FACTORS INFLUENCING THE INTERNATIONALIZATION PROCESS IN THE SPANISH FRANCHISE SYSTEM

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ABSTRACT

This paper attempts to identify the profile of Spanish franchisors that choose to expand their business beyond their home country. In doing so, management experience, franchising experience, brand awareness, and the company's type of activity (product versus service) have been considered. The results show the important role played by brand awareness in the decision of whether or not to have an international presence. Moreover, both management and franchising experience, as well as brand awareness and the international franchise ratio (number of franchised outlets overseas compared to a chain's total number of outlets abroad) make a significant impact on the intensity of the internationalization process pursued by Spanish franchisors.

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INTRODUCTION

Franchising is an organizational form chosen by entrepreneurs in which a decentralized network of units, a “chain”, formed by contractual agreement, is desirable to achieve competitive advantage. Operating multiple units under a common trademark and a common production system allows for a common consumption experience at different times and places (Michael, 2003). Under this business format, local entrepreneurs (termed franchisees) are granted the right to operate one or multiple units of the chain at a location while investing their own funds. In return, the franchisee pays the franchisor royalties based on gross sales. Profits after expenses (including royalties) are received by the franchisee as compensation (Alon, 2001).

Data indicates that franchising has experienced colossal growth over the last two decades both in the United States and abroad. However, this method of doing business -both domestically and internationally- started in the United States in the early 1900s. The recent growth in international franchising was fueled by both push factors, such as saturation, competition, and diminishing profits in the domestic markets, and pull factors, like the liberalization of Eastern bloc countries, and the emergence of several newly industrialized countries onto the international marketplace (Alon and McKee, 1999).

As a consequence, the literature has fully covered issues such as why firms should organize as a franchise chain and engage franchisees, franchising efficiency, as well as the relationship between franchisor and franchisee (see, e.g., Lafontaine and Kaufmann, 1994; Alon, 2001, Erramilli, Agarwal and Dev, 2002, Michael, 2003, among others). Although in recent years there have been increasing attempts to examine the scope of franchising from an international standpoint, franchising in global markets has received limited academic attention (Quinn and Doherty, 2000; Baena, 2009) and little is known about the factors influencing its international expansion.

This study attempts to close this gap by analyzing the profiles of franchise chains that choose to expand their business beyond their home countries. Certain variables are explored which may constrain the intensity of the internationalization process undertaken by companies. For data sources, the authors use the Spanish franchise system, which occupies a prominent position worldwide. Indeed, since 2008 the franchising system in Spain has ranked fifth in the world, both for the number of chains as well as the number of franchised outlets, according to data published annually by *the International Franchise Association* and *the Global Franchise Network*[3].

The remainder of this work is structured as follows. First, we detail the conceptual model and the hypotheses are developed. Following this, it is explained the methodology, the sample and the measurement of variables proposed. We thus discuss the empirical analysis and the results. Lastly, we summarize the conclusions reached as well as their contribution to practitioners and academe, while pointing out the limitations of the study and recommending avenues for further research.

In the next section we offer a review of the main research analyzing franchising systems. Subsequently, we offer a set of hypotheses for evaluating the profile of internationalized franchise chains, including criteria and/or causes motivating such expansion. Following this, the authors will explain the methodology used in this empirical study, the company sample used, and the measurement of variables proposed. Next, the results obtained will be explained using statistical contrast of the hypotheses formulated in this study. Lastly, we summarize the conclusions reached as well as their contribution to practitioners and academe, while pointing out the limitations of the study and possible future lines of research.

LITERATURE REVIEW

When examining franchising systems, various theoretical approaches have been adopted. Six theories have been used as conceptual frameworks for franchise analysis: 1) agency theory; 2) resource scarcity theory; 3) risk extension theory, 4) contractual theory; 5) signaling theory, and finally, 6) transaction cost theory.

Agency theory (Jensen and Meckling, 1976; Fama and Jensen, 1983) is the most often used theory for explaining the relationship between the franchisor and franchisee, as well as how parties enter and fulfill contracts governing this relationship. This focus is particularly useful when studying franchising in that it recognizes the existence of two parties (principal and agent) who may have certain divergent interests. Specifically, the principal (franchisor) delegates certain tasks to the agent (franchisee) because he/she lacks the skills, resources or

[3] At the close of 2009, there were 1,019 franchising chains operating in Spain (888 national in origin, 181 from foreign chains). These result in 65,026 operative outlets (51,411 of national origin, and 13,615 foreign). This means that each chain possesses an average of 64 outlets.

time necessary to carry them out him/herself. However, this does not mean that the agent is going to do his/her work in a way that best suits the principal; in fact, the contrary is true, the franchisee is likely to do so following his/her personal interests (Garg and Rasheed, 2006). Nonetheless, and despite the costs mentioned above, agency theory defends franchising as a means of international expansion, since under this system the franchisee has more incentives to maximize his/her efforts, above all, when comparing franchising to other types of business expansion (Combs and Ketchen, 1999).

Another theory which has been used in various research on franchising is that of resource scarcity (Combs and Ketchen, 1999; Alon, 2001; Watson, Kirby and Egan, 2002, among others). This theory is based on the assumption that franchising is not the best form of business expansion, and that companies should grow by way of their own points of sale. It sees the franchising system as a patch solution, a type of temporary relief that helps a company deal with scarce resources in its early stages when it lacks capital. (Hunt, 1973; Caves and Murphy, 1976; Carney and Gedajlovic, 1991).

According to Combs and Castrogiovanni (1994), in addition to agency theory and resource scarcity theory, risk extension theory has often been used to explain the franchisor's strategy. This theory holds that franchisors make the most attractive units their own and then offer the high risk units up as franchises.

Additionally, contractual theory is often used to explain franchising. It proposes that a chain with more outlets will be built more strongly, and thus, be more able to avoid the risk of retaining certain assets, instead, encouraging investment of these. Therefore, according to this perspective, the franchisor will decide to franchise a unit if the cost of supervision is lower than if someone from the company were to do it (Shane, 1996). This may result in the cost of a firm-owned unit being higher than that of a franchisee, which renders them less profitable (Holmberg and Morgan, 2003).

Several studies have opted to analyze franchising from another theoretical approach, that of signaling theory (Gallini and Lutzt, 1992). This perspective argues that sectors based on intangible assets must emit observable signals which the public can evaluate. These signals are sent to customers, competitors, suppliers and any other agent related to the company, thus facilitating the decision-making process of potential buyers (Michael, 2009). Specifically, signaling theory suggests that the franchisor has privileged information about the true profitability and viability of the business. For this reason, some franchisors prefer to begin their expansion through their own stores, instead of franchised stores, thus sending the market a signal of a solvent and profitable business, since the franchisor him/herself is not afraid of investing in it. According to signaling theory, this increases the number of agents interested in becoming future franchisees of the company in question. Nonetheless, this argument has not always found empirical support (Lafontaine, 1993; Dant, Perrigot and Cliquet, 2008, among others).

When discussing the theories most often used to explain franchising, one cannot omit that of transaction cost, which, together with agency theory, dominates the franchising literature (Burton, Cross and Rhodes, 2000). Transaction cost theory is an application of business concepts defended by Coase (1937) and Williamson (1975). It views companies as efficient agents (Chang and Rosenzweig, 2001) who subcontract the activities that external agents can provide at a lower cost than if the company were to do the work internally. This perspective has been used on numerous occasions to analyze franchising, and more specifically, the reasons for both its international expansion (Sashi and Karuppur, 2002; Michael, 2003; Elango, 2007) and the selection of entry mode into new markets (Burton, Cross and Rhodes, 2000).

In summary, as explained above, there are various theoretical frameworks used throughout the literature in order to analyze franchising. However, none of these theories has been able to completely explain the reasons for business people using franchising as a means for international expansion, since each theory has made only a partial contribution. Thus, rather than positioning themselves in opposition to the others, some authors have advocated a comprehensive focus.

HYPOTHESES DEVELOPMENT

International expansion of a company can be described as a corporate strategy for geographical diversification carried out through an evolving process in the long term. This process gradually affects both the company’s activities in the value chain as well as its organizational structure, by means of growing involvement of its resources and capabilities in the international environment. Thus, international expansion is often viewed as a basic and essential process that must take place in order to achieve sustainable growth, competitive advantage and greater profitability (Kuivalainen, Sundqvist and Servais, 2007).

Early studies on the initial decision to expand franchises internationally were centered on external factors motivating franchising companies to begin their international expansion processes. Among these variables, researchers pointed to domestic market saturation as one of the most significant (Aydin and Kacker, 1990). Later, Fladmoe-Lindquist (1996) argued that international expansion could not take place without the franchisor creating a specific set of skills enabling him/her to manage geographically disperse business operations amid highly disparate cultural and institutional contexts. The literature has suggested that accumulated management experience (understood as the number of years the company has operated in the sector) is one of the variables capable of explaining the decision to expand internationally. Therefore, companies with more experience tend to display greater capacity for management control and coordination, which facilitates their international expansion (Eroglu, 1992; Shane, 1996; Sashi and Karuppur, 2002).

However, accumulated knowledge of the sector does not suffice for a franchisor to be able to conduct efficient oversight and control of the franchisee's activity, especially if the latter is located abroad (Fladmoe-Lindquist and Jacque, 1995). A study by Huszagh, Huszagh and McIntyre (1992) showed that there are significant differences in management among franchised units as well as in the systems of oversight and control, depending on the amount of experience each chain has in that business (management experience) as well as their experience as a franchisor. Later studies have argued that the franchisor who wants to expand his/her business beyond the domestic market must develop greater skill in detecting and mitigating potential opportunistic behavior on the part of the franchisee (Shane, 1996; Elango, 2007). To do so, franchising experience may help the franchisor to select the agents properly (Quinn and Doherty, 2000) by being better able to identify ideal franchisees and reduce the risk of adverse selection (Sashi and Karuppur, 2002).

In summary, whether by looking at the earlier perspectives of Eroglu (1992), Fladmoe-Lindquist (1996) and Shane (1996), or those of more recent studies (Alon and McKee, 1999; Quinn and Doherty, 2000; Elango, 2007, among others), we can argue that a chain's management and franchising experience diminishes the risk of adverse selection of the franchisee, impeding opportunistic behavior on his/her part that could conflict with the franchisor's interests. Therefore, problems of agency and risk associated with the chain's international expansion are reduced. Following this line of argument, we propose the following hypotheses:

H1: The expansion of franchising across foreign nations will be positively associated with management experience.

H2: The expansion of franchising across foreign nations will be positively associated with franchising experience.

Traditionally, in franchising literature the correct management of a company's know-how has been considered one of the main sources of competitive advantage and guarantee of successful international expansion (see, e.g., Bartlett and Ghoshal, 2002). Thus, development, application and transfer of a company's knowledge are critical steps in guaranteeing its success, especially when this is effected from the parent company to its subsidiaries (Grant, 1996). However, this process is neither simple nor automatic (Szulanski, 1996).

The transfer of knowledge can take place through different mechanisms, such as written or electronic documents, personal conversations, meetings, short-term or permanent transfers of workers from one business unit to another, etc. The choice of one means or another is determined by the characteristics of a company's know-how; the greater its complexity, the more versatile and systematic the means of transmission (Lindqvist, Blomqvist and Saarenketo, 2007). On this point, we can mention two types of knowledge belonging to a firm: Firstly, explicit knowledge, which flows easily between the parent company and its subsidiaries (Combs and Ketchen, 1999). This, therefore, can be codified, easily communicated and shared through manuals or other written or electronic documents (Bonache and Brewster, 2001). Secondly, there is tacit knowledge, imbued in individual experience, which originates in actions, people and customs (Nonaka and Takeuchi, 1995). This type of knowledge requires establishing organizational routines to effect its transfer, since conventional mechanisms may generate transmission problems (Sashi and Karuppur, 2002) or even result in lost content (Szulanski, 1996). As a consequence, and in contrast to the other conventional modes of transmission, a parent company sending managers to various subsidiaries abroad has proven to be the most efficient mechanism for transmitting tacit knowledge from the parent company to its subsidiaries (Bonache and Brewster, 2001).

With regard to franchising systems, the EU Commission Regulation 4087/88 (Nov. 30, 1988) requires obligatory communication from the franchisor to the franchisee of its know-how through training and assistance programs, which provide the new franchises the necessary knowledge to operate the business. Therefore, the franchisor must codify its know-how (through manuals, lists of procedures, etc.) so that the franchisee can assimilate it and replicate it (Lafontaine and Slade, 1997; Sanders, 2002). However, when a franchising chain's know-how is tacit in nature, the codification task is increasingly difficult and costly, as it is often impossible to install a system of expatriates to transfer know-how from franchisor to franchisee (Kogut and Zander 2003, Riusala and Smale 2007). Moreover, the franchisor is obligated to provide technical assistance to the franchisee, as well as various training courses, whether in the host country (franchisee) or in the home country of the franchisor. All of this results in a considerable increase in transaction costs which fall exclusively on the franchisor (Dant and Kaufmann, 2003).

Following the reasoning above, one would assume that service companies with high levels of tacit know-how or expertise, such as consulting firms, are the most reluctant to use franchising for their international expansion. In contrast, those companies whose types of business are product focused have know-how that is more explicit in nature (Riusala and Smale 2007), allowing them, therefore, to use conventional means of transmitting this and to use franchising for their international expansion (Combs and Ketchen, 1999; Dant and Kaufmann, 2003). Drawing from this, we believe that international expansion via franchising presents the least difficulty for product based companies, versus those whose line of business is service based. Consequently, we offer the following hypothesis:

H3: The expansion of franchising across foreign nations will be positively associated with product based business.

Branding decisions are essential to a company's marketing strategy (Aaker, 1996; Keller, 1998). Among other things, this is because consumers incur different costs at the time of selecting one product over another when they have no previous experience in checking their quality (taste tests, etc.). In this case, consumers make the first purchase trusting in the reputation of the brand that sells this product. That is, the market does not only tend to trust in companies with well-known brand names (Barzel 1982), but in addition, these products are considered to be higher in quality and guarantees (Hill and Kim, 1988). In other words, from a consumer perspective, the brand simplifies the shopping selection process and reduces transaction costs (Sashi and Karuppur, 2002).

With respect to franchising, the role of the brand seems to be accentuated. This is because the franchisee acts like a customer of the franchisor in that he/she “buys” a management model. Thus, those franchising companies with well-known, or prestigious brand names will be considered successful companies because of their management. As a result, they can find a greater number of willing agents to be franchisees. There are two reasons to explain this:

Firstly, the franchisee of a well-known brand does not have to invest in creating an important brand name in the market; Secondly, the franchisee invests with greater guarantees of success, since his/her investment is made into a company backed by an already established brand that is successful in the market.

Therefore, the local agents interested in becoming franchisees will show interest in associating with companies that have well-known brand names, since to a great extent they ensure strong sales figures and reduce the risk of franchising a bad product that might fail (Montgomery and Wernerfelt, 1992). Put another way, local agents interested in being franchisees of a company will not look as much at the required economic investment (entry fees, royalties, advertising fees, etc.) as at the guarantee of success which the franchising business offers, and the subsequent reduction in problems of adverse selection.

In summary, brands generate confidence in the customers of a commercialized good (Voss and Tansuhaj, 1999). Moreover, the more agents aspiring to be franchisees of a franchising chain, the more candidates the chain will have to choose from (Baena, 2009), thus reducing the problem of adverse selection of franchisees, and many of the risks associated with international expansion. In line with these arguments, we propose the following hypothesis:

H4: The expansion of franchising across foreign nations will be positively associated with brand awareness.

METHODOLOGY

To achieve the results presented in this work, the authors consulted data published in 2009 by the leading franchising consultant group in Spain, Tormo & Asociados, in the *Guía Franquicias y Oportunidades de Negocio* (“Guide to Franchising and Business Opportunities”). This data was completed with reports from the Spanish Association of Franchisors (AEF) on the situation of Spanish franchising in late 2009 (as stated before, it ranks fifth worldwide both for the number of chains as well as the number of franchised outlets). We also took into account various studies published in the business press, as well as web pages of the main franchising chains in Spain and the most important international franchising associations (*International Franchise Association, Global Franchise Network,* etc.).

Databases created with information from secondary sources has been used in several studies on franchising, both in the context of Spain as well as international ones (see, e.g., Alon, 2001; Baena, 2009). Thus, even though the collected data is provided by franchisors, the literature demonstrates that annual reports validate more than 80% of this. Therefore, no significant bias appears to exist in this data (Combs and Castrogiovanni, 1994; Shane, 1996).

a. Dependent Variable Measurement

International presence of Spanish franchising chains (INTER) has been measured through a dichotomous variable that takes a value of 1 when the chain has presence outside of Spain and 0 in the contrary. However, as we explained above, this work does not only attempt to analyze factors determining the decision to go beyond the national market, but also to determine the effect of this on the intensity of this decision. To do so, the degree of international expansion pursued by Spanish companies has been measured by four different indicators: i) the number of countries where the chain is present (COUNTRIES); ii) the number of operative outlets that the chain has abroad (OUTLETS); iii) the average number of outlets in each country, that is, the number of outlets that each chain has abroad divided by the number of countries in which it operates (OUTMEAN); and lastly, iv) the number of years the chain has been operating abroad (YEARS). These indicators have been suggested in the literature for the purpose of measuring similar variables (Contractor and Kundu, 1998a, 1998b; Burton, Cross and Rhodes, 2000, Michael, 2003, among others).

b. Independent Variables Measurement

In terms of the independent variables proposed in this work, management experience (MANAGEXP) has been calculated as the difference between the present year and the year when the company was constituted (year of joining the Trade Register). In contrast, franchising experience (FRANEXP) has been obtained by calculating the number of years the company has been operating in the franchising system. This is the same criterion used in previous studies (see, e.g., Hoffman and Preble, 2001). The dates when companies were founded as well as those of forming franchising chains have been obtained from data published in 2009 by the franchising consulting firm, Tormo & Asociados, and by the AEF (Spanish Association of Franchisors).

In addition, the type of business of the franchising chain (ACTIVITY) has been measured through a dichotomous variable which takes a value of 0 when the business is service based, or 0 when it is product based (using the classification compiled by the franchising consulting firm Tormo & Asociados). The brand awareness of Spanish franchisors with presence abroad (AWARENESS) has been measured using data from a 2007 study conducted by the Leading Brands of Spain Forum (Foro de Marcas Renombradas Españolas – FMRE-). According to the technical specifics of this report, the forum used a sample of 4,800 people to assess the brand awareness of 118 different product categories. The theoretical grounding of the study was based on concepts of fame and recognizability developed by Simonson (1993) in conjuction with Herr, Farquhar and Fazio (1996). These researchers established two fundamental concepts for assessing and stimulating a brand's recognizability (where the concepts of fame, prestige and recognizability are used synonymously): distinctiveness[4] and dominion[5]. Peterson, Smith and Zerrillo (1999) applied the concepts of distinctiveness and dominion to assess the degree of 28 brands, using a survey from 464 participants. The FMRE used this same method, finally calculating brand recognizability as a measurement averaging both distinctiveness and brand dominion.

Lastly, regarding the factors determining the intensity of Spanish companies' international expansion, a control variable has been introduced -*franchising ratio*. This represents the number of franchised outlets each chain has abroad in comparison to the total number of outlets (franchised and firm-owned) the company has abroad (RATIOFRAN). Hunt (1973) was the first to suggest that franchising chains would prefer to grow through a system of their own stores or points of sale, demonstrating that the proportion of stores fully owned in the fast food sector in the U.S. increased by 1.2% in 1960 and 11.3% in 1971. Hunt's (1973) study also shown that the rate of full ownership desired by owners of these types of chains was approximately 41%. Indeed, this process would seem to be dynamic and would lead one

[4] Distinctiveness is understood as a brand's ability to "trigger a memory of the product's category" (Simonson, 1993) or "the strength of association between a brand and its category"; that is, the ability of a brand to evoke a particular product category" (Herr, Farquhar and Fazio, 1996).

[5] Dominion refers to "a brand's ability to be remembered through its category" (Simonson, 1993) or "the strength of association between the category and the brand" (Herr, Farquhar and Fazio 1996).

to think that in a company's early years a franchisor would want to expand quickly into new markets, relying on franchising. However, as a company gains experience in the business and access to necessary resources, the company may be tempted to acquire total ownership and control of its franchised units, preventing the entrance of local partners into this market.

c. Empirical Analysis

Once the data was collected, the authors proceeded to analyze the effect of the proposed variables on the intensity of international expansion among Spanish franchisors. The analysis was conducted in two different steps. First, a binary logistical regression analysis was done, where the dependant variable had a value of 1 if the franchising chain had presence abroad, and 0 in the contrary. The sample was the total population of operative Spanish franchising chains at the close of 2009 (1,019 companies). Subsequently, after examining the effect of the proposed independent variables on the decision of international expansion (to have presence abroad or not) four multiple regression analyses were conducted to analyze the effect of the regressor variables on the intensity of the international expansion process pursued by Spanish franchisors. As explained before, the dependent variable (degree of international expansion) was captured through four different indicators: a) the number of countries where the chain operates (COUNTRIES); b) the number of operative outlets located abroad (OUTLETS); c) the average number of outlets the chain has abroad (OUTMEAN); and lastly, d) the number of years the chain has been operating abroad (YEARS). The sample population considered was all the Spanish franchise chains operating abroad at the close of 2009: two hundred and ten Spanish chains with presence in 108 countries and 10,135 outlets. Due to difficulty in acquiring information on all of these chains, the final sample was reduced to 142 Spanish chains with foreign presence (67.62% of the total population). Nonetheless, this figure represents a critical mass of almost 80% of the total, both for the number of countries as well as the number of outlets in operation abroad.

RESULTS

Table 1 shows the basic statistics of each of the variables contained in this work: maximum, minimum, mean and standard deviation. As one can see, Spanish chains are present in an average of ten countries (aside from the national market) and have an average number of 8.14 outlets (owned and franchised) in each country. However, there are notable differences among various chains. For example, Mango, which has 942 outlets in 93 countries, or MRW, with

666 outlets in six countries (representing an average of 95.14 outlets per country). The case of Telepizza, with 430 outlets in 5 countries, was also significant, as well as that of Oro Vivo (102 outlets in Portugal, Germany and Switzerland). These two chains had an average of 86 and 34 outlets per country, respectively.

In addition, Spanish chains have an average management experience of 22.2 years and average franchising experience of 14.5 years. However, these figures reach 147 and 94 in the cases of "E Moli Vell" and "Rustiko", although neither has presence abroad. Therefore, if we only consider Spanish chains with international outlets, the average management and franchising experience is reduced to 22.6 and 14.6 years, respectively, with Cebado being the oldest chain (118 years of management experience) with the greatest amount of franchising experience (36 years). It is followed by Liolá (140 years of management experience and 24 years franchising experience) and Viajes Marsans (100 years and 11 years, respectively). In addition, brand awareness reaches an average of 3.713, although in the cases of Telepizza and Zara, these figures go as high as 89.2 and 86.8.

Lastly, the average franchising ratio of Spanish chains is 0.96. This means that on average, less than ten per cent of outlets opened by franchised chains in foreign countries are actually firm-owned, as compared to the total number of operative outlets (franchised and owned) that chains have abroad. Stated another way, more than 90% of outlets abroad are franchises, whether through direct entry mode[6] or master franchising[7]. Important exceptions do exist, however, such as the case of Zara Home, which has 10 franchised outlets out of a total of 112 owned outlets spread throughout 22 countries (a ratio of 0.08). Another distinct case is that of Oysho, with 11 franchised outlets compared to 198 firm-owned outlets in 22 countries (franchising ratio of 0.06).

INSERT TABLE 1

After doing a descriptive analysis of the variables in this study, the Pearson's correlation matrix was then calculated. Due to the dichotomous nature of the dummy variable (ACTIVITY), this variable cannot be included with the others. Thus, the data base has been

[6] This implies setting up a new outlet from scratch (greenfield) or purchasing a local firm (acquisition).
[7] Sometimes franchisors decide to work with a type of intermediary who purchases from the entering franchisor the right to develop his/her own network of outlets in the host market. Specifically, the franchisor allows those agents (master franchisors) to sub-franchise and sell the format on to independent sub-franchisees. As a result, the master franchisor effectively adopts the role of franchisor in the host market.

broken into two groups: service based companies (Matrix 1) and product based companies (Matrix 2). Tables 2 and 3 display the results.

INSERT TABLES 2 AND 3

After examining the descriptive statistics and the bivariate correlations of the variables included in this work, table 4 summarizes the results of the binary logistic regression carried out. The objective is to determine the effect of management and franchising experience, business type, and brand awareness on the decision of whether to have international presence or not. As mentioned in the previous section, a dichotomous dependent variable was created, assigned a value of 1 when the chain has international presence and 0 when it has none. The model was statistically significant at 0.059 (chi-square = 10,633 with 5 degrees of freedom), and Nagelkerke $R^2 = 0.146$. The results obtained signal a positive and statistically significant correlation (at the 0.05 level) between the decision to have presence in foreign markets and the chain's brand awareness. The rest of variables analyzed (management experience, franchising experience, and product-based business activity (instead of services), also showed positive correlation with the decision to have presence abroad, although none of the cases were statistically significant.

INSERT TABLE 4

Together with the previous contrast, four ordinary least square regressions were analyzed in order to examine the effect of this study's proposed independent variables -management experience, franchising experience, type of business and franchising chain's brand awareness- on the intensity of foreign expansion of franchisors. In addition, as explained in the previous section, a control variable was added: franchising ratio (RATIOFRAN), measured as the number of franchised outlets located abroad compared to the total number of the chain's outlets abroad (both owned and franchised). The dependent variable (degree of international expansion) was measured using four different indicators: i) the number of countries where the chain is present (Model 1); ii) the number of operative outlets the chain has abroad (Model 2); iii) the average number of outlets in each country (Model 3); and lastly, iv) the number of years each chain has been operating abroad (Model 4). Table 5 summarizes the results obtained.

INSERT TABLE 5

As one can see, Models 1, 2 and 4 are both significant at 0.000, while Model 3 is significant at 0.002. Looking at the value of the coefficient of determination (R^2), the values associated with Models 1 and 3 are the lowest (R^2=0.273 and R^2=0.235, respectively). However, this value increases notably when the dependant variable is measured by the number of outlets that Spanish chains have abroad (R^2=0.392) or by the number of years the company has been operating abroad (R^2=0.750). In any case, it is important to note that the coefficient of determination (R2) associated with any of the four models is statistically significant since its sample size (in this case n= 142) has a direct and quantifiable impact on the strength of the multiple regression (see, e.g., Hair et al., 1999)[8]. Moreover, table 5 contains results of the colinearity associated with each of the variables of the empirical comparisons in each model. As one can see, none of the tests was significant, which means that colinearity problems do not seem to exist. However, to be certain of this, the authors proceeded to calculate the determinant of the matrix correlation of each of the four models. The value obtained was 1, therefore problems of multicolinearity can be ruled out.

Having commented on the joint significance of each on the four models analyzed, the effect of each chain's type of business (products versus services) on the degree of international expansion of Spanish chains did not show statistic significance in any of the four models, and therefore, we cannot accept hypothesis H2. That is, no empirical evidence was found to claim that the a chain's type of business affected the number of countries where the chain operates, the number of operative outlets abroad, the years the chain has been operating outside of its home county, or the average number of outlets the chain has abroad. On the other hand, table

[8] The power is defined as the likelihood of correctly rejecting the null hypothesis when it is false. That is, the likelihood of finding a supposed relationship when it really exists represented as (1-β). The following picture illustrates the interplay among the sample size, the significance level (α) chosen, and the number of independent variables in detecting a significant R^2. The table values below are taken from Hair et al., (1999, p. 158) and show the minimum R^2 the specified sample size will detect as statistically significant at the specified α level with a probability (power) of .80.

Minimum R^2 that can be found to be statistically significant with a Power of .80 for varying numbers of independent variables and sample sizes								
	Significance Level (α) = 0.01				Significance Level (α) = 0.05			
	Number of independent variables				Number of independent variables			
Sample Size	2	5	10	20	2	5	10	20
20	45	56	71	NA	39	48	64	NA
50	23	29	36	49	19	23	29	42
100	13	16	20	26	10	12	15	21
250	5	7	8	11	4	5	6	8
500	3	3	4	6	3	4	5	9
1000	1	2	2	3	1	1	2	2

NA = non-applicable

5 confirms a positive correlation between the franchisor's brand awareness and the number of operative outlets it has abroad. In each case the correlation described resulted in significance, which allows us to accept hypothesis H3 at the 0.01 level.

With respect to the effect of franchising companies' management and franchising experience on the intensity of international expansion strategies, the four models show positive correlation between franchising experience and the dependent variable; however, this is only statistically significant when the dependent variable is measured by the number of years the chain has worked abroad (Model 4), On the other hand, the correlation between management experience of Spanish chains and their degree of international expansion is negative. This relationship is significant in Model 4, leading us to accept hypothesis H2 and reject hypothesis H3 at the 0.000 and 0.025 level, respectively.

Lastly, in terms of the control variable (RATIOFRAN), the results obtained show a negative correlation between this variable and the number of countries where the franchisor has presence (Model 1). This negative correlation also exists with the average number of operative outlets abroad (Model 3) and the number of years a chain has operated outside of its country of origin (Model 4), at the 0.025, 0.000 and 0.069 level, respectively.

DISCUSSION AND CONCLUSION

The results in this study indicate that Spanish franchising chains with high brand awareness have a greater tendency to adopt international expansion strategies and go into other countries. This evidence confirms the arguments from the literature, specifically, that a strong brand simplifies the purchasing process and reduces the transaction costs by sending signals into the market of a solvent and successful company. As a result, the number of local agents interested in becoming the chain's franchisees increases. In addition, there is a positive correlation between management and franchising experience, as well as between product based businesses (versus service companies) and greater foreign presence. However, this claim must be made with great caution, since it was not shown to be statistically significant.

In terms of the intensity of the international expansion process, the results from this study allow us to affirm that companies with higher brand awareness have more outlets abroad and are present in more countries. Moreover, franchising experience shows a positive correlation with the number of years the company has been operating abroad. The reason for this could be that chains with greater franchising experience are more capable of identifying the optimal franchisee and therefore, reject applications from less suitable agents. Consequently, the agency problems and adverse selection associated with international expansion are minimized, and there is greater intensity in the international expansion process. However, in significant contradiction to hypothesis H1, the results show a negative correlation between management experience and the degree of international expansion of Spanish chains. This correlation was significant at 0.025 when the intensity of the international expansion process was measured by the years the chain had operated abroad. These results show that a good part of Spanish chains with presence abroad have a distinct international character from the beginning of their business activity, that is, they do not wait for a saturated Spanish market in order to expand into foreign countries. These types of companies, referred to as "born-global firms", have begun to stimulate research interest recently (see, e.g., Knight and Cavusgil, 2004; Gabrielsson, 2005; Anderson, Gabrielsson and Wictor, 2006), although few studies have been done in this area as yet. Results from the present study intend to contribute to this line of research, insomuch as Spanish companies seem to form part of this profile.

Moreover, this study reveals the existence of a negative correlation between the franchising ratio (number of franchised outlets abroad compared to total number of outlets abroad -owned and franchised-) and the intensity of the international expansion pursued by franchise chains. Therefore, the results obtained seem to confirm the arguments of resource scarcity theory (Hunt, 1973; Caves and Murphy, 1976; Carney and Gedajlovic, 1991, among others), which argues that in the early years of a company the franchisor wants to expand into new markets quickly and easily and chooses franchising networks for this reason. However, once the franchisor company has enough resources, it buys the outlets. As out study illustrates, chains with the strongest international presence -measured by the number of foreign countries where the company is doing business, average number of outlets the company has abroad, and the number of years the chain has operated overseas- have fewer franchised outlets abroad (as compared to firm-owned outlets). This negative correlation was also found between the franchising ratio and the number of outlets the chain has in foreign countries, although the correlation was not statistically significant.

Restated, this study confirms the important role of franchisor brand awareness in the decision of whether or not to have international presence. Furthermore, management and franchising experience, brand awareness and the franchising ratio can determine to greater or lesser degree the intensity of the international expansion process. To the authors' knowledge, this study is the first to consider brand awareness, franchising ratio and the chain's business type as prediction variables for the process of international expansion and its intensity. This will be one of its contributions.

Due to the scarcity of data on international franchising companies and their activity (Kedia et.al, 1994), most published works are theoretical and lack empirical comparisons (Eroglu, 1992; Alon and McKee, 1999; Shashi and Karuppur, 2002; Welsh, Alon and Falbe, 2006, among others). Moreover, it is important to note that the conclusions obtained in these studies cannot be generalized to any franchising chain, as the majority of research is based almost exclusively on American or British franchising companies in the manufacturing and retailing sectors. This article has attempted to contribute to the literature and to overcome both of these limitations. To do so, the authors have presented a model which identifies and empirically contrasts some of the variables at work in the decision of Spanish franchising chains to expand internationally, regardless of their line of business. Indeed, we consider this aspect one of the study's strongest contributions to the literature.

In addition, the present study attempts to provide different practical implications for international management. Therefore, we hope that the results obtained serve both franchising chains as well as franchisor associations in determining their future strategic expansion plans. Likewise, we expect that franchisors will use the results of this study as a starting point for identifying the international expansion strategies that best suit their interests and resources, thus facilitating the process.

One of the main limitations of this study is the fact that the sample only considers Spanish franchise chains. As a future line of research, it would be interesting to replicate this work using a sample of non-Spanish companies and compare the results. This would help to determine whether or not the results are generalizable to all types of franchising chains, regardless of their country of origin. We also hope that this study serves as a starting point for analysis of the "born-global firms", since, as mentioned earlier, Spanish franchises seem to belong to this profile. Finally, we suggest that further research consider new relationships such as those between a franchise chain's performance (profitability, sales, market share, etc.) and the degree of its international expansion.

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Table 1: Descriptive Statistics

VARIABLE	MINIMUM	MAXIMUM	MEAN	STANDARD DEVIATION
COUNTRIES	1.000	93.000	9.963	14.861
OUTLETS	1.000	942.000	105.359	181.807
FRANEXP	2.000	94.000	14.542	9.847
MANAGEXP	4.000	147.000	22.553	19.861
AWARENESS	0.000	89.200	3.713	12.865
OUTMEAN	0.333	95.143	8.140	16.271
RATIOFRAN	0.057	1.000	0.960	0.244
YEARS	6.000	44.000	13.4318	6.381

Table 2: Correlation Matrix 1: ACTIVITY=0; Service Companies

	MANAGEXP	FRANEXP	RATIO	OUTMEAN	OUTLETS	COUNTRIES	AWARENESS	YEARS
MANAGEXP	1.00	0.51	0.17	-0.20	-0.19	-0.14	-0.03	0.66
FRANEXP		1.00	-0.16	-0.10	0.01	0.11	0.14	0.74
RATIO			1.00	-0.11	-0.37	-0.54	-0.76	-0.23
OUTMEAN				1.00	0.32	0.18	0.15	-0.05
OUTLETS					1.00	0.88	0.64	0.49
COUNTRIES						1.00	0.74	0.57
AWARENESS							1.00	0.59
YEARS								1.00

Table 3: Correlation Matrix 2: ACTIVITY=1; Product Companies

	MANAGEXP	FRANEXP	RATIO	OUTMEAN	OUTLETS	COUNTRIES	AWARENESS	YEARS
MANAGEXP	1.000	0.348	-0.088	0.054	0.172	0.154	0.230	0.301
FRANEXP		1.000	0.014	0.234	0.403	0.166	0.223	0.634
RATIO			1.000	-0.164	-0.614	-0.724	-0.639	-0.420
OUTMEAN				1.000	0.560	0.031	0.452	0.487
OUTLETS					1.000	0.755	0.683	0.780
COUNTRIES						1.000	0.508	0.594
AWARENESS							1.000	0.659
YEARS								1.000

Table 4: Logistic Regression Results

		B	E.T.	Wald	d.f.	Sig.	Exp(B)
Step 0	Constant	0.631	0.215	8.565	1	**0.003**	1.879

Cox and Snell R^2	Nagelkerke R^2
0.106	0.146

		B	E.T.	Wald	d. f.	Sig.	Exp(B)
Step 1	AWARENESS	0.031	0.015	4.340	1	**0.037**	1.032
	ACTIVITY	0.210	0.240	0.770	1	0.380	1.234
	MANAGEXP	0.004	0.007	0.290	1	0.589	1.004
	FRANEXP	-0.010	0.014	0.110	1	0.738	0.995
	Constant	1.940	24.71	0.010	1	0.937	6.957

Table 5: Regression Analysis Results

Model 1					
				Colinearity Statistics	
VARIABLES	Coefficient	t	P-value	Tolerance	VIF
CONSTANT	33.486	3.630	**0.000**		
MANAGEXP	-0.044	-0.703	0.484	0.666	1.503
FRANEXP	0.137	1.062	0.291	0.657	1.523
ACTIVITY	-3.436	-1.455	0.276	0.690	1.449
AWARENESS	0.171	1.990	**0.003**	0.948	1.055
RATIOFRAN	-27.303	-3.018	**0.050**	0.672	1.488
	Dependent Variable: COUNTRIES R^2: 0.273 Adj. R^2: 0.232 F =6.681 **(p= 0.000)**				

Model 2					
				Colinearity Statistics	
VARIABLES	Coefficient	t	P-value	Tolerance	
CONSTANT	195.850	1.710	**0.092**		
MANAGEXP	-1.044	-1.014	0.314	0.569	1.759
FRANEXP	2.746	1.518	0.134	0.559	1.788
ACTIVITY	-16.062	-1.482	0.629	0.946	1.058
AWARENESS	3.967	3.699	**0.000**	0.682	1.466
RATIOFRAN	-166.018	-0.795	0.143	0.700	1.429
	Dependent Variable: OUTLETS R^2: 0.347 Adj. R^2: 0.392 F=7.221 **(p= 0.000)**				

Model 3					
				Colinearity Statistics	
VARIABLES	Coefficient	t	P-value	Tolerance	
CONSTANT	-5.046	-0.389	0.699		
MANAGEXP	-0.035	-0.371	0.712	0.628	1.591
FRANEXP	0.106	0.532	0.596	0.616	1.623
ACTIVITY	6.295	0.496	0.622	0.701	1.427
AWARENESS	3.876	1.034	0.305	0.925	1.081
RATIOFRAN	-0.454	-3.715	**0.000**	0.675	1.481
	Dependent Variable: OUTMEAN R^2: 0.235 Adj. R^2: 0.180 F =4.242 **(p= 0.002)**				

Model 4					
				Colinearity Statistics	
VARIABLES	Coefficient	t	P-value	Tolerance	
CONSTANT	2.552	0.482	0.634		
MANAGEXP	-0.124	-2.379	**0.025**	0.353	2.829
FRANEXP	0.761	5.048	**0.000**	0.271	3.695
ACTIVITY	-0.48	-0.101	0.921	0.621	1.61
AWARENESS	0.148	0.103	0.919	0.698	1.433
RATIOFRAN	-0.079	-1.898	**0.069**	0.652	1.534
	Dependent Variable: YEARS R^2: 0.750 Adj. R^2: 0.702 F =15.571 **(p= 0.000)**				