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LEGAL ENVIRONMENT OF THE DESTINATION COUNTRIES OF INTERNATIONALIZED BRAZILIAN FRANCHISE CHAINS

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ABSTRACT

Motivated by globalization, the internationalization of Brazilian franchise chains to emerging countries has grown in recent decades. This internationalization provided opportunities for expansion for companies in this segment through business in foreign markets. The objective of this article is to identify, in the institutional environment of the destination countries of Brazilian franchise chains, the legal characteristics that are determinant in their internationalization strategies for emerging markets. The methodology used was the multiple case study, with a sample of three internationalized Brazilian franchise chains. The results indicated that the legal environment has relevance in the internationalization of franchise chains, but also indicated the existence of other factors that generate security and confidence and motivated the effective selection of emerging markets. Thus, in the choice of an emerging country for internationalization, the chain seek guarantees in the formal market relations, but, due to the institutional fragility of emerging markets, they also seek guarantees in informal institutions.

1 INTRODUCTION

Following the trend of the internationalization of business, Brazilian franchise chains in recent years have sought new possibilities for international business in both developed and emerging markets. According to the Brazilian Franchise Association (ABF) (2016), Brazilian brands in 2015 were present in over 60 countries through 134 franchise chains, with some of the main destinations being countries like the United States, Paraguay, Portugal, Argentina and Mexico. According to Apex-Brasil (2016), Brazilian businesses increasingly perceive the benefits of internationalizing their operations and, consequently, gaining competitiveness and increasing their business overseas.

In recent decades, emerging markets have gained visibility and become more important to the global economy. Therefore, in the internationalization process of commercial and productive activities, they have become the destination of many companies and investors, including Brazilian franchise chains. According to Prahalad (2005), one of the main attractive characteristics of emerging markets is a social structure with billions of people with immense buying power that has yet to be exploited. Confirming this idea, Arnold and Quelch (1998) claim that these markets, with low and average per capita income, are considered a great potential for businesses.

If, on the one hand, in the internationalization process to emerging markets, companies are faced with attractive characteristics, on the other hand they also face adverse factors, such as institutional gaps and a lack of effective regulatory systems regarding property rights (KHANNA, PALEPU & SINHA, 2005;

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SOTO, 2000). This can be problematic, especially for franchise chains, as their contracts contain an instrument of formal control in their relationship with their franchisees, in which contractual clauses establish a number of rules and punishments for the parties involved in order to ensure a secure relationship between franchise and franchisee. According to Sun et al. (2015), in addition to this instrument, aspects of the legal environment are essential for companies, such as the enforceability of contracts and property laws. Thus, when choosing a destination country, Brazilian franchise chains consider the characteristics of the legal environment as important attributes that could be viewed as major barriers or motivators to enter a country.

The literature review points out the importance of an attractive legal-institutional environment in the destination country, both for the internationalization process of companies and the potential for business in emerging markets. Thus, this article analyzes the adverse factors in the legal-institutional environment of emerging markets and the kind of business model of franchise chains that requires adequate contractual and legal systems for the security of international operations.

The article seeks to answer the following research question: **which characteristics of the legal environment of the destination country are related to the choice of Brazilian franchise chains when it comes to choosing emerging countries?** Therefore, the aims of the article are: (1) to identify and analyze aspects in the legal-institutional environment of emerging destination countries that influence Brazilian franchise chains in their choice of these markets; and (2) to identify how Brazilian franchise chains, in their internationalization strategy, perceive and address aspects of the legal-institutional environment of emerging destination countries.

This analysis was conducted using qualitative research in a multiple case study of three Brazilian franchise chains that operate in emerging countries. Three countries were selected, one for each of the franchises in question, for a closer study of the internationalization process. The academic contribution of the article is that it explores an aspect that has not often been addressed in the literature, which is the selection process of countries for internationalization (DANT & GRÜNHAGEN, 2014; DANT, GRÜNHAGEN & WINDSPERGER, 2011), using an institutional bias and addressing the motivations in the legal-institutional environment of destinantion countries. A further contribution of the article is that it addresses the behavior of the internationalization of franchise chains from one emerging market to other emerging markets, whereas most of the literature is dedicated to studying the behavior of franchise chains from developed countries (ALIOUCHE; SCHLENTRICH, 2011; MELO et al., 2015). As a contribution to the field of management, the study can help company managers who intend to internationalize to emerging countries to formulate an effective internationalization strategy.

2 THEORETICAL FRAMEWORK

2.1 Emerging Markets and the Institutional Environment

Emerging markets have unique characteristics and features that differentiate them from developed markets, and which deserve attention from Brazilian franchise chains that already operate or intend to conduct business in these markets.

One characteristic of emerging markets is institutional gaps in relation to diverse contexts: openness to foreign investments, political and social systems and markets for products, jobs and capital. These institutional gaps can be seen, for example, in the lack of efficient regulation systems and systems for making contracts enforceable (KHANNA, PALEPU & SINHA, 2005).

Due to these institutional gaps, corporations that operate in emerging markets, unlike those that operate in the European or American market, cannot access capital or qualified labor easily or at a reasonable cost. This is often a hindrance to companies in emerging countries and prevents them from investing in research and development to build global brands (KHANNA & PALEPU, 2006).

Moreover, according to Soto (2000), in emerging markets, effective property regulation systems are also lacking.

In the field of strategic business management, it has been increasingly highlighted that the institutional environment is more than a secondary factor, proving that it is an important and determining factor when it comes to formulating and implementing business strategies. This has resulted in the emergence of the Institution-Based View for strategic management (PENG et al., 2006; PENG et al. 2009), which has been considered one of the three main perspectives in strategic management, forming the strategy tripod, along with the Industry-Based

View (PORTER, 1980) and the Resource-Based View (BARNEY, 1991).

According to North (1991), the institutions that make up the institutional environment are humanly devised constraints that structure political, economic and social interactions. According to the author, the idea of the institution is represented by statutes, laws and rules, which propitiate cooperation by reducing transaction costs in economic exchanges that stem from imperfect markets and imperfect competition.

Institutions are considered effective when they are capable of reducing the costs of transactions and information and transforming uncertainty into risk through regular behavior patterns. Thus, institutions can have a positive relationship with company performance when they are effective or lead to restrictions that reduce the efficiency of companies, imposing additional costs when they are ineffective (NORTH, 1990).

The institutional environment of emerging economies, composed of formal and informal institutions, differs greatly from the institutional environment found in developed economies and notably shapes the strategy and performance of firms, both domestic and foreign, in these markets. In this sense, domestic and foreign companies in emerging economies face a fundamental question in relation to the institutional environment: how to play the game when the rules are not fully known and are constantly changing (PENG et al, 2008).

Thus, research on emerging economies and their institutional environments makes it possible to recognize the validity of the proposition that "institutions matter", and also consider and seek answers to the question of "how institutions matter".

To Peng et al. (2008), researching emerging economies means a new empirical context that helps to test and broaden existing theories and, more specifically, lead to the emergence of strategic management supported by the Institution-Based View, together with the traditional Industry-Based and Resource-Based Views, enabling firms to formulate and implement a strategy to create a competitive advantage.

Therefore, answers to what determines the success or lack of success of companies that internationalize and their strategic choices should be based on: (1) the sector in which the company operates; (2) its resources and capabilities; and (3) the institutional environment with which the company will form a relationship and conduct its business (PENG et al, 2006; 2009).

Peng et al. (2009) argue that formal and informal institutions are combined to influence the behavior of firms. For instance, in situations in which formal restraints are not clear or are flawed, informal constraints will play a larger role to reduce uncertainty and thus provide orientation and ensure legitimacy and rewards for company managers. The central idea is that formal institutions, when deficient or lacking, will give way to informal institutions, in which companies and managers seek to avoid the adverse effects of weak formal institutions.

The authors also conclude that when more formal institutions that support the market develop in emerging economies, there will be less trust in strategies based on informal relationships and greater dependence on full competition and market-based strategies. In this sense, informal connections are important because as companies compete in the product market, they also compete in other markets characterized by informal relationships, such as politics and culture.

According to Sun et al. (2015), an institutional environment includes formal institutions, such as the legal system, with laws, rules and regulations. According to the authors, this is one of the most important governmental attributes in a country.

The authors, based on the ideas of North et al (2009), regarding how the political system defines property rights, enforcement of contracts and the rule of law necessary for the market to function, suggest that the openness of the legal environment can be observed in four inter-related aspects: (1) the rule of law and its enforceability; (2) protection for the rights of companies and investors; (3) the enforcement of property rights; and (4) the protection of consumer rights. For the purposes of this article, within the dimension of the legal environment, conceived as the legal framework of the destination country that enables investments by foreign companies, only two of these aspects were selected: (1) the rule of law and its enforceability and (2) the enforcement of property rights.

Table 1 – Rule of law and protection of property rights

Category	Description/purpose	Source
Rule of Law and its enforceability	• Protection of contracts. • Reduction of opportunistic behavior • Facilitating transactions • Resolving disputes.	Zho & Poppo (2010) La Porta et al. (1998)
Protection of property rights	• Protection of an individual or company's right s to use, control, transfer and receive benefits from their property.	Sun et al. (2015) La Porta et al. (1998)
	• In emerging economies, the protection of intellectual property rights is usually weak, leading to few innovations and technology transfers.	Sun et al. (2015) Khoury & Peng, (2011) La Porta et al. (1998)
	• Encourages long-term investments by companies from emerging economies in tangible and intangible assets that are crucial to internationalization.	Khoury & Peng (2011) Meyer et al. (2009) Young et al. (2014) La Porta et al. (1998)

Source: The authors

One of the aspects addressed within the legal environment of a country is the rule of law, a situation linked to respect for the hierarchy of norms and fundamental rights, which operates to restrict political power and to lower the entry barriers caused by interests, such as financial interest. Consequently, companies this has enabled businesses to choose to produce, negotiate and purchase what is necessary without being forced to do so by the government (SUN et al., 2015). To Zhou and Poppo (2010 apud SUN et al., 2015), effective legal enforceability protects contracts and reduces opportunistic behavior. Its enforcement helps to facilitate transactions and resolve legal disputes. Another aspect addressed within the legal environment of a country is property rights, which is a set of legal devices that protect an individual's right to use, control, transfer and receive benefits from their property. In emerging economies, the protection of intellectual property rights is usually weak, leading to few innovations and technology transfers (SUN et al., 2015; KHOURY & PENG, 2011).

Lower financial risk, a characteristic of the franchise system, advances in telecommunications technologies, facilitating the control process, the benefits of economies of scale of a network and the flexibility of a small business, as well as knowledge of the local market provided by the franchisee, are factors that spur the internationalization of franchises (ALON & MACKEE, 1999; SASHI & KARUPPUR, 2002). A franchise chain in an internationalization process may come across institutions in the destination country that help to improve the efficiency of the economy and firms, providing reliable and efficient frameworks. The chain may also come up against companies that raise transaction costs or raise barriers that result in poorer performance of the economy or businesses. In this case, it will fall, for example, to the State to improve the attractiveness of its institutions and thus encourage companies to invest in the country (MUDAMBI, 1998; NARULA & DUNNING, 2010).

2.2 Internationalization of Franchise Chains

Dant and Grünhagen (2014), in a literature review of the internationalization of franchise chains, identified five study perspectives: (1) Macro perspective: aiming to analyze the influence of the characteristics of the destination country on the internationalization process; (2) Entry mode: analyzing the mode used to enter the international market; (3) Governance: analyzing the choice of modes of governance when entering an international market; (4) Driving forces for international expansion: identifying the motivations of franchises to expand internationally; and (5) Franchisor-franchisee relationship: analyzing the characteristics of the relationship between franchisee and franchisor and how it can affect choices in the internationalization process.

This study seeks to contribute especially to the first perspective, the macro perspective. Its research focus is based on the idea that franchise chains are attracted to markets institutionally similar to their own domestic market.

With specific regard to Brazilian franchise chains, the object of the present study, the internationalization movement began to grow in the 1990s, when economic freedom changed the country's environmental conditions, leading companies to seek means of increasing their competitiveness, playing a fundamental role in stimulating internationalization (STAL; CUERVO-CAZURRA, 2011).

As the sector expanded, the Brazilian academic community's interest in the subject, with a rise in the publication of work on franchise chains beginning in the early 2000s (MELO; ANDREASSI, 2010). The works published on the internationalization of Brazilian franchise chains can be classified along three lines: (1) Comparative studies between domestic franchise chains and internationalized franchise chains; (2) Studies that address the internationalization process of Brazilian franchise chains; and (3) Case studies that analyze the internationalization of a specific franchise chain. Further details of these lines of research will be given below.

Concerning the first line, the most representative study is that of Melo et al (2015a). Comparing internationalized Brazilian franchise chains with domestic Brazilian franchise chains, the authors highlighted three characteristics that directly influence the decisions of franchise chains to being operations overseas: (1) Monitoring capability; (2) Reputation in the market; and (3) Investment rates.

Regarding studies that address the internationalization of Brazilian franchise chains, some authors point out that they follow the Uppsala internationalization model created by Johanson and Vahlne (1977) (MARQUES, 2006; MARQUES; MERLO; NAGANO, 2009). Therefore, Brazilian franchise chains internationalize gradually, with their commitment to the process growing as the results appear (KHAUAJA; TOLEDO, 2011). However, other authors found that internationalization occurs differently from companies from developed countries. This is the most widely shared view among scholars. In general, Brazilian franchise chains do not plan their entry into the international market. They are sought by third parties interested in investing in business overseas and acquiring support from companies established in the domestic market (AGUIAR; CONSONI; BERNARDES, 2014; KHAUAJA; TOLEDO, 2011; RIBEIRO; MELO, 2007; VIANNA; MELO; RYNGELBLUM, 2014). Thus, what happens in Brazil is conducted internationalization.

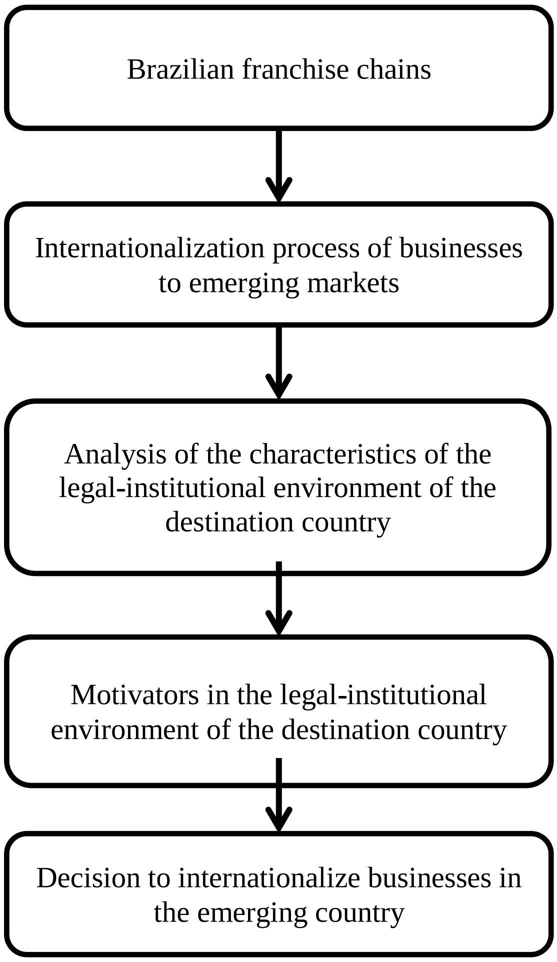
Even when companies have high degrees of entrepreneurship, it is not their managers that initiate the internationalization process, but rather agents from outside the organization (AGUIAR; CONSONI; BERNARDES, 2014). This occurs because internationalization is not perceived as an effective expansion strategy and is not part of the business plans of Brazilian firms, perhaps because the domestic market is not completely developed and therefor has high growth perspectives (AGUIAR; CONSONI; BERNARDES, 2014).

Finally, research on the last line, case studies, corroborates this train of thought. The most representative studies in this sense include that of Ribeiro and Melo (2007), who conducted a case study on the internationalization of the largest Brazilian franchise chain, O Boticário. Another study was that of Melo, Oliveira Junior and Andreassi (2010), who conducted a case study on the internationalization of the China in Box chain in Mexico. Borini et al. (2013) analyzed the influence of Brazilian cultural traits on the internationalization process of Brazilian franchise chains in a case study of six Brazilian franchises.

3 METHODOLOGY

Considering what has been said, the framework of the present study is that the characteristics found in the legal-institutional environment of emerging markets influenced the internationalization process of franchise chains. Figure 1 illustrates the process followed by the researchers to conduct the investigation.

Figure 1 – Research design



Source: The authors.

A qualitative explanatory multiple case study approach was used. Three Brazilian franchise chains that are operational overseas were chosen and, from each chain, an emerging country in which the chain conducted operations was selected for analysis.

To select the franchise chains for analysis, the list published on the website of the Brazilian Franchising Association (ABF) was consulted. This list contains the names of every franchise chain operating in Brazil. The list was accessed in November of 2016, and three chains with franchises in markets considered emerging were chosen.

To schedule interviews with the Brazilian franchise chains, approximately 21 e-mails were sent to the franchises, three of which agreed to participate in the study. These companies are among the eleven most internationalized franchise chains in the country, according to the FDC Ranking of Brazilian multinationals in 2015, with iGUi highlighted in first place as the country's most internationalized franchise. The general characteristics of these three chosen franchise chains are described in Table 2.

To determine which countries are considered emerging, the report issued by the World Bank (2015) was used, which categorizes countries by separating them into three groups: (1) emerging markets, (2) frontier markets and (3) advanced markets.

To survey the situation of the legal institutional environment of emerging markets, the report entitled *Comparing Business Regulation for Domestic Firms in 190 Economies* published by the World Bank (2017) was used, which includes country classification indices.

Table 2 – Characterization of franchise chains/interviewees

Name of Company	Chilli Beans	Young Free	iGUi
Sector	Sunglasses and accessories	Underwear	Fiberglass swimming pools
Name and position of interviewee	Eduardo Felix – Franchise expansion manager	Foreign market manager	Marcelo W. H. Pazos – International director
Role in international process	In charge of the internationalization of the franchise chain	In charge of the internationalization of the franchise chain	In charge of the internationalization of the franchise chain
Year of foundation	1996	1980s	1995
Beginning of international operations	Portugal in 2004	Panama in 2014	Argentina in 2005
Countries where operational	Colombia, Peru, Mexico, Kuwait, Chile, Portugal, Thailand and the United States	Peru, Bolivia, Paraguay, Qatar and United Arab Emirates	Present in over 20 countries, including Argentina, Mexico and Paraguay
Country in question	Colombia (since 2010)	United Arab Emirates (since 2015)	Mexico (since 2010)

Source: The authors.

As this is a case study, an effort was made to research and analyze three Brazilian franchise networks operating in different emerging countries, thus seeking a combination of different sources to validate the understanding and interpretation of the collected data.

The data were collected through telephone calls and previously scheduled interviews held at the headquarters of the Brazilian franchises in January 2017. These were duly recorded with the prior permission of the interviewees and transcribed by a company that specializes in providing this kind of service. The interviews with the three Brazilian franchise chains resulted in a total of 2.7 hours of recording and 44 transcribed pages of these interviews. One of the franchise chains opted to use a fictitious name, referred to here as Young Free, to ensure the confidentiality of the origin of the information that was collected.

The interview script prepared for the interviews used as references questions on: (1) the rule of law and its enforcement (ZHOU & POPPO, 2010; LA PORTA et al. 1998); and (2) property rights (SUN et al., 2015; LA PORTA et al., 1998; KHOURY & PENG, 2011; MEYER et al., 2009; YOUNG et al., 2014). All the questions were prepared from characteristics present in the legal institutional environment considered relevant to the present study and the field of strategic management in an internationalization process due to their influence on the business of companies in overseas markets.

In the data analysis, descriptive inter-case and intra-case analyses of the legal environment were considered, which were oriented by the categories and subcategories: (1) Rule of law and its enforceability (protection of contracts, reduction of opportunistic behavior, facilitation of transactions and resolving of disputes); and (2) Property rights (protection of a company's rights to use, control, transfer and received benefits from its tangible and intangible assets).

4 DESCRIPTION AND ANALYSIS OF THE CASES

4.1 Description of the Brazilian franchise chains and their emerging destination markets

The Chilli Beans franchise chain is the largest sunglasses and accessories company in Latin America. It was founded in 1997 by an entrepreneur named Caito Maia, and now has approximately 700 franchises all over Brazil. The country that was researched as Chilli Beans' destination country was Colombia, classified by the World Bank (2015) as an emerging country. According to a report issued by the same bank in 2017, it was ranked among the 190 countries that make up the ranking in terms of compliance with contracts and facility to conduct business in 174th and 53rd place, respectively.

The story of the Young Free franchise chain began in the nineteen eighties, when a family founded a small textile company to manufacture socks. It currently stands out in the domestic and international market for underwear. The first country overseas to welcome the Young Free was Panama. The company currently conducts business in countries such as Peru, Bolivia, Paraguay, Qatar and the United Arab Emirates. The destination country that was researched in this case was the United Arab Emirates. This country is classified as an emerging country by the World Bank (2015). According to the bank, in the report issued in 2017, it ranks among the 190 countries in the report, in terms of compliance with contracts and facility to conduct business, in 25th and 26th place, respectively.

The iGUi franchise chain is a Brazilian company that manufactures and sells fiberglass swimming pools, filtering equipment, leisure accessories and chemical products for swimming pool maintenance. The destination country that was studied in the case of iGUi was Mexico, classified as an emerging country by the World Bank (2015). According to the bank, in the report issued in 2017, it ranks among the 190 countries in the report, in relation to compliance with contracts and facility for doing business, in 40th and 47th place, respectively.

4.2 Legal enforceability

The data analysis showed that the franchise chains were concerned about understanding the legal environment of their destination countries during the internationalization process. The analysis also showed that the networks have consistent legal assistance, seeking to understand the legal environment and legal security of the destination country when drafting contracts. An issue that deserves to be highlighted involved the Young Free chain, whose contract with its master franchisee was signed in accordance with Brazilian law for greater security. Despite this, the chain, based on information from its legal advisers, emphasizes that legal security prevails in its destination country.

Despite the importance given to the legal aspects of the destination country by the franchise chains, the content of the interviews shows evidence that other factors of the informal institutional environment were identified in their internationalization processes, which lent further security to the process.

The Chilli Beans franchise chain highlighted that despite having legal advisers that study the legislation and legal situation of the destination country, it seeks established and well-informed retail group with experience and expertise in the franchise sector in order to ensure additional security for its business. This was confirmed by the fact that the chain used a contractual model in it internationalization process that its master franchisee had already used in this country. According to the interviewee, the chain also sought to establish an open relationship of trust with its franchisee. This was confirmed as a successful policy, as there has never been any litigation between Chilli Beans and its franchisees in any of the countries where the company has operated, including Colombia.

The Young Free chain highlighted that in the destination country it sought local groups with experience and always master franchisees. Its franchising contract was drafted by a third-party law firm, which verified the legal guarantees in the destination country.

This contract underwent numerous revisions and its master franchisee was flexible with regard to these changes by the chain. The franchise contract was signed in accordance with Brazilian law, although the interviewee emphasized that in the United Arab Emirates there is legal security. On the other hand, to sign this contract, the chain also based its decision on the reputation of the master franchisee, i.e., its history of doing business in the United Arab Emirates. According to the interviewee, what prevailed for the contract to be signed was the establishment of a relationship of trust between the parties, franchisor and franchisee.

Regarding the iGUi franchise chain, according to the interviewee, the chain showed trust in relation to its franchise contract in Mexico, both in terms of enforceability and protection. Furthermore, according to the interviewee, ten years of experience and the solution of litigation faced by the chain in its country of origin only strengthened this confidence when it became operational in Mexico. The iGUi franchise, in its internationalization process, has the support of several department that aid it, including its own legal department, which studies the legislation of the destination country, contracts and pre-contracts, as well as analyzing the legal environment to verify whether there is legal backing from the local government.

Moreover, iGUi prioritizes known partners with whom it has built trust. Consequently, this leads to a policy of incentive for its franchisees and employees, promoting opportunities for them to open franchises. This motivational factor also helped to build a commercial and contractual relationship in Mexico.

Regarding the relationship between the iGUi franchise chain and its franchisees, one of its forms of incentive, seeking a good relationship, is to use a kind of "career plan" for its franchisees. One example of this was that was given was the possibility of franchisees beginning their own franchise with the brand through a micro franchise of iGUi Trata Bem services, later obtaining a franchise unit and a master franchisee of the brand. The iGUi chain, based on these concepts and understanding the importance of a close relationship between franchisor and franchisee and the importance of motivational factors in this relationship, gave an opportunity to two Brazilians who already had a franchise of the brand, to become their master franchisees in Mexico. They were also given training, where they gained experience and the chain's expertise concerning the business.

4.3 Property rights

In relation to the protection of property rights, an analysis of the data showed that two franchise chains have trust in the destination country in their internationalization processes and their effective experience of their businesses in the country. Only one chain admitted that it did not fully trust the government of the destination country.

Regarding the Chilli Beans franchise chain, one of the first actions it took when internationalizing its business in Colombia was to register its brand with the pertinent authorities in the country in order to gain legal protection, demonstrating trust concerning the protection of property rights. According to the chain, the copying of the brand's models in the destination country is a possibility, but it was made very clear in the interview that Chilli Beans does not sell the "product" but rather the "brand", along with all its concept and pillars. This is why it believes in a long-term investment, as it builds a new brand in the destination country. In this context, in addition to the effective registration of the brand in the country, the findings of the study show that the franchise chain trusts in its brand as a strong intangible resource that is difficult to imitate.

Regarding the Young Free franchise chain, the interviewee stated, "The Young Free is duly registered with the pertinent authorities in the United Arab Emirates and our chain feels secure in this respect, including for the later renewal and maintenance of franchising contract". The chain also showed trust in relation to the protection of property rights by the State of the destination country, since the groups that dominate retail in the UAE have political power, as they belong to the royal family.

With regard to the iGUi franchise chain, according to the interviewee, intellectual and/or industrial property rights in emerging countries is a contradictory and troublesome issue for companies that internationalize their products. The interviewee stated, "This is part of the game and multinational companies handle this process by attempting to prevent possible piracy". To the iGUi franchise chain, the issue boils down to the fact that companies, in general, do not have complete legal security when it comes to conducting business in emerging countries. Therefore, they need to be vigilant and prevent possible piracy and opportunistic franchisees. It is possible to conclude that the iGUi franchise chain is concerned with having strategic managers capable of handling possible adversities.

Therefore, the legal environment in the destinations countries in question is important to the franchise chains. However, other factors play a determining role in creating security and trust when it comes to signing franchising contracts:

- Experience and expertise of the master franchisee in the franchise sector;
- Experienced local groups;
- Reputation of the master franchisee;
- Previously built relationship of trust;
- Good political relationship with the government on the part of the franchisor and franchisee;
- Resources of the franchise chain: strength of the brand.

Table 3 – Analysis of the results

Franchise Chain	Chilli Beans	Young Free	iGUi
Mode of Entry	Master franchisee.	Master franchisee	Franchisee and Master franchisees
Dimension/Destination country	Colombia	United Arab Emirates	Mexico
Rule of Law and its enforceability	There is trust in the law and its enforceability. It has been identified that the experience, reputation and expertise of the master franchisee in the sector has led to greater security and trust when it comes to signing the contract.	There is trust, but not complete trust. The contract was signed in compliance with Brazilian laws, which indicates partial trust. Support is sought through the experience, reputation and expertise of the master franchisee and the establishment of a previous relationship of trust between the parties.	There is trust in the law and its enforceability. Priority is given to giving opportunities to people within the group when opening franchises, showing the importance given to a previously constructed relationship of trust. The government established a relationship of transparency and trust with companies, investors and other countries.
Protection of property rights	There is trust in the local government, in the protection of property rights. The brand is legally registered, thus demonstrating trust in the protection of property rights.The franchise chain trusts in its brand as a strong intangible resource that is difficult to imitate.	There is trust in the local government, even because the groups that dominate retail in the country have political strength.	There is no full trust. Weaknesses are recognized in the legal environment. They need to be prepared and somehow anticipate possible actions of this nature.

Source: The authors

5 FINAL CONSIDERATIONS

Regarding the choice of emerging destination country, during their internationalization processes, the three Brazilian franchise chains were concerned with understanding the legal environment of the emerging destination countries. The findings of the study showed that the chains have legal advisers that help them with researching the legal environment of the destination country and their legal security regarding the drafting of contracts.

This concern, identified in the three Brazilian franchise chains with regard to the legal aspects of the emerging destination country, is in keeping with the ideas of Sun et al. (2015). These authors claim that a legal system, including laws, rules and regulations, is effectively one of the most important governmental attributes of a country.

Nevertheless, in the case studies in question, the presence of informal aspects that complement the legal aspects and provide security and trust was identified. These results are in keeping with the findings of Peng et al. (2009), who claimed that formal institutions, when deficient or lacking, give way to informal institutions. These are characterized by informal relationships, both political and cultural, in which companies and managers seek ways of avoiding the adverse effects of weak formal institutions.

In this study, the importance of knowledge of the local emerging market provided by the franchisee was identified, thus confirming the assumption of Alon and Mackee (1999) and Sashi and Karuppur (2002), who identified the franchisee's knowledge of the chosen emerging market as a determining factor for the internationalization of franchise chains.

Other characteristics were identified in the study as determiners for the choice of emerging markets, such as: (1) the experience, reputation and expertise of the franchisee in the country's franchise sector; (2) the master franchisee having a good political relationship with the government; (3) preference for the master franchisee, a way for the franchisor not to commit too many resources to the chosen emerging market and consequently sharing the risks in its internationalization process; (4) the need for a relationship of trust between parties; and (5) the franchisor's perception of a transparent and trustworthy government that provides a relatively table institutional environment.

According to the manager of iGUi, for example, the government of Mexico seeks to provide a relatively stable institutional environment for companies in the country, giving them more security.

In this sense, the chain is motivated by the perception that there is a government interested in maintaining a relatively stable institutional environment, corroborating the findings of Mudambi (1998) and Narula and Dunning (2010), that it will fall to the State to make its institutions more attractive and thus encourage companies to invest in the country.

Finally, it was found that the legal environment of the destination countries in question are important to the Brazilian franchise chain, but the chains seek other complementary factors that afford them greater security and trust when it comes to choosing the destination country and signing the contract between the parties involved. In this sense, the field research confirmed the ideas of Peng et al. (2009), who argued that when formal and informal institutions are combined to influence the behavior of companies, in situations in which formal restraints are not clear or are flawed, informal restrictions will play a major role in reducing uncertainty.

The central idea is that formal institutions, when deficient or lacking, make way for informal institutions, so that companies and managers can seek way to avoid the adverse effects of weak formal institutions.

The conclusion is that the franchise chains in question, when choosing a certain emerging destination country, seek guarantees in formal market relationships. However, given the institutional weakness and institutional gaps in emerging markets, they also seek guarantees in informal institutions, such as political relationships and informal relationships, which play an important role in reducing the uncertainty of the business of these chains in their destination countries.

The main **academic contributions** of this article lie in studying the internationalization behavior of franchise chains from one emerging country to other emerging countries, specifically analyzing the institutional environment in its legal dimension of the emerging destination countries of Brazilian franchise chains. The study sought to confirm the findings of Sun et al. (2015) and Peng et al. (2009), adding an aspect that has been studied little in the academic literature, which is the perspective of the choice of emerging markets by Brazilian franchise chains, specifically addressing the motivations present in the legal institutional environment of the chosen countries.

The **managerial contributions** lie in the provision of theoretical and empirical information for entrepreneurs and managers of Brazilian franchise chains that intend to invest in the franchising sector overseas, specifically in countries that are viewed as emerging markets. The study can help them to understand better the motivational characteristics of the legal institutional environment of these countries.

The limitations of the study are that it is restricted to only a few categories of the institutional environment, not extending to a more in-depth institutional analysis of all the dimensions or categories and subcategories in the institutional environment of a country.

Another limitation is that only managers of franchise chains responsible for internationalization were consulted. Representatives of their legal departments or franchisees in the destination countries were not interviewed. A final limitation was related to the case study method, which means that the results of the research cannot be generalized to all Brazilian franchise chains and are restricted to the objects in the sample.

The following proposals are made **as suggestions for future studies**: (1) an institutional analysis of emerging countries where Brazilian franchise chains operate, but encompassing other dimensions not considered in this study, such as the political and administrative dimensions; (2) an explanatory survey of the institutional environment of emerging markets to test existing theories; (3) an institutional analysis of other emerging countries in which Brazilian franchise chains are operating, using the same categories and subcategories used in this study to corroborate or refute the conclusions presented here; and (4) an analysis of the legal characteristics of the country of origin and how the institutional distance between the legal dimension of the country of origin and the destination country affect the process of selecting countries for internationalization.

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Ambiente Legal dos Mercados de Destino das Redes de Franquias Brasileiras Internacionalizadas

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RESUMO

Motivada pela globalização, a internacionalização de redes de franquias brasileiras para países emergentes tem crescido nas últimas décadas. Essa internacionalização possibilitou oportunidades de expansão para as empresas desse segmento por meio de negócios em mercados externos. O objetivo deste artigo é identificar, no ambiente institucional dos países de destino das redes de franquias brasileiras, as características legais que forem determinantes em suas estratégias de internacionalização para esses mercados. O método utilizado foi o de estudo de caso múltiplo, com uma amostra de três redes de franquias brasileiras internacionalizadas. O resultado indicou que o ambiente legal apresenta relevância na internacionalização de redes de franquias. No entanto, o resultado indicou também a existência de outros fatores que geram segurança e confiança e motivaram a escolha de mercados emergentes. Assim, na escolha de um determinado país emergente de destino, as redes buscam garantias nas relações formais de mercado. No entanto, diante da fragilidade institucional dos mercados emergentes as redes buscam também garantias nas instituições informais.

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