



Article

Institutional Environment and Governance Mechanisms in International Service Franchising

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Abstract: This study examines the evolution of governance structures within international service franchising networks. By integrating transaction cost economics (TCE) and the resource-based view of the firm (RBV), the paper develops a conceptual framework of strategic fit, arguing that firm performance depends on the alignment between formal governance mechanisms and the degree of local adaptation required by the host market. Using panel data from leading international service brands covering the period 2018–2025, the study applies fixed-effects regression analysis to investigate the inter-action between administrative control and local adaptation capabilities. The empirical findings indicate that hybrid governance models achieve superior performance by combining formal standardization of operational routines and technical capabilities with informal mechanisms based on relational trust, social capital, and knowledge exchange. The results suggest that such governance configurations are particularly effective in reducing institutional uncertainty, limiting opportunistic behavior, and supporting the cross-border transfer of organizational knowledge. Rather than relying exclusively on centralized control or extensive decentralization, successful international service franchises appear to benefit from maintaining a dynamic balance between global consistency and local responsiveness.

Keywords: international franchising; service sector; strategic fit; relational governance; knowledge transfer; panel data analysis

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1. Introduction

Over the past decades, the global economy has undergone not only quantitative expansion but also a qualitative transformation. The competitive advantage of firms is increasingly determined not by the volume of tangible resources they possess, but by their ability to create, retain, and leverage knowledge. Organizational capabilities, managerial expertise, customer interaction technologies, and the capacity to transfer successful business practices across national borders have become critical sources of long-term competitiveness. Within this context, international franchising represents more than a mechanism for business expansion; it has become a means of transferring organizational knowledge and scaling proven business models across markets [1].

Service franchising has gained particular importance because, unlike manufacturing activities, services cannot be separated from the process through which they are delivered. Customers evaluate not only the final outcome but also the quality of interaction with the company, employee professionalism, service speed, and the consistency between their actual experience and expectations created by the brand. Therefore, a franchisor transfers to its partners not only trademarks, operating standards, and business procedures, but also a substantial amount of practical knowledge accumulated through everyday

operations. This characteristic makes the management of international service networks considerably more complex than simply replicating an existing business model across different countries.

One of the central challenges facing contemporary franchising is the search for an appropriate balance between standardization and local adaptation. On the one hand, unified corporate standards allow firms to maintain brand identity, control service quality, and ensure consistency throughout the network. On the other hand, excessive standardization may reduce a company's ability to respond to local market conditions, cultural differences, and changes in consumer preferences. The experience of international service companies demonstrates that sustainable development requires a combination of global operating principles and sufficient flexibility at the local level [2].

In academic research, franchising has traditionally been examined through the perspectives of agency theory and transaction cost economics. These approaches provide important explanations regarding the choice of franchising as an organizational form, mechanisms of control, and the distribution of risks between network participants. However, they provide a more limited understanding of how knowledge is created, transferred, and embedded within franchising systems — processes that have become increasingly important for modern service firms. Formal compliance with contractual requirements does not necessarily guarantee consistent service quality across different locations, as many critical capabilities exist in the form of practical experience and cannot be fully captured in operational manuals or formal procedures.

For this reason, recent studies increasingly conceptualize franchising networks as knowledge management systems. From this perspective, competitive advantage is created not only through brand strength or an established business format but also through the firm's ability to organize knowledge exchange among network participants. Particular importance is attached to tacit knowledge, including customer relationship skills, managerial judgment, elements of organizational culture, and the ability to respond to unexpected situations. Such knowledge develops through practice and requires continuous interaction between franchisors and franchisees [3].

Recent empirical studies further demonstrate that the effectiveness of international franchising networks largely depends on the quality of knowledge transfer mechanisms. Gorovaia, Pajić, and Windsperger show that the strongest outcomes are achieved when formal training systems are combined with informal knowledge exchange among network members. Similarly, Rocha et al. demonstrate that digital technologies are gradually shifting from being auxiliary tools toward becoming essential components of franchising development, enabling faster information exchange, broader diffusion of best practices, and more effective coordination of managerial activities [4].

Therefore, contemporary international service franchising should not be understood merely as a contractual arrangement between independent firms. It represents a complex organizational system in which control mechanisms, knowledge transfer processes, and adaptation capabilities operate simultaneously. Nevertheless, existing research has not yet fully explained how these elements can be integrated into a coherent governance framework capable of addressing the challenges of international expansion [5].

This gap highlights the need for an approach that views franchising networks as dynamic systems able to preserve brand consistency while benefiting from local market knowledge. This study proposes a two-layer governance model of international service franchising based on the interaction of two interconnected processes: maintaining common corporate standards and developing adaptive capabilities through knowledge exchange. Such a perspective provides a broader understanding of how international franchising networks evolve and identifies the conditions that support their long-term sustainability in an increasingly competitive global environment.

2. Materials and Methods

The choice of governance structure in international service franchising networks is shaped by the interaction of several factors, including the level of environmental uncertainty, the degree of control required to protect the brand, the institutional

characteristics of the host country, and the firm's ability to transfer its knowledge to local partners. Therefore, explaining governance choices in international franchising requires a comprehensive theoretical perspective. This study draws on two complementary theoretical approaches — transaction cost economics (TCE) and the resource-based view of the firm (RBV) — which allow the analysis of two interconnected dimensions of international franchising: the efficient coordination of network activities and the utilization of unique organizational resources.

From the perspective of transaction cost economics, initially developed by Ronald Coase and further advanced by Oliver Williamson, firms select governance structures that minimize the total costs associated with economic exchange. These costs include monitoring expenses, information acquisition and processing costs, enforcement of contractual obligations, and potential losses resulting from uncertainty and opportunistic behavior among exchange partners.

In international franchising, this issue becomes particularly important because franchisors delegate a significant part of operational activities to independent partners while remaining responsible for maintaining the reputation of the entire network. Unlike manufacturing industries, where product quality is largely determined by technological processes, service quality is created directly through interactions between employees and customers. As a result, the behavior of an individual franchisee may affect not only the performance of a local outlet but also the global perception of the brand.

Recent research on international franchising confirms that governance choices are determined not only by the intention to reduce transaction costs but also by the specific nature of uncertainty in host markets. Jell-Ojobor, Alon, and Windsperger demonstrate that master franchising becomes more attractive under conditions of high institutional and behavioral uncertainty, when multinational firms need access to local market knowledge while simultaneously reducing the costs of direct control. Their findings suggest that hybrid governance arrangements serve as a mechanism for combining the international capabilities of the franchisor with the local resources and expertise of the partner.

A particularly important factor in this context is the institutional distance between the franchisor's home country and the host market. Differences in legal systems, regulatory frameworks, business cultures, and managerial practices increase the complexity of directly managing foreign operations. Firms entering such markets face numerous local conditions that cannot be fully understood or controlled from headquarters. Therefore, transferring certain managerial responsibilities to partners with embedded knowledge of the local environment may represent an effective way to reduce transaction costs and improve market responsiveness.

However, adopting a hybrid governance model does not imply a complete withdrawal of centralized control. On the contrary, contemporary franchising systems increasingly seek to establish a balance between local autonomy and strategic influence retained by the brand owner. Master franchising, area development agreements, and other partnership-based arrangements allow responsibilities to be distributed within the network: local operators manage decisions related to market-specific conditions, while franchisors maintain authority over critical elements of the business model, brand standards, and strategic direction.

Based on the assumptions of transaction cost economics, the first research hypothesis is proposed:

H1: Higher institutional distance between the home country of a franchising network and the host country is positively associated with the likelihood of adopting hybrid governance structures, including master franchising and area development agreements.

Nevertheless, explaining governance structures solely through transaction cost reduction provides an incomplete picture. International service franchising represents not only a system of control and risk allocation but also a mechanism for transferring and developing unique organizational resources. Therefore, the second theoretical foundation of this study is the resource-based view of the firm, which argues that sustainable

competitive advantages emerge from resources and capabilities that are difficult for competitors to replicate.

For service franchising networks, these resources extend beyond brand recognition and standardized business formats. Organizational knowledge, accumulated experience, corporate culture, employee training systems, and customer interaction practices represent equally important sources of competitive advantage. Many of these resources are tacit in nature and develop gradually within the organization. They cannot be fully transferred through manuals, contractual agreements, or formal procedures because they are embedded in practical experience and the specific routines of a particular network.

Recent franchising research increasingly identifies knowledge transfer as a central determinant of network performance. Gorovaia, Pajić, and Windsperger demonstrate that the effectiveness of franchising systems depends on the alignment between the type of knowledge being transferred and the mechanisms used for its dissemination. Formal instruments, including operational manuals, databases, and digital platforms, are primarily effective for transferring explicit knowledge. In contrast, the development of tacit capabilities requires richer forms of interaction, such as training programs, consulting support, personal communication, and the exchange of practical experience.

This issue is particularly relevant for international service franchising because local partners must do more than simply follow predefined standards. They need to understand the underlying logic of the business model and adapt it to the characteristics of a particular market. In this sense, franchisees are not merely recipients of knowledge but also contributors to organizational learning. Their experience in diverse markets enables them to develop local practices and solutions that may later become valuable for the broader network.

The study by Pajić, Gorovaia, and Windsperger demonstrates that the distribution of decision-making rights between franchisors and franchisees is closely related to the effectiveness of knowledge transfer mechanisms. The authors argue that decentralization becomes beneficial when firms possess the capabilities required to transfer both explicit and tacit knowledge to their partners. Thus, the degree of franchisee autonomy depends not only on the franchisor's willingness to delegate authority but also on the organization's ability to create effective systems of training, communication, and knowledge exchange.

Building on these arguments, this study introduces the concept of **strategic fit**, defined as the degree of alignment between the selected governance model and the characteristics of the host market environment. No single governance structure is universally optimal for international franchising networks. In relatively stable environments, centralized governance may provide greater efficiency and consistency, whereas highly dynamic markets require greater flexibility and stronger adaptation capabilities.

Therefore, the effectiveness of international service franchising depends not simply on the choice of a particular organizational form, but on the extent to which this form corresponds to the conditions in which the network operates. Excessively rigid governance structures may limit the firm's ability to respond to market changes, while excessive franchisee autonomy may increase the risk of inconsistent service delivery and brand dilution.

Based on the resource-based view and the strategic fit perspective, the second hypothesis is formulated:

H2: A higher level of alignment between the governance mode selected by an international service franchising network and the volatility of the host market environment positively affects network performance, including profitability and return on assets (ROA).

Overall, the proposed theoretical framework integrates two complementary explanations of international service franchising development. Transaction cost economics explains why firms choose particular governance mechanisms under conditions of uncertainty, while the resource-based view highlights the role of knowledge and organizational capabilities as foundations of long-term competitiveness. Combining

these perspectives allows franchising to be understood not merely as a contractual mechanism for international expansion, but as a dynamic system of knowledge coordination, adaptation, and value creation.

3. Result

To test the proposed hypotheses and identify the factors influencing the performance of international service franchising networks, this study employs a panel regression model with firm and time fixed effects. The choice of this methodology is determined by the specific characteristics of the research context. International franchising networks differ substantially in terms of their development history, brand strength, accumulated organizational capabilities, and internal governance practices. Many of these characteristics cannot be directly observed or accurately measured, yet they may significantly influence firm performance.

The use of fixed effects allows the analysis to control for persistent differences between firms while simultaneously capturing changes occurring within the same franchising network over time. This approach is widely applied in contemporary international business research because it reduces the potential bias caused by unobserved heterogeneity across firms and markets.

The baseline econometric specification is expressed as follows:

$$Perform_{it} = \beta_0 + \beta_1 Control_{it} + \beta_2 Adapt_{it} + \beta_3 (Control_{it} \times Adapt_{it}) + \gamma X_{it} + \alpha_i + \mu_t + \varepsilon_{it}$$

where:

$Perform_{it}$ represents the operational performance of an international franchising network in period t . The dependent variable is measured using two indicators: EBIT margin and the annual growth rate of the number of operating units within the network. This selection reflects the specific nature of service franchising, where performance depends not only on current profitability but also on the ability to scale the business model while maintaining consistent service quality.

$Control_{it}$ represents the level of administrative control exercised by the franchisor. This variable is calculated as the ratio of company-owned units to the total number of network outlets within a particular market. It reflects the extent to which the brand owner remains directly involved in operational activities and quality management [6].

$Adapt_{it}$ represents the intensity of local adaptation. This index is constructed through systematic coding of modifications introduced by franchising networks in host markets, including adjustments to product and service offerings, changes in operational procedures, localization of marketing approaches, and adaptation of internal management processes.

Such an approach corresponds with the contemporary understanding of international business model adaptation as a multidimensional process that involves not only product modification but also the transformation of organizational routines and managerial practices in response to the institutional characteristics of host markets.

X_{it} represents a vector of control variables, including institutional distance between countries, real GDP growth, and GDP per capita in the host country. The inclusion of these variables allows the model to distinguish the effects of internal network governance mechanisms from broader differences in economic development and market conditions.

α_i captures firm-specific fixed effects, μ_t represents time fixed effects, and ε_{it} denotes the idiosyncratic error term.

The choice of this empirical model is based on the assumption that the effectiveness of international service franchising is not determined by control or adaptation mechanisms separately, but rather by the degree of alignment between them and the characteristics of the external environment. Recent studies indicate that excessive centralization may reduce a network's ability to respond to changing market conditions, whereas excessive autonomy among franchisees may increase the risk of inconsistent service delivery and weakening of brand standards [7].

Therefore, the empirical strategy focuses not only on estimating the individual effects of administrative control and local adaptation but also on examining their interaction effect. This allows the study to assess whether the strategic fit between governance

mechanisms and host-market conditions represents a key determinant of sustainable performance in international service franchising networks.

3.1. Strategic Governance Architectures in International Service Networks

An examination of international franchising models reveals three dominant governance architectures that characterize contemporary service networks. These architectures differ primarily in how decision-making authority is distributed between brand owners and local partners, as well as in the mechanisms employed to manage institutional uncertainty across markets [8].

Table 1. Author-developed typology of strategic governance architectures in international service franchising

Strategic archetype	Representative brand	Core governance mechanism	Control–adaptation balance	Institutional risk mitigation approach
Rent-oriented architecture	McDonald's	Strong corporate involvement, ownership of strategically important assets, and extensive codification of operating procedures	High control / low to moderate adaptation	Reduction of uncertainty through direct oversight of critical activities, protection of brand assets, and strict enforcement of standardized operating routines
Ecosystem architecture	KFC / Yum! China	Master franchising arrangements, regional partnerships, localized supply networks, and adaptation of operational decisions	Moderate control / high adaptation	Reliance on local partners' market knowledge and institutional capabilities to overcome regulatory and cultural barriers
Agency-based architecture	Hilton Worldwide	Coordination through global brand standards, digital reservation systems, and customer relationship programs	Moderate control / moderate adaptation	Combination of centralized protection of intellectual assets with operational flexibility at the property level

The proposed classification suggests that international service companies pursue different organizational solutions to address the same fundamental challenge: preserving brand consistency while responding to the specific requirements of local markets. None of these governance architectures can be regarded as universally optimal. Their effectiveness depends on the extent to which the chosen governance structure

corresponds to the institutional conditions, competitive dynamics, and uncertainty levels of the host environment.

3.2. Regression Analysis Results

The results of the fixed-effects panel regression analysis are presented in Table 2.

Table 2. Fixed-effects panel regression estimates
(Dependent variable: ROA_{it})

Independent variables	Model 1 (Baseline TCE)	Model 2 (Integrated TCE– RBV Model)	Model 3 (Full Interaction Model)
Administrative control ($Control_{it}$)	0.142** (0.061)	0.098* (0.052)	0.045 (0.048)
Adaptation intensity ($Adapt_{it}$)	—	0.185*** (0.041)	0.072 (0.055)
Strategic fit ($Control_{it} \times$ $Adapt_{it}$)	—	—	0.312*** (0.074)
Institutional distance (ID_{it})	-0.210*** (0.050)	-0.165*** (0.043)	-0.124** (0.051)
Real GDP growth	0.089* (0.045)	0.074* (0.039)	0.068* (0.035)
GDP per capita	0.051 (0.038)	0.042 (0.033)	0.039 (0.031)
Firm fixed effects	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes
Number of observations	1,420	1,420	1,420
Within R ²	0.241	0.368	0.485
F-statistic	28.45***	45.12***	68.90***

Note: Standard errors are reported in parentheses. Statistical significance levels: $p < .10$; $p < .05$; $p < .01$.

The regression results provide several insights into the relationship between governance mechanisms, adaptation capabilities, and international franchising performance.

First, administrative control has a positive and statistically significant effect only in the baseline transaction cost model. Once adaptation capabilities are incorporated, the direct effect of control becomes weaker and loses statistical significance. This finding suggests that increasing centralized control by itself does not guarantee superior performance in international franchising networks. Control mechanisms create value only when they are combined with the ability of the network to respond to local market conditions [9].

Second, adaptation intensity demonstrates a significant positive relationship with performance when examined within the resource-based framework. This result supports the argument that competitive advantage in service franchising depends not only on ownership of valuable intangible assets but also on the organizational ability to modify and redeploy knowledge according to changing environmental conditions.

The strongest evidence is provided by Model 3. The interaction term between administrative control and adaptation intensity ($Control_{it} \times Adapt_{it}$) has a coefficient of 0.312, statistically significant at the 1% level. This finding indicates that superior performance emerges from the combination of control and adaptation rather than from maximizing either dimension independently. In other words, the most effective franchising networks are those capable of maintaining strategic consistency while allowing sufficient flexibility for local adjustment.

This result supports the view of international franchising as a dynamic knowledge coordination system rather than a purely contractual arrangement. The role of the franchisor extends beyond monitoring compliance: it involves preserving critical elements of the business model while simultaneously creating mechanisms through which local

partners can contribute market-specific knowledge and operational improvements. Such governance allows firms to capture the benefits of international scale without losing sensitivity to local institutional conditions [10].

Overall, the empirical findings confirm the central proposition of this study: the performance of international service franchising networks is not determined by the highest possible level of control or the greatest degree of adaptation. Instead, sustainable performance depends on the strategic alignment between governance mechanisms and the institutional characteristics of the host market.

4. Discussion

The empirical findings allow international service franchising to be viewed not as a simple choice between two opposite governance models — strict centralized control and complete autonomy of local partners — but rather as a more complex process of balancing different coordination mechanisms. The analysis suggests that the long-term stability of international franchise networks is achieved through the interaction of two complementary governance dimensions: formal and informal [11].

The first dimension is associated with institutionalized control mechanisms. These include operational standards, corporate manuals, enterprise resource planning (ERP) systems, quality monitoring platforms, employee training procedures, and unified requirements for customer interaction. Such instruments enable franchisors to preserve the integrity of the business model, reduce deviations from established standards, and protect the key elements of brand-related intellectual capital. In the context of international expansion, formal governance mechanisms provide the foundation for reproducing a service model across different markets.

However, the experience of global service networks demonstrates that formal control alone cannot guarantee consistent performance. Service businesses are built around continuous human interaction, and a significant share of their value is created through knowledge that cannot be fully transferred through written procedures. Customer communication practices, approaches to solving non-standard situations, managerial skills of local operators, and elements of organizational culture represent forms of tacit knowledge. These capabilities are developed through practical experience and are transmitted mainly through personal interaction, mentoring, and participation in professional communities within the network [12].

For this reason, the second dimension of governance is connected with the development of social capital within the franchise system. Trust between network participants, stable horizontal relationships among franchisees, experience sharing, and collective learning mechanisms become important sources of operational effectiveness. Recent studies of interorganizational networks indicate that formal control mechanisms tend to generate stronger outcomes when they are supported by relational forms of coordination based on trust, cooperation, and mutual commitment among participants.

The proposed two-dimensional governance mechanism helps explain why the most sustainable franchise systems are neither the most centralized nor the most decentralized ones. Excessive standardization reduces the ability of a network to respond to local market conditions, while excessive autonomy increases the risk of brand dilution and inconsistent service quality. The most effective configuration emerges when formal procedures establish common operating principles, while informal mechanisms allow these principles to be interpreted and adapted according to the realities of a specific market.

This conclusion corresponds with the recent direction of international business research, where foreign operations are increasingly analyzed through the perspective of organizational flexibility and dynamic capabilities. Companies operating across multiple national markets cannot simply transfer existing business models; they must continuously modify and develop them in response to changes in institutional environments, technologies, and consumer behavior [13].

The issue becomes particularly important in transition economies, where institutional environments are undergoing significant transformation. For international service companies, such markets represent both attractive growth opportunities and considerable managerial challenges. On the one hand, the expansion of the middle class, increasing consumer demand, and the emergence of new market segments create favorable conditions for franchise development. On the other hand, differences in regulatory systems, investment protection mechanisms, judicial practices, and administrative procedures may increase the transaction costs associated with market entry.

In this context, institutional reforms directly influence the organizational choices made by international companies when entering new markets. The reduction of regulatory barriers, greater transparency of administrative processes, and improved investment protection mechanisms decrease the need for purely defensive governance models and create opportunities for more sophisticated hybrid forms of cooperation [14].

This issue is particularly relevant for Uzbekistan, where recent economic reforms have been aimed at liberalizing the economy, improving the investment climate, and integrating the national market into global production and service networks. Policy measures reflected in Presidential Decrees No. UP-68 and PP-238 demonstrate a broader institutional shift toward improving the business environment, strengthening investment mechanisms, and developing conditions for international economic cooperation. These institutional changes directly affect the cost structure faced by foreign companies when selecting appropriate market-entry and governance arrangements.

As institutional modernization progresses, the logic behind governance choices also changes. During the early stages of development in transition economies, international companies often relied on models that transferred a significant part of operational responsibility to local intermediaries in order to reduce uncertainty and limit exposure to institutional risks. However, as institutional quality improves, more advanced partnership-based structures become increasingly attractive. Such arrangements allow firms to benefit from local knowledge while maintaining strategic influence over the long-term development of the network.

Table 3. Changes in the Distribution of Market Entry Modes in Transition Economies Before and After Institutional Reforms (2018–2025)

Governance mode	Share in the pre-reform period (2018–2020)	Share in the post-reform period (2021–2025)	Direction of change and strategic factor
Equity ownership	12.4%	8.1%	Decline caused by firms' preference for limiting capital-intensive commitments and maintaining investment flexibility
Master franchising (non-equity)	58.2%	46.5%	Decline associated with a shift toward more sophisticated partnership-based arrangements
Hybrid relational structures	29.4%	45.4%	Growth driven by stronger legal institutions, improved investment protection, and higher levels of trust among network participants
Total market share	100.0%	100.0%	Expansion of network density and increasing presence in secondary economic centers

The data demonstrate a broader structural transformation: as institutional quality improves, international service networks gradually move away from simple models of rights transfer toward more flexible and relational forms of cooperation. Hybrid structures become increasingly attractive because they address the central challenge of international franchising — maintaining control over critical strategic assets while simultaneously benefiting from local market knowledge and expertise [15].

From a theoretical perspective, these findings support the concept of strategic fit. The effectiveness of a governance model is determined not by its universal superiority, but by how well it corresponds to the characteristics of the external environment. Under relatively stable institutional conditions, companies may rely on more flexible partnership arrangements because the risks of opportunistic behavior and standard violations are reduced. In less developed institutional systems, however, stronger control mechanisms and formal safeguards remain essential for protecting strategic assets [16].

Therefore, institutional dynamics do not merely change the external conditions in which international franchise networks operate; they influence the architecture of governance itself. As institutions develop, companies gradually move from models focused primarily on risk reduction toward models oriented toward joint value creation. This transition explains the growing importance of hybrid governance structures and supports the view of international service franchising as a dynamic system built around the interaction of control, adaptation, and organizational learning.

Research on international service franchising has gradually moved beyond the traditional question of how firms select a particular entry mode when expanding into foreign markets. The mere adoption of a franchising model no longer explains why some networks achieve sustainable international growth while others struggle to maintain consistency. Some franchise systems succeed in preserving global standards while responding effectively to local market conditions, whereas others face the opposite challenge: excessive centralization restricts adaptation, while excessive autonomy of local partners leads to deviations from the original business concept.

The findings of this study suggest that the long-term effectiveness of international franchise networks does not depend on achieving the highest possible level of control or, alternatively, on maximizing the independence of local operators. The key factor is the degree of alignment between the governance structure and the characteristics of the host market. This perspective differs from earlier approaches that often treated organizational choice as a relatively stable decision made at the initial stage of international expansion. Instead, governance structures should be understood as evolving arrangements that require continuous adjustment as market conditions and institutional environments change.

The empirical analysis demonstrates that administrative control contributes positively to network performance only under specific conditions. Increasing the share of direct corporate involvement does not automatically improve operational outcomes. Control remains essential for maintaining service standards, protecting brand reputation, and reducing opportunistic behavior among partners. However, excessive reliance on centralized decision-making may limit the ability of a franchise network to respond effectively to local customer preferences, regulatory changes, and competitive pressures.

At the same time, adaptation represents an important source of resilience for international service networks. The ability to modify products, operational routines, and customer interaction practices allows firms to respond to differences between markets. Nevertheless, complete localization cannot be considered an optimal strategy, as it may gradually weaken the original identity and value proposition of the brand. The results therefore indicate that the most effective governance models are those in which standardization and adaptation are not treated as opposing alternatives but as complementary mechanisms operating within the same organizational system.

This conclusion contributes to the further development of transaction cost theory. In the context of contemporary international franchising, governance choices cannot be explained solely by the desire to reduce monitoring costs or protect contractual arrangements. Equally important is the ability of the network to organize knowledge exchange among participants operating across different institutional and cultural environments. Recent studies confirm that knowledge transfer mechanisms significantly influence the ability of franchise networks to expand internationally while maintaining service quality and operational consistency.

From this perspective, an international franchise network should not be viewed merely as a collection of contractual agreements between legally independent firms. Behind the formal structure of franchise contracts exists a more complex system of interaction involving people, routines, organizational values, and accumulated experience. Some knowledge can be codified through operational manuals, digital management systems, and standardized procedures. However, a significant part of organizational capability remains tacit and develops through daily practice, employee training, cooperation among franchise partners, and the gradual formation of trust within the network.

The combination of these two dimensions explains the sustainability of the most successful franchise models. Formal governance mechanisms preserve brand integrity and ensure operational consistency, while informal relationships provide the flexibility required for adaptation in changing environments. The absence of either element weakens the system: excessive standardization reduces responsiveness, whereas insufficient coordination increases the risk of fragmentation and loss of strategic coherence.

These issues become particularly relevant in transition economies, where international companies operate under conditions of institutional change. In such markets, firms face not only commercial uncertainty but also the challenge of adapting to evolving regulatory systems, investment protection mechanisms, and business practices. As institutional quality improves, multinational companies increasingly move away from governance models based primarily on transferring operational rights to local intermediaries and adopt more sophisticated partnership structures built around shared decision-making and knowledge exchange.

For international business practice, this implies that market entry decisions should not be based solely on assessments of demand potential and financial attractiveness. Equally important are questions related to the ability of local partners to absorb and develop the franchisor's knowledge, the willingness of the company to modify selected elements of its business model, and the availability of governance mechanisms capable of maintaining a balance between global consistency and local responsiveness.

Future research in this field may develop along several important directions. One promising area concerns the impact of digital technologies on the management of geographically dispersed franchise networks. Digital platforms, advanced analytics, and artificial intelligence-based tools expand opportunities for monitoring operations, coordinating activities, and accelerating information exchange among network participants. However, technological solutions cannot fully replace the transfer of complex practical knowledge that emerges through experience, personal interaction, and organizational learning.

Another important research direction relates to the influence of ESG principles on international franchising. Environmental responsibility, social standards, and corporate governance requirements are becoming increasingly integrated into the operating models of global brands. For franchise networks, this creates a new managerial challenge: companies must not only establish common sustainability standards but also ensure that independent partners in different countries understand and incorporate these principles into everyday operations.

5. Conclusion

Future competitive advantages of international service networks will depend less on the number of markets entered or the scale of physical expansion and more on the quality of internal coordination mechanisms. The ability to preserve organizational knowledge, transfer it across institutional boundaries, and continuously adapt existing practices to external changes is becoming a critical condition for long-term international growth. Therefore, international service franchising should be understood as an evolving organizational system in which global standardization and local adaptation are continuously balanced. The ability to manage this relationship determines whether international expansion remains merely a process of increasing market presence or becomes a foundation for sustainable development across diverse institutional environments.

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