</td>
</tr>
<tr>
<td></td>
<td>(0.28905)</td>
<td>(0.30028)</td>
<td>(0.32928)</td>
<td>(0.28325)</td>
</tr>
<tr>
<td>Size</td>
<td>0.46086*</td>
<td>0.52421**</td>
<td>0.43832*</td>
<td>0.44628*</td>
</tr>
<tr>
<td></td>
<td>(0.25587)</td>
<td>(0.26187)</td>
<td>(0.26350)</td>
<td>(0.25434)</td>
</tr>
<tr>
<td>Age</td>
<td>-1.39411**</td>
<td>-1.40261**</td>
<td>-1.39542**</td>
<td>-1.32956***</td>
</tr>
<tr>
<td></td>
<td>(0.54837)</td>
<td>(0.58278)</td>
<td>(0.54920)</td>
<td>(0.50593)</td>
</tr>
<tr>
<td>Env_unc:brand</td>
<td>0.10447</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.36841)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Env_unc:know-how</td>
<td></td>
<td>0.43354†</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.23063)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Env_unc:financ</td>
<td></td>
<td>0.10925</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.15205)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Env_unc:behave</td>
<td></td>
<td></td>
<td></td>
<td>0.45432*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(0.26971)</td>
</tr>
<tr>
<td>Constant</td>
<td>-2.39765***</td>
<td>-2.53748***</td>
<td>-2.37302***</td>
<td>-2.12236***</td>
</tr>
<tr>
<td></td>
<td>(0.75328)</td>
<td>(0.71848)</td>
<td>(0.79866)</td>
<td>(0.81843)</td>
</tr>
<tr>
<td>Observations</td>
<td>267</td>
<td>267</td>
<td>267</td>
<td>267</td>
</tr>
<tr>
<td>Sector Fixed Effects</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Log Likelihood</td>
<td>-84.47139</td>
<td>-83.12403</td>
<td>-84.40116</td>
<td>-83.46998</td>
</tr>
<tr>
<td>Overall Chi-square</td>
<td>91.482***</td>
<td>94.176***</td>
<td>91.622***</td>
<td>93.484***</td>
</tr>
<tr>
<td>Nagelkerke R²</td>
<td>0.4657</td>
<td>0.4771</td>
<td>0.4663</td>
<td>0.4742</td>
</tr>
</tbody>
</table>
Note: The dependent variable high control mode equals 1 if firm $i$ chooses to enter the host country market with a high control mode, and zero otherwise. All of the non-binary independent variables are standardized by subtracting the mean and dividing by the standard deviation. Heteroskedasticity-robust standard errors (clustered at the firm level and operationalized by the country level) are shown in parentheses. Coefficients are statistically significant at the *$p < 0.1$; **$p < 0.05$; ***$p < 0.01$ levels.

The results presented in Table 5 revealed two significant interactive effects.

Interactive effects between environmental uncertainty and business know-how. The environmental uncertainty of host countries had a significant ($p < 0.1$) interactive effect on the relationship between the business know-how of Brazilian franchisors and the choice of the governance mode abroad (Model 1.2). While the franchisors’ business know-how by itself did not influence the choice of international governance mode (Model 1 in Table 3), it became significant in conjunction with environmental uncertainty. Thus, more uncertain environments increased the impact of business know-how on the franchisor’s probability of choosing higher control modes.

Interactive effects between environmental and behavioral uncertainty. The results for the interaction between environmental uncertainty and behavioral uncertainty contradicted the expected result (Model 1.4). While as the literature suggested, the isolated effects of greater environmental uncertainty and greater behavioral uncertainty had a negative impact on the probability of high control modes (Combs et al., 2004; Fladmoe-Lindquist & Jacque, 1995; Grewal et al., 2011; Jell-Ojobor & Windsperger, 2014), the interactive effect of environmental uncertainty mitigated the negative impact of behavioral uncertainty on the probability of choosing high control modes. A possible explanation for this result is related to the high costs that result from the interaction between behavioral uncertainty and environmental uncertainty. More uncertain environments might increase behavioral uncertainty to the point that contractual agreements such as franchising are not able to mitigate the costs. The interaction may increase franchisee-related agency costs as well, making high control modes or dual distribution preferable (Erramilli et al., 2002; Lévesque, Choi, & Hsuan, 2018; Michael, 2000).

3.7 Discussion

The empirical analysis reveals three significant findings. First, the environmental distance between the home and host countries does not impact the
Brazilian franchisors’ choice of international governance modes. The environmental uncertainty of the host countries is a factor that the Brazilian franchisors in this sample consider for their choice of the governance mode, despite the home country’s conditions and its relative environmental distance to the host countries.

The greater the similarity between Brazil and the environments of other emerging and developing economies, which was supposed to be an advantage for Brazilian franchisors to deal with the transaction costs, does not increase the likelihood of high control modes. Instead, these franchisors are more likely to choose low control modes when the host countries are emerging or developing countries. These findings contradict the idea that being used to high levels of uncertainty affects the behavior of firms headquartered in developing and emerging countries towards these host countries (Cuervo-Cazurra, 2012; Cuervo-Cazurra and Genc, 2008). On the contrary, Brazilian franchisors consider the host countries’ characteristics, such as better environmental conditions (Lanfranchi et al., 2020; Melo et al., 2015), when making these decisions, as one can see by the high number of Brazilian franchisors operating in the United States (Aguiar et al., 2017; Cantoni et al., 2019).

Second, three main factors influence Brazilian franchisors' decisions regarding international governance modes— the environmental uncertainty of the host countries and their behavioral uncertainty, derived from the transaction cost and agency theories, and the franchisors’ financial assets, derived from the resource-based and organizational capability theories. Greater environmental and behavioral uncertainties increase the tendency of franchisors to choose low control modes abroad. In host countries with greater environmental uncertainty, franchisors will be more inclined to allocate decision rights to local partners.

The same reasoning applies to distant countries with greater behavioral uncertainty. By choosing lower control modes, franchisors shift the costs of moral hazards and poor choices to the local partner. These results support de Almeida et al. (2018), that identified a preference of three Brazilian franchisors for master franchising agreements in emerging host markets: Igui, a swimming pool manufacturer operating in Mexico; Chilli Beans, that produces sunglasses and accessories and have a master franchisee in Colombia; and Young Free (fictitious name), a textile company operating in the United Arab Emirates. Brazilian firms prefer master franchising arrangements in risky locations.
On the other hand, better financial capability to fund the expansion increases the likelihood of franchisors choosing high control modes. These findings are aligned with previous empirical research that analyzed the choice of governance mode in other contexts (Castrogiovanni et al., 2006; Fladmoe-Lindquist & Jacque, 1995; Hussain et al., 2018; Jell-Ojobor & Windsperger, 2017).

Third, the environmental uncertainty of the host countries has a significant interactive effect on the Brazilian franchisors’ business know-how and influences their choice of international governance mode. When the environmental uncertainty of host markets is greater, Brazilian franchisors’ business know-how becomes more relevant in deciding to choose a high control governance mode. Thus, the ability to exploit their specific resource-based advantages increases in more uncertain environments (Brouthers et al., 2008; Hennart & Slangen, 2015). Additionally, environmental uncertainty has a significant interactive effect with behavioral uncertainty, mitigating the negative impact of the latter on the probability of choosing high control modes. In other words, the interaction may intensify the franchisee-related agency costs, increasing the likelihood of high control modes.

3.8 Conclusions

In this article, we tested the multi-theoretical model of the choice of international franchising governance mode in the Brazilian context. We discussed to what extent it can explain the decisions of firms headquartered in an emerging market. The findings from the empirical analysis revealed that the similarity between the home and host countries’ environment does not influence the decisions of Brazilian franchisors. Moreover, the environmental uncertainty of host markets and their behavioral uncertainty have a negative impact on their tendency to choose high control modes in international markets. In contrast, their financial assets have a positive effect on this tendency. Thus, from the analysis of the Brazilian franchisors, it is possible to conclude that the traditional international franchising literature can explain the choices of international governance modes of franchisors from an emerging market. We also observed that more uncertain environments increase the impact of business know-how and mitigate the negative impact of behavioral uncertainty on the probability of choosing high control modes.
Our results contribute to the international franchising literature by verifying if the integrative model of the choice of international franchising governance mode needs to be extended to the emerging market context (Cuervo-Cazurra, 2012; Ramamurti, 2012). We found that, besides explaining the decisions of developed countries franchisors (Jell-Ojobor & Windsperger, 2017), the theoretical model also has explanatory power to understand the choices of franchisors from an emerging market.

It also contributes by providing a statistical test to complement the theoretical evidence, case analysis, and partial results provided by previous research (Jell-Ojobor and Windsperger, 2014, 2017). Moreover, it follows the insights of Dant et al. (2014), Jell-Ojobor and Windsperger (2017), and Combs et al. (2004) by investigating the choice of governance mode in different markets, in this case, from the Brazilian franchisors’ standpoint. This study also has practical implications in that it provides franchisors seeking international expansion with the variables they should consider when choosing an international governance mode.

3.8.1 Limitations and future developments

One limitation of our study is the lack of data for other variables suggested by Jell-Ojobor and Windsperger (2014) in their multi-theoretical model, namely, local market assets, transaction-specific investments, and intangible assets. Future research can improve the model by collecting data to test the effects of these three other variables — for instance, information about international partners’ host market knowledge, investments, and absorptive capacity. Besides, we acknowledge that geographic distance is not the only factor that affects behavioral uncertainty. Other aspects, such as business attitudes, work ethics, qualification level of local staff, psychic distance, and language, are relevant (Burton et al., 2000; Jell-Ojobor & Windsperger, 2017). Also, the time of experience abroad could be included as an additional control variable in future studies. Unfortunately, information about these factors was not available for all the 55 host countries and 108 franchisors in the sample, and access to data about franchisors’ international partners is a challenge (Windsperger & Dant, 2006).

Another limitation is related to the impact of the home country’s effects. We verified the effects of the similarities between the home and host countries by using the composite measure of the distance between the home country (Brazil)
and the host countries, as well as the IMF’s classification of countries as emerging and developing economies or advanced economies. In order to determine whether the home country has a direct effect on the choice of international governance mode, we need a sample of different home countries. We also recognize that the classifications of emerging and developing economies do not consider the similarities and differences between countries. Thus, we suggest future studies that investigate other home countries in emerging and developing economies.

3.9 References


Windsperger, G. Cliquet, & G. Hendrikse (Eds.), New Developments in the Theory of Networks: Franchising, Alliances and Cooperatives (pp. 45–58). Heidelberg: Physica-Verlag HD. https://doi.org/10.1007/978-3-7908-2615-9_4


& J. Windsperger (Eds.), Economics and Management of Networks: Franchising, Strategic Alliances, and Cooperatives (pp. 69–95). Heidelberg: Physica-Verlag HD. https://doi.org/10.1007/978-3-7908-1758-4_5

4. Article 3 - Brazilian Franchising Multinationals: Testing the Internalization Theory

4.1 Abstract

This study tests the boundaries of the internalization theory in the context of multinational companies from emerging markets. It explores the theory’s assumptions about asset specificity and the host country’s protection of intellectual property in explaining Brazilian franchising multinationals' international governance modes choices. We used a mixed-method approach involving quantitative data from the Brazilian Franchising Association with 463 observations about franchisors’ operations in international markets. We also added qualitative information in the form of in-depth interviews with practitioners to provide a deep understanding of the results. Although there is some agreement in the entry mode literature regarding the impact of cost-related factors on MNCs’ choices, most studies have been conducted in advanced economies. The empirical analysis revealed that the internalization theory’s premises related to asset specificity and the host country’s protection of intellectual property do not hold in the context of emerging markets. Instead, they play a different role.

Keywords: internalization theory; entry modes; emerging markets; franchising
4.2 Introduction

The entry mode literature acknowledges the impact of several cost-related determinants on multinational companies’ (MNCs) decisions (Brouthers & Hennart, 2007; Zhao, Luo, & Suh, 2004). The internalization theory, a variant perspective of the transaction cost rationale, posits that companies have incentives to internalize or externalize their international transactions based on the costs incurred. According to this view, the specificity of assets and the host countries’ protection of intellectual property play a fundamental role in the choices of the most efficient governance strategies (Buckley & Casson, 1976; Doherty, 1999; Narula, Asmussen, Chi, & Kundu, 2019).

Nevertheless, most entry and governance mode studies have been conducted in advanced economies. Despite the growing relevance of emerging countries in the global economy since the 1990s, a large number of studies focused on emerging market MNCs approach them as receivers of foreign direct investment inflows from multinationals headquartered in developed countries (Nielsen, Hannibal, & Larsen, 2018; Welsh, Alon, & Falbe, 2006; Wright, Filatotchev, Hoskisson, & Peng, 2005), not as active players themselves in the global markets. Thus, a debate has arisen about whether the theories that explain the international expansion of firms in advanced economies are appropriate for addressing how multinationals from emerging markets operate (Cuervo-Cazurra, 2012).

The Brazilian franchising sector offers an interesting context in which to explore the applicability of the internalization theory to the reality of emerging markets. According to Ramamurti (2012), one way to see if the existing theory is adequate for explaining the choices of MNCs from emerging economies is investigating situations in which their behavior appears to be strange or inexplicable based on what is known about advanced economies. Previous evidence shows that franchisors headquartered in Brazil have certain unique aspects in their international expansion trajectories.

For instance, Brazilian franchisors prioritize developed economies as host countries, even with not so well-known brands in these markets. Furthermore, despite the supposed lack of specific assets such as a strong brand name, several franchisors have developed operations in advanced economies such as the US and Portugal in which they have exercised a high degree of control (Aguiar, Consoni, & Bernardes, 2014; Aguiar, Luppe, & Nascimento, 2017; Fonseca & Rocha, 2018; Rocha et al., 2018). In 2019, of 163 Brazilian international franchisors, 67 had
operations in the US (ABF, 2020). In Aguiar et al.’s (2017) study, among 31 international franchisors interviewed, more than half chose a developed country as their first destination country. Furthermore, of the interviewed companies (Aguiar et al., 2017) that chose other emerging and developing host countries for their first international operation, the majority adopted a low control governance mode despite the host countries’ underdeveloped institutions. Thus, the Brazilian companies’ behavior appears to contradict the internalization theory's assumptions, which asserts that firms will internalize activities when they have more valuable and specific assets and when the host countries’ protection of intellectual property is weak.

Therefore, this article aims to empirically test the boundaries of the internalization theory regarding asset specificity and the protection of intellectual property and verify if it explains the Brazilian franchisors’ governance mode decisions. To achieve this goal, we conducted an OLS regression analysis using Brazilian Franchising Association (ABF) data with 463 observations about franchisors’ operations in international markets from 2017 to 2019.

This study contributes to the entry mode and emerging markets literature by using statistical tests to determine whether the internalization theory's main assumptions are valid with regard to the emerging market context. We investigate the role of the specificity of assets and the host countries’ protection of intellectual property in the choices of Brazilian franchisors about governance mode. Brazil offers an opportunity to test the adequacy of these premises due to the idiosyncrasies of franchisors’ international strategies.

The paper is divided into five sections. The next section presents the theoretical background and introduces the hypotheses. Section 4.4 outlines the methodology and data used in the estimates. The empirical test of the hypotheses and main findings are then summarized. In the following section, we discuss the results and some theoretical implications. Finally, we conclude and suggest directions for future research.
4.3 Literature review

4.3.1 Entry modes and internalization theory

Various theoretical lenses have been used to study MNCs’ choices regarding entry and governance modes when expanding abroad. Each underscores the importance of various factors in the firms’ decisions. The internalization theory offers explanations derived from the cost-optimization and efficiency perspectives. The decisions about how to operate in international markets are influenced by the incentives to internalize or externalize transactions based on the costs incurred (Brouthers & Hennart, 2007; Buckley & Casson, 1976; Rosado-Serrano, Paul, & Dikova, 2018).

The transaction cost theory, which originated in the works of Coase (1937) and Williamson (1975), explains the existence and growth of firms in the domestic market. The internalization theory is based on the transaction cost rationale that aims to explain how multinationals organize their cross-border transactions. According to Narula and Verbeke (2015), the internalization theory is mainly concerned with the governance design. Companies attempt to minimize the costs of international activities with the most efficient governance strategies, organizing the firms’ boundaries according to cross-national interdependencies and market imperfections (Datta, Hemnann, & Rasheed, 2002; Doherty, 1999; Tang & Buckley, 2020).

Since the seminal work of Buckley and Casson (1976), several authors have contributed to the theory by providing extensions and refinements. Dunning (1977, 2000) and Rugman (1981) expanded the internalization theory by incorporating elements from the resource perspective, dialoguing with Penrose’s (1959) resource-based view of firm growth. Rugman acknowledged the relevance of the institutional characteristics of the home and host countries as the context in which firms make their governance decisions, based on an initial set of firm-specific advantages such as R&D and brand (Li & Gammelgaard, 2014; Narula et al., 2019; Narula & Verbeke, 2015). Hennart (1993) proposed an intermediary choice between market and hierarchy, hybrid arrangements that consider the trade-off between the costs of using the price system and the costs of using a hierarchy.

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6 For a review of the extensions of the internalization theory from a historical perspective, see Verbeke and Kano (2015).
For example, the franchising agreement is one type of hybrid arrangement combining price and behavior constraints (Buckley & Casson, 1998; Jean-Francois Hennart, 1993).

Franchising is a contractual relationship between two legally independent entities, a franchisor and a franchisee, in which the franchisee pays fees to the franchisor for the right to sell products or services using its brand and business system (Castrogiovanni, Combs, & Justis, 2006; Dant & Grünhagen, 2014). The literature on entry modes classifies franchising as a non-equity, contractual, medium control mode for entering international markets (Brown, Dev, & Zhou, 2003; Kedia, Ackerman, Bush, & Justice, 1994; Sashi & Karuppur, 2002).

A company that adopts franchising as an entry mode can develop its operations abroad through different governance modes. International governance modes are organizational arrangements to conduct global business that can be differentiated by the level of control assigned to the franchisor and its partners, classified as high control or low control modes (Benito, Petersen, & Welch, 2009; Jell-Ojobor & Windsperger, 2014; Mumdžiev, 2011).

The most relevant franchising governance modes are direct investment (company-owned outlets), direct franchising, area development, master franchising, and franchising joint ventures. The degree of the franchisor’s investment required and the level of control increase from modes such as master franchising and area development to joint ventures and company-owned outlets because more residual income, ownership, and decision rights are allocated to the franchisor (Jell-Ojobor & Windsperger, 2014; Mumdžiev, 2011; Rosado-Serrano et al., 2018).

In the direct investment format, the franchisor invests in company-owned outlets in foreign markets, maintaining full control over the operations. Franchising joint ventures are equity relationships between the franchisor and an international partner to set up a joint venture company, making a master franchising or area development agreement to expand the system. The franchisor and the joint venture partner share the ownership, decisions, and residual income rights. In direct franchising, the franchisor sells the business concept to an individual franchisee in the host country. In a master franchising agreement, the franchisor grants the right to give franchise rights to third parties to a master franchisee and to operate franchise units. In an area development agreement, the franchisor grants the franchisees a defined territory in which they can develop units (Jell-Ojobor & Windsperger, 2014; Rosado-Serrano et al., 2018).
In decisions about governance modes, franchisors balance the return on investment against the costs of monitoring, adapting and transferring knowledge, identifying potential partners, and protecting intellectual property rights. The franchisors’ choice of international governance mode depends on the external uncertainty and the specific assets involved (Baena, 2012a; Burton, Cross, & Rhodes, 2000; Contractor & Kundu, 1998a; Fladmoe-Lindquist & Jacque, 1995; Jell-Ojobor & Windsperger, 2014; Rosado-Serrano et al., 2018).

4.3.2 The Goldilocks debate

There is some agreement in the entry and governance mode literature about the explanatory power of cost-related factors in the context of advanced economies (Baena, 2012b, 2013; Brouthers & Hennart, 2007; Combs & Ketchen, 2003; Contractor & Kundu, 1998b, 1998b; Fladmoe-Lindquist & Jacque, 1995; Zhao et al., 2004). However, the growing prominence of multinationals from emerging countries in the global scenario has prompted debate among scholars about the need for new and specialized theories to explain their unique characteristics (Cuervo-Cazurra, 2012; Jean-François Hennart, 2018; Ramamurti, 2012; Verbeke & Kano, 2015).

Some researchers argue that emerging market firms behave differently, and new theories are required (Guillén & García-Canal, 2009; Mathews, 2006). A second group understands that multinationals from both emerging and advanced economies face unique historical events that affect their internationalization path. For this reason, the existing theories can explain both developed and emerging market multinationals (A. Rugman, 2010). Other scholars suggest that not all behaviors of emerging market companies are different from those of advanced economies. The fundamental difference in emerging markets is the distinctive conditions of their home market. The internationalization models need extensions or refinements only when the country-of-origin aspects are relevant (Cuervo-Cazurra, 2012; Li & Gammelgaard, 2014; Ramamurti, 2012).

According to Cuervo-Cazurra (2012), analysis of developing countries’ multinationals extends the traditional view of the internalization theory by considering the different attitudes towards transaction costs. According to the mainstream internalization theory, the decision to use high or low control entry and governance modes in international markets depends on two main factors: the
specificity of assets and the host countries’ protection of intellectual property (Cuervo-Cazurra, 2012; Datta et al., 2002; Doherty, 1999).

However, there are some factors related to the country-of-origin in which emerging market MNCs may not follow these original assumptions of the internalization theory. In sections 4.3.3 and 4.3.4, we explore the role of asset specificity and the host country’s protection of intellectual property on decisions about governance modes. We also investigate how various factors in the home country of the MNCs in emerging markets might affect the predictions of the internalization theory.

### 4.3.3 The role of asset specificity

The specificity of assets refers to resources and capabilities that are intangible and difficult to transfer, such as know-how, strong technological competencies, and brand name. The role of asset specificity is widely discussed in entry and governance mode studies using cost-optimization perspectives in the context of advanced economies (Brouthers & Hennart, 2007; Contractor & Kundu, 1998a, 1998b; Datta et al., 2002; Dikova & Brouthers, 2016; Doherty, 1999; Fladmoe-Lindquist & Jacque, 1995; Jell-Ojobor & Windsperger, 2014, 2017; Rosado-Serrano et al., 2018).

Firms with more relevant and specific knowledge-based assets are more likely to choose high control governance modes abroad. This choice is related to the costs of monitoring, controlling, and transferring specific assets. The more significant the risk of losing its specific know-how and unique assets, the more likely a firm is to internalize its transactions. In other words, companies with more valuable, tacit and difficult to transfer assets prefer to internalize this knowledge. Therefore, they use high control entry and governance modes in order to reduce costs and avoid the risks of opportunism and moral hazards (Brouthers & Hennart, 2007; Datta et al., 2002; Doherty, 1999).

The case of Coca-Cola in China illustrates the relationship between asset specificity and entry mode choice. Mok et al. (2002) analyzed the Coca-Cola operation in China using the internalization theory. The company had rent-yielding assets, production technology, and marketing expertise. In the beginning, they opted for franchising contracts with local Chinese partners responsible for the production and distribution in the country. Due to the high costs generated by the
local partners' opportunistic behavior and uncertainty in the market environment, Coca-Cola decided to internalize the market transactions through a long-term investment strategy.

Still, some peculiarities of the home country context require further investigation of the applicability of the assumptions about asset specificity to companies headquartered in emerging markets. Such firms might expand abroad using different resources and advantages than those found in MNCs from developed economies. The weak institutions in their home market can inhibit the development of traditional specific assets, such as brand name, due to the lack of legal protection. For this reason, they create other types of advantages such as new business models and organizational capabilities that do not depend on external protection. In addition, they may internationalize to obtain new resources and upgrade capabilities at home (Cuervo-Cazurra, 2012; Fleury, Fleury, & Borini, 2013; Ramamurti, 2012; P. J. Williamson, 2015).

Evidence from Brazilian franchisors signals some deviation from the mainstream asset specificity assumption. For instance, they prioritize developed markets as host countries, despite their brand names usually being unknown in advanced economies. In Aguiar et al.’s (2017) study, of the 31 international franchisors interviewed, more than half chose a developed country as their first destination country. In 2019, of 163 Brazilian international franchisors, 67 had operations in the US (ABF, 2020). They believe that activities in advanced economies create positive impressions in their home market about their products' quality, prompting them to engage in asset-seeking internationalization (Fonseca & Rocha, 2018; Rocha et al., 2018).

Hence, we propose the following hypothesis derived from the original internalization theory:

**Hypothesis 1.** The more relevant their traditional specific assets are, the less likely the companies will use a low control governance mode in the foreign markets they enter.

### 4.3.4 The role of the protection of intellectual property

Another aspect that influences the choice of governance mode is the efficiency of the legal system and the protections it offers. The host countries’ legal environment impacts decisions regarding the internalization of transactions. Stronger protection of property rights promotes market–based mechanisms such as alliances, licensing, and franchising. The costs of making market transactions
or internalizing operations depend on the host country’s legal protection environment, especially regarding entry modes such as franchising. Environments that offer adequate protection of franchisors’ rights regarding brands, trademarks, licensing, and other critical proprietary knowledge are essential (Datta et al., 2002; Doherty, 1999; Pfister, Deffains, Doriat-Duban, & Saussier, 2006).

Low control modes involve the transfer of firm-specific assets such as the right to use the brand name and the know-how to a local partner. Thus, an efficient legal system to protect these assets is crucial to reduce potential costs and avoid risks. In host countries with little protection of intellectual property, the risks of selecting governance modes that imply more allocations of decision and control rights to local partners are greater. While effective mechanisms for protecting intellectual property rights encourage franchisee-operated modes, the lack of such protection incentivizes higher control modes (Doherty, 1999; Pfister et al., 2006).

However, conditions in the emerging markets’ home country affect the ability of companies headquartered in it to deal with the transaction costs involved in international operations and influence decisions about their governance modes. Given that firms from emerging markets must cope with weaker contractual protections in their home market, they might have more tolerance for the level of transaction costs they can manage and less trust in external mechanisms (Cuervo-Cazurra, 2012).

Being used to underdeveloped institutional environments helps firms from emerging markets operate successfully in similar settings, such as those they encounter in other emerging and developing countries. The familiarity with such conditions becomes an advantage for them. Managers who are used to working in countries where the rule of law is weaker are more flexible, better able to deal with issues outside contractual relationships, and more careful to choose the right partners (Cuervo-Cazurra & Genc, 2008; Fleury et al., 2013; Ramamurti, 2012).

The behavior of some Brazilian franchisors seems to deviate from the assumption about the protection of intellectual property of the mainstream internalization theory. Of 14 Brazilian franchisors that chose other emerging and developing host countries for their first international operation, 13 adopted low control governance modes despite the host countries’ underdeveloped institutions and lack of protection of intellectual property (Aguiar et al., 2017).

Thus, we posit that:
**Hypothesis 2.** The weaker the host country's protection of intellectual property, the less likely companies will adopt a low control governance mode in the foreign markets they enter.

We also analyze the effects of the interaction between the traditional specific assets and the impact of the host countries’ protection of intellectual property on the choice of governance mode. Asset specificity might exacerbate the negative impact of weaker protection of intellectual property in the host country on decisions to adopt a low control mode of governance. In other words, the probability of high control modes in host countries with poorer protection of intellectual property might be even more significant when the specificity of assets is greater. Following Brouthers and Hennart’s (2007) suggestion to test the strength of the interaction between external uncertainty and asset specificity. We propose that:

**Hypothesis 3.** Interactions between specific assets and poor protection of intellectual property in the host country's will reduce the likelihood of companies using a low control mode governance when entering foreign markets.

### 4.4 Methodology and data

#### 4.4.1 Sample

We used a representative sample of data from the Brazilian Franchising Association with observations about Brazilian franchisors' operations in each foreign market from 2017 to 2019. We considered the most recent registered data of each franchisor, resulting in 463 observations about 190 Brazilian franchisors operating in 64 countries. In addition, we used a database from the World Economic Forum, which contains information regarding the protection of intellectual property. We also used databases from the International Monetary Fund, the World Bank’s Doing Business, CEPII (*Centre d’ études prospectives et d’informations internationales*), and the Franchising Cultural Distance Index developed by Aliouche and Schlentrich (2011) based on Hofstede’s cultural dimensions.
4.4.2 Variables and Measures

Table 1 summarizes the variables adopted, measures, and sources of data. The dependent variable is the level of control in the governance modes, measured by the ratio of the low control mode operations to the total units in each host market. We followed previous classifications that consider franchisee-operated arrangements such as franchisee-owned outlets, master franchisees’ outlets, and area developers’ outlets as low control modes (Jell-Ojobor & Windsperger, 2014; Mumdžiev, 2011; Rosado-Serrano et al., 2018).

The hypotheses involve three independent variables. The traditional specific assets consist of the franchisors’ brand name and know-how. The proxy used to measure brand name is the existence of an advertisement fee applied to franchisees. The proxy used to measure know-how is the number of training programs and technical support areas that the franchisors offer to the franchisee. The number of training programs and technical support areas required is higher if the franchisor’s know-how is more specific and challenging to transfer (Windsperger & Yurdakul, 2007). We used the World Economic Forum database to measure the variable of the host countries’ intellectual property protection. The extent of the protection of intellectual property varies on a scale from 1 = not at all to 7 = to a great extent.

Moreover, in conjunction with these independent variables, we also utilized several widely used, tested variables related to the choice of governance modes (Alon & McKee, 1999; Alon, Ni, & Wang, 2012; Aydin & Kacker, 1990; Baena, 2012b, 2013; Burton et al., 2000; Contractor & Kundu, 1998b, 1998b; Elango, 2007; Fladmoe-Lindquist & Jacque, 1995; Jell-Ojobor & Windsperger, 2014, 2017; Ni & Alon, 2010).

We considered the franchisors’ age (age), calculated as the time in existence since their founding. We measured international experience by the total number of units abroad (int_unit) and by the average number of units per foreign country (un_country). Franchisors’ financial resources (fee_average) were calculated by the average of the franchising and initial fees. We used the population (market_pot) to assess the host market’s potential. We measured geographic distance (dist_geo) using the CEPII database (Centre d’études prospectives et d’informations internationales). Finally, we used the Franchising Cultural Distance Index developed by Aliouche and Schlentrich (2011) based on Hofstede’s
cultural dimensions to determine the cultural distance between the home and host countries (dist_cult)

Table 13: Variables, measures, and sources of data

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measure</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low control mode ratio</td>
<td>Ratio of low control mode units to the total number of operations in each market</td>
<td>ABF database</td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand name</td>
<td>Dummy indicator of the existence of an advertisement fee applied to franchisees, 0 or 1</td>
<td>ABF database</td>
</tr>
<tr>
<td>Know-how</td>
<td>Number of training programs and support areas</td>
<td>ABF database</td>
</tr>
<tr>
<td>Protection of intellectual property</td>
<td>Extent to which intellectual property is protected [1 = not at all; 7 = to a great extent]</td>
<td>World Economic Forum</td>
</tr>
<tr>
<td><strong>Control variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>Franchisors’ time in existence since being founded</td>
<td>ABF database</td>
</tr>
<tr>
<td>International experience: Units abroad</td>
<td>Total number of units abroad</td>
<td>ABF database</td>
</tr>
<tr>
<td>International experience: Units per foreign country</td>
<td>Average number of units abroad per foreign country</td>
<td>ABF database</td>
</tr>
<tr>
<td>Financial resources</td>
<td>Average of franchising and initial fees</td>
<td>ABF database</td>
</tr>
<tr>
<td>Market potential</td>
<td>Population</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>Geographic distance</td>
<td>Geographic distance between home and host countries</td>
<td>CEPII</td>
</tr>
<tr>
<td>Cultural distance</td>
<td>Cultural Distance Index</td>
<td>Aliouche and Schlentrich (2011) based on Hofstede’s cultural dimensions</td>
</tr>
<tr>
<td>Regulatory environment</td>
<td>Doing Business Index</td>
<td>World Bank</td>
</tr>
</tbody>
</table>

4.4.3 Research Design

Table 2 shows the means, standard deviations, and correlation coefficients for all variables under study. To test the hypotheses, we used an ordinary least squares (OLS) regression including dummy variables to control for the franchisors’ sectors. We adopted the ABF classification for these dummies that categorizes business activities into 11 industries: food; construction; technology
and electronics; recreation; travel and hotel; cleaning and maintenance; fashion; health and personal care; automotive; business services; and education. Since the errors are correlated within groups of observations, we adjusted the regression results using heteroscedasticity-robust standard errors clustered at the franchisor level (Cameron, Gelbach, & Miller, 2011; Wooldridge, 2003). All of the non-binary variables are mean-centered. We estimated the following regression equation to determine the level of control:

$$LOW\ CONTROL\ RATIO_i = \alpha_0 + \beta_1 BRAND_i + \beta_2 KNOWHOW_i + \beta_3 INTPROP_i + \text{Control \ Variables}_i + \epsilon_i$$

Transforming the variables also helps avoid the potential multicollinearity issue that could appear, especially when including the additional interaction terms. Indeed, the variance inflation factor (VIF) used to identify the presence of multicollinearity between variables is far below the suggested threshold value of 10 (Baum, 2006).
Table 14: Means, standard deviations and correlations

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>S.d.</th>
<th>1.</th>
<th>2.</th>
<th>3.</th>
<th>4.</th>
<th>5.</th>
<th>6.</th>
<th>7.</th>
<th>8.</th>
<th>9.</th>
<th>10.</th>
<th>11.</th>
<th>12.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Low control ratio</td>
<td>0.83</td>
<td>0.36</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Brand</td>
<td>0.81</td>
<td>0.81</td>
<td>0.00</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Know-how</td>
<td>25.24</td>
<td>8.27</td>
<td>0.08</td>
<td>0.14</td>
<td>**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. IPP</td>
<td>4.48</td>
<td>1.08</td>
<td>-0.24</td>
<td>**</td>
<td>0.01</td>
<td>0.00</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Age</td>
<td>25.22</td>
<td>17.98</td>
<td>0.00</td>
<td>-0.03</td>
<td>-0.06</td>
<td>-0.17</td>
<td>**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Dist_geo</td>
<td>6043.84</td>
<td>3601.67</td>
<td>-0.03</td>
<td>0.05</td>
<td>0.09</td>
<td>0.52</td>
<td>**</td>
<td>-0.20</td>
<td>**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Dist_cult</td>
<td>0.53</td>
<td>0.25</td>
<td>-0.16</td>
<td>**</td>
<td>-0.04</td>
<td>-0.07</td>
<td>0.19</td>
<td>**</td>
<td>-0.03</td>
<td>-0.21</td>
<td>**</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Market pot</td>
<td>81.92</td>
<td>150.41</td>
<td>-0.23</td>
<td>**</td>
<td>-0.01</td>
<td>0.02</td>
<td>0.37</td>
<td>**</td>
<td>-0.12</td>
<td>*</td>
<td>0.29</td>
<td>**</td>
<td>0.14</td>
<td>**</td>
</tr>
<tr>
<td>9. Int_unit</td>
<td>43.11</td>
<td>67.99</td>
<td>0.14</td>
<td>**</td>
<td>0.19</td>
<td>**</td>
<td>0.26</td>
<td>**</td>
<td>-0.09</td>
<td>0.08</td>
<td>0.05</td>
<td>-0.19</td>
<td>**</td>
<td>-0.10</td>
</tr>
<tr>
<td>10. Un_country</td>
<td>4.71</td>
<td>9.22</td>
<td>0.06</td>
<td>0.03</td>
<td>-0.03</td>
<td>-0.03</td>
<td>0.20</td>
<td>**</td>
<td>-0.05</td>
<td>-0.02</td>
<td>-0.04</td>
<td>0.30</td>
<td>**</td>
<td>1.00</td>
</tr>
<tr>
<td>11. Financ</td>
<td>178191.8</td>
<td>127742.38</td>
<td>-0.04</td>
<td>0.05</td>
<td>0.01</td>
<td>-0.13</td>
<td>**</td>
<td>0.27</td>
<td>**</td>
<td>-0.17</td>
<td>**</td>
<td>-0.07</td>
<td>-0.01</td>
<td>0.16</td>
</tr>
<tr>
<td>12. Reg_env</td>
<td>68.36</td>
<td>11.97</td>
<td>-0.30</td>
<td>**</td>
<td>-0.03</td>
<td>-0.02</td>
<td>0.87</td>
<td>**</td>
<td>-0.17</td>
<td>**</td>
<td>0.46</td>
<td>**</td>
<td>0.22</td>
<td>**</td>
</tr>
</tbody>
</table>

Note: Brand (1 = apply advertisement fee, and 0 = not apply); IPP: level of protection (1 = not at all; 7 = to a great extent); Dist_cult: distance from Brazilian position in the index; Market pot: population in million of inhabitants. Coefficients are statistically significant at *p < 0.05; **p < 0.01.
Model 1 measures the direct effects of the predictor and control variables (Model 1.1) on the low control mode ratio. Model 1.2 assesses the effects of the interaction between know-how and the impact of the host countries’ protection of intellectual property on the choice of governance mode. Model 1.3 estimates the effects of the interaction between brand name and the impact of the host countries’ protection of intellectual property on the choice of governance mode.

4.5 Results

Table 3 reports the results for Model 1.
Table 15: Results of OLS regression analysis

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Low control mode ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1 (1)</td>
</tr>
<tr>
<td>Know-how</td>
<td>0.00259</td>
</tr>
<tr>
<td></td>
<td>(0.00272)</td>
</tr>
<tr>
<td>IPP</td>
<td>-0.07573***</td>
</tr>
<tr>
<td></td>
<td>(0.01669)</td>
</tr>
<tr>
<td>Brand</td>
<td>-0.00735</td>
</tr>
<tr>
<td></td>
<td>(0.05693)</td>
</tr>
<tr>
<td>Age</td>
<td>0.00026</td>
</tr>
<tr>
<td></td>
<td>(0.00122)</td>
</tr>
<tr>
<td>Financ</td>
<td>-0.00000002</td>
</tr>
<tr>
<td></td>
<td>(0.00000002)</td>
</tr>
<tr>
<td>Market pot</td>
<td>-0.00044***</td>
</tr>
<tr>
<td></td>
<td>(0.00017)</td>
</tr>
<tr>
<td>Int_unit</td>
<td>0.000002</td>
</tr>
<tr>
<td></td>
<td>(0.00046)</td>
</tr>
<tr>
<td>Un_country</td>
<td>0.00171</td>
</tr>
<tr>
<td></td>
<td>(0.00179)</td>
</tr>
<tr>
<td>Dist_geo</td>
<td>0.00001***</td>
</tr>
<tr>
<td></td>
<td>(0.00001)</td>
</tr>
<tr>
<td>Dist_cult</td>
<td>-0.05145</td>
</tr>
<tr>
<td></td>
<td>(0.04383)</td>
</tr>
<tr>
<td>Know-how x IPP</td>
<td>0.00072</td>
</tr>
<tr>
<td></td>
<td>(0.00222)</td>
</tr>
<tr>
<td>Brand x IPP</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Intercept</td>
<td>-0.03766</td>
</tr>
<tr>
<td></td>
<td>(0.07063)</td>
</tr>
<tr>
<td>Observations</td>
<td>463</td>
</tr>
<tr>
<td>R²</td>
<td>0.11484</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.08921</td>
</tr>
<tr>
<td>Residual Std. Error</td>
<td>0.34130</td>
</tr>
<tr>
<td>F Statistic</td>
<td>4.48099***</td>
</tr>
</tbody>
</table>

Note: All of the non-binary variables are mean-centered. Heteroscedasticity-robust standard errors (clustered at the franchisor level) are shown in parentheses and include sectorial dummies. Coefficients are statistically significant at *p < 0.1; **p < 0.05; ***p < 0.01.
The findings for know-how and brand name were not statistically significant. Thus, Hypothesis 1 is not supported. Valuable traditional specific assets such as the brand name and know-how of the operation do not impact the Brazilian franchisors’ low control mode ratio in foreign markets. Therefore, the traditional assumption about the impact of asset specificity on the choice of governance strategies does not hold in this context.

The protection of intellectual property had a significant \( (p < 0.01) \) but negative relationship with the low control mode ratio in both models. Thus, the results are opposite to those expected and do not support Hypothesis 2. The weaker the protection of intellectual property in the host country, the more likely the MNCs are to use the low control mode ratio in foreign markets. Thus, here again, the internalization theory’s predictions about the impact of the protection of intellectual property on the choice of most effective governance strategies do not hold in the case of MNCs from Brazil.

The results about market potential as a control variable revealed a significant \( (p < 0.01) \) and negative relationship with the low control mode ratio. These findings show that Brazilian franchisors favor high control modes in countries where there is greater market potential and the return on investment is more significant. Geographic distance between the home and host countries had a significant \( (p < 0.01) \) and positive impact on the low control mode ratio, meaning that Brazilian franchisors are more likely to use low control mode operations in distant countries.

Based on Brouthers and Hennart’s (2007) suggestion of testing the interaction between asset specificity and external uncertainty, we included the effects of the interaction between know-how (Model 1.2) and brand name variables (Model 1.3) and the impact of the host countries’ protection of intellectual property on the use of the low control mode. The results revealed no significant interactions. Thus, we rejected Hypothesis 3.

### 4.5.1 Robustness tests

To conduct robustness tests of Model 1, we used another variable related to the host country’s regulatory environment as an independent variable (Model 2). The results appear in Table 4. We changed the assessment of the protection of intellectual property using the World’s Bank Doing Business Index (DB17-20 methodology). The index ranks economies based on their ease of doing business. A higher value on the index means a better regulatory environment. Several
papers have used the Doing Business Index as a proxy for the legal and regulatory environment (Aliouche, 2015; Aliouche & Schlientrich, 2011; Baena, 2012b, 2013; Baena & Cerviño, 2014). Given that the protection of intellectual property is associated with the regulatory environment, we substituted it to check whether the effects remained the same.

Results for Model 2 showed that the regulatory environment had a significant \( p < 0.01 \) but negative relationship with the low control mode ratio. The weaker the host country’s regulatory environment, the more likely is the use of low control mode operations. The effects of the interaction between know-how (Model 2.2) and brand name (Model 2.3), and the impact of the host’s regulatory environment on the low control mode ratio were also not significant. These results are in line with our previous findings.
Table 16: Results of OLS regression analysis (robustness check)

*Dependent variable*

<table>
<thead>
<tr>
<th></th>
<th>Model 2 (1)</th>
<th>Model 2.1 (2)</th>
<th>Model 2.2 (3)</th>
<th>Model 2.3 (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low control mode ratio</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Know-how</td>
<td>0.00244</td>
<td>0.00211</td>
<td>0.00171</td>
<td>0.00209</td>
</tr>
<tr>
<td></td>
<td>(0.00270)</td>
<td>(0.00289)</td>
<td>(0.00273)</td>
<td>(0.00288)</td>
</tr>
<tr>
<td>Reg_env</td>
<td>-0.00835***</td>
<td>-0.00849***</td>
<td>-0.00860***</td>
<td>-0.00979***</td>
</tr>
<tr>
<td></td>
<td>(0.00135)</td>
<td>(0.00157)</td>
<td>(0.00153)</td>
<td>(0.00289)</td>
</tr>
<tr>
<td>Brand</td>
<td>-0.01435</td>
<td>-0.02170</td>
<td>-0.02297</td>
<td>-0.02285</td>
</tr>
<tr>
<td></td>
<td>(0.05503)</td>
<td>(0.05901)</td>
<td>(0.05881)</td>
<td>(0.05737)</td>
</tr>
<tr>
<td>Age</td>
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<td>0.00001</td>
<td>0.00009</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.00123)</td>
<td>(0.00126)</td>
<td>(0.00124)</td>
<td></td>
</tr>
<tr>
<td>Financ</td>
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<td>-0.0000002</td>
<td>-0.0000002</td>
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</tr>
<tr>
<td></td>
<td>(0.0000002)</td>
<td>(0.0000002)</td>
<td>(0.0000002)</td>
<td></td>
</tr>
<tr>
<td>Market pot</td>
<td>-0.00041***</td>
<td>-0.00040***</td>
<td>-0.00041***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.00016)</td>
<td>(0.00016)</td>
<td>(0.00016)</td>
<td></td>
</tr>
<tr>
<td>Int_unit</td>
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<td>0.00003</td>
<td>0.00003</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.00045)</td>
<td>(0.00046)</td>
<td>(0.00045)</td>
<td></td>
</tr>
<tr>
<td>Un_country</td>
<td>0.00179</td>
<td>0.00193</td>
<td>0.00180</td>
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</tr>
<tr>
<td></td>
<td>(0.00184)</td>
<td>(0.00179)</td>
<td>(0.00182)</td>
<td></td>
</tr>
<tr>
<td>Dist_geo</td>
<td>0.00002***</td>
<td>0.00002***</td>
<td>0.00002***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.00001)</td>
<td>(0.00001)</td>
<td>(0.00001)</td>
<td></td>
</tr>
<tr>
<td>Dist_cult</td>
<td>-0.02898</td>
<td>-0.03042</td>
<td>-0.02715</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.04603)</td>
<td>(0.04627)</td>
<td>(0.04606)</td>
<td></td>
</tr>
<tr>
<td>Know-how x Reg_env</td>
<td>0.00016</td>
<td></td>
<td></td>
<td>(0.00018)</td>
</tr>
<tr>
<td>Brand x Reg_env</td>
<td></td>
<td>0.00159</td>
<td></td>
<td>(0.00308)</td>
</tr>
<tr>
<td>Intercept</td>
<td>-0.03654</td>
<td>-0.02896</td>
<td>-0.02637</td>
<td>-0.02688</td>
</tr>
<tr>
<td></td>
<td>(0.07012)</td>
<td>(0.07765)</td>
<td>(0.07819)</td>
<td>(0.07649)</td>
</tr>
<tr>
<td>Observations</td>
<td>463</td>
<td>463</td>
<td>463</td>
<td>463</td>
</tr>
<tr>
<td>R²</td>
<td>0.13924</td>
<td>0.18773</td>
<td>0.18931</td>
<td>0.18815</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.11431</td>
<td>0.15097</td>
<td>0.15070</td>
<td>0.14949</td>
</tr>
<tr>
<td>Residual Std. Error</td>
<td>0.33657</td>
<td>0.32953</td>
<td>0.32958</td>
<td>0.32982</td>
</tr>
<tr>
<td>F Statistic</td>
<td>5.58688***</td>
<td>5.10764***</td>
<td>4.90373***</td>
<td>4.86690***</td>
</tr>
</tbody>
</table>

Note: All of the non-binary variables are mean-centered. Heteroscedasticity-robust standard errors (clustered at the franchisor level) are shown in parentheses and include sectorial dummies. Coefficients are statistically significant at *p < 0.1; **p < 0.05; ***p < 0.01.
Moreover, we conducted another robustness test with a different dependent variable. In Model 3, we substituted a dummy variable for high control or low control modes in each foreign market for the low control mode ratio. The variable received the value of 1 if the franchisor adopted only the low control mode--franchisee-owned outlets, master franchisee outlets, and area developers’ outlets. Those firms that had at least one high control mode in an international market--company-owned outlets—received the value of 0. We ran a linear probability model using OLS (Model 3.1) and a logistic regression (Model 3.2). However, as Table 5 indicates, the results remained the same.
Table 17: Results of OLS and logit regression analysis

Dependent variable - Low control mode = 1

<table>
<thead>
<tr>
<th></th>
<th>OLS</th>
<th>Logistic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Linear Probability Model (OLS)</td>
<td>Logit Model</td>
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<tr>
<td>Know-how</td>
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<td>0.01653</td>
</tr>
<tr>
<td></td>
<td>(0.00325)</td>
<td>(0.02112)</td>
</tr>
<tr>
<td>IPP</td>
<td>-0.08697***</td>
<td>-0.72594***</td>
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<tr>
<td></td>
<td>(0.01970)</td>
<td>(0.18271)</td>
</tr>
<tr>
<td>Brand</td>
<td>0.00210</td>
<td>0.00578</td>
</tr>
<tr>
<td></td>
<td>(0.06730)</td>
<td>(0.46945)</td>
</tr>
<tr>
<td>Age</td>
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<td>0.00600</td>
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<tr>
<td></td>
<td>(0.00124)</td>
<td>(0.00883)</td>
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<tr>
<td>Financ</td>
<td>-0.0000002</td>
<td>-0.000001</td>
</tr>
<tr>
<td></td>
<td>(0.0000003)</td>
<td>(0.0000002)</td>
</tr>
<tr>
<td>Market pot</td>
<td>-0.00050***</td>
<td>-0.00254***</td>
</tr>
<tr>
<td></td>
<td>(0.00019)</td>
<td>(0.00091)</td>
</tr>
<tr>
<td>Int_unit</td>
<td>0.00021</td>
<td>0.00289</td>
</tr>
<tr>
<td></td>
<td>(0.00054)</td>
<td>(0.00615)</td>
</tr>
<tr>
<td>Un_country</td>
<td>-0.00196</td>
<td>-0.01347</td>
</tr>
<tr>
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<td>(0.00283)</td>
<td>(0.02085)</td>
</tr>
<tr>
<td>Dist_geo</td>
<td>0.00002***</td>
<td>0.00015***</td>
</tr>
<tr>
<td></td>
<td>(0.00001)</td>
<td>(0.00005)</td>
</tr>
<tr>
<td>Dist_cult</td>
<td>-0.08390</td>
<td>-0.45901</td>
</tr>
<tr>
<td></td>
<td>(0.05285)</td>
<td>(0.42491)</td>
</tr>
<tr>
<td>Intercept</td>
<td>0.76227***</td>
<td>1.39818**</td>
</tr>
<tr>
<td></td>
<td>(0.09137)</td>
<td>(0.65010)</td>
</tr>
<tr>
<td>Observations</td>
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<td>463</td>
</tr>
<tr>
<td>R²</td>
<td>0.16783</td>
<td></td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.13017</td>
<td></td>
</tr>
<tr>
<td>Log Likelihood</td>
<td></td>
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</tr>
<tr>
<td>Akaike Inf. Crit.</td>
<td></td>
<td>435.60280</td>
</tr>
<tr>
<td>Residual Std. Error</td>
<td>0.37851</td>
<td></td>
</tr>
<tr>
<td>F Statistic</td>
<td>4.45695***</td>
<td></td>
</tr>
</tbody>
</table>

Note: The low control mode received the value of 1 if the franchisor adopted only low control mode forms of governance—franchisee-owned outlets, master franchisee outlets, and area developers’ outlets. Those that had at least one high control mode—company-owned outlets franchisee-owned outlets, master franchisee outlets, and area developers’ outlets—received the value of 0. All of the non-binary variables are mean-centered. Heteroscedasticity-robust standard errors (clustered at the franchisor level) are shown in parentheses. Column (1) includes sectorial dummies. Coefficients are statistically significant at *p < 0.1; **p < 0.05; ***p < 0.01.
4.5.2 Qualitative follow up

To a deeper understanding and corroboration of the quantitative analysis results, we adopted a mixed-method approach. Following previous studies, we combined qualitative research elements through an explanatory design, employing sequential data collection from in-depth interviews (Harrison, 2013; Johnson et al., 2007; Lai & Cheng, 2005). “In explanatory designs, researchers first collect and analyze quantitative data, then build on those findings in a qualitative follow up, which seeks to provide a better understanding of the quantitative results” (Harrison, 2013, pp. 2157).

Based on the findings, semi-structured interviews were conducted with the international department manager of the Brazilian Franchising Association and executives responsible for the internationalization of two Brazilian franchise companies. The companies were chosen based on their experience in countries with weak intellectual property protection through low control modes. Besides, both have implemented business model innovations to international expansion. The interviews were carried out online in June of 2020.

One of the firms (Company “A”) is a franchisor that sells accessories and sunglasses, with 783 operations in Brazil and 27 in other countries. They have eight low control mode operations in Kuwait, which ranks 81 in the World Economic Forum index of intellectual property protection. The other company (Company “B”) operates in the leisure sector, with 529 outlets in Brazil and 222 in 46 different countries. The company has low control operations in Honduras, number 82 in the World Economic Forum ranking, Trinidad and Tobago, number 83, and Nicaragua, number 123, among others. The interviews flesh out the findings from the quantitative analysis, discussed in the following section.

4.6 Discussion

The empirical analysis reveals that the assumptions of the internalization theory related to the role of asset specificity and the host country’s protection of intellectual property do not explain Brazilian franchisors’ choices regarding their international governance modes. The asset specificity premise predicts that firms with more relevant knowledge-based assets, such as technology and branding, are more likely to choose high control governance modes abroad. The findings showed
that neither brand name or know-how affected the Brazilian franchisors’ choices. The intellectual property assumptions state that firms are more likely to choose high control modes in host countries with weak protection of intellectual property. In this case, our results actually revealed the opposite relationship. The Brazilian franchisors’ ratio of low control modes was higher in countries with less protection of intellectual property.

Based on these results, evidence from other studies (Aguiar et al., 2017; Fonseca & Rocha, 2018; Rocha et al., 2018), and information from interviews with practitioners, we argue that the mainstream internalization theory is insufficient for explaining Brazilian multinationals’ decisions about franchising. We suggest that some of the developments in the “new internalization theory” (Narula & Verbeke, 2015; Verbeke & Kano, 2015) can offer a better and more complete understanding of the international choices of firms from emerging markets.

Specifically, the new internalization perspective relaxes the asset specificity premise of the mainstream theory by considering the role of resource recombination and the development of non-traditional capabilities. In Brazil, home country-specific conditions inhibit the development of technological and knowledge-based assets. Still, companies develop other relevant non-traditional capabilities, such as organizational and business model innovations, by recombining existing and resources accessed across borders (Fleury et al., 2013; Verbeke & Kano, 2015). Despite the peculiar environmental conditions, Brazilian MNCs create ways to become strategically relevant.

Important MNCs headquartered in Brazil, such as Embraer, Gerdau, AmBev, and Odebrecht, developed business model innovations, providing the same products through new approaches (Fleury et al., 2013). One example in the franchising sector is a Brazilian company that sells glazed hazelnuts. In 1996, they negotiated an exclusive contract with a US firm for the machinery and product recipe. They developed a new model, adapting it to the franchising system and, in 2016, started the internationalization of the new business model back to the US (Auriemo, 2017).

The interviewed Company “A” developed weekly collections, with 19 themes per year related to the brand’s values (fashion, art, and music), adapting the products to each host country. In general, they adopted the kiosk format for international expansion, reducing the fixed costs of the operation. Company “B” developed an internationalization model of local stores' gradual adaptation to the franchising system. They permitted local stores to sell the company’s products and
use the brand for a period of time without paying royalties to test the model before entering the franchising agreement. Thus, non-traditional capabilities allow emerging market multinationals to succeed in foreign markets despite deficiencies in typical resources such as branding and technology (Bretas, Rocha, Spers, & Melo, 2020; Buckley, Doh, & Benischke, 2017; Verbeke & Kano, 2015).

Moreover, the new internationalization theory also acknowledges the relevance of institutions. The home-country’s institutional environment codetermines the firm-specific advantages (Verbeke & Kano, 2015). Brazil’s country-specific conditions enhance the companies’ ability to deal with weak contractual protections. This ability creates a non-traditional firm-specific advantage for operating in similar environments (Kano, Verbeke, & van Tulder, 2016). For this reason, low control modes are suitable for Brazilian franchisors in host markets with weaker intellectual property protection. Other aspects, such as the local partner’s ability to invest and market knowledge, are more relevant in their governance mode choice.

One of the former executives from Company “B” noted: “Even in Brazil, our model is copied. Thus, it is necessary to assess to what extent it [the lack of intellectual property protection] will affect the business or not.” A Company “A” executive asserted: “It is not the protection of intellectual property that makes us choose whether or not to enter the country. Our choice has more to do with which partner we find on the other side, as was Kuwait’s case. If the partner is attractive, if he has an adequate investment capacity, good market knowledge, we usually test [the market] together with the franchisee, with the potential partner.” According to the ABF international manager, many companies choose low control modes even in countries with little intellectual property protection because they prioritize internationalization with a small investment.

**4.7 Conclusions**

In this article, we tested the boundaries of the internalization theory in the context of multinational companies from emerging markets. We discussed whether the original assumptions regarding the role of asset specificity and the host country’s protection of intellectual property explain the international governance mode choices of Brazilian franchisors. The findings from the empirical analysis revealed that the internalization theory’s premises do not hold in the context of
Brazil. Asset specificity is not a significant influence, and better protection of intellectual property in the host country actually has a negative relationship with the low control mode ratio in international markets. We also observed that the market potential has a negative relationship with this choice of governance mode. However, the geographic distance between the home and host countries has a positive impact on the low control mode ratio.

Based on the quantitative analysis results and the interviews with practitioners, we identified some context-specific aspects influencing the choice of international governance mode. Due to the conditions in their country of origin, Brazilian franchisors develop different types of assets and capabilities and engage in asset-seeking internationalization. Moreover, they are used to dealing with weak contractual protections and have more tolerance in the assessment of the trade-offs among market potential, investment, and risks.

Our results contribute to the entry mode and emerging market literature by verifying through statistical tests whether the internalization theory's main assumptions are valid in the emerging market context (Cuervo-Cazurra, 2012; Ramamurti, 2012). We propose that the new internalization perspective is more suitable for explaining how multinationals from emerging markets function abroad. In contrast to the original format of the theory, the new perspective considers the role of resource recombination and non-traditional capabilities. It also acknowledges the relevance of institutions in codetermining the firms’ advantages (Narula & Verbeke, 2015; Verbeke & Kano, 2015).

4.7.1 Limitations and future developments

Despite our contributions, this study has several limitations. We acknowledge that emerging and developing countries are heterogeneous, and the specific configurations of their home countries’ environments differ. Thus, our findings should be considered with caution in terms of generalization. This investigation could be extended to other emerging and developing markets. In addition, future quantitative research could further investigate and test the influence of the country-of-origin related factors identified in this study in decisions about governance modes.
4.8 References


Rugman, A. (2010). Do We Need A New Theory To Explain Emerging Market Multinationals?


