KEY DRIVERS OF OVERSEAS EXPANSION OF SERVICE FRANCHISE CHAINS

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Abstract

Based on the agency and signaling theories, this paper attempts to identify the effects of management and franchising experience, brand awareness, international franchise ratio, and franchisor's size on international expansion in the service franchise sector. Specifically, the Spanish franchise system was considered and therefore, a total of 125 chains with presence in 44 foreign countries with a combined 2,944 outlets were examined. The results show that management and franchising experience, together with brand awareness, international franchise ratio, and company size all have a significant impact on the internationalization process in the service franchise companies.

Keywords

International Marketing, Service Companies, Franchise system, Internationalization, Agency Theory, Signaling Theory

Introduction and Objectives

The expansion of companies overseas has long been an important issue. Several foreign entry options exist, which include exporting, joint venture, wholly owned subsidiaries (greenfield or acquisitions), and contractual agreements (management service contracts, licensing and franchising). This choice influences a firm's resource commitment, investment risk, degree of control, and share of profits (Alon, 2006; Alon, Ni and Wang, 2010; Zu, Thompson and Stanton, 2010; Baena, 2011; Zhu, Wang and Quan, 2011).

Regarding franchising, a colossal growth over the last two decades has been observed both in and outside developed and developing countries (Doherty, 2007; Brand and Croonen, 2010; Pan, Nunes and Peng, 2011). Nevertheless, knowledge is still scarce concerning the factors influencing international expansion via franchising (Hoffman, Kincaid and Preble, 2008; Mariz-Pérez and García-Álvarez, 2009). In addition, most of the research in this area focuses on American or British retailing and manufacturing industries (Doherty, 2009; Alon, Ni and Wang, 2010). This fact hinders generalization of the obtained results, a step which is especially necessary in the case of service industries, where research on internationalization is quite scarce (Ball, Lindsay and Rose, 2008). Therefore, there is a need to go beyond previous studies and focus specifically on the service sector (Pla-Barber, Sánchez-Peinado and Madhok, 2010).

In an attempt to contribute to previous literature, this study explores the role of certain variables as enhancing factors in the international diffusion of service franchise chains. The authors examine in depth the effect of franchisors' management experience and brand awareness. Also considered in this work are the franchisor's size and the international franchise ratio -(i.e. the number of chain outlets each franchisor has abroad divided by the total number of overseas outlets (both franchised and company-owned). Moreover, our data source is different from the U.S./U.K. and focuses on the Spanish franchise system. According to data published annually by the International Franchise Association and the Global Franchise Network, since 2008, this system has ranked fifth in the world, both in terms of the number of chains and of the number of franchised outlets[1]. We think these facts add incremental value to our work.

The remainder of the paper is structured as follows: The proceeding section provides the theoretical background and formulation of hypotheses. In the subsequent section, we discuss the empirical analysis and describe the results. We conclude by presenting conclusions and their implications for practitioners and academics, while also discussing the limitations of the study and future research possibilities.

Conceptual Framework

Agency theory (Jensen and Meckling, 1976; Fama and Jensen, 1983) is particularly useful when studying franchising, since it recognizes the existence of two parties (principal and agent) who may have certain divergent interests. Specifically, the principal (franchisor) delegates to the agent (franchisee) certain tasks for which the former lacks the necessary skills, resources or time. However, if the principal's and agent's goals conflict and it is difficult or expensive for the principal to verify the agent's performance, the agent will not necessarily perform the tasks in question in a way that best suits the principal (Alon, Ni and Wang, 2010). To solve these problems, principals have to spend resources on direct observation, i.e. monitoring costs (Chen, 2010; Alon, Boulagenr and Misati, 2011).

However, some studies have opted to analyze franchising from another theoretical approach, applying signaling theory (Gallini and Lutzt, 1992). This perspective argues that companies emit observable signals for evaluation by the public. Specifically, signaling theory suggests that franchisors possess privileged information about the true profitability and viability of their businesses (Polo-Redondo, Bordonaba-Juste and Palacios, 2011). As a result, they can

[1] At the close of 2009, there were 1,019 franchising chains operating in Spain through 65,026 operative outlets. This means that each chain possesses an average of 64 outlets.

powerfully and credibly signal their own confidence in the profit potential, viability, and robustness of their systems; for instance, they can manage a critical mass of company-owned outlets rather than franchised stores, thus signaling themselves to be a solvent and profitable business in which the franchisor him/herself is not afraid to invest (Alon, Boulanger and Misati, 2011).

Further on in this work, we infer the variables enhancing a franchisors' choice to expand abroad and the intensity of this international expansion, based on a theoretical framework perspective combining both agency theory and signaling theory.

2.1 Management Experience

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 (Eroglu, 1992; Shane, 1996; Sashi and Karuppur, 2002). In particular, companies with more experience have a better knowledge of the industry they operate in and therefore, tend to display greater capacity for management control

and coordination (Hoffman, Kincaid and Preble, 2008; Mariz-Pérez and García-Álvarez, 2009). As a result, experienced companies are able to solve their problems better and faster, as they have powerful competitive strategies to define the business better (Alon, Boulanger and Misati, 2011).

Management experience in itself is also an indicator of success, one which may provide an edge in the competitive marketplace (Alon, Ni and Wang, 2011). Therefore, companies with many years in the market and a history of good performance become well-known to potential franchisees based on proven results and their accumulated reputation. These attributes signal legitimacy and increase the number of local agents interested in becoming franchisees. Indeed, potential franchisees see this investment as reducing the entrepreneurial risk while giving access to a proven business concept, along with management and marketing expertise. Based on these signaling arguments, we propose the following:

H1: International expansion of service franchise chains will be positively associated with the franchisor's management experience.

Franchise Experience

Given that agency problems arise when the principal finds it difficult and/or expensive to verify what the agent is actually doing, franchise chains interested in expanding beyond the domestic market must develop skills to detect and mitigate potential opportunistic behavior on the part of the franchisee (Elango, 2007). In this regard, franchising experience may help the franchisor to select suitable agents (Quinn and Doherty, 2000) by enabling him/her to identify ideal franchisees and reduce the risk of adverse selection (Sashi and Karuppur, 2002; Doherty, 2009). Indeed, franchise experience expands as the owner of the chain slowly accumulates specific and valuable know-how (Shane, 1996) through daily practice and constant interaction with his franchisees (Mariz-Pérez and García-Álvarez, 2009).

In short, in spite of the information asymmetries and the likelihood of opportunistic behavior arising in geographically distant markets (Demirbag, Tatoglu and Glaister, 2009), franchise-experienced chains may find it easy to expand their business abroad. Therefore, we follow Eroglu (1992), Fladmoe-Lindquist (1996) and Shane (1996), as well as other more recent studies (Alon and McKee, 1999; Quinn and Doherty, 2000; Doherty, 2009; Alon, Ni and Wang, 2010) to support the idea that franchising experience reduces the risk of selecting the wrong sort of franchisee who might engage in opportunistic behavior against the franchisor's interests. This minimizes agency problems associated with international expansion. Hence, we present the following hypotheses:

H2: International expansion of service franchise chains will be positively associated with the franchisor's franchising experience.

Brand Awareness

Branding decisions are essential to a company's marketing strategy. The reason for this is that consumers incur various costs when selecting one product over another, especially when they lack previous experience in confirming their quality (taste tests, etc.) (Aaker, 1996; Keller, 1998). In fact, the market tends to trust companies with well-known brand names (Barzel 1982) and considers the products of these companies to be of better quality and guarantee (Hill and Kim, 1988). Thus, from a consumer perspective, the brand simplifies the shopping and selection process (Sashi and Karuppur, 2002).

In franchising, the brand appears to play an even more important role as the franchisee acts as a customer of the franchisor by "buying" a management model. In particular, the franchise companies with well-known or prestigious brand names gain a reputation for quality and profits for the overall franchise network, which increases the number of candidates willing to become its franchisees. There are two reasons for this. Firstly, the franchisee of a well-known brand does not have to invest in the creation of a major brand name. Secondly, the franchisee investment has a greater guarantee of success because it has the backing of an already established successful brand with potential consumers (Mariz-Pérez and García-Álvarez, 2009). Therefore, companies with well-known brand names signal strong sales in conjunction with marketing expertise (Holverson and Revaz, 2006). All these aspects boost the number of candidates to be franchisees, as brand names creates market belief that each franchisee unit provides the same levels of business growth and profits across borders (Chen, 2010), thus reducing the risk of failure (Montgomery and Wernerfelt, 1992). In short, brand awareness signals successful performance. This fact generates confidence in the market; in turn, the number of agents aspiring to be franchisees increases, thus facilitating the chain's international expansion. In line with these arguments, we propose the following hypotheses:

H3: International expansion of service franchise chains will be positively associated with the franchisor's brand awareness.

Method

Dependent variable measurement

As already explained, this study attempts to examine the international expansion pursued by Spanish service franchisors. This variable was assessed using three different indicators: i) the number of countries where the chain has a presence (COUNTRIES); ii) the number of operational outlets the chain has abroad (OUTLETS); and lastly, iii) the average number of outlets in each country, that is, the total number of outlets abroad divided by the number of countries (OUTMEAN). All of these have been suggested in the literature for measuring similar variables (Burton, Cross and Rhodes, 2000; Michael, 2003, among others).

Data on the international franchising activity in 2009 were obtained from the leading franchising consultant group in Spain, *Tormo & Asociados*. This was supplemented by reports from the Spanish Association of Franchisors (AEF) on the situation of Spanish franchising in late 2009 (as already noted, this ranks fifth worldwide both for the number of chains and the number of franchised outlets). We also took into account various studies published in the business press, web pages of the leading Spanish and international franchising chains, and major franchise associations (*International Franchise Association*, *Global Franchise Network*, etc.). Many franchising studies use databases derived from secondary sources (e.g., Alon, 2001; Baena, 2009; Mariz-Pérez, and García-Álvarez, 2009). Thus, although franchisors supplied the data, the literature validates over 80% of it, reducing the risk of any significant bias (Combs and Castrogiovanni, 1994; Shane, 1996).

Measurement of the Independent Variables

The first two independent variables examined in this study are management experience (MANAGEXP), calculated as the number of years that have elapsed since the company was first constituted (the year it joined the Trade Register); and franchising experience (FRANEXP), calculated as 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 companies' founding dates and the dates they awarded their first franchise come from data published in 2009 by the AEF (Spanish Association of Franchisors) and by the leading franchising consulting firm, *Tormo & Asociados*.

Finally, brand awareness of Spanish franchisors with presence abroad (AWARENESS) was measured by using data from a 2008 study conducted by the Forum of Leading Spanish Brands (Foro de Marcas Renombradas Españolas - FMRE - www.brandsofspain.com). According to the technical specifics of this report, the research takes its theoretical basis from the concepts of typicality and dominance developed by Simonson (1993), Herr, Farquhar and Fazio (1996) and Peterson, Smith and Zerrillo (1999). These researchers established two fundamental concepts for assessing and stimulating a brand's recognition (using the concepts of fame, prestige and recognizability synonymously): typicality and dominance. Typicality is the ability of a brand to elicit recall of its own product category (Simonson, 1995) or the strength of the brand-to-category association (Herr, Farquhar and Fazio, 1996). Dominance is a brand´s ability to generate specific recall from a product/service category (Simonson 1995), or the strength of the category-to-brand association (Herr, Farquhar and Fazio, 1996). Peterson, Smith and Zerrillo (1999) applied the concepts of typicality and dominance to assess the public awareness of 28 brands, using a survey of 464 participants. With a sample of 4,800 people, the FMRE used this same method to assess the degree of fame and awareness of nearly 600 Spanish brands in 118 different product categories, including most of the major Spanish franchise brands.

Control Variables

In conjunction with management and franchising experience and franchisor's brand awareness, we controlled for two variables: firstly, the international franchise ratio (RATIOFR), which was assessed as the number of franchised outlets each chain has abroad divided by the total (both franchised and company-owned) outlets this franchisor has overseas; secondly, the franchise chain size (SIZE) was used as a control variable. To asses this second variable, we follow previous literature and measure the total number of outlets (franchised and company-owned) the franchisor has established across the home country and abroad (see, e.g., Mariz-Perez and García-Álvarez, 2009; Alon, Ni and Wang, 2010).

Findings

Having collected the data, we proceeded to analyze the effect of the independent and control variables on international expansion pursued by the Spanish service franchise chains in late 2009. Of the 210 Spanish chains doing business overseas during this period (in 108 countries, with 10,135 outlets) a total of 125 chains were service business-oriented, operating across 44 foreign countries with 2,944 outlets, as shown in Table 1. All of these were considered in this study, which means that the sample size corresponds to 100 per cent of the population.

Table 1 – International Diffusion of Spanish Service Franchise Chains in December 2009

SECTOR OF ACTIVITY	**NUMBER OF FRANCHISORS**	**NUMBER OF OUTLETS**	**NUMBER OF COUNTRIES**
HOSPITALITY AND RESTAURANT	40	1,157	44
DRY CLEANERS	6	453	29
TRANSPORTATION	5	356	27
BEAUTY AND AESTHETICS	17	222	25
SOFTWARE AND COMPUTERS SERVICES	11	217	19
PHOTOGRAPHY SERVICES	3	171	16
TRAVEL AGENCIES	4	64	15
HEALTH CENTERS	2	58	12
AUTOMOBILE SERVICES	6	43	11
EDUCATION AND TRAINING	5	41	8
FINANCIAL SERVICES	7	35	8
ESTATE AGENTS	4	35	8
MISCELLANEOUS SERVICES	5	33	7
OPTICS	1	19	4
LEISURE CENTRES	5	18	2
CONSULTING SERVICES	2	16	1
SPORTS	2	6	1
TOTAL	125	2,944	44

Table 2 shows the basic statistics (maximum, minimum, mean and standard deviation) of each of the variables considered in this study. In terms of the areas of management and franchising experience, Spanish service chains average 22.6 years and 16.4 years, respectively. The oldest international service chain is Santivery (125 years of management experience and 94 years of franchising experience) followed by Cebado (hairdressing) with 118 years of management experience and 36 years of franchising experience. The brand awareness index for service franchise chains with international presence averages 34.085 (scale of 0 to 100), although Telepizza (fast food) attains a rating as high as 89.2. It is also worth mentioning that Spanish service chains have an average international franchise ratio of 0.973. This means that, on average, less than five per cent of their operational outlets abroad are actually company-owned. In other words, over 97% of Spanish service outlets operating overseas are franchises, whether through direct franchising or master franchising. Important exceptions do exist, however, such as Telepizza, which has 139 franchised outlets out of a total of 288 spread across 6 foreign countries - Portugal, Chile, the Czech Republic, Poland, Guatemala, and El Salvador - and whose ratio is 0.48. Lastly, Naturhouse (beauty services and consulting) occupies the first position in terms of company size with a total of 1,218 outlets (franchised and company-owned) distributed across the Spanish market and abroad. The lowest value corresponds to "Saboréate y Café" (restaurant) with only 7 outlets operating in Spain and Portugal in late 2009.

Table 2: Descriptive Statistics

VARIABLE	MINIMUM	MAXIMUM	MEAN	STANDARD DEVIATION
MANAGEXP	5.000	125.000	22.652	17.876
FRANEXP	5.000	94.000	16.378	10.839
AWARENESS	0.00	89.200	34.085	22.569
RATIOFR	0.480	1.000	0.973	0.097
SIZE	7.000	187.145	1,218.000	225.381
COUNTRIES	1.000	27.000	5.126	5.223
OUTLETS	1.000	292.000	50.142	78.388
OUTMEAN	0.250	48.000	6.9183	9.049

Concerning the values associated with the three indicators we used to assess international franchise expansion of service chains, Table 2 shows that Spanish service franchisors with international presence are doing business in an average of 5.126 foreign nations. Nevertheless, this number can be much higher, as in the case of Inlingua – education - (27 countries) or Pressto – dry cleaning - (21 countries). Also, the number of service franchisee outlets operating abroad has a mean of 50.142, although this ranks from 1 (e.g. “Almeida Viajes” and “Zafiro Tours” – both travel agencies -) to 292 (Inlingua). Finally, in relation to the average number of franchisee outlets - total outlets abroad divided by the number of foreign countries where the chain is doing business - the maximum value corresponds to Telepizza (fast food) with 288 outlets distributed across 6 foreign nations.

After performing a descriptive analysis of the variables in this study, we then calculated the Pearson’s correlation matrix. Table 3 displays the results.

Table 3: Correlation Matrix

VARIABLES	COUNTRIES	OUTLETS	OUTMEAN	MANAGEXP	FRANEXP	AWARENESS	RATIOFR	SIZE
COUNTRIES	1.000	0.547	0.115	-0.133	0.022	0.528	-0.126	0.328
OUTLETS		1.000	0.571	-0.251	0.018	0.386	-0.432	0.585
OUTMEAN			1.000	-0.131	0.008	0.593	-0.583	0.422
MANAGEXP				1.000	0.557	0.209	-0.058	0.170
FRANEXP					1.000	0.126	0030	0.021
AWARENESS						1.000	-0580	0.285
RATIOFR							1000	-0.468
SIZE								1.000

As stated in the previous section, the international franchise expansion of service chains was tested according to three different indicators. As a result, three regression analyses were computed, each assessing the dependent variable differently: i) the number of countries where the chain is present (Model 1); ii) the number of operational outlets the chain has abroad (Model 2); and iii) the average number of outlets in each country (Model 3). Table 4 summarizes the results obtained.

Table 4: Regression Analysis Results

	Model 1		Model 2		Model 3	
VARIABLES	Regression Coefficient	P-value	Regression Coefficient	P-value	Regression Coefficient	P-Value
CONSTANT	13.919	**0.000**	-1595.713	**0.000**	91.363	**0.000**
MANAGEXP	-0.735	**0.036**	-42.551	**0.032**	-0.492	**0.045**
FRANEXP	0.755	**0.012**	35.135	**0.066**	0.633	**0.006**
AWARENESS	-0.349	**0.000**	4.533	**0.001**	-0.032	**0.212**
RATIOFR	-12.475	0.102	-1244.998	**0.076**	-91.711	**0.000**
SIZE	0.186	**0.000**	5.979	0.156	0.083	**0.001**
	Dependent Variable: COUNTRIES R^2: 0.685 Adj. R^2: 0.575 F = 100.428 **p= 0.000**		Dependent Variable: OUTLETS R^2: 0.687 Adj. R^2: 0.476 F = 91.338 **p= 0.000**		Dependent Variable: OUTMEAN R^2: 0699 Adj. R^2: 0.597 F = 59.151 **p= 0.000**	

As shown, Models 1, 2, and 3 are all significant at the 0.000 level. This suggests that collectively, the different independent and control variables tested in this study help to explain the franchisor’s international expansion in terms of the number of countries where the chain has presence (COUNTRIES); the number of operational outlets the franchisor has abroad (OUTLETS); and the average number of outlets in each country (OUTMEAN). To test the existence of collinearity among the variables, we calculated the determinant of the correlation matrix of each of the three models, finding a value of 1. In this way we ruled out any problems of multicollinearity.

Having commented on the joint significance of each of the three models analyzed, we should now discuss the effect of the franchisor’s management and franchising experience on their international expansion strategies. Indeed, the effect of both management and franchising experience was statistically significant in all three models. Nevertheless, the negative association with the franchisor’s management experience and its international expansion contradicts Hypothesis H1, and only supports Hypothesis H2. Additionally, empirical evidence was found to support the impact of franchisor’s brand awareness on the number of countries in which a chain operates (Model 1), the number of operational outlets it has abroad in absolute terms (Model 2), and the average number of outlets per foreign country (Model 3). Thus, H3 was supported at the 0.00 level.

Lastly, in terms of the control variables considered in this study (RATIOFR and SIZE), Table 4 shows a negative and significant relationship between the number of franchised outlets each chain has abroad and the total outlets -both franchised and company-owned- established overseas (RATIOFR). Likewise, the same negative association arises when comparing the number of countries where the franchisor has presence (COUNTRIES) to the operational outlets the chain has abroad (OUTLETS), or to the average number of outlets per foreign country (OUTMEAN). Conversely, a positive and significant association was observed between the number of countries where the chain is doing business (Model 1) with the total number of outlets (franchised and company-owned) the franchisor operates (SIZE). This relation was also found with respect to the average number of operational outlets the chain has abroad (Model 3).

Discussion

Employing the franchise model as an entry mode into international markets is central to the internationalization strategies of many companies (Doherty, 2009). This entry mode not only entails a more limited resource commitment, but also allow firms to reduce the uncertainty exposure of the foreign-going firm (Alon, 2006; Alon, Ni and Wang, 2010; Zu, Thompson and Stanton, 2010; Baena, 2011; Zhu, Wang and Quan, 2011). However, due to the scarcity of data on international franchise companies (Kedia, Ackerman, Bush and Justis, 1994), most published works lack empirical comparisons (Eroglu, 1992; Alon and McKee, 1999; Shashi and Karuppur, 2002, Doherty, 2007), or just focus on the American or British chains in the manufacturing and retail sectors (Moore, Doherty and Doyle, 2010; Thompson and Stanton, 2010). Thus, knowledge is still scarce about the factors influencing international franchise expansion (Hoffman, Kincaid and Preble, 2008; Mariz-Pérez and García-Álvarez, 2009), especially in the service sector, as it constitutes over 50% of GDP in low income countries. Significantly, the process of development usually coincides with a growing role of services in the economy (Cali, Ellis and Velde, 2008). Therefore, services constitute an increasing percentage of GDP in nearly all developing countries, represent the largest share of global FDI, and have become a driving force in the global economy (Javalgi, Griffith and White 2003).

This article attempts to contribute to the literature by exploring the factors driving international franchise expansion of service chains. To achieve this goal, all the Spanish service franchisors doing business abroad in late 2009 have been considered, a total of 125 chains. Specific findings indicate that franchisors with strong brand awareness have a greater tendency to enter foreign markets. This evidence confirms that a strong brand simplifies the purchasing process, as it signals successful performance. This, in turn, increases the pool of agents interested in becoming franchisees, and makes a franchise's international expansion smoother.

In addition, this study confirms the existence of a negative and significant association with the franchisor’s management experience, which contradicts Hypothesis H1. Results show that a large proportion of Spanish service chains with presence abroad have a distinct international character from the beginning of their business activity; that is, at their outset they did not wait for the saturation of the home market before expanding into foreign countries. This type of company, known as “born-globals”, have recently begun to stimulate research interest (see, e.g., Knight and Cavusgil, 2004; Gabrielsson, 2005; Anderson, Gabrielsson and Wictor, 2006), although few studies on the topic have been completed so far. The findings of this work contribute to this line of research, given that Spanish service companies appear to fit this profile. In contrast to this, franchising experience relates positively to the international franchise expansion of service chains. The reason for this may be that greater franchising experience enables the identification of optimum franchisee candidates and thereby, rejection of the less suitable. This minimizes agency problems and adverse selection and enhances the success of the international expansion.

Drawing from signaling theory, this work illustrates the role of franchisor’s brand awareness in the chain dispersion across countries, the number of outlets located overseas, and the average number of operational outlets in foreign markets. Subsequently, the authors show that franchisors with strong brands gain a reputation for quality and signal success for the overall franchise network. This raises the number of candidates to be franchisees, which reduces the risk of failed franchisee selection, and boosts the intensity of the chain’s international expansion. Another conclusion based on Models 1 and 3 is that service chains with a large international presence have fewer franchised outlets versus company-owned ones overseas. This confirms previous literature claiming that in the early years of a company the franchisor is looking for quick and easy expansion into new markets and chooses franchising networks as the means to achieve it. However, once the chain has enough resources, it buys back the franchised outlets (Hunt, 1973) to grow through company-owned stores.

Finally, results allow us to conclude that a franchisor’s size does, indeed, impact international expansion. In fact, findings illustrated a positive and significant association between the total outlets of the chain (SIZE) and the franchisor’s spread across countries (COUNTRIES). Furthermore, the same significance appears between the company size and the average number of outlets the chain has abroad (OUTMEAN). Therefore, the study confirms that, as highlighted in recent literature (i.e., Mariz-Pérez and García-Álvarez, 2009), company size has a positive effect on firm reputation, which smoothes the way for international expansion.

To the author’s knowledge, this is the first study to consider management and franchising experience in conjunction with brand awareness as driving factors in international expansion of service franchisors. Additionally, the database used in this work is quite unique and relevant as it considers all the Spanish service chains with international presence in late 2009 (a total of 125 chains with 2,944 outlets present in 44 foreign countries). In so much as most studies in this area have analyzed the U.S./U.K. franchise industries or focused on particular service sectors like the hotel industry (Contractor and Kundu, 1998), we think our work adds incremental value to the literature.

Limitations and Further Research

Limitations of this study include the need to incorporate some financial or accounting magnitudes such as a franchisor’s sales, advertising costs or revenues, as well as analysis of the effects of these on franchise chains' international expansion. Additionally, this study implicitly assumes that the variables enhancing the internationalization process are not modulated by the host country’s characteristics and therefore, that franchisors have made an equal effort to “sell” franchises abroad. This may not be true, as franchisors usually target European nations more aggressively than other countries located in Africa or certain Asian regions. Further research should thus examine the existence of modulating host country factors in international franchise expansion. This would provide interesting findings to complement our current understanding on this topic.

A second limitation arises from the use of a single country: Spain. Analysis of the Spanish service chains is clearly one of this paper’s contributions, as previous literature usually focused on the U.S./U.K. franchise industries. However, focusing on a single country (Spain) is also a limitation, as non-Spanish franchisors were never considered. Therefore, a multi-country study is proposed as further research to assess the generalizability of the findings to all types of franchising chains, regardless of their country of origin. We also hope that this study serves as a starting point for the analysis of “born-globals” since, as mentioned earlier, Spanish franchisors appear to fit this profile.

Lastly, future research might do well to explore other relationships, such as the link between a franchise chain’s business performance (profitability, market share, etc.) and its degree of international expansion.

Managerial Implications

Our paper also has direct implications for managers, as it develops and tests an explanatory model that can be useful not only to academics wishing to enhance their knowledge about international franchising, but also to service firms wishing to expand their business abroad via franchising. It is our sincere hope that the results serve as a guide to both chains and franchise associations when planning their future strategic expansion.

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